

The Common Agricultural Policy: a case study on the effects on the socioeconomic situation of Mecklenburg-Vorpommern

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ABSTRACT

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To contribute to the discussion on reforms proposed by the European Commission to the European Parliament and the future of the Common Agricultural Policy (CAP), this research assesses the effects of the Common Agricultural Policy on the socioeconomic situation of rural areas, for which the German federal state Mecklenburg-Vorpommern is selected as a case study. The region is characterized by large scale farming, resulting in concentration of subsidy payments in relatively few farms that are large in operated land size. Employment in the sector is falling, and developments in the agricultural sector seem to negatively affect development of other sectors. The main findings are that farms remain dependent on the direct payment subsidies and continue to be incentivized to farm extensively with a small labour force and with little focus on diversification. Proposed reforms seem to barely change incentives, and capping the subsidies would only result in legally splitting up farms, leaving subsidy recipients ultimately unaffected. Stopping the subsidies would most likely result in further concentration of land in large farms, resulting in loss of more jobs. CAP subsidies increase the land prices and rent, aggravating the disadvantaged position of small farmers. Under current conditions the Rural Development Fund of the CAP cannot significantly alter structural developments of the socioeconomic situation of the region. More funds would be required for the second pillar to be effective in the region. The one-size-fits-all approach of the CAP has led to irreversible consequences for the agricultural sector, which do not seem to benefit other rural developments in the region. In order to address regional-specific needs, CAP-funds need to be employed in a less uniform manner.

1. Introduction

Since the reforms under commissioner MacSharry in 1992, subsidies out of the first pillar of the Common Agricultural Policy (CAP) have increasingly taken the form of direct payments. As such, CAP subsidies are providing direct support to farmers rather than being direct market interventions as they used to be in the pre-1992 CAP. Towards 2005 these payments have continuously become less dependent on production, and now take the form of a per hectare payment, that serves as income support for farmers (Bureau, 2012, p. 316). Additionally, the second pillar has received more attention in the budget of the CAP, as such being able to finance more rural development projects, but still receives only the minor part of the budget (Viaggi, 2012, p. 331). Critics indicate that most of the direct payments flow to the larger farms (Tangerman, 2012; Gerke, 2008), while the income support and rural development goals seem to be counter effective, as is for example shown by Klüter (2010, 2012). The rural development branch within the CAP, as well as other funds such as the European Social Fund, the Cohesion Fund, and the European Regional Development Fund, seem to be impeded by the direct payment scheme of the CAP. Additionally, critics argue that the development funds are too separated to form an

integrated EU policy framework for regional development, due to considerable coordination problems between the different directorates at EU and local levels (Viaggi, 2012, p. 334-335).

In October 2011, the European Commission published a legal proposal to reform the Common Agricultural Policy. The main issues of this proposal are a uniform per hectare payment on the regional level by 2019, capping the direct payments received by individual farms at a maximum of €300.000 with degressivity in the payment from €150.000 upwards, and making 30% of the direct payments conditional on a 'greening' principle, referring to crop diversification, Ecological Focus Areas (EFAs) and the maintenance of permanent pasture (Bureau, 2012, p. 318). At the time of writing, the European Commission and the European Parliament have just agreed on the final form of the proposal that will be decided on by the full Parliament and national governments for final approval. According to this agreement there will be no maximum direct payment per firm at €300.000, but there will be a progressive capping from €150.000 upwards. Greening measures have been agreed on to be less strict. However, the uniform direct per hectare payment has been agreed on and will be in full force by 2019,

according to the current agreement (Ministerie van Economische Zaken, 2013).

Critics argue that no fundamental changes are proposed (Tangerman, 2012). The direct payments will be continued, potentially harming rural development and impeding the effectiveness of both the Rural Development Fund of the CAP, as well as other regional development funds. Beyond this discussion, some suggest that the EU should do without the whole agricultural subsidy scheme altogether as the policy proves distortive to the agricultural market, as well as potentially distortive to rural development (DebatingEurope, 2013). However, there is no clear and uniform picture of what the effect of the CAP is on rural regions in general.

Therefore, this research assesses the effects of the CAP and possible reforms on the socioeconomic situation of a rural region. Mecklenburg-Vorpommern, a German federal state in the former GDR, has been selected as a case study. The state is an example of a region in the EU where agricultural land is highly concentrated in large firms, which therefore receive high payments out of the CAP fund. At the same time, the region has to deal with high unemployment, outmigration, a rising average age and a deteriorating situation for job perspectives for in particular the young. All are partly due to downward pressure on employment in the agricultural sector, which in some rural areas of the region might be virtually the only sector to find work in. This is especially the case in the inner and non-touristic parts of Mecklenburg-Vorpommern. It seems that the CAP is supporting an economic structure that doesn't benefit the socioeconomic situation of the region, considering the falling number of jobs in the sector and scale enlargement that is at hand. At the same time, employment development in for example the touristic sector is a fact, but attention and budget is focused on stimulating agriculture. On top of that, the touristic sector seems to be negatively affected by the large scale agriculture, and especially intensive animal production, as it dominates the landscape that is so important for the tourism sector.

Central to this research is how the CAP is influencing the socioeconomic situation of Mecklenburg-Vorpommern; with around €445 million euros of direct payments flowing to the region annually in the form of direct payments and another €975 million flowing to the region from the second pillar of the CAP for the period 2007-2013, the question is what effect this public money has on the region. From a societal perspective, is it highly relevant to assess effects of spending public money through the CAP, while from a

scientific and policy perspective, it is highly relevant to assess the extent to which the policy is able to achieve its goals of income support and rural development.

For this purpose, dependency of the firms on the subsidies will be evaluated, as well as the influence of the policy on what is produced and on what scale. A further look will be taken into the survival of firms throughout the previous two decades, to establish a view on how the sector developed to what it has become and what the influence of the CAP has been in this respect. The interaction with the land market and subsequently the effectiveness of the second pillar will be assessed. Finally, findings of this study considering the effects of the CAP on the socioeconomic situation will be summarized.

2. Theoretical perspectives

2.1 Evolution of the Common Agricultural Policy

The Common Agricultural Policy has made up approximately 50% of the EU budget for the past 20 years. Launched as one of the first EU policies in 1962, the policy was initially aimed at increasing productivity in the EU agricultural sector, to improve food security in the EU, to stabilize markets, to ensure acceptable consumer prices for food and to guarantee a fair standard of living for farmers in the EU. Due to overproduction, international political resistance to the policy in the 80s, and ever rising expenditure of the CAP, there was huge pressure to change the CAP system of payments (Bureau, 2012, p. 316).

Under MacSharry, commissioner of agriculture for the EU at the time, reforms were set in in 1992. This provided a first step towards direct payments to farmers, which formed a compensation for the earlier support prices (Tangerman, 2012, p. 322). These measures result in product specific payments for production, thereby incentivizing the production of certain products. Under the next two commissioners, payments that were coupled to products were decreased in favour of direct payments that were decoupled from production, resulting in the Single Payment Scheme that was launched in 2003. In addition, receiving direct payments was made conditional on good agricultural practice towards animal well-being and worker safety and complying with environmental standards, which are known under the name of 'cross-compliance' (Bureau 2012, p. 316 & Tangerman, 2012, p. 322).

From 1991 on, direct payments start to make up a larger share of the CAP expenditure (EC, 2012c, p. 9), rising to 71,6% in 2012 (Tangerman, 2012, p. 322).

Starting in 2005, the decoupled payments make up approximately 80% of the total of direct payments in 2010. There are still coupled direct payments; the transition has not been finished yet (EC, 2009, p. 6)). The current main goals of the CAP are to provide a fair standard of living for farmers and to promote rural development, which are financed out of respectively the first and the second pillar of the policy (Bureau, 2012, p. 316-317).

Already before the decoupling of the direct payments, there was discussion about the fact that the larger share of the expenditure of the CAP was received by the big farms or the agricultural industry. Blacksell (2006, p. 11) argues that this increases regional disparities in farm size and farm incomes. Central to the system of decoupled direct payments, is that the payments are calculated on a per hectare basis; farmers receive a direct payment for every hectare of farmland. Payments vary within and between regions: "... as payment levels per hectare depend on the historical product mix and rates of past cuts in support prices, even farms of equal size receive different amounts of payments, depending on the member country and region in which they are located (Tangerman, 2012, p. 323). More importantly, in the current system, the tendency of the budget to flow to the operators of large pieces of land has not changed; the more land a farm operates, the more subsidy it receives.

Gerke (2008, p. 70) gives an overview of the division of direct payments made in 2000, before the decoupling of the direct payments. In the EU as a whole, 34% of the direct payments were distributed in sums between €50.000 and more than €500.000 per firm. This size class made up only 2,7% of the total number of firms in the EU in that year. On only 0,11% of firms in the EU receiving more than €500.000 of direct payment per year, 7,43% of the total budget was spent. Gerke indicates that the division of money is still like this nowadays. According to the EC (2010, p. 14-15), indeed around 80% of the direct payments of the CAP were flowing to 20% of the farms in 2009, with 16% of the highest direct payment sums benefiting only 0,5% of the farmers in the EU. Typical examples of payments of large sums of money are a €1,5 million direct payment to farms belonging to the royal family of Great-Britain which spread in the newspapers (Guardian, 2005), and for example €422 million of direct payments between 2002 and 2012 for Nestle Nederland BV (Farmsubsidy, 2012c).

With Agenda 2000, the second pillar of the CAP was introduced. For the last decade, this has been the part of the CAP that focuses on rural development. The fund

finances rural initiatives through the LEADER policy, and can co-finance both agricultural and non-agricultural policies that support improving competitiveness of the agricultural and forestry sector, improving environment and the countryside, and improving the quality of life in rural areas and encouraging diversification of the rural economy. For the planning period 2007-2013 the EU Strategic Guidelines serves as a basis for National Strategic Plans; the funds for the second pillar are partly at the command of the national level, such that regional-specific strategies to improve rural life can be developed. Through modulation, the share of the CAP budget for the first pillar is declining, transferring more money to the Rural Development Fund (EC, 2012b).

The European Commission proposed a new reform of the Common Agricultural Policy in October 2011. First, a uniform per hectare direct payment at the regional level by 2019 should overcome the inequality issue of farmers receiving different payments for the same amount of land. Within states, the payment per hectare has to be equal, regardless the history of the farm, which causes current differences between farm payments in the same area (Bureau, 2012, p. 318).

Secondly, a capping of direct payments in excess of €150.000 at progressive rates with an absolute ceiling of €300.000 would alter the tendency of the subsidies to concentrate in the large farms, which naturally receive most subsidies due to the per hectare payment. By addressing this issue, the commission most likely attempts to create a more politically justifiable distribution of payments, considering the fact that the direct payments are financed with public money (Bureau, 2012, p. 318). However, the question remains whether this can solve the issue of smaller farmers receiving relatively little money, since now 80% of the farms receive only 20% of the direct payments (EC, 2010, p. 14-15). After all, this process is inherently connected to the fact that direct payments are distributed on a per hectare basis (Tangerman, 2012, p. 323). In the current status of the agreement between the European Commission and the European Parliament, the degressive element remains, but the maximum to the subsidy per firm has been abolished (Ministerie van Economische Zaken, 2013).

Furthermore, an intensified 'greening measure' would be introduced. In this 'greening', 30% of the direct payments would be made conditional on crop diversification, devoting 7% of land to Ecological Focus Areas (EFAs), and maintenance of permanent pasture, extending the current cross-compliance measures to more environmental and biodiversity protection.

Regarding the EFAs, critics argue that devoting 7% of agricultural land in each firm can cause a negative productivity shock. Finally, 25% of the second pillar would be devoted to climate change mitigation and adaptation, while no drastic change is proposed in the division of funds between the direct payments and the Rural Development fund (Bureau, 2012, p. 318).

2.2 CAP and new member states: privatization and duality in firm sizes

The CAP originates from the context of the EU-15, in which the medium sized family farm is the dominant farm type of the agricultural sector. Since the accession of the new Central and Eastern European member states to the EU in 2004 and 2007, however, the agricultural structure of the EU has been characterized by duality both within and between countries; the Czech Republic, Estonia, Latvia, Lithuania, Slovakia, Slovenia, Hungary, Poland, Bulgaria, and Romania are all former Communist states that went through a collectivization of the agricultural firms under the communist regimes (Blacksell, 2010, p. 15-21). In all of these countries, the forced collectivization resulted in large scale farming, with the exceptions of former Yugoslavia and Poland, which were still characterized by an agricultural sector of small farmers (Paul & Pater, 2010, p. 117). The state farms have later been privatized for various reasons, of which one was to restore the pre-communist agricultural structure of small and medium sized enterprises. The results of this privatization vary significantly between the former communist states. This is partly due to the fact that different strategies were applied for privatizing the land (Paul & Pater, 2010, p. 120-122). Due to negligence of new owners to farm on their retrieved or inherited land, and a massive sale-out of land to larger farms, a structure emerged in many Central and Eastern European states with many small farms with relatively little land, versus farms with relatively much land; the latter are small in numbers, but huge in size (Blacksell, 2010, p. 15-21). This expresses the duality within states. The difference in the agricultural sector between many of the Central and Eastern European states, except for the Czech Republic, Slovakia, and parts of Hungary and Slovenia, and the Western European states remains large (Paul & Pater, 2010, p. 117-120). Blacksell (2010, p. 17-18) indicates that in the pre-2004 EU-15, 50% of the farms occupy 10% of the land, while 10% of the farms occupy 40% of the land. He contrasts this with Bulgaria, where 80% of the farms occupy 10% of the land, while 10% occupies 80% of the land. Naturally, the large farms receive the largest sum of money, considering the fact that direct payments occur on a per hectare basis.

2.3 A case study

A similar duality in agricultural structure that Blacksell (2010) describes for the former communist states of Central and Eastern Europe is found in the federal states of the former communist GDR, and in particular in Mecklenburg-Vorpommern. Hence, direct payments in this region flow to the large farmers in a similar manner. This research takes Mecklenburg-Vorpommern as a case study to analyze the effects of the Common Agricultural Policy on the socioeconomic situation of a region.

The agricultural sector of Mecklenburg-Vorpommern, the related CAP payments, and the socioeconomic situation of Mecklenburg-Vorpommern in the past two decades will be analyzed based on publicly available statistical data and literature. Subsequently, further in-depth analysis is conducted through interviews. Perceived dependency on direct payments of and influence of direct payments on individual firms will be discussed. Second is the influence on the type of products that are being produced. The mode of production and influence on employment will be covered after that. Subsequently, the connection between subsidies and the land market will be discussed. Finally, the result section covers some findings on the influence of the 2nd pillar of the CAP on the socioeconomic situation of the region.

3. Methodology

This research combines collection of data from literature, publicly available data and semi-structured interviews with relevant actors in Mecklenburg-Vorpommern. To establish a clear picture of the socioeconomic situation of Mecklenburg-Vorpommern, the CAP payments in the region, and the distribution of these payments to different farmers, various publications and publicly accessible data sources have been used. Using these sources, the structure of the agricultural sector in the region is analyzed and estimates are provided for the dependency of agricultural firms on the direct payments, as well as possible influences of the subsidies on production mode and product types. Effects of the CAP on the agricultural sector and through that the socioeconomic situation of Mecklenburg-Vorpommern as a whole are explored.

Due to the nature of the information required, this research has further focused on using qualitative methods. Using the information collected during the interviews, as well as additional publicly accessible data, dependency of firms on the subsidies, CAP

reforms, influence on type of production and production mode, interaction with the land market, and effectiveness of the second pillar have further been evaluated.

Interviews have been conducted with 16 relevant actors in Mecklenburg-Vorpommern and one interviewee in the state Brandenburg, approximately 10 kilometers from the administrative border between Brandenburg and Mecklenburg-Vorpommern. The actors have been selected based on a combination of an actor analysis and using contacts of the interviewees. To increase the reliability of the collected information, the actors in Mecklenburg-Vorpommern have been selected from a categorical framework: farmers, academics, governmental organizations, non-governmental organizations and engaged individuals, who are not part of any of the former categories. The latter category is referred to as individuals that are neither related to any particular organization, nor to a farm, but who are contributing to the public debate on the social and economic developments in the region.

Due to practical limitations of time and funds, from each category a goal of at least two actors was set. From the various categories, the following number of actors has been reached: 2 academics, 8 farmers, 2 governmental organizations, 3 non-governmental organizations, and 2 engaged individuals. This has provided a number of different perspectives and backgrounds. However, the researcher does not claim the pool of interviewees to be representative for the whole state.

A priori, the relevant governmental and non-governmental organizations in the state have been listed, with which interviews were scheduled. Based on several publications, two engaged individuals, two academics and one farmer have been selected and contacted. Via personal contacts, one dairy was contacted in Brandenburg. Using the contacts of this farmer, five other farmers in Mecklenburg-Vorpommern have been contacted, of which four were willing to participate in an interview. Via contacts of one of the engaged individuals, two other farmers were contacted.

Naturally, using contacts of interviewees to select next interviewees affects the type of interviewees that are reached. In this research, this issue only relates to the interviewed farmers. Related to the outcomes of this research, the conjecture is that the group of interviewed farmers is therefore not internally independent. Five interviewed farmers have connections with each other. All have dairy production

in their firm. This might have caused a bias in the collected information. Another shortcoming in the research concerns the category of academic research. During the interviews it was discovered that more regional academic institutions in the region have contributed to the discussion. Due to time limitations these actors and possible publications are not included in this research.

The interviews were semi-structured and had an average duration of one and a half hours. In case new relevant information was acquired during one interview, this information was included in the next interview. Through this method, the discussed material evolved during the interview process. This enables inclusion in the research of as many elements as possible. The downside of this method is that the first four actors have not reflected on certain elements, as these were not yet included in the interview setup. This has, however, proven to be of little influence to the research; after the first four interviews, hardly any new elements were added to the interviews.

Due to technical problems, the interview with one organization was conducted via email. The interview with one of the two engaged individuals has been conducted via online conferencing. All other 15 interviews were conducted on site in Mecklenburg-Vorpommern, in English, German or Dutch. Where necessary, quotes have been translated to English.

4. Results: effects of the CAP in Mecklenburg-Vorpommern

In this section, the agricultural sector of Mecklenburg-Vorpommern, the related CAP payments, and the socioeconomic situation of Mecklenburg-Vorpommern in the past two decades will be analyzed based on publicly available statistical data and literature. Subsequently, further in-depth results from the interviews will be discussed.

4.1 CAP payments and agriculture in Mecklenburg-Vorpommern

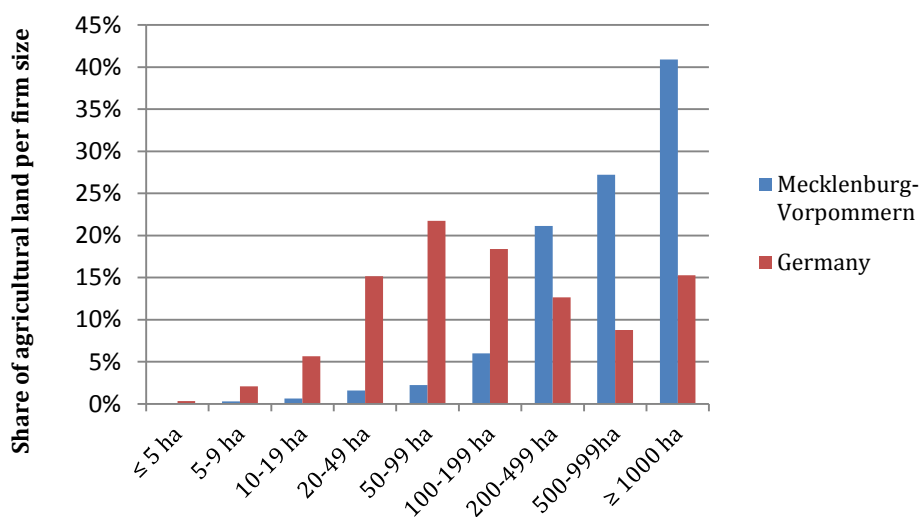
Although Mecklenburg-Vorpommern is historically characterized by large landownership, agricultural land was further concentrated in collectivized farms, the Landwirtschaftliche Produktionsgenossenschaften, during the GDR regime (Paul, 2003, p. 152-55 & p. 173-177). Right after the reunification, collectivized agricultural land, that was now property of the German state, was privatized by the Treuhand, which was succeeded by the Bodenverwertungs- und Verwaltungsgesellschaft, the BVVG, in 1992 (Gerke,

2010, p. 33). Due to numerous legal problems considering ownership and restitution of land, at the end of the 90s still a quarter of the land remained in the BVVGs governance. Although the governments of the former FRG and GDR expected small scale family farms to dominate the agricultural sector, many former LPG members chose to rent out their land to the larger firms. This had various causes, but the main issues were that LPG workers used to have very specialized functions, private farming incorporated considerable risk, and getting financial means to start up the own farm proved difficult (Paul, 2003, p. 282-283).

Gerke (2012, p. 34) describes that agricultural firms with more than 500 hectares of operated land have

rented more than 75% of the total land under control of the BVVG and bought 62% of the total land sold by the BVVG. More accurately, in 2010, 95,2% of the agricultural land in Mecklenburg-Vorpommern was operated by firms operating more than 100 hectares. Amongst this, 68,1% of the agricultural land was operated by firms operating more than 500 hectares. By contrast, 51,2% of the agricultural firms in Mecklenburg-Vorpommern were operating only 4,8% of the agricultural land in the state, accurately describing the duality of the structure of the sector (Statistisches Bundesamt, 2013d). This structure clearly deviates from the German average; in Germany as a whole, almost half of the land is operated by firms of at most 100 hectares in operating size (see figure 1).

Figure 1: The share of operated agricultural land of Mecklenburg-Vorpommern per firm size in 2010.



Source: Statistisches Bundesamt, Landwirtschaftszählung: Haupterhebung: Landwirtschaftliche Betriebe, Landwirtschaftliche genutzten Fläche, Arbeitskräfte, Arbeitsleistung: Bundesländer, Jahre, Rechtsformen, Größenklassen der Landwirt, 10-05-2013.

After the reunification in 1990, the new federal states of the former GDR joined the European Union as part of a reunified Germany. For that reason, the agricultural sector of Mecklenburg-Vorpommern started receiving CAP subsidies.

In 2011, the direct payment out of the CAP was on average €329,93 per hectare (BMELV, 2012g) and €87.200,70 per firm for Mecklenburg-Vorpommern. Compared to Germany, with €16.739,30 per firm in 2011, the average direct payment per firm is very high (BMELV, 2012d). Klüter (2010, p. 151), shows that this direct payment is on average 20% of the total revenue of firms in 2007-2008. Obviously, with direct payments of the CAP fund being distributed on a per hectare basis, most of the direct payments are received by the relatively small number farms operating large pieces of

land. With the number of direct payments being virtually equal to the total number of agricultural firms in Mecklenburg-Vorpommern, it is safe to assume that practically all firms are receiving direct payment subsidies from the CAP (BMELV, 2010c & Ministerium für Landwirtschaft, Umwelt und Verbraucherschutz, 2012, p. 3). Of the €445 million of direct payments that were transferred to Mecklenburg-Vorpommern in 2011 (see table 1), 83,7% was paid to firms that receive direct payments worth €100.000 or more per year. This means that 27,4% of the firms received 83,7% of the total payments. In total, 46,4%, that is 206 million euros annually, went to firms with a payment of €300.000 or more per year. Again, this means that 8,4% of the firms received 46,4% of the total payments (see figure 2).

Table 1: Direct payments out of the CAP fund to Mecklenburg-Vorpommern, 2011.

Direct payments	Number of payments	Total of direct payments
Up to €5.000	1565	€ 2.906.501
€5.001-10.000	428	€ 3.031.694
€10.001-20.000	404	€ 5.648.379
€20.001-50.000	555	€ 18.658.734
€50.001-100.000	574	€ 42.329.350
€100.001-300.000	924	€ 166.276.139
More than €300.000	406	€ 206.447.552
Total	4856	€ 445.298.349*

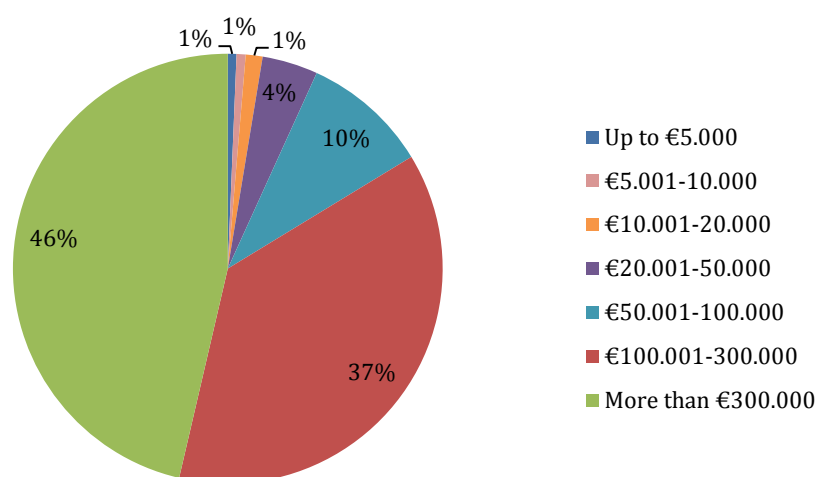
*The total of the original file of the BMELV (2012f) does not correspond to the total of payments of the individual payment classes. The reason for this is unclear. Here, the total of the individual payment classes based on own calculations is used.

Source: BMELV, 2012d & BMELV, 2012f.

Klüter (2010, p. 136) argues that productivity per hectare, measured in euros revenue per hectare, is the lowest in all of Germany. Klüter (2012, p. 12) explains this low revenue per hectare as a consequence of the type of products produced: mainly grains and oil seeds. In 2012, 55,5% of the agricultural land of Mecklenburg-Vorpommern was used for production of grains, and 18,6% was used for oil seeds (Ministerium für

Landwirtschaft, Umwelt und Verbraucherschutz, 2012, p. 4). All other agricultural product groups are underrepresented relative to the German average, measured in share of land used for these product groups (Klüter, 2012, p. 12). Investment in euros per hectare in Mecklenburg-Vorpommern is also amongst the lowest in Germany (Klüter, 2010, p. 138).

Figure 2: Direct payments per payment class as shares of the total direct payments in Mecklenburg-Vorpommern, 2011.



Source: BMELV, 2012f.

Klüter (2010, p. 135) argues that the profit per firm in Mecklenburg-Vorpommern is the highest of all states of Germany with a little over €90.000 per year in 2007-2008, almost equal to the annual direct payment that firms received on average in recent years (BMELV, 2012b; 2012c, Anlage 4; 2012d; 2012e).

Gerke (2008, p. 13) shows that legal persons in the East of Germany, which he refers to as the large agricultural firms, make a profit of €34 per hectare, while they

receive subsidies of between €300 and €350 euros per hectare. From this calculation, it appears that these firms would make a loss without the direct payments of the CAP. However, this conclusion only applies to the legal persons in the total of what Gerke (2008, p. 13) refers to as the large firms, which is not conclusive for Mecklenburg-Vorpommern in general.

Based on the Testbetriebsnetz of the BMELV (2012a), that monitors a sample of the German agricultural firms annually, agricultural firms in Mecklenburg-Vorpommern seem to indeed be making a substantial loss per hectare when subsidies are subtracted from the profit. This does not seem to be the case for Germany on average (see table 2).

Table 2: Balance of profit and received subsidies per agricultural firm of the BMELV Testbetriebsnetz in Mecklenburg-Vorpommern in 2011-2012.

	Mecklenburg-Vorpommern	Germany
Profit minus decoupled payments, CAP	- € 127	€ 428
Profit minus total payments, CAP	- € 188	€ 307

Source: Calculated based on BMELV, Buchführungsergebnisse Landwirtschaft: Die wirtschaftliche Lage der landwirtschaftlichen Betriebe, 10-03-2013.

However, the Testbetriebsnetz only covers a sample of 207 agricultural firms in Mecklenburg-Vorpommern. Indicated in the data set, these 207 firms represent only 1707 firms, while statistics clearly show that Mecklenburg-Vorpommern had over 4700 agricultural firms in 2010 (Statistisches Bundesamt, 2013d). Therefore, the data are not necessarily representative for the total sector. A conclusive answer to the question whether on average agricultural firms in Mecklenburg-Vorpommern would make a loss without the subsidies can therefore not be given based on these data. However, several indications point towards the assumption that it is actually the case. This corresponds to the argument of Bureau (2012, p. 321) that the direct payments "... currently represent the bulk, if not all, of farmers' net incomes in some sectors."

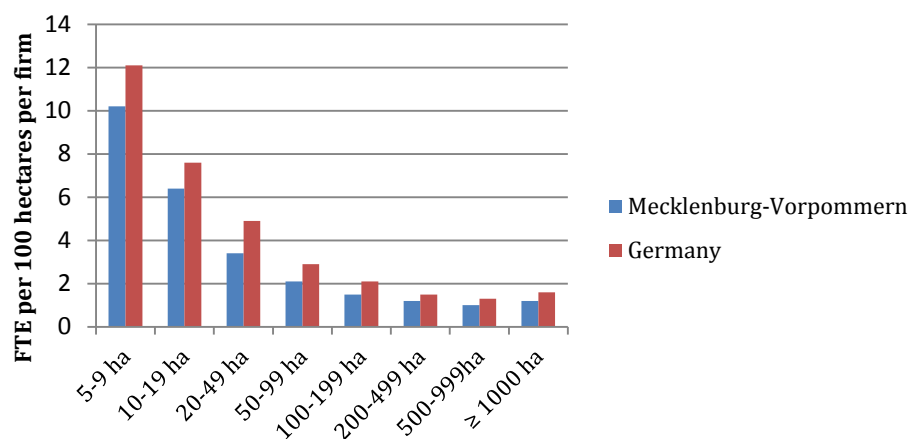
4.2 The socioeconomic situation of Mecklenburg-Vorpommern

Mecklenburg-Vorpommern is a very rural region, relatively remote from the economic centers of Germany (Paul, 2003). The region is one of the poorest states in Germany, which is reflected in a number of socioeconomic indicators. Although gross domestic

product per capita has increased substantially over the last two decades, it is 30 percentage points below the German average (Arbeitskreis, 2013d). Similarly, average wage is still over 25 percentage points below the German average (Arbeitskreis, 2013c). Average age has increased from 36 to 45 years between 1992 and 2011. The ratio of children to potential labour force declined in this period, while the ratio of elderly to potential labour force is increasing (Statistisches Bundesamt, 2013c). Especially in the smaller municipalities the "young, active and those that are focused on education and training" (Klüter, 2009, p. 15) leave the countryside and move to the cities or to the West of Germany. Total population is decreasing: between 1992 and 2011 the population of Mecklenburg-Vorpommern shrunk by 12,3%, losing some 230.000 inhabitants over two decades. Finally, although falling since 2005 from its top of around 20%, relative unemployment was still 12% in 2012. This exceeds the average of the federal states in the former GDR and is way above the 6,8% German average.

The agricultural sector used to be one of the most important sectors for employment. However, between 1991 and 2009 the number of employed persons in the agricultural sector, forestry and fishery fell from around 90.000 to only 28.700 in 2009 (Klüter, 2010, p. 140-141). Paul (2003, p. 340-341) estimates the loss of jobs in the sector is even bigger; his estimates point at some 100.000 jobs lost in the agricultural sector between 1989 and 1999 alone. The number of employees per hectare in agricultural firms is the lowest in all of Germany (Klüter, 2010, p. 140). Indeed, we see this clearly when we compare the number of full-time employed per 100 hectares, abbreviated as FTE/100ha in Mecklenburg-Vorpommern with that of Germany; 1,3 FTE/100ha and 3,3 FTE/100ha respectively. Differentiating between different firm sizes, the number of employed per hectare clearly decreases as the size of operated land increases (see figure 3). Klüter (2012, p. 12) links this low number of employed people again to the type of production in the region: mainly grains and oil seeds are produced on large pieces of land, for which little manpower is needed.

Figure 3: Full-time employment per 100 hectares per agricultural firm in Mecklenburg-Vorpommern, 2010.



Source: Statistisches Bundesamt, *Landwirtschaftszählung: Haupterhebung: Landwirtschaftliche Betriebe, Landwirtschaftliche genutzten Fläche, Arbeitskräfte, Arbeitsleistung: Bundesländer, Jahre, Rechtsformen, Größenklassen der Landwirt. genutzte Fläche, 10-05-2013.*

Altogether, the agricultural sector provides a declining amount of jobs for the sector, yields relatively little gross value added, and seems to be heavily supported by the CAP payments to continue this way of operation. This, while Klüter (2009) argues that employment opportunities in tourism are growing. Already in 2006-2007, more people were employed in the tourism business than in the agricultural sector (Klüter, 2009). However, focus of the state policy seems to lie on agriculture, rather than supporting the development of the tourism industry. Klüter (2009, p. 18-19) shows how regional planning for agriculture and animal production clashes with tourism. Locations for agricultural investments interfere with important touristic sites. Through this, the developments of the agricultural sector seem to actively impede the developments in the touristic sector. At the same time, the policy from the CAP is mainly aimed at supporting the current structures that seem to hardly provide any solution to the socioeconomic problems that the region has to cope with. Gerke (2008) also argues that the current agricultural structure is heavily supported by the fact that direct payments flow on the hectare, such that large farms are incentivized to continue their extensive scale of operation.

All these findings point towards one central issue: is the CAP supporting an economic structure that doesn't benefit the socioeconomic situation of the region? The rest of this research focuses on the influence of the CAP on the agricultural sector and its potential to change anything about the employment decrease in the sector.

4.3 Interviews

This section will further deal with the findings of the qualitative research in Mecklenburg-Vorpommern. Various elements and effects of the Common Agricultural Policy have been covered in the interviews. Although the policy is an integrated concept, the policy clearly affects the region via various mechanisms and channels. For this reason, the various elements will be discussed separately for the sake of argument. The conclusion and discussion will summarize the results and place them in context of the policy as a whole, as well as in the context of the region and the CAP as a whole.

Firstly, perceived dependency on direct payments of and influence of direct payments on individual firms will be discussed. Second is the influence on the type of products that are being produced. The mode of production and influence on employment will be covered thirdly. Then the connection between subsidies and the land market will be discussed. Finally, the result section covers some findings on the influence of the 2nd pillar of the CAP on the socioeconomic situation of the region.

4.3.1 Direct payments: dependency of farms

In general the interviewees agree that the subsidy system favours the arable farms over the livestock farms. Furthermore, there is a generic view that the larger the firm is, the more gain it has from the subsidies. Although one interviewee suggests that above 1000 hectares there is no more efficiency gain, all the other interviewees explain that the bigger the size of the firm is, the higher is the gain from the

subsidy, also above 1000 hectares. Due to the cost advantages, the large farms have a higher gain per hectare from this subsidy than the small farms.

4.3.1.1 *Dependency of farms on the direct payments*

The dependency of agricultural firms in Mecklenburg-Vorpommern on the direct payments of the CAP can only be estimated based on available data. For this reason, the interviewed actors have been asked to reflect on the dependency of firms on the direct payments. This is especially relevant from the perspective of farmers, as they have a clear view on their own balance sheet of the past years, as well as considerable knowledge about colleague farmers, as has been confirmed during the interviews.

All interviewees indicate that agricultural firms in general have been dependent on the direct payments for their net income throughout the 90s and at least until the mid-2000s.

An ecological mixed farmer with 1700 hectares of land responds as follows on the question whether 5 to 10 years ago, farms were making a profit: *“The subsidy was the profit, or sometimes even with the subsidy there was a loss. This changed three years ago when the prices for wheat and rapeseed increased.”*

Employee of the Landgesellschaft: *“You can deduce this from the bank finance sheets of the firms. In general the bank has no problems to finance a farmer, whether it is buying land or investing in stables, machines etc. With the current prices the banks are courting the farmers to provide credits, but it has not always been like this. From 2000-2004/5 the banks were barely willing to finance the farmers because they were afraid that the prices would drop even further.”*

As the main products that are produced in the region are grains and rapeseed, variation in prices of these products matter significantly for the profitability of especially the arable farm. Since 2010, the prices for these products have increased substantially (EC, 2013, p. 6-7). Therefore, various interviewees mention that there is a group of arable farms that is now making a profit without the direct payments. However, according to most interviewees there are still plenty of farmers that really need the direct payments:

Department EU agricultural policy at the farmers' union: *“When you take the profit per ha of the farms here, and you would subtract the direct payment from the EU, in many cases this will yield a red figure; they don't make a profit without the subsidies.”*

Costs for the dairy farmers have increased, as feed for the animals has become more expensive; feed prices depend on the prices of grains, rapeseed and corn. At the same time, the milk price has known highly fluctuating prices in recent years, with prices varying between 30% below and 35% above the level of January 2000 (EC, 2013, p. 8). Important to remember is that the main influence of the CAP on milk production is only on the production side in the form of milk quota, that will be abolished in 2015 (Ministerie van Economische Zaken, 2013). There is no direct subsidy on milk production. The interviewees in this research all indicated that in recent years they are making profit on the milk production, even without the subsidies on the land that they operate. However, it seems highly likely that the image of these firms is not representative for the total dairy producer market in Mecklenburg-Vorpommern; various interviewees indicate that dairy producers in general are more dependent on the direct payments, although they generally receive considerably less subsidy due to the relative low amount of hectares that they operate on average; note that most farmers in Mecklenburg-Vorpommern with dairy production also operate arable land on which they receive direct payments. Regardless, there are indications that dairy farmers on average couldn't do without the subsidies even in recent years. A non-representative sample of 41 dairy producers in Mecklenburg-Vorpommern, provided by one of the interviewees, shows that 22 out of the 41 firms are making a loss on average for every kilo of milk in 2011-2012, even with the subsidy (LMS Agrarberatung, 2012).

4.3.1.2 *A limit to the direct payments*

The Commission proposed degressivity in the direct payment system from €150.000 upwards and a €300.000 capping per firm, which can be exceeded by the wage payments of the firm (Tangerman, 2012, p. 323). Although the current status of this proposal is that the degressivity will remain, while the €300.000 maximum to the direct payments per firm has been pushed aside, the question what this capping would mean for the firms was posed to the interviewees. The answer was uniform and clear:

Department EU agricultural policy at the farmers' union: *"Already near the end of the last reform phase, when it was almost certain that a limit to the subsidy that could be received would be introduced, there were firms that already divided their firm in administratively separated firms. The separate firms will then operate under the umbrella of one holding. This only results in more administrative work. The EU won't save a cent."*

Capping the subsidy at a certain level will almost certainly result in an increase of the number of firms, such that administratively firms have a size that yields them a direct payment up to €300.000 euro per firm. Combining the firms in a holding, though, will then make sure the direct payments flow back to the same owners as in the system before the capping. Therefore, as suggested by critics such as Tangerman (2012), the capping will not fundamentally change the current distribution of direct payments, with the larger farms receiving the major share of the subsidies.

However, several interviewees mention that a 150.000 euro maximum would result in serious problems for many firms. The ministry is not in favour of the maximum, as *"it can be a serious problem to firms; they are used to the subsidies and therefore dependent on them"* (Representative of the Ministry of Agriculture, Environment and Consumer Protection, Mecklenburg-Vorpommern). Except for two interviewees that represent relatively large farms, none of the interviewed farmers would be affected by the proposed maximum of €300.000. They are either smaller than the 900 hectares that are required to exceed the €300.000 direct payment, or they are split up in separate parts already. The two interviewees that would be affected mention that capping the subsidies would in both their cases result in saving costs by diminishing the number of employees. One of them indicated the following criticism to this regulation:

Representative of a relatively very large farm in the region: *"The discussion of cutting subsidy at a certain amount of money... I think it is extremely unfair, because if you again would cut that off only because you are big you are getting a penalty for organizing your farm in an efficient way. And those farms that work extremely inefficiently, perhaps because of their size, the way they organize it, what crops, what to produce, they would get a loan for that. You would keep those alive who are very inefficient and you would give a penalty to those that are efficient."*

4.3.1.3 *An end to the direct payments*

To further estimate the dependency of the firms on the direct payments, the interviewees were asked what would be the consequence for individual firms and the consequence for the sector as a whole of stopping the subsidies that the farms receive now. Connected to the only slight dependency of the interviewed farmers in recent years, the farmers indicate that they will probably be able to continue their operation, although several interviewees indicate that stopping the subsidies will cost jobs within the firm. Additionally, some interviewees make the side note that operating without the subsidies is possible at the current prices for agricultural products; when these change, the financial situation of the firms also changes. Only one farmer indicates that it would be the end of the firm.

Most non-farmers indicate that stopping the subsidy would probably be the end for the smaller farms, while the larger firms with more capital base will take over land that will become available. These firms can be either large farms or investors from outside the agricultural sector. This issue will be dealt with further on in the results.

4.3.2 *Influence on product types produced*

Several authors suggest that the type of products that are produced in the region is heavily influenced by subsidies (Klüter, 2010, 2012; Gerke, 2008). Important to notice is that subsidies on agriculture in the region do not solely originate from the EU's CAP. Within Germany, under the law of EEG (Erneuerbare-Energien-Gesetz), the renewable energy law, crops for biofuels have been heavily subsidized in recent years. During the interviews, focus was therefore on the difference between the influence of the EEG subsidies and the direct payments from the CAP fund.

Most interviewees agree on the tendency of firms to focus on grains and rapeseed because these require low input in labour and are relatively easy and cheap to produce, especially with the current machinery available for this purpose. With the number of hectares per firm, these crops yield the highest profits. Some interviewees mention that this focus is inherent to the structure of the sector, with large firms dominating the land. In this sense, the CAP payments strongly influenced the extent to which these crops were grown in the years before 2005, but the crops also naturally have the highest profit in this region. What should be kept in mind is that rapeseed is still under influence of the German EEG.

The range of product types produced remaining today is less diverse than the production right after the Wende in the Landwirtschaftliche Produktionsgenossenschaften (LPGs).

PD Dr. Gerke: *“When you look at what production was subsidized by the EU subsidies, that was grain, rapeseed, cattle, and sheep herding. And all the others, dairy cow, pig, chicken, vegetables and potato production had no EU subsidy. And when you look at what parts of the agricultural sector are underrepresented here it is exactly those that were not subsidized.”*

Gerke’s argument provides a strong link between CAP subsidies and what is produced in the region. Reasoning from this perspective, it might be reasonable to state that the influence of the subsidies might have been determining for what types of production remained after the privatization period.

However, other forces clearly have been at play considering the developments in the animal production branch of the sector. Although hardly mentioned by the interviewees, Paul (2003, p. 340-349) provides clear arguments for the downfall of livestock and dairy production. At the time of the reunification, productivity in the animal production branch was comparatively low. Right after reunification of the two states, the Eastern European market was cut off from the Eastern German farmers, while fierce competition arose from the Western European market. Also, because through reunification the former GDR was now part of the EU, the dairy branch had to face milk quota, resulting in a significant reduction of milk cows. On top of that the introduction of the D-mark completely devastated the financial situation of producers; overnight the agricultural sector produced a negative value added in new prices in 1990 (Koester, 1999, p. 3). Obviously, with low productivity and negative balance sheets in the early 90s, many animal and dairy producers were forced to quit production (Paul, 2003, p. 349)

Clearly, in the determining process of what types of production would remain after the Wende, not only subsidies were at play. The reason for the relatively low number of livestock in Mecklenburg-Vorpommern, compared to the German average, thus partly has to do with conditions that were set during the reunification process. There are also strong indications that market powers allow for more livestock in the region, as many farmers indicate that there is a shortage of natural

fertilizer in the state and plenty of space to house the animals.

Current developments, however, seem to put new pressure on dairy farming in particular. The land market is subject to fierce competition, partly due to the various subsidies, as will be discussed later. The fact that subsidies on grassland have been modified and are now equal to the subsidies for arable land, has resulted in further difficulty for dairy farmers to acquire and/or use land.

Employee and manager of the Landgesellschaft: *“The animal production sector has many disadvantages from this subsidy system, because the subsidies are only on the land. In the past arable farms that have a lot of grassland had no problem with renting out this land to the animal producers. However, that doesn’t work like this anymore. Today the arable farms receive €322 per ha and sell the grass to the animal producers. So the animal producer can no longer use these lands for his production, while the arable farms receive subsidies for the grasslands.”*

However, dairy farmers with more arable land can grow their own food for subsidized prices.

A farmer with 320 hectares of arable land and dairy production: *“The production of our corn doesn’t give any profit, relative to buying it from my neighbor. The only thing that we earn on it is the subsidy. So the 100.000 was an income, because you had the land. But now the corn prices are rising so much, it is becoming profitable to produce on the land.”*

Two developments disrupt the market here: on the one hand, the grassland that is deemed to be for the dairy farmers, but is actually under control of an arable farmer, is not serving the purpose of compensating the dairy farmer for the loss of support on his milk production that he used to receive. On the exact opposite we find a dairy farmer who is producing corn as food for his milk cows against prices that are equal or above those of arable farmers, while he receives a subsidy on the arable land. The efficiency of this arable farming would in general be lower than that of a larger corn producing arable farmers. Efficiency losses hence appear on two sides of the sector.

Reasoning from this perspective, we can see that the production that remains today is heavily influenced by a mix of factors: the subsidies in the first years after the

Wende, both EU and German-specific certainly are partly responsible. Besides, the land policy, right after the Wende, that resulted in a continuation of the large firm size structure of the sector, a lack of farmers that were willing to start their own family-run businesses, as discussed by Paul (2003, p. 282-283), and German reunification policy that resulted in the discontinuation of many subsectors of the agricultural economy of Mecklenburg-Vorpommern have considerably influenced the product types produced in the region. Available machinery is also unquestionably important for the choice of farmers to produce the low labour-input crops. Nevertheless, especially in the first decade after the Wende, most interviewees argue, the production was strongly focused on those product types that were being subsidized by the European CAP fund;

A farmer with 800 hectares of arable land:
"You wanted to optimize the program to get as much subsidies as possible."

4.3.3 Influence production mode and employment

In line with criticism on the type of products that are being stimulated by the per hectare subsidies, Klüter (2010, 2012) and Gerke (2008) argue that the scale of production is stimulated by the subsidy system and that the number of employees per hectare is negatively affected by this. To gain more insight in how the subsidies are influencing the production mode of agricultural firms in the region and how this affects employment in the sector, these themes have been discussed with the interviewees.

First of all, there is no consensus about why the average firm size is increasing. There is definitely a link with the land market, which will be discussed in the next subsection. However, the arguments of Klüter (2010, 2012) and Gerke (2008) are denied by several interviewees:

Ecological farmer with 1700 hectares of land:
"Firms are not so big to reap more subsidies; they are big to produce cheaper. The subsidy is only a subproduct in this."

Several interviewees also argue that efficiency is negatively affected by the subsidies. Due to the fact that there is a portion of income secured beforehand, firms tend to be less productive, according to three of the interviewed farmers. However, all indicate that this loss in efficiency has to do with more than just the subsidies; GDR mentality, a lack of education and lack

of motivation amongst the employees strongly affects efficiency as well.

Linked to this last point, firms try to lower their costs on personnel and replace hand work by machinery. According to Gerke, this development was hardly rational in first years after the Wende:

PD Dr. Gerke: *"From the economic point of view, increasing efficiency was not so extremely rational, because the wages were very low in the agricultural sector. But many farms invested in the newest machinery, which was economically irrational. They did this because of a machinery-fetish."*

This notion of focus on investment in machinery for use on the land, rather than investing in the other branches of production within the firm is supported by more interviewees, although some argue that this is also related to the subsidy allocation in the first years.

A farmer with 800 hectares of arable land: *"... the LPG-successors all had animals after the Wende (lots of pigs, lot of cattle), but it was much easier to invest in crop-growing; to buy new tractors, a combine-harvester and a crop sprayer."*

However, many argue that even nowadays it is easier and cheaper to produce extensively on the land due to the large pieces of land available per firm. This type of production naturally requires less man power and more machinery, hence lowering the number of employed workers per hectare.

Representative of a relatively very large farm:
"We aim at employing the people that we have here until they retire. But our future goal is to employ only 0.4 full-time employed workers per 100 hectares, because that is the number that is realistic with today's machinery that you can buy on the market."

Hence, the decrease of employment in the sector is strongly incentivized by technical advances, not just by incentives that follow from the subsidy scheme. However, it can still be argued that the large scale of the farm is inherently connected to the amount of subsidy that the farm receives annually, as do Klüter (2009, 2010) and Gerke (2008).

Another argument that is connected to scale enlargement and loss of jobs mentioned by several interviewees: the generation that took the lead of many firms right after the privatization of the collective farms

is reaching its retirement age. Many firms lack successors, resulting in future sale of the firm. In many cases, a larger farm buys up the smaller farm and adds the land to its own farm.

Farmer with 2300 hectares and 2600 livestock in response to what would happen with the firm if it would have to be sold: *“Milk production would have been stopped, the pig production would have been stopped. A lot of jobs would have been lost. The firm would have been split up and a third of the land might be left to do arable farming. Something like that. The rest would have gone to surrounding firms. But the jobs would have been lost, definitely.”*

Many interviewees mention the presence of investors from outside the agricultural sector that are also actively investing in land through buying up farms. A similar process is described when these investors buy up the farms: generally the firm is restructured to extensive arable farming only. In line with the other larger arable farms, it seems reasonably likely that in this process more jobs will be lost.

Animal production employs more people within the firm.

A farmer with 320 hectares of arable land and dairy production: *“The input and service firms around it; that is why the sector brings so many local jobs, much more than in arable farming, even if the dirty work in the stables is done by two Polish workers, or by a Bulgarian as you can see in my farm.”*

However, the branch gains less from the subsidy scheme, according to several interviewees. A manager at the department of EU agricultural policy at the farmers' union gives an example of the fact that the milk subsidy has been calculated over the hectare and has shifted to grassland subsidies. Dairy farms with little grassland have therefore lost a lot of money, as they used to get milk subsidies, but don't have compensation of that on the grassland. On the opposite, dairy farms with a lot of grassland gained, of course.

In line with the idea that dairy and more generally animal production employs more people, different interviewees share the opinion that it would be reasonable to adjust the subsidy scheme in such a way that it incentivizes farms not to only invest in machinery, but also in employment. As Mecklenburg-Vorpommern has to deal with a serious unemployment problem, stimulating the dairy and animal production

branches of the sector is seen by many as a desirable development.

Employee at the Landgesellschaft: *“In Mecklenburg-Vorpommern we have a very low wage level. Also in the large arable farms, they only pay what is necessary, and not what is possible. On the other side we have the animal production. Skilled workers are needed in the animal production, but the problem is, they are no longer here. Therefore we have a high wage there. The market cannot provide more workers there. So there it would be more favourable to connect the subsidies to the wages.”*

However, all interviewed farmers put a critical note to the discussion about employment, which seems completely independent from the subsidy influence: by all interviewed farmers the quality of their German workers was described as fairly poor. Many workers have lack of skills and motivation and hardly do anything else than performing exactly those tasks that they have been assigned by the manager, which is highly related to the GDR-mentality that continues to play a role for many individuals, as is explained by for example Paul (2003). On top of that, farmers that are looking for personnel have trouble finding someone willing and able to work for them, while also living up to the expectations of the employer. This notion is strengthened by the observation that three of the eight interviewed farmers had already employed foreign personnel, explicitly for the reason that they could not find any Germans willing to do the work.

4.3.4 Land market

The greatest issue for farmers in Mecklenburg-Vorpommern is having the right to operate the land. Although many farms own a certain proportion of the land they operate, for most farms considerable parts of their land have to be rented from private individuals, the Landgesellschaft, or the BVVG. The latter one has, as is unanimously typified by the interviewees, a very aggressive way of renting out the land; being part of the Ministry of Finance, the organization tries to maximize the profits out of renting out and selling the land. Rent is established based on current market value of the land, such that farmers continuously run the risk of losing their land to a higher bidder as soon as the legal renting contract expires.

All farmers and virtually all non-farmer interviewees mention that the direct payment subsidy increases the rent for the land, as well as the selling price of land, which is in line with the argument of Tangerman (2012,

p. 325). Farmers suggest that without the subsidy, they would not be able to pay the rent they are paying for the land at the moment. Whether implicitly or explicitly all farmers indicate that a part to the total of the direct per hectare payments flow to the owners of the land.

Representative of the Ministry of Agriculture, Environment and Consumer protection: *“If you rent the land the owner will increase the price due to the fact that you receive a subsidy. Sometimes a direct transfer of subsidy from the producer to the landowner is at hand. It’s getting more and more common.”*

However, most interviewees place the effect of the subsidies in the context of the bigger picture; not only subsidies are influencing the land prices, but also the relative strong position of large arable farms, investors from outside the agricultural sector, and the fierce competition from biogas producers.

Employee of the Landgesellschaft: *“I think the main reason is the better position of the pure arable firms, which are financially in a better state, they have few employees to pay wages, compared to animal production the investments that were needed right after the Wende were relatively confined, and the profit margins have been larger. These firms have of course grown*

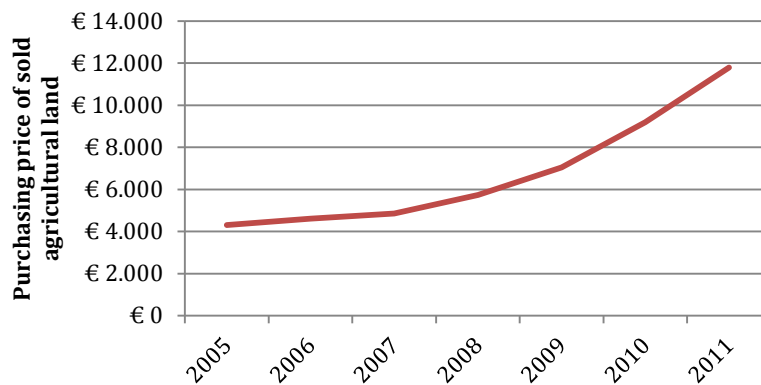
enormously in their land sizes and have as such started a competition of forcing each other out of the market.”

PD Dr. Gerke: *“Investors from outside the agricultural sector look for large pieces of land; they’re not interested in small farms, but only in the big ones. That is why they come here.”*

Practically all interviewees mention that after the financial crisis the demand for land increased, and with it the price, as is confirmed by data from the ministry (see figure 4). As a reference, the selling value of agricultural land in 2000 was €3.621 per hectare (Ministerium für Landwirtschaft, Umwelt und Verbraucherschutz, 2012, p. 3), only €700 below the value of 2005. Hence, selling prices really started to increase fast after the financial crisis (see figure 4).

Most interviewees indicate that with investors having lost trust in banks and investments in financial products, their focus has partly shifted to investing money in land. With the suitable BVVG policy of maximizing profit out of renting and selling land, the external investors are able to bid high prices for land and through this mechanism acquire large pieces of land. Several farmers indicate that they have to bid high prices, even to private owners, to offset the bids of the external investors.

Figure 4: Average purchasing price of sold agricultural land between 2005 and 2011.



Source: Ministerium für Landwirtschaft, Umwelt und Verbraucherschutz (2012).

Klüter and four other interviewees stress that the explosion of land prices in Mecklenburg-Vorpommern primarily originates from the renewable energy law of Germany that provides subsidies for the production of biological energy on top of the direct payments for land.

Prof Dr. Klüter: *“The EU subsidies are everywhere, but the exploding land prices that we have here are not seen in France or*

Denmark. It is due to EEG (the German renewable energy law, ed.), that’s the problem.”

Additionally, several farmers indicated that if the rent increases to the market levels at the next bid for the land they operate at the moment, it might be a challenge to keep the land rights within the firm, due to the high prices. Their main competitors would be the larger arable farms, as well as the biogas investors and

investors from outside the agricultural sector. Without the subsidies, some interviewees think that the competitive position of farmers towards investors from outside the agricultural sector would deteriorate, due to the fact that the farmers will be receiving less subsidy on the land, while investors will have the same money available as before.

One farmer relates the land market explicitly to the product types that are produced in the region in general.

Farmer with dairy production and 500 hectares of arable land: *“For the land market it would be better if the subsidies would go away. Of course it’s better. It would especially be better for those that produce intensively, such as potato producers, for those that have a high turnover per hectare. Because the farmer that produces his rye cannot bid the high prices anymore when he loses the subsidies per ha. His turnover per ha is too low then. ... then he can no longer play along in this process. And then the competition decreases and then I think that the land prices would fall a bit.”*

What is clear, is that survival of firms is strongly linked to the land policy and current land prices; the risk of losing land to higher bidders is very realistic, which makes it tough for smaller firms with less capital to compete for land. Without land, the farm cannot operate. This mechanism is what drives smaller farms out of the competition at the moment. The process would be further enhanced by stopping the subsidies, according to several interviewees.

4.3.5 The second pillar

In Mecklenburg-Vorpommern, the main influence of the second pillar can be found in infrastructural investments and in subsidies for building stables and sheds for dairy and animal farms, financed out of the Agrarinvestitionsförderung program.

The stable subsidies are aimed at improving animal well-being and modernization of especially the dairy and animal farms. Most farmers describe the subsidies for building the stable as a positive program. Four of the interviewed farmers explicitly indicated that their stables had been renovated or rebuilt with subsidy aid. However, Klüter indicates that it is exactly these subsidies that are stimulating developments in animal production that interfere with the touristic needs of the region, as he has also written on (Klüter, 2012). One of the interviewed engaged individuals, who lives close to

one of animal production farms with over 10.000 pigs, stresses that his tourism business suffers from the presence of this farm close to his hotel. One of the academics responds as follows to this matter:

PD Dr. Gerke: *“Direct relevance (of the agricultural sector, red.) is not that big, at first glance. But it is important in my view if you consider that tourism is dependent on what is happening with the land and with the areas. And it strongly influences living in the country here in Mecklenburg-Vorpommern.”*

However, the findings in this research are limited to one example. It is unclear to what extent this mechanism described by Klüter truly affects the touristic sector. Klüter (2012) does however indicate that the intensive animal production sites barely add to the regional added value, as is also mentioned by the policy advisor from BUND for the council of the policy for development of the rural areas at the state ministry during the interview.

The infrastructural projects are unanimously considered as beneficial to the region. Most interviewees indicate that only recently the majority of roads in the region were of very bad quality. With money out of the infrastructural projects this has changed significantly.

However, several interviewees indicate that some anomalies come with these projects, such as roads of questionable purpose:

A farmer in a village with 700 inhabitants: *“I see odd roads; sometimes you get the idea that the roads are being built just because the money is there. Shortcuts that serve only 20-30 cars a day. Sometimes, not all of the times, but sometimes useless things are being done with the money.”*

A farmer in a village with 400 inhabitants: *“A lot goes wrong. They built a cycle path towards the larger village nearby. But a school bus takes all the kids to that village; the paths are barely used.”*

At the same time, other interviewees mention that too little money is available for other projects. Both the policy advisor from BUND for the Policy Council of Rural Development at the state ministry and the representative of the Ministry of Agriculture indicate that more money would be required to be able to make a difference with the second pillar. This could result in coupling subsidies to farmers to certain compensatory

requirements as social services and environmental protection. However, this is part of the discussion for the new planning period. Under current circumstances and budgetary limits, most interviewees seem to share the opinion that the 2nd pillar cannot change the structural developments in the region of scale enlargement, further loss of jobs and outmigration.

One interviewed farmer living in a village of 400 inhabitants and the representative of the Ministry of Agriculture both indicate that under current conditions it might be necessary to start thinking about giving up areas, as public services cannot be provided anymore for the small amount of people that live in the remote areas.

A farmer in a village with 400 inhabitants: "At some point you could ask yourself whether subsidizing some small villages that are running empty is really the wisest thing to do. Perhaps you should consider giving up these villages and putting the money in other villages in the surroundings where these people can live as well. And that is a very difficult theme, but that is also a discussion I think."

A crucial problem of the policy of rural development within the total EU is indicated by the policy advisor from BUND for the Policy Council of Rural Development at the state ministry. As advisor for the council he explains that sometimes various different funds of the EU, such as the European Fund for Regional Development, the European Social Fund and the 2nd pillar of the Common Agricultural Policy, officially the European Agriculture Fund for Rural Development, have to be combined to finance a single project, such as a comprehensive education program in the rural areas, including buildings, salaries of teachers, etc. The administrative segregation of funds and their respective goals hence make it difficult to translate ideas into actual projects.

Finally, ecological farming is subsidized out of the 2nd pillar of the CAP. A relative high share of farms in Mecklenburg-Vorpommern is operating ecologically; in 2011 9,1% of total agricultural land was operated ecologically (Ministerium für Landwirtschaft, Umwelt und Verbraucherschutz, 2012, p. 7). However, the question remains whether the branch can operate without the subsidies that it receives on top of the direct payments out of the 1st pillar of the CAP. Based on the interviews, a clear picture can hardly be constructed. Several farmers indicate that the main condition for farming ecologically is soil quality; as a lot of soil in Mecklenburg-Vorpommern is of relatively low

quality, in some areas of the region it is barely possible to farm ecologically. This also puts the Ecological Focus Areas of the new proposal in somewhat critical perspective. More research would be needed to assess the potential and the problems of the ecological farming sector in Mecklenburg-Vorpommern.

5. Conclusion

In this research the German federal state Mecklenburg-Vorpommern has been taken as a case study to assess the effects of the Common Agricultural Policy on the socioeconomic situation of a rural region, using a combination of a literature study, data, and interviews. This section concludes with a summary of the main results and a discussion of what these mean in the context of the Common Agricultural Policy as a whole.

Due to the fact that land is highly concentrated in large firms, the largest part of the direct payments flows to farmers operating large pieces of land. Yet, employment in the sector is falling, and developments in the agricultural sector seem to impede developments in for instance the tourism sector, mostly due to dominance of the agricultural sector in the landscape. At the same time, unemployment in the region remains high, while the average age is rising, the regional gross domestic product per capita remains structurally lower than the German average, and especially the young generation leaves the countryside.

The CAP subsidies influence the socioeconomic situation of Mecklenburg-Vorpommern via several mechanisms. What is clear, is that the direct payments were of vital importance for most of the farms in the region between 1991 and 2007. Through this mechanism, the employment that was bound to the farms was naturally bound to the subsidies as well. Only since agricultural commodity prices have increased, a number of firms are able to make a profit without the subsidies. However, for the major share of the firms, the subsidies remain of essential importance. These findings are in line with Gerke (2008), Klüter (2009, 2010) and Bureau (2012) and show indeed that completely abolishing the CAP subsidies for farmers, especially the direct payments, does not seem to be a viable option at this moment from a social point of view. Stopping the subsidies would be detrimental to many farmers in the region.

Directly linked to this argument is the connection between the direct payments and the land market. Clearly the direct payments influence both the rent and selling prices of land. According to the interviewees, however, technical advances, focus on efficiency

increases, the BVVG's privatization policy and the presence of bioenergy producers and investors from outside the agricultural are of greater importance than the direct payments. Farmers indicate that prices are being driven up by large farmers, the bioenergy producers and external investors. The bioenergy producers are incentivized by high energy prices and subsidy for their production through the German renewable energy law (EEG). Investors from outside the agricultural sector are looking for safe investments during risky economic times. The farmers question their ability to rent the land without the subsidies that they receive now. Due to privatization policy of the land, which includes free bidding on land for rent and for sale, it is a continuous challenge for farmers in the region to retain the user rights on the land. In this competition, they claim to need the subsidy. Directly following from this, many farmers indicate that at least a part of their subsidy is therefore passed on to the land owners. The current reforms of the CAP do not seem to alter this process. However, more research is needed to establish the exact link between the subsidies and the land market in the region.

Furthermore, the CAP subsidies have had major influence on the type of production that remains nowadays. Right after the Wende, a major part of dairy and animal production disappeared. Partly this can be attributed to the fact that there were no subsidies for pig and chicken production. However, more important at that time was most likely the interaction between the lack of subsidies and German policy during the time of reunification; low productivity, fierce competition from the West, a loss of market demand in Eastern Europe, and the overnight introduction of the D-mark were devastating for especially the animal and dairy branch of the sector. On top of that there was the milk quota from the EU, which forced milk production in the region to a lower level in the early 90s. With the loss of livestock, a lot of jobs were lost in the long run, as animal related production under current technical conditions naturally employs more people than arable production. Under the current per hectare direct payment, dairy and animal producers are disadvantaged as they naturally operate less land than arable farmers, and therefore receive less subsidy. Subsidies for building and renovating stables compensate this slightly, but clearly the advantage in the direct payment system is at the side of the arable farmers in this region, mostly due to their large size. Crops that are currently grown are described to be the most profitable crops by all farmers, although the extensive mode of production is heavily dependent on the size of the firms, which again seems to be linked to

the subsidies they receive; without the subsidies the firms would most likely be making losses.

Most interviewees indicate that bankruptcies of firms with very small profits or losses would result in acquisitions by larger farms or investors from outside the agricultural sector that are looking for safe investments in land. The number of jobs in the sector would most likely drop further in this process. However, not only due to profit-related issues firms are being sold; many firm managers have no successors. A combination of this generation transition, an aggressive land market, technical developments and the presence of bioenergy producers and investors from outside the agricultural sector seem to lead to the most likely conclusion that stopping the subsidies would result in acquisitions by actors that will cause further scale enlargement in the agricultural sector, and with it more jobs will be lost. Again, this provides a strong indication that stopping the direct payments to farmers in the region could be detrimental to the socioeconomic situation of the region. Mecklenburg-Vorpommern is clearly an example of a region with such conditions that stopping the subsidies would cause social problems to further deteriorate.

Finally, the second pillar seems to lack the budget and the potential at this moment to change the structural developments in the region, considering scale enlargement, development of labour demand and outmigration of the younger generation. Perhaps the modulation in the CAP, with more money being transferred from the first to the second pillar, will be able to change this. Another important issue is that different funds in the EU are separately aiming at improving the quality of life in rural areas, through different approaches. More cohesion between the policies is required to form comprehensive and effective regional policies that can really improve life in the rural areas. However, no fundamental changes to this problem are provided in the current agreement of the reforms for 2014. The focus of the proposal on Ecological Focus Areas seems to have potential in Mecklenburg-Vorpommern, that already has a relatively high share of land devoted to ecological farming. To what extent the region can support the Ecological Focus Areas remains unclear however, based on this study. More research is required in this respect.

6. Discussion

The Common Agricultural Policy works far more complex than was assumed at the start. In Mecklenburg-Vorpommern, the agricultural structure that has emerged in the region under influence of the

subsidies can hardly be transformed to small-scale farming; the local well-trained all-round farmers are simply not there in sufficient numbers. Again, this is still linked to poor training, highly specialized jobs and lack of incentives for taking initiatives that many people experienced in the former GDR. Without subsidies even more employment might be lost. Developments that have taken place can hardly be reversed.

Although the region is a unique example, not a representative one, of rural regions with various socioeconomic problems, this research points to the fact that regional conditions may result in different outcomes of the CAP than assumed in the one-size-fits-all thought that characterizes the policy now. Local regulations and history prove to be of major importance for how the CAP interacts with regional developments in the agricultural sector the socioeconomic situation of a region as a whole.

The reform proposal of the European Commission and the European Parliament of the 26th of June, 2013, changes little about how the CAP works. Direct payments remain coupled to the number of hectares a farmer operates, such that in a region like Mecklenburg-Vorpommern the money will keep flowing to the farmers that operate the large pieces of land. The degressive element in the direct payments, as proposed in the current proposal, does not incorporate the limit to the subsidy per firm, which seems to have been doomed to miss its purpose anyway, as farms in the region would have split up. It is not entirely clear what the degressive element in the subsidies will result in, but farms will surely consider to split up to avoid being deprived of a portion of the subsidy that they are receiving now; many farms have the split-up procedures ready to be executed. Measures such as mandatory diversification and ecological focus areas might make sense in some areas of Mecklenburg-Vorpommern, but poor soils hardly allow ecological farming in some other areas. It is reasonable to extend this argument to other regions, as natural conditions will always vary per location.

It is important to acknowledge that the direct payments in Mecklenburg-Vorpommern do flow to the largest agricultural firms in the region, which do provide a declining number of jobs in the region. At least until 2007 this structure and this process have been stimulated by the subsidies. Therefore, it is important to recognize that in regions with sector structures like Mecklenburg-Vorpommern, with large scale farms dominating the land, the effect of the CAP might not be what society longs for. Variety in regions, central to the

field of geography, therefore requires a less uniform and strict CAP, that allows for different measures in different regions. The CAP has to be less of a one-size-fits-all policy, such that in every region, public funds are spent for the goals that the public has endorsed.

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