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CENTRAL AND EASTERN EUROPE

AGRICULTURE IN TRANSITION

3

# Reorienting the cooperative structure in selected Eastern European countries

Case-study on the former  
German Democratic Republic



Food  
and  
Agriculture  
Organization  
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Case-study on the former  
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by  
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FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS  
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## 1. Introduction

### 1.1 The cooperative movement after unification

On 3 October 1990 the former German Democratic Republic (GDR) was united with the Federal Republic of Germany into one single state. This political union was preceded by the creation of a common currency union and the introduction of the West German Mark (DM) into the territory of East Germany which took place on 1 July 1990. On that date the East German Mark was devaluated by 50 percent and converted into the Deutsche Mark which since then is the only valid currency in both East and West Germany.

This devaluation of the currency changed completely the economic and social situation in the former GDR and had drastic effects on the performance of the agricultural cooperatives and on the value of their assets. Similarly, it had immediate repercussions on the behavior of the consumer in the former GDR, who were suddenly in a position to buy more refined consumer goods from Western countries. This in turn affected the economic situation of the agricultural production cooperatives (legs) since they faced difficulties to sell their products to their traditional buyers. In order to survive economically they were forced to adopt almost immediately the rules and conditions of a free market economy.

For the leaders of the cooperatives and for many of their members this transition led to a state of confusion and legal insecurity. This was further aggravated by the abolition of the Ministry of Agriculture of the GDR which in the past decades had issued strict rules and regulations for the operation of the legs. The sudden absence of these instructions together with the loss of influence of the District Councils (Raete der Kreise) on the agricultural development in their respective areas of operation contributed even more to the helplessness of the cooperative enterprises and had a devastating impact on their performance.

With the unification a new administrative structure was introduced in the territory of the former GDR. Following the pattern of the Federal Republic five new Provinces (Laender) were established: Saxon, Thuringia, Saxony-Anhalt, Brandenburg and Mecklenburg-Pomerania.

As an immediate effect of the currency union and the political unification these new Laender were all of a sudden supplied with large quantities of agricultural products from West Germany, such as potatoes, milk, butter, cheese, eggs meat, fruits and vegetable. In the GDR some of these products had not always been available in time, in good quality or in sufficient quantities. Many of the products<sup>1</sup> which were supplied by west Germany were cheaper, had a greater variety in quality and more attractive packaging than the traditional East German products.

As a consequence the majority of the East German consumers preferred initially those goods imported from the West, This created a lack of demand for East German products and led to a situation in which many LPGs were unable to sell their products. Dairies and slaughter-houses reduced drastically the purchase of milk and meat from their traditional suppliers, most of which were LPGs since they were unable - because of out-dated methods of production -to produce their goods as cheap as the West German producers. As they were not in a position to compete with West German products they had to sell their goods, mainly milk, meat, grain, potatoes and sugar beets at give-away prices•

This situation sometimes led to twisted trade relationships between two parts of the same country, for instance milk from the LPGs in Saxony was sold at a price of DM 0.51 per litre into the neighbouring Province of Bavaria which was in turn re-sold to East German consumers under the West German label of "Milk from the Alps" at a price of DM 0.63 per litre.

### 1.2 The new legal framework

In accordance with the Union Treaty concluded between the two German states all laws of the Federal Republic, including those concerning agricultural relations automatically also apply to the territory of the former GDR, except in some cases where the Treaty provides rules to the contrary. For some specific regulations an interim grace period has been granted. All laws of the Federal Republic relating to land transfer, land tenancy and land consolidation have become valid legislation since unification, also in the new "Laender".

At the same time all special regulations which existed in the GDR concerning the transfer of agricultural land were abrogated. However, the procedures for sanctioning land purchases and tenancy contained therein remain valid. Similarly, all obligations relating to the return of property to their former owners remain valid as foreseen in the law regulating open property questions (Law No. 1).

The National Settlement Law (Reichssiedlungsgesetz); Law No. 2) is gradually being adjusted to the corresponding law of the Federal Republic, with one exception, however, the Laender established in the former GDR will be entitled, but not obligated to create settlement enterprises for public benefit.

### 1.2.1 Legislation on cooperatives

The legal basis for the restructuring of the LPGs is the Agricultural Adjustment Law (Law No. 3). It aims at facilitating the structural adaptation of the agricultural sector to the social and ecological market economy and contains provisions for LPG members to separate from their cooperative. The LPG Law (Law No. 4) gradually loses its justification, but it will be abrogated only at the end of 1991. The reason for providing such a grace period is to give the LPGs sufficient time for creating new institutional structures.

Towards this end the GDR Law regarding the exchange of landeroperty and the leas of "people's owned" agricultural areas to cooperatives, members of cooperatives and other citizens (Law No. 5) remains valid. The same is true with regard to the GDR Law for the promotion of agrarian structural and agrarian social adjustment to the social market economy (Law No. 6).

### 1.2.2 Legislation on agrarian reform property

Following the provisions of the Potsdam Agreement signed by the four Super Powers on 2 August 1945 an agrarian reform law was to be enacted and implemented in all Germany soon after the end of World War II. The four powers declared the eradication of large landownership as one of their main objectives of their occupation policy.

The Conference of the four Foreign Ministers held on 12 April 1947 confirmed explicitly the intention of their governments to implement by the end of 1947 a land reform in all Germany. As a consequence land reform laws were drafted in all four occupied zones, but very few concrete measures were undertaken by the Western powers in the following years to implement them in their respective occupied areas.

In the Eastern part of Germany which was under Soviet administration a drastic land reform programme was implemented. A total of 3.3 mill. ha of land was confiscated by some 1 000 local commissions established for this purpose and transferred to a "Land Fund". Contributions to this fund consisted mainly of property of large landowners who owned more than 100 ha, but comprised also land owned by active "Nazis", criminals of war and state property. During the course of the reform 11 698 holdings were expropriated without compensation. These holdings comprised also 4 537 farms which were smaller than 100 ha.

The Land Fund was used to distribute within a short period a total of 2,1 mill. ha free of charge to 210 276 small peasants. About 50 percent of the reform beneficiaries were refugees from former German territories which were

About 165 000 existing small farmers also received reform land from the fund in order to enlarge their holdings, which were frequently too small to be economically viable.

As a result of the first phase of the reform the share of family holdings within the total number of holdings increased from 40 percent in 19 39 to more than 70 percent in 1947.

The Land Fund also provided agricultural land for 532 specialized farm enterprises, such as people's farms, university farms, test farms and farms of the Agricultural Academy.

With the approval of the Soviet administration a range of specialized agricultural cooperatives were established in the years following the land reform programme. They covered the following fields of activity: animal breeding, seed production, dairy processing and marketing. From 1950 onwards these cooperatives were taken over by the Union of Mutual Peasant Assistance (Vereinigung der gegenseitigen Bauernhilfe).

The Union Treaty defines clearly the legal position regarding property acquired in the course of the land reform programme. It states: "Expropriations which took place on the basis of occupational prerogatives (1945 - 49) can not be revoked".

Should the two negotiating states have agreed to a solution to annul the provisions of the land reform law and to restore the pre-war ownership pattern some 4 00 000 people would have been effected.

The Constitutional Court at Karlsruhe confirmed on 2 3 April 1991 that the recognition of ownership resulting from land reform and the related land expropriation which occurred in the Soviet Occupied Zone between 1945 and 1949 are in accordance with the Constitution.

## 2. Implications of unification on agriculture

The unification of the two German states had serious implications for the agricultural sector in East Germany. Originally based on the principles of a centrally planned economy it had to adjust at short notice to the conditions of the European Community and the international market. In concrete terms this meant a reduction of production, a reduction of the area under cultivation and a drastic decrease of the employment intensity. Under these new conditions the agrarian structure of the GDR which was based on the objective to increase agricultural production through economies of scale became obsolete and needed adjustment.



## 2.1 Set aside programme

In order to induce LPGs to take part of their agricultural land out of production and let it lie fallow the government introduced a set aside scheme which foresees the payment of a compensation fee to agricultural enterprises which want to make use of it.

This scheme only applies to agricultural land with a Value Number (Bodenwertzahl) 18 and above and only in cases where at least 20 percent of the total arable land of a holding is included. The following compensation fees have been established: DM 500 per ha for lands with a value between 18 and 35. In addition the applicant will receive DM 10 for every additional value point, however not more than DM 750 per ha and year. In cases of converting arable land to pasture land the government will pay 40 to 60 percent of the above mentioned amount.

Following this scheme an average area of 272 ha has been set aside per holding in the five new Laender and DM 520 per ha have been paid. The average value number of these lands was 37, varying between 27 and 44.

The set aside programme is only applicable to farmers who cultivate their holdings themselves and may not exceed more than 50 percent of the total area of the holding.

It has been estimated that as a result of this programme grain production will be reduced by about 2 mill. tons.

By the end of October 1990 which was the deadline for application to the scheme requests for set aside compensation had been received for a total area of 600 000 ha. This amounts to 12.8 percent of the whole area under cultivation. The bulk of the lands to be covered (93 percent) would be converted to fallow, a smaller part (6 percent) to pasture and the rest to forests and non-agricultural areas.

## 2.2 Reduction of production

In order to adjust to the new market situation and above all to the regulations of the European Community agricultural production in East Germany has to be reduced considerably. The LPGs learned their first lesson in autumn 1990 when they tried to sell their production and realized that because of competition from the West they could sell their potatoes, fruits and vegetable only at give away prices. While before East German agriculture never had any demand problems the new situation forces agricultural enterprises to plan their production according to the demands of the market.

### Grain crops

With regard to grain, rape, legumes, fodder crops and special crops, which accounted for 50 percent of the area under cultivation the prices at the international market are so low that their production under traditional East German conditions will hardly be profitable. There may be some potential economic benefit in cultivating grain and converting it to pellets for energy production, but only in case of an increase of the price of petrol.

It is expected that the area under winter grain will be reduced by 16,5 percent, i.e. 330 000 ha in 1991 as compared to the previous year. The area under winter rye will be reduced by 44 percent and that of winter barley by 16.5 percent, whereas the area under winter wheat will be enlarged by 8 percent.

The area cultivated with rape which amounts currently to 141 000 ha will most likely be doubled, since rape oil is a potential source of fuel. It is, however, not sure whether there is a market for such a large amount of rape oil. There may also be some scope for including sunflower and mais as grain crops into the crop rotation. As there is a very limited demand for East German peas, poppy, mustard and other special crops their production too, will have to be reduced considerably.

### Potatoes

The cultivation of potatoes will also be reduced, according to some estimates by more than 50 percent of the area under cultivation. This reduction is caused mainly by the decreased demand of potatoes as fodder crop for animal production. Some potatoe growers have already suspended production whereas others have tried to adjust to the new conditions by switching to special types of potatoes which are needed for the preparation of pumas frites and potatoe chips as well as to potatoes with a high starch content.

### Sugar beets

Few changes are expected to happen in the field of sugar beet cultivation. Through the introduction of new varieties and better methods of plant protection it is expected that the *yields will be raised and soon reach those of the old Laender*. The intensity of sugar beet cultivation can be regulated by supply contracts with sugar factories. The sugar factories of the former GDR have been taken over by sugar producing enterprises of the old Laender. They conclude contracts with the producers independently of their ownership status.

Initially these contracts are on a yearly basis, but it is expected that within 3 to 4 years the supply quantities will be fixed for a longer period. Although a quota has been established in West Germany for sugar production in general there is no fixed rule as how to distribute the quantity of beets among the individual farmers or holdings. The decision to accept a certain quantity of beets is not taken by the state, but by the sugar factories which have some flexibility in accepting certain amounts of beets.

In the past most West German producers had an arrangement with a sugar factory for a fixed quantity of beets. How far such an arrangement can also be established for holdings to be established in East Germany which do not enjoy such previous entitlements remains to be seen. According to the Federal Ministry of Agriculture they should be able to supply "an appropriate share" to the sugar factories which may vary between 5 and 10 percent of their processing capacity.

For 1991 the sugar factories have adopted an interim solution which uses as a basis the bulk of sugar beets supplied between 1984 and 1989. This amount is being distributed among the various LPGs and their successor holdings. Farmers who have chosen to leave the LPG and withdraw their land shares from the cooperative will receive an entitlement which corresponds to the share of the area they are withdrawing.

The annual quota so established remains the prerogative of the sugar factory. In case a farm ceases to produce sugar beets the quota reverts automatically and without any compensation to the factory. An individual farmer or holding is not permitted to sell or transfer the quota to another holding.

Newly established farm holdings which are cultivating areas that were previously not covered by the quota cannot be given an entitlement during 1991.

#### Pasture

Because of the reduction of the number of cattle there will be less demand for fodder crops. As it is not possible to transfer milk quotas from those areas with little pasture land to those which have a large share of pasture, a total of about 300 000 ha pasture will remain unutilized. Yet, this area too, has to be looked after in order to prevent the growth of weeds and bushes.

## Milk

of particular importance is the distribution of the quota for milk production. Some 3 000 milk producing farm holdings will be affected. They have received new quotas which will initially last till the end of 1992. The vast majority of the milk quotas have been given to those holdings which actually supplied milk during the reference year 1989 and on 1 April 1991, i.e. LPGs, People's Own Farms (Volkseigene Gueter) and some part-time farms. Individual farms which were not engaged in milk production in 1989 and recently established farms will receive their quota out of a Reserve Fund.

The total amount of milk production in the new Laender will be reduced by 20 percent, of which 10 percent constitute the national reduction and 10 percent the contribution to the Reserve Fund. Contrary to the arrangements in the old Laendern the milk quota is not directly linked to the area, as there has not yet been any significant division between animal and plant production.

The milk quotas are being allocated in the form of a provisional use right without any legal entitlement. The quota may not be sold or leased. Transfers are only possible in the case of inheritance, on the occasion of the transfer to another legal form of the holding or on the separation of a member from the LPG. A transfer of a quota from East to West Germany is not allowed.

In the case of a complete stop of milk production the quota will be withdrawn and added to the Reserve Fund of the respective Land. The same rule applies also to situations of desolations of people's own farms and the bankruptcy of a farm holding. The withdrawn reserves are to be re-allocated annually on 1 April.

The present situation favours the LPGs and their successor institutions. Those private farmers who have left the LPGs may receive quotas from the Reserve Fund, but the total amount is limited to 600 000 litre. While these farmers do have a legal claim to a milk quota according to paragraph 44 of the Agricultural Adjustment Law, it is up to them to reach an agreement with their former LPG about the surrender of a part of the milk quota. It is to be expected that this rule will lead to difficulties since many LPGs will resist to comply. Farmers from the old Laender who want to establish a new existence in the new Laender will not receive a milk quota unless they were able to conclude a transfer agreement with a LPG prior to 1 April 1991.

### *Pigs*

Also the production of pigs has been reduced significantly. The number of pigs has decreased from 12 million before unification to 8,7 million in early 1991, which is a reduction of 27 percent. The East German pig producers reacted quickly to the new market conditions. The highest reduction in the number of pigs (40 percent) was registered among pig breeders, whereas the number of fattening pigs with a weight of between 50 and 80 kg decreased by only 7 percent.

### *Cattle*

The number of cattle has been reduced from 4.93 million heads in October 1989 to 4.13 million in mid 1991 which is a reduction of 14 percent. The heaviest decrease (20 percent) occurred among milking cows, the number of which amounts now to 1.58 million. The ultimate aim, in order to meet the requirements of the milk quota would be a reduction to 1.4 million milking cows. On the other hand the number of mother cows, fattening cows and slaughter cows has increased.

In Saxonia-Anhalt, Brandenburg and Mecklenburg Vorpomerania the milk quota will most probably not be utilized to its full extent as in these Laender the number of cows has already been reduced to 77 percent. With the continuing dissolution of LPGs the number of milk cattle will also continue to decrease.

### 2.3 Dissolution of old production structures

The urgent necessity to create new and more efficient production structures in agriculture which respect and reflect the wish of the landowners is generally accepted by the farmers in the five new Laender. It is, however, very much debated how and in which direction this change is going to proceed.

The actual transfer of the LPGs into other legal forms has to be completed by the end of 1991. In the course of taking decisions as to the most suitable production structure for the future the following principles have to be considered:

1. The farmers concerned should be allowed to participate in negotiations clarifying the ownership relations of the LPG.
2. The farmers who decide to leave the LPG should be given sufficient resources (Land and means of production) for creating an economically viable existence.

3. Delivery systems should be guaranteed and the environment should be protected.

The agricultural production cooperatives may be transferred into one of the following legal forms which are suitable for the organization of farms:

1. Individual holdings (Family farms or tenanted farms),
2. Personal companies (Non-trading partnerships [GbR], general partnerships [OHG], limited partnerships [KG]),
3. Capital societies (Companies with limited liabilities, GmbH), joint-stock companies [AG]),
4. Cooperatives (registered cooperative societies [eG]).

In order to establish any one of these forms the property relations that existed in the former LPG have to be clearly established. It is essential to define what to do with the various components of the property of the LPG and how it is going to be distributed. It is also important to decide how the property can be divided so that it will facilitate the creation of new agricultural holdings.

#### Assets

A precondition for the transfer of agricultural holdings into new production structures is an exact analysis and valuation of the assets of the enterprise as well as a register of all land proprietors. This should best be done by assessing the value of the assets of a plant and animal producing LPG and comparing it with that of other holdings of a given area since this procedure would facilitate the solution of liabilities with other holdings.

When assessing the value of the property of a LPG the following property forms should be considered:

1. Common property of the LPG (reserves),
2. Property of the farmers (compulsory contribution of land, and capital shares),
3. State property (credits).

While it is easy to determine the property rights of the farmers and of the state, it is difficult to establish the property relations with regard to common property for purposes of sub-dividing it among its legitimate owners as the LPG is still considered the owner of the asset, while it will cease to exist in this legal form in the future.

The contributions to the LPG in the form of land shares and the capital shares of the farmers will be returned to the original owners or their successors for their unrestricted use. This rule applies also to landowners who have left the GDR and now claim their entitlements. In this connection it is irrelevant whether the land will be used for private or common purposes or not at all.

For purposes of sub-dividing the common property of an LPG it is convenient to express its value in the form of appropriate proxies rather than in terms of DM. The latter procedure would have the disadvantage that the outstanding claims of the farmers could not be met by the LPG or only partially by the bankrupt's asset. This would lead to a reduction of the actual value of the LPG property which is expressed in its means of production and would consequently impede the transfer of the LPG property into another legal form.

Claims to the common property of the LPG are only recognized under the conditions that the common property has a positive value and that the claimed area will in future be used for agricultural purposes.

LPGs which have common property with a negative value must be freed of debts before it can be converted into another type of property since no private farmer or enterprise who wants to establish his own holding would be willing to be responsible for the repayment of credits on investments which the former LPG has undertaken, sometimes even unvoluntarily, such as the construction of a "Kulturhaus", a kindergarden or a road.

#### Compensation

The Agricultural Adjustment Law foresees in para 44-1 that only those persons are entitled to receive a share of the common property of the LPG who will in future use it for agricultural production. According to this rule many cooperative farmers would not receive any compensation when leaving the LPG, This would not be justified, since many cooperative farmers have been working for decades on the LPGs. It is therefore essential that when sub-dividing the common property of the LPGs all former members and labourers who want to or have to leave the LPG receive a share according to the labour they have put in since they have contributed to the increase of the value of the common property. There is, however, no legal entitlement to any compensation from the LPG.

Those cooperative members who will continue to pursue agricultural activities, irrespective under which legal form, will not receive a financial indemnity, but rather a compensation in the form of real assets, i.e. means of production. These real assets will constitute the basis for the establishment of a new agricultural enterprise.

### The distribution of common property

The common property of an LPG can be distributed among its members following the provisions of the Agricultural Adjustment Law, para 44-2, which foresees the following rules: "The value of the asset to be refunded is composed of the share of the property contributed, the value added which results out of this contribution and the value added as a share of the labor contributed by the member".

As a result of the above province only those persons can be considered in the distribution of common property who fulfill the following conditions: a. worked on the farm, b. contributed land, c. contributed capital, d. are ready to provide labour, land and capital for the establishment of a new agricultural holding.

### Land

In order to carry out agricultural activities it is essential to have access to land. Those who do not own agricultural land have to buy or to rent it. In the case of the adjustment of agricultural sector in the former GDR there are several possibilities for a farmer to gain access to land. He may buy or rent the land from a LPG member who wants to retire or from another landowner. Former members of a LPG who did not contribute land to the cooperative may also become members of a registered cooperative provided the newly established holding rents land for them. In such cases the landless member would have to buy cooperative shares which would be considered as a single, non-recurring contribution in kind. Some LPGs charge an amount of DM 500 for each ha rented.

This procedure is particularly suitable for young people who have not inherited any land and have only limited financial means at their disposal. Some newly established cooperatives have bought or rented agricultural land, taking advantage of the fact that cooperative land property is a sound basis for obtaining credit. This procedure also allows to consider the wishes of those who want to leave the LPG without causing too much fragmentation.

### Capital

The establishment of a new agricultural holding, either by an individual farmer or by a member of a cooperative requires a certain amount of capital. A considerable amount of funds has been made available by the state, which provides initial support and credit at low interest rates.

The Agricultural Adjustment Law of 29 June 1990 foresees the provision of support to all types of holdings on an equal basis. Therefore farmers who join a registered cooperative or any other group for common production will receive financial support.



For those farmers who want to create their own holding there are two possibilities to obtain capital: a) reimbursement of their compulsory contribution to the LPG and b) transfer of part of the common property of the LPG.

Every farmer who became member of an LPG is entitled to be reimbursed for the contribution he was asked to make under compulsion to be used for private purposes. In cases where a LPG is being transformed into a registered cooperative this compulsory contribution of a farmer can be converted into cooperative shares. According to the statutes of a registered cooperative 10 percent of the fixed shares must be paid out of the personal account of a member or in form of his compulsory contribution.

Members of a LPG may also have access to its common property, however only in cases when the LPG changes its legal form or when it is being dissolved. In this way the LPG assets can be transferred without declaring bankruptcy into a registered cooperative or into a family holding.

Similarly, it is possible to create several registered cooperatives out of one LPG or to unite several LPGs into one registered cooperative.

When redistributing the common property of a LPG the value of the compulsory contribution is normally fixed at the same level as it had uniformly been fixed at the time of joining the LPG, i.e. at DM 500 per ha.

#### The transformation of the LPGs

When transforming an LPG into a registered cooperative or into a family holding the interests of the landowners have to receive special consideration. This, however, does not mean that the LPG members without land should be excluded.

Should a former LPG member express his intention to establish a family holding he is entitled to receive from the LPG the following assets: a) the land which he had originally contributed or an equivalent area out of the cultivable land of the LPG for his own use, b) his contribution to the LPG in the form of money and other real values for his own use and c) his share of the common property corresponding to his share in the compulsory contribution.

In the latter case the calculations for reimbursement are done as follows. If, for instance, the value of the total common property of a LPG is being established at DM 4 0 million and if a LPG member's share of compulsory contribution amounted to, say, 0.5 percent he will receive DM 200 000. This amount will be made available to him in the form of animals, buildings and machines. The same rule applies when the LPG is being sub-divided into several registered cooperatives.

Some LPGs are in such a bad financial situation that even the transformation into another legal form would not be a guarantee for their economic viability. In such cases the bankruptcy of the LPG is unavoidable. The proceedings of bankruptcy aim at satisfying the claims of the creditors and the farmers with compulsory contributions and at securing that the proceeds of the auction are properly distributed. When distributing the proceeds the type of land use and the number of years worked in the LPG are given due consideration. Before deciding on the liquidation of a LPG serious efforts are undertaken to rescue the enterprise so as to avoid to abolition of employment opportunities.

#### Possibilities of income distribution

When transforming a LPG into a registered cooperative it is an essential precondition for the economic growth of the new enterprise to create proper mechanisms for the distribution of the profit to be made. Members and labourers should be remunerated according the quantity and quality of their work. Working groups, families and individuals should be encouraged to perform their activities well and in a cost-effective manner.

All cooperative members who contributed land to the cooperative should be paid rent, the value of which is normally established at three to four times the land value number. Those members who do not contribute land to the cooperative cannot receive rent, unless they rent land from a non-member and sub-lease it to the cooperative for use.

The capital provided by the members will bear interest, the amount of which will depend on the personal contribution and on the profit realized.

It is expected that during the initial years many transformed LPGs will face financial difficulties, mainly because the delayed beginning of the support programs and partly also because the new cooperatives are not yet used to the stiff competition from other partners in the market economy.

In order to facilitate the smooth start of the registered cooperative some former LPG members have in their own interest renounced their entitlements to rent and thus increased their shares of the common cooperative property. Another possibility of saving funds for the beginning of the cooperative would be to renounce part of their salaries , but this would only be possible in cases where the cooperative members are financial well off.

### 3. Alternatives for adjustment

#### 3.1 Potential new production structures

Unlike the other sectors of the economy agriculture of the old Laender does not constitute a model to follow in the new Laender. Within the European Community the agricultural sector of the old Federal Republic presents an unfavourable situation. This refers in particular to the net appreciation of the factors labour, land and capital per agricultural labourer which is considerably higher in the other EC countries.

While it is essential the adjust the agrarian structure in East Germany, one should not follow the pattern of those Western types of holdings which have proved to be unsuccessful. Before destroying the old structures one has to consider carefully what elements could be maintained since it is more expensive to rebuilt a broken down economy rather than to avoid its collapse.

In the new Laender the agrarian structure must be reformed by taken into consideration those factors which are favourable for its efficient performance. The new structure should be oriented oriented toward the objective to achieve an economic optimum and not a maximum feasible size.

In this connection it is necessary to reduce gradually the technical backwardness of the new Laender. Decisions regarding investments should only be taken after a careful review of their economic viability. The new techniques should be adopted to the natural and economic conditions of the new holding and must be economically viable.

It is significant for the agricultural sector in the new Laender that it is not only a producer of raw materials but is also engaged in processing its own production which could easily be supplied to super markets through direct marketing. This, however, is only possible if it were promoted at a very large scale, but would contribute considerably to the improvement of the economic strength of the agricultural sector and facilitate its growth.

When trying to establish a new agricultural holding in the new Laender one of the first problems to solve is to take a decision as to its most suitable size.

The most important advantages of large production units are a) lower production costs, because of economies of scale, b) better marketing position, because of the possibility to purchase and sell greater quantities, c) specialization of operations, through the employment of special workers and the use of special machinery and last but not least d) social advantages through regular working hours, holidays etc.

On the other hand large scale agricultural enterprises have also several disadvantages, such as: a) higher production risks, e.g. under the pressure of diseases in large livestock units, b) higher marketing risks, e.g. unforeseen price movements, c) high transport cost within the enterprise, caused by the increasing distances between production units and d) higher administrative and organizational costs, arising from planning and control of operations as well as lack of flexibility of the deployment of labour and inputs under changing weather conditions.

Under the conditions of East Germany some other factors have to be taken into consideration which would favour the maintenance of the large production units. The existing farms have buildings and machinery at their disposal. The members of cooperative farms often do not have their own capital and lack the education and courage to establish an independent small holding and many of them do not wish to give up the social advantages.

### 3.1.1 Individual farms

One of the several possibilities for future development is the creation of individual farms. Their optimum size depends on natural and economic conditions as well as on the interests and qualifications of the respective farmers. In the following example an area of 1 200 ha has been assumed to be the most suitable size for an individual farm. It would be a farm engaged in both plant and animal production and would be operated by 20 labourers. This calculation is based on practical experience that on a large scale farm with animal production and modern technology one agricultural labourer can operate an area of 60 ha.

The staffing of an agricultural enterprise with 20 labourers has several advantages. It is a group of people who are closely linked together. It is large enough to solve problems of absences due to sickness and holidays and it is large enough to justify the employment of specialists in the fields of animal husbandry, crop production and agricultural machinery. While they guarantee a high efficiency of labour utilization, they should also be flexible enough to work in sectors for which they are not specialized.

For purposes of proper fodder utilization and manure disposal this holding with 1 200 ha should have 1.2 animal units per ha and be specialized in only one type of animal.

These 20 labourers of the farm include one farm manager and three sector managers, one each for plant production, animal production and agricultural machinery. They should have a broad enough training so that they would be able to substitute their colleagues in cases of emergency. They should also, particularly in time of labour peaks, be able to do manual work.

With regard to the remuneration of the farm labour the following pattern may be the most suitable. Payment of a salary of 65 to 75 percent of the basic salary without too large differences among the salary groups. The rest will be paid at the end of the year, when the farm has produced a surplus. Furthermore, they should receive a share in the annual profit of the farm. In this case it would be expedient to have a greater differentiation according to the level of responsibility of each group member. This of course presupposes a positive annual balance sheet, which in turn is only possible if all group members are fully engaged. This applies in particular to the managers of the farm and the sectors who can through their guidance strongly influence the profitability of the farm.

Whenever a farm does not make a profit it is frequently the manager who is allegedly responsible for the loss. Under unfavourable economic conditions such a situation may have personal consequences on the management of the farm.

The 1 200 ha farm holding would be an operational unit, which does not necessarily have to own agricultural land. It would, however, be a great advantage for obtaining credit from the banks if the farm owns the land on which the farm buildings are constructed. The purchase of agricultural land is very expensive and therefore is difficult to realize.

For those farmers who lease their agricultural land to the farm enterprise a certain amount of a minimal rent has to be paid. Its value should be around 30 to 40 percent of the presently prevailing average value. Should the members of the farm decide to distribute an additional bonus, say 20 to 30 percent of the annual profit to the lessees, their financial position would be enhanced, provided, however, that the economic results improve from year to year.

### 3.1.2. Family holdiners

Former members of a LPG will receive strong support if they decide, despite of all risks, to establish a family farm. Financial support is being provided by both the Federal Republic and the Laender. Since 31 January 1991 funds are made available in the frame of the joint Federal Republic-Laender programme "Improvement of the agrarian structure and coastal protection". The rules and regulations of the programme are more favourable than those established by the Ministry of Agriculture of the former GDR.

The re-establishment or modernization of a farm holding will in the future be promoted through the following investment facilities:

1. Take-off assistance, a non-recurring allowance in the amount of DM 2 3 500 for farmers.
2. Interest reduction for capital loans up to DM 3 00 000 at a rate of 5 percent over a period of 20 years in the case of real estate, or over 10 years for other loans.
3. Instead of an interest reduction for capital loans a farmer may receive a non-recurring allowance for an investment upto DM 300 000 which may amount upto 25 percent for real estate and upto 20 percent for other investments.
4. A public loan for real estate and constructions amounting to DM 160 000 for the re-establishment of a farm, in exceptional cases upto DM 250 000, and for the modernization of a farm upto DM 50 000, in exceptional cases upto DM 90 000. This loan bears 1 percent interest and has to be redeemed after a grace period of four years.
5. Allowance for investments in farms which are engaged in green fodder animal production upto DM 5 000 per holding.
6. Financial support is also being granted for the re-establishment or modernization of a family farm which is operated as a part-time farm. Credits are made available at 3 percent interest upto an amount of DM 143 000 per agricultural worker and per farm.
7. Instead of an interest reduction a farmer may also receive a non-recurring interest allowance for a credit upto DM 143 000 per agricultural worker and per farm. For buildings and other construction works the interest rate amounts to 16 percent, for other investments upto 8 percent.

8. Initial premium for afforestation upto DM 500 per ha and year, in order to facilitate the afforestation of areas which were formerly used for agricultural purposes. This premium is being granted for a period of upto 20 years and should supplement the set aside programme.

Support to farms engaged in animal production will only be granted under the condition that they have less than 2.5 Large Animal Units per ha. This rule applies to the support and credit programmes of individual farm holdings and also in the case of re-establishing family farms. Relating the number of animals with the area under cultivation as a criterion for support programmes implies a serious handicap for those farms which are engaged in pig raising and cattle fattening. Under certain circumstances the Laender may therefore apply exceptions.

In order to be able to benefit from the various support programmes the future farm owner must fulfill the following conditions:

1. Adequate professional training and experience,
2. Not older than 55 years,
3. Presentation of a plan for the re-establishment or the modernization of the farm during the next four years which should also include a feasibility study,
4. Proof of orderly conduct of farm accounting during the last ten years,
5. Presentation of lease contracts for the last 12 years in case the farm will be operating mainly on rented land,
6. Management of the holding by the farmer himself or his heirs for at least 12 years so that the initial low interest credit cannot be cancelled,
7. Proof of possibilities to sell agricultural products,
8. Net income of the farmer, including that of his spouse below DM 100 000 per year, and income of agricultural labourers below DM 4 2 270 per year.
9. No purchase of agricultural installations and equipment which is older than 5 years.
10. Keeping less than 40 cows per agricultural labour force and less than 60 cows per holding unless another holding reduces its number of cows so that the maximum limit of a two holdings is not exceeded.

11. Fulfilling in the case of milk production, the minimum quota requirements.
12. Keeping in the case of beef production, not more than 2.5 animal units per hectare of fodder crops.
13. Construction through investment funds, of not more than 300 places for pig fattening, and keeping not more than a total of 800 places for pig fattening on the holding.
14. Production and use of 30 percent of the pig feed on the holding.
15. In the case of investments for cattle and pig production, construction of storage capacities for liquid manure for 6 months.
16. No increase through the investment in cattle, pig, egg and poultry production.
17. Contribution of at least 10 percent of the promotional cost in the form of own capital.

The promotional programme is also applicable to farmers who work together in the form of a personal society. In this case, every cooperating farmer has to contribute some of his own land to be used for joint cultivation. The cooperation contract has to have a duration of at least 6 years. For these personal societies, the limit of cooperating members are raised to DM 3 00 000, with a maximum of 100 000 for each member. In the case of raising dairy cattle, the upper limit is fixed at 120 cows. Investment assistance for personal societies is raised to three times the amount for individual farmers.

#### Implications.

The major advantages of a family farm are those that the owner can work and take decisions independently and quickly and has a greater willingness to take risks. A family farm is furthermore supported by the State and the European Community.

On the other hand, a family farm has also several disadvantages which should not be underestimated. First of all, a family farm is in need of a large amount of capital, especially in the case of new establishments. For larger production units, the high interest rents usually prove to be a heavy burden on its economic performance. Compared with large-scale enterprises, a family farm is frequently at disadvantage regarding marketing and high financial risks.



*Larger agricultural enterprises such as agricultural cooperatives* have, on the other hand, large economic and management advantages. The costs for certain processes and products as well as for supply and marketing are normally lower than on a small farm. Skilled labour, particularly in the field of management, can be exchanged and can be trained for their respective tasks. Available buildings and stables can be used more rationally. The economic risk can be reduced by limiting the liabilities of the share owners which provides more economic security to the farmer.

Capital gained in other sectors can be utilized for improving the joint enterprise and the danger of capital losses is less.

### 3.1.3 Restructuring of agricultural production cooperatives

A second alternative for adjustment is the restructuring of agricultural production cooperatives. For this purpose a support programme has been launched which foresees investments for rationalization, adaptation to the market, environmentally sustainable plant production, and appropriate animal production which is based on feeds from the farm.

In order to be able to benefit from the support programme the LPG has to present an opening balance in DM and a restructuring-development plan. It also has to clarify the ownership distribution of its assets. Once these preconditions are met the LPG may receive investments up to DM 14 3 00 per labour force and up to DM 2.5 million per LPG and at least 10 percent of this amount has to be contributed by the LPG itself.

If LPG wishes to obtain credit on the capital market it may receive an interest reduction of up to 5 percent for a period of ten years. Such a credit will be provided up to an amount of DM 2.25 million. Furthermore, LPGs may receive credits up to 25 percent of the production costs (with a maximum of DM 100 000) for infrastructure improvements such as the disposal of waste water or the construction of secondary needs. Subsidies are also provided for investments in the field of reducing energy consumption and changing energy sources, in some instances also for the construction of recreational facilities and for direct marketing.

In the sector of animal production, subsidies are provided for measures which reduce or prevent environmental damage and for the improvement of animal hygiene. Investment in crop production is being supported by investments for the improvement of liquid manure distribution, for the modernization of machines, for fertilizer application and plant production, as well as the reduction of harvest and post-harvest losses.

There are several restrictions for investments within the framework of this promotional programme which can be summarized as follows:

1. With regard to animal husbandry, the LPG should have a storage capacity for liquid manure for a period of at least six months.
2. There should not be more than 2.5 large animal units per hectare.
3. With regard to dairy cattle the LPG should have after reconstruction more than 30 percent permanent pasture or more than 50 percent under main fodder crops. The number of cattle and the amount of production should not increase over previous levels. Investment has to occur within the frame of given quota.
4. In the field of fodder production the number of cattle should not exceed three animal units per hectare of the area under fodder crops.
5. In the field of pig production, promotion is restricted to those LPGs which produce at least 35 percent of the pig feed themselves and which are able to store and use pig manure in a manner which is ecologically sound.
6. In the field of poultry production, subsidized investments will only be granted if and when the state rules on environment production and animal production are being observed.

#### 3.1.4 Establishment of machine rings

Another possibility to make family holdings economically viable and to arrive at economies of scale is the creation of machine rings. The Federal Union of Machine Rings in the old Laender has started to assist the new Laender in this field, i.e. to establish centres of agricultural machinery which are available to and can be used by several farmers who are members of the ring. Machine rings play an important role in preventing farmers from taking wrong decisions regarding investments in agricultural machinery.

#### 4. Structural Support Programmes

##### 4.1 Training of independent farmers

About 3 000 former LPG members have the intention to leave their cooperatives and become independent farmers. They are in urgent need of training because the creation of independent family farms is seriously handicapped by the farmers' lack of knowledge regarding investment possibilities coupled with the lack of their own capital. The new farm managers are also in need of information on bookkeeping, taxation, insurance, marketing, tenancy rules and set-aside programmes.

In this context it would be of great advantage if they could be given a chance to gain practical experience by visiting farms in West Germany and by exchanging views with West German farmers.

Some Chambers of Agriculture in the old Laender have already started to provide assistance in this field and organize weekly seminars for private farmers in the new Laender. The reaction of the East German participants to these training courses was very positive. They enjoyed in particular the discussion with West German farmers during the excursions.

The main topics of these seminars were: promotion programmes, access to capital, forms of financing, insurance, tenancy rules, restrictions for, agricultural production and marketing.

##### 4.2 Tax incentives

The various forms of agricultural enterprises are subject to different types of taxes and the state may give tax preferences to specific types of holdings it wants to support.

To begin with, all agricultural and forestry holdings are subject to real estate tax irrespective of their form of organization. While some income tax relief is granted to agricultural and forestry activities this does not apply to corporations (registered cooperative societies, private limited companies and public limited companies).

Corporations and other legal persons are subject to corporation tax. Collective farms are not exempt from this tax, however, after their re-establishment as a new enterprise a tax free amount of DM 3 0 000 can be granted to them for a period of ten years.

A similar rule applies to the trade and property tax. Collective farms and registered cooperative societies in the new Laender are, however, exempt from trade and property tax for tax technical reasons for a transitional period (1991 to 1993).

There are several regulations which foresee the support to specific agricultural enterprises through tax incentives. If their business is restricted to the joint use of agricultural and forestry facilities or objects, to services within the framework of contracts for services or contracts for work and services, to the handling or processing of the products produced by the members or to advice given to member enterprises, trade and industrial cooperatives as well as associations can be exempt from corporations, property and trade taxes. This rule applies also to wholesale and marketing cooperatives, dairy cooperatives and wine cooperatives.

Agricultural cooperations in the form of registered cooperative societies, private limited companies and public limited companies have certain tax disadvantages compared with individual holdings and small cooperations not exceeding the trade limit. They have no income tax relief, they have to pay a corporation tax rate of 50 percent on retained profits and 3 6 percent on distributed profits and they have a trade tax liability.

It should be borne in mind that the tax law allows quite a number of differentiation possibilities in individual cases. It is therefore possible to avoid fiscal disadvantages through differentiated contracts and thus improve the competitiveness of the enterprise. This requires, however, early advice taking into account trade law and business management aspects.

#### 4.3 Marketing

One of the main tasks in the immediate future of the agricultural sector in the new Laender is to recapture large parts of the local market which had lost as a result of the currency and economy union. In mid 1991, about 7 0 percent of all national food products consumed in the former GDR was produced in the Western part of the country and only 30 percent in the new Laender. Up to now a major handicap for East German products is their outdated method of *processing and marketing*. Frequently Western products seem *superior because of their more attractive packaging, which* induces people to buy, whereas the product proper is usually of the same quality.

In order to gain a greater share in the market of the new Laender it is essential to modernize the outdated processing industry to meet the standards of the European community. Only then, will it be possible to regain lost markets and for the agricultural sector to survive in the long run.

There are some positive preconditions for creating an industry which can stand competition and produce in an environmentally friendly manner, by using available opportunities of production and marketing. On the other hand, the lack of experience in modern marketing, the lack of secure business relation and the desolate infrastructure and communication facilities are serious handicaps in this complicated process.

A solution of this problem can only be found if agricultural producers, food processing industries, the private and the cooperative trade, unions and NGOs as well as the Governments and Laender and federal level work closely together.

The farmers in the new Laender have quickly realized that in order to be able to sell their products they have to adopt Western production and marketing approaches, and in fact the quality and the packaging of East German agricultural products has improved considerably during the last few months. One positive example is a registered agricultural cooperative which succeeded to conclude the contract to deliver continuously ten tons of peeled potatoes to a large city. This was made possible after the installation of a modern potato processing plant which had been imported from Scandinavia.

Furthermore, the cooperative installed a machine for the preparation of pommes frites which are being sold to the same city. The cooperative has made use of its advantage of a short marketing distance and has been able to recapture the market from traders in the Netherlands and in Belgium.

With increased knowhow from the West, these joint ventures and cooperation between the old and the new Laender, the chances of success have increased for East German agriculture. The quality of East German sausages and cheese is already as high as that in the old Laender; in the case of milk products and specially yoghurt, however, a quality gap still exists.

During the "Green Week" agricultural exhibition in Berlin held in January 1991, East German agricultural products were for the first time bestowed the prestigious CAM quality symbol. This is a proof that the continuously repeated allegations of lower qualities of products from the new Laender are not correct.

## 5. Development Trends

### 5.1 Types of holdings

According to a recent survey, about 5 percent of the new land owners intend establishing a family farm which will on average have a size of 25 ha. A more detailed distribution of planned family farms according to their size is as follows:

10	percent	of	the	holdin	gs	have	a	size	of	5-10	ha.	
63	percent	"	"	"	"	"	"	"	"	11-20	ha.	
20	percent	"	"	"	"	"	"	"	"	21-50	ha.	
5	percent	"	"	"	"	"	"	"	"	51-100	ha.	
2	percent	"	"	"	"	"	"	"	"	more than	100	ha.

About 65 percent of the owners want to join a registered cooperative, some 10 percent want to join a society with limited liability, while 20 percent decided to join another form of enterprise.

The existing cooperative has to intensify or diversify their activities in order to survive under the new economic conditions. This will require investment in different sectors of production. The investments planned by cooperatives can be distributed as follows:

- 20 percent for milk production,
- 20 percent for the disposal of liquid manure, waste water processing, energy and environment,
- 15 percent for fodder harvesting, fodder storage and feeding technology and
- 10 percent for other purposes.

About one half of all cooperatives do not plan any investment at the present time. About 50 percent of all cooperatives attempt to combine plant production with animal production, but until now only 20 percent were able to realize their intentions. It can be expected that in areas with good opportunities for field crops, specialized holdings for plant production and for cultivation of market crops will survive, but for most holdings the combination of plant and animal production will be indispensable in order to achieve a market-oriented and environmentally sound agriculture.

In the case of combining both types of holdings into one production unit, the plant production LPG is usually dissolved and integrated into an animal producing holding. The reason for this development is that the animal production sector accepts the end products of the crop production sector and thus assumes the role of the end producer within the agricultural holding. In such cases the number of animals per holding will remain as it was during the last decade at a level of one Animal Unit per ha.

Large holdings with a desirable size of 1 000-2 000 ha will therefore have 1 000-2 000 Animal Units.

## 5.2 The role of the West German agricultural sector

An increasing number of farmers and farm labourers in the old Laender have started to purchase or to rent considerable agricultural areas in the former GDR. Most in demand are the more fertile areas such as those around Magdeburg. About 30 percent of the agricultural areas of the Magdeburg Boerde have already been rented to people from West Germany. One large land owner from Bavaria has rented some 4 500 ha of fertile "Loess" land in the vicinity of Halle. He has concluded rental contracts for the next 12 years paying an annual rent of DM 300 per ha.

West German expansion into the new Laender is particularly strong in the vicinity of the former border between the two German States.

There are many well-trained and experienced farm managers and their sons in the old Laender whose holdings cannot be developed further. They are given the possibility to start new and larger agricultural enterprises in the Eastern part of the country and become independent farmers.

Farmers who sell or rent their holdings in the West and start agricultural activities in the East play a positive role for the agricultural sector in both parts of the united country. The advantages can be summarized as follows:

1. Because of their departure, they contribute towards improving the agrarian structure in the West;
2. They introduce knowledge and skills unknown in the East and can be helpful in establishing farmers organizations and unions;
3. By selling or renting agricultural property in their place of origin and by bringing with them certain agricultural equipment and professional experience, they have good chances for a successful start;
4. They can take over in East Germany areas and buildings which are well adapted to future requirements;

5. They can make their agricultural technology available to local farmers and thus relieve them of expensive investments;

There are several ways and means by which West German farmers may enter the East German agricultural sector:

1. Enlarging the operational holdings in the West, by renting additional areas in the East, mainly in the vicinity of the former border;
2. Cultivation of rented areas located in more distant places by transporting agricultural machinery on trailers or on deep loaders;
3. Establishing branch holdings in the East by a member of the farm family in West Germany; and
4. Renting or selling holdings in the old Laender and transfer them to the former GDR and start with larger capacities.

#### 5.2 The financial position of the farms

The liquidity situation of the agricultural holdings, the few reconstituted holdings, the LPGs and the newly established family holdings has become very precarious. Because of the unfavourable economic conditions, the number of farm dissolutions and bankruptcies is consistently increasing. About 10 percent of the LPGs are in a state of dissolution and have no concept regarding future development. Sometimes the cooperative members received only one third of their inventory contributions. More than half of agricultural holdings in the new Laender are in acute financial difficulties, mainly because of too slow cashflow, reduced prices and partly also because of wrongly directed support programmes. The average daily losses of agricultural cooperatives vary between DM 1 000 and 1 500. In the case of specialized holdings they amount to even DM 10 000. It should be possible to free all agricultural holdings which were forced to accept credits after 1995 from the obligation to repay. In some cases there has been a grace period for the repayments up to 1991, and therefore these cooperatives face the danger of bankruptcy in the near future.

It has been estimated that about 90 percent of all LPGs will not be able to successfully adopt a new legal structure, but there are also already some individual farmers who had to register bankruptcy.



Agriculture in the East German Laender is still at disadvantage because of the prevailing price differences with West German agricultural products, especially with regard to slaughter animals, milk, eggs, grains and potatoes. Prices paid in the old Laender are 5-20 percent higher than those in the East. Farmers in the Eastern Laender face also difficulties because West German trade chains pay less for agricultural products from East Germany, or even prevent them from being included in their trade lists. Because of the price differences between old and new Laender, East Germany will encounter in 1991 a loss of income of more than DM 2 billion. It has been estimated that a similar loss of income will occur because of reduced production. The additional costs for all agricultural holdings in the new Laender will amount in 1991 to at least DM 5 billion.

The envisaged demands of East German agriculture in the amount of DM 2 350 million will not be sufficient to improve the economic situation of most agricultural holdings to such a level that they can survive. They will just be able to accommodate on average 50 percent of the lost income of the proposed supporting funds, only DM 50 million tax relief have so far been paid.

The supporting funds are composed as follows:

DM 500 million	for the set aside programme, for income support and for extensification,
DM 150 million	interest savings through investment support.
DM 350 million	savings of interests and debt relief through Treuhand,
DM 800 million	adjustment and liquidity aid,
DM 400 million	local specific support and
DM 150 million	other income support.

At the time of writing this report it is not possible to judge whether the funds allocated for debt relief and for local specific support can be utilized to their full extent since many holdings have not yet prepared a development plan till 1993 because of the insecure economic situation.

The State should try to introduce a system of partial debt relief for new holdings including also family holdings if and when they take over objects covered by old credits.

#### 5.4 The employment situation

During the first half of 1991 the employment situation in the agricultural sector has deteriorated with the dissolution of the LPGs and the bankruptcy of other agricultural enterprises. A considerable number of agricultural labourers have become unemployed. While in September 1989 the agricultural sector employed 850 000 labourers, their number decreased half a year later to 570 000, a reduction by about one third. Most of those effected were women. These figures do not include 290 000 labourers who are working as short or half time labourers. It is estimated that by the end of 1991 the agricultural sector will employ only 250 000- 350 000 farmers and farm workers. This means a reduction of about two thirds of those employed in agriculture one year earlier.

The reduction of the agricultural labour force is an essential necessity for East German agricultural sector to become and remain competitive. However, it raises many problems for the rural areas which are difficult to solve. This applies particularly to such regions which have few possibilities for non-agricultural employment such as the North of the former GDR. The structural change is of extreme importance for regional development as a reduction of agricultural production brings great risks to the survival of these rural areas.

As a first step, measures will have to be taken to prevent a drastic de-population of the rural areas. This process will for the immediate future be delayed because a large part of the rural population received its income from social security or early retirement pension. An immediate exodus of labour from the country side was also prevented by the lack of accomodation in urban areas and the general employment situation in the cities. In a more distant future, however, it is to be expected that younger and better trained labour force will leave the country side and thus create situations like in Southern Italy.

In view of the increasing social conflict, farmer unions consider it essential to create employment in rural areas and to organize facilities for retraining.

Funds for retraining have been allocated in the following fields of activity:

- marketing and market organization
- service sector and industrial employment in the rural
- areas, incl. commercial activities
- environment protection, structural adjustment, waste disposal, agro-tourism and services.

Another issue faced in the countryside is the lack of training facilities for apprentices. In order to meet the demand of East German agriculture for trained agriculturists, at least 2 500 young people should start their apprenticeship annually. However, in many training enterprises, their members do not agree to train apprentices when at the same time farmers who have worked with them for several years have to be dismissed. As a consequence, there are hardly any offers for training in agriculture.

According to estimates of the German farmers' union, the costs for training one apprentice amount to DM 10 000 per year (salary, cost of training and insurance). It has been proposed that agricultural enterprises should be paid DM 5 000 for every apprenticeship as is already foreseen for small industrial enterprises.

At present, 14 000 apprentices undergo agricultural training which last for three years. However, the continued training of some 2 000 apprentices is at risk due to the bankruptcy for dissolution of their respective enterprises.

Agricultural labourers older than 50 years may receive an adjustment bonus of DM 120 monthly if they start a new occupation which gives them a lower income than they had before.

Many independent farmers who have started to establish a family farm do not know how to raise their contribution to health insurance and pension fund due to the low income they expect to receive. Currently, family farmers have to pay DM 142 monthly to their pension fund and between DM 66 and 288 for health insurance. The independent farmers of the East German Laender should receive the same subsidies from the Government for their health scheme as the farmers in the old Laender.

### 5.5 Food processing industry

The food processing industry in the former GDR, both meat and milk processing, is in a desolate situation. Frequently it is not feasible to maintain the old technology which operates with high labour input and with high costs. As a consequence, many processing enterprises have to cease operation and start fresh with new installations. Enterprises from the old Laender and from abroad have expressed interest to provide funds for investment for the required restructuring of the processing industry amounting to several billion DM.

### Sugar industry

The 41 sugar refineries existing in the new Laender will not be able to stand competition from the West because of misguided economic policy in the past, too little investment and the resulting outdated processing techniques. They would be ruined without the help from the West. In order to remedy the situation, several Western enterprises have expressed their interest to finance the modernization of the East German sugar factories.

The refinery Zuckerverbund Nord AG, Braunschweig, has the intention to build a new factory in Klein Wanzleben, replacing the old one. The refinery, which will cost DM 380 million, will start its operation in 1994. Intentions to buy the refineries in Hadmersleben and in Aderstadt which belong to the Boerde Society with limited liability has also been announced.

The Sudzucker AG, Mannheim, the largest sugar producer in Europe, plans to buy and modernize 6 sugar refineries in Saxonia and Thuringia. It is planned that the West German sugar industry will invest within the next few years some DM 2 billion for sugar processing in East Germany.

However, as a result of the modernization process 50 -60 percent of the labour force previously employed by the refineries will become unemployed.

### Dairy industry

Of the 264 dairies which existed in the GDR, 150 have already ceased to exist. Obsolete technology and excessive employment rates have also in this industry led to high production costs. In some cases, milk producers are being paid as little as DM 0.50 per litre of milk. Furthermore, milk producers have to take back 30 percent of the delivered milk in the form of skimmed milk.

Another disadvantage for milk producers is that many dairies pay for the delivered milk with considerable delay. As a result, many LPGs have outstanding claims for delivered milk in the amount of several million DM.

In the vicinity of the former inner-German boundary. West German dairies offer cooperation with East German dairy farms, in which case the farms can deliver their milk directly to West German enterprises. About 30 Percent of the milk produced in the new Laender is being delivered to the West in this way. A main precondition for doing so is that the milk meets the quality requirements of West Germany, but many milk producing farms have been able to do so.

It is estimated that out of the 2 64 dairies, which existed in the GDR, only about 3 0 will survive. On the other hand. West German dairies start establishing themselves in new locations in the new Laender. The Suedmilch AG Stuttgart, for instance, is planning to establish, together with Sachsen Milch the largest dairy in Europe, which will have an annual capacity of 600 000 tons of raw milk. The dairy is expected to start operation in 1993. Thereafter, all 30 dairies currently working in Sachsen will cease to exist.

#### 6. Opportunities for a new beginning

The socialist planned economy has had its bad effects on the agricultural sector in East Germany. Through compulsory collectivisation, formerly individual farmers were forced to accept an economic system which they initially resented. However, four decades of collectivisation have led to the creation of large scale agricultural cooperatives which were able to provide economic and social security to their members. The LPGs were in a position to plant over the years a number of social benefits which would have been impossible to obtain for small and mediumsize farms. In general, LPG members enjoyed regular working out, although they were within overtime during peak time, especially during crop harvest.

In animal husbandry larger holdings organized work in two shifts which were adopted to local conditions, enabling for instance working women to look after their children before and after kindergarten or school attendance.

All LPGs provided at very low price lunch to all their members, including those engaged in shift work. Working clothing used in stables, separated into dark and white areas, were washed by the LPG a no expense to the labourer. Furthermore, every member was entitled to his annual leave, which could be taken in accordance to the labour requirements of the LPGs.

Of the three production factors provided by LPG members, land, capital and labour, only the latter was paid an adequate remuneration, which was similar to that of an industrial worker.

Working in an LPG provided its members with a secure perspective which included frequently also a training and skills upgrading.

On the other hand, job security until retirement let to a deficit in motivation. As there were strict instructions from above, either from the State or from the management of the enterprise, there was no need to take initiatives or to worry about marketing nad prices. The main objective of work was the fulfilment of the plan.

Although many LPGs succeeded in stabilizing their economic position, and were able to demonstrate the advantages of large-scale agricultural enterprises, it should not be overlooked that they had inherent weaknesses. It should not be forgotten that almost all LPGs had to perform in addition to their primary agricultural production many subsidiary activities in the fields of repair and construction, purchase and marketing and other services. Furthermore, they were given certain tasks to maintain the rural infrastructure and perform social cultural activities. This multiplicity of functions and activities led to a certain degree of inefficiency of many LPGs. One of the first steps in restructuring the LPGs after unification was therefore to hand over non-agricultural activities to enterprises which are specialized in these fields.

The restructuring of the agricultural sector is a tedious process. In some instances, it involved just a change of the legal framework from a LPG to a registered cooperative. However, a genuine change and the beginning of a new enterprise requires much more than that. It requires dissolution of unclear property relations, the appraisal and distribution of assets and specific legal advice regarding credit possibilities and taxation. Because of uncertainties in the European Common Market, a considerable number of farmers and managers of cooperatives in the new Länder are hesitant to take the risk of a new beginning.

The transition period between the socialist planned economy and the free market economy was too short to adjust properly to the new demands. The abolition of the planned economy did, however, not lead to a wave of reprivatization in agriculture as some politicians in the old Länder had expected. One of the reasons for this state of affairs was the lack of a comprehensive concept for the re-organization of the agricultural sector.

In order to expedite the process of structural adjustment, it is essential to establish clear, legal and economic conditions and rules which facilitate the regulation of production and the protection of the environment. There should be equal opportunities for different types of agricultural enterprises, the family farm, the group farm, the registered cooperative, the company with limited liabilities and other types.

Currently, two heterogeneous types of agricultural enterprises are confronting each other: the family farm and the reorganized LPG.

The question whether or not the former LPGs which have changed their legal status will be in a position to improve their organization and management to such an extent that they will be able to improve their economic performance and whether their members will have the right motivation and sense of responsibility can only be affirmed in a qualified sense. Many members of the LPGs do not have the financial means, nor the professional skills, to start or manage an agricultural enterprise. Many LPG members have not yet understood the implications of the ongoing adjustment, while on the other hand, those who have opted for creating a new farm are fully aware of the responsibilities and risks they will have to take.

It is quite possible that the new agricultural cooperatives will not only consist of farmers who contribute land but also of agricultural labourers who will be employed on the principle of profit-sharing. In any case, members of a cooperative who in the future will have to take economic risks should be paid for share its profits according to their degree of risk-share.

As the willingness to carry responsibility has not been honoured under the socialist conditions, it is important to draw attention to the members of cooperatives and its labourers to this changed situation.

The speed of the adjustment process in East German agriculture will heavily depend on the overall political framework. Of particular importance are questions of taxation, support programmes and financial assistance to agricultural enterprises. In case financial help is not forthcoming, or is being drastically reduced, the decline of East German agriculture will be further accelerated and many farm holdings will become bankrupt.

The agrarian policy for the new Länder has only two alternatives: the collapse of the LPGs which will have drastic social and economic consequences, but comprises a chance for a quick new beginning, or otherwise continued financial support for the LPGs to assist them in their efforts to adjust to the new conditions. This latter approach involves of course considerable costs.

All decision regarding agrarian policy should take into consideration that the transition to an economically and ecologically balanced agriculture is a matter of concern to the society as a whole. The costs and effects of this process cannot be carried by the farming population alone.

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In order to facilitate the exchange of experience among European countries in transition in reorienting their cooperative structures, FAO commissioned, in 1991, a series of country case-studies. This study deals with the developments in the former German Democratic Republic (GDR). The report starts with a description of the agricultural cooperative sector in GDR at the time of unification of the two German states. It analyses the new legal framework and the implications of unification for the agricultural sector, i.e. the abolition of subsidies and the need to reduce agricultural production and to dissolve outdated production structures. Alternative solutions for adjustment are proposed and include the establishment of family farms, the restructuring of agricultural production cooperatives and the creation of other types of joint enterprises in agriculture. The report reviews the difficult situation of the agricultural sector and the rural population, but recognizes certain opportunities for future development within the framework of a market economy.

