

Opinion of the European Economic and Social Committee on ‘The farming profession and the profitability challenge’

(own-initiative opinion)

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Rapporteur: **Arnold PUECH D’ALISSAC**

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1. Conclusions and recommendations

1.1. Farm profitability and economic viability is a serious issue in the EU, where the income of a farmer is, on average, only 46,5 % of other economic sectors. Despite the low profitability, the EU agricultural sector plays a crucial role being the driver of rural economies and producing quality food which respects the highest standards in the world. It is impossible to achieve environmental sustainability in isolation from the equally important aspects of the economic, commercial, ecological and social elements of the farming activity.

1.2. The EU agricultural sector provides consumers with food security in the face of increasing pressure from climate change and societal demands in terms of environmental sustainability. Furthermore, the European agricultural sector actively contributes to keeping the EU competitive and dynamic on the international markets, and helping to ensure the trade surplus of the EU. The EU agricultural sector is also one of the biggest sources of employment, employing more than 40 million people across the EU. In these areas, agriculture is often the only economic sector that generates growth and jobs creation.

1.3. A fair, transparent, well-functioning and equitable food supply chain is needed in the EU: one that is good for farmers and all stakeholders including processors, retailers and, above all, consumers. At national level, consideration should be given to a reverse market negotiation approach through the establishment of value chains that aims to give farmers a monthly income of two times the minimum wage.

1.4. The EU agricultural sector provides positive public services and externalities that are not recognised by the market. Ensuring food security while respecting the highest production standards is a goal that has been reached. However, new challenges are rising like climate change, more pronounced price volatility as well as unfair competition from production systems with lower standards, unfair trading practices, depopulation of rural areas and ageing of the rural population, putting EU farmers in difficulty on the international market.

1.5. New technologies, together with inclusive research and innovation activities, are part of the solution to keep the EU agricultural sector competitive and enable EU farmers to tackle the sustainability issue directly and effectively.

1.6. Lifelong education and skills development are needed in order to provide EU farmers with the right tools to better exploit new technological potential and use innovative solutions in their farms.

1.7. EU farmers put in place several actions to increase their contribution to combating climate change as they are seeing its effects more and more, experiencing changing harvest times, early or late frosts, fires, flooding and drought. Furthermore, environmental measures should not endanger food safety and they have to keep in mind that farmers need a fair remuneration for the extra work that sustainable and mitigation measures often require.

1.8. A strong EU seeks to deliver not only on the objectives of the Lisbon Treaty but also on global targets such as the Paris Climate Agreement and the United Nations Sustainable Development Goals. These ambitious commitments need to be supported by a strong budget and efficient policies, guaranteeing the future, development and prosperity of agriculture and rural areas. European farmers and agri-cooperatives need a strong CAP budget for the next period.

2. Introduction

2.1. The EESC is drawing up this opinion to highlight the important role of European farmers and their contribution to the EU economy, contributing to global food security and keeping rural areas alive. Often this contribution is not rewarded as deserved, discouraging the new generation from taking over their family farms and reducing the attractiveness of the sector for newcomers.

3. Farmers' role in the EU

3.1. *Contribution to food security, to the delivery of healthy and nutritious food and to the overall EU economy*

3.1.1. In a context where demand for food and biomass is increasing, EU farmers and their cooperatives and holdings are committed to producing, processing and marketing safe, high-quality food for European citizens and consumers worldwide. They provide consumers with food security in the face of increasing pressure from climate change and societal demands in terms of environmental sustainability. Furthermore, the European agricultural sector actively contributes to keeping the EU competitive and dynamic on the international markets. According to Eurostat ⁽¹⁾, the agricultural sector accounted for 1,2 % of the EU's GDP in 2017 and created (gross) value added of EUR 188,5 billion, contributing actively to the trade surplus of the EU with EUR 137 billion of agricultural exports for the same period of time.

3.2. *Employment in rural and less favoured areas*

3.2.1. The EU's agri-food chain is one of the biggest economic sectors of the EU, maintaining and creating growth and jobs and employing around 40 million people. Around 10 million people are directly employed by and work in farms and agri-cooperatives. Agriculture is the only source of employment for certain areas or regions

3.3. *Farmers as defenders of traditional landscapes and managers of land*

3.3.1. EU farmers, agricultural holdings and their cooperatives manage around 173 million hectares, which is around 39 % of the total EU area. Farmers and their family members preserve the rural landscape and biodiversity, providing many positive outputs for society: with their assiduous work in terms of land and landscape management, they are actively contributing to mitigating the effects of major catastrophes in case of extreme weather conditions. Many farmers are also forest owners and their contribution to sustainable forest management is significant. Furthermore, farmers help to keep and restore the EU traditional landscape of rural areas, ensuring the preservation of cultural heritage and also providing positive synergies with the EU tourism sector. However, the efforts made so far by the agricultural sector cannot conceal the fact that significantly more must be done and more measures taken in order to achieve European and global biodiversity objectives, including the protection of bees, insects and birds. This conflicts to some extent with the need to generate a profit, so the EU absolutely must reward the agriculture sector's larger environmental contribution through additional resources allocated to the CAP.

(1) Eurostat, Agriculture, forestry and fishery statistics 2018

4. **Changes in farmers' profession**

4.1. ***Increasing societal demands on healthy diets, origin and quality of food, impact on environment and animal welfare***

4.1.1. Consumers have at their disposal a high amount of information linked with the products they consume every day. They are also paying increased attention to food's origin and quality as well as its environmental impact. Other important drivers of consumer choice are the respect of animal welfare practices and the distance from where the food is produced, including shortening supply chains.

4.1.2. In order to meet consumers' expectations, EU farmers have started to implement actions to even further improve animal welfare and reduce any negative impact of farming activities on the environment and the quality of soil, while producing high quality products. EU farmers, assisted by public authorities and academia, are investing energy and resources in order to embrace this new pattern of consumption.

4.2. ***The role of technology and innovation in agriculture***

4.2.1. The EU agricultural sector is at the forefront of the technological and digital revolution, with many breakthroughs in genetics, automated vehicles, robots, drones, satellite imaging, remote sensing, big data etc. Furthermore, farmers have always adopted, developed and applied innovative farm business models and agronomic practices, including new techniques and production methods that have increased outputs and made farming practices more adaptable to changing circumstances.

4.2.2. In this perspective, new technologies help EU farmers to ensure food security while respecting the highest standards in the world and fulfilling consumers' expectations. In this sense, new technologies enable EU farmers to tackle the environmental issue directly and effectively. For instance, the reduction of plant protection products (PPPs) is achievable using a mix of technologies that help farmers in every aspect of production. Among others, new breeding techniques have the biggest impact to reduce the use of PPPs and foster plants' and animals' resistance to pests, fungi and external pathogens.

4.2.3. The role of technologies is linked not only with production itself but also with traceability, food safety, animal welfare and climate change mitigation actions that help to keep the EU agricultural sector one of the most advanced and safe in the world.

4.2.4. Access to finance is vital for EU farmers in order to implement innovative technological solutions on farms. In this regard, the subsidiarity function of the second pillar of the CAP must be preserved and fostered within the new CAP. It is important to understand that EU farmers will only implement the latest technological developments in their business through easy access to credit.

5. **Challenges**

5.1. ***Climate change***

5.1.1. EU farmers make a serious contribution to combating climate change as they are seeing its effects more and more, experiencing changing harvest times, early or late frosts, fires, flooding and drought. Effective adaptation measures to climate change are therefore crucial for the long-term viability of farms. At the same time, farmers are cutting emissions both on and off the farm through sustainable management practices, by the implementation of new technologies as well as a more efficient use of crops, straw, manure and other residues for renewable energy, by solar heating and by providing electricity from wind power as well as other sources. The products from crops and livestock residues can also be used to produce biofuels and renewable industrial materials on-farm following circular economy principles. This helps to reduce emissions in other sectors and reduce the EU's dependency on its fossil fuel supplies.

5.1.2. It is important to note that the Paris Agreement as well as the Sustainable Development Goals set important targets for the EU agricultural sector that must be reached between 2030 and 2050. EU farmers are ready to pick up these challenges if equipped with the right tools. The 'toolbox' must include a positive and user-friendly policy framework, new technologies, water management strategies (i.e. storage and irrigation) and a strong CAP budget that sustains the additional efforts of the farmers. Depriving farmers of one of the abovementioned tools could endanger food security and negatively affect the quality of the EU food production.

5.2. *Income in the agriculture sector*

5.2.1. The agricultural income ⁽²⁾ per annual work unit (AWU), expressed as an index, was 10,9 % higher for the EU-28 in 2017 than in 2016. However, this must be put in relation to other economic sectors where the average income is much higher. In fact, compared to average wages in the economy, the entrepreneurial income of a farmer per family work unit came to only 46,5 % in 2017.

5.2.2. This situation has a deep impact on the development of the sector in terms of overall attractiveness for external actors, investors and bank partners, preventing the development of synergies with other economic sectors and intensifying the problem of generational renewal in rural areas.

5.3. *Price volatility and emergence of new markets*

5.3.1. Real terms (deflated) prices for most of the main products were higher in 2017 than in the previous year: the average milk price jumped to 17,1 % higher than in 2016, pig prices were 8,3 % higher, cereals were up 3,0 %, cattle prices were up 2,2 % and poultry prices were also higher (+ 1,0 %). In contrast, the real terms price of sheep and goats continued to decline (-1,4 %) in 2017. This positive trend of most commodities was part of the boom started in 2003. However, in 2008 a severe decline in prices occurred, triggering price volatility on the international market that challenged EU small and medium farmers as well as recent investors in the agricultural sector.

5.3.2. Due to its heterogeneous nature, the EU agricultural sector reacted differently to the 2008 prices shock: many small and medium farmers were forced to rely only on CAP direct payments to keep their activities alive but this was not enough to guarantee their farm's economic sustainability.

Looking at EU exports, the main EU trading partner in agricultural products is the USA (16 % of total agricultural exports, net worth EUR 33,3 billion in 2017). With such a concentration of exports in one single market, the EU agricultural sector is exposed to political decisions of third parties that could lead to severe fluctuation in prices (i.e. implementation of export bans or high customs duties).

The EU single market is the most open and accessible market in the world, leaving EU farmers facing the challenge of competing with imported agricultural commodities that respect different standards of production. However, traceability of food products coming from third countries is still perfectible and could lead to several controversies on food quality and food labelling related to the imported products (i.e. food products developed through new breeding techniques, application of PPPs, respect of animal welfare standards, etc.). These imports are very competitive in the EU market due to their different standard of production, creating tensions for the EU farmers that already respect the highest production standards in the world.

5.4. *Depopulation of rural areas and generational renewal*

5.4.1. According to the European Commission, seven in every ten (71,5 %) farm managers on the EU's 10,5 million holdings were male and a majority (57,9 %) were 55 years of age or more. Only about one in every ten (10,6 %) farm managers was a young farmer under the age of 40 years and this share was even lower among female farmers (8,6 %).

5.4.2. Farmers, forestry owners, agricultural holdings and agri-cooperatives are the economic backbone of EU rural areas. The ageing of farmers triggers a generalised depopulation of rural areas (the so-called 'rural diaspora') with direct consequences on the economic and societal fabric of these territories. Furthermore, new generations are discouraged from taking on their family business due to low profitability of the farming activity and difficulties in having access to the land.

6. *Opportunities*

6.1. *Digitalisation and precision farming*

6.1.1. Agriculture has moved forward into an era of digitally enhanced farming, where every device that produces data during the various stages of agricultural production can send that information to be collected, processed and analysed. The use of big data could help farmers step into the future of farming and achieve ambitious targets.

⁽²⁾ Eurostat, Agriculture, forestry and fishery statistics 2018.

6.1.2. A farm produces many types of data that can be classified into different categories, such as agronomic data, financial data, compliance data, meteorological data, environmental data, machine data, staff data, etc. These sets of data stem from a wide range of more and more powerful and cost-effective sources, such as machinery, drones, GPS, remote sensors, satellites, smartphones and so on, and are supplemented by service providers, advisory bodies, public authorities, etc. In addition, other partners in the value chain, such as processors and retailers, supermarkets, hypermarkets and advertising agencies are collecting enormous amounts of data about the markets on which farmers sell their products.

6.1.3. The collection and use of data in agriculture is not a new concept; farmers have been doing just that since the beginning of agriculture. What is new, however, is the opportunity to develop a data-orientated farming sector thanks to the size and volume of these data, which are growing at an exponential rate. Another novelty is the quality of real-time information obtained at farm level and the technology used to collect, store, use, manage, share, process and communicate data.

6.1.4. Data ownership and the right to determine who can access and use the data is vital to keep farmers' involvement in the implementation of new technologies. At the present time, there is no common framework where data ownership is clearly explained. For this reason, the EU agricultural sector built a Code of Conduct on agricultural data sharing by contractual agreement⁽³⁾, where it explains the data originator's right to be compensated for the use of data created as part of their activity.

6.1.5. Digitalisation and precision farming has a major role in shaping the future of the EU agricultural sector. They also impact the labour market and the type of skills needed in agriculture, and are redefining the role of farmers and the business models of agri-cooperatives.

6.2. ***Climate change mitigation and adaptation measures***

6.2.1. The EU agricultural sector implemented a large number of actions in order to improve its environmental sustainability over the last decades. The CAP imposes strict and challenging environmental actions and sustainable management practices that change the way farmers operate in the fields, combining effectively quality with sustainability.

6.2.2. Agriculture and forestry have a special role to play in climate change mitigation because they are the only economic sector that, through photosynthesis, removes greenhouse gases from the atmosphere. This achievement by the sector is still not fully recognised, calculated or accounted for properly, and a better evaluation of how forests and permanent and annual crops could contribute to greenhouse gas emission should be further taken into consideration by policymakers.

6.2.3. Today, farmers would like to see their efforts in fighting climate change recognised by society as well as policymakers. Especially policymakers must be aware that the environmental measures should not endanger food safety and they have to keep in mind that farmers need a fair remuneration for the extra work that sustainable and mitigation measures often require.

6.3. ***Increased market transparency across the food supply chain***

6.3.1. The distribution of the value added in the food chain is approximately 25 % for the farmer, 25 % for food processing and 50 % for food retail and food services, according to the Commission factsheet released in March 2017.

6.3.2. At this time, strict compliance with the European Directive on Unfair Trading Practices is needed. Among agricultural and food supply chain enterprises there are consistently significant imbalances in bargaining power between farmers and processors of agricultural and food products. Large-scale commercial organisations (supermarkets, hypermarkets, large food and processing chambers operating throughout Europe) contribute significantly to this imbalance.

6.3.3. The processing and retail stages have expanded their total value added in the food chain through following on the increased consumer demand for convenience products. At the same time, the value added in agriculture has decreased from 2014 onwards (by 4 % lower in 2016). This is due to increasing input costs due to competition for scarce resources as well as the limited possibilities for farmers to add value to the basic product or to get remunerated for it.

(3) COPA-Cogeca– EU Code of conduct on agricultural data sharing by contractual agreement.

6.3.4. Moreover, Oxfam in their recent study *Ripe for change* (2018) outlined the inequality of the food supply chain, based on examples from the UK, the Netherlands and Germany, amongst others. When looking into detail on the breakdown of end consumer prices, the study focused on the UK found that in 2015 more than half of this price went to supermarkets (52,8 %), 38,5 % went to traders and food manufacturers and only 5,7 % of the price went to small-scale farmers and workers. The last 3 % of the price went to the cost of inputs.

6.3.5. Under these circumstances, given the high level of concentration of the retail sector and the fundamental importance of defending a well-functioning internal market, the EU framework legislation that includes the prohibition of unfair trading practices (UTPs) with control and enforcement mechanisms combined with deterrent sanctions was a good starting point. It is crucial to continue this effort to increase market transparency, ensuring a fair share of the value to the farmers. Furthermore, in July 2020 the new regulation on posted workers will be implemented, and must contribute to a more transparent and fair business among the farmers at national level.

6.3.6. At national level, consideration should be given to a reverse market negotiation approach through the establishment of value chains that aims to give farmers a monthly income of two times the minimum wage.

7. Solutions

7.1. The family farm system so valued by European consumers needs good policies, fair and reasonable regulation combined with strong and effective legislation that will help mitigate against the serious threat of extreme price volatility and the ever increasing imbalance of power in the supply chain. The markets task force is a step in this direction but needs to be strengthened further.

7.2. *R & I adapted to the needs of farmers, multi-actor approach and direct involvement of stakeholders*

7.2.1. Stakeholder participation is key to putting research into practice. Placing the interests of farmers at the heart of the innovation process will not only significantly accelerate its impact but will also ensure the practicability of research and innovation outcomes. Moreover, this will help to make sure that the research funds granted are better spent.

7.2.2. Farmers, agricultural holdings, forest owners and their cooperatives can be drivers of innovation and economic growth, including with the help of government programmes. Therefore, their involvement from the very beginning in research and innovation activities in the fields of agriculture, food, forestry and aquaculture should be promoted and encouraged. Their involvement in all stages of the projects will ensure more demand-driven research and innovation as well as helping to bridge the current gap between academia and practice, towards applicable solutions. Ultimately, this should result in our farmers and growers becoming more competitive.

7.3. *Excellence and Quality (Organic, GIs, branding and short food supply chain)*

7.3.1. Products with high added value like Geographical Indication and organic products are a good source of income for many operators, especially farmers. These particular food chains are even more interesting if there is an absence of middlemen or intermediaries. In this case these short supply chains become a very remunerative source of income for the farmers and the rural community where these products are produced.

7.3.2. In details, the EU's short supply chains represent an alternative to conventional longer food chains where small farmers or cooperatives often have little bargaining power and the consumer cannot trace the food to a known producer or local area. Such a food system is of considerable interest since it responds to a number of needs and opportunities, both of farmers and consumers. The development of different types of short food supply chains (i.e., direct sales by individuals and/or collective direct sales, partnerships — community supported agriculture) is one of the approaches of the Common Agricultural Policy to improving competitiveness in Europe. Short food supply chains may act as a driver of change and a model to increase transparency, trust, equity and growth throughout the agri-food chain.

7.3.3. Having enough food ensures that a certain level of social stability can be maintained in the lives of EU citizens, given the situation in some parts of our planet where food is scarce, leading to economic migration to Europe and other countries.

7.4. ***Education and the development of new skills for the primary sector (shorter)***

7.4.1. According to Eurostat, most farm managers in the EU only have practical experience; this was the case for seven in every ten (68,3 %) of them in 2016. Less than one in ten (9,1 %) farm managers had full agricultural training, and the rest (22,6 %) had basic agricultural training.

7.4.2. Education in the primary sector is crucial to foster modernisation and improve the use of new technologies.

7.4.3. This is vital today, where digital skills are becoming an essential element of modern farm management. These skills are needed in many areas, and agriculture is not an exception. There is an increase in the need for people with ICT and digital skills in agriculture, but there is a clear skills gap in the economy, especially in rural areas.

7.4.4. In order for the farming community to take full advantage of the opportunities of technological and digital transformation, it is necessary to improve the level of digital skills within the farming work force.

7.4.5. This can be done at farm level and also within associations and cooperatives, as well as within the EU education and training system, which must provide lifelong programmes to develop new skills.

Brussels, 18 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER
