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NOTE

From:	Presidency
To:	Delegations
Subject:	Informal meeting of the Ministers of Agriculture (Vilnius, Lithuania, 8-10 September 2013) <i>- FAMILY FARMING PROSPECTS IN THE CONTEXT OF GLOBALIZATION</i>

Delegations will find attached a working document prepared by the Presidency on the above-mentioned subject, with a view to discussion at the informal meeting of the Ministers of Agriculture in Vilnius on 10 September 2013.

FAMILY FARMING PROSPECTS IN THE CONTEXT OF GLOBALIZATION

The General Assembly of the United Nations has declared 2014 the Year of Family Farming. The primary aim of the initiative is to promote, strengthen, develop and maintain family farming and family agriculture, including horticulture, livestock, fisheries and forestry, as a socially valuable, culturally acceptable, economically viable, environmentally sustainable and politically relevant system across the countries and regions around the globe.

Family farming is of great importance in the European Union (EU) as it has been and still remains by far the most common model of farming operations in all the EU Member States. It constitutes the foundations upon which agriculture has thrived in Europe over centuries. Supported by a strong and ambitious policy framework it has more recently ensured food security while meeting rising societal expectations for safety, quality, value, origin and diversity of food. It has also helped maintaining the rural lifestyle and contributed to rural economic development.

Regardless of the size, production and variety of production methods, family farming clearly exhibits characteristics related to location, common needs and priorities, historical and cultural farming circumstances that are important enough to be maintained and promoted.

The concept of family farming covers the following elements:

- Both business ownership and management control are in the hands of family or near-family members.
- Business ownership and management control are passed down within the family from generation to generation.
- Most of the work is carried out by the manager and his or her family.
- Major share of the capital is built up by the manager and his or her family.
- Major share of the family's income derives from farming.
- Members are closely related by blood or marriage.
- The family lives in the farm area.

From a sociological perspective, family farming is associated with *family values*, such as solidarity, continuity and commitment; in economic terms, family farming is identified with specific entrepreneurial skills, choice and risk behaviour, resilience and individual achievement. Family farming is often more than a professional occupation because it reflects a lifestyle based on beliefs and traditions about living and work.

The number of farms has been declining over the last decades in most EU countries on account of productivity increases and competitive pressures. The increasing trends of concentration and intensification of agricultural production to fewer, though larger and more specialized farms have continued to date. To remain competitive, farms tend to expand in order to generate economies of scale, raise their potential and flexibility in view of optimizing their allocation of resources. By contrast, smaller farms have often been affected by their fragmented structure, relatively low profitability, limited finance and human capital, most notably in the face of an increasingly concentrated downstream sector.

Yet, in spite of the rapid increase in the size of farm operations, the vast majority of farms in the EU are run as family farms¹. Given their unique business ownership, development and management model as well as their important contribution to the sustainability of the agricultural sector in the EU, it is deemed necessary to promote their development.

In order to do that, it is necessary to focus on the three following priorities:

1. To highlight the value of family farming as a model to achieve smart, sustainable and inclusive growth.
2. To create an institutional framework supportive of the viability of family farming.
3. To strengthen family farming within a thriving food supply chain.

1. To highlight the value of family farming as a model to achieve smart, sustainable and inclusive growth

Family farms are at the heart of the European model of agriculture, i.e. an agricultural sector which is competitive, sustainable, market-oriented, harmoniously integrated in rural areas and which meets society's concerns. Moreover, they have a central role to play in rural development, by contributing to socio-economic and environmental sustainability of European rural areas.

¹ Some very large corporate farms may yet be found in some parts of the EU and tend to concentrate in some specialised farm types, e.g. arable crops, specialist dairying.

In the EU there is a high diversity of family farms, in terms of their size, activities they engage in, availability of resources, degree of market integration, competitiveness, share of labour used, etc. Family farms operate in different economic, agro-ecological and social contexts, and thus contribute in a different way to smart, sustainable and inclusive growth. At the same time they face different constraints and have different policy needs. In order to preserve the diversity of family farms in the EU and to foster its sustainability it is important for the CAP to offer a targeted supporting framework for the different needs of diverse family farms across the EU.

Family farms are important contributors in delivering public goods. Although small family farms are often characterized by lower competitiveness they are important in generating features such as functioning ecological systems, preservation of landscape and cultural heritage. They are often much better placed to provide environmental and community services (public goods), demanded by the public, than large-scale corporate farms.

Family farming is often considered more resilient than the large-scale corporate farms. They use family labour and are more likely to engage in mixed farming activities (farm diversification, pluriactivity). They generally show greater flexibility in adapting labour input to the prevailing external conditions than corporate farms, enabling them to cope more easily with higher rates for credit and land as well as lower margins. They use family labour and are more likely to engage in mixed farming activities than corporate farms. Transaction costs tend also to be lower on family farms. The management of family farms is often driven not only by the economic rationale, but also social, cultural and ecological motives.

Family farms also provide a significant contribution in increasing production efficiency (producing more and better with less in a sustainable way) in order to meet the challenges of food and nutrition security, climate change adaptation and mitigation and the sustainable use of natural resources. This can be solved only through active promotion of the use of scientific research and innovation, in this regard the European Commission submitted several initiatives on promotion of scientific research and innovation in the agri-food sector (e.g. draft Regulation of the European Parliament and Council on support for rural development by the European Agricultural Fund for Rural Development, Europe 2020 Flagship Initiative Innovation Union, Horizon 2020, European Innovation Partnership: Agricultural productivity and sustainability). In particular, researchers, farmers, advisors and other players of the sector should be encouraged to cooperate more actively to accelerate the speed of technological transfer from science to farming practice and provide a more systematic feedback about practice needs from farming to science.

Scientific research and innovation are of great importance to small and medium-sized family farms. Some family farms have already introduced innovations concerning areas such as restoration and conservation of plant varieties vital for biodiversity and animal breeds that are more adapted to changes; organic farming; production of small-scale energy from renewable energy resources (wind, sun, water, agricultural production residue) for internal consumption; creation of short food supply chains between producers and consumers and processing of local food.

The application of innovations is influenced by individual characteristics of farmers or their family, structural peculiarities of a farm, market conditions and general (cultural and institutional) circumstances under which farms operate. Taking into consideration all this, joint efforts should be targeted at vocational training of farmers, knowledge transfer, support for structural investments, promotion and better use of agricultural and food production, creation of new ways to sell products in the market (e.g. short food supply chains) as well as diversification of income.

2. To create an institutional framework supportive of the viability of family farms

The development of agriculture is shaped by many elements, ranging from the socio-economic context, changes in dietary patterns, technological drivers, demographic trends to agricultural policies and national institutional frameworks. The latter are particularly important for family farms as they impact directly the very specificity of this model of agricultural operations. The future development of family farms in the EU is expected in particular to crucially hinge on two related features which need to be addressed, namely rules on transmission of farms and access to land and capital.

The transmission of farms from one generation to the next has a direct influence on the long-term viability of family farms as it directly impacts the economic, structural and social stability of family farms over time. It concerns both the transfer and/or acquisition of production factors (and specifically land) and the replacement of the agricultural holder. The transmission of farms and the installation of young farmers take place in Europe according to very diverse and complex mechanisms.

The diversity is related to the employment situation – where the decline in the agricultural labour force takes place at differing pace across the EU, to the agricultural and family structures and to social systems for agriculture (most notably the pension system). These elements weigh heavily on the management of family farms which commonly follows either a more family-based approach that focuses on the preservation of patrimony, or a more entrepreneurial management system. The complexity is very much linked to the functioning of land markets (for both sale and rent), to heritage law and to the tax system (with notably the valorisation of farms), which may also show wide variation across Member States.

In this context the functioning and efficiency of land markets have gained importance and should come at the forefront of the policy debate as it directly impacts the long-term viability of family farms as well as the efficiency of the policy setting (in particular since the introduction of a direct income support system which is largely land-based): land as a production factor constitutes a key factor in determining the relative competitiveness of family farms in relation with the institutional (legal and socio-economic) framework. However, land constitutes not only a production factor but also a collateral for access to capital, and an insurance/wealth factor for family farms.

Developments on land markets critically influence the adjustment capacity of family farms to adapt to changing economic environment, and the entry into and exit from the sector. Land price formation results from a complex mechanism reflecting the combined effect of regional diversity, developments in other economic sectors and the role of public support (with various systems of direct payments and their capitalisation in the price of land). It also strongly depends on national/regional regulations and institutional frameworks and socio-economic conditions (with highly diverging perspectives for EU regions).

Contrary to larger operating units which may exhibit greater flexibility and capacity to access the production factor markets, there might be the need to provide family farms with the most appropriate institutional framework -whether in terms of transmission rules, heritage law, access to land and capital- to meet their specific needs in order to support their long-term viability in the most efficient way.

3. To strengthen family farming within a thriving food supply chain

In a highly competitive and global business environment small and medium sized family farms often encounter market difficulties, such as limited access to market, decreasing farmers' share of value added in the food chain, limited bargaining power, etc. Unequal bargaining/market power in combination with the lack of market transparency may favour the development of unfair practices (prices and other conditions) against family farmers by stronger players in downstream sectors of the food chain (e.g. processors, wholesalers, retailers). In this case farmers may generate lower profit which would in turn limit their possibilities and incentives to invest in food quality and introduce innovations. At the same time, ongoing changes in food consumption and farming have led to a growing interest in short food supply chains and local food systems. This call for a special attention to strengthen position of family farms in the supply chain by i) promoting horizontal (between farmers) and vertical (within the food chain) cooperation/partnership ii) fostering development of short food supply chains and local food systems.

Promotion of Cooperation

Fostering synergy-based cooperation and empowering producer organizations is a relevant and effective tool to strengthen competitiveness and market position of family farms in the food chain. Furthermore, stimulating partnership among farmers provides the basis for achieving the goals of sustainable development on national level. It is necessary to note the importance of the accumulated social capital in cooperatives as an important aspect which may change the situation in the entire country. In the dominant knowledge-based economy more attention is paid to the concept of a “learning organization”. The aim is to have entire regions and states becoming learning organizations, rather than only the majority of individual companies or institutions. Cooperatives have participated in establishing and strengthening sectorial state or regional clusters in many countries. Moreover, the experience of cooperatives as organizations capable to unite their members could be of great use in establishing other networking organizations. In some of the EU member states innovative cooperatives have reached excellent and promising achievements – launching new products and services in response to changing consumer and society needs or more effective ways of using resources.

The establishment of institutional cooperative structures is a long-term process which requires strong will and financial public support. Therefore, it is important to sustain long-term financial support for such organizations since a lack of financial incentives might negatively affect dynamics of the establishment of such cooperative structures.

Development of short food supply chains and local food systems.

Short food supply chains are such chains where the number of intermediaries between farmer and consumer should be minimal or ideally zero allowing for a direct producer-consumer marketing relationship. In a local food system the number of actors involved in the process of food production, processing, distribution, consumption and waste disposal as well as in space and time are considerably smaller than those of the traditional system.

Benefits of a local food system are very diverse and range from social, cultural and ethical benefits (e.g. through the strengthening of social cohesion and community development and higher agricultural food diversity) to economic and environmental benefits for family farmers.

Participation in the short food supply chains and local food systems is favourable to family farms since the focus is on high quality products, to be specific, on the freshness, taste, nutritional quality and safety. The study on short food supply chains and local food systems in the EU published by the Joint Research Centre of the European Commission in 2013 concluded that some of the measures could be better adapted to a small scale farmers and producers, which are generally family farms.

Questions for the discussion

1. Sustainability of family farming depends upon its economic viability, environmental stewardship, and intergenerational enhancement of knowledge, traditions, practices, resources, institutions and social identity. Taking into account specific needs of the family farms, how and in which extent can policies at EU, national and regional level enhance their sustainability? What is the role of EU member state governments in supporting innovation in family farms?
 2. Beyond the recent decisions regarding the specific support to young farmers and the setting up of new businesses in the CAP, what measure within the remit of national/regional policy competence exists or could be envisaged in the field of transmission of family farms, access to land and capital to support the long-term viability of family farms? How could we ensure to have such measures applied consistently across the entire EU?
 3. What policy measures should be employed on EU and national level in order to create a supportive environment for the development of cooperatives and producer organizations, particularly those uniting family farms? What institutional measures are and could be of use at EU, national and regional level for the promotion of short food supply chains and local food systems, with particular attention to its adaptability for family farms?
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