

OPERA CONTRIBUTION TO THE DEBATE ON THE FUTURE OF COMMON AGRICULTURAL POLICY AFTER 2013

POLICY PAPER

OPERA



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SUMMARY

Agricultural activity has a strategic role through its multifunctional contribution to the economy and the well being of the consumers and farmers, as well as through its role in the sustainable management of natural resources and combating climate change.

OPERA Research Centre contribution is divided in three major conceptual parts: *ensuring competitiveness of EU agriculture; appropriate use of EU's natural resources; achieving transparency of the food chain and market stability.*

Competitiveness of European Agriculture plays a crucial role in an open market, especially in the context of the WTO talks and their potential outcome. Proposals for the CAP reform must be carefully balanced with the need to maintain stable food prices and the economic vulnerability of farmers in the aftermath of the financial crisis.

EU production has yet to catch up with many imported products in terms of competitiveness. We need to ensure that EU farmers have access to similar tools of

production as their global competitors, and that the products imported into the EU market have to comply with similar production standards.

There is a strong need to reaffirm food production as a benefit for the society at a level which is perceived to be at least as important as other potential contributions by agriculture. Protecting natural resources is another benefit and its provision has to remain paramount.

Increasing productivity to face world food security has to be achieved in a context where agriculture can reduce its impact on resources. It is here where the agricultural research and development activities play a key role.

The new CAP has the chance to address four major problems faced currently by the agricultural research and development activities in Europe, to promote: horizontal coordination of research priorities; financial support to a level comparable with other competitors on the world market; business environment for the private research and public-private partnerships and delivery

mechanisms at farm level to increase the uptake of the results.

On the issue of competitiveness of the European farming, we have retained the following ideas:

- agriculture has to be perceived as a strategic sector due to its multifunctional role for the society;
- food security has to be acknowledged as a central preoccupation for society and for the CAP;
- strong action is needed to support research activities and their delivery in practice, so as to obtain their multiplying effect for the production of both food and public goods;
- protection of the environment and resources has to be incorporated in the future policy as well as ensuring that agriculture remains economically viable and is still able to produce public benefits;
- European farmers need to be have a level playing field with producers from other parts of the world in terms of tools available and standards;
- the objectives set for agriculture can not be reached without the corresponding budget.

Contrary to usual perception, an **appropriate use of resources** in productive cropping systems can support biodiversity at relatively low costs. Using the current available productive land more efficiently through supporting technological progress, agriculture can avoid the need for expansion into the remaining natural habitat that is vital for biodiversity and carbon storage, as would be the case with less productive lower intensity systems. It will also resist pressures on land occupancy from non-agriculture sectors.

Through multifunctional mitigation measures, like field margin management and simple agriculture practices, part of the sustainable agriculture production system,

protection and enhancement of biodiversity could be achieved. Biodiversity is one of the major topics of policy reflection alongside with water, soil and technology to better address the needs and challenges of tomorrow's agriculture.

EU should decide if it is appropriate to use its own resources in an efficient way to fulfill the food demand or if it continues to rely increasingly on external natural resources. It is worth noting that these decisions impact on the international commitments to contribute to global food security. Only a 0.5% annual increase in land productivity in the EU would lower arable land demand outside Europe by approximately 5 million hectares, whereas organic farming on 20% of all arable land in the EU would increase demand by additional 10 million hectares.

Free trade is important. However, productivity must be improved by countries specializing in the crops that they can produce most efficient and sustainable and the existing agricultural land has to be efficiently used. Low productivity production systems would only shift the pressure on the natural resources from other regions of the world. A prerequisite for productivity increase is, however, investment in R&D and the application of modern technologies.

Transparency along the food supply chain is vital. Price monitoring is the major tool to understand the markets so that we can improve on their transparency. Then, transparency can contribute market stability and subsequently farmers could be able to stay competitive in a rapidly changing environment.

Other structural problems of the food chain like the concentration of purchasing power and low bargaining capacity for the selling of agricultural products have to be addressed. Competition laws, of course play a central role in regulating these issues, legally as well as in the sense of discouragement of anti-competitive practices.

Cooperation on a variety of layers has shown to be an effective tool to boost the negotiation power of the agricultural sector with the rest of the food chain. CAP needs to develop pro-active mechanisms to promote cooperation and integration on the food chain. This is one possible solution to empower farmers to be able to manage a rapidly changing market, rather than trying to manage directly the market with the aim of limiting its fluctuations.

There is a strong necessity to provide clearer guidelines and frameworks to increase fluidity along the chain and to prevent those on top to make their own rules, as farmers are unable to communicate directly with the consumer.

The consumer who buys food at the supermarket often finds it difficult to conceptualize the value added throughout the chain and the farmer loses its value to the consumer. Price transparency is a prerequisite to ensure that consumers are aware what exactly are they paying for when buying a product. The next step in the evolution of the relation between producer and consumer is to create awareness that markets have to pay for additional – public – goods other than the tangible foods.

The transparency of the market and the proper functioning of its internal mechanisms are key to ensure appropriate stability. Transparency can be achieved if a number of elements are in place, like:

- real price formation mechanism;
- uniform production standards;
- guidelines for good commercial practices;
- guidelines for competition policy implementation;
- improved communication between producers and society or consumers.

The proper functioning of the market mechanisms require fluidity of trade flows, clearer competition rules, higher bargaining power for certain sectors in the food chain, support for cooperation initiatives, vertical integration, awareness on the compensation needed for delivery of public goods in the process of agricultural production.

OPERA Contribution in the debate on CAP after 2013

OPERA research centre through its series of events has brought together various stakeholders from all areas related to agriculture, to provide a valuable contribution to the most important concerns CAP is challenged in answering to society's needs.

By gathering experts from different countries and backgrounds, member states representatives, European institutions, decision makers, members of academia, NGO's to discuss and exchange ideas and experiences, OPERA can provide a contribution of real value to the debate on CAP.

Following the slogan "Food and Agriculture: a strategic sector in Europe", we stress the importance of a competitive and well-balanced agricultural sector in times of global economic crisis. We believe agricultural activity has a strategic role through its multifunctional contribution to the economy and the well being of the consumers and farmers, as well as through its role in the sustainable management of natural resources and combating climate change

Although the EU2020 strategy recovered the idea of agriculture as a profit sector and as a contributor to growth and employment, most Europeans do not see agriculture as a priority and the CAP is frequently criticized. European attitudes differ to those in the US, China and India, where food production is held in high importance.

The general European public perception that agriculture is a sector that takes the majority of the EU budget, along with additional pressure on financial resources due to the economic crisis, could adversely impact on

the possibilities to reach the objectives set for the CAP.

There is a strong need to reaffirm food production as a benefit for the society at a level which is perceived to be at least as important as other potential contributions by agriculture, for example, to combat climate change. The food crisis has attracted some attention to the importance of food production, but still further action needs to be taken.

Ensuring competitiveness of EU agriculture through the instruments of the CAP.

Competitiveness of European Agriculture plays a crucial role in an open market, especially in the context of the WTO talks and their potential outcome. Proposals for the CAP reform must be carefully balanced with the need to maintain stable food prices and the economic vulnerability of farmers in the aftermath of the financial crisis.

Observing the EU's competitors, it is becoming evident that the competitiveness of EU production has yet to catch up with many imported products. We need to ensure that EU farmers have access to similar tools of production as their global competitors, and that the products imported into the EU market have to comply with similar production standards.

The EU is expected to actively respond to the global demand of food in times of scarcity, raising the question on what instruments can be used to maintain the economic attractiveness of agriculture. The budget, of course, poses certain restraints, but the financial resources have to be allocated in order to progress towards the objectives set by society for agriculture.

When discussing the competitiveness of agriculture, the issue of protecting natural resources has to remain paramount. Increasing productivity has to be achieved in a context where agriculture can reduce its impact on resources. The tools to become more competitive also have to embrace the concerns of society on how its food is produced and what are the long term effects.

The supplementary costs created by observing the various standards of production to ensure environment and resources protection, as well as to ensure food safety, have to be taken into account in designing the instruments in the future CAP.

Moreover, mechanisms should be designed to boost consumer confidence in the EU products. The high standards on safety of the agricultural products originated in the EU have to be acknowledged by the consumer, who should be able to make a informed choice and to attach value to these products. This will allow that market compensation mechanisms develop to remunerate the efforts of the European farmers in providing safe and high quality products.

The Commission's economic strategy for 2020 identifies intelligent growth as one of the three directions for development. However the reality is that the sources for this growth are poor, due to the insufficient support of Research and Development activities throughout the EU. Intelligent growth in agriculture has to be linked to resource and knowledge dissemination, but the CAP still lacks efforts to deliver these services.

The new CAP has the chance to address four major problems faced currently by the research and development activities in Europe, to promote:

- horizontal coordination of research priorities across the EU and vertical coordination with the needs of the agricultural production;
- financial support to a level comparable with the resources employed in agricultural R&D by other competitors on the world market;
- creation of a business environment to promote private research and public-private partnerships, along with information campaigns to change the negative public perception on the results on technological development;
- delivery mechanisms at farm level to increase the uptake of the results.

Research and development now means providing farmers in the future with the tools to better meet the challenges of the world market as well as facilitating the delivery of public goods such as combating climate change and providing for water and soil protection.

Strengthening the market element through access to innovative services and production tools would also contribute to the aim of increasing competitiveness of the European agriculture.

Even where sufficient knowledge seems to be available, knowledge distribution to farmers, again, is the missing part; policy objectives and the reality on the ground do not match up. Another problem is the implication of the failure to coordinate research investment and efforts among Member States, as a result of the fragmentation across Europe.

The instruments to ensure farmer's incomes at a fair level, as compared with other sectors of economic activity, need to be further envisaged. The EU and society needs to confront the potential negative impacts of a concentration of production in some areas,

and abandonment of land in others in the absence of these instruments.

It has to be investigated further if it would be appropriate to devise objectives and policy instruments to enable a differentiated approach for the variety of farming systems existing in the EU, to enable farmers to stay in business and deliver benefits to society.

Appropriate to use of EU's own resources

The trade with other regions of the world is a reality and its positive effects on the economy can not be questioned, but the EU has to analyze if the trade balance is the right one. In that context, the EU should decide if it is appropriate to use its own resources in an efficient way to fulfill the food demand or if it continues to rely increasingly on external natural resources. It is worth noting that these decisions impact on the international commitments to contribute to global food security.

Contrary to usual perception, productive cropping systems support biodiversity at relatively low costs. Using the current available productive land more efficiently through supporting technological progress, agriculture can avoid the need for expansion into the remaining natural habitat that is vital for biodiversity and carbon storage, as would be the case with less productive lower intensity systems. It will also resist pressures on land occupancy from non-agriculture sectors.

Through multifunctional mitigation measures, like field margin management and simple agriculture practices (<http://www.opera-indicators.eu/eng/info/documents.html>), part of the sustainable agriculture production system, protection and enhancement of biodiversity could be achieved. Biodiversity is one of the major topics of policy reflection

alongside with water, soil and technology to better address the needs and challenges of tomorrow's agriculture.

Lately, the agricultural community often confronted with the fact that producing food in the necessary quantities and the right quality is taken for granted in EU. This means that society has lost track of the fact that achieving food security in EU is a continuous process to maintain and enhance the production capabilities.

A recent study commissioned by OPERA on "EU Agricultural production and Trade: Can more efficiency prevent increasing „land-grabbing“ outside of Europe?" conducted by Prof. Harald von Witzke, Humboldt University of Berlin (<http://www.opera-indicators.eu/eng/info/news/92.html>) presents for the consideration facts and figures about the reality of the agricultural trade of the EU with third countries.

More specifically, in the study the trade was accounted for, as surface of land traded by the EU to ensure that the demand on the internal market is satisfied. The traded commodity balance is translated in the corresponding number of hectares necessary for the production of the respective commodities.

The study points out that, in 2007/2008, the EU imported virtual agricultural land equivalent to the territory of Germany (ca. 35 million hectares) from other countries to fulfill Europe's demands for food, animal feed and bio-fuels for energy needs. This represents an increase of about 40% compared to 1999 and makes the EU the world's largest net importer of foreign agricultural land. In other words, the EU is the region "grabbing" the largest quantity of virtual land outside its territory.

To answer the question on efficiency increase to reduce “virtual land grabbing”, the study includes three scenarios assessing how changing technologies and policies might alter agricultural land trade of the EU. It turned out that only a 0.5% annual increase in land productivity in the EU would lower arable land demand outside Europe by approximately 5 million hectares, whereas organic farming on 20% of all arable land in the EU would increase demand by additional 10 million hectares. Achieving the EU’s biofuel mandate would increase arable land demand by approximately 3 million hectares compared to the situation in 2007/2008. It thus becomes clear that policies need to be formulated to reduce the EU “land grabbing” outside its territory.

The results of the study are not a plea for protectionism, free trade is important. Rather, productivity must be improved by countries specializing in the crops that they can produce most efficient and sustainable and the existing agricultural land has to be efficiently used. Low productivity production systems would only shift the pressure on the natural resources from other regions of the world. A prerequisite for productivity increase is, however, investment in R&D and the application of modern technologies.

Lack of investment in agricultural research and in transfer of technologies has obviously negative effects for the developing world. Support for the research and development activities is needed to provide farmers with a choice of tools. Then, farmers will decide to invest more in their production and to take up new solutions to improve their production systems once they have the economic stability. It has to be ensured that the investments are covered by a corresponding increase in return since farming is still a business.

Efforts should be undertaken to support developing countries in continuously striving for improvement of their production. There is also still room for improvement to optimize resource management in the EU. A structured support to promote innovation and technological development will also contribute to reaching this target. Public private partnerships could play an important role in advancing agricultural R&D and its implementation at farm level.

With regard to the closely related matter of competitiveness of the European agriculture, a level playing field has to be created for the indigenous products and for those imported. Further pressure on farming and without sufficient tools for productivity increases the EU will be relying increasingly on external resources with negative social and environmental consequences.

The virtual transfer of resources into the EU should be compensated through transfer of knowledge and technologies as well as direct investment in the agricultural production in third countries.

Transparency of the food chain and market stability in the future CAP

From consumer perspective, the price fluctuations in agricultural commodities did not immediately translate into the same price changes for food producers and eventually for consumers. One of the possible causes is that the trade flows to self-regulate supply and demand are affected by significant differences in the standards applied by the different authorities at national level. Or, as farmers complain, unjustified requirements with no supplementary benefits to the consumer, are forced upon them disturbing the technology application with serious effects on productivity and costs.

Transparency along the supply chain is vital. Price monitoring is the major tool to understand the markets so that we can improve on their transparency. Then, transparency can contribute market stability and subsequently farmers could be able to stay competitive in a rapidly changing environment.

The liberal trading environment which has been building up for some decades already requires also from the future CAP an appropriate response. Old mechanisms, implemented in times of overproduction, work today against the interest of the producers. The new policy has to provide sufficient flexibility in the mechanisms so that a rapid reaction is possible when exceptional situations arise in the markets.

Other structural problems of the food chain like the concentration of purchasing power and low bargaining capacity for the selling of agricultural products have to be addressed.

Competition laws, of course play a central role in regulating these issues, legally as well as in the sense of discouragement of anti-competitive practices. It has become evident that usable guidelines over competition policy are needed to clarify these aspects and also to act as a catalyst for associates to enter into forms of cooperation that have been deemed unattractive in the past.

Cooperation on a variety of layers has shown to be an effective tool to boost the negotiation power of the agricultural sector with the rest of the food chain. Cooperatives are one, though by far not the only, possibility for farmers to cooperate among one another (horizontally) or with the other segments along the supply chain through the integration of production (vertically). In whatever shape, cooperation remains at the core to improve their bargaining position and simplify the supply chain.

Cooperation might be the solution to farmers' weak negotiating powers in comparison with big supermarket chains. Their weak position could be explained through the neglected understanding of an unrealized potential of operating at their own strength. Cooperatives are not the sole key to a stronger position – there are many ways of cooperating to reap the benefits.

CAP needs to develop pro-active mechanisms to promote cooperation and integration on the food chain. This is one possible solution to empower farmers to be able to manage a rapidly changing market, rather than trying to manage directly the market with the aim of limiting its fluctuations.

There is still very little dialogue between farmers and supermarkets, many products on our shelves are processed already which makes it difficult to ensure that the agricultural producers are aware how to deal with their purchasers. In any case it is felt that guides of good commercial practices would prevent that the margins of profits are unevenly distributed on the food chain.

There is a strong necessity to provide clearer guidelines and frameworks to increase fluidity along the chain and to prevent those on top to make their own rules, as farmers are unable to communicate directly with the consumer.

The consumer who buys food at the supermarket often finds it difficult to conceptualize the value added throughout the chain and the farmer loses its value to the consumer.

Price transparency is a prerequisite to ensure that consumers are aware what exactly are they paying for when buying a product. Transmitting such information to final consumers would generate also a positive

impact on the society's image of the agricultural sector.

The next step in the evolution of the relation between producer and consumer is to create awareness that markets have to pay for additional – public – goods other than the tangible foods.

Such payments generated by the market together with the public support needed to compensate for public goods of general interest, not attributable to the production of a certain product, are critical for farmers to withstand price volatility.

Managing price volatility in European agriculture is paramount. Often the competitive advantage gained by the farmers through their farm investment in technologies and improving their techniques is quickly eroded by the price variations and additional burdens exerted on the agricultural production.

Momentarily, there is no system in place to manage prices along the chain which leads to the thought of establishing stronger supply control at the farm level. Strict supply control, however, is not the only way to stabilize the market.

Market stability can be the result of the combination of a number of factors. Cooperation, long term contracts, insurance systems in place and the use of technologies stabilize the yields can have a positive impact on market stability and should be taken into account in the new CAP.

To convince farmers to keep their professions in order to guarantee a continuingly successful rural development, the issue of stabilizing the market is crucial. This way, not only the competitive farmers, but also all the others, can stay in business.