

On the Monitoring System of Set-Aside Program in Germany[❖]

Huei-Yann Jeng & Ching-Chuan Liu^{*}

1. Introduction

In the European Union, agricultural sector is subject to the Common Agricultural Policy (CAP) which was formulated in 1958 and was reformed in recent years. The initial aims of CAP in 1958 were to raise income of rural community, to stabilize agricultural markets, to ensure food security, and to stabilize reasonable consumer prices. As the CAP went on, however, it became the main source stimulating overproduction. The incentive to produce too much arose because farmers could sell as much as they produced at the intervention price.

Production was increased in two ways: by expanding the area farmed and by farming more intensively. One way in expanding farm land, especially in those countries where there is not much spare land, was to remove hedgerows. The result was that more and more marginal lands were cultivated, which induced rapid soil erosion and destroyed landscapes. Increasing output through intensification farming system, on the other hand, implied more fertilizers and pesticides were applied to croplands. In the last two decades, problematic phenomenon revealed in resource misallocation,

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agricultural environment degradation, and incompatibility of European agricultural products. Reformation of CAP was adopted to correct these problems.

Reducing agricultural production, especially on grains, is one of the main purposes in CAP reform. Lower production-related supports is the main policies to pursue this goal (Lee C-S, 1993). Such policies prompt a reappraisal of farming systems and techniques, and result changes in production conditions in order to maintain profitability. This, in turn, offers incentives for farmers to switch to more environmental-friendly practices, with lower levels of production-related supports. Meanwhile, there is also concern that, with lower market price support, some particular aims of long-term policy may need special attention. Most notably, the alleviation of poverty among farmers and the smoothing of farm income fluctuations. Direct payments are provided in CAP reform to recognize this issue while not violating the underlying principle of non-production-related supports (Lee C-S, 1993 and Lee M-C, 1993). Governments consider these income payments as compensating farmers for the withdrawal of price support during the transition of reform.

In the direct payment programs, set-aside is the one which directly relates to reducing farming acreage and enhancing environmental quality. In set-aside program, whether on voluntary bases or not, farmers receive compensating payments to let a certain percentage of their farmlands be set aside. The calculation of payment is based on average production, participating acreage, and crops. There are also penalties for the participants who violate the contract of set-aside program.

When conducting ex ante evaluation on a policy we often assume implicitly that the penalties written in the contract will be sufficient to attain full compliance. But this is in fact never the case. To ensure that the goal of the reformed CAP in reducing and controlling the agricultural production is achieved, participants of set-aside program must be compliant to the restriction of the program. However, there is always

temptations to violate if it is worthy to do so. Hence, set-aside program, like any other regulation, requires monitoring and enforcement schemes.

EU Commission requires each member state to monitor farmers who participate the set-aside program in its own country. In other words, each country should construct its own enforcement and monitoring system (Monegold, 1993 and Madell, 1993). Moreover, in a federal country, for example Germany, the monitoring scheme is likely to be enforced independently in each Land in various ways. It is conceivable that the structures of monitoring system of set-aside program are closed related to its economic and social conditions. It will be helpful to have full information on the monitor and enforcement systems of all lands, so that there is enough evidence to get better production quotas and budget support in CAP programs when bargaining with other EU members. Such information will also be useful for Taiwan, which is implementing set-aside program to rice fields but is yet to find an effective monitoring system. It is our purpose to study the enforcement and monitor system of set-aside program in Germany.

2. Set-aside Program in the European Union: A Briefing

2.1 Issues in CAP reform

The reasons of CAP reform can be broadly categorized as the followings:

- (A) *Over-production*: This includes cereals, oil seed, protein crop, milk, and beef. Excess financial burdens became a serious problem in EU if the CAP program would have been continued.
- (B) *Incompatibility*: As the CAP program offered higher guarantee price than the world market, agricultural products were not compatible to the products from other

countries. And this situation would be even worse as free trade is in act.

(C) *GATT* negotiation: Trade on agricultural products had been one of the issues that other countries had not compromised in *GATT* negotiations. It was EU's goal that the reformation of CAP improves its competitiveness and increases its negotiation power in *GATT* (Dean, 1992 and Monegold, 1992).

Under these circumstances, the CAP reform was focused on the following issues:

(A) *Reduce agricultural production* (before 1992):

(I) Expected annual production: The expected maximum production in cereals was 160 million tons. When actual production exceeded expected production, purchased amount was reduced by the percentage of excess production at the guarantee price.

(II) *Voluntary set-aside*: This program was conducted since 1988 mainly on voluntary bases. There were two kinds of set-aside programs: the one-year and the five-year program. Participants in both programs were requested to set aside 20% of their farmlands.

(III) *Extensive farming system*: Two kinds of subsidy were conducted, both were supported by EU. One was to encourage farmers to voluntarily reduce their production by 20%. The other was to adopt extensive production technology, such as biological farming and rotation systems.

(B) *Reduce price supports and production* (in 1992 reform)

(I) Reduce guaranteed price until it approaches to the world price level.

(II) Reduce production by lowering guaranteed price, setting aside farmland, and adopting extensive farming system.

(III) Environmental protection: This is achieved mainly by reducing agricultural pollution.

As we see in the center features on CAP reform in 1992, set-aside program is only one of the methods to reduce agricultural production. In other words, most of the policies in the CAP reform are focused on direct payment, among which set-aside is one of the program relates to production reduction and environmental protection. Although the other programs in the CAP reform are closely related to the set-aside, we will focus our discussion on those relating regulations and monitoring system of set-aside program.

2.2 Set-Aside Program in CAP Reform

A certain percentage of farmlands are set aside each year in EU. For example, set-aside percentages are 15% and 12% in the fiscal years of 1994/1995 and 1995/1996, respectively. Restrictions on cultivated plants are also imposed on the set-aside farmlands. The payment standards of set-aside program are similar to other compensating payment programs in EU. The percentage to be set aside is decided annually and can be varied each year. Moreover, decisions are based on self-sufficiency of cereals production in EU, the strength of negotiation of member countries, forecasts on weather conditions, and food security. In set-aside program, farmers are categorized into voluntary and compulsory participants. Big farms, which produce more than or equal to 92 tons of cereals, oilseed crops, or protein crops, are the compulsory participants. These farms should declare at least 15% of their eligible lands to be set aside. The maximum percentage of an individual farmer's agricultural lands to be set aside is 33% in the fiscal year of 1994/1995. Farms produce less than 92 tons are called small farms and are participating the set-aside program on voluntary bases. Set-aside program are classified to general and simplified schemes, in corresponding to the compulsory and voluntary participation programs. Also, if classified by rotation methods, there are rotational set-aside, nonrotational set-aside, and mixed set-aside

schemes.

3. Monitoring System of Set-Aside Program in EU

Because set-aside program is one of the items in direct payment schemes, we will focus on those entities in direct payment which are relevant to set-aside program.

3.1 General Rules

Basically, direct payments are mostly based on cultivated acreage of crops and cereals (EC, 1993). To participate in the so-called *area aid* programs, farmers should file the application in integrated or in separated forms at the same time. For example, set-aside declarations under non-food product scheme are applied with the food-crop *area aids* program. Applications should also include cadastral maps, which indicates acreage, locations, uses, and whether the parcels are irrigated, and a statement by the farmer that he is aware of the requests and regulations relating to the payments. Changes in application are based on the followings.

- (A) After the due day, submission of set aside payment can not be ratified unless under three conditions:
 - (I) Obvious error recognized by the authority.
 - (II) A parcel which is already counted as set-aside may not be added to another farmer's set-aside parcels except properly documented and justified cases such as death, marriage, purchase or sale, and end of a tenancy contract.
 - (III) Changes foreseen in sectorial regulations.
- (B) Changes of land utilization or area aid scheme are permitted in all cases except that a parcel may not be added to those declared as set-aside.
- (C) Replacement among eligible and ineligible parcels in the integrated aid system

within the application period is possible.

3.2 Monitoring Regulations

There are also regulations on monitoring and enforcing set-aside scheme. The main features include check-up system and penalty rules. First, administrative procedure and on-the-spot checkups should ensure effective verification of compliance under the granted contracts. The administrative checkups should include cross-checks on parcels applied for set-aside and other declaration. This ensures the payment for *area-aid* is not granted twice to any land in the same period. At least a significant percentage of applications should be verified in on-the-spot checkups. According to the regulations of EU's *area-aid* program, set-aside verifies 5% of the applications on the spot each year. The checkup percentage, however, can be reduced to 3% for those member states with more than 700,000 application in that year. Within a region or part of a region, if there are significant numbers of violation from on-the-spot checkups, additional checkups are required in the same year. Furthermore, there will be higher checkup percentage of applications in the following year. Checkup sample is randomly selected on a given proportion, where 40% of the checkup is large farms and 60% are the small farms. Among the checked large farms, 50% are those with declared area higher than regional average production, 30% are those farms with lower-than-average, and the rests are randomly selected. Among the small farms, 50% are randomly selected, 30% are those farms with higher-than-average production, and 20% are those farms with lower-than-average production. On-the-spot checkups should include the amount of aids involved, the number of parcels and declared acreage, changes from the previous year, findings of checkups made in the previous years, and other optional items specified by the member state. On-the-spot checkup should cover all parcels of the selected participants. Advance notification is given within 48 hours. It is also possible for a member state to

use remote sensing on the monitored areas. Applying such technique should perform photo interpretation of satellite images or aerial photographs of all parcels with ground cover recognizable and the area measurable. In addition, on-the-spot checkups should also include all applications for which photo interpretation can not clearly verified.

3.3 Penalties

To enforce the set-aside system, penalties are based on the following rules (EC, 1992).

(A) *Delay in application time*

Except in cases of *force majeure*¹, overdue of application causes a 1% reduction per working day in the amounts of eligible acreage of a farm. If delayed more than 20 days, farmers are not eligible to participate the set-aside program in that year.

(B) *Errors in applied acreage*

Define *determined area* as the area for which all conditions laid down in the set-aside regulations have been met. If the determined area is found to be greater than the set-aside declaration, compensating payment is based on the declared area. In reverse, if the determined area is found to be less than the declared, payment is based on the determined area. Furthermore, except in cases of *force majeure*, the determined area should be reduced with the following conditions.

- (I) Compensated area should be reduced by twice the difference found if this is more than 2% but not more than 10% of the determined area.
- (II) Compensated area should be reduced by 30% if the difference found is more than 10% but not more than 20% of the determined area.
- (III) If the difference is more than 20% of the determined area, no area aid should be granted.

(C) *False declaration*

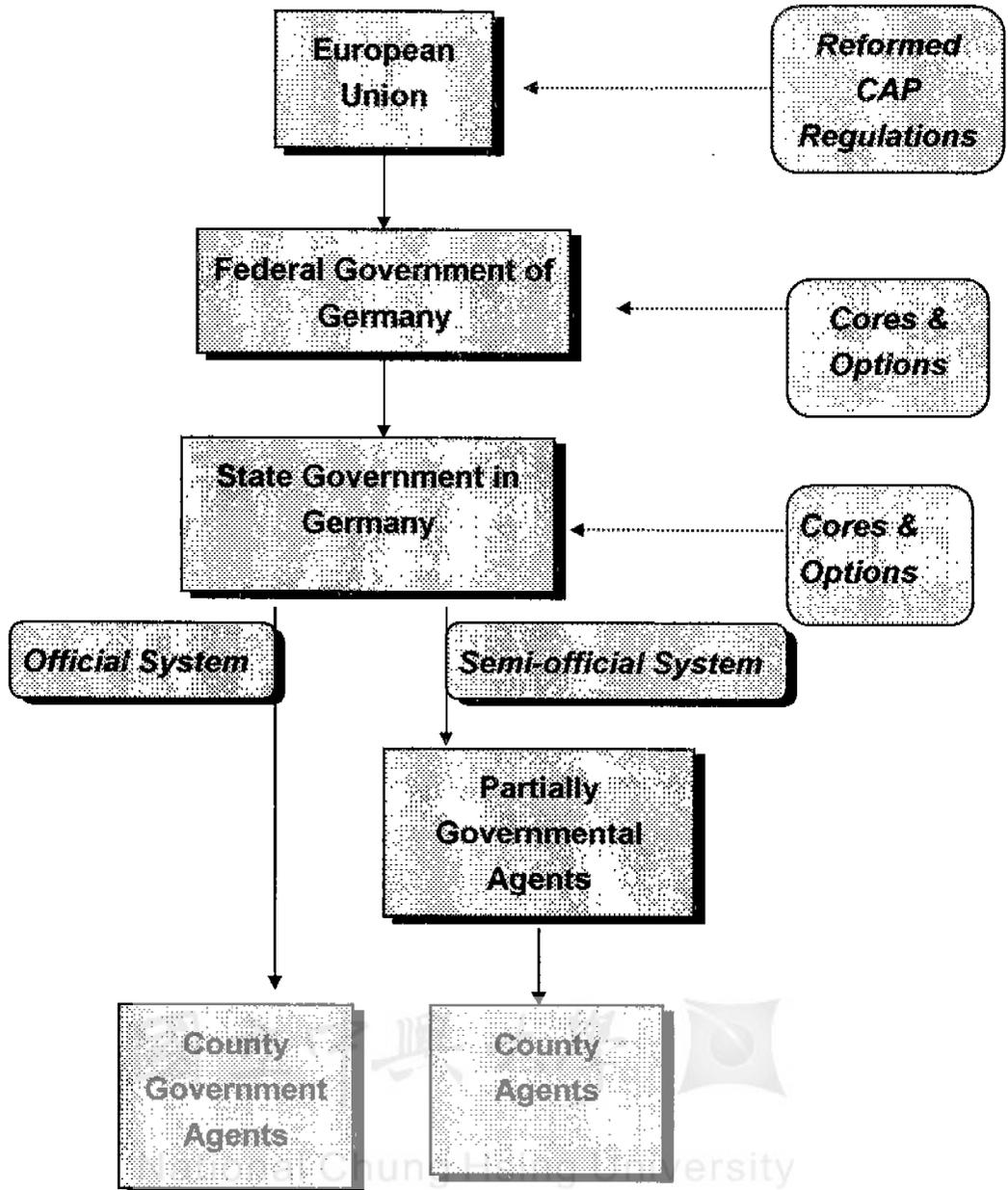
In case of false declaration, made intentionally or as a result of serious negligence, the farmer should be excluded from the payment scheme for the current year and be rejected for application in the following year.

4. Enforcement of Set-Aside Program in Germany

4.1 General Administrative Structure of Implementing EU's Regulation

In general, member states take the EU's commission regulations as core principles. Member states may design supplemental and ad hoc programs to ensure reformed CAP schemes is implemented effectively. For example, some countries increase the basic payment of set-aside program.

In Germany, however, federal government does not have supplemental regulations for the set-aside program. In contrast, each land in Germany may design additional programs to enforce the set-aside scheme. Although participates in the policy-making process, federal government do not actually carry out the CAP, except that for dairy products. In Most cases, federal government acts as a coordinator in the implementation system of CAP (Bundesministerium für Ernährung, Landwirtschaft, und Foresten ,1993). Broadly classified, administrative system carrying out the CAP can be distinguished into two categories in Germany. One is called *official system*, in which all works are accomplished by governmental institutes. The other is called *semi-official system*, in which farmers' organizations is involved in implementing the CAP. Furthermore, institutes at county level are usually the final executive units to carry out CAP programs. Figure 1 shows the general structure of administrative system in Germany.



4.2. Monitor System of Set-Aside Program in Germany

4.2.1 *Semi-Official Implementation System*

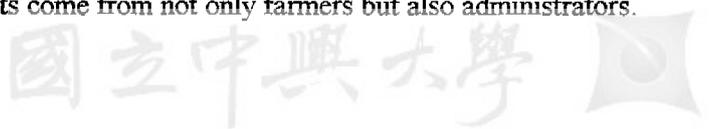
This system can be represented by Nordrhein-Westfalen. The implementing institute is the *Land wirtschaftskammer Nordrhein-Westfalen*. It is partially official because of two main features. Firstly, the director is nominated by the state government, while the chairman of board is elected by the member farmers. Secondly, 60% of its funding comes from the government, whilst only 10% of the funding is contributed by member fee and 30% are from other businesses (Ministerium für Umwelt, Raumordnung und Landwirtschaft des Lands Nordrhein-Westfalen, 1994).

Figure 2 depicts the monitoring system of set-aside program in Rheinland. Like in any direct payment program, farmers should file some application forms to participate the set aside scheme. However, since application forms are designed for the integrated system of direct payment, it is difficult for some farmers to fill out the complicated forms. Kammer offers assistance to farmers who need consultant on their application. Moreover, computer programs are designed to check the data on the application forms. The computer checkup is focused on finding any repeated or mistaken declaration. In those areas which do not have computerized data of farmlands, applicants should submit necessary information such as cadastral map, documents of ownership, and rental-tenure status of the declared lands. All forms are inspected at the time of application and then saved in computerized database. An overall inspection of all application forms is conducted before sending them to the state headquarters of Kammer. To avoid any collusion and fault checkup, all inspectors should sign on those forms inspected. If any mistake is found in these three inspections, application has to be redone. According to the EU regulation, 5% of the set-aside scheme participants are inspected on the spot. Sample distribution is also based on the EU regulation. In

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Difficulties in implementing the set-aside program are as follows:

- (A) Time lag: EU decides the percentage of set aside in November, but farmers have to plant their crops before September. Delay in announcing the EU's decision seriously affects the farmers' decision making, and hence raises the problem of poor timing in application.
- (B) Application forms are too complicated so that it is difficult to understand and is easily to make mistakes, which in turn could cause penalties to the farmers. Complaints come from not only farmers but also administrators.



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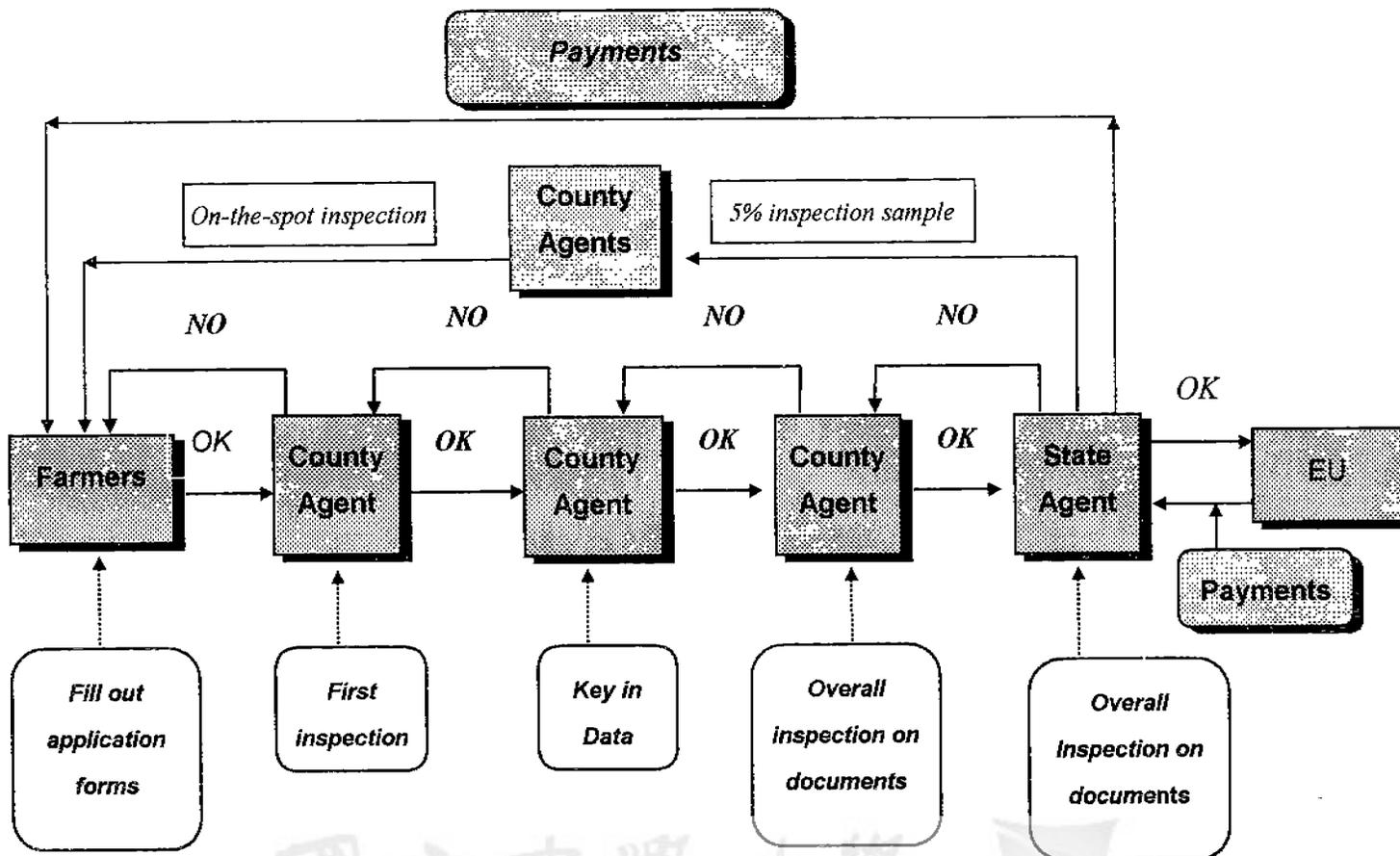


Figure 2. Monitoring System of Set-Aside Scheme in Semi-Official Implementation Complex

4.2.2 Official Implementation System

Monitor systems are typically implemented by the governmental agents in Baden-Württemberg and Bayern. We depict the administrative structure of this system in figure 3. As shown, agricultural agent at county level is in charge of supervising farmers' declaration. County agents are also responsible for inspecting the submitted application forms. The applications are then forward to the state government agents. Double checkup and key-in of these forms are conducted in the state government. Any application found with errors is then returned to the county and to the farmers for correction. On-the-spot inspections are conducted according to EU regulations, which means 5% of the participants are randomly drawn for checkup on farm sites. However, the 5% sample is randomly selected by state government and is actually inspected on the farm by county agents. In Baden-Württemberg, 2% out of the inspected farms were found violating the set aside contract in 1994.

As stated previously, set aside program is only one of the components in direct payment scheme. In Baden-Württemberg, set-aside program is combined with the program called MEKA(Marktentlastungs und Kulturlandschaftsausgleich). The major goal of MEKA is to reduce production by extensive farming management (Baden-Württemberg für Ländlichen Raum, Ernährung, Landwirtschaft, und Foresten, 1995). The state and EU have equal shares of payment on the extensive farming program. Similarly, in Bayern, set-aside is integrated in the environmental program called KULAP(Kulturlandschaft Program), which is designed for the conservation of grasslands, landscapes, and for transforming farmlands to grasslands (Bayerisches Staats Ministerium für Ernährung, Landwirtschaft, und Foresten, 1995). Extensive farming system is the major instrument to achieve the goals of these schemes. Moreover, farmers are encouraged to participate more than one of these schemes.

In the official implementation system, the new states in east Germany, which also follow the monitoring structure depicted in figure 3, have some special features in the whole payment scheme. Take Schwerin as an example, changes in agricultural structure since the unification have raise a lot of difficulties in implementing the set-aside scheme in this state. Before the unification, major products were potatoes and hogs. In turn, direct payment schemes encouraged farmers shifting their farmlands to produce those crops which can joint in the aid programs. In the first year of aids, base production of set-aside in this state was calculated by the average production of west Germany. Farmers tried their bests to get as much as possible farmlands into the area aids program. This results, almost every year, over declaration of set-aside acreage. For example, in 1994 actual declaration was 1.7% more than the expected level. As EU does not compensate excess declaration, state government has to reduce the declared acreage or to finance the gaps. Because there are difficulties either way, the state is trying to increase their set-aside allowance in EU. Furthermore, a lot of farmlands in this state are of huge sizes, some participating farmers are even reaching 4,000 hectares for an individual farmer. Payment of these farms can reach up to some million marks.

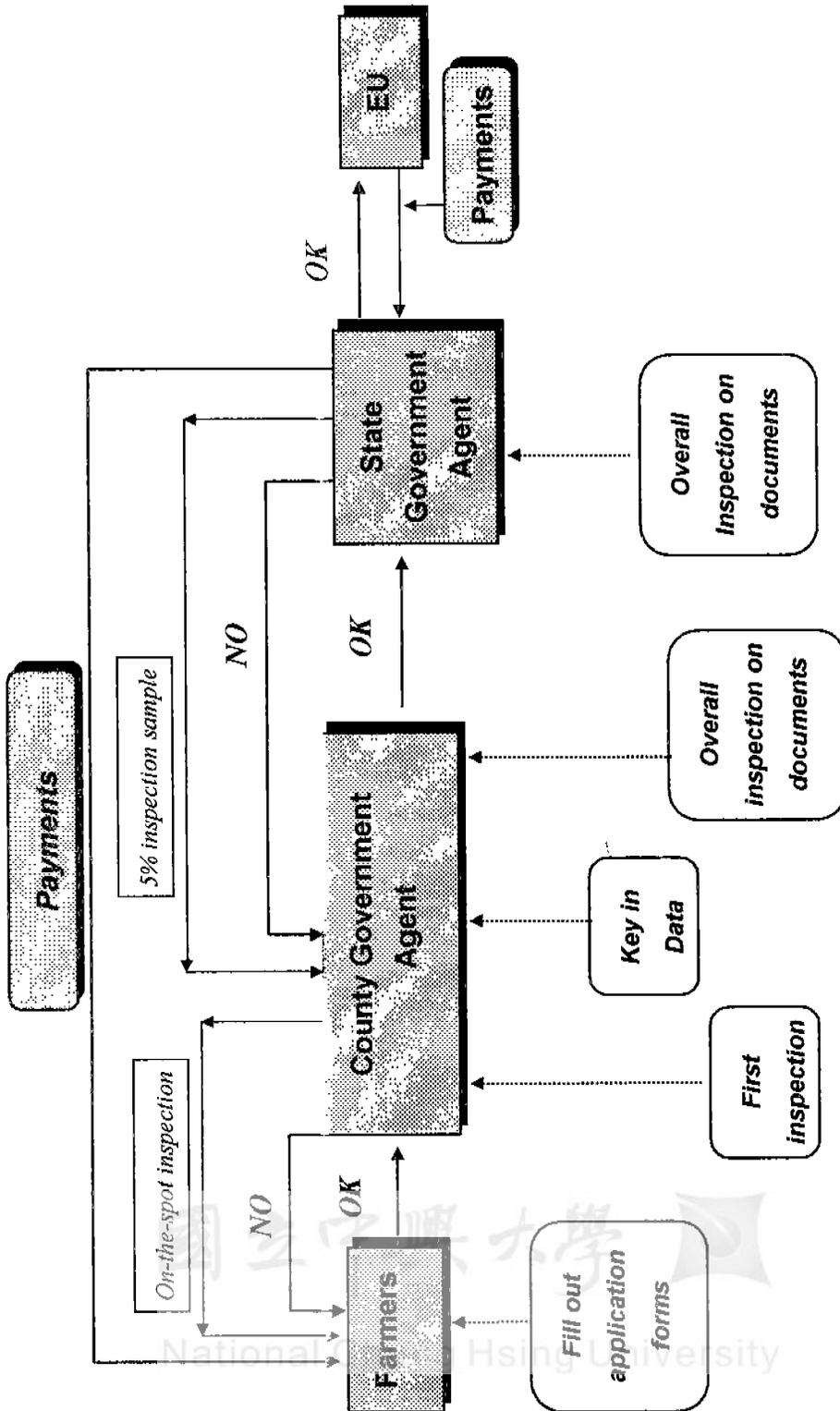


Figure 3. Monitoring System of Set-Aside Scheme in Official Implementation Complex

5. Conclusions

The purpose of this paper is to study the enforcement and monitor system of set-aside program in Germany. We start with the historical backgrounds of CAP reform. As we see in the center features on CAP reform, set-aside scheme is only one of the methods to reduce agricultural production. Most policies in the reform are focused on direct payment programs, among which set-aside is the one relates to production reduction and environmental protection. In this paper, we focus only on the relevant information of set-aside scheme. The payment standards of set-aside scheme are similar to other direct payment. The percentage of set-aside is decided annually and can be varied each year. Depending on production size, farmers are categorized into voluntary and compulsory participants. Big farms, in which the production of cereals, oilseed crops, or protein crops exceed 92 tons, are compulsory participants. Farms produce less than 92 tons are called small farms and are participating the set aside program on the voluntary bases. Moreover, the application for set-aside is complicated because this program is integrated with other direct payment schemes. There are also regulations on enforcement of the set-aside scheme. The main features include inspection and penalty rules. To ensure effective verification of compliance under the area aids program, the inspection includes administrative and on-the-spot checkups which include cross-checks on parcels and other declaration. At least a significant percentage of applications should be verified in these inspections. In set-aside program, it is 5% for the verification. To enforce the set-aside scheme, penalties are based on delaying in application time, errors in applied acreage, and false declaration.

In Germany, the set-aside scheme is implemented under the general regulations and rules laid down by the EU commission. However, under these core principles, there are two administrative systems to implementing the set aside scheme in Germany. One is

called semi-official system, in which the enacting agent is partially governmental funded institutes. This system is represented by the land of Nordrhein-Westfalen. The other is totally in governmental complex which we call the official system. We give the examples of Baden-Wurttemberg, Bayern, and Schwerin as the representative ones of the official system. Basically, difficulties of either system arise from the complicated structure of aids scheme. Both systems face the issue of complicated application forms causing difficulties for farmers to fill out. Time gap in announcement of set aside percentage and farmers' decision making is another issue. Finally, there is also equity issue from the new states in which the farm sizes are usually bulky.

The implications for Taiwan are in two folds. Firstly, as we see the difficulties of set aside in Germany, the implementation of set-aside program in Taiwan should also be integrated with other programs in much simple and ad hoc ways. The penalty rules in Germany are also adaptable in Taiwan. Secondly, environmental concerns seem capture the center feature of the integration of set-aside and other programs in Germany. This can be worthwhile for Taiwan to consider as a fundamental base for implementing the set-aside scheme.

Endnotes

1. Conditions of the followings are identified as *force majeure* of set-aside scheme:
 - ① The death of the farmer
 - ② Long-term professional incapacity of the farmer.
 - ③ Expropriation of a major part of the agricultural land managed by the farmer if such expropriation could not be anticipated on the day the application was settled.
 - ④ A severe natural disaster gravely affecting the holding's agricultural land.

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ABSTRACT

Keywords: monitoring system, set aside program, Germany

The purpose of this paper is to study the enforcement and monitor system of set-aside program in Germany. Payment standard of set-aside scheme is based on direct payment in CAP. Depending on the production of cereals, oilseed crop and protein crops, farmer can participate the set-aside program on compulsory or voluntary bases. Application for set-aside is complicated because it is integrated with other direct payment schemes. There are also regulations on enforcement of set-aside scheme. The main features include inspection and penalty rules. The inspection includes administrative and on-the-spot checkups which include cross-checks on parcels and other declaration. At least 5% of the set-aside applications should be verified in these inspections. Penalties are based on overdue in application, errors in applied acreage, and false declaration. In Germany, set-aside scheme is implemented under the general regulations and rules laid down by EU commission. There are two implementing

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systems of set-aside scheme: the semi-official system and the official system. We give the examples of both systems. Implications for Taiwan's set-aside program are also suggested.

德國農地休耕之監督執行系統

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摘 要

關鍵詞：監督執行系統、休耕、德國

本研究之目的是分析德國休耕之監督執行系統。本研究結果發現，根據歐聯之各項規定，歐洲各國休耕係配合 CAP 改革之直接給付制度而實施。德國之休耕監督系統係配合其聯邦制度而設，可分為半官方系統與官方系統，前者為透過農民團體辦理之體系，後者則全程由政府單位辦理。休耕監督工作大多遵照歐聯規定。監督項目包括行政稽查與實地稽查。每年抽查 5% 之休耕參與者實施實地稽查工作。罰則是針對申報時間延誤、誤報面積、或蓄意欺騙等，依違約之輕重程度而設有不同之處罰方式。不論是官方或半官方之執行體系均面臨休耕監督工作不易執行之困難。最後，本文亦對台灣休耕制度提出建議。

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