

Opinion of the Economic and Social Committee on 'A policy to consolidate the European agricultural model'

(1999/C 368/21)

On 25 February 1999 the Economic and Social Committee decided, in accordance with Rule 23(3) of its Rules of Procedure, to draw up an opinion on 'A policy to consolidate the European agricultural model'.

The Section for Agriculture, Rural Development and the Environment, which was instructed to prepare the Committee's work on the matter, adopted its opinion on 28 September 1999. The rapporteur was Mr Strasser.

The Committee adopted the opinion set out below at its 367th plenary session (meeting of 21 October 1999) by 76 votes to 5, with 15 abstentions.

1. Introduction

1.1. Europe has developed its own forms of community life and ways of balancing various interests and settling disputes; these patterns have been moulded by history and cultural mindsets. A number of European states have managed over many years to reconcile political and personal freedom, economic dynamism and social cohesion. The social market economy — increasingly been fleshed out by environmental aspects in recent years — has played a fundamental role in achieving this success. The term 'European model' has rightly been coined.

1.2. The European agricultural model — like the European social model — also forms part of Europe's approach to social and economic policy. The European agricultural model reflects a policy which touches on fundamental questions that are important to society as a whole. On the basis of this policy, the EU should continue to ensure that farmers are in a position to fulfil a sustained multi-functional role, even in a changing economic environment. This will involve a considerable challenge to both farmers and those responsible for establishing agricultural policy.

1.3. Because of natural and structural factors, agricultural production conditions in the EU vary tremendously. There are nonetheless a number of common features, brought about by the shortage of space, the needs of the people and the historical and cultural background. The European agricultural model is based on these features and has the following fundamental functions and characteristics:

- an agriculture that is basically characterised by family farms and by co-operation, for instance in the form of co-operatives;
- an agriculture that is strongly marked by the initiative and entrepreneurship of the producers, i.e. it is also competitive;
- an agriculture that is geared to the principle of sustainability, i.e. the conservation of natural resources which are vital to life, biological diversity and the avoidance of practices that involve costs for future generations;

- an agriculture that is multi-functional, i.e. that is concerned with other things in addition to production, such as conservation of the countryside, settlement areas, jobs and the environment.

The European agricultural paradigm is thus based on several fundamental, carefully balanced functions that are to be carried out by farmers. These functions are economic, spatial, environmental and social.

1.4. At its meeting on 18 November 1997, the Council of EU agricultural ministers expressed the firm will 'to continue developing the existing model of European agriculture and to act to assert its identity both inside and outside the European Union'. It was also stated in the Council's conclusions that:

'In the Council's view, European agriculture as an economic sector must be versatile, sustainable, competitive and spread throughout Europe (including the less-favoured and mountainous regions). It must be capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and must be able to respond to consumer concerns and demands regarding food quality and safety, environmental protection and the safeguarding of animal welfare.'

1.5. The Heads of State or Government also expressed support for the European agricultural model at the European Council in Luxembourg in December 1997, at which they underlined their desire 'to continue developing the present European model of agriculture while seeking greater internal and external competitiveness'. They pointed out that: 'European agriculture must, as an economic sector be versatile, sustainable, competitive and spread through European territory, including regions with specific problems'.⁽¹⁾

1.6. The concept of a 'European model for agriculture' was the leading theme at the Congress of European Agriculture

⁽¹⁾ Presidency conclusions; SN 400/97, p. 14, 13 December 1997.

in Ljubljana in October 1998. At this congress the big organisations representing European farmers and the representatives of EU agriculture ministers and the EU Commission not only expressly supported the European agricultural model but also stated that they were firmly determined to promote and defend this model⁽¹⁾.

2. Major differences in the structure of enterprises and production conditions

2.1. Huge differences exist within the 15 EU Member States between production and economic conditions, the type and structure of production, but above all in the structures of holdings. Large parts of the EU (a total of 56 %) fall into economically disadvantaged areas with sometimes enormous disadvantages in terms of location, as in upland regions, Arctic regions or particular coastal regions.

2.2. The ESC points out that over the last 50 years EU agriculture has undergone a process of adjustment of unparalleled scope. Technical progress and increased labour costs have brought about an unprecedented level of substitution of capital for labour⁽²⁾. This has gone together with an increase in agricultural yields and productivity which is without equal. Because of these increases, the prices of agricultural products in the last 40 years have not even risen half as fast as the retail price index. Today's EU consumers must now spend, on average, barely 14 % of their incomes on food, instead of a third⁽³⁾.

2.3. Adjustments and structural change are bound to accompany economic change and economic growth. This fundamental principle applies equally to agriculture and downstream activities. There are however also a number of constraints on structural change in EU agriculture which have to be borne in mind when making comparisons with, for example, north and south America or Australia. These constraints include:

- much denser population levels overall in Europe, which means that agriculture, the countryside, nature and the environment have to meet other claims;
- the fact that, in many cases, the structure of the agricultural industry has evolved over a period of many centuries;
- in many cases, agriculture in upland areas does not permit large-scale farming operations;
- society generally does not endorse agriculture unless sufficient attention is paid to protecting nature, the environment and the countryside;
- other ethical values place tighter constraints on animal husbandry;

(1) Report on the 1998 Congress of European Agriculture published by the ECA (European Confederation of Agriculture), Brussels.

(2) In the 1960s more than 30 % of the total number of persons in gainful employment in some EU Member States were working in agriculture. The average figure for the EU is now barely %. Source: Eurostat.

(3) Source: Eurostat.

- strict rules on production;
- sometimes strict regulations on the transfer of landed property and/or limitations arising from spatial planning measures.

2.4. Support for the European agricultural model implies recognition of the fact that an agricultural structure undergoing continuing change still has to ensure that agriculture fulfils its multi-functional role. Any short-term benefits generated by savings in production costs must not be paid for in the form of sectoral disadvantages, disadvantages to national economies and disadvantages for society in the longer term.

2.5. As is the case with the other sectors of industry and commerce, EU agriculture also has to contend with higher costs for a number of reasons, including the following factors:

- higher wages and salaries overall;
- higher prices for some inputs;
- higher energy prices;
- the possibilities offered by new production techniques and processes (e.g. genetic engineering) and the processing of inputs (e.g. the addition of hormones to animal feed) cannot all be exploited;
- additional costs incurred as a result of higher environmental, health, animal and nature conservation standards.

The ESC points out that although the problem of higher costs affects all industrial and commercial activities, a number of points have to be borne in mind. In the case of agriculture, producer prices are determined by the lowest price on the respective markets to a greater extent than is the case with high-value industrial products. Furthermore, the fact that society wishes agriculture to be multi-functional is bound up with the fact that agricultural production is tied to the land; any relocation of all or part of production to low-wage countries or countries having low environmental or labour-law standards would therefore have far-reaching consequences for the EU.

3. Multi-functional role of European agriculture

3.1. This section of the present opinion, addresses the issue of the multi-functional role of European agriculture only insofar as is strictly necessary, since the ESC is focusing on this issue in a separate opinion on 'environmental priorities for the multi-function agriculture of Agenda 2000'. The multi-functional approach and the European agricultural model are inter-dependent. The Committee would also refer here to its opinion on support for rural development⁽⁴⁾.

3.2. The role of agriculture in society has, in the ESC's view, changed radically in Europe in recent decades. Protection of the natural foundations of life, the wish for an attractive

(4) OJ C 407, 28.12.1998.

man-made landscape and safe food have gained in importance compared with agriculture's role in respect of production and quantitative security of supply.

3.3. In contrast to the situation in the large agricultural exporters overseas, farming in the EU Member States combines several functions at the same time on the same stretch of land, and is expected to do so by society. In the recital to the reform of the CAP⁽¹⁾ the European Commission points out, among other things, that the fundamental difference between the European model and the model adopted by the EU's principal competitors lies in the multi-functional role of European agriculture and the role which it plays vis-à-vis the economy, the environment, society and the conservation of the countryside; it is therefore essential to maintain agriculture in Europe and to safeguard agricultural incomes.

3.4. Meeting at ministerial level on 6 March 1998, the OECD's Committee for Agriculture reached agreement, after lengthy discussion, on the goal of promoting a multi-functional agriculture. The ESC sees this outcome as a positive step forward⁽²⁾. At the meeting 'there was a broad consensus that OECD Member governments should provide the appropriate framework to ensure that the agro-food sectors' fulfils, inter alia, the following objectives:

- provides consumers with access to adequate and reliable supplies of food;
- contributes to the sustainable management of natural resources and the quality of the environment;
- contributes to the socio-economic development of rural areas;
- contributes to food security at the national and global levels.

3.5. The costs of the services that a multi-functional agriculture is expected to provide today used to be offset more or less adequately through the price of products. With the deregulation of agricultural markets and falling prices for agricultural products, this is becoming less and less possible. The ESC therefore calls for the costs of services undertaken for the public good, but not remunerated by the market, to be offset — as a matter of principle — by direct payments geared to particular tasks. And for these in future to be an integral part of the CAP. In addition, solutions should be sought in which direct beneficiaries — such as the tourism industry — make a contribution.

4. What consumers and society expect from agriculture and the CAP

4.1. With growing environmental consciousness, more calls for healthy food and changing leisure patterns, farmers have to deal with a widening spectrum of claims, wishes and

expectations. This entails an increasing demand for services which can only be met if the necessary remuneration is provided.

4.2. But European agriculture is also expected to be more competitive on domestic and world markets. Greater linkage of producer prices to world market prices is expected by the processing industry, the food trade and consumers. However, such expectations are increasingly in conflict with stricter demands regarding land management, stockfarming and food production methods.

4.3. The ESC calls for farms to be given a fair opportunity to meet the growing demands of society and the tougher production requirements. This call is addressed to the leading figures in the fields of agricultural policy, the processing industry and the food industry, who cannot expect to receive the highest quality at the lowest market price. The call is also addressed, above all, to consumers, who are in a position to promote particular forms of production through their purchasing patterns.

4.4. An intact countryside, an environment worth living in and the maintenance of rural populations are increasingly being looked upon as important resources of rural areas. Conflicts sometimes arise when farmers are called upon to provide the requisite services, particularly when they involve restrictions on agricultural production.

4.5. The ESC recognises that there is a conflict between some of the expectations which agriculture or the CAP are expected to meet; such contradictions are difficult to resolve. On the one hand — quite understandably — requirements are constantly being stepped up with respect to environmental protection, animal welfare, quality standards and public health. On the other hand, agriculture has to contend with equally strong pressure for increased competition on the markets for agricultural products and for a reduction of expenditure on the CAP. The ESC thinks there is a vital need for a systematic information campaign to make the public realise that higher costs cannot always be offset by greater efficiency but have to be reflected in producer prices or compensated for in other ways. It also needs to be pointed out that services provided for the public good do not come without a price-tag.

5. European agriculture faces increasing pressure of competition

5.1. The ESC recognises the essential role played by the international trade in goods and services and the free market in improving the level of prosperity; industrialised states cannot exist without participating in these activities. This general principle also applies to agriculture. The critical consideration is that competition between individual states and between continents has to be fair. It is essential to lay down binding rules for ensuring fair conditions of competition

⁽¹⁾ COM(1998) 158 final — OJ C 170, 4.6.1998, p. 93.

⁽²⁾ Communiqué issued after the meeting of the OECD's Committee for Agriculture on 6.3.1998.

in trade in agricultural products if markets are to be opened up further with a view to stepping up trade; such rules must cover aspects such as standards in respect of the environment, animal welfare and labour law.

5.1.1. The EU is by far the world's leading importer of agricultural products and is the second largest exporter of agricultural products. In 1996 the EU accounted for 14,6 % of worldwide exports of agricultural products (excluding intra-Community trade)⁽¹⁾ and 19,8 % of worldwide imports. Expressed in absolute figures, the total value of EU imports of agricultural products in 1996 was \$ 83,9 billion and EU exports of agricultural products to third countries totalled \$ 62,2 billion. The ESC interprets these figures as implying that (a) EU agriculture is taking on international competition in a much more resolute way than has been widely perceived to have been the case up to now and that (b) there can be no question of sealing off the EU markets. In its opinion on agricultural aspects of the Commission's Communication on Agenda 2000⁽²⁾ the ESC pointed out that the EU 'already has the most open market in the world'.

5.1.2. The markets for agricultural products clearly number amongst those in which competition has already been more or less unrestricted for many years, especially since the completion of the single market. As a result, farm-gate prices are in many cases under constant pressure but producers have become more market-orientated and therefore more competitive at international level.

5.2. The Uruguay Round brought about a quantum leap in the liberalisation of international trade in agricultural products. It did, however, also sharply reduce room for manoeuvre in shaping agricultural policy. These restrictions affect not just external protection but also conventional export incentives and internal measures. The ESC is aware that EU agriculture will face even stiffer competition as a result of eastward enlargement and the forthcoming round of WTO trade talks.

6. New challenges facing EU agriculture

6.1. Under Article 20⁽³⁾ of the agriculture agreement concluded under the GATT Uruguay Round, Member States agreed to continue the phased reduction of aid and protection measures one year before the expiration of the implementation period (the commitment entered into under the Uruguay Round). Article 20 of the WTO agriculture agreement does not, however, make it absolutely clear what steps should be taken to bring about further liberalisation in the forthcoming round of WTO trade negotiations and the scope of such steps.

(1) Source: 1997 report on the situation of agriculture in the EU.

(2) OJ C 73, 9.3.1998, p. 71.

(3) WTO 1994 agriculture agreement; article 20 of this agreement provides, inter alia, for a review of the impact of the Uruguay Round and sets out the objective of introducing a fair, market-orientated system in respect of trade in agricultural products.

6.1.1. The EU is one of the champions of a new comprehensive round of trade negotiations at the WTO. It takes the view that the Millennium Round should cover, inter alia, the following areas, in addition to agriculture: trade in services; investment rules; a multilateral framework agreement on the application of competition rules; trade and the environment; and technical barriers. The situation as regards the interests of the different states varies considerably. It is likely that this fact, too, will make the negotiations over trade in agricultural products particularly difficult. The differences of opinion between the states belonging to the Cairns Group and the USA, on the one hand, and the European states, Japan and Korea, on the other hand, over fundamental aspects of agricultural policy have intensified, thereby further aggravating the situation. Two different approaches lie at the heart of the conflict. The first group of states calls for a rigorous dismantling of aid and across-the-board liberalisation of trade in agricultural products. The second group of states advocates action to ensure that agriculture remains both sustainable and multi-functional and therefore champions retention of a necessary degree of external protection or specific agricultural measures. Given this initial situation, the Commission and the governments of the Member States will have to make considerable efforts (a) to defend legitimate interests of EU agriculture and (b) to safeguard the general conditions in respect of agriculture which will enable the industry to continue to play its multi-functional role.

6.1.2. After taking a decision on CAP reform the European Council in Berlin issued the following declaration:

'The efforts made, notably in terms of reducing support prices, represent an essential contribution by the European Community in stabilising the world's agricultural markets. The European Council considers that the decision adopted regarding the reform of the CAP within the framework of Agenda 2000 will constitute essential elements in defining the Commission's negotiating mandate for the future multi-lateral trade negotiations at the WTO.'

The ESC would draw attention to its opinions on CAP reform which also addressed issues of the forthcoming round of WTO trade negotiations. In its opinion on the agricultural aspects of the Commission's communication on Agenda 2000⁽⁴⁾, the ESC urged the EU 'not to jettison external protection where it is necessary' at the forthcoming WTO trade negotiations and stressed the need 'to introduce world-wide environmental and social standards'.

6.2. The ESC has closely followed the work of the EU on concluding bilateral or regional free-trade agreements. The Community is under tremendous pressure to include agriculture in such free trade provisions. In this context, however, a critical stance should be adopted over the issue of the extent to which free-trade provisions which include agriculture can be reconciled with the goal of safeguarding the European agricultural model. Attention is also drawn to the fact that farmers in a number of developing countries, too, will be placed under enormous pressure as a result of a further liberalisation of international trade in agricultural products agreed at the WTO or free-trade agreements.

(4) OJ C 73, 9.3.1998, p. 71.

6.3. Enlargement of the EU to include the CEEC poses enormous political and institutional challenges for the EU. Eastward enlargement of the EU is also a particular challenge for EU agriculture. The ESC has expressed its views in detail on this matter in several opinions, in particular its opinion on the impact on CAP of the accession of the CEEC⁽¹⁾.

6.3.1. Together with the issues of the environment, freedom of movement for individuals, services and nuclear safety, agriculture is one of the problem areas in the context of EU enlargement to include the CEEC. The impact on both sides will be far-reaching. The actual effect on the EU markets for agricultural products, WTO commitments and the EU budget will depend to a substantial extent on a number of factors, including the following:

- the date when the first of the CEEC join the EU;
- the form and period of validity of transitional arrangements (e.g. for the granting of market organisation premiums);
- in what form and to what extent the quantitative regulations (quotas, reference quantities, etc.) will apply;
- whether, and to what extent, alternative products in the field of renewable sources of energy or renewable raw materials for industrial purposes can be developed.

6.4. According to UN estimates, world population will increase from the current figure of some 6 billion to approximately 8 billion over the next 20 years. This is bound to lead to a sharp increase in the demand for food. The fact that a series of states lack the wherewithal to pay is a problem which has to be borne in mind here.

EU agriculture should also take advantage of the opportunities provided by a world-wide increase in demand; increased demand should not, however, be exploited at any price.

7. A policy to consolidate the European agricultural model

7.1. The ESC sees no contradiction between maintaining the European agricultural model and the need to bring European agriculture into line with the changing economic situations. Farmers will, however, have to meet major challenges and particular demands will also be placed upon the CAP. The ESC sees a policy to consolidate the European agricultural model as fulfilling a need to strengthen a generally desired paradigm for agricultural policy and to develop it further by means of concrete political measures. This will however only be possible if the EU and the Member States are able to retain the necessary agricultural policy leeway after the coming round of trade negotiations at the WTO.

7.2. If we are to draw the correct conclusions for the future, we must first answer the question as to the extent to which the CAP has promoted the goal of safeguarding the European agricultural model and the extent to which the recently reformed CAP can fulfil this task. In particular, the question arises of how, against the background of increasing competition, a multi-functional agricultural sector can continue to provide the various services.

7.3. 1992 CAP Reform

7.3.1. Throughout its history, the CAP has constantly been adjusted to bring it into line with changing situations. The first comprehensive reform was carried out in 1992 with the following objectives, among others:

- to keep on the land a sufficiently large number of farmers to safeguard the environment and the 'family-farm' model;
- to curb production sufficiently to re-establish balance on the markets;
- to introduce extensification;
- to promote competitiveness and efficiency in the EU agricultural sector in order to enable EU agriculture to play its role on the world markets.

7.3.2. The ESC addressed the impact of the 1992 CAP reform in an earlier own-initiative opinion⁽²⁾. In this opinion, the ESC noted, among other things, that some of the objectives, such as reducing surpluses, better targeting of environmental requirements and the stabilisation of incomes to a certain extent had been achieved. The ESC was, however, critical of the failure to halt the trend towards further concentration of agricultural production which was leading to an on-going loss of jobs in agriculture. The observations made by the ESC in its own-initiative opinion at the beginning of 1997 have been borne out by subsequent developments. The decline in the number of both agricultural holdings and jobs has continued at approximately the same rate (an average of 3,7 % per year) as was the case before the CAP reform.

7.3.3. One clear benefit has been that the post-reform trend in farm incomes has turned upwards. It must, however, be borne in mind that, in spite of the sharp increase in direct payments in the wake of agricultural reform, the improvement in the net product per worker⁽³⁾ has largely been brought about as a consequence of the exodus from the land. Attention is also drawn to the fact that the discrepancy between agricultural and non-agricultural incomes remains high on average.

⁽²⁾ Opinion on the Stocktaking of CAP reform, OJ C 89, 19.3.1997, p. 39.

⁽³⁾ Net product at factor costs = gross product at market prices less depreciation, taxes and subsidies.

⁽¹⁾ OJ C 75, 10.3.1997, p. 4.

7.3.4. The European agricultural model involves a variety of functions. In the light of the current problems which sometimes affect the multi-functional role of agriculture, such as the disproportionate percentage of older farmers, the wholesale abandonment of farming in individual regions and damage to the environment brought about by agricultural production, it is clear that the current general background does not sufficiently meet the need to safeguard the European agricultural model. The ESC would, however, point out that this is not just the fault of the CAP; the policies pursued by the individual Member States when implementing EU market-organisation measures and aid programmes must also bear a share of the blame.

7.4. 1999 CAP Reform

7.4.1. The reform measures agreed upon in Berlin will start to come in effect next year. Despite the fact that the reforms were not as extensive as had been proposed by the Commission, their impact will be clearly felt, even in the medium term.

7.4.2. The price reductions agreed upon will, make EU agriculture more competitive vis-à-vis rival producers in third countries; these reductions will, however, herald yet a further drop in farm income from the sale of agricultural products. The role played by direct payments as an element in farmers' incomes will therefore increase still further in significance. In many cases, however, direct payments are failing fully to carry out their role of providing compensation. It is, though, vital for farms to cover their costs if they are to have an economic future.

7.4.3. The granting of direct payments is — or may be — tied to the fulfilling of additional conditions. This will engender more red tape and may lead to a situation in which only part of the available direct payments can be taken up.

7.4.4. The decision taken in Berlin to freeze expenditure on the CAP, in real terms, at 1999 levels until the year 2006 means that there is very little financial leeway for fulfilling the various tasks. This will, in the ESC's view, have an impact in particular on the second pillar of the CAP, namely the policy for the development of rural areas. The ESC fears that ultimately it will be impossible to achieve the praiseworthy objective of sustainable development in rural areas — as has already been pointed out in the ESC opinion on reform/funding of the CAP (Agenda 2000) ⁽¹⁾.

7.4.5. The Council of Agriculture Ministers and also the Heads of State or Government wanted the reforms to meet the new challenges facing EU agriculture and to enact the principles laid down at the Luxembourg summit. The ESC does, however, fear that the squeezing of agricultural incomes will increase significantly and there will be more pressure to achieve further concentration.

7.5. *The CAP must support individual initiative and encourage competitiveness*

7.5.1. The agreement of the Heads of State or Government on CAP reform fixes the conditions governing agricultural production for at least the next few years. In the light of the forthcoming round of trade negotiations at the WTO, the expected pressure for further liberalisation and the eastward enlargement of the EU, there will be an ongoing debate on the CAP or its key elements.

It is, however, vitally important to arrive at a basic consensus on the need to take a number of specific agriculture measures to safeguard the European Agricultural Model and/or a multi-functional agriculture.

7.5.2. As pointed out in the introduction, the European Agricultural Model involves the provision of particular services by the farming community. As there is no doubt that the public in the EU Member States want to maintain a multi-functional agricultural sector, it is clearly essential to ensure that those working in agriculture enjoy an adequate standard of living, in accordance with Article 33 of the EC Treaty.

7.5.3. The ESC believes that farmers will in future be called upon, even more than has been the case in the preceding decades, to:

- react in good time to changes in market conditions and to exploit new marketing opportunities;
- make use of the opportunities provided by technical progress to the extent that it is required for achieving optimal production levels, observing the principle of sustainability and meeting environmental requirement;
- bring down production costs and improve their market position by engaging in industry-wide co-operation, perhaps in the form of co-operatives;
- increase added value through product diversification, the provision of quality products and the targeted exploitation of market opportunities;
- take on extra jobs outside the farm if reasonable opportunities arise.

A further objective for agricultural measures at EU or national level must be to support individual initiative.

7.5.4. If EU agriculture is to provide the multi-functional services expected of it, it is essential (a) to apply new CAP instruments, such as insurance against crop failure and loss of income and (b) to continue to pursue a price and market policy based on the three key components of the CAP, namely the single market, Community preference and financial solidarity.

⁽¹⁾ OJ C 407, 28.12.1998, p. 1156.

7.5.5. It has already been stated repeatedly that promotion of competitiveness and efficiency is a key component of the European agricultural model. Farmers must exploit existing scope for becoming more competitive. Competitiveness is not, however, merely a matter of price. The quality, image and origin of agricultural products also play a role.

Consumers expect more information about the type of production, origin and quality. The labelling and traceability of food is becoming more and more important. Anyone who measures up to these expectations has a chance of sidestepping the growing price competition (also caused, in particular, by concentration in the food industry) and getting more for their products. The possibilities in respect of product designation provided by the EU provisions on the protection of geographical indications and designations of origin⁽¹⁾ and certificates of specific character⁽²⁾ should also be exploited; it is vital to remove any administrative barriers and reduce any financial burdens which may be placed upon applicants for such product designations.

7.5.6. Major scientific progress and progress in agricultural technology have opened the way to tremendous gains in efficiency which would not have been credible some decades ago. It is not just farmers who have benefited from this development. Consumers and society in general have also benefited as such progress was a key prerequisite for increased general prosperity. In the ESC's view EU agriculture should continue to be able to exploit new technological developments, in particular in the field of biotechnology. We must, however, ensure that environmental requirements and the expectations of society with regard to agriculture are not disregarded; at the same time it is essential to make sure that competitive disadvantages caused by restrictions are avoided or offset. Whatever happens, it is necessary for Europe to make greater efforts in agricultural research for the development of future-oriented technologies. Such efforts are also necessary in the interests of greater self-reliance.

7.5.7. Appropriate provisions will have to be introduced to meet requirements in respect of nature conservation, the environment, animal welfare, product-quality and public health. When necessary, these will have to be constantly updated, for example in the light of new findings. As is explained in point 2.5, most of the stricter EU rules on production may generate considerable competitive disadvantages for farmers in the EU. With the increasing globalisation of agricultural trade, this should be taken into special consideration. In addition, in order to ensure fair terms of competition within the EU's internal market, all Member States must apply comparable quality, environment and animal-welfare standards.

(1) Regulation (EEC) No. 2081/92 of the Council of 14.7.1992 on the protection of geographical indications and designations of origin in respect of agricultural products and foodstuffs (OJ L 208, 24.7.1992, p. 1).

(2) Regulation (EEC) No. 2082/92 of the Council of 14.7.1992 on certificates of specific character for agricultural products and foodstuffs (OJ L 208, 24.7.1992, p. 9).

The ESC therefore takes the view — as it has already done repeatedly in its opinions — that, key standards for agriculture should be safeguarded by internationally-binding rules, in order to rule out otherwise insuperable distortions of competition. When introducing new rules governing agricultural production or adjustments to bring it into line with new knowledge and conditions, it is essential to follow the principle of only doing what is objectively necessary.

7.6. *Basic market regulation objectives must remain in place*

7.6.1. The ESC believes that the production of agricultural goods for the market must continue to represent the essential source of income for farmers and is therefore a vital element of the European model. Markets in agricultural products are particularly susceptible to price fluctuations. Large price fluctuations often send misleading signals to the market, lead in stages to major losses and — in the longer term — are not advantageous to consumers⁽³⁾. Regulation of the market therefore provides a safety net. But it should not be allowed to distort markets. In the long term agricultural production must be geared to market conditions.

7.6.2. It has to be recognised however, that, just as has been the case in the past, market regulations will periodically have to be adjusted to accommodate changes in marketing conditions and terms of competition. This must not however, result in key components of the organisation of the markets, such as import or intervention regulations and proven instruments for managing supply, being dropped.

7.6.3. It is likely that, apart from some exceptions and cases of particularly favourable market situations, EU farms will continue to be unable to match world market prices for agricultural products on a sustained basis (see the observations made in sections 2 and 4 above). The multi-functional role of European agriculture will, on the other hand, acquire increased overall social importance in the future. Since existing differences in production conditions will also basically remain the

(3) In the European Commission's study entitled 'Towards a common agricultural and rural policy for Europe' (European Economy No. 5/97), compiled by expert agricultural economists, the following factors are cited as justification for public measures to stabilise markets for agricultural products:

- a high degree of risk given its dependence on weather and exposure to pests and diseases (which strike locally);
- exposure to interest rate and exchange rate risk (which affect the whole sector — but which may diminish post-EMU);
- a spatially-diffused, atomistic structure of many small businesses, which have a high proportion of immobile assets, which restricts freedom of manoeuvre;
- a moderately long gestation period involved in the production cycle;
- producers who have, individually, insufficient resources and information easily to manage the risk;
- the responsibility to supply products consumed by every citizen every day.

same in the future, and other or stricter requirements will be laid down for EU agriculture, the ESC feels that adequate external protection will continue to be necessary.

If and when external protection is reduced, it is vital to safeguard the multi-functional role of agriculture, by ensuring adequate payment — through a corresponding increase in direct payments — for, in particular, public welfare services provided by farms and thus ensure their continued existence. These facts must be borne in mind not only at the WTO trade talks but also in EU negotiations with third countries and groups of states on free trade agreements.

7.6.4. The ESC calls upon the Commission to do everything possible to ensure that the forthcoming WTO trade negotiations address not only a further reduction in external protection but also — with a view to establishing fair terms of competition — the obligation upon all WTO member states to observe minimum environmental and labour-law standards, as urged for instance in the ESC own-initiative opinion on the World Trade Organisation (WTO).⁽¹⁾ To the extent to which progress can be made in establishing binding rules for fair trade in agricultural products, a case can also be made for further liberalisation of international trade.

7.6.5. The EU public demands food which is both safe and of high quality, and urges action to safeguard the public, animal and plant health and animal welfare. EU agriculture has to take increasing account of these demands which are increasingly being enshrined in EU law. The Committee welcomes the Commission's intention to include these matters in the negotiations, as key issues. The aim must be to take steps (a) to prevent strict EU provisions from being rendered meaningless by imports from outside the EU which distort competition as they do not have to comply with similarly strict requirements and (b) to prevent whole areas of production being jeopardised. All states must be authorised to act on major matters of concern to consumers in the respective states. The Committee takes the view that one way to achieve this aim would be through the application of the 'precautionary principle' (Article 5.7 of the SPS (sanitary and phytosanitary measures) Agreement, on the basis of a uniform risk assessment procedure used by all WTO member states, as suggested by the Commission.

7.6.6. The ESC thinks that further moves towards liberalisation should be differentiated according to the situations and requirements of the different production sectors. In addition, provision should be made for currency fluctuations. In the ESC's view it is absolutely essential to extend the peace clause beyond the year 2003. The same applies to the special protection clause in Article 5 of the WTO Agreement on Agriculture.

7.6.7. In a world market characterised by division of labour, exports play a vital role. For the reasons set out in several paragraphs above, export refunds will continue to play a

certain role as an instrument of market regulation. The aim, however, is to conclude international agreements which reduce all kinds of export supporting measures as much as possible in order to establish fair conditions of competition on the international markets. The ESC does however urge that:

- EU agriculture make every effort to exploit the advantage of being able to provide home-grown products for its own markets which meet all the expectations of the consumer (thereby reducing the dependence on exports);
- export opportunities be exploited, particularly in the case of products in respect of which (a) EU agriculture or the EU processing industry enjoy comparative advantages, (b) there is strong worldwide effective demand and (c) exports are in part possible without export refunds;
- supply-management instruments be used not only to ensure that existing WTO commitments are adhered to but also to rule out exports at rock-bottom prices;
- in EU export policy for agricultural products, attention should also be paid to the different situations of agriculture in the target countries, especially the developing countries.

7.6.8. There are likely to be especially significant disagreements over the question of export support measures in the forthcoming round of trade negotiations at the WTO. Although Article 10(2) of the WTO Agreement on Agriculture unambiguously refers to export credits and export credit guarantees as export subsidies, it fails to lay down any rules for these instruments. It was planned to reach an agreement on those rules in the course of the implementation phase of the Uruguay Round but no agreement was reached. In the course of the forthcoming round of trade negotiations no new restrictions must be placed on export support measures unless agreement is reached on rules for export credits and export credit guarantees. In view of the fact that internal EU prices will normally continue to be higher than world market prices, no agreements must be entered into on the phasing out of export support measures.

7.7. *Linkage of direct payments*

7.7.1. The multi-functional role of European agriculture includes services which in earlier times were reimbursed — to a more or less satisfactory extent — through income from sales of products. This is now becoming less and less the case and, as a result, direct payments are forming an ever more important part of agricultural income. Although direct payments are important, they can play only a supporting role in view of the fact that farmers are businessmen, producing goods for the market, who should derive a substantial part of their income from the sale of products.

7.7.2. The 1992 CAP reform represented a major step towards extending direct payments; this approach is now being continued and stepped up. It is vitally important for farmers — not least in respect of the roles which they perceive themselves to have — that these payments should not constantly be the subject of political debate, that the purpose of the direct payments be clearly spelled out and that their survival be guaranteed in the relatively long term.

⁽¹⁾ OJ C 101, 12.4.1999, p. 43.

7.7.3. The ESC expressly supports the principle of linkage with regard to direct payments and the provision of lasting assurances as to the continued application of this increasingly important CAP instrument. A distinction must therefore be drawn between:

- direct payments in compensation for public-interest services on which no market price can be placed;
- direct payments in compensation for price reductions, to the extent that this can be established;
- direct payments in compensation for ongoing natural difficulties which cannot be altered.

In view of the fact that the above principle has not been fully adhered to in Agenda 2000 reform, the ESC believes that there are likely to be damaging consequences, at least in the longer term.

7.7.4. In the interests of securing widespread acceptance of the scheme, the ESC would draw attention to the need to provide adequate justification for direct payments. However, in view of the fact that the conditions for claiming direct payments are constantly being tightened, and bearing in mind that the number of farmers fulfilling these conditions is decreasing, the question arises as to whether the direct-payment scheme is still in the position to meet the original objectives.

It would clearly not be conducive to fulfilling these objectives if excessively strict eligibility conditions were imposed which (a) made it harder to overcome problems of adjustment and (b) stood in the way of improved international competitiveness. It is also essential to ensure that — as is the case with other aid measures — direct payments are administered as efficiently as possible and that excessive red-tape is avoided.

7.7.5. The acid test for the EU will be the extent to which it will manage to defend the CAP reforms at the forthcoming round of WTO trade negotiations. The Commission has given repeated assurances that the amended or new premiums payable under market regulations are in accordance with the 'blue box' requirements and will be vigorously defended to ensure their survival in the longer term. In the ESC's view, it is absolutely vital to safeguard these payments as the 'blue box' approach to supply-management has proved successful. Equally, the 'green box' needs to survive, as 'green measures' have become more important, have little impact on trade and are essential as a tool for reimbursing the discharge of certain obligations by agriculture.

7.7.6. Since 1992 there has been a growing trend in the CAP towards cutting expenditure on price-support measure and extending direct payments by way of compensation; this trend makes farm incomes increasingly dependent upon budgets. The ESC would stress the need to guarantee the financial backing for direct payments in the longer term in order to provide farmers with the necessary security.

7.8. Rural development policy

7.8.1. Integrated rural development measures, the second pillar of the CAP, are of considerable importance. These measures essentially involve bringing together the earlier supporting measures (environmental programme and forestry measures), structural measures covering agriculture (former objective 5a), and the earlier aid programmes restricted to particular target areas.

7.8.2. Combining the measures in this way is, in the ESC's view, a good idea as it makes it possible to pay greater attention to the planned objective of strengthening integrated rural development policy, with particular attention being paid to agriculture. Rural development policy fulfils a vital role but it cannot take the place of conventional CAP instruments. The ESC deplors the fact that the proposed funding merely keeps pace with the previous level of expenditure. It is essential to provide a higher level of funding in order to meet the real requirements, particularly as regards ensuring the multi-functional nature of agriculture throughout the EU.

7.8.3. The market position of EU farmers will have to be strengthened and, above all, marketing and processing enterprises, in which co-operatives have a decisive role to play, will have to be competitive if they are to cope with the growing pressure of competition. The support measures in this field set out in the Regulation on rural development have an important role to play here. The ESC trusts that this regulation will be implemented in a purposeful and effective way and also takes the view that targeted marketing is a key way to strengthen position on both the internal market and on the markets of third countries. One essential objective must be to enable farmers to add more value and increase the use of local resources in the regions — thus bringing about a lasting improvement in the economic viability of rural areas.

7.8.4. The CAP reform expands the compensatory payment scheme which is important to farmers in less favoured areas. This is the one instrument that makes a fundamental contribution towards safeguarding farming in these areas. This proven, virtually undisputed direct payment is designed to provide compensation for ongoing natural disadvantages. The ESC calls for this principle to be maintained and to be kept separate from other CAP objectives.

7.8.5. In the ESC's view, agriculture's role as a food producer is also of vital importance with a view to maintaining a widespread agricultural industry in less favoured regions and ensuring that farms in these regions fulfil a multi-functional role. The ESC therefore calls for appropriate specific measures to be taken to maintain production, even under difficult conditions. Such measures are required in particular in the case of products to which there are scarcely any alternatives, such as milk production and cattle and sheep-farming in specific regions.

7.9. *Supplementary and alternative sources of income and employment for farmers*

7.9.1. It is not a new phenomenon for farmers to diversify in order to secure an income from a variety of sources. Such diversification is particularly pronounced in a number of individual Member States as a result of existing structures and local conditions. The decline in income from farming affecting a large number of agricultural enterprises, and also personal expectations as regards income, are frequent reasons why farmers look for additional sources of income.

7.9.2. Additional sources of income can help agricultural enterprises to become economically secure. A key focal point of rural development programmes must be the promotion of employment in general and the creation of additional opportunities for earning a living and supplementing income for farmers and their family members. The ESC supports this strategy but, with an eye to its effective implementation, it calls for the removal of legal restrictions and obstacles. Financial aid alone will not be sufficient to achieve the planned objectives.

7.10. *The challenge of providing renewable raw materials*

7.10.1. One important role of agriculture and forestry since time immemorial has been to supply energy products and raw materials, in addition to food and animal feed. Biomass is becoming more and more important as a renewable raw material. Farmers are able to step up the production of biomass as a raw material to a considerable extent. Such an undertaking should not be regarded solely as part of the multi-functional role of EU agriculture; it would also do much to protect the environment, promote employment and, above all, strengthen the European agricultural model.

7.10.2. Biomass is being used to an increasing extent as an alternative raw material in a number of industries. A variety of plant-based raw materials are, for example, used in the chemical industry (as alternative ingredients in detergents and printing ink) or in vehicle construction (vegetable fibre). Given the existing problems of waste disposal, increased use of vegetable starch as a raw material in the packaging industry is particularly important. The Committee regards this as a very positive development and therefore calls for it to be purposefully promoted, bearing in mind the ecological aspects.

7.10.3. Under the Kyoto Protocol⁽¹⁾ the EU undertook to cut greenhouse gas emissions by 8 % of the 1999 level in the course of the period from 2008 to 2012. In line with this commitment, the European Commission's White Paper on Energy for the Future — Renewable Sources of Energy⁽²⁾ foresees that the use of renewable sources of energy will be doubled, from 6 to 12 % of overall energy production, by the year 2010. Biomass has a key role to play here.

(1) Kyoto Protocol to the UN Convention of 11 December 1997 on Climate Change.

(2) COM(97) 599 final of 26.11.1997, Energy for the Future — renewable sources of energy: White Paper for a Community strategy and action plan.

7.10.4. In addition to its important environmental role, the increased use of biomass in energy production also has a considerable impact on employment. The above-mentioned Commission White Paper (and the TERES II Study⁽³⁾) foresees the possible creation of 500 000 jobs (net figure) by 2010.

7.10.5. The ESC calls for appropriate regulatory measures to be introduced, in addition to adequate financial support for the production of biomass as a renewable raw material. The aim is to facilitate the use of biomass in, for example, energy production and as a material. Such measures could include:

- improving the competitive position of renewable energy sources vis-à-vis fossil fuels; a number of Member States have already introduced tax measures for this purpose;
- EU-wide rules on the use of bio-fuels, bearing in mind the ecological and economic aspects;
- promoting greater use of electricity and heat generated from the renewable source biomass;
- abolition of the limitations on oil seeds under the Blair House agreement;
- abolition of administrative barriers against field crops for non-food purposes.

The ESC also urges that research be stepped up into ways of making biomass more competitive vis-à-vis fossil fuels and into developing new ways of using biomass, perhaps in the chemical or vehicle manufacturing industries.

8. Conclusions

8.1. The European agricultural model should be seen as part of an autonomous social and economic policy that for some decades now has been characteristic of European countries. It should be understood as a policy model for an agriculture which is characteristically based on family farming, is geared to economic, social and ecological sustainability and is in a position to provide the various services desired by society, i.e. which is multi-functional.

8.2. The ESC is aware of the importance that the European Commission, the member governments and European farmers' organisations explicitly attach to the European agricultural model. But however positive such recognition may be, what counts at the end of the day is the extent to which this recognition is actually reflected in policy.

8.3. Attachment to the European agricultural model must not be seen as incompatible with the need for farmers to adapt to constantly changing economic conditions, for farms to be competitive and for production to be geared to market needs.

(3) TERESS II, European Commission, 1997.

8.4. But one fact should be beyond dispute: the European agricultural model is the decisive precondition for continuation of the multi-functional role that society expects from agriculture. An agriculture that is geared solely to international competitiveness cannot fulfil these demands.

8.5. The ESC sees a 'policy to consolidate the European agricultural model' as a vehicle for the concrete measures needed to buttress the generally accepted model for agricultural policy. The aim is to provide the various services of a multi-functional agricultural sector, even in the teeth of ever-increasing competition.

8.6. Competitive, efficient farming is a key component of the European agricultural model. The ESC assumes that in the future farmers will be asked — even more so than in the past — to exploit existing opportunities to improve competitiveness and avail themselves of marketing openings and additional scope for gainful employment or income; individual initiative must be given adequate support in this context. Technical progress is however also a vital prerequisite for efficiency gains. There is, however, in the Committee's view, a case for awarding an appropriate form of compensation only a) when competitive disadvantages are incurred by farms as a result of the imposition of restrictions on environmental or ethical grounds or in the wake of demands made by society and (b) when the competitive disadvantages cannot be offset by higher prices.

8.7. Given the production situation in the EU Member States, it is not possible for agriculture to meet its multi-functional remit under world market conditions. Market organisations, targeted direct payments, agriculture-related structural measures and aid programmes for rural areas have an indispensable role to play. Appropriate compensation must be offered for services rendered.

8.8. European agriculture must remain geared towards production. It must be able to provide good, unblemished foodstuffs. It is again securing an increasingly important role as a source of non-food raw materials. It must operate in an environmentally sound and sustainable way and must also be in a position to deliver the desired services undertaken for the public good. It must meet different requirements from, say, American agriculture, and it has to hold its own under relatively expensive conditions. This implies a continued need, for appropriate external protection, and retention of other important elements of market organisation.

Hence, endorsement of the European agricultural model makes it essential not to call into question the major features of the CAP at the forthcoming round of WTO trade negotiations. A key principle should be that further international trade liberalisation is justifiable only insofar as progress is made on establishing binding rules for fair terms of competition in international agricultural trade.

Brussels, 21 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI
