EU Agricultural Policy and Sustainability

J. BENSTED-SMITH, Director

IPC Seminar 2007, Stratford
1. Economic Sustainability

a) Trends

b) Outlook (Cereals)
a) **Trends**
### Key figures of the agricultural sector

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>UE-15</th>
<th>EU-N10</th>
<th>UE-25</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (mio pers.)</td>
<td></td>
<td>381</td>
<td>74</td>
<td>455</td>
<td>22</td>
<td>8</td>
</tr>
<tr>
<td>UAA (mio ha)</td>
<td></td>
<td>133</td>
<td>34</td>
<td>167</td>
<td>14,8</td>
<td>5,3</td>
</tr>
<tr>
<td>Agricultural income (bio €)</td>
<td></td>
<td>174</td>
<td>13</td>
<td>187</td>
<td>5,9</td>
<td>1,8</td>
</tr>
<tr>
<td>Agriculture in GDP</td>
<td></td>
<td>1,9%</td>
<td>3,1%</td>
<td>1,9%</td>
<td>11,7%</td>
<td>10,0%</td>
</tr>
<tr>
<td>Employment in agriculture (mio)</td>
<td></td>
<td>6,3</td>
<td>3,6</td>
<td>9,9</td>
<td>2,7</td>
<td>0,8</td>
</tr>
<tr>
<td>Share in total</td>
<td></td>
<td>4,0%</td>
<td>12,4%</td>
<td>5,2%</td>
<td>34,0%</td>
<td>26,0%</td>
</tr>
<tr>
<td>Agricultural trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share in total exports</td>
<td></td>
<td>8,8%</td>
<td>6,1%</td>
<td>8,6%</td>
<td>3,3%</td>
<td>3,3%</td>
</tr>
<tr>
<td>Share in total imports</td>
<td></td>
<td>8,8%</td>
<td>5,9%</td>
<td>8,6%</td>
<td>7,5%</td>
<td>7,5%</td>
</tr>
<tr>
<td>Food expenditure:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>share in household expenditure</td>
<td></td>
<td>12%</td>
<td>26,8%</td>
<td>17,0%</td>
<td>35,0%</td>
<td>32,0%</td>
</tr>
</tbody>
</table>
Average farm size reaches 11.5 hectares for EU-27 but varies from 1 ha to 80 ha across Member States.
Most of farms have a limited size in area and structural development occurs at a low pace
66% of farms have less than one full-time job and employ 27% of the labour force

Distributions of holdings and of labour force by category of level of labour force per holding in the EU-27 - 2003

Categories of farms according to the level of the labour force (in annual work units)
Medium term perspectives up to 2013: loss of 4.2 mio farms, 3.8 mio ha and 3.4 mio full-time jobs

<table>
<thead>
<tr>
<th></th>
<th>Number of holdings (million)</th>
<th>Utilised Agricultural Area (million)</th>
<th>Agricultural labour force (mio AWU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-15</td>
<td>6.2</td>
<td>4.8</td>
<td>126.1</td>
</tr>
<tr>
<td>NMS-10</td>
<td>3.7</td>
<td>2.6</td>
<td>30.1</td>
</tr>
<tr>
<td>BG + RO</td>
<td>5.1</td>
<td>3.4</td>
<td>16.8</td>
</tr>
<tr>
<td>EU-25</td>
<td>9.9</td>
<td>7.4</td>
<td>156.1</td>
</tr>
<tr>
<td>EU-27</td>
<td>15.1</td>
<td>10.9</td>
<td>173.0</td>
</tr>
</tbody>
</table>
b) Outlook
Methodological approach

- **Main assumptions:**
  - Uruguay Round Agreement on Agriculture maintained constant
  - Favourable, though positive world agricultural market outlook
  - Market share of biofuels in 2014 - 5%
  - Return to modest economic growth
  - $/€ exchange rate to reach 1.15 by 2014
  - By 2014 direct payments are assumed to be 91% decoupled (milk 100 %, arable crops 96 %, beef 79 %, sheep 82 %)
Assumptions for $/€ exchange rate and GDP growth
Crops

- **Medium term perspective appears positive for cereal markets in line with:**
  - CAP reform, decoupling and phasing out of maize intervention;
  - two consecutive low harvest in the EU in 2006 and 2007 causing a significant decline in stocks;
  - improving domestic use (emerging biofuel industry and feed);
  - favourable world market conditions and
  - the expected return to improved exchange rate conditions
  - removing regional imbalances of maize markets
  - medium-term risks of regional imbalances for barley (Germany) and soft wheat (new Member States).
Slightly expanding cereal markets and emerging bioethanol markets....

Development of cereal markets in the EU, 1995-2014 (mio t)
… lead to a return to modest levels of stocks on EU cereal markets …. 

Development of stocks and cereal exports in the EU, 1995-2014 (mio t)
...and change in the composition of public stocks ...

Composition of public stocks in the EU (mio t), 1995-2014

EU-15

EU-25

EU-27

wheat

barley

rye

maize
… with more evenly spread public stocks across regions.
Cereal prices should stay firm over the medium term.

Development in cereal prices in the EU (EUR/t), 1991-2014
2. Environmental Sustainability

a) Cross compliance

b) Rural Development
a) Cross Compliance
– Introduction of **Cross-Compliance** as a **sanctioning mechanism**

– **19 statutory European standards** (environment, food safety, plant and animal health, and animal welfare) subject to cross-compliance sanctions

– Obligation to keep *land* in “**Good Environmental and Agricultural Conditions**” (Horizontal Regulation, Annex IV) targeted towards:
  - Combating erosion
  - Avoiding the loss of soil organic matter
  - Preserving soil structure
  - Ensuring a minimum level of maintenance

– Maintenance of historical level of **permanent pasture**
WHAT IS CROSS COMPLIANCE?

Two Types of standards

- 19 Directives and regulations = SMR
  Environment protection
  – Food Safety, animal and plant health and animal welfare

- maintenance of land in good agricultural and environmental conditions = GAEC
  - including the total permanent pasture area
SMR: environment

Surface water and Groundwater

Nitrates
Groundwater

Soil

Sewage Sludge

Nature protection

Wild birds
Habitats
SMR: sanitary and veterinary legislation

**Animal Id.**
- Animal identification and registration
- Plant protection products

**Public health**
- Hormone ban
- General Food Law

**Animal health and welfare**
- Animal diseases notification
- Animal welfare
GAEC: 4 issues, 11 standards

Soil erosion
- Minimum soil cover
- Minimum land management
- Retain terraces

Soil organic matter
- Crops rotations
- Arable stubble management

Soil structure
- Appropriate machinery use

Minimum level maintenance
- Livestock stocking rates
- Permanent pasture
- Retention landscape features
- Unwanted vegetation
- Olive groves
b) Rural Development
Three core objectives:

- Improving the competitiveness of the farm and forestry sector through support for restructuring, development and innovation

- Improving the environment and the countryside through support for land management

- Improving the quality of life in rural areas and encouraging diversification of economic activity
Trends

AXIS 1

At present
- 30-40% of the funds for axis 1
- Restructuring and modernization of farm holdings more important for the new MS
- Innovation, human capital and entrepreneurship more important for the old MS

In the future
- Competitiveness still more important due to elimination of export refunds and reduction of import tariffs
- Market segmentation, quality products of special character; training and further education; entrepreneurship and the use of new technologies
Trends

AXIS 2

At present

- 40-50% (partly up to 75%) of the funds for axis 2
- In some EU-15 MS: old AE obligations absorb considerable funds
- GAEC and CC standards are obligatory and cannot be compensated

In the future

- Clearer demonstration of the environmental benefit
- Clearer connection with priority areas of EU environmental action (e.g. biodiversity, climate change, water)
AXIS 3

**At present**
- minimum 10% (19% on average) of total fund to axis 3 “Quality of life and diversification”
- Improving working and living conditions for farming households and the rural community

**In the future**
- better promotion of innovative investments outside the agricultural sector
- move from a narrow agriculture to a wider rural perspective
- Strengthening the link between agriculture and other sectors of rural economy – narrowing the gap between urban and rural areas
3. Outlook 2020
1st & 2nd Level Drivers

**Exogenous (= where patterns are not likely to change)**
- Population growth patterns
- Macro-economic patterns
- Consumer preferences
- Agri-technology
- Environmental conditions/patterns

**Endogenous (= where changes are easier to achieve)**
- Agricultural policy
- Structural policy
- Environmental policy
- WTO and other international commitments
Conclusions and challenges for agriculture as identified by the study

1. Structural change process in agriculture is a long-term driver that continues *with or without* policy changes.

2. EU is facing an increasing diversity of structure and structural adjustment. The livestock sector faces important challenges and restructuring.

3. Alternative policy settings may not produce very different effect on the overall production. However, the regional impact may prove to be more significant.

4. The process of liberalisation has a greater impact on agricultural income than on agricultural production and land use.
   
   a) The reduction of border protection and export refunds has a higher impact on production, than a reduction of direct payments.
   
   b) The reduction of direct payments has a higher impact on agricultural income than on agricultural production.

5. However, at regional level, the impact may be more significant
   
   a) A process of liberalisation would lead to intensification in the most competitive regions and an extensification of production in others
   
   b) Adjustment processes in agriculture might be accompanied by an adverse or supportive economic and social situation

6. Increasing segmentation of EU markets will take place. This will be enhanced by further trade liberalisation and enlargement.
Changes in farm income / ha: Liberalisation vs. Baseline

Change in Income per ha, Liberalisation vs. Baseline
-60% and more
-60% to -55%
-55% to -40%
-40% to -20%
-20% to -10%
-10 and less
Changes in Nitrate surplus per ha: Liberalisation vs. Baseline in 2020
Conclusions

1. Alternative policy scenarios do not show highly different impact on the overall production levels (though more on income and structure)

2. “Liberalisation” would:
   a) affect production levels mainly through increased market access, rather than from a decline in income support
   b) show a significant impact on income and agricultural assets, including land (though this may help facilitating the structural adjustment process)

3. An increasing number of rural areas will become increasingly dependent on other sectors and driven by factors outside agriculture
Overall conclusion

1. Economic sustainability
   - Great diversity of structures in EU-27 linked with direct payments
   - Market instruments look sustainable based on outlook but need review/fine tuning

2. Environmental sustainability
   - Cross-compliance (SMRs + GAEC) sets baseline
   - RD Axis 2 addresses environmental sustainability
     RD Axis 1 + 2 address principally economic sustainability
   - longer term link between direct payments and farm structures and elements of environmental sustainability (e.g. biodiversity)
Experience from the 2005 negotiations on the Financial Perspectives 2007-2013

- A number of important MS insisted on a reduction of the total EU budget. This pressure is likely to continue
- 2002 Brussels ceiling for 1st pillar (293 billion Euro) respected, but not likely to be repeated
- Romanian and Bulgarian accession: covered within the Brussels ceiling
- RD funding was reduced from 89 to 69 billion Euro (EU-10: +16%, EU-15: -35%); with obligatory modulation = 78 billion Euro

But: modulation was introduced in 2003 to increase funding for the 2nd pillar, not to compensate for cuts in the overall budget