



BRITISH EMBASSY,

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15 July 1985

The Rt Hon Sir Geoffrey Howe, QC MP
Secretary of State for Foreign &
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Foreign & Commonwealth Office
London SW1A 2AH

Sir,

AGRICULTURE IN THE FEDERAL REPUBLIC OF GERMANY

1. The Federal Republic's secure position as one of the world's largest and most successful industrialised countries tends to obscure the importance - political, social and economical - of German agriculture. Recent events have brought home to the Federal Government and her Community partners that the farmers here have plenty of muscle and know how to use it. For much of what follows I am indebted to Mr Paul Elliott, First Secretary (Agriculture) at this Embassy.

2. In May last year Gerhard Stoltenberg, Federal Finance Minister, was visiting Schleswig-Holstein, which as Prime Minister he had governed for eleven years, to support his successor in the campaign for the European elections. At a series of rallies in largely rural areas he came under fierce attack from the farmers. It was not confined to catcalls and heckling but included rotten eggs and tomatoes. The impact on the tall, austere Stoltenberg, who looks very much the son of the manse that he is, and whose strict budgetary policy had in the popular mind caused him to be regarded as a kind of Stafford Cripps, was electrifying. Without consulting his officials, much less the European Commission, he announced within days a large increase in the compensation to be paid to German farmers for the partial abolition of monetary compensatory amounts, increasing

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the full-year cost to the German taxpayer from DM 2 billion to DM 3 billion. The weight of the German farming lobby made itself felt again at the Dublin European Council in December 1984 (wine) and at numerous Agriculture Councils since (cereals), culminating in Agriculture Minister Kiechle's veto on 12 June, the first ever cast in the name of the FRG. This sequence of events has brought into sharp focus the contradictions that lie within the FRG's European policy. In acting at Brussels and Dublin to protect German farm incomes, the Federal Government has damaged the credibility of its commitment to financial discipline and to reform of the CAP; by invoking the Luxembourg compromise on cereal prices it has abandoned one of the most cherished principles of its whole European policy, namely that the right of veto does not exist. Herr Kiechle's veto was all the more noteworthy for being lodged not long after a Cabinet decision to attempt, at the Milan European Council, to establish majority voting (with some exceptions) as the principle for decision-making in the Community. Challenged to explain the contradiction, Germans say in effect that they will continue drinking until prohibition is introduced.

3. Wherein resides the power and influence of the German farmers? The short answer is their numbers. Since the FRG and the UK are roughly equal in both area and population, I have added UK statistics, where available, in brackets from this point onwards, for comparison. There are over two million Germans (UK 618,000) fully or partly employed on the farms. This does not compare with the metal workers union IG Metall, which with approximately 2.6 million members is by far the largest union in Germany. But IG Metall's members are dispersed over a very wide range of manufacturing, from steel to watchmaking. What the farmers lack in numbers they more than make up for in homogeneity. In many areas German farmers do not live in farmhouses amidst their fields but in villages and hamlets, which strengthens their cohesion and concentrates their political power.

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4. Traditionally, German farmers have voted mainly for the CDU/CSU, and to a lesser extent for the FDP. The danger seen now is not that they will defect en masse to the SPD and Greens: it is that they will abstain. That is what they seem to have done in the European elections last year and in the North Rhine Westphalia elections in May. Were they to do so in Lower Saxony again in June next year, the CDU could lose to the SPD/Greens and the repercussions both for the Chancellor and his Government would be serious, since the Bundesrat (the Upper House) would pass into Opposition control and the "Ditch Kohl" movement would be greatly strengthened.

5. German acceptance of the Stuttgart/Fontainebleau package (financial discipline plus the first steps towards the reform of the CAP) coincided with a deterioration in the income position of German farmers. During the long wrangle with the French over the abolition of MCAs the farmers here became increasingly alarmed. They did not like the prospects opening up and decided to make their views known. The rough ride given to Stoltenberg in May 1984 was not a spontaneous outburst but part of a carefully organised campaign. Chancellor Kohl too was made to experience at first hand the wrath of the farmers. As it turned out, compensation for the partial abolition of MCAs was not enough. Milk quotas, the administration of which in the Federal Republic bore particularly hard on small farmers (the majority), caused further unrest. Kiechle, who had worked so hard to promote the introduction of quotas, came in for harsh criticism not only from the farmers but also from the leader of his own party, Franz-Josef Strauss. This was an indication of how nervous sentiment within the Coalition had become. Some rearrangement of quotas was agreed, but that was no more than a palliative. Further douceurs, in the shape of increased Government contributions to farmers' pensions, were extracted, but these failed to appease the farmers. The Commission's 1985/86 price proposals, aiming to maintain the reforming momentum developed in 1984, were the last straw. To ensure that the Coalition had got the message, the

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farmers stayed away from the polling booths in North Rhine Westphalia on 12 May. This was seen as a portent. Some in the CSU and CDU maintain that the 1969 Federal election was lost, in part, because of the lowering of cereal prices in Germany following the adoption of the Community cereals regime. Politically, the farmers matter here.

6. Agriculture currently accounts for only 2% of GNP (UK 2%), or 2.2% (UK 2.1%) if forestry and fishing are included. More significantly, agriculture and forestry directly provide 5.4% of all jobs (UK 2.7%). Food, agricultural produce and timber are now the fifth largest export earner, a surprising statistic in a country known more for its exports of cars and pumps. In 1984 agricultural exports earned more than iron and steel. In the same year agricultural products accounted for 12.6% of total exports (UK 4.4%). As agricultural exports have risen, so have agricultural imports, but the latter's share of the total import bill has fallen back. About 92% (UK 62%) of domestic demand for food is now met from home production, 75% if livestock production from imported feed is excluded. The contribution of agriculture to the national economy thus cannot be lightly dismissed, especially if the knock-on effect in ancillary industries is taken into account. The Government has claimed that this accounts for another 10% of all jobs, although this is almost certainly an exaggeration. Agriculture has social/cultural as well as political significance.

7. The roots of this situation, as always, are historical. Germany industrialised later than Britain. That meant that the exodus from the land also started late and, in comparison with Britain, has still some way to go. In the 1890s about 10% of the population in Britain were engaged in agriculture: that percentage was not reached in the Federal Republic until 1968, 70 years later. A consequence is that the proportion of urban Germans with direct experience of

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rural life or with relatives still engaged in agriculture is relatively high. Herr Strauss's two grandfathers were farmers, he says, and his two grandmothers farmers' wives. This in turn influences the farmers' image. They are generally perceived as a group who work long, hard hours, have few holidays and a low income compared with the urban population. Public opinion is both aware of and sympathetic towards the agricultural interest. Politicians and publicists do, it is true, complain about the irrationality of the CAP, but this theme gets less space in the media than farmers' problems. Heavily industrialised and urbanised though the Federal Republic is, it lacks a single metropolis and even its larger cities are, measured by population, relatively small: Hamburg, the largest apart from West Berlin, has 1.7 million. Nor do the suburbs here spread so widely as ours. The result is that, by comparison with Britain, German urban population is much closer to the countryside and has much easier access to it. Tidy and overorganised though it may look to English eyes, the German countryside exercises enormous appeal to German city dwellers. The German word Wandern, which means to go for a serious walk in the country, has a numinous ring and a long tail of literary associations. And the phenomenon is still very real. Clearly marked footpaths criss-cross the countryside and the forests from north to south and from east to west. At weekends they are crowded with people of all ages. The former Federal President, Karl Carstens, enhanced his popular standing very considerably by walking in stages from the Danish to the Austrian border carrying a tall stick. He was accompanied by scores, in some cases hundreds, of approving burghers.

8. If their relative historical closeness to their rural past is one factor in explaining the supportive attitudes of most Germans towards agriculture, there are also others. Like the rest of Europe, Germany had her Romantic Movement. Writers like von Eichendorf, von Chamisso and Mörike celebrated the beauty, the purity and mystery of the countryside and nature. The attitudes

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and values of these poets still strike a vibrant chord with the Germans of 1985. Their standard vocabulary of wood, meadow, stream and heath is still very much alive in the public mind. Hundreds of thousands of Germans don Lederhosen and the Dirndl without any appearance of selfconsciousness. Concern about the environment and the rise of the Greens are but the latest expression of a German yearning to escape from the complexities and systematisation of industrial, urban society and to return to the rural idyll. In such a setting the concept of the family farm exerts a powerful appeal. A visit to one of these is a heart-warming experience anywhere from Schleswig-Holstein to Bavaria.

9. Important for all these reasons though agriculture is, Germany is not a land particularly favoured by nature. The growing season is shorter than in most of Western Europe. Animals have to be kept indoors longer because of the severe winter. The quality of the land is variable: much of it is hilly and not far short of a third of it is forested (UK 9%). These basic characteristics have had a key influence on the development of agricultural policy. When cheap grain and meat from the New World made its first appearance in Europe in the 1870s, the German response was to keep it out. At that time, German agriculture policy was largely determined by the Junkers, the landed gentry in what are now parts of East Germany and Poland. There was no way by which they could successfully compete with the prairies and ranches of North America and the cattle ranges of the Argentine. Protectionism was the watchword. During the First World War, to meet food shortages, the protectionist regime was relaxed. A liberal regime also prevailed during most of the twenties, but that merely showed how ill-equipped German farmers were to compete with their neighbours, especially the Dutch and the Danes. So the tariff barriers went up again. The autarkic policies of National Socialism reinforced the tradition towards isolation and State control of prices: prosperity rapidly returned to German agriculture.



10. After the post-war Currency Reform and the establishment of the Federal Republic in 1949, agriculture was helped once again by price and import controls and responded handsomely to the need to increase production. But despite an otherwise impressive performance it became clear during the early 1950s that farmers were failing to keep abreast of the generally increasing prosperity which characterised the Wirtschaftswunder of the Adenauer era. The Government's determination to correct this tendency gave rise to the Agriculture Law of 1955, which established the following as the objective of government policy:

"Instruments of general economic and agricultural policy - particularly trade, fiscal, credit and price policy - shall be employed to enable agriculture to participate in the development of the German economy, to ensure that the population receives optimum supplies of foodstuffs, to compensate for the natural and economic disadvantages suffered by the agricultural sector vis-à-vis other branches of industry and to increase agricultural productivity. By this means the social position of those engaged in agriculture should simultaneously be brought up to the same level as that of those engaged in comparable professions."

11. All subsequent Federal governments have taken this commitment seriously. The basic economic concept that has informed economic policy since the foundation of the Federal Republic is that of the Social Market Economy. At different times and for different sectors the weights given to the two elements - social and market - have received varying emphasis. In the case of agriculture, however, social considerations have always had a particularly high priority. Following the Law of 1955, further laws were passed providing for the funding by the Federal authorities of old-age, sickness and accident insurance funds for the farmers. But these measures and

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the CAP price regimes have not been enough to bring farmers' incomes into line with those of industrialised workers. In fact the gap has widened. Each year the Federal Government compiles its Agriculture Report. The latest, covering the farming year '83/'84, shows that income in that year was lower than in seven of the previous eight years and that whereas the industrial wage had risen since 1968/'69 from an index of 100 to 300, that of farmers had only risen to 170. (I am of course aware of the limitations of income statistics as applied to farmers.)

12. German farmers, notwithstanding their climatic and topographical disadvantages, are not grossly inefficient. Yields of milk, wheat and barley are above those of France, though not above those of the UK. The basic problem is that there are too many people trying to make a living from German agriculture. A particular feature, as everybody knows, is the large number of small-scale cultivators whose operations are of questionable long-term viability. They tend to be found in the greatest numbers in Southern Germany. In the North, where the land is better and flatter, farms are larger and thus relatively more profitable. Another German feature is the part-time farmer, typically someone with a job in a nearby factory or timber yard who, with help from his family, runs a small farm as well. Herr Strauss has told me, with pride, that 20% of the work force of BMW are in this position. Contrary to what is widely believed, average levels of total incomes among part-time farmers are higher than among full-time farmers. It is thus not primarily because of the part-time farmers that the FRG has proved to be a difficult partner in negotiations on the CAP.

13. A more graphic indication of the continuing structural weakness of German agriculture is that the average farm size (full time and part time) is only 16 hectares (UK 69 ha) and the average dairy herd consists of only 14 head of cattle (UK 58). Average farm sizes in France, Luxembourg, Denmark and Ireland are all much higher. Since 1950 numbers working on the land in the FRG have declined by nearly

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75% (UK 50%), but in recent years, as a result of the slowdown in the rest of the economy and the rise in unemployment, movement off the land has slowed to half its previous rate.

14. The agricultural sector as a whole, because of its structural defects, is at a competitive disadvantage in the European Community. Protecting it is a liability for the German Government, especially in relation to its European policy and its relations with France. The present Government, like its predecessors, shows little sign of being prepared to accelerate structural change, much less of wanting to do so. Spokesmen in Bonn regularly praise the concept of the family farm and declare their determination to preserve it as an essential and integral part of German life. The political and the socio-cultural factors referred to earlier weigh more with this Government than anything else.

15. The failings of the Common Agricultural Policy, as perceived from Britain, are most often blamed here on the French. Put if the main fault is that prices were initially set at too high a level and have stayed there ever since, encouraging the growth of today's mountainous surpluses, then for this we largely have to thank the Germans. When common Community prices were set in 1967/'68, they were below German levels; but the level set nevertheless owed a lot to German pressure.

16. In financial terms there has from the start been an inbuilt contradiction in German policy towards the CAP. Fated to be the largest net contributor, the Federal Republic has every interest in checking the rate of increase of Community expenditure. But the structural inefficiency of German agriculture has led to pressure for ever higher prices to prop up farm incomes. All German governments have yielded quite consistently to this pressure. The rise of the Deutschemark has added to it. Under the system of common prices this would have led to nominal price reductions for German farmers, had it not been for the introduction of the Green Money system. Community theology, however, ordained that green exchange rates were to be temporary and should not be allowed to get too far out of line with market rates. At successive price fixing rounds, therefore,

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any increases agreed in common prices tended in Germany's case to be largely cancelled by green money changes. This was deeply resented by the farmers, who claim that cereals prices have not increased in real terms in the past ten years. They are not mollified by reminders that inflation in Germany has also been well below the Community average. But the process was taken one stage further in 1984 when the French insisted that positive monetary compensatory amounts (MCAs) - to which they attributed the (to them) unwelcome rapid growth of German agricultural exports - be phased out altogether. This was the scenery against which Herr Kiechle cast his historic veto on 12 June: see paragraph 2 above.

Conclusions

17. German agriculture now has the task of surviving in a competitive Community market without the aid of higher prices and with lower positive MCAs. Judged by strictly economic criteria, its prospects do not look good. The Government's response has been to try to hold the line at home by topping up aid to farmers in disadvantaged areas as well as contributions to farm accident insurance and other social schemes. The sums involved are small compared with the cost of the compensation for reducing MCAs. But even the latter scheme is widely believed to have failed to help the small family farmer.

18. This situation constitutes a real political problem for the Government. Farm incomes are forecast to recover to some extent this year, but they are not expected to reach levels which could defuse the threat to the Coalition's electoral chances in 1987. The bitterness caused by the introduction of milk quotas and the resulting anomalies will not easily die down. The scope for relief through increased prices is minimal so long as the Community remains resolved to bring agricultural spending and surpluses under control; a resolve that will need to be intensified if the dollar falls.

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19. Germany's small farm structure is a liability. Its farmers cannot survive en masse if Community support prices are going to be reduced to the levels necessary to bring supply and demand back into reasonable balance. But the small family farm is perceived here as a prime social asset and a pillar of the State (and a breeding ground for CDU and CSU voters, of course). Farming has a special place in the life of the nation. Even if economic circumstances were more favourable than they are now, I do not believe that this or any other likely government in Bonn would be prepared to force the pace of structural change at the cost of real hardship and bankruptcies such as we have begun to see in the United States, and of increased unemployment.

20. Both the Government and the farmers accept, if the point is put to them directly, that the Community cannot continue to over-produce. But the Government's room for manoeuvre is very small. In the future they may try simply to soldier on with a mixture of stubbornness in Brussels and douceurs at home. They may decide to press for set-aside or quota schemes to cover products other than milk. The idea of voluntary (but paid) set-aside of arable land is frequently mentioned here. It is often coupled with suggestions for reducing environmental pollution. One idea raised by farmers themselves is that in areas where they perform a recreational and environmental service by caring for the countryside they should receive some payment, as a contribution to their costs. They are already entitled to compensation if they are forced by the water authorities to cut back on fertiliser application.

21. Another possible new direction for the CAP, of which much is presently being made here, is the encouragement of crops for use as raw materials in the industrial and energy sectors. The prospects are viewed as encouraging, but only in the medium to long-term. In the short-term it is argued that more is to be gained by inducing farmers to switch to crops such as lupins and field beans with a view to replacing imports of soya and other high protein feedstuffs.

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22. Another possible option, compulsory quotas, would be advocated only with extreme reluctance as the least of various evils. The received view here is that quota restraint on production opens the way to price increases. The United Kingdom's argument for continued price restraint on milk so that quotas can be removed after five years is explicitly rejected.

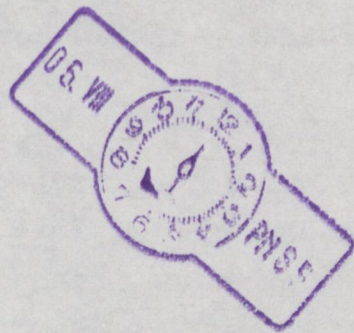
23. Against this background I do not expect the Federal Government to be an energetic supporter of current attempts to reform the CAP. At the moment it has set itself firmly against attempts to curb surplus production by reducing prices. If the rest of the Community showed itself determined to press on down this road, the Government in Bonn might in the last resort opt for large-scale direct payments to supplement German farmers' incomes. This would not be popular with the farmers, who much prefer to obtain their returns from the market: nor with Euro-veterans in Bonn, who are opposed in principle to "renationalisation" of the CAP in any form. The cost would be considerable and of course Community agreement would be needed. Other member states might be loth to give their consent. Ultimately, however, this might be the only way to secure German support for what we would regard as a sensible pricing policy for the Community as a whole.

24. I am sending copies of this despatch to HM Representatives at EC posts, Washington, Madrid and Lisbon; the Consuls-General in the Federal Republic; the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food and the Cabinet Office.

I am Sir
Yours faithfully

J L Bullard

J L Bullard





Foreign and Commonwealth Office

London SW1A 2AH

6 August 1985

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Pete Martin

Dear Tim,

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Agriculture in the FRG

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/ You may like to see the enclosed copy of a despatch by Julian Bullard which contains a very interesting account of the economic, political and social factors underlying German agricultural policy.

Yours ever,

Peter Ricketts

(P F Ricketts)

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BRITISH EMBASSY,
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AGRICULTURE IN THE FEDERAL REPUBLIC OF GERMANY

Summary

1. The Federal Republic's industrial success tends to obscure the importance of its agriculture. The farmers have plenty of muscle and know how to use it. (Paras 1-2).
2. Moves to placate the farm lobby have exposed contradictions within the FRG's European policy. The vetoing of lower Community cereals prices in June was a case in point. (Para 2).
3. Agriculture is significant economically but the farmers' strength really lies in sheer numbers and the dependence of the CDU/CSU on their votes. (Paras 3-6).
4. Public sympathy for the farmers' cause derives from historical and social factors. Industrialisation is comparatively recent. The concept of the family farm exerts a powerful appeal in a nation attracted to the rural idyll. (Paras 7-8).
5. German agricultural policy is traditionally protectionist. In the Federal Republic policy has been aimed more at improving the lot of the farming community than at maximising the efficient use of economic resources. But despite efforts by government, farm incomes have fallen behind those in other sectors. (Paras 9-11).
6. Structural factors are largely to blame. Average farm size is small, which places the industry at a competitive disadvantage within the European Community. The high level of CAP prices owes much to German pressure but German farmers have benefited less than

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most. Immediate prospects do not look good. The government is resistant to the idea of forcing the pace of change. (Paras 12-19).

7. The Federal Government accepts that the Community cannot continue to overproduce but has set itself against price reductions. More novel solutions, such as land set-aside, are preferred. Ultimately German support for a sensible pricing policy might have to be purchased with Community acquiescence in direct income support for German farmers. (Paras 20-23).