

**POLICY BRIEFING**

**A VISION FOR THE FUTURE OF THE EU AGRI-FOOD SECTOR**

**FOR A EU AGRI-FOOD SECTOR ALL ACROSS THE EU**

**October 2017**

The EU agri-food sector is at a crossroads. The sector endures a string of crisis, a decade long stagnation of incomes, an unbalanced value chain, whilst the society expects always more to be done on environmental protection, and on providing nutritional and healthy food.

The sector must build a vision for the future if it wishes to overcome present hardships, respond to societal expectations, and thrive.

That vision should build on what has been achieved, on a thorough examination of today’s challenges, and create the foundations for a future that brings together growth and economic and environmental sustainability.

Agriculture in the EU has in the last half-century been moulded and supported by a Common Agriculture Policy. The destiny of the sector is intertwined with the direction and strength of the CAP.

The debate on the future of the CAP should therefore be closely tied to the debate on what future we want for the sector. That is the right way to give guidance to the discussion on the future of the CAP, looking at present achievements and shortcomings and setting a path forward.

The sector badly needs a coherent vision, and a coherent set of policies. Without that vision, without a coherent set of policies embedded in the CAP, there will be no turning round of the current hardships.

Pursuing the status-quo will make farming less and less attractive for future generations, and thus less farm renewal, and a lower level of entrepreneurship. Dimmed future prospects will also bring less investment, less exports and more imports, lower growth and fewer jobs. Environmental degradation will rise with the abandonment of rural areas, and a lower capacity of farmers to invest in both agricultural productions and climate change responses.

This negative scenario can and should be avoided. A modernized CAP can and should have the means to build a better future. The time is ripe for the sector to take the matter in his hands and present the society at large a solid vision for the future.

**SOCIETAL EXPECTATIONS**

Society wants more jobs and growth, a better protection of the environment, healthy and nutritional food, and a territorial balance that leaves no regions behind.

We need to create more jobs and bring growth but the dilemma in the agri-food sector is that in particular agriculture is losing jobs and facing stagnating incomes.

It is not a fate that is not reversible. It is possible, indeed necessary, to get the agricultural sector back to a growth path. In order to get there we need the right policy mix. And let us not forget that only growth can in a sustainable way bring more jobs.

More jobs and growth come with increased productivity, with increased competitiveness. Producing more with less inputs does not lead to fewer jobs, as growth in the whole sector can create more jobs than those which are made redundant.

We need to do an even better job at protecting the environment. The current CAP marks a paradigm shift with regard to previous policies as it puts environment at the core with the greening requirements in the first pillar. But greening comes with a prescriptive and highly cumbersome set of regulations, and a much lesser focus on results and on the ability of farmers to achieve those results.

We need less water pollution from nutrients and pesticides, to stop soil degradation, to have less negative effects of pesticides in biodiversity, and less unsustainable practices.

The sector needs to respond, and adapt, to the milestones decided in Paris on climate change and the related EU own goals.

The EU is also committed to the Sustainable Development Goals, many of which are directly related to agriculture as are the goal of ending hunger worldwide and protecting the planet from degradation.

Farmers can and will respond if the right incentives are put in place. New technologies can play a major role to transform farming in a more environmental sustainable activity.

It should be well understood by all that there is a shared interest between the agri-food sector and society at large to have a vibrant farming community, with a future as an economic sector, as entrepreneurs, a farming community who is able to invest, adapt, and do a better job to protect the environment.

Farmers are the wards of the environment, without farmers there is no credible way of protecting the environment.

We need to continue providing healthy and nutritional food. The EU is on top of the world on producing safe and quality food. The EU enjoys the highest standards, and there is no coming back on these achievements.

We need territorial balance, the society does not accept that the more fragile and intermediate regions fall to the fate of decline and abandonment.

The rural development policies in the second pillar of the CAP have contributed to reverse those negative trends, but more should be done to revitalize regions that are less endowed or far away from the big economic centres where consumption is concentrated.

**CHALLENGES**

The CAP has provided for decades a common framework, a common set of rules and resources, which have greatly helped developing the EU agriculture.

Recent CAP reforms have made EU farming more competitive worldwide, decoupling support from prices has restored a market orientation, direct payments are a significant source of income stability, rural development policies have assisted fragile regions and the policy has become more in phase with other important policy objectives- protecting the environment, food safety, animal welfare.

The issue therefore is not whether the CAP is a policy that should be pursued to the benefit of the EU agri-food sector and the whole society, but whether it needs changes that make it a better policy mix to respond to current and future needs.

When examining where agriculture stands today in the EU, a number of problems and shortcomings comes to the front.

Price volatility has increased, as a result of more openness and integration with world markets. Climate change has also resulted in a higher frequency of extreme events, which impact on production and markets, and contribute to increased volatility.

Price volatility is the new normal, the amplitude of price volatility has reached in the 2004-16 period 87% for cereals, 62% for pork, 51% for milk, not to mention over 400% for vegetables.

Income volatility has also increased. At least 20% of farmers experience each year an income loss larger than 30%.

Outright crisis have befallen in very important markets lately. The dairy crisis lasted over a year and affected millions. Fruit and vegetable production, pork, were also affected. Beef production endures a long lasting depressed situation.

It comes as no surprise that farmers’ incomes have stagnated. In the last ten years real total factor income has stagnated. Capital and input income has fallen significantly, over 10%.

The Commission DG AGRI expects another decade of income stagnation and a further 14% decrease of total agriculture income in real terms. This would have dire consequences for EU sector, as agriculture decline will impact hard on the whole processing industry.

The sector shows a lack of productive investment, limited adoption of new technologies, and lagging innovation.

With lower investment and slow technological change the sector cannot become more productive, more competitive, generate more wealth and provide increased incomes for farmers.

Although EU exports have increased, the EU is losing market share as other competitors have higher export growth.

The EU leads in exports of high-quality and high-end food products, but it badly needs a competitive domestic foothold otherwise its position will be compromised.

The value chain is highly unbalanced against farmers. Most of the value added is captured by other actors, which benefit from a much higher degree of concentration. Only five retailers control between 43% and 92% of each national food market, whereas 1 100 000 farms produce 80% of the total EU output.

Unfair trading practices are widespread, penalizing the weakest link in the chain- the farmer. Attempts to self-regulate the marketing chain have lead nowhere.

When crisis strike, the farmer absorbs most of the shock, whereas when prices move up others benefit more.

CAP regulations have become very cumbersome, making simplification of rules a largely shared whilst elusive goal.

If there is an area where over-regulation is stifling is on the protection of the environment, on greening. The CAP has put environment protection at its core, and rightly so, but it has done it in a prescriptive rather than results oriented way. Farmers and national administrations bear the burden of highly prescriptive provisions, but have it hard to demonstrate what has been achieved.

This situation has led to increased call from environmentalists to reinforce the green orientation of the CAP, often disregarding the other needs of the sector, and often overlooking the fact that without better incomes and better future prospects it is illusory to believe that farmers will stay being the environmental wards.

One of the main achievements of the CAP, the functioning of a single market, is being eroded by the proliferation of national label and health requirements. The EU is lagging behind in finding common ground in these areas, which creates the risk that the single market becomes more fractured, less efficient, with higher costs for the sector and ultimately to the consumer.

Those are the main ills of the EU sector. They require a determined and coherent response to be redressed.

The sector has come through many reforms of the CAP in the latest 20 years. There is some reform fatigue in the sector, which is understandable as stability and predictability are valuable.

However in a situation where agriculture income is expected to decline, investment and adoption of new technologies suffer, and the sector becomes less attractive to young generations, and less responsive to societal needs, action is obviously needed.

The pressures on the sector stemming from competition on resource allocation, which is bound to increase as a result of Brexit, and from competing views on policy priorities within the EU, are getting stronger.

The EU is at the eve on deciding on the global allocation of its resources for the next Financial Framework.

To do nothing is not the right option. If the sector does not take the initiative to shape its future, others will do it for him, and most likely neither in its best interests nor in the best interests of the EU at large.

The time is ripe for the sector to take its future on its hands, and shake out accommodation to the present policies for the sake of stability. It will be an error, as stability is the least likely outcome, as internal and external pressures are piling up as explained above.

What should be done? This paper presents now, area by area, the proposals of Farm Europe. They do not seek to turn the CAP upside down, or revolutionize its principles and objectives, but rather to modernize its tool box to adapt it to current and future needs.

**RESILIENCE :**

The new strategy for resilient agri-food systems in Europe should integrate one fact: more than ever, agriculture is facing growing climate and market disturbances.

For the benefit of the whole EU food chain, the CAP should make available a set of efficient risk management tools to enhance the resilience of the wide range of EU agriculture models.

This will not be obtained through a single instrument at European level, but through a coherent and well defined choice of complementary tools, placing farmers at the core of the decisions according to their specific situation and needs. In each Member State, farmers should be free to opt for tailored self-insurance and/or mutual funds.

The Common Agricultural Policy is an economic policy, and one of the fundamental aspects in this regard is to ensure the development of an efficient and sustainable agriculture across the whole European Union. **Its core responsibility is therefore to strengthen the resilience of EU agriculture, which is based on a wide range of diverse family-farm structures.**

- Across the EU, **CAP direct payments should continue to provide a first layer of stability** to farms incomes. These direct payments are legitimate and imperative vis-à-vis the challenge of remuneration of public goods provided by farmers, the first being to ensure farming activity in each EU region.

- However, direct payments do not provide full answer to the need of more resilience in front of increased climate and market volatility. In that respect, the one-size-fits-all approach at the EU level is not an option to cope with market volatility. In each Member State, farmers should be free to opt for the best stabilization tools according to their specific situation and needs. **This choice of complementary options in addition of CAP direct payments must be defined at EU level, through the Risk Management Toolbox.**

Some of these tools already exist in the current EU legislation, but improvements are needed. Others have to be defined and developed in the future CAP reform.

A centerpiece of the Risk Management Toolbox is the **climatic insurance** that shields farmers from economic losses arising from adverse weather events. Climatic insurance is partly covered by existing legislation, and successfully tested in some Member States.

The analysis shows that climatic insurance stands ready to be applied to the whole range of arable crops, vineyards and fruit crops, as well as pastures. Such a tool can be co-financed under the present CAP.

The rate of subscription of climatic insurance in the CAP has however been too low. One reason is that Risk Management Tools are not at the center of the current policy. To this adds the fact that insurance payments only kick-in when losses are higher than 30%. This is far too high a threshold, and leads to a lack of interest by farmers to subscribe insurance as it only intervenes in rare catastrophic circumstances. In order to render this tool efficient the threshold should be lowered to 20%.

The co-financing by the CAP would thus no longer be accounted for in the WTO “green box” but this should not prevent the EU from better protecting its farmers as it enjoys a more than sufficient margin to do so, in particular under the “de minimis” provision of the WTO Agreement on Agriculture.

**Even in the extreme case scenario where it would be adopted by all EU farmers it would cost around 4 billion euros per year to the CAP budget.**

Building on the basic climatic insurance, farmers should be offered effective **income stabilization tools**, as is the case for mutual funds. **Mutual funds** could be developed in strategic sectors like the dairy industry or the sugar sector. The Commission has proposed to include sectorial income stabilization tools in the CAP toolbox, which is a wise move that we welcome.

For sectorial income stabilization tools to become attractive though, they should on top of paying losses above the reduced 20% threshold consider only the income that accrues from specific production and not the whole farm income, which would render the provision ineffective.

By the same token, the CAP should co-finance either the compensation provided by mutual funds to farmers when incomes drop, or the annual contributions to the funds, in order to increase the options available to farmers and mutual funds and provide stable CAP cofinancing. It should also allow the use of appropriate indexes to assess the income loss of farmers, and thereby facilitate and speed-up the compensation process.

On top of that, complementary options have to be assessed in the perspective of a post 2020 reformed CAP:

**- A precautionary saving mechanism** allowing farmers to manage their own self-insurance system by building up cash reserves and benefit at the same time from income tax stabilisation over several years. Although tax policies depend on Member States, such scheme should be part of an EU framework with a few common principles (dedicated account, freedom of withdrawal, etc.).

- Experiences should be encouraged to fine-tune **revenue, margin or income insurance**.

All these tools aim to strengthen both farmers and industry resilience to crises, while increasing their ability to invest during favourable periods. They are coherent with **the need to develop new concrete and efficient options for risk management, while keeping a sufficient level of direct payments** whose legitimacy remains untouched taking into account societal requests on EU agriculture and the production of public goods.

- In parallel, the EU should enhance the **ability of the CAP to react with higher efficiency to market crises** where the added value of measures taken at EU level is with no contest. Facing existing crisis, the quickest is often the cheapest and most effective. To do so, the European commission should not only be empowered to act but should have the obligation to present actions it intends to take to colegislators and to implement them (or to legitimate the decision not to act), as soon as the markets deteriorate above the theresholds of activation of voluntary risk management tools defined by the CAP. Such actions would require some financings, even if they have proved to be far less costly than political decisions to provide financial envelopes to cope more with the political sensitivity of crisis than their economic dimension (both in 2015 and in 2009). In that respect, **setting up a EU fund for agri crisis** with an initial dotation and financed annually by the current so called yearly CAP reserve mechanism might be an option to be considered.

**Environmental sustainability: an ambitious EU program for double performance to focus on results**

Considering the rise in global food demand and increasing concerns about the impact of climate change, a major challenge for the EU agricultural sector will be to **maintain its** **high level of production while ensuring a more sustainable use of its natural resources**.

The COP 21 Paris Agreement on Climate Change, in which the EU has pledged to **reduce its greenhouse gas emissions by** **at least 40% by 2030**, will have a substantial impact on the EU agenda for various policy domains.

In July 2016, the European Commission proposed an ‘Effort Sharing Regulation’ (ESR), in order to ensure that these commitments would be accomplished.

High-tech farm practices are able to provide clear positive results in better managing farms and optimise the use of inputs, thus reducing the environmental impact of the agricultural sector and increasing competitiveness, and at the end of the day, producing more with less.

However, the adoption of these high-tech practices by farmers still remains low and differs widely among EU Member States.

Considering these technological advancements, the EU institutions should seize the enormous potential of innovation to build simple and effective policies which promote sustainability and competitiveness andreduce the amount of bureaucratic procedures for farmers.

Within the next six years, the European Union should encourage its farmers to shift to a precision and digitalised agriculture and food chain.

In that respect, a revised CAP should invest massively in innovation and propose an **ambitious program for a double (economic and environmental) performance of the European agriculture**, with a view to make precision & smart farming the new norm in the future**.**

Such an ambitious European plan should be built on twointegrated components:

- **Investments** in sustainable high competitiveness. The European Union should elaborate and put in place, through an ambitious CAP, its « Marshall plan » for a truly double performance of its agriculture, modern, in full harmony with citizen’s expectations. A CAP based on precision & smart farming allowing strong food production commitments, efficient environmental deliveries, lively agricultural communities and balanced rural development. New breeding techniques would be part of this investment drive with a view to increase the profitability of the sector and reduce emissions per unit of output

- a **shift from a prescriptive CAP to a real results-based policy** on environment and climate change actions, that is complementary with the current greening criteria and based on the will of the farmers themselves. Producers having the choice to opt either for the existing policies or a result-based approach.

This would be a new paradigm for the CAP, with a tool based on quantifiable objectives, adjusted to the knowledge and technical capacities of farmers, and to the specificities of each farm.

A set of clear, well-defined and measurable environmental indicators should be established at EU level, and used as benchmarks to assess farmers’ action in implementing environmental friendly practices and techniques.

Smart & Precision Agriculture methods that show benefits for the sustainability of our food production system should be promoted in three ways:

- Including in the renewed CAP the priority of a **European programme for Smart and precision Farming.** The CAP must strongly support innovation on farms and in the food chain by focusing during this whole period on investments combining both economic and environmental competitiveness, by devoting an important part of the budget to it and by putting in place genuine training measures with incentive rates and European co-financing.

- At the same time, policies should provide **specific support** to those farmers, who are willing **to make the** **transition towards Smart Agriculture**.

This support would cover the initial extra-costs for farmers, associated with the knowledge transfers, investments and risks that are inherent to the adoption of new technologies.

- Finally, the possibility to establish a **mechanism for promoting Precision & Smart Farming practices** and new farming techniques. Such a mechanism should be simple, responsive, flexible and open to all the actors in the food chain, who implement the concept of Smart & precision Farming with a clear positive impact on the environment. In this new framework, implementing such new farming practices that answer to the sustainability objectives of the greening measures could automatically validate the good implementation of the so-called CAP requests, resulting in a reduction of administrative costs for both farmers them and public administrations.

To achieve these goals and build in details this European ambitious plan, Farm Europe is assessing for each of the main EU agri-sectors the need of investment in smart & precision farming methods, its cost and its outcomes in terms of environmental and economic benefits and the need of CAP financings in order to achieve the right balance between a rapid switch of the EU agricultures, public supports and entrepreneurial responsibility.

**Food Chain**

The lack of cooperation within the EU food chain is undermining the capacity of the sector to cope with the challenges posed by globalisation and investment.

The new deal should first reaffirm the prominence of the CAP over general competition rules. This principle should also be applied by national competition authorities.

Transparency should be improved, including when it comes to prices and volumes at first processing level and final consumer level.

Contractual relations should be encouraged on the basis of clearer rules, allowing collective contract negotiations at Producer Organisation level or by Groups of Producer Organisations.

In order to encourage cooperation among farmers and food producers, a branch approach for volumes and price negotiation should be explicitly authorised to guarantee a better repartition of the value when prices are going both up or down.

These mesures should be implemented bearing in mind that the relevant markets for the main agricultural products are more often at European rather than national or regional scale.

When it comes to Unfair Commercial Practices, a clear set of practices should be prohibited, with clear and dissuasive sanction mechanisms, fully securing the identity of the complainants**.**

In a context of fragmentation of the agricultural sector and a limited and very partial access for farmers to relevant information on market trends and the value of products, **the three pillars of the EU food chain do not act collectively**.

Increased price volatility since 2007 has fundamentally changed the rules of the game, due to the impact of harsh global price movements on the different actors in the food chain.

- During periods of falling prices, farmers represent the main shock absorber for the entire industry. They see their margins shrink rapidly, and this undermines their already fragile economic situation.

- Price declines are rarely passed on to consumers in the EU market, except in the case of highly perishable products such as fresh fruits and vegetables. Both processors and distributors thus benefit from the shock absorbing effect born by farmers, and can even benefit from some improvement of the margins for processed products on the EU market.

- When prices are rising, the ability of farmers to benefit from these surges depends on the nature of their agricultural products, and more precisely on whether they can be sold directly on the market or not. As such, when agricultural products need a stage of processing (e.g. sugar) or processing and packaging before they can be sold on the markets (e.g. milk), the capacity of farmers to pass price increases in the food chain seems limited, or involves long periods of delay.

In this context and without delay, initiatives should be taken by EU legislators to address this unbalanced situation. Not mentioning the importance of the regulation on Unfair Trade Practices, it is most urgent that legislators bring answers to each of the following necessary adjustments:

 - to foresee that Member States decide to make the use of **contracts compulsory** at the request of farmers, or their producer organisations. Indeed, the use of contracts helps to reinforce the responsibility of operators and to increase their awareness of the need to better take into account market signals, to improve price transmission and to adapt supply to demand. The use of contracts would help to avoid certain unfair practices, thus protecting farmers against abuses in the chain.

- to extend the provisions of the **dairy package** beyond 30 June 2020 as they appear to constitute a necessary foundation for improving the economic conditions of dairy farmers.

- to adopt a provision, which allows **Producer Organisations**, or their associations, to **collectively negotiate** terms, including price, with a processor or a purchaser, for some or all of their members' production. Their bargaining power vis-à-vis processors should be strengthened and it should result in a fairer distribution of added value along the supply chain.

- to allow **interbranch organisations** to negotiate agreements on value sharing clauses, including market bonuses and losses, as they might facilitate a better transmission of market signals and reinforce the functioning of the chain.

* to consider the EU as the appropriate geographical level for the definition of the **relevant market** provided for in Art. 207 of the single Common Market Organisation, as the application of common rules has led over time to a higher level of integration of agriculture markets.

**Territorial balance and economic sustainability:** focus and invest on**sectorial integrated strategies**

The ambition of keeping a dynamic agri-food industry all across the EU should be transformed into reality. Over the past 10 years, the competitiveness of the EU agricultural sector decreased. The total EU farm productivity growth dropped by 54% and capital productivity turned negative.

Europe must not limit its actions to a set of initiatives aiming at accompanying a slowing down of its farming sector. Neither should it accept to limit its ambition to an agriculture of conservation of the most fragile areas.

On the contrary, the European policy framework should focus on launching dynamic and targeted economic strategies to revive investment all across the EU food chain.

The economic dimension of the Common Agricultural Policy should be renewed. The Common Agricultural Policy is first and foremost an economic policy, and one of the fundamental aspects in this regard is to ensure the development of an efficient and sustainable agriculture across the whole territory of the European Union. Nevertheless, it is too often regarded as a policy that assists passively to the structural adjustment ongoing in the farming sector, rather that being a policy with a real economic ambition, especially when it comes to fragile and intermediate areas.

The European Union is diverse. It consists of some highly competitive areas on the world stage, but it also involves regions with a structural deficit in terms of competitiveness. Beyond the economic ambition for the CAP that should address the challenges of EU agriculture everywhere, including in the most competitive areas, specific tools must be mobilised for fragile and intermediate areas, otherwise they will be exposed to an inexorable decline in the number of farms and the level of production, with a chain reaction involving the processing industry, the tourism sector and other related jobs.

Coupled Payments and Less Favoured Areas Payments remain and will remain relevant as a solidarity tool. Nevertheless the budgetary transfer policy has shown its limits, and could hardly stop the haemorrhage of the farming sector in these deprived less favoured areas and intermediate areas, confronted with sharp competition.

First, there is no single answer to the competitiveness challenges. Myriads of measures already exist, which is perhaps in itself a part of the problem: this multitude should not lead to a dispersion of resources, which undermines the effectiveness of such measures and can even lead in some cases to decision-making that is far-removed from those who live locally on the land and work in the agricultural sector.

Second, consistency is key. Therefore, it is above all necessary to reflect on how we can improve governance to mobilise the necessary tools at the local level, in order to develop truly economic projects and a growth ambition for these areas.

For some regions, such as mountain areas, for some sectors, a policy focusing on quality and market segmentation may be the appropriate response to trigger economic development, allowing sectors not to be in direct competition on the European and global markets with the most competitive areas in terms of production.

Many success stories already exist across the European continent. New initiatives in terms of market segmentation might be useful, especially when it comes to the meat sector.

However, marketing and geographical indications cannot be the single answer.

For areas that do not have the necessary foundations to build a process of segmentation, further reflection is needed on strategies involving territorial and economic projects. These plans should put the will of the industry into action by mobilising resources as well as clear and straightforward tools to turn these plans into reality.

Development in a truly industrial spirit –« chain approach » – has been a success factor for the development of the sugar industry in productive areas. Meanwhile, in areas with a productivity gap, the development of the biofuels industry can be taken as an example, given its capacity to provide a stable demand for local agriculture while responding at the same time to the sustainability expectations of society.

In addition to that, at farm level, and for some areas, time has come to question the specialisation trend. We should explore a new highly efficient type of mixed crop and stock farm holding. Associated with agronomic knowledge and management of ecosystems, these renewal of diverse farms might be an efficient option. In other areas with lower income per hectare, whose immediate challenge is to resist to competition from well-performing regions, when all the models explored previously cannot bring satisfactory answers, the question of farm expansion via intensification or extensification in order to generate economies of scale should not be avoided as well, or at least it must not be hindered for ideological reasons.

In this context, the question of an improved governance of the use of CAP supports - both 2nd pillar’s ones and parts of 1st pillar’ ones - should be addressed in order to focus first and foremost on sectorial and/or regional new integrated strategies which could make the difference in terms of renewed sustainable growth and jobs, alongside with a CAP delivering on investments of double performance and resilience.