

**Opinion of the European Economic and Social Committee on the 'Reform of the common agricultural policy in 2013' (own-initiative opinion)**

(2010/C 354/06)

Rapporteur: **Mr RIBBE**

On 16 July 2009 the European Economic and Social Committee, acting under Rule 29(2) of the Rules of Procedure, decided to draw up an own-initiative opinion on the

*Reform of the common agricultural policy in 2013.*

The Section for Agriculture, Rural Development and the Environment, which was responsible for the Committee's work on the subject, adopted its opinion on 25 February 2010.

At its 461st plenary session, held on 17 and 18 March 2010 (meeting of 18 March), the European Economic and Social Committee adopted the following opinion by 163 votes to five, with five abstentions:

## **1. Conclusions and recommendations**

1.1 The Committee is very concerned about the ongoing and ever-growing gulf between the lip-service paid to the European agricultural model and a multifunctional approach on the one hand, and the reality of day-to-day farm life on the other. The European agricultural model, which is now more than ever under threat from current developments must therefore be supported and promoted in an even more determined and targeted way by a strong Common Agricultural Policy

1.2 Farmers are under great pressure from markets – often through low or strongly fluctuating prices – to adapt by specialising and rationalising their businesses. These processes could lead to a problematic regional concentration and to the abandoning of farming in disadvantaged regions. Given this pressure to adapt, the EESC considers it absolutely crucial that CAP funds be used in the future to maintain and develop everywhere a multifunctional agriculture geared towards sustainability objectives.

1.3 The Committee is clear on one thing: it is not enough to focus solely on boosting competitiveness to serve the global market. The post-2013 CAP must be driven not by lowest-price, specialised production concentrated on specific regions and geared exclusively towards optimum economic output, but by the European agricultural model, which must be based on the principles of food sovereignty, sustainability and the real needs of farmers and consumers.

1.4 This in turn requires different parameters for agricultural policy, as the multifunctionality that is desired here cannot be achieved under world market conditions or at world market prices.

1.5 The Committee urges the Commission, the Council and the European Parliament to start by setting out in unequivocal terms the precise aim of the CAP, followed by an indication of the tools needed to achieve it and the requisite cost involved. Only once that is done should the financing issue be addressed. The Committee feels it is wrong to assign a specific sum to a specific field of activity first and only then to divide it up

between individual measures and among individual Member States.

1.6 Under the treaty, one of the CAP's aims is to stabilise markets. Stable markets are important. For this reason, the EESC thinks it important to continue using market instruments in the future to secure stable prices and avoid strong price fluctuations. However, measures designed to regulate markets or safeguard producer prices have been reduced to a minimum, and the EU agricultural markets are some of the most open vis-à-vis third countries. This is the root of many of the difficulties, which, in the long run, cannot be offset by transfer payments alone.

1.7 Agriculture policy is, therefore, about more than allocating money. Farmers rightly expect to secure a fair income from the sale of their products on the market and as remuneration for the services they provide to society under the European agricultural model.

1.8 The production and marketing of high-quality products that reflect the region and the diversity of rural areas in the EU should thus also be promoted and supported, encouraging short distribution routes and giving farmers or amalgamated producers more direct access to consumers, in order to make farms more competitive and contend with wholesalers' superior bargaining position. The diversity and distinctiveness of European products should also be preserved through the provision of useful consumer information.

1.9 A key task of the reform will be to transform the EU's current diverse agricultural support arrangements into a uniform system, underpinned by objective criteria and accepted by society.

1.10 Payments to farmers can no longer be based on past decisions or entitlements, but, instead, are to be deemed compensation for specific services that are provided to society in order to maintain the European agricultural model and that are not reflected in market prices. They must therefore be target-based.

1.11 There is no justification for a European flat-rate per-hectare payment, not least given the major structural and agro-climatic variations, the major differences in national and regional average earnings, the stark discrepancies in input and production costs and the disparate nature of the services provided by different farms and farm types in order to maintain the European agricultural model. Instead, appropriate solutions must be found that reflect the regional conditions and farm types involved.

1.12 The rural development programmes need to be further developed and made as effective as possible. We firmly reject any transfer of tasks of this kind to general structural or regional policy. That said, the Committee does believe that measures under the current EAFRD should bear a clear relation to agriculture. That does not include road building or broadband cabling.

## 2. Task at hand

2.1 In 2010, the European Commission will be submitting a communication on the future shape of their political priorities and the future financial framework from 2014 on. The communication will also contain details of the direction of Community policies such as the CAP and the Structural Funds.

2.2 The purpose of this own-initiative opinion is to set out some **basic considerations** from organised civil society on the future shape and direction of the CAP. The aim is to give the Commission appropriate arguments and recommendations on which to draw when drafting the communication.

## 3. Point of departure: the European agricultural model – Europe’s paradigm for agricultural policy – is under threat

3.1 What society expects of agriculture has changed tremendously. For some time now, it has been about more than simply meeting the objectives of Article 33 of the EC treaty (which have been incorporated unchanged into the new Lisbon treaty), such as increasing productivity to ensure adequate food supplies at ‘reasonable’ prices.

3.2 New challenges have emerged, such as biodiversity protection, broad-based cultural landscape preservation, rural development including the creation and safeguarding of jobs, and the notion of regional products as cultural assets. Moreover, the farming sector is also having to come to terms with the impact of climate change, and make due contributions to the storage of carbon dioxide.

3.3 As a result of the global hunger crisis and the difficulties on the energy markets, other key remits of a locally based (i.e. regionally anchored) agricultural sector are increasingly coming to the fore, including food security and food sovereignty, and energy supply.

3.4 Food security must be a basic and universal human right. While complete self-sufficiency is not essential, the aim should be to attain the maximum possible level (i.e. food sovereignty).

3.5 Agricultural production frequently reflects an element of culture and regional identity, and foodstuffs may symbolise the distinctive traits and historical realities of the countries and regions concerned. While food could in theory be imported, cultivated landscapes, biodiversity and the cultural dimension can only be maintained through a pro-active approach to agriculture run along traditional lines. These assets cannot be imported. Foodstuffs therefore must be viewed in a completely different light from, say, industrial goods, where costs largely determine where those goods are produced.

3.6 The ‘sustainable economy’ debate has thus now reached the farming sector. Policymakers use the term ‘European agricultural model’ to denote a kind of farming that is consistently geared towards sustainability objectives.

3.7 The EESC feels that the maintenance and ongoing development of the European agricultural model, in other words multifunctional agriculture run along ‘traditional’ lines<sup>(1)</sup> across the EU, in which farmers’ incomes are comparable to national and/or regional average earnings, is the key to maintaining – everywhere and on a sufficient scale – high-quality, regionally varied, ecologically sound food production that keeps Europe protected and properly tended, safeguards the diversity and distinctiveness of the products concerned and fosters Europe’s diverse, species-rich cultural landscapes and rural areas.

3.8 The Committee would stress that major differences already exist – even in Europe – between multifunctional agriculture and a form of farming that has to (or is supposed to) gear itself primarily to globalised and liberalised markets.

3.9 The Committee is very concerned about the ongoing and ever-growing gulf between the lip-service paid to the European agricultural model and a multifunctional approach on the one hand, and the reality of day-to-day farm life on the other.

3.10 One reason for this is that European farmers, whose remit is not merely to produce, but also to play a multifunctional role in rural areas, face tasks that in the first place cost them money without actually earning them any, since market prices for agricultural products simply do not include services performed by the farming sector as part of its multifunctional remit.

3.11 Hence, for their very financial survival, farms today are forced to engage in all manner of activities to boost their productivity. In this way, almost by stealth, the EU is gradually moving away from the European agricultural model, with an observable trend towards more industrialised farming. Production patterns are emerging that signal a growing ‘Americanisation’ of European agriculture, while many farms that could have played an important role in helping maintain the multifunctionality of agriculture are having to shut up shop completely.

<sup>(1)</sup> The term used by the rapporteur (*bäuerlich*) does not refer to farm size, but describes how the farmer works and thinks: organised in interconnected, complementary cycles as close as possible to the farm, geared to maintaining skilled and varied jobs, linked to the municipality and region, with a sense of responsibility towards nature and animals, and thinking on a time-scale of generations.

3.12 The extent of such developments varies widely within the different branches of farming and also from region to region. Huge momentum has been building up over the past few years, with some places experiencing nothing short of structural upheavals: in 2008 alone, for instance, the German *Land* of Lower Saxony saw the closure of 20 % of its pig farms – despite no change at all in the actual number of pigs being fattened.

3.13 There is no knowing where this development will end. It has been clear for some time now that, as has already happened in industry, entire sectors of European production may conceivably be lost. The first to be affected might well be the poultry sector, which is already highly industrialised – more so than virtually any other area. One of Europe's biggest businesses, the French poultry group Doux has relocated a number of its sites from France to Brazil, where production costs are lower.

3.14 This shows that, ultimately, even sustained productivity growth is no guarantee that European agriculture will survive in unregulated globalised markets – just as it has never been able to guarantee the practice of farming Europe-wide.

3.15 The Committee would stress that highly concentrated production makes the European farming sector more vulnerable to crises.

3.16 One hallmark of the European agricultural model is a conscious decision to accept lower productivity – which naturally puts farmers at a competitive disadvantage. Yet, that is precisely what is wanted both at a political level and by society at large. The reason for that is that the European public has a different perception from that espoused by some non-Europeans of the use of GMOs, hormones and growth stimulants and of moves to tackle salmonella or keep the countryside intact. However, such internationally high expectations of the production side clearly involve costs that cannot simply be shunted onto farmers alone.

3.16.1 It is, therefore, of the utmost importance that border control mechanisms be strengthened through health guarantee protocols that help determine traceability and safety and ensure that products banned in the EU are not used, imposing the same requirements on both Community and imported products.

3.17 Europe's policymakers thus face the task of sustaining a farming sector that cannot join every move to boost productivity, yet still has to provide a sufficient income for farm owners.

3.18 The European agricultural model cannot be bought under world market conditions and at world market prices. It is illusory to seek an agricultural sector that:

- is able to produce under (often distorted) world market conditions in all European regions;
- at the same time meets all the production expectations (in terms of quality, safety, protection of natural resources, animal welfare, etc.) while coping with European costs;

— and also secures a modern and attractively remunerated labour market that is marked by high standards of employment, safety, and basic and further training.

3.19 The European agricultural model is, therefore, now more than ever under threat from current developments and for that reason needs to be supported and promoted by a strong CAP.

#### 4. Agricultural policy after 2014: a strategic decision on the future direction of the CAP

4.1 Although the Common Agricultural Policy has partially undergone fundamental changes and reforms on a number of occasions in the course of its history, a new reform debate – post 2000, 2003 and 2008 – is again taking place. This is an indication that, thus far, not all societal questions relating to the CAP have been answered in a satisfactory way. This is why the Common Agricultural Policy is repeatedly lambasted and even its very existence to some extent questioned. In the EESC's view, a radical market orientation of agriculture is evidently to be ruled out if we take the European agricultural model seriously.

4.2 Stakeholders should not only address this social debate (as indeed they must), but should also tackle it head-on. This is the opportunity to drive home to society just why agriculture occupies such a special position. Sustainably managed farming and livestock breeding in line with the European agricultural model form the backbone of food supply in European society and are a sector of strategic importance for sound land-use management and planning, the conservation of the countryside, care for the environment and the fight against climate change.

4.3 In the first instance, the Committee feels it is absolutely vital to secure agreement within society about the future shape of Europe's farming sector, in other words the basic yardstick that is to underpin agricultural policy. To put it somewhat bluntly: is it the aim of the CAP to defend and develop the European agricultural model or to focus on getting ever fewer, ever more specialised, regionally concentrated, state-of-the-art farms in shape for ever sharper global competition to secure the cheapest prices?

4.4 The Committee is clear on one thing: it is not enough to focus solely on boosting competitiveness to serve the global market. The post-2013 CAP must be driven not by lowest-price, specialised production concentrated on specific regions and geared exclusively towards optimum economic output, but by the European agricultural model, which must be based on the principles of food sovereignty, sustainability and the real needs of farmers and consumers.

4.5 The European agricultural model can only remain viable if multifunctional farming is made more competitive vis-à-vis agricultural production geared towards optimum economic output alone. This must become a key task for the CAP and the leitmotif of farming policy tools – as a result of which the support structure is set for substantial change. Any further dismantling of control instruments would run counter to this requirement.

4.6 The Committee urges the Commission, the Council and the European Parliament to start by setting out in unequivocal terms the precise aim of the CAP, followed by an indication of the tools needed to achieve it and the requisite cost involved. Only once that is done should the financing issue be addressed. The Committee feels it is wrong to assign a specific sum to a specific field of activity first and only then to divide it up between individual measures and among individual Member States.

4.7 The EESC notes that discussions on the focus of the post-2013 CAP must take account of the fact that a sixth of all jobs in Europe are related directly or indirectly to agricultural production. The CAP therefore has an important role to play in guaranteeing employment in the EU, especially in rural areas. If agricultural production as such disappears, then the related jobs in the upstream and downstream sectors – including the food industry – will disappear too. Furthermore, farming manages around 80 % of the EU's territory and plays a major role in the sustainable use of resources, the conservation of natural habitats, biodiversity, etc. It has an increasingly important role to play in combating climate change.

## 5. A wide-ranging package of farming measures

5.1 The market is familiar with prices, but is virtually devoid of values. The prices secured by farmers are increasingly skewed towards the most favourable global production conditions and costs. The European agricultural model, on the other hand, is very much predicated on values that are not reflected in world market prices.

5.2 Under the treaty, one of the CAP's aims is to stabilise markets. Stable markets are important. For this reason, the EESC thinks it important to continue using market instruments in the future to secure stable prices and avoid strong price fluctuations. However, measures designed to regulate markets or safeguard producer prices have been reduced to a minimum, and the EU agricultural markets are some of the most open vis-à-vis third countries. This is the root of many of the difficulties, which, in the long run, cannot be offset by transfer payments alone.

5.3 Agriculture policy is, therefore, about more than allocating money. Farmers rightly expect to secure a fair income from the sale of their products on the market and as remuneration for the services they provide to society under the European agricultural model.

5.4 If society wants to defend the European agricultural model, then it must give it support through agricultural policy. For its part, the farming sector will have to accept that, in providing that support, society is also looking for delivery on what it expects multifunctional agriculture to achieve.

### 5.5 Trade/markets and market organisation

#### Volatile/stable markets

5.5.1 As regards markets and pricing, at least three different types of problem should be considered and solved:

- increasingly volatile markets and a trend towards falling producer prices;
- the ever-growing market clout of the processing and marketing sector vis-à-vis producers; and
- clear problems in the marketing of local, regional and premium products. Specific legislation is therefore needed for farming geared towards local and regional markets.

5.5.2 The absence (to a large extent) of any effective market stabilisation tools has been conducive to speculation and market volatility. That however runs counter to the EU's current and former treaties.

5.5.3 Major price fluctuations tend to reduce the producer's share of the value chain and increase the marketing margins.

5.5.4 Consumers too draw little benefit from such developments, as the past few years have shown: the 40 % fall in sugar beet prices has had virtually no impact on consumer prices, and it is a similar story for the big drops in the price of milk and grain.

5.5.5 Past experience shows that regulatory interventions – involving the right measures at the right time – are, from an economic perspective, more cost-effective than rectifying damage at a later stage.

5.5.6 As the milk crisis makes clear, it is impossible to cut regulation of the market and of production levels to a minimum without jeopardising the high production standards and multifunctionality the public expects.

5.5.7 The risk attendant on the expiry of the milk quota system is that many milk producers, particularly in less favoured regions, will simply quit – which in many cases is tantamount to the complete abandonment of farming activities in the area concerned. It is doubtless true that milk for consumption in, say, Estonia can be supplied more cheaply by other, more productive regions of Europe than by local operators. But shifting production in this way to save on costs is the exact opposite of what the European agricultural model is supposed to achieve. The Committee advocates an agricultural policy that makes farming based on the principles of food sovereignty possible everywhere. To reiterate: this cannot be achieved by financial transfers alone and the markets and production therefore need to be regulated.

5.5.8 Market stabilisation, including putting in place a 'safety net', must therefore be one of the key tasks of CAP reform.

5.5.9 The Committee is therefore keen:

- not only that that small number of market stabilisation measures that remain should be retained and brought into play when required by the market, but also that new approaches to market stabilisation that are consistent with WTO rules should be developed and introduced;
- that, given the growing number of imponderables on the international agricultural markets, appropriate strategic steps be taken to store agricultural products in readiness for future crises;
- that consideration should also be given using producer organisations and/or sectoral agreements to help stabilise markets.

#### Problems in the food chain

5.5.10 Pricing negotiations are out of kilter, with farmers facing what they see as unfair contractual practices as a result of food wholesalers' superior bargaining position.

5.5.11 In line with free-market thinking, the market alone currently determines the key issue of who gets what share of the value chain. This works to the detriment particularly of those farmers who, even though unit costs are in many cases on the increase, often still face ever-decreasing producer prices and are often forced to respond with measures that run counter to the aims of the European agricultural model.

5.5.12 Since 77 % of the EU-27 food market is already controlled by just fifteen commercial chains, the Committee feels that, as is currently happening in the USA, consideration should be given to whether competition law is enough to prevent the emergence of market dominance and questionable contractual practices. It is important that all stakeholder groups be involved in this exercise. This study should lead to changes in Community competition laws governing the agri-food sector to ensure that account is taken of its specific characteristics, adapting these laws to those in the countries with which the EU's competes on the global markets, as concluded by the High-Level Group on Milk.

5.5.13 The Committee expects the Commission to act to make pricing more transparent and to put forward solutions to avoid the phenomenon known as 'asymmetrical pricing' <sup>(2)</sup>.

#### Marketing local, regional, speciality and premium products

5.5.14 The large food retail chains and major processors demand ever more uniform, virtually standardised, cheap primary products. This leaves little room for regional and product diversity.

5.5.15 In fact, however, the production and marketing of premium products to reflect the specific traits of a particular

region and the diversity of rural areas in the EU is a key task in maintaining the European agricultural model. This aspect therefore needs to be given much more solid support. Shortening distribution routes and giving farmers or amalgamated producers more direct access to consumers can help boost the competitiveness of smaller, more labour-intensive farms in particular.

5.5.16 Much greater attention needs to be paid to geographic indications and differences in production techniques than has been the case in the past. These must be seen as an 'intellectual property right' and protected accordingly. Such information can tie specific agricultural products to specific regions, so that, in other words, the products concerned not only have a 'definite' place of origin, but also specific 'quality' features that have become apparent over time. It is important to have a clear definition of what is meant by regional products.

5.5.17 Product labelling is at present exposed to many misleading and dubious practices. For instance, in future, it should no longer be allowed

- for milk packaging to show pictures of grazing cows when the milk it contains comes from non-grazing animals; instead, a more nuanced approach to the market must be fostered (ranging from schemes to support milk from grass-fed or pastureland cows to regional marketing strategies by producers or small cooperatives); or
- to advertise using regional indicators although the goods in question were produced elsewhere.

5.5.18 Market transparency and consumer information (such as origin labelling) need to be improved and monitored. To raise awareness of the rules under which European farmers must operate, consumer information campaigns must be launched on European production systems. Particular importance should also be accorded to the labelling system. In this context, the Committee thinks that account should be taken of the recommendations made in its opinion on the provision of food information to consumers (NAT/398) <sup>(3)</sup>.

5.5.19 In future, tax revenue should be invested primarily in strengthening regional products and markets.

#### 5.6 CAP financial tools

##### The current position

5.6.1 As things stand, there is no uniform system of agricultural support in the EU: in the EU-15, there are single payments which are either based on past entitlements or are moving in the direction of a uniform flat-rate per-hectare payment. In the EU-12, a direct per-hectare system was put in place, albeit payment levels are below those of the EU-15.

<sup>(2)</sup> When producer prices increase, consumer prices shoot up rapidly. When producer prices fall, consumer prices come down only slowly.

<sup>(3)</sup> OJ C 77, 31.3.2009, p. 81.

5.6.2 Individual farmers thus benefit to very differing degrees from the current payment practice. For one thing, this is often felt to be unjust and, for another, it is virtually impossible to make the system readily understandable to taxpayers.

5.6.3 A key task of the upcoming reform must be to develop a uniform system based on objective criteria and accepted by society.

5.6.4 First-pillar direct payments were initially warranted by the 1992 cuts in guaranteed prices. They continued until 2003 as coupled price compensation payments until the introduction of 'decoupling' under the Luxembourg decisions. However, as most Member States have opted for the historic single payment scheme, the extent to which individual farmers benefit from the current system still varies extremely widely. Decoupling means that they no longer have any direct influence on the manner of production.

5.6.5 Second-pillar direct payments (i.e. per-hectare payments) are disbursed to farmers to cover certain additional, socially relevant services that go beyond the baseline standards and are not reflected in the market price and/or, in less-favoured areas, to encourage farmers to keep production going for the good of society.

5.6.6 First-pillar direct payments are currently wholly funded by the EU, while, under the second pillar, payments must be co-financed by the Member States. In many Member States, these differing funding methods have a bearing on how 'attractive' the programmes are. The Committee would ask the Commission that, in future programme planning, care should be taken to ensure that different co-financing rates do not result in Member States attaching greater or lesser importance to particular aspects of the programmes in question.

5.6.7 In addition to direct payments, resources are available to encourage rural development under the third axis of the second pillar, to provide investment support to farms under the first axis of the second pillar, and for the LEADER programme.

5.6.8 Because, among other things, of market instability and volatility, direct financial transfers are in some cases extremely important factors in farm income. Without financial transfers, agricultural structural change would be much more dramatic, albeit individual farms benefit to very differing degrees from the most important tool currently available – direct first-pillar payments.

#### Future payment schemes

5.6.9 The Committee stands by its current position on first-pillar direct pillar. It has consistently stressed that direct payments linked to specific tasks, while important, 'can play only a supporting role.'<sup>(4)</sup> Farmers' incomes are meant to

derive from sales revenue and from services provided to society and not remunerated by the market.

5.6.10 Payment for such services – which has so far been lacking but is necessary nonetheless – presupposes agreement on just which services farmers are to provide both individually and collectively. This will be an important factor in setting out clear principles for how direct payments should be granted in the future. These must be based on objective criteria and must be 'linked' to a specific task in order to secure acceptance by society.

5.6.11 Basically, the following premises should apply:

- first- or second-pillar direct payments should only be given to farmers actively farming, to associations for the protection of the landscape or to other bodies involved in maintaining the cultural landscape;
- first- or second-pillar direct payments should take account of the jobs in place and created on each farm;
- first- or second-pillar direct payments should compensate for the services that are provided to society by the farming sector to maintain the European agricultural model. Farmers' incomes should come mainly from prices in a regulated market in which production costs are recognised by the market;
- in view of the extreme agro-climatic variations in the EU, first- or second-pillar direct payments should include provisions to balance out, across the EU, the costs incurred by farmers due to agro-climatic conditions<sup>(5)</sup>;

5.6.12 Decisions therefore need to be taken as to the specific services eligible for direct payments (and the amounts involved). Farms or production sites that fail to – or have no desire to – provide services such as these and thus play no part in making the European agricultural model a reality, should receive no direct payments.

5.6.13 The need for direct payments to compensate for public-interest services that have no market price (for instance specific, well-defined environmental services) should be beyond dispute. The Committee feels that schemes of this kind must not only be further developed, but also made more attractive and flexible. It is vital therefore to reinstate the 'incentive components.' A capacity to react more flexibly to farmers' individual activities would also be an important element here. The schemes should be shaped less by measures and more by results.

5.6.14 Many new measures will in future fall into this category, including farming methods designed to mitigate climate change or encourage soil carbon sequestration. Grassland farming is undoubtedly also another element here.

<sup>(4)</sup> OJ C 368, 20.12.1999, p. 76, see point 7.6.1.

<sup>(5)</sup> OJ C 318, 23.12.2009, p. 35.

5.6.15 There is also ample justification for direct payments to compensate for ongoing and immutable natural handicaps and for payments to offset limits on usage imposed, for instance, as a result of nature conservation requirements. For many protected areas, a certain kind of agricultural use is important to maintain their character. The Committee feels it is unrealistic to deny payments on the basis that farmers operate within a specific framework set by the protected areas regulation.

5.6.16 Future farm-support policy must be predicated on task-specific and thus modulated direct payments linked to the performance of a tangible service that can be presented to society in a readily understandable way. This clearly includes compensatory payments.

#### 5.7 *A flat-rate per-hectare premium to compensate for competitive disadvantages?*

5.7.1 One option being discussed is to change current first-pillar direct payments into a pan-European flat-rate per-hectare premium, justified by the fact the European farming sector has higher production standards than its non-European rivals and is thus at a competitive disadvantage.

5.7.2 The Committee does feel that consideration must be given to appropriate compensation for competitive disadvantages. After all, trade agreements consider the social and environmental standards that are crucial elements of the European agricultural model to be non-trade barriers. That is wholly untenable. The WTO system is in urgent need of reform as it is unacceptable to have a global trade system that fails to take due account of social and environmental standards.

5.7.3 To offset competitive disadvantages, it is important to make clear which are the specific production sectors in which European standards differ from those of key competitors and what verifiable cost disadvantage this involves for individual farms/farm types/types of production.

5.7.4 European farmers' production parameters – and therefore production costs – vary very widely: there are major structural and (agro)climatic differences and also stark discrepancies in input and living costs in the various regions. Economies of scale in the individual Member States, regions and farm types also result in significant differences in cost disadvantages.

5.7.5 It is not hard to understand that, for instance, demonstrable production drawbacks in livestock farms cannot be resolved by paying a per-hectare flat-rate that would also benefit non-livestock farms.

5.7.6 It follows, therefore, that competitive disadvantages cannot be offset by a Europe-wide flat-rate per-hectare payment, but must be addressed in a way that reflects the specific conditions extant in the particular region concerned,

taking due account of the agro-climatic conditions and farm types involved.

#### 5.8 *A flat-rate per-hectare payment as income transfer?*

5.8.1 There is no question that, as things stand, many farms rely for their very existence on the EUR 50 billion or so pumped from the EU agricultural budget into the European farming sector every year.

5.8.2 The farm prices currently being paid are thus not only too low to keep the European agricultural model afloat, but are also jeopardising the entire European farming sector.

5.8.3 Hence, the question has been raised as to whether a 'basic' and 'livelihood-securing' Europe-wide flat-rate per-hectare premium should be paid to all farmers.

5.8.4 Incomes vary extremely widely in different farms and different regions. Here too, the differences set out in point 5.7.4 above play a key role. As a result, the income issue requires a very nuanced approach. Nor can this issue be resolved by a Europe-wide flat-rate per-hectare premium that would, for instance, disproportionately benefit large-area and low-staff farms.

5.8.5 Instead of a uniform flat-rate per-hectare payment, consideration might be given to a capped per-capita or per-worker payment. In this approach, too, the level of the premium would have to allow for the differences set out in point 5.7.4. In addition, such a payment system would also have to take into account the fact that farm incomes are largely determined by producer prices and production costs and that these are subject to ever greater fluctuations. An incomes-based system must be able to respond with sufficient flexibility to ever increasing price fluctuations.

#### Transitional periods

5.9 A uniform European payment scheme – which must not be confused with a uniform European flat-rate per-hectare payment – that is no longer based on past entitlements but on specific services to be provided now, will result in significant changes to the cash flows between the Member States and also in respect of the individual farms. From a funding viewpoint, therefore, there will be both winners and losers. The Committee feels that a sensitive approach should be adopted here and provision made for possible transitional periods. However, these should be such that the new system is fully operational by the middle – or at the latest by the end – of the new funding period.

#### 5.10 The future of the second pillar

5.10.1 Many people feel that some elements of the CAP's second pillar are designed to offset damage caused by policymakers setting the wrong parameters in the first place.

5.10.2 It must be made clear to the public that the future measures offered under the second CAP pillar will complement task-related direct payments and will be used in an even more targeted way to retain, safeguard and apply the European agricultural model. This means that the range of available measures must be made as effective as possible.

5.10.3 This applies not only to the current second axis of the second pillar. Investment support for farms must also be predicated to an even greater extent on sustainability. Moreover, the EESC sees an undoubted and significant need for investment in Europe, both to enable farms to operate as effectively as possible along sustainable lines, and also, to a certain extent,

to reshape our cultural landscape, which, in the past, was in some cases altered purely to meet production requirements (cf. water management, for instance, and the water framework directive).

5.10.4 The Committee also advocates expanding the range of tasks currently proposed under the third axis of the second pillar, and making them as effective as possible. We firmly reject any transfer of tasks of this kind to general structural or regional policy. That said, the Committee does believe that measures under the current EAFRD should bear a clear relation to agriculture. That does not include road building or broadband cabling.

Brussels, 18 March 2010.

*The President*  
*of the European Economic and Social Committee*  
Mario SEPI

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