C/2024/1571

5.3.2024

Opinion of the European Economic and Social Committee on The impact of high energy prices on the agricultural sector and rural areas

(own-initiative opinion)

(C/2024/1571)

Rapporteur: **Simo TIAINEN**

Plenary Assembly decision	23.2.2023
Legal basis	Rule 52(2) of the Rules of Procedure
	Own-initiative opinion
Section responsible	Section for Agriculture, Rural Development and the Environment
Adopted in section	22.11.2023
Outcome of vote	48/0/0
(for/against/abstentions)	
Adopted at plenary	14.12.2023
Plenary session No	583
Outcome of vote	
(for/against/abstentions)	182/0/2

1. Conclusions and recommendations

1.1. The hikes in energy prices and the risks of energy supply disruptions have been one of the key concerns for the EU over the past year and a wide range of measures have been taken at EU level and by Member States. Rural areas and especially the agricultural sector in the EU have been greatly affected by high energy prices.

1.2. The European Economic and Social Committee (EESC) notes that the European Commission and the Member States have introduced several measures to tackle the impact of rising energy prices. The EESC notes that instead of national ad hoc policy responses, the Member States should improve the use of the instruments under the National CAP Strategic Plans to tackle crisis stemming from rapid market changes.

1.3. The EESC points out that rapidly rising prices and therefore rapidly rising production costs also present a challenge for the mechanisms of the common agricultural policy (CAP). For this reason, the EESC suggests that the Commission consider including counter-cyclical elements in the CAP instruments after 2027.

1.4. The EESC supports all initiatives with the aim of reducing reliance on fossil-based inputs and energy sources. The EESC emphasises the need for improved policy coherence to increase the pace of the green transition, especially decarbonisation and non-fossil based energies. In addition to agricultural and rural policies, other sectoral policies need to take greater account of these objectives.

1.5. The EESC strongly supports the idea that the contractual practices within the food supply chain should take better account of the higher production costs in primary production. The contracts related to the food supply chain are usually rigid and do not sufficiently consider rapidly changing production costs. The EESC clearly states that the situation must be improved. The EESC calls for the various contract laws and contractual practices to be harmonised in order to create consistency and efficiency between Member States. The EESC emphasises that the quality of statistical data on farmers' production costs and price margins must be improved.

1.6. High energy prices affect business and economic activity in rural areas. Uncertainty has reduced the incentives to invest and increased the threshold to hire workers. This poses a risk of fewer employment opportunities especially in remote rural and rural areas, where alternative employment opportunities rarely exist. Developing energy infrastructure supports the creation of new employment opportunities and may also form alternative income sources to agriculture and other rural operators.

1.7. The EESC points out that the future and prosperity of rural areas is of paramount importance for Europe's food security, strategic autonomy ([1]) and resilience, as well as for a sustainable energy mix which contributes to the EU's energy independence. The EESC considers it important to commit to implementing the goals of the EU's long-term rural vision ([2]). Moreover, the EESC underlines the importance of maintaining and developing rural infrastructure throughout the EU. Proper and well maintained infrastructure improves resilience and allows adjustment to evolving crisis.

1.8. The EESC underlines that the role of local and regional energy communities must be recognised and promoted to achieve a fair and efficient energy transition in rural areas ([3]). The EESC sees many opportunities in energy communities and finds renewable energy communities in particular very interesting from a rural perspective. The promotion of local and regional energy communities must be accompanied by easy access, bureaucratic flexibility and a reduction in administrative burdens. It is important that these types of projects in rural areas are also supported by EU funds.

1.9. The EESC highlights the importance of energy savings and energy efficiency both in private and public consumption. This can be achieved via energy renovations of buildings, investments in new machinery and other technology, as well as less energy-consuming agricultural operations, among other things.

2. **Introduction**

2.1. Russia's cruel, unprovoked and unjustified illegitimate war against Ukraine triggered an unprecedented energy crisis for the EU. Energy prices started to increase rapidly in autumn 2021 and skyrocketed after the war broke out at the end of February 2022. Sharply increased energy prices caused difficulties for people and businesses throughout the EU. The hikes in energy prices and the risks of energy supply disruptions have been one of the key concerns for the EU over the past year and a wide range of measures have been taken at EU level and by Member States. At the same time, the EU is rolling out an ambitious transition to a carbon-neutral economy. This opinion aims to examine the impact of high energy prices on the agricultural sector and rural areas in greater depth, and provide recommendations to mitigate the negative impacts.

2.2. The agricultural sector, which is a strategic sector in the EU and a crucial part of our rural areas, has been greatly affected by high energy prices. Agricultural production requires a lot of energy either directly or indirectly through the use of energy-intensive production inputs, especially fertilisers. The rise in energy prices has significantly affected the costs of agricultural production and led to increasing market uncertainty. As a result of this situation, many farmers have faced weakening cash balances and difficulties continuing their activities.

2.3. Many agricultural operations are seasonal, and thus its energy consumption is seasonal too. Within the season, adjusting energy consumption as a response to price increases or energy shortages is often difficult. Irrigation and other water management practices need to be carried out and field machinery operated in a timely manner during the growing season. Rapid price spikes incur unforeseen costs and may pose risks to liquidity and profitability for farms and other rural operations.

([1]) Opinion of the European Economic and Social Committee on 'Strategic autonomy and food security and sustainability' (OJ C 105, 4.3.2022, p. 56).
([2]) https://rural-vision.europa.eu/index_en
([3]) Opinion of the European Economic and Social Committee on The energy and digital transition of rural areas (OJ C 486, 21.12.2022, p. 59).

2.4. In rural areas, high energy prices have led to increased costs for basic necessities such as heating, electricity, logistics and transportation. Rural areas often have limited access to energy infrastructure, and distances to travel are often long. The situation has placed a significant burden on the rural population and rural companies. The average income in rural areas is lower than in urban areas ([4]). Rural residents have a higher risk of social exclusion and energy poverty. It has also made it difficult for rural companies to operate and be competitive. High energy prices have made it more challenging for rural communities to access affordable and reliable sources of energy. This poses an increasing threat of rural poverty.

2.5. Rapid market changes have society-wide impacts. Turbulence in the energy markets has been a major source of inflation within the EU. The harmonised consumer price index for electricity, gas and other fuels was on average 60 % higher in 2022 compared to the price level in 2020. In agriculture, the corresponding change in energy prices was even higher. Overall energy prices in agriculture increased by 86 % within the same two-year period ([5]).

3. **Impacts of high energy prices on the agricultural sector**

3.1. The pace of the changes observed in the EU energy market in 2021 and 2022 is most clearly reflected in the changes in natural gas prices. Natural gas price is a sufficient indicator of overall energy price development, since gas is a major source of heating energy, and the price-setter of the EU electricity market. For agriculture, natural gas is an important input in the production of nitrogen fertilisers. In addition to the natural gas-led market, the global development of oil prices has led to rapid increases in fuel prices. The simultaneous increase in oil and gas prices made the impact much bigger in agriculture.

3.2. For farmers, the impact of rising energy prices stems from the direct production costs, intermediate inputs, and household consumption. The overall energy price in agricultural production was 86 % higher in 2022 compared to 2020. The highest increase was in fuels for heating with an increase of 225 % compared to 2020. The comparable price increase in fertilisers was 142 % and for electricity 72 % ([6]).

3.3. The overall production costs of agriculture were significantly higher due to increased prices of inputs. The elasticity of demand for main agricultural inputs is very low, indicating the changes in demand are smaller compared to changes in prices.

3.4. In agriculture, rapid short-term changes in prices often leave only little room for adjustment, depending on the sector or type of farming. Energy and fertilisers form a relatively significant share of total input use in agriculture. According to Eurostat ([7]), the share of energy in the EU agricultural sector was 13,2 % in 2022. Furthermore, the prices of other agricultural inputs increased.

3.5. In EU agriculture, costs of fertilisers in 2022 increased by 103 % compared to 2020. Since the observed price increase is somewhat higher compared to changes in costs, the total amount of fertilisers used in production was lower in 2022 compared to 2020. By comparison, total energy costs were 66 % higher within the same period. Thus, energy usage in agriculture was also lower in 2022 ([8]).

3.6. The impact of volatile energy prices have both medium- and long term consequences. In the medium term, the energy-led rises in production costs may increase the pace of structural change in agriculture, both in terms of abandonment of farms and changes in production. These impacts are also similar to those affecting other rural businesses. In the long run, increasing energy prices speed up change towards more effective or efficient production practices that are more economical in terms of natural resources or inputs.

([4]) Eurostat regional yearbook 2023.
([5]) Eurostat (https://ec.europa.eu/eurostat/databrowser/view/prc_hicp_manr/default/table), own calculations.
([6]) Economic Accounts for Agriculture, Eurostat (https://ec.europa.eu/eurostat/databrowser/view/apri_pi15_ina/default/table), own calculations.
([7]) Economic Accounts for Agriculture (https://ec.europa.eu/eurostat/databrowser/view/aact_eaa01/default/table).
([8]) Economic Accounts for Agriculture (https://ec.europa.eu/eurostat/databrowser/view/aact_eaa01/default/table), own calculations.

4. **Impacts of high energy prices in rural areas**

4.1. The specific factors affecting energy inflation vary depending on the region, country and individual circumstances. The impact of increasing energy costs is larger in rural areas compared to peri-urban and urban areas. This stems especially from higher distribution and delivery costs, limited competition among energy providers, challenges in energy infrastructure, and because of subsidies and policy differences.

4.2. Rapidly rising energy prices and overall high inflation led to decreasing consumer purchasing power. In general, the pace of wage and income development has been unable to keep pace with rapidly increasing inflation.

4.3. In 2022, the average EU electricity price faced by consumers was 44 % higher compared to 2020. The consumer price for gas was 72 % higher and for heat energy 24 % higher in the same period. The relative share of overall consumption expenditure on electricity, gas and other fuels increased from 2020 to 2022 ([9]).

4.4. High energy prices have led to a higher cost of living for the rural population. This can affect their ability to afford basic necessities such as heating, electricity and transportation. Rising energy prices are contributing to rural poverty. Individuals or households are unable to afford to buy sufficient energy. This can result in lower access to reliable heating, cooling, lighting, and other essential energy needs. Energy poverty can have adverse effects on health, education, and overall quality of life in rural areas, especially among vulnerable populations and the elderly.

4.5. High energy prices also affect business and economic activity in rural areas. In addition to agriculture, many businesses operating in rural areas have suffered from this situation. Uncertainty has reduced the incentives to invest and increased the threshold to hire workers. The tourism sector, which is important in many rural areas, has also suffered from high energy prices. This poses a risk of fewer employment opportunities especially in remote rural and rural areas, where alternative employment opportunities rarely exist.

5. **General comments**

5.1. The EESC notes that the Commission and Member States have introduced several measures to tackle the impact of rising energy prices. These measures include, inter alia, the exceptional support packages to farmers most affected by the situation in Ukraine in 2022 and the persistently high input costs in 2023, increased ceilings for limited amounts of aid to farmers, flexibility and possible support for companies affected by rising energy costs, and temporary removal of fertiliser duties with the exception of fertiliser originating from Russia and Belarus. Rising energy prices encourage investments in alternative energy sources in agriculture too. There are growing incentives to enhance precision farming. Costly technologies will pay off in little time and provide increasing returns in the shorter term.

5.2. The EESC supports the Commission's initiatives to reduce reliance on fossil-based inputs and energy sources. Based on the communication on availability and affordability of fertilisers ([10]), the Commission will promote better access to organic fertilisers and nutrients from recycled waste streams, especially in regions where use of organic fertilisers is low, support the conversion of the European nitrogen fertiliser industry into one based on ammonia produced using renewable and fossil-free hydrogen, and make sure that there is a stable and workable regulatory environment governing the production of renewable and low-carbon hydrogen, thereby ensuring that a market for renewable and low-carbon hydrogen-based fertilisers can rapidly develop. The European Commission needs to put more emphasis on the promotion of the use of organic fertilisers in the future CAP through environmental schemes that reward the farmer.

5.3. The EESC notes that instead of national ad hoc policy responses, the Member States should improve the use of the instruments under the National CAP Strategic Plans to tackle crisis stemming from rapid market changes. A review ([11]) reveals that only 14 Member States implement CAP risk management instruments in their National CAP Strategic Plans. These instruments should include cost insurances or other cost-targeted measures. The instruments currently approved under the plans mainly supplement insurance schemes targeted at crop losses or other weather-related outcomes. However, there is also one example of an income stabilisation tool being used in the approved national CAP strategic plans.

([9]) Household consumption expenditures, Eurostat (https://ec.europa.eu/eurostat/databrowser/view/nama_10_co3_p3/default/table), own calculations.
([10]) COM(2022) 590 final.
([11]) Thünen Working Paper 191a.

5.4. The EESC points out that rapidly rising prices and therefore rapidly rising production costs also present a challenge for the mechanisms of the common agricultural policy (CAP). CAP direct subsidies are often justified as a tool to stabilise farmers' incomes against the backdrop of rapid market changes. However, the current CAP cannot sufficiently take into account the impact of rapidly rising production costs on agriculture. For this reason, the EESC suggests that the Commission consider including counter-cyclical elements with sufficient funding in the CAP instruments after 2027. Anti-cyclical measures would tie support levels more closely to market developments and strengthen the safety net against rising costs and falling profits.

5.5. The EESC strongly supports the idea that the contractual practices within the food supply chain should take better account of the variation in production costs in primary production. The contracts related to the food supply chain are usually rigid and do not sufficiently consider rapidly changing production costs. The EESC clearly states that the situation must be improved. The EESC calls for the various contract laws and contractual practices to be harmonised in order to create consistency and efficiency between Member States.

5.6. The EU Green Deal and its Farm to Fork Strategy aim to reduce the use of inorganic nitrogen fertilisers in agriculture. Reducing the dependency of EU agriculture on fossil-based nitrogen fertilisers is a key objective. Enhancing the use of recycled nutrients and non-fossil based sources of nitrogen would benefit the environment and provide new business and innovation opportunities regionally ([12]). This is important also in terms of meeting the goal of carbon neutrality by 2050.

5.7. The EESC emphasises the need for improved policy coherence to increase the pace of the green transition, especially decarbonisation and non-fossil based energies. In addition to agricultural and rural policies, other sectoral policies need to take these objectives more strongly into account. This also requires better use of investment capital and venture capital schemes outside the EU budget. To ensure policy coherence, rural proofing should be applied to all policy schemes.

5.8. The EESC points out that the future and prosperity of rural areas is of paramount importance for Europe's food security, strategic autonomy ([13]) and resilience, as well as for a sustainable energy mix which contributes to the EU's energy independence. The EESC calls on the Commission and the Member States to further support rural areas in expanding sustainable renewable energy production, including by removing existing barriers, decentralising production and storage systems, reinforcing energy grids and training qualified professionals, as well as by promoting the use of renewables as a means of contributing to energy autonomy, income diversification, and the fight against energy poverty and climate change.

5.9. The EESC underlines the importance of maintaining and developing rural infrastructure throughout the EU. Proper and well maintained infrastructure improves resilience and allows adjustment to evolving crisis. An essential element of infrastructure is a comprehensive broadband network in all rural areas. Broadband reduces the need for commuting, thus creating better conditions for remote work. In addition, it improves the operating conditions of rural enterprises and thus contributes directly to rural employment.

5.10. The EESC emphasises that renewable energy and the promotion of local energy production and energy communities are an important part of the EU's long-term rural vision ([14]). The EESC considers it important to commit to implementing the goals of the EU's long-term rural vision. In this regard, the EESC recognises the significance of initiatives such as the Rural Pact ([15]), which strengthens multi-level governance, facilitates collaboration among stakeholders, and actively contributes to the promotion of renewable energy and sustainable development in the agricultural sector and rural areas.

([12]) Information report of the European Economic and Social Committee on the Benefits of extensive livestock farming and organic fertilizers in the context of the European Green Deal (EGD).
([13]) Opinion of the European Economic and Social Committee on 'Strategic autonomy and food security and sustainability' (OJ C 105, 4.3.2022, p. 56).
([14]) Communication from the Commission — A long-term Vision for the EU's Rural Areas (COM(2021) 345 final).
([15]) https://ruralpact.rural-vision.europa.eu/rural-pact_en.

5.11. The EESC emphasises that the role of local and regional energy communities must be recognised and promoted to achieve a fair and efficient energy transition in rural areas ([16]). Energy communities are new forms of energy production and consumption. The EESC sees many opportunities in energy communities and finds renewable energy communities in particular very interesting from a rural perspective. There are several examples of well-functioning energy communities such as Wildpoldsried ([17]), Elektrizitätswerke Schönau ([18]), Mutterscholz ([19]), and Claremorris and Western District Energy Co-Op ([20]).

5.12. Investments in biogas, wind power, solar power and other renewable energy help to reduce the dependency on fossil fuels and improve overall energy self-sufficiency within the EU. These investments should be enhanced, especially on farms. On the basis of these investments, local and regional energy grids could stabilise the energy market and provide safety nets to counter market turbulence, especially for rural consumers, farmers and small-scale businesses.

5.13. The EESC emphasises the importance of saving energy and improving energy efficiency. Beside other benefits, energy-saving can help to better withstand future crises. There are many possibilities for saving energy, such as better insulation of buildings, better energy efficiency, smarter use of electricity, different mobility options and remote work. In agriculture, these possibilities include precision farming, more fuel and energy efficient production methods and machinery, among other things.

Brussels, 14 December 2023.

The President
of the European Economic and Social Committee

Oliver RÖPKE

([16]) Opinion of the European Economic and Social Committee on The energy and digital transition of rural areas (OJ C 486, 21.12.2022, p. 59).
([17]) Thematic debate on Rural Pact #1: Renewable energies in rural areas (https://www.eesc.europa.eu/en/agenda/our-events/events/rural-pact-1-renewable-energies-rural-areas).
([18]) https://www.ews-schoenau.de/ews/geschichte.
([19]) Muttersholtz, Territoire à énergie positive.
([20]) https://claremorris-energy-coop.com.