

Speech by Commissioner Phil Hogan at VI Conference of Agricultural Co-operatives

- *"Our Food, Our Farms, Our Future"*

Valladolid, Spain, Wednesday 10th June 2015

- Check Against Delivery –

(Introduction)

- Minister Garcia Tejerina, Director General de las Heras, Director Ignacio Lucas, Ladies and Gentlemen,
- Good afternoon to you all. May I say what a pleasure it is to be back in Spain after my visit in February, when among other engagements I addressed the **Annual Congress of Spanish Cooperatives** in Valencia.

- It is a particular pleasure to be here during fruit season, which I know has a strong emotional resonance in the Spanish farming community, and indeed among the Spanish population in general.
- I stand before you as European Commissioner for Agriculture and Rural Development, but I am addressing you also as a man raised on a family farm in the South-east of Ireland. **Like you, my heritage and roots run deep in the soil.**
- During this visit, I will attend a number of important meetings, engaging directly with farmers, co-operatives, agri-businesses and politicians.
- I believe this will give me an up-to-date overview of the full diversity and depth of the Spanish agri-food sector. I am very keen to hear your views, as proud custodians of the Spanish soil.
- **It is my belief that by drawing on the wealth of wisdom among Europe's farming community, I will be in a stronger position to ensure that agricultural policy in the European Commission is ambitious and relevant for you and your work.**
- Today, as well as hearing your valuable feedback, I hope to provide you with a number of perspectives on the work being

done at European level to maximise the potential for the agri-food sector to grow, create jobs, and contribute to economic recovery.

(Provisions in new CAP for Co-ops / POs)

- Let me begin by outlining the provisions in the new CAP which I believe are of most direct interest to you. I would like to emphasise the recognition at EU Commission level that **both private and farmer co-op owned business models work hand in hand to deliver for their rural communities.**
- This Commission understands the need to ensure that unfair trading practices do not further weaken and undermine the position of the producer in the food supply chain.
- We know that much work remains to be done in tackling this difficult issue, but positive work has been done to date to deal with unfair practices.
- **The recent reform of the Common Agricultural Policy (CAP), as one example, includes measures to increase producer bargaining power by enhancing cooperation along the food chain.**

- **I believe that there are real and tangible opportunities for your sector contained in these measures, and I would urge your members to maintain and deepen your ongoing discussions about how you can take full advantage of these opportunities. In many cases, there will be no need to reinvent the wheel.**

(Food Chain)

- The reformed CAP also contains measures which should help farmers increase the number of contractual relations or get better returns by adding value to agricultural products.
- The Rural Development Programme can finance the integration of the various steps in the food chain, through processing, short supply chains, quality schemes and so on.
- At European level, we will continue to work hard to deliver effective implementation of these measures. But unfair practices can and will still happen across the food chain. It is essential that all involved (food chain actors and regulators alike) work together to tackle these imbalances.

- In this respect, I welcome initiatives put forward in a number of EU Member States to deal with this issue, including the steps taken here in Spain.
- The Spanish Law on the Food Chain, which is in force for a little over two years, sets contractual rules for contracts above a certain value, in which one party is an SME or is economically dependent. A code of good practices is also recommended for food related contractual relations.
- I commend all the businesses which have signed up to the code of good. During this visit, I will be urging all other relevant businesses to do so in order to maintain this important momentum.
- Ladies and gentlemen, the message I am spreading throughout our 28-member European Union is that **working in the agri-food sector can be a rewarding experience, full of opportunities and potential for ambitious and innovative young people.**
- **The global picture is changing and the CAP must change with it.**

- You are familiar with the backdrop: worldwide demand for high-quality food will increase in the coming years, particularly in the emerging markets of Asia and Africa.

(Global Background)

- You are also familiar with the statistics: Each year until 2030, at least 150 million people will enter the global middle class. This huge growth in disposable income will result in significant changes to dietary patterns. For example - global demand for dairy products is set to increase at an annual rate of 2%, and with the recent end of milk quotas, EU member states such as Spain are well placed to meet some of that demand for high-quality dairy products.
- At EU Commission level, we have recognised the changing global pattern, and we have acted decisively to target supports where they are needed.
- The Common Agricultural Policy has moved from a system of price support and protectionism, to a more market-oriented agriculture sector. This means we have a more modern, more competitive sector, and we have seen considerable investment and innovation as the sector has moved forward.

- My goal as Commissioner is to ensure that European agriculture – including through important organisations such as yours - continues to play a leading role in meeting global food demand and ensuring food security, by ambitiously strengthening the overall competitiveness of our agri-food sector.

(Simplification)

- I am also determined to continue simplifying the CAP. My goal is to make work – and therefore life - more efficient and more productive for all players in the agri-food sector.
- As you know, I recently presented **several concrete actions for simplifying the system of direct payments to farmers, which do not** require changing the EU Basic Act legislative rules. I am also pleased to report that I will be presenting a further package of simplification measures later this year.
- This package will cover significant aspects of the direct payments system such as **young farmers and coupled support**, and I have no doubt you will make the most of these changes as they become reality.

(Russian Embargo – Trade – New Markets)

- **However, all players in the agricultural sector must continue strengthening their ability to deal with unexpected external shocks.** Permit me to remind you that the Commission acted swiftly and decisively when Spain and other European countries were faced with the escalation of the Russia situation. A number of measures allowing for temporary exceptional support were adopted, covering the period from August until 30 June 2015, **including for fruit and vegetables, which is of such critical importance for the Spanish agri-food sector.**
- Adopting this approach has allowed producers and associations to consistently find alternative outlets for their produce. The success of this approach is borne out by the exports figures which show that, during the period of the embargo, Spanish fruit and vegetable estimated exports rose by 4% in terms of volume and by 9% in terms of value.
- The Commission also took strong action by significantly increasing the Agri-food Promotion Budget from €60m to €200m over the next four years. We believe this will decisively assist producers and associations in Spain and throughout the EU to find new alternative markets for their products.

(New Markets)

- Ambitiously pursuing new markets for our high-quality EU produce remains one of my top priorities. With growing world food demand, the agri-food sector is the 4th largest export sector in the EU, increasing the value of its exports in the last 5 years by 70% - **which is faster than overall EU exports**. Our strategy to take advantage of this opportunity must be twofold: **we must continue to pursue new markets on the one hand, and guarantee the protection of high value EU products around the world on the other**.
- The EU has significant agriculture interests in many of the trade deals currently being negotiated, including with Japan, Vietnam, and in the Transatlantic Trade and Investment Partnership (or TTIP).

(TTIP)

- I am very aware that TTIP is the subject of continued debate and some concern among agri-food organisations throughout Europe.

- I wish to convey the message that I believe a balanced deal will see huge benefits for EU agriculture and society as a whole.
- I also wish to reiterate my pledge that I while will be proactive in promoting the opening of this important market to high quality EU products, I will not compromise on EU food quality or traceability standards. I can assure you that this principle will be upheld across the Commission and will be fully reflected in our negotiations with the US.
- **EU standards will not be sacrificed on the altar of this, or any other, trade deal.** The increased protection of European geographical indications food products is one of our key priorities in the TTIP negotiations. In recent years, the EU has been very successful in obtaining increased protection for hundreds of its famous geographical indications. We are very confident that we will obtain a positive outcome in TTIP as well.
- **I will be ambitious in promoting the opening of this important market to high quality EU product, in particular our world-renowned GIs.** But I will also remain vigilant in my commitment to protect the most sensitive agricultural sectors for the EU.

(Promotion)

- I would also like to draw your attention to our **new promotion policy**, which is designed to help agri-food professionals such as yourselves to find new markets, consolidate existing ones, and promote the high standards of EU agricultural products to consumers in Europe and around the world.
- We have widened the scope of eligibility for promotion schemes. If a cooperative is recognised as a producer organisation by its national authorities, it will be eligible within the future promotion regime.
- With the new system:
- We are going to increase the budget available for promotion: from EUR 60 million per year today to EUR 200 million as of 2019. The EU co-financing rate is also increased. In future 70% of the co-financing will come from the EU for campaigns presented by an organisation from one Member State, and 80% for so called Multi programs developed jointly by organisations from several Member States. EU co-funding is also 80% for campaigns targeting third countries, and 85% for crisis measures.
- Finally, allow me to remind you of the prominent **good news story** that the EU agri-food sector has to tell.

- We have reformed the CAP to make it more market-oriented, and to reward farmers and agri-businesses willing to invest to become more efficient, more productive and more sustainable.
- We are backing innovation and research in the sector, notably through the €3.6bn available at EU level between now and 2020 to fund synergies between Agriculture and Research, via Horizon 2020.
- And I am very pleased to tell you about a signature initiative being pursued under my direction, developing mechanisms to improve **access to finance** for farmers and agri co-operatives, particularly young farmers, as they start their career in agriculture.
- We are working on this in close cooperation with the European Investment Bank. I have engaged in very productive discussions with the EIB with a view to rolling out a multi-billion package of financial instruments targeted at agriculture and rural development.
- **Our farm sector and our rural areas have fallen on hard times – but there's money out there which can help us leave those times behind, if we're smart enough to reach out for it.**

- Everyone here knows that the economic situation in the EU is still difficult. EU-wide unemployment is still too high, at 11 %. Growth is still too weak, at 1.5 % predicted for this year – especially at a time when we have high debts hanging over us. Hope is on the way in Spain however, as you are predicted to have GDP growth of almost 3% this year.
- Of course we often fail to acknowledge the contribution of the rural and agricultural economy and their value chains to growth and jobs. The situation is made worse by a continuing squeeze on credit.
- And that makes life particularly difficult in the countryside, because as we know, the rural economy doesn't always find it easy to get credit at the best of times.
- I want to support farmers who want to make their farm more efficient, or diversify, or restructure; plenty of entrepreneurs who want to start a business; plenty of authorities which want to provide public services more efficiently.
- But to get those ideas off the drawing-board, they need money.

- Rural development policy already does a lot to help provide that money. It has an EU budget of EUR 100 billion over seven years – which is not exactly "small change" – and also draws in match-funding from national or regional authorities. This is serious money that supports investments in farms and other businesses, as well as training, the development of local services and infrastructure, environmental care, and technological development – among other things!
- But I have to say that the queue of people applying for support is very long. So we need to make the money go further.
- **That's where financial instruments come in – and in particular, the EIB help to use them.**
- As we know, financial instruments are essentially **magnets designed to pull in private money.**
- For example, a guarantee fund offers security for loans to be provided by banks or other bodies –for up to 80 % of the value of the loan. Once this security is available, someone with a business idea is much more likely to find that the door of the bank opens when he goes knocking.

- If things go well, under this approach a sum of, say, EUR 100 000 provided as a guarantee could turn into a loan worth much more than that – perhaps EUR 200 000, EUR 300 000 or more.
- And when loans are repaid, the security is released and that money can be used again.
- So overall, in effect we can potentially turn one euro of public money into two euros, three euros or more. Case studies of financial instruments are emerging – and the findings are encouraging.
- For example, between 2010 and 2014 a guarantee fund which operated in Romania and was funded through rural development policy helped to make **EUR 426 million of loans** available by providing just **EUR 116 million as security**. That's more than **three-and-a-half euros of credit for every single euro provided from the fund**. By November 2014, 740 projects from around 700 beneficiaries had been supported – creating or maintaining more than 10 000 jobs.
- Of course, financial instruments won't solve all our problems – I'm sure we could find cases where success was more modest – but the point is that there's clearly potential there.

- In practical terms, **what must we do to unlock that potential for rural development policy in the new period of 2014 to 2020?**
- The first condition is to build the knowledge necessary to use financial instruments. That condition is being met. In particular, the **model guarantee instrument for agriculture** – designed by the EIB and unveiled today – can be immediately adapted and used by Member States. And the EIB's pledge to provide further advice and technical support will be essential, as will the further instrument blueprints which will be provided later on. And all this is of course in addition to the EIB's other valuable co-operation with us, for example on our research agenda.
- Then, Member States and regions must actually decide to **set up financial instruments in their rural development programmes**, according to their needs – funded by their respective programme budgets.
- They could do so in order to address a very wide range of challenges – in fact, most or all of the challenges addressed by rural development policy as a whole. But in the current situation, I can think of some especially pertinent examples. We could use the money generated by financial instruments to:

- **help young farmers to make key investments to get started**
- help farmers and forest managers buy more **resource-efficient equipment**;
- help the agri-food sector to build **short supply chains**, to improve processing and marketing;
- give an initial push to **rural start-ups** and create jobs outside farm gate.
- Jump start investments in the dairy sector after the end of milk quotas.
- It is worth reminding all of us that Member States have allocated about EUR 50 billion of EAFRD money to rural development measures which support investments (the rest is for other types of support, such as environmental land management payments). Just think about what we could do in the areas that I've just mentioned if a healthy part of that money – with its compulsory national and regional match-funding – could ultimately mean double, or triple that in investments by pulling in credit through financial instruments!

- To encourage the use of financial instruments, we are organising the first EU-wide conference under the umbrella of the *fi-compass* platform on financial instruments. It will be held on 23-24th June in Dublin (Ireland).
- In addition, we will have **three other dedicated events on financial instruments at regional level**: in Vienna, Riga and Barcelona. The Barcelona event is planned for 16 November.
- To get the money flowing, once again, provision has to be made for financial instruments in rural development programmes. If necessary, these programmes can always be modified to do so and I can commit that we will approve such changes as a priority.
- And then it's time for potential beneficiaries to bring their plans to the financial body which manages the instrument for their Member State or region. The exact functioning of the relationship between that body and the authorities managing the rural development programme will depend on local choices and that is a good thing.
- Loan conditions will vary from region to region. But we certainly expect attractive terms. For example, under the Romanian instrument mentioned earlier we saw loans with terms between

3 and 10 years, according to the needs of the loan-takers. They also paid very little, just 1.5%, for the guarantee in the case of agricultural investments, meaning **access to loans at market rates for those who otherwise, for lack of sufficient guarantees, could not have borrowed at all.**

- In a nutshell, that's what financial instruments can do for us in the context of rural development policy – separate from the Juncker Package (which has its own mechanisms and a much broader scope), but very much pursuing the same aims of creating jobs and stimulating growth.
- Spain and its regions are discussing presently the model to apply to the financial instruments of the rural development, in particular with the representatives of the EIB. I will encourage them to spread the word, channel money to financial instruments in our rural development programmes, and thereby give the chance to farmers, SMEs and cooperatives to change one euro into two, three or even more for the sake of our farm sector and our countryside. If all regions were to include Financial Instruments in their respective programmes, we could see up approximately €800 million in new investment flow into the Spanish farm sector.

- We have seen in Spain that the Agri-food sector can be a central feature of economic recovery, growth and job creation. I look forward to hearing your views, and working closely with you to ensure that the European Commission plays its full part in accelerating this momentum.
- Thank you very much for your attention. Muchas gracias.