

EDITORIALE

# Present and future of Southern European agriculture

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## **Agricultural trade liberalization and the Mediterranean region**

Agriculture is one of the conflictive issues in the relationships between the EU and the Mediterranean Partner countries. There is a certain confrontation between the expectations of developing economies to open agro-food markets in the EU and the fear of Southern European farmers that a higher international competition may endanger their own subsistence. Which is the real dimension of this competition and which are its related effects? This paper discusses the effects of globalization on Southern European regions affected by the increased agricultural trade, very much related to the bilateral agreements reached between the EU and countries not only inside the Mediterranean area (the so-called 'Barcelona process') but also outside (Chile, Mexico, South Africa). The strategy followed by such agreements includes a series of reciprocal agricultural concessions and the compromise to negotiate, after a transitory period, greater concessions on the basis of a product-to product assessment.

Tariff concessions imply significant price advantages for the preferential countries. From the territorial point of view, the impacts of agricultural trade liberalization are concentrated in those EU regions specialized in products that receive direct competition from the imports from Mediterranean Partner Countries (MPCs) which have signed free trade agreements with the EU. To be more precise, there are 35 EU regions in which fruits and vegetables (in addition to olives) represent more than 45% of the gross added value of the regional agricultural sector and these regions are localized essentially in Southern Europe.

## **Are rural areas in Europe in trouble?**

We cannot deny the local impacts of agricultural trade liberalization on the Mediterranean agriculture. However, the temptation to blame the MPCs' agro-exporting

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sector for the structural problems of the Southern European production is really high. As a matter of fact, this debate has been distorted by the lack of understanding about the real problems of rural areas in Southern Europe.

First of all, we have to identify what should not be observed as problems but as normal challenges related to the rapid changes in the international economy. A number of rural areas in Southern Europe should not be seen as lagged regions any more. In fact, as the work in OECD has recognized in recent years, 'rural' is by no means synonymous with 'decline'. This is shown not only by the dynamics of some high-value Mediterranean products such as olive oil and wine, but also by the emergence of off-farm activities related to tourism, leisure and logistics. Perhaps it is soon (and for sure undesirable) to anticipate a 'rural world without farmers'. Nevertheless, a detailed study of the complexity of social situations in the rural areas would help us to find out a wide range of socio-professional situations and to accept that the traditional family farm is only a (declining) part of the system. There are clear signs of a reversal of the rural out-migration trend in Northern Europe, and this process is also being observed in some rural areas in Southern Europe, in particular where commuting with urban areas becomes easier.

The new rural economies are not exempt of challenges, in many cases due to the aged labor force, the weak entrepreneurship, and the environmental effects related to the preservation of landscape and the management of territory. Most of these effects can be managed through regional policies equipped with adequate instruments. The standard approach of agricultural policies, which has been based on a large subsidy component to farming (including the last CAP's single payment scheme), might be helpful to soften the social impacts of adjustments but it is less effective to guarantee a sustainable development in rural areas.

With this broad picture of rural areas, the argument of a globalization impoverishing Southern European agriculture loses power. It is true that international delocalization of production is taking place outwards the EU. However, this should not be a long-term problem for the European countries as long as their agro-food economy is reoriented to activities that offer a higher added value and that are technology-intense. On a long-term basis, the agro-industrial system of the Mediterranean regions in the EU would profit from exporting technology and services to the MPCs and from the integration of the whole Mediterranean food and agricultural system in the European markets. This is a future picture that makes sense to the younger generations.

### **Are F&V growers in trouble?**

This economy-wide perspective does not hide the income difficulties currently faced by the agricultural areas specialized in fruit and vegetables (F&V), many of them located in Italy and Spain. The crisis is largely explained by, firstly, a fall in F&V consumption related to changes in life style towards convenience; and secondly, the lagged response of supply when assets are specific and lack flexibility (permanent

crops, small farms). This equation results in overproduction. However, there is a third factor of crisis that makes the marketing of horticultural products to be increasingly different from what it was just a decade ago. This factor refers to the growing relevance of the negotiation capability of modern distribution. Under its power, the producers (farmers, traders and food processors) tend to adjust their production to the strategies of the leading groups. Agricultural producers frequently complain about the high intermediate margins between the origin prices and the sale prices for end consumers. Retailers are able to switch volumes between suppliers and force them to (i) accept low prices in order to get volume growth; (ii) comply with EurepGap and other private standards. The result of this process is a pro-large farmers' bias. Small farmers in Southern Europe are aware of this trend but a better understanding about what enables cooperation to take place along the supply chain is needed. All this calls for a new strategy based in an improved supply organization. This has not been adequately promoted by an agricultural policy model based on trade protection and production subsidies.

### **The quest for coordination in horticultural markets**

Coordination and organisation are key words when policies tailored to the F&V sector are considered. These words have been recognised by the recently approved Common Market Organisation (CMO) in F&V, reformed in June, 2007. The CMO draws its support to horticultural farmers on the creation and enhancement of Producer Organisations (POs). These can be seen as engines to concentrate production given the low level of sales per farm cooperative in Italy and Spain in comparison with other countries in Northern Europe. But supply concentration is not enough. POs should be considered as an effective way to increase collaboration between growers and other members of the supply chain. All stakeholders share interests in cost reduction, quality upgrading and risk management. If this is recognized, there is a need for policies oriented to undertake collective action approaches within supply chain agribusiness. There is also scope for agricultural economists to identify alternative pathways for smallholder cooperation in response to specific supply chain challenges. Why do cooperative societies sometimes perform successfully and sometimes fail? What are the strengths or weaknesses of different strategies for market integration? For a great deal of social science, including neo-institutional economics, it will be necessary to find appropriate answers to these questions.

### **A shared policy agenda**

Given the growing concentration of demand, the external protection of the EU can contribute to soften the adjustment costs, but it is not a solution for its weakness. Blaming the Barcelona process and the gradual liberalization undertaken by the EU

for F&V trade of the market saturation problems is inaccurate. As we have argued, policies should address the lack of adaptation of fruit and vegetable growers to the new tendencies in consumption and distribution.

Likewise, by closing its markets the EU hardly contributes to help developing countries in their escape from poverty. At the same time, it does not seem that the MPCs can immediately profit from the trading advantages implied in a substantial opening of the European fruit and vegetable markets. Growers in this part of the Mediterranean region also suffer from lack of market power and transparency similarly to what we have mentioned about Southern European farmers.

Why then not talk about a common agenda for Mediterranean agriculture including its Northern and Southern shores? Farmers in both sides of the Mediterranean basin are affected by common problems, with different intensities but needing similar approaches. Some of these problems are of a special concern, such as the water scarcity, the opportunity for improving quality and the lack of adequate organisation to face the market power of supermarket and the big distribution. Biodiversity of Mediterranean production systems and the corresponding food habits are severely challenged by the culture of uniformity that would result in a drastic trade liberalisation without accompanying policies. These policies would include measures such as:

- the development of geographical indications,
- the labelling of Mediterranean food,
- the promotion of international cooperation between farmers and their organisation of different areas of the Mediterranean,
- the support to professional associations assisting farmers,
- the improvement of human capacities to improve territorial competitiveness.

Policies must address to the specificities of the supply chain, which relate to risk management, quality assurance, human capital, logistics and information technology and other characteristics that cannot be tackled through traditional subsidies. Southern Europe receives a considerable amount of public resources that could be spent with more efficiency and equity, even if that would mean a higher degree of co-financing by national and regional administrations.

A practical way to approach this shared role for agriculture in development of the different shores of the Mediterranean basin is to arrive at a common view of non-distorting or Green Box payments. Northern and Southern Mediterranean countries should together be able to provide clear guidelines for other WTO members for this type of agricultural support, guidelines that would allow the EU to keep non-trade agriculture products at the desired level, while simultaneously enabling Southern Mediterranean countries to provide their farmers with the required support to improve their quality of life and restructure their farms, and to meet the other needs of their agricultural populations.