

EXECUTIVE SUMMARY

**TRANSATLANTIC FREE TRADE
AGREEMENT (TTIP)**

**RISKS FOR SMALL AND MEDIUM-SIZED
BUSINESSES IN THE AGRICULTURE AND
FOOD SECTORS**

QUALITATIVE STUDY



UnternehmensGrün

German Federal Association of Green Business

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SUMMARY

This report looks at the possible effects on small and medium-sized businesses in the agriculture and food sectors in Germany of the transatlantic free trade agreement (known as the Transatlantic Trade and Investment Partnership – or TTIP) currently being negotiated between the EU and the USA. This study highlights the differences between the existing legal systems and differing areas of interest in the two blocs. It also provides a platform for the opinions of business managers and owners of SMEs and their associations.

The study also takes a close look at those areas that have been identified as key areas of conflict, namely 'genetic engineering in agriculture', 'pesticides', and 'animal fattening and animal welfare'. It also deals with issues relating to origin labelling and to structural differences in the agricultural and food-production sectors on both sides of the Atlantic. It also includes sector-specific statements relating to the trade in cereals, meat, milk, milk products and fruit and vegetables.

American lobbyists and stakeholders from the agriculture and food-production sectors are trying to use TTIP to weaken or even remove existing trade barriers via health, environmental and animal welfare regulations. This demonstrates a fundamental difference between Europe and the USA in structures and standards which, in turn, can sometimes lead to considerable differences in production costs.

The study comes to the conclusion that any harmonisation of standards would represent an existential threat to many companies in the farming sector and to many medium-sized processing businesses in the food-production sector.

KEY FINDINGS OF THE REPORT

The report finds that the possible implications of the transatlantic free trade agreement (known as the 'Transatlantic Trade and Investment Partnership' or TTIP for short) currently being negotiated between the EU and the USA mainly represent a threat to small and medium-sized businesses in the agriculture and food-production sectors in Germany.

The main areas of conflict in the agreement are genetic engineering in agriculture, pesticides, animal fattening and animal welfare. The USA has a fundamentally different understanding of safety to the one set out in the EU's precautionary principle. In almost every instance, the safety requirements in the USA are fewer than in the EU. Regionally focused farm operations and their downstream processing businesses are also directly threatened by TTIP.

This assessment is based both on the analysis set out herein of the likely impact of TTIP on the sectors described, and on interviews carried out for this study with entrepreneurs.

The EU Commission's positive expectations of a simplified system of exports of agricultural products to the USA cannot be proven analytically; nor are they corroborated by the interviews carried out for this study with foodstuffs companies and associations.

André Freidler, Managing Director of the Swabian Alb based pasta-making company, Alb-Gold, says:



"For us as a pasta-making company, we are already able to ship our products as they are to the USA, and there are no barriers. Neither we nor our importers have to pay any customs; and when you have been through the formalities once or twice, they become routine. There are no major costs involved. Therefore, the claim that TTIP would bring benefits to SMEs certainly does not apply to us."

No one can produce products like cereals as cheaply as the USA. This is thanks to American standards (including the use of genetic engineering, lower pesticide residue limits – cf. chapter 5.2.1.). It is not clear exactly how, in the long term, the EU plans specifically to protect medium-sized agricultural businesses and processing companies in the foodstuffs industry against such competition.

The overall level of information provided thus far to the agriculture and food-processing sectors has been exceptionally low - a phenomenon that applies to small and medium-sized enterprises (SMEs) as a whole. This is also a result of the fact that those working in these sectors view the issues as very abstract and that the issues and the consequences for specific sectors are difficult to grapple with. Most members of agricultural associations for example have not yet formed an opinion on the issues. There is somewhat more awareness of the problem among organic farmers than among conventional farmers. Furthermore, no sector-specific studies are being carried out – either at national or European level – into the effects of TTIP on non-exporting small and medium-sized enterprises.

CROSS-SECTIONAL ISSUES

European agricultural companies have fundamentally different structures from their American counterparts (higher percentage of family farms; greater diversification; smaller companies). As such, from a strictly market-economy point of view, they are 'inferior'.

Of the approximately 20.5 million small and medium-sized enterprises in the EU, a mere 150,000 of them currently export to the USA. That represents 0.7 percent of all SMEs in the EU. So the main thing that the overwhelming majority of European companies can expect from any free trade deal with the USA is additional competition in their respective sectors. This is particularly true for the agriculture and food-production sectors.

This study shows in detail where the USA – particularly with regard to the agriculture and foodstuffs sectors – enjoys business structural advantages (size) with which German and European companies cannot compete and do not have the funds to match their American counterparts. In its current proposed form TTIP strengthens – possibly – the position of a few very large agricultural and foodstuffs companies; but these are companies which, thanks to the production plants that they have set up across the globe, have already overcome the trade barriers that TTIP is supposed to remove. The risks that are being faced by the 99.3 percent of small and medium-sized competitors go almost completely unmentioned in the EU Commission's research.

Let us look at import duties on cereals, meat, sugar and milk: the EU currently protects these areas of food production by way of import duties on US products ranging from 18 percent (cereals) to more than 50 percent (milk). If a form of market alignment, as foreseen under TTIP, were introduced and consequently these duties were abolished, that would almost automatically mean the collapse of these agricultural activities in Europe.

European Precautionary Principle Under Huge Pressure

Whether it is genetic engineering, growth hormones or pesticides, Europe and the USA pursue fundamentally different strategies when it comes to potential hazards arising from the use of new technologies (cf. chapter 4.3). The US agricultural associations view the idea of using the European precautionary principle as the basis for all authorisation procedures as an unfair, unscientific trade barrier that, as part of TTIP, must be removed. The USA uses the so-called 'aftercare principle' – which involves no expensive test and certification procedures before a product can be put on the market. Only once there is proof that a product is harmful does consumer protection come into play. But when something really does go wrong companies often face the risk of high damages claims. Without an assessment of which of these principles provides more effective protection for people and the environment, one could claim that both systems, taken in isolation, work. But they are simply not compatible: and that is a problem for the TTIP negotiations.



Prof. Claus Hipp, HiPP GmbH & Co. Vertrieb KG: "I don't claim to be able to evaluate all the elements of TTIP; I'll leave that to the experts. I have nothing against trade agreements per se. But they must be negotiated in a transparent way and meet the following conditions:

- firstly, they must be socially fair and just;
- secondly, they must guarantee the freedom of choice of all stakeholders and not circumvent that choice;
- thirdly, they must take account of sustainability issues;
- fourthly, consumer protection must be guaranteed.

All trade agreements must respect these points. Experts will have to assess whether or not the proposed TTIP deal fulfils these four basic criteria. What is important is that the TTIP agreement cannot be allowed to lead to a lowering of food quality.

RESULTS RELATING TO INDIVIDUAL ISSUES

Genetic Engineering

TTIP would make the labelling of genetically modified foods or of animal products where the animals were fed on genetically modified feed more difficult. Given the lower cost of genetically produced foods, more and more European farmers and food processors would be forced to use these intermediate products in order to stay in business. This would mean that conventional farmers who do not use genetically modified products would be forced out of the market.

Since 1986 the USA has made no distinction between conventional and 'genetically modified organisms' (GMOs). In America they are viewed as 'basically the same' and as safe because no negative effects have been proven. As genetically modified plants are cheaper to produce, they dominate in US agriculture. In America 90 percent of maize, 93 percent of soya, 90 percent of cotton, 95 percent of sugar beet and 93 percent of rapeseed is produced using GMOs.

Percentage of Genetically Modified Organisms (GMOs) to Non-Modified Organisms in the USA (Selection)

	GMO	non-GMO
Maize:	90% / 10%	
Soya:	93% / 7%	
Cotton:	90% / 10%	
Sugar beet/cane:	95% / 5%	
Rapeseed:	93% / 7%	

Source: Banse, Martin / Isermeyer, Folkhard (2014): "TTIP: Implications for European Farmers – Pig, Poultry and Dairy", Braunschweig: Heinrich von Thünen-Institut, 10 November 2014.



"What we find particularly concerning is the blurring of quality standards that could have a long-term negative effect on our raw goods. If TTIP opens the borders, then it will also open new doors to genetic engineering because the economic giants will find it easier to impose their economic will. In any event our efforts to protect our products from the contamination of gene manipulation – already a major challenge – will become even more challenging."

Wolfgang Heck, Managing Director, Life Food GmbH

In the EU we have a fundamentally different philosophy. The 'precautionary principle' states that before a substance can be licensed, proof must be provided that it does not represent a significant risk; if reasonable grounds for concern still exist, no licence shall be granted. Therefore, the only genetically modified maize currently licensed for commercial cultivation in the EU is Monsanto's MON810, grown in Spain. Its use was stopped in Germany in 2009 because, based on the assessment of newer scientific studies, the government concluded that the cultivation of MON810 represented "a threat to the environment".

There are currently approximately fifty different types of genetically modified cotton, maize, soya, rapeseed and sugar beet licensed for import; and in Germany large numbers of livestock now receive genetically modified feed. When selling meat and milk produced from these animals, manufacturers do not need to indicate on the product labels that the animals were fed on these products.

According to the coalition agreement, the German government is therefore endeavouring to broaden food-labelling requirements to include meat products where the animals were fed with genetically modified feed. TTIP has made this plan considerably tougher as US companies could complain that such a regulation would represent an unforeseen non-tariff trade barrier – or they could intervene politically. The US government and lobby groups have been lobbying since 2003 against EU regulations on the licensing and labelling of genetically modified foodstuffs, and on this issue – which they describe as "safe and legal" – they want to find a common regulation; they would of course prefer it to be based on the American licensing system. This would make it far easier for American companies to gain access to European markets, and in practical terms it would lead to Europe becoming awash with genetically modified products.

Growth Hormones and Growth Accelerators in Livestock

The ban on growth hormones and growth accelerators in the EU has, until now, prevented the sale of most US meats in the EU. This protects local conventional beef farmers in particular. The US meat industry is calling on its government, within the framework of TTIP, to make it a priority to remove this “non-tariff barrier”.

Growth hormones, such as bovine somatotropin used to increase milk yields, and growth accelerators such as ractopamine (used in cattle and pig feed) are banned in the EU, but they are used extensively in the USA – and in some instances, this has been the case for many decades. To date the EU has banned the import of this hormone-treated meat. Therefore, lobbyists for the US meat industry see it as an important objective – within the context of the TTIP negotiations – to tackle what they describe as “technical barriers” such as the “hormone ban, growth agents and pathogen reduction” because, they claim, these have for too long been used as a justification for what they say are inadmissible trade barriers.

Pesticides

The levels of pesticide residues in foodstuffs permitted in the USA are, in some instances, five hundred times higher than those permitted in the EU. The background to this is that the two economic blocs have fundamentally different philosophies when it comes to food safety. Under TTIP, some of the EU standards would be drastically reduced.

In Europe the EU firstly defines what is called the Positive List before member states can then take a licensing decision – based on the so-called Precautionary Principle. The permissible volumes applied are always set at “the lowest practicable level”.

In the USA the US Environmental Protection Agency (EPA) allows the use of pesticides and then requests proof from companies that – to a “reasonable degree of certainty” - the products do not have any harmful effects. If the scientific analyses have not yet been completed, pesticides can be licensed “with reservations”. In reality this meant that in 2012 approximately 65 percent of more than 16,000 pesticides were granted a

trading licence “with reservations”. This also meant that the USA licensed 82 substances that the EU has categorised as hazardous to health. There are large differences in the permitted residue levels (see table below).

Comparison of the Maximum Residue Levels (MRLs) (mg/kg) in the USA and the EU

Plant	Pesticide	US MRL	Codex MRL	EU MRL
Apple	Captan	25.00	15.00	3.0
	Malathion	8.00	0.05	0.02
	Ziram	7.00	5.00	0.01
Potato	Dimethoate	0.20	0.05	0.02
	Paraquat Dichloride	0.50	0.05	0.02
Cabbage	Carbaryl	21.00	-	0.01
	Permethrin	6.00	5.00	0.05
Carrots	Iprodione	5.00	10.00	0.50
Asparagus	Glyphosate	0.50	-	0.01

Source: Smith, Erica / Azoulay, David / Tuncak, Baskut (2015): “Lowest Common Denominator – How the proposed trade deal threatens to lower standards of protection from toxic pesticides”, Geneva: Center for International Environmental Law, p12

The EU Commission’s draft agreement published at the beginning of 2015 proposes the adoption of the Codex Alimentarius limits as set out in the table above. This would mean that TTIP would drastically increase the permitted residue levels.

The Killing of Pathogens - Beyond the ‘Chlorinated Chicken’ Debate

The chlorinated chicken debate in Europe is masking a possibly far more serious issue – namely that the way in which the meat production industries in the USA and EU are set up is fundamentally differently. Given these vastly different approaches, it is almost impossible to imagine that levels and standards could be found that would be acceptable to the European side. European consumers would have concerns that US-produced food could be infected with salmonella, while European producers would be burdened with far higher production costs. In the USA anti-microbial solutions, such as chlorine dioxide, are routinely used to kill pathogens in poultry; in the EU this

has become known as the ‘chlorinated chicken’ debate. For its part, instead of looking at decontamination at the end of the production chain, the EU focuses on ensuring safety and hygiene throughout the entire food chain. This means that products treated with these chemicals are banned in the EU, although even here residues in foodstuffs of these agents are not classified as a direct risk to health.

But what is often overlooked is that this chemical decontamination process scarcely achieves its actual aim – namely protection against infection. In the United States, salmonella-infected chicken is responsible for the majority of all hospitalisations resulting from food-related infections; and according to one US study, one in four raw chickens in the USA is infected with salmonella. The reason for this is that the relevant American inspection authorities can only monitor and sanction abattoirs and not actual farms.

Food from Cloned Animals

In the USA the ethical debate on the fact that only a small number of cloned animals are born alive and that the health and wellbeing of surviving clones and their offspring is seriously impaired (EFSA opinion) plays no part in the food licensing procedure. As cloned meat is not labelled as such in the USA, there is every likelihood that this meat (or products containing it) would be exported to Europe and sold here without the consumer knowing what they are actually buying.

In the USA meat and milk from cloned animals are deemed to be just as safe as conventionally produced products. To date, ethical considerations or animal wel-

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-fare issues have not been part of the licensing process.

Therefore, there are also no special regulations governing the labelling of these types of product.

In Europe, the European Parliament is moving for a comprehensive ban on cloning, which would also include the sale of products made from cloned animals. The US government anticipates that this will lead to major losses for American exporters who export to the EU. Any sort of compromise that TTIP seeks to impose would wreck the European Parliament’s plans from the very outset. Even companies that process imported meat would no longer be able to continue to give their customers a guarantee that they are not using cloned animals in their products.

Cereals

The USA is already one of the world’s cheapest suppliers of cereals. If, thanks to TTIP, the EU changes the European import regulations for genetically modified organisms (GMOs), Europe’s GMO-free cereal farmers would no longer be competitive.

The use of GMOs in cereal production can lead, on average, to a 22 percent increase in crop yields and a 68 percent increase in income for the producer. If the EU’s labelling requirements were deemed to be “product discrimination” and were therefore scrapped, EU farmers would stand no chance against cheap imports. Food processors would no longer be able to guarantee that their products were GMO-free. German suppliers are worried that they would also lose foreign customers who see the “Guaranteed GMO-Free” label as a unique selling point.

Similarly, pasta exporters are not expecting TTIP to give a particular boost to their business with the USA. They say that the current export regulations for their products are neither complicated nor expensive.



“TTIP has long since been an obsolete economic model. A focus on exports continues to drive the model. It supports an expansion of industrial agriculture. It will lead to even more specialisation, even greater concentration, and even less biodiversity. Why? Who will benefit? Certainly not the ordinary citizen – or our farmers.”

Dr Ursula Hudson, chairman of Slow Food Deutschland



“To me, the idea of standardising everything is a very dubious one; and particularly now, just as more and more regional production networks are appearing. A free trade agreement like TTIP will make this all border on the absurd,” says **Boris Voelkel, the buyer for the organic food shops business, Bio Company.**

Meat

Any further opening up of the markets for beef through the removal of (precautionary) standards as set out in TTIP would quickly threaten the livelihood of specialist farmers. There would be no notable significant export opportunities to the USA for meat products.

The EU is one of the world’s largest exporters of poultry and pork. European beef production is seen as barely competitive. The American beef production industry benefits from its sheer size; it uses fully mechanised large-scale plants – particularly at the fattening stage; and in some cases farms have more than 100,000 head of cattle.

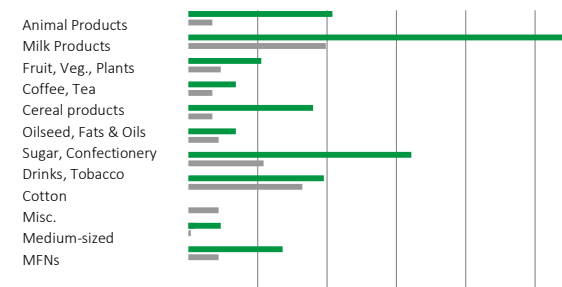
But in the American poultry industry, more and more large-scale plants are springing up which are therefore more cost efficient. Even the large-scale German poultry producer, Wiesenhof, is warning that if there is mutual recognition of hygiene and production standards, European producers will find themselves in an “unfair fight”. Small-farmer associations expect that TTIP will lead to “agro-industrial animal welfare and environmental dumping” and are therefore calling for meat products to be removed from TTIP altogether. These businesses see almost no export opportunities for them arising from TTIP.

Milk and Dairy Products

Thanks to the savings enjoyed by US producers on feed, supplements, and animal and environmental welfare, an opening up of the markets would further accelerate the demise of small and medium-sized farms.

Milk producers are in crisis and the farmers’ associations are proposing different solutions to combat the drop in prices in the EU: some favour the export of milk and milk products. Small holders are calling for an end to over-production and for higher quality products. But both sides warn that any opening up of the markets to US milk (currently subject to more than 50 percent customs duties) would lead to a further acceleration in the demise of farms.

Currently applicable duties for agricultural products (EU and USA), expressed as a percentage
(Translator’s Note: see original German text for actual chart and figures)



Source: Josling, Tim / Tangermann, Stefan (2014): “Agriculture, Food and the TTIP Possibilities and Pitfalls”; Brussels/Washington, CEPS/CTR, p5

Fruit and Vegetables

The market for organic products was liberalised back in 2012. And yet producers barely want to expand their export business. It is doubtful whether things would be any more successful with conventionally produced fruit and vegetables.

In recent times Germany’s main imports from the USA have been fruit and vegetable juices (to the value of €17m) and processed fruits (to the value of €12.5m). This compares to €34.4m worth of potatoes and €16m worth of processed vegetables. Fresh fruit and vegetables on the other hand scarcely feature because of the high level of the non-tariff barriers. Industry representatives doubt that TTIP will lead to the removal of these barriers, many of which are justified.

As a result of the 2012 US-EU Organic Equivalency Agreement, trade between the USA and the EU in organic products is, for the most part, tariff-free. But those companies surveyed are not planning any major expansion in trade. This is partly due to the high costs involved, and partly due to the fact that long-distance trade is not deemed to be environmentally friendly.

Regional Producers

Regionally produced products are currently experiencing a boom, which is even more successful than the boom in organic products. But European growers are concerned that if Europe has to adopt American 'country of origin' standards, customers will have less trust in their products.

In addition to concerns about the small-scale nature of production structures and safe food supply not dependent on global market conditions, there is now also conflict in the TTIP debate between the industrial, growth-oriented agricultural model on the one hand, and the region-specific, sustainable production and food marketing model on the other.

These regionally oriented companies oppose any further expansion of transatlantic trade – not least because of their values systems. And of course they see no benefit in it for them.

RECOMMENDATIONS FOR THE AGRICULTURE AND FOOD SECTORS

Based on the risks demonstrated in this study, there can be only one recommendation if we want to see a responsible policy emerge: the agriculture and food-production sectors must be removed from TTIP altogether. On the one hand this is necessary given the different structures that exist on either side of the Atlantic (size of enterprise, rationalisation, degree of diversification, level of standards); and on the other, the policies on consumer protection are diametrically opposed to each other (precautionary principle vs aftercare principle).

Approach and Methodology

To prepare this study, qualitative guided interviews with representatives from small and medium-sized enterprises in the agriculture and food industries were carried out. 21 companies from four sectors (meat, milk, cereals, fruit/vegetables) were interviewed in depth. The selection of companies was also based on the companies' primary area of production (first and second processing stage). Conventional and organic farms were included in the study. An additional twelve conversations were carried out with representatives from trade associations and other companies. Before the interviews were carried out, comprehensive research was undertaken of the literature pertaining to the key problem areas in the TTIP negotiations for the agriculture and food industries.