



European Research Institute on Cooperative and Social Enterprises

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## **MOUNTAIN AGRICULTURE AND THE COMMON AGRICULTURAL POLICY**

*Position Paper on the CAP post-2013*



## Executive Summary

With this position paper, Euricse would like to emphasize the importance of mountain agriculture as one of the main avenues in achieving the sustainable growth objectives that are at the centre of today's European agenda, and to lend our contribution to the conversation about the future of the Common Agricultural Policy.

Specifically, our goal is to underline the need to support the farmers of the European mountainous regions, since their activity produces a broad range of public goods, as well as providing employment opportunities to the local populace, thereby stemming the flight from rural areas. A system of supportive agricultural policies should be developed, able to recognize the collective values incorporated in the agricultural production activity within these regions, which actively involves 40% of the territory and 19% of the population of the European Union. The policies should, therefore, be able to offset the competitive disadvantages that characterize agricultural activity within these areas, so as to avoid the dissolution of the environmental and social presidia that are of fundamental importance for the sustainability of the entire European system, together with the extraordinary wealth of quality and traditions of the European mountains' agricultural sector.

We believe that preserving, and indeed increasing, the supply of public goods and services that are produced by the agricultural sector in these regions is a process that should begin by updating the system that is in place today, specifically by operating in the following areas:

- Supporting the competitiveness of mountain agricultural producers as a first step in facilitating their land management functions; specifically, encouraging the development of policies to sustain the organizational processes that promote the agricultural qualities of these areas, and overcoming the structural weaknesses that they are affected by. In our view this would be best accomplished by sustaining networks and cooperatives of small producers, through specific support strategies as well as normative measures, that would try to overcome the paradox by which, in matters of regulations, the networks of thousands of small producers are considered equivalent to a large agribusiness.
- Developing an incentive framework for mountain agriculture that really does provide compensation for the public goods produced by these companies, organized on multiple levels and capable of recognizing the specific and diverse nature of the environmental services that these businesses provide.

# **MOUNTAIN AGRICULTURE AND THE COMMON AGRICULTURAL POLICY<sup>1</sup>**

## **1. Agriculture and Sustainability**

Various events of the past years have cast serious doubts on the viability of our society's current development model. The intensive growth we have experienced has brought to the forefront how the unrelenting use of natural resources creates a radical unbalance, since they no longer have the time and means to regenerate. Climate change, protecting biodiversity and sustainable development are all central to today's discussion on our society's future. They are made more poignant by recurring environmental emergencies, which in turn are closely linked to the presence and role of agriculture and rural areas. Finally, as the World's population approaches nine billion people by 2050, the agricultural sector will need to produce roughly 50% more than it does today.

Beyond merely producing foodstuffs, the range of services offered by the agricultural sector to society is quite broad: land and water management, tutelage of local ecosystems and biodiversity, and an antidote to global warming, just to name a few. Some of the byproducts of agricultural activity should be considered public goods, since they benefit society as a whole; furthermore, since the value of these goods is not rewarded on the market, in order for their production to be adequately sustained and better tailored to society's necessities, there is a need for public intervention.

Moreover, consumers in Europe have a range of special expectations that they hold the agricultural sector to, which are an integral part of the European social model: product safety, high quality and freshness, minimal environmental impact, the humane treatment of animals are all examples of a broad range of values that shape the relationship of European consumers with the entire sector.

Often, agriculture also plays a key role in the economic and social vitality of rural areas, especially the least accessible ones, not only in matters strictly pertaining to production, but also in terms of its impact on the geographic and cultural landscape, and the tutelage of local identities and mores. This creates a virtuous circle whereby the positive impact of farming is felt by other economic sectors as well.

Despite these fundamentally important functions that agriculture performs for society, the sector has historically been at a strategic disadvantage, and plagued by its weak position within the agricultural supply chain, since most of the 'price making' process is exercised by the distributors. In addition to their role as price takers, a higher degree of uncertainty leads today to an intensive use of the production factors and further compresses profit margins. The unprecedented price volatility of the past few years, combined with extreme climatic events (such as hail, frost or flooding), are increasing significantly the exposure of most farmers, and are putting many businesses at risk of ceasing their activity entirely, thereby jeopardizing their positive effects on their land and communities.

These risk factors apply in particular to the agricultural sector in mountainous areas, the very places where agricultural activity is a very important part of the economic, social and environmental health of the region.

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<sup>1</sup> Euricse would like to thank Professor Felice Adinolfi, Associate Professor at the Università di Bologna, for composing this paper, and the Federazione Trentina della Cooperazione as well as Raiffeisenverband Sudtirolo for putting the main issues into focus, as well as providing the data on which the case study on Trentino-Alto Adige is based.

## **2. The mission of the Common Agricultural Policy in the new scenario**

Intelligent and sustainable growth, as outlined in the objective stated in Goteborg and Lisbon, and updated in the '2020 Strategy', must therefore be achieved by capitalizing on the contribution of the agricultural sector and of the rural areas to the economic, social and environmental sustainability of the entire European territory.

Therefore, going forward, the objective of future European agricultural policies must be to develop and sustain that broad range of collective functions that are generated by the rural and agricultural system in the Continent. The events scheduled for 2013 must be the venue where the reforms initiated in 1992 are brought to completion, whereby the overall objectives of the CAP have evolved from a pure production perspective to a broader mission in line with society's needs and prerogatives.

Today's CAP could be construed as the result of a series of successive revisions, that over time have developed a legal framework within which to promote an agenda of environmental sustainability. As a matter of fact, the shifting of resources towards public services and away from a narrower perspective of productivity and market-oriented policies has been a constant in the process of modernizing the CAP.

Specifically, the Fischler reform (2003) marked a turning point in this process, since it tied any public funding to the attainment of a broad range of social and environmental goals. Through this system, based on 'Conditionality', the compensatory function of public policy in agriculture was extended to address instances in which agricultural producers incur in competitive disadvantages in order to meet collective needs through the production of public goods. This is an important development, which is happening just as a significant amount of resources are being designated to the agricultural sector, and should be the foundation of any future strategic policy.

The set of available interventions must therefore be completed, and we must strengthen further the relationship between the positive externalities produced by farmers and forms of public support and compensation.

## **3. The value of mountain agriculture**

Mountain regions represent roughly 40% of the European territory and are home to 19% of Europe's population. In some of the member states, such as Italy, Spain, Greece, Austria and Portugal, mountains comprise over 50% of the overall territory, and in these areas the percentage of population that is actively involved in the agricultural sector is quite significant. As a case in point, 15% of the Continent's cheese is produced in mountainous areas, and the number rises up to 75% for some of the member States.

Mountainous agriculture consistently produces some of the best produce on the market, in terms of quality. This is often a function of the use of traditional methods in the agricultural process, as well as of an overall healthier environment. The result is a significant presence of produce from mountainous regions in the high-end quality niches of the European food markets. Over 80% of Italian DOP's and 75% of Italian IGP's (where Italy is the largest producer of quality-branded products), for example, hail from mountainous regions.

Although it is hard to arrive at a narrow definition of what constitutes a 'mountainous region' across the breadth of the entire European continent, it is safe to say that there are certain common traits (vegetation, incline, altitude, weather patterns, soil quality and the length of the seasons) that put them at a strategic disadvantage relative to other parts of the continent where the elements are more forgiving.

Furthermore, these regions are characterized by a fragile socio-economic balance—the competitive disadvantages, relative inaccessibility to services, the distance from urban areas, have all engendered migratory phenomena of various degrees of intensity over time, with an adverse impact on the care of the land. In these areas, agriculture is often the only opportunity for wealth creation, or in any case an important factor for the development of other business opportunities—such as recreation, tourism and craftsmanship. And yet, it also faces the biggest hurdles.

### 3.1 Mountain agriculture has higher costs and lower profitability

To practice mountain agriculture means coming to terms with fewer options in land use, shorter vegetative cycles, and higher labor costs due on the one hand to terrain and grades that make automation less available, and on the other to the need for a higher investment in specialized equipment. In mountainous areas, the agricultural companies are less resilient, farther removed from the logistical hubs, and often undersized relative to their competitors. The overall result is that there is a higher risk of failure, compounded by the impact of other human activities on the environment: mountainous areas are significantly more susceptible to the consequences of climate change and to the extreme atmospheric phenomena that go with it, such as floods, land erosion, etc.

Several studies have demonstrated how the agricultural businesses that are located in mountainous areas incur significantly higher costs when compared to their competitors that operate in flatlands. According to a study conducted by Cniel (the most important consortium of milk producers in France), a dairy farm that is located in mountainous areas will incur in additional costs worth approximately 12% on average, and revenues worth 10,000 Euros less per work unit per year. The same study underlines how direct subsidies to disadvantaged areas (which are roughly one fourth of those received by farmers in mountainous regions) cover only 34% of these additional costs.

In this context, the best way to sustain agriculture in mountainous areas is to encourage forms of association among producers in all shapes or forms. Connecting farmers into entrepreneurial networks (of which the cooperative model is the most efficient form) creates various advantages that help mitigate the aforementioned structural weaknesses of this particular type of activity.

Firstly, organizing in a cooperative or consortium distributes costs that would otherwise be borne by the individual farmer, both through the sharing of common functions (such as processing and commercialization), and through the strengthening of their position on the market (due to a higher degree of concentration) in the process of acquiring the basic factors of production.

Secondly, the cooperative model allows producers to retain a higher percentage of the value added. On the one hand, the process of aggregation shifts the balance of power

within the supply chain towards the farmers, while on the other hand cooperatives and consortia can take on more stages of the supply chain, recapturing much of the value added and transferring it back to their members, i.e. the individual producers.

Finally, where forms of collaboration in the production process create activities that are connected to agriculture (such as food processing and commercialization of foodstuffs) they also become important engines of local development through employment and wealth creation, contributing to higher incomes and better quality of life, and contrasting the phenomenon of rural flight that would otherwise engender the economic and social decline of these areas.

### 3.2 Mountain agriculture produces social and environmental wealth

Mountain agriculture represents the highest form of the multifunctional model of productivity, where the economic activity is intimately connected with the social, cultural and environmental aspects of the areas it belongs to: it shapes the social as well as the geographic landscape, and becomes an essential element in the struggle against the flight from rural areas.

In its productive cycle, mountain agriculture shows that it is able to care actively for biodiversity, and to mitigate the negative impact of climate change, e.g. by affecting the cycle of CO<sub>2</sub> through its management of grazing grounds and forests. For example: a logging enterprise that carefully balances the health of ecosystems with its industrial activity allows for a sustainable form of energy production. Moreover, the farmers' land stewardship is fundamental to the hydro-geological health of the environment they act upon.

### 3.3 Mountain agriculture must be safeguarded in order to prevent economic, social and environmental decay

If agricultural activity is allowed to regress in these areas, we risk a significant step backwards in terms of the public goods and services that it generates. This is true today more than ever, as the competitive landscape tends to accentuate the strategic disadvantage of the agricultural sector in mountainous areas, where the choices in product output are often a function of environmental limits such as land availability, climatic conditions and other environmental factors.

Some typically mountainous products, such as, for example, grazing grounds, are a case in point of the relationship between economic sustainability and environmental practices. Grazing grounds are essential in determining the quality of local dairy and meat products, while also being a fundamental tool in land management and protection of biodiversity: however, from a strictly business perspective, their profitability does not reflect the broader benefits that they create.

The convergence of economic, social and environmental values that are the by-products of agriculture in mountainous areas should therefore be sustained and encouraged by a set of adequate policies, able to provide suitable forms of compensation to the farmers, for their broader impact on the overall social and environmental health of the mountainous regions of Europe.

## **FOCUS: THE EXPERIENCE OF TRENINO-ALTO ADIGE**

### **An agricultural system that is a vital and central part of the local development process**

Trentino-Alto Adige's case is emblematic of the role that agriculture can have in mountainous areas, since this is an eminently mountainous region, where farming is an extraordinarily important economic, social and environmental activity.

There are roughly 42,000 agricultural businesses, which cover an area of 980,000 hectares of farmable land, of which over 500,000 are managed by private entities and the remainder are publicly owned. Such as is typical of mountainous areas, small and extremely small businesses represent the lion's share of the sector's activity. The average size farm in the province of Trento is around 3 hectares, and is around 9 hectares in the province of Bolzano.

Whereas businesses in the Trento area are, for the most part (over 60%), involved in the cultivation of orchards and vineyards, the province of Bolzano hosts a preponderance of livestock farming, particularly cattle, and has a utilization of farmable land that is close to 90%, once the public and grazing grounds are accounted for. These statistics translate into an overall 1.2 billion Euro of agricultural revenue produced in 2009, which constitutes a 12% growth over the 2005 figures. Moreover, it should be mentioned that the stated amount also accounts for the impact of the efforts to diversify the region's revenue streams, specifically, the development of the agricultural tourism sector: the region's 3229 businesses in this sector account for 17% of the nation's total.

These data are a testimony to a very lively agricultural sector in what is one of the broader mountainous areas in Europe. They also show that it is possible to offer high quality produce whilst also embracing land management as a fundamental tool for fostering environmental stability and nurturing the distinctive traits that make a region attractive to tourism and recreational activities.

### **The role of enterprise networks**

The value of this experience, which emphasizes the multifunctional role of agricultural companies and their central role in local development, owes a lot to the activities undertaken by enterprise networks, an instrument that has been able to compensate for the structural weaknesses that are characteristic of farming in this particular type of region, and to create solid relationships with the land and the socioeconomic components that belong to it. This symbiosis between a system of enterprises and their community has allowed for the production of a wide range of public goods, starting with environmental protection and land management.

These results were achieved in large part thanks to the activity of cooperatives, which are a fundamental part of the regional agricultural landscape with 190 active cooperatives that

engage 52,810 members. Furthermore, an additional 6,100 jobs in the region stem from the activity of cooperatives in the food processing and commercialization sectors: the end result is that this type of business model accounts for roughly 80% of employment in the farming sector, and 85% of the added value in the region.

The following data might clarify further the impact of agricultural cooperatives in Trentino-Alto Adige: as far as the fruit and vegetables sub-sector is concerned, in the province of Trento, where the highest degree of productive specialization is achieved, 83% of the 6,935 businesses that are part of the system of cooperatives have a relative size of less than 2.5 hectares, and roughly 60% are smaller than 1 hectare; in the province of Bolzano, 67% of the businesses active in the livestock sub-sector cover an area of less than 2.5 hectares. This type of organization, therefore, creates a sustainable economic model for activities that are extremely small in size, when taken individually. Furthermore, the high incidence of younger business owners is an indication of its dynamic nature: in the fruit and vegetables sub-sector, over 15% of the entrepreneurial class in cooperatives is younger than 40 years of age, and the proportion rises to 20% in the livestock sub-sector.

Therefore, the data shows that it is thanks to the cooperative model that the agricultural sector has been able to navigate successfully the treacherous waters of a weak global economy, and has indeed proven to be a dynamic and stimulating field open to young entrepreneurs.

The success of this model stems also from the fact that its versatility and reliability is recognized by the other players in the industry who are outside of the network: for instance, the cooperative networks guarantee the very same purchase price to outside producers that it does to its members, thereby acting as an ulterior stabilizing force on costs and prices. This type of relationship speaks towards cooperatives acting well beyond the scope of a traditional business, but embracing a role of economic and social responsibility towards its neighbors that affects the entire local and regional landscape. This over time has resulted in the construction of a healthy production system that was able to internalize the relationship with the local communities and give agricultural producers a not only a strong organization, but a participatory and democratic one as well.

#### 4. The contribution of the new CAP

Agriculture in mountainous areas is a paradigm of multi-functionality: it extends the rural economy to involve other sectors such as tourism; it seems particularly apt at growing high quality produce; it embraces the challenge of stewardship of the land and local development; finally, it produces a broad range of public goods that are of enormous value to society, if not recognized by the market.

As systemic pressures in the economy increase, however, there is a dire need for state-sponsored support to rise to the challenges that the European society faces today. The primary objective should be, simply, to ensure that this extraordinary legacy does not disappear. In light of the aforementioned points, it is our opinion that an effective government intervention in sustaining the agricultural industry in these mountainous areas should unfold along three dimensions:

- A strengthening of, and support to, entrepreneurial networks
- The safeguarding of production value
- A system for compensating the range of positive externalities

The following proposals are articulated along these lines, reflect these needs, and conceive of a CAP that is able to recognize the value of the common goods and services that mountain agriculture produces, while also compensating for the competitive disadvantages that these businesses contend with as a function of their location. It should be noted, moreover, that the following proposals support fully and are in full accord with the positions expressed by the representatives of the Alpine regions in their document on the CAP.<sup>2</sup>

##### 4.1 A strengthening of and support to enterprise networks

For an agricultural enterprise to be successful, it must be sustainable economically before it can be expected to be so environmentally, since to expect otherwise would mean to risk losing the positive externalities that society expects of agriculture in today's day and age. Since, as has been previously articulated, mountainous regions are by their very geography at a strategic and economic disadvantage, it is essential that their agricultural businesses find forms of support to their competitiveness on the market, so that they may tend to their role of land managers. In this sense, European policy interventions should aim at strengthening agricultural production.

Agricultural enterprises in mountainous areas are necessarily of smaller sizes. Since larger output volumes are an essential element in controlling price stability and for having a tenable contractual relationship with the distribution sector, it is important to encourage forms of aggregation and cooperation amongst producers. Over the years, several studies and papers written within the European Commission or by expert

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<sup>2</sup> "Proposte per la PAC fino al 2020, da parte di diverse Regioni dell'arco alpino", (Proposals for a CAP to 2020, by several Regions of the Alps), presented by Freistaat Bayern, Provincia Autonoma di Bolzano-Alto Adige, Provincia Autonoma di Trento, Land Tirol, Land Baden-Wurtemberg, Regione Autonoma Valle d'Aosta, Regione Autonoma Friuli-Venezia Giulia, Land Vorarlberg, Land Salzburg, Regione Lombardia, Regione Veneto, and Regione Piemonte.

panels tasked with analyzing the balance of power inside of the food production chain,<sup>3</sup> have all recognized that this strategy is indeed the soundest.

Within this context, agricultural cooperatives rise to a primary role, as the Trentino-Alto Adige case study exemplifies. The process of aggregation undertaken by this particular type of business model has, as a primary objective, the members' best interests and compensation, rather than profit in its purest sense. Since the guiding principle is a fair distribution of wealth, it follows that sustaining these cooperatives and consortia in order to strengthen their position on the market is tantamount to encouraging forms of aggregation that produce positive outcomes—quite different in nature from merger and acquisitions, which instead are the traditional templates along which capital enterprises grow.

Therefore, we believe that it is essential to provide incentives for the creation, and thereafter the sustenance and strengthening of this particular business model, particularly in mountainous areas, by acting on norms and laws, as well as other forms of support, in order to release enterprises from the paradox by which a network of many small farmers is held to the same normative and legal standard, in matters of fair competition, of a large capital agri-business enterprise.

Similarly, we believe that it is essential to support an increase of the structural and organizational capital of mountainous agricultural regions, by specific measures aimed at:

- Sustaining and facilitating access to technical assistance and specialized training
- Increasing the funding available for programs that invest in structural and organizational modernization programs in agricultural enterprises
- Broadening the range of funding options for agricultural-environmental initiatives, whilst leaving local administrations in charge of their management, so as to guarantee the flexibility necessary to address specific local needs and characteristics.

#### 4.2 [Emphasizing high quality production](#)

Mountainous regions' quality products are unique and irreplaceable. Their peculiar characteristics are a function of the effect of their geographical origins (climate, elevation, etc.) and human factors, such as production and manufacturing methods that might belong to the specific cultural tradition of a given location. Although it is true, as some recent studies have shown,<sup>4</sup> that consumers are sensitive to, and

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<sup>3</sup> Specifically, the "Parere del Comitato economico e sociale europeo" (2009), The Commission's Communication on prices and agricultural products in Europe, the written declaration by the European Parliament on "a study of the solutions to the abuse of power on behalf of the large supermarkets in the European Union", the recommendations of the High-Level Group on competition within the food industry, the Parliament's report on the price of foodstuffs, and the recent report by the Commission on "a better functionality of the foodstuff chain". Last June, finally, the High-Level Group on the crisis within the dairy sector, specifically recommended that the European Commission actively intervene to give producers a better bargaining position by working in the areas of contractual transparency, collective bargaining and agreements, and, generally, by promoting forms of association among producers.

<sup>4</sup> An example is the study conducted by Euromontana within the context of the Fifth Research and Technological Development Framework Program, that shows how a "mountain brand"—meaning,

interested in, these products, it is necessary to protect the birth and development of their associated brands on the one hand, while on the other strengthening and rationalizing the production process to guarantee their competitiveness on the market.

These objectives can be helped along, through government intervention, by implementing the following strategies:

- Supporting genetic screening and selection activities aimed at achieving higher production quality
- Implementing specific marketing plans and strategies aimed at improving product promotion and commercialization
- Developing a system to manage the supply of quality produce, so as to provide a stabilizing force on the markets and prices.
- Developing contractual mechanisms to limit the risks associated with price volatility

#### 4.3 [A single payment scheme capable of supporting the environmental functions of agriculture in mountainous regions](#)

Since it has been ascertained that government intervention is necessary in order for agriculture to be able to produce positive externalities in the form of public goods and services, the current direct payment scheme to farming companies must be reconsidered. The new system should take into account the actual impact that individual farming businesses have on their environment, within the context of their regional geography. Of course, since the overall objective is still to support and sustain agriculture in disadvantaged areas, we propose a direct payment system, structured on various levels:

- A 'basic' payment to all farmers, aimed at guaranteeing the economic viability of agriculture as a business proposition, thereby providing less uncertainty to producers and safe, accessible food to consumers;
- An additional, complementary direct payment, aimed at rewarding best practices that satisfy certain environmental, social and geographic criteria; the amount would be proportional to the common good and outcomes directly attributable to the farm's activity;
- A specific support to "disadvantaged areas" (such as mountainous regions) to offset higher production costs and other handicaps that have a negative effect on the companies' competitiveness on the marketplace. These areas are strategically important in the production of public utility, and coincidentally are also where agricultural activities are a fundamental part of the economic, social and demographic fabric. Given the importance of these regions, the payments should be maintained and increased relative to what they are today.
- Optional contractual payments, which would be a function of the needs of specific geographical areas. This tool would allow local communities to have an active role in defining specific environmental objectives, sensitive and tailored to their geographically and socially specific needs. These payments would follow the subsidiarity principle and would be activated in the relevant geographic area

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referring to mountains either implicitly or explicitly in product promotion—has an extremely positive effect on consumers' buying habits.

and on the grounds of an agreement between the various representative organizations of the territory.

## **Conclusion**

The significant production of public goods and services by mountain farmers in Europe must be supported and sustained, through the development of an agricultural policy that is able to recognize the positive externalities associated with their activity, as well as identifying and neutralizing, through forms of compensation, the competitive disadvantages that characterize agricultural activity in these areas.

Government intervention must therefore be updated in two fundamental ways: it must act to sustain the companies' competitiveness on the marketplace by helping them emphasize the high-quality heritage of their host regions, while also helping them overcome the structural weaknesses that they are affected by; secondly, it must revise the single payment scheme in order to effectively compensate farmers for the public goods and services that their activity inherently produces.

The new European Community Agricultural Policy can provide an essential contribution on both of these fronts, and be instrumental in preserving an economic and social fabric that is of vital importance to the health of our continent.