**COUNCIL OF THE EUROPEAN UNION**

**Brussels, 14 May 2012**

**9898/12**

**AGRI 305**

**NOTE**

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| from: | Presidency |
| to: | Delegations |
| Subject : | Informal meeting of the Ministers of Agriculture<br>(Horsens, Denmark 3-5 June 2012)<br>- *The agrifood sector and green transition of economy* |

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 Horsens on 3-5 June 2012.

Dear colleagues,

For our informal Council meeting on 5 June 2012, I would invite you to join in forming one big temporary "think tank" combining all our best powers of thought. In our capacity as a think tank and with the Common Agricultural Policy as our shared platform we will discuss the essential challenges and possible solutions to a transformation of our traditional economy into a *green* economy.

The European economy has been successful in securing many decades of growth in wealth and well-being. Today we are also faced with other challenges such as preserving our environment and an emerging resource scarcity that needs to be solved. "Business as usual" does not appear to be an option – a green transition could be the solution!

The focus of our effort will of course be on agriculture and food production answering questions such as: Do the current policy instruments adequately promote a green transition, or should more be done to nourish frontrunners in their development of green business models? We need timely answers and subsequent actions on these questions, so the agri-food sector can contribute to a successful green transition of our modern economy instead of blocking it.

To assist us entering into the right idea generating mode, I have arranged for a dynamic setting for our meeting. In an informal atmosphere the meeting will be organized around short concrete introductions by three interesting stakeholders and a professional moderator securing optimal conditions for our comments, questions and reflections.

The three speakers will each deliver a short statement building on their divergent positions as stakeholders in the development of the global agri-food sector.
The first speaker is Mr. Simon Upton, Director of the OECD Environment Directorate. In 2011 OECD presented its major analytical work, *A Green Growth Strategy for Food and Agriculture,* that projects that an economy based on green growth is likely to provide higher growth rates than an economy based on a traditional growth pattern.

The second speaker is Mr. Lasse Gustavsson, Executive Director, Conservation, WWF. Mr. Gustavsson has for many years worked for the WWF and other organizations that focus on resource utilization and sustainable solutions. Mr. Gustavsson possesses special insights into the world of partnerships with the private sector.

The third speaker is Mr. Miguel Pestana who is Vice-President for Unilever's global external affairs and is responsible for engagements with global stakeholders, tackling global issues and crisis management. In 2010 Unilever introduced its Sustainable Living Plan aiming at reducing the environmental footprint related to the production of Unilevers wide range of products by 50% in 2020.

Our moderator for the meeting will be the renowned Danish TV-host and commentator, Mr. Clement Kjersgaard. I am confident that Mr. Kjersgaard will facilitate our discussion and help our "think tank" to produce appealing ideas that could open paths for future decisions on how the agri-food sector can contribute to a successful green transition of our modern economy.

Yours Sincerely,

Mette Gjerskov

## The agri-food sector and green transition of the economy

### The context

The European economy has been successful in securing many decades of growth in wealth and well-being. Today we are also faced with other challenges such as preserving our environment and mitigating climate changes. In this context the challenge of resource scarcity is becoming more and more important to solve, and "business as usual" does not appear to be an option!

Businesses risk significantly rising costs for essential raw materials and minerals. Scarcity and price volatility are challenges that call for new approaches and initiatives. The European Commission conveys that demand for food, feed and fibre may increase by 70 % by 2050, thus raising the question of resource scarcity of 60 %. At the same time the world's major ecosystems that help produce these resources have already been degraded or are used unsustainably[1].

The agri-food sector is a significant contributor to the effects that cause climate change and is in return dramatically affected by climatic instability. Agriculture and food production represent 40 % of the total global industrial energy demand[2] (including emissions embedded in inputs), while global direct agriculture emissions[3] (without carbon losses from land use and land-use change) make up 10-12 % of total greenhouse gas emissions. Livestock ruminants alone provide a major portion of these emissions. Furthermore, today the agricultural sector accounts for 70 % of total global freshwater withdrawals[4]. Even when keeping agriculture water consumption at a status quo level, OECD still projects global water demand to increase by 55 % by 2050 due to growing demand from manufacturing (+400 %), thermal power plants (+140 %) and domestic use (+130%)[5]. Economically the combined agri-food sector in the EU accounts for approximately 17 million jobs (7,6 % of total EU employment) and for 3,5 % of total Gross Value Added in the EU.

[1] Commission Communication, *Roadmap to a Ressource Efficient Europe*, COM(2011)571final, 5.9.2011
[2] http://www.fao.org/fileadmin/templates/wsfs/docs/expert_paper/How_to_Feed_the_World_in_2050.pdf
[3] http://www.fao.org/climatechange/micca/en/
[4] The United Nations World Water Development Report 4, Volume 1. UNESCO: 2012
[5] OECD Environmental outlook to 2050: The Consequences of Inaction. Highlights. OECD, 2012

The growing demand for food and fibre is both part of the challenge, but also a part of the solution. On a global scale, meat consumption in both the developed and developing world, is projected to double from the 229 million tonnes worldwide in 1999/2001 to 465 million tonnes in 2050[1]. The increasing purchasing power of the middle classes in emerging economies is foreseen to result in a demand for meat, fish and dairy products which are not only cheap, safe, convenient but also environmentally friendly and sustainably produced. If these new markets reward products that are sustainably produced, it could be an opportunity for the European agri-food sector.

The challenges and constraining factors are first and foremost scarcity of natural resources as input to the agri-food sector, soil fertility, access to water and $CO^2$ emissions from production. Contributing to well functioning ecosystems and halting biodiversity loss are some of the services that the global society expects the agri-food sector to provide.

In a nutshell, the challenge is to deal with the scarcity of natural resources and the increasing demand for resources at the same time. If the challenge is not solved successfully it will have negative long-term implications for economic growth, global income distribution and environmental resilience. On the other hand, solving the challenge could be the core of the agri-food sector's contribution to the large scale green transition.

Scarcity will lead to restricted access to ressources and thus to a significant increase in prices, which will be a significant disadvantage for the European agri-food sector, which is heavily dependent on import of raw materials. A likely consequence of scarcity will thus be that the sustainability of a given ressource to an increased degree will be subject to demand and supply. Such changes in global trade patterns must be dealt with proactively by the European agri-food sector. Increasing oil prizes will create incentives for increased energy efficiency and renewable energy. Waste and by-products will be regarded as valuable resources, that will be utilized in a resource-efficient way. The question that needs to be explored is what policy interventions are most likely to be succesfull? New challenges will need novel approaches.

[1] FAO 2006, *Livestock's Long Shadow*, Rome, Italy.

**The Concept of Green Growth**

*The Europe 2020 growth strategy*

Europe 2020 is the growth strategy of the coming decade and is the answer to the challenges mentioned above. Europe 2020 aims at turning the European economy into a smart, inclusive and sustainable economy. Sustainable growth is defined as:

- building a more competitive low-carbon economy that makes efficient, sustainable use of resources.
- protecting the environment, reducing emissions and preventing biodiversity loss
- capitalising on Europe's leadership in developing new green technologies and production methods
- introducing efficient smart electricity grids
- harnessing EU-scale networks to give our businesses (especially small manufacturing firms) an additional competitive advantage
- improving the business environment, in particular for SMEs
- helping consumers make well-informed choices.

Other Europe 2020 initiatives on ressource efficiency and bioeconomy are also relevant for the agri-food sector, and possible synergies between the different policy instruments should be exploited fully.

*OECD Green growth concept*

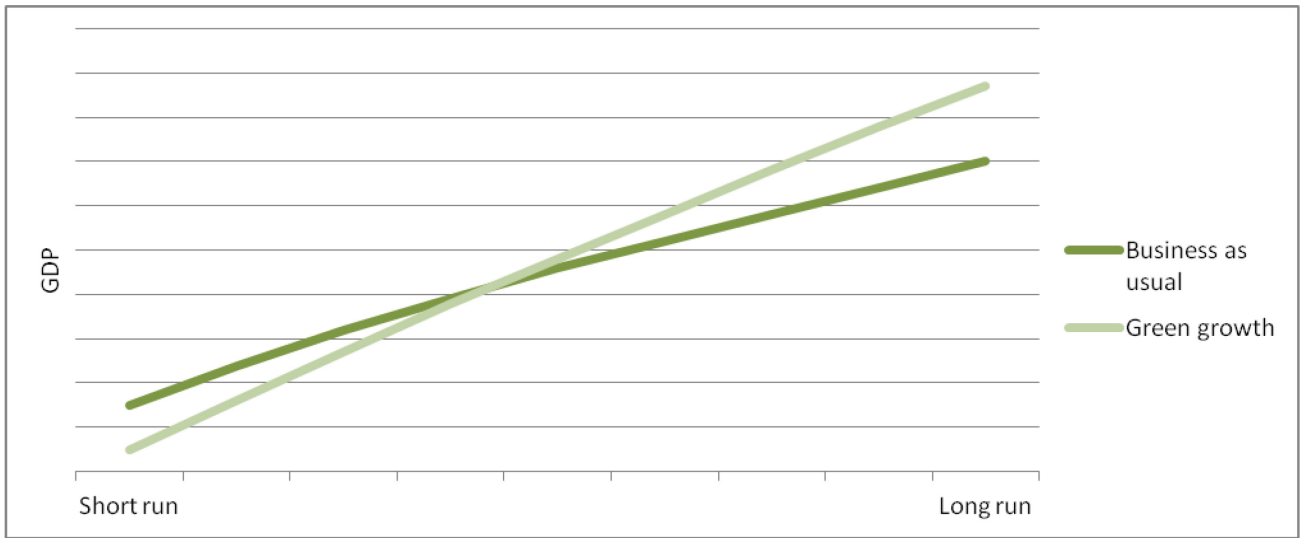
OECD, the Organization for Economic Co-Operation and Development, has recently undertaken a major analytical work on green growth[1]. The point is that the green growth model recognizes that steps to protect and conserve environmental resources can be a driver for national and global economic progress.

It can be argued that green growth will involve an opportunity cost in terms of reduced economic growth: some resources are consumed by actions and activities to protect environmental quality, or some output will be foregone. But this trade-off arises precisely because the cost of environmental protection is not accounted for under "business as usual", and therefore in the short run output would be higher than under a green growth trajectory. However, because production practices that deplete and/or degrade the natural resource base needed for future growth are unsustainable, in the long run the situation would be reversed. Under green growth the resource base would be preserved -or even enhanced if damages are reversible- thus leading to higher output than "business as usual".

[1] Based on OECD *A Green Growth Strategy for Food and Agriculture*, May 2011, esp. pp. 14-18.

The figure below represents possible future trajectories of growth in GDP over time. It is highly stylized -the business as usual path may be flatter or even negative should implied resource use be unsustainable.

**Box: Comparing output from business as usual vs. green growth**




Source: OECD Secretariat.

## Green transition policy instruments and effects

*Regulation and incentive–based approaches*

Developments in the agri-food sector are to a large extent influenced by policy measures. In particular through regulation in the form of directives on eg. biodiversity, water and nitrate. Such policy interventions can lead to expenses which can not directly be passed on to consumers and thus risk becoming a problem for European competitiveness. This calls for the EU to constantly striving to be at the forefront with regard to productivity and product innovation. Otherwise we risk loosing jobs and growth to other parts of the world. Another example of policy measures that influence the sector, are incentive-based approaches such as the support programmes of the Common Agricultural Policy. In its reform proposals on the CAP, the Commission has put strong emphasis on the greening of the direct payments. Direct payments should promote sustainable production by assigning 30 % of the direct payment to mandatory measures that are beneficial to climate and the environment. With the enhancement of the overall environmental performance of the CAP through such greening of direct payments by means of certain agricultural practices in favour of the climate and the environment, the CAP clearly contributes to green transition of the economy of the EU.

*Innovation support programmes*

Research and innovation are keys for the agri-food sector in order to improve the overall performance, not only in terms of increasing outputs, but also in terms of animal welfare and environmental friendliness. In order to be able to "produce more from less" and thereby significantly reduce the environmental footprint of the agri-food sector, new approaches and novel technologies are needed. Efforts in research, innovation and in particular links between stakeholders in the sector are essential to support the transfer of knowledge and the continuing development of new ideas, products and processes that are usable in practice. The European agri-food sector has a unique opportunity to actively contribute to a society less dependent on fossil fuels by driving the development of a biobased society. A strong emphasis on research and innovation is needed. Fortunately, the EU has a platform to build on to generate such "new earnings": For example by utilisation of manure in the production of biogas, by producing today's oilbased products from plant material, producing blood deluting material from pig intestines to be used in the pharmaceutical sector or by utilizing cheese whey as a source of protein in high value energy drinks for human consumption.

The European Commission has launched several initiatives devoted to increasing innovation in the agri-food sector. Amongst these are the current *CAP reform proposal*, the flagship *Innovation in the EU* and the European Innovation Partnership on *Agricultural Productivity and Sustainability* and the Communication on *Innovating for Sustainable Growth – A Bioeconomy for Europe*. Emphasis is on the sector's contribution to addressing the societal challenges and increase the competitiveness of Europe. Ambitions are backed up by financial means and the European Commission has proposed in the order of € 4,5-4,7 billion to increase the innovative capability of the agri-food sector (incl. marine research), in the proposal for a multiannual financial framework for 2014-2020 and the Horizon 2020.

**Business models**

Business models can and should promote green growth. The policy instruments used in order to promote green growth business models should arise out of reflection on what the market mechanisms can and cannot handle. A key focus is to identify where government intervention is needed in order translate overexploitation or depletion of natural resources into a market incentive for green transition. In this context policy interventions could equally be the promotion of voluntary initiatives such as third party certification programmes, public procurement or business to business standards.

Organic production and products is a good example of a green growth business model where a mix of a market pull and policy incentives lead to 1) more sustainable production methods on the ground (green) and 2) added value (growth). "Organic farming" as a green growth business model is driven by a unique supply/demand situation where frontrunner producers take advantage of an opportunity in the market. The businessmodel is nourished by governmental financial support schemes, innovation, consumer patterns and pull from the market.
To achieve these objectives, new types of skills, multidisciplinary policy approaches and interactions between stakeholders, such as farmers, processing industries and consumers will be needed. Public-private partnership is one way of establishing cooperation between legislators and businesses.

***Solutions or business as usual?***

Businesses must be challenged and encouraged to be more innovative while outsourcing of jobs and investments must be discouraged. At the same time Europe will have to be smart in order to reap the first-mover benefits of green growth. In other regions of the globe, investments in green innovation are significant compared to the EU, e.g. South Korea that until 2015 will spend 2 % of GDP on green infrastructure, research in and development of green technology[1].

Green growth is already happening. EU policy initiatives are supporting green transition, both horizontally and in various sectors. The question worth considering is if enough is being done and if the pace and direction is right?

[1] Towards green growth - A summary for policy makers, OECD, May 2011

The challenges ahead call for a more proactive and innovative approach. We need frontrunners to pave the way – and frontrunners need more than regulation to be successful – they need proper incentives and enabling conditions. The question is if and how the right mix of policy instruments is achieved in order for the agri-food sector to match the challenges ahead? How do we make sure that it is done with proper strategic forethought? Smart solutions and new income possibilities are needed in order to create the competitive advantage that the agri-food sector needs to overcome the challenges.