



The European Model of Agriculture - Challenges Ahead

A Background Paper for the Meeting of Ministers of Agriculture

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Related documents:

- Memorandum on the implementation and future of the CAP (Council document 7265/06)
- A Vision for the Common Agricultural Policy (www.defra.gov.uk/farm/capreform/index.htm)
- The Choice for Agriculture - A vision on the future of Dutch agriculture (www.minlnv.nl)

1. The Common Agricultural Policy - a history of dynamic change

Over a period of more than forty years, the CAP has been able to meet the diverse challenges it has had to face. The Common Agricultural Policy was created in the 1950s at a time when societies had been damaged by years of war and when food supplies could not be guaranteed. The objectives of the CAP were set to be the encouragement of productivity in the food chain, ensuring a fair standard of living for farmers, market stabilisation and ensuring the availability of supplies at reasonable prices for consumers. By the 1980s the EU had to contend with almost permanent surpluses of major farm commodities. Production limits and automatic budget stabilisers were created against the background of the Uruguay Round. This led to the MacSharry Reform in 1992 with price reductions, compensatory payments, obligatory set-aside and new accompanying measures, which now are part of rural development measures. At the end of the decade the EU had to prepare for the next and largest wave of enlargement and the new WTO round.

The Council Conclusions of November 1997 laid down the basis of European Model of Agriculture and provided the guidelines for future reforms. The reform process begun in 1997 has so far affected all the important market organisations with the exception of wine, fruit and vegetables and bananas.

The 2003 reform was originally intended to be just a mid-term review of Agenda 2000 -decisions, but became a major reform of the CAP. In the 2003 reform the main focus was of course the WTO Doha round and the stabilisation of the agricultural budget, but also the increasing concerns of consumers for the environment, food safety and animal welfare. The proactive reforms introduced direct payments and the principle of decoupled support. At the same time the societal concerns were taken on board by setting cross-compliance rules for direct payments and by giving more emphasis on the rural development policy. The idea was to provide a long term perspective for the agricultural sector as a whole.

In the consecutive reforms of the common market organisations certain common elements can be found. These elements include the approach of combining reduction of prices with compensation through direct aids and flanking measures. This approach, which was further developed by decoupling of direct aids, has increased the internal and external competitiveness of agriculture, and has facilitated the negotiations in the WTO and also facilitated enlargement of the EU. However, at the same time also specificities of different sectors and regions of the Community have been taken into account by tailor-made solutions, such as partial coupling of direct aids to production in order to avoid abandonment of land.

The reforms have contributed to the maintenance of viable rural societies and thus have been socially acceptable. They have also helped ensure fair incomes to farmers and have struck a fair balance between sectors, producers and regions and avoided distortions of competition. In addition, the reforms have encouraged new income opportunities for farmers, such as the potential benefits offered for agricultural production through increased use of renewable energy sources. The reforms have encouraged the agricultural and food production systems to adapt themselves into a more market oriented environment i.e. to be changed into a customer driven mode.

The aim of this document is to briefly sum up the content of the European Model of Agriculture and look at the challenges the model faces in the coming years.

2. Origins of the European Model of Agriculture

In 1997 the Agriculture Council discussed thoroughly the Commission proposals for the CAP reform known as Agenda 2000. The Council adopted in November 1997 a set of conclusions (document 12509/97), in which it laid down the basics of the concept of European Model of Agriculture.

The European Model of Agriculture is comprised of a set of shared values of the Member States of the European Union. It was created at a timewhen Europe faced new kind of challenges: enlargement towards Central and Eastern Europe, increasing international competition and internal financial constraints. Challenges and opportunities remain for European agriculture linked to:

- the long term market trends of agricultural products, increased volatility of the markets and changes in the consumer habits and expectations,
- the impact of the liberalisation of international trade on the competitiveness of European agriculture especially the future results of the Doha Development Round,
- further enlargement of the European Union,
- financial constraints in the budget of the European Union
- new uses of agricultural products, especially in non-food and energy production,
- adaptation of new technologies, including information technology
- combatting animal and plant diseases
- impacts of climate change
- the growing population and urbanisation in the world, changes in the consumption patterns of consumers and limitations in the increase of agricultural land, as well as the tensions that will appear in relation to water.

In its conclusions the Agriculture Council described the European values and objectives attached to agriculture and agricultural production. On the basis of this concept the Council also adopted the general principles of policy reforms, which have served as guidelines in subsequent reforms. The Luxemburg European Council in December 1997 included the European Model of Agriculture to its conclusions by stating that:

"The Union is determined to continue developing the present European Model of Agriculture while seeking greater internal and external competitiveness. European agriculture must as an economic sector, be versatile, sustainable, competitive and spread throughout European territory, including regions with specific problems. The process of reform begun in 1992 should be continued, deepened, adapted and completed, extending it to Mediterranean production. The reform should lead to economically sound, viable solutions which are socially acceptable and make it possible to ensure fair income, to strike a fair balance between production sectors, producers and regions and to avoid distortion of competition. The financial resources needed to implement the common agricultural policy will be determined on the basis of the agricultural guideline."

Subsequently, the concept of a European model of agriculture and the principles guiding future reform were endorsed at the highest political level.

The Berlin European Council in March 1999 made the final decision on the Agenda 2000 reform package. According to the European Council, the Agenda 2000 reform would ensure that agriculture is multifunctional, sustainable, competitive and spread throughout Europe, including regions with specific problems. It would also be capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, respond to the consumer concerns and demands as regards food quality and safety, environmental protection and animal welfare.

References to the above mentioned Council conclusion can also be found in the conclusions of the 2002 Brussels European Council in the context of the agricultural budget ceilings and guidelines for the forthcoming reforms.

The decision on the long term reform of the CAP in 2003 again reinforced the principles of the European Model of Agriculture. In its compromise the Agriculture Council recalled that a sustainable agricultural model requires a policy, which is spread throughout the European territory, economically and socially sustainable and environmentally friendly, market-oriented and simpler despite the diversity of Europe's countries and regions. The Council also agreed to review the new arrangements two years after the implementation of the reform at the latest.

In the negotiations concerning the financial framework for the years 2007-2013 the financing of the CAP was thoroughly discussed again. At the end of the negotiations the European Council decided that a full, wide ranging review covering all aspects of EU spending, including the CAP and of resources, including the UK rebate, would be undertaken in 2008-2009.

Thus in a few years time the modalities of the present CAP as well as its financing arrangements will be under review. In order to facilitate future discussions the presidency considers that it is opportune to start reflecting on the future of the European model of agriculture.

The decisions of both Agenda 2000 and the long term reform of the CAP were taken keeping the WTO negotiations in mind. The decisions were seen to constitute essentially the Community's contribution in the Doha Development Round negotiations. The Commission negotiating mandate was based on these decisions and does not envisage a new reform of the CAP.

3. Economically, ecologically and socially sustainable European Agriculture

Multi-functionality is at the heart of the European Model of Agriculture. This means that together with competitive food, fibre and energy production farming also delivers other services for society as a whole. These services, which are closely linked to food and fibre production, include safeguarding viable rural societies and infrastructures, balanced regional development and rural employment, maintenance of traditional rural landscapes, bio-diversity, protection of the environment, and high standards of animal welfare and food safety. These services reflect the concerns of consumers and taxpayers. As European farmers provide these multifunctional services for the benefit of society as a whole, which often incur additional costs without a compensating market return, it is necessary and justified to reward them through public funds.

In most European countries family farms are the key element in fulfilling the objectives of the European Model of Agriculture. However, there are significant differences in the production patterns, farm sizes and natural conditions and also production costs within and between the Member States. This consequently means that the sizes and types of production units also vary considerably in different parts of Europe. A key element in the European Model of Agriculture is that different production models should be allowed to co-exist along each other as long as they conform to the above-mentioned overall objectives of the European Model of Agriculture.

In the European context the sustainable development aspects of farming are of special importance. The objectives of European agricultural policy include not only keeping the environment within the farm in a good environmental condition and reducing negative environmental effects of production but also maintaining traditional landscapes and safeguarding biodiversity and animal welfare. By optimizing the use of fertilisers and minimising the use of chemicals the implementation of the policy can lead to remarkable improvements of soil and waters.

In fact many of the measures of the Community rural development policy and the cross compliance requirements in the Single Farm Payment system ensure safeguarding the environment, enforce animal welfare, food safety and quality, which are important for the European citizens and consumers.

Sustainable development in agriculture also means that the economic conditions of farming are safeguarded. This also secures socially sustainable development of the sector. Even today about 56 % of the European population lives in rural areas. Maintenance of viable rural societies would be impossible, if the economic conditions would drastically change in a short period of time. This is especially true in remote, sparsely populated areas, which lack business potential and market opportunities. By maintaining farming and developing new activities and services in rural areas, society can better provide the public services for people living in rural areas as well as for the urban population seeking recreational opportunities. At the same time, European cultural heritage can also be maintained and social problems relating to migration from rural areas to cities avoided. Within this broader context the general acceptability of policy can be maintained in a more sustained and consensual manner.

3.1 Market oriented agriculture

In the reformed CAP the principle that farmers should produce according to market demands is by now well established. Decoupled direct support for farmers gives them an increased freedom of choice in their production decisions. The situation on the markets should now have a central role in farmers' decision making. This should also mean a shift from quantity of production to quality of production. Consumers in Europe and worldwide are able to spend more on foodstuffs, but at the same time they will increasingly do so only if they are convinced by the taste, the nutritional value and healthiness, production method, origin and the safety of the product. However, a part of the population in Europe still has rather low income and they tend to put emphasis on the low prices of products. Consumers are also becoming an increasingly heterogeneous group, each segment of which is demanding products with differentiated characteristics. Quality production and the use of traditional names can also give European production a competitive edge in the world markets.

At the same time there are also problems in how the markets function. Consumers rather often state their expectations in the polls differently compared to their actual buying decisions in the shops. The competition between the retail trade chains stresses strongly the importance of price. This has led to a situation where differing of quality and quality pricing is of smaller importance. The price the farmer gets from a product may be almost the same regardless of its final presentation to the consumer. There is much room for improvement on how the correct market information reaches farmers and how information concerning products and their production methods reaches consumers. Improvements in this respect would benefit all the actors of the food chain.

In the reformed CAP farmers can better adjust their production according to market demand. This applies also to possible alternatives to traditional agricultural production. The production of biomass for energy purposes can offer farmers a feasible alternative compared to traditional crop production in the future. Increased production of biomass may also have a positive impact on the agricultural commodity markets globally.

3.2 Competitive agriculture both internally and externally

The average size of a farm in the Member States has increased quite rapidly in the past years and will continue to do so. An increased role of market forces and technological developments have had a major impact on this development. For instance, prices have largely been adapted to world market levels and thus fluctuations of the world markets now tend to affect also the European producer prices more directly. On the other hand new labour-saving production methods have increased productivity and made the increase in the average farm size possible without putting an excessive load on the farm family work force.

At the same time it has to be noted that the possibilities for structural change are different in different areas of Europe. In many areas of Europe a substantial proportion of farmers have had to give up their production. Diversification of production, quality production and the optimal use of market opportunities have allowed farmers to cope better with the economic changes in farming. It is therefore important to encourage farmers to take up new technologies, to adopt new innovations and to make new investments. It is also important to encourage setting up new businesses and to promote innovation in the rural areas as well as in the agribusiness sector. In promoting these actions the Rural Development measures are extremely important.

Competitive, market-oriented production as well as quality production will mean that also in the future European agriculture can have a role to play in the world markets, where the growing population and the changing consumption habits create new marketing possibilities especially in the newly industrialised countries of the world.

It has to be also recognized that there is a real need for simplification of the CAP and for a reduction in the administrative burden for farmers and administrations in order to reduce costs for businesses and ensure that the European citizens receive value for money.

3.3 Agriculture, which is spread throughout Europe, including the less-favoured and mountainous regions

Agricultural production has its own specific characteristics in all the present 25 Member States. There are significant differences in the production traditions and methods, farm size and natural conditions between them. The European Model of Agriculture takes into account these differences by recognizing that different production models should be allowed to co-exist along each other as long as they conform to the abovementioned overall objectives of the European Model of Agriculture. The European Model of Agriculture affirms that specific measures are needed in mountainous and less favoured areas in order to maintain agricultural production also in these regions. Therefore the compensatory allowance scheme should be further developed in order to take better into account the differences in natural conditions in the EU.

Although agriculture has a central role to play, it alone can not keep rural societies viable. Therefore it is necessary to have also available coherent and strong rural development and regional policies in order to promote sustainable development and to create alternative employment opportunities in the rural areas. Only by linking effectively the two pillars of the CAP can viable rural societies be maintained in the marginal areas of the Community.

3.4 Consumer concerns

Some important lessons have been drawn from the large scale animal health and food safety crises like BSE, foot and mouth disease, dioxin and avian influenza occurred during the last decades. European legislation contains now "the farm to fork principle" i.e. it is understood that safety and quality can be assured if the food chain is seen as a continuum and appropriate measures are taken wherever their effect is the best. However, the food chain doesn't stop at the borders of Europe. A large share of raw materials for agricultural production and foods are imported. Active policy to guarantee safety of these products is needed at the borders of Europe and most importantly at the place of origin. New European legislation has brought the food business operator in the center of responsibility of food safety and other respective requirements of the Community legislation. Traceability is a tool to ensure swift trace back of the defected products and their defected raw materials from the market and the production chain. Traceability chain can also transmit values, expectations and needs of the customers to the producers and thus increase the transparency of the food production chain. It is vital that all food safety risk management decisions are based on sound science to be of value for their purpose. Consequently, in order to make the risk management measures enforceable a general acceptance from the public is always needed.

The Community food safety legislation is already renewed according to these principles. Now the Community Animal Health Policy is in a process of evaluation. Important animal health risks like those connected to live animal transports and to the high density of farm animals are to be addressed. More emphasis and Community resources should be reserved for preventive measures.

4. Challenges ahead

4.1 Prospects for agricultural markets and income

The DG for Agriculture and Rural Development of the European Commission publishes regularly reports concerning "Prospects for Agricultural Markets and Income". The conclusions of the latest report, which covers years 2005-2012, are as follows.

High stock levels from 2004 leave the cereal markets in a fragile situation over the next three years. Stocks will gradually fall and this will generate gains on the domestic market and more favourable conditions on world markets. Although the projected overall balance of the cereals market is positive, specific difficulties could arise for coarse grains, in particular for barley, and on a regional scope for soft wheat and maize. Marketing perspectives for the oilseed sector are foreseen to be supported by productivity increases, favourable conditions on world markets and the increasing bio-fuel demand in the EU.

The medium term perspectives for the meat sector are positive for poultry and pig meat markets, while beef meat production is expected to decline as a consequence of the CAP reform and the strong competition from the world market. It now appears that the avian influenza crisis will be limited to a few countries and to a shorter period of time than originally foreseen. The latest available trade figures have lowered expectations of beef and poultry exports but raised the level of pig meat exports foreseen over the medium term. Some short-term difficulties are expected in the butter market where lower-than-expected consumption levels in the new member states are exerting some short-term pressure on butter public stocks. These are expected to vanish over the medium-term. In general, the market balance for the major dairy products is expected to improve over the medium term, with increasing cheese production and consumption, but lower availabilities of butter and SMP.

Based on these projections and the financial perspectives originally proposed by the Commission, the medium term income projections display a rather favourable outlook as the EU-25 agricultural income would grow by 12.8 % between 2004 and 2012 in real terms and per labour unit.

In conclusion, medium term outlook for the agricultural markets seems to be positive, but it is subject to certain important uncertainties. These overall positive projections do not take into account any effects of the potential impact that an Avian influenza outbreak in the EU could have on the EU markets. Moreover, the results of the Doha Development Round nor the final decision concerning financial perspectives for the years 2007-2013 have not been taken into account.

In connection with the latest update of the "Prospects for Agricultural Markets and Incomes" the Commission also analysed the impact of possible further decoupling. The Commission analysis showed that the policy implementation notified by the Member States already provides considerable benefits as regards the sectors' regional competitiveness, market orientation and income situation in comparison to a full coupling scenario. However, according to the Commission, additional benefits could be gained by decoupling the direct payments to the full extent in line with current policy provisions. The Commission services projected that full decoupling would raise the overall EU-25 agricultural income by 0.8 % by reducing the production and market distorting policy effects, thus enabling a more efficient allocation of resources. Producers would furthermore benefit from greater market orientation in their production decisions and from higher prices which would broadly compensate for lower levels of production. In the Commission analysis most EU-25 regions would gain additional income owing to a higher transfer efficiency of direct income support through full decoupling.

4.2 The impact of trade liberalisation, including the effects of a possible WTO agreement

The WTO negotiations (the Doha Development Round) have not yet been concluded. The Council has clearly indicated that the successive reforms of the Common Agricultural Policy will be the major contribution of the European Union to the negotiations. This was fully reflected in the agricultural part of the offer made by the EU last October, and in the decisions of the WTO Ministerial Conference at Hong Kong last December. The sugar reform on which the Union made its decision in February 2006 was a further significant contribution to the process. While the need to reform the CAP has arisen for several reasons, both internal and external to the European Union, the WTO context in general and the DDA trade negotiations in particular have been an important factor influencing the choice of tools and methods in the reform process. It was the strategic choice of the European Union to reform its agricultural policy before the conclusive phase of the negotiations and not just wait for the results; a choice that has not been sufficiently appreciated by our partners in the WTO.

The medium- and long-term impact of a possible agreement in the Doha Round will need to be assessed after the conclusion of the negotiations. However, the clearly stated position of the Union is that an agreement should not lead to a further reform of the Common Agricultural Policy,

4.3. The future enlargement of the European Union

The reforms of the CAP in the year 2000 and in the years 2003 to 2004 were undertaken in anticipation of the enlargement of the Union by first ten, and later by two more, new member states. Thus the Common Agricultural Policy as it stands at present has already anticipated the situation after this enlargement. Accession negotiations have also started with Croatia and Turkey, and other countries, such as the former Yugoslav Republic of Macedonia are standing in line. The countries of Western Balkans are minor agricultural producers, but Turkey is a large country with a significant agricultural production and an important rural population.

Agricultural production and, in particular, production structures have become more diversified as a result of the enlargement of the European Union. Enlargement will affect the decision-making on and implementation of the Common Agricultural Policy. It may also exert strong pressure on the functioning and efficiency of the Single Market as far as agri-food products are concerned. Thus simplification, decentralisation and respecting the principle of subsidiarity will be major issues in future. At the same time it is crucial that the common European nature of the CAP can be safeguarded. Enlargement will inevitably also raise the question of financing the CAP after 2013.

4.4 Financial aspects

Since the end of 1990's the financial considerations have become more and more important in the Common Agricultural Policy. The successive reforms of the CAP with strong emphasis on decoupled direct payments have made the expenditure of the CAP more stable and predictable. The CAP together with rural development expenditure represents only about 0.43 % of EU GNI. Moreover they currently account for 40 % of the EU Budget compared with 65 % in 1990. By 2013, they will represent about 35 % of the EU Budget.

However, financial constraints in the Member States remain acute and therefore budgetary rigour has been implemented in all policy areas of the Union, including the CAP and Rural Development policy. Accordingly, the Brussels European Council in December 2005, when deciding on the financial framework for the years 2007-2013, took the decision that the budgetary ceiling originally intended for the EU-25 should also cover additional expenditure resulting from the accession of Romania and Bulgaria to the European Union. Therefore the mechanism of financial discipline may have to be implemented and direct payments reduced accordingly in the EU-15 Member States towards the end of the coming financial framework period.

The European Council also decided to allocate less funding for rural development than originally proposed by the Commission. As the support measures under the CAP are being geared down and decoupled from production, the rural development policy measures are becoming more and more important in maintaining agricultural production and viability of the rural areas. Therefore, in the future other additional ways and means, such as increased modulation and more flexible state aid regimes, need to be considered in order to guarantee sufficient funding for rural development measures.

It is recalled that in concluding negotiations on the financial framework for the years 2007-2013 the European Council decided that a full, wide-ranging review covering all aspects of EU spending, including the CAP and of resources, including the UK rebate, would be undertaken in 2008-2009.

4.5 Completing and reviewing the last reform

The Commission has made clear its ambition to extend the logic of the 2003 reform of the CAP to those sectors hitherto untouched. Legislative proposals in a number of important sectors, including wine, bananas and fruit and vegetables are expected in the coming year. Furthermore, the 2003 reform foresaw a mid-term review or "health check" of the CAP.

Questions for the delegations:

1. Is the European Model of Agriculture a relevant and valuable expression of the common values and principles underlying European agriculture? If, not what changes would you propose?
2. Does the present CAP – after the reforms that have been decided and implemented – adequately respond to the multi-functional expectations of society as a whole and is it sufficiently robust to respond to the future challenges, both external and internal?