The CAP reform process in perspective: producer safety nets and their relevance

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Risk management measures and the CAP

Existing product safety nets
- New role of price intervention as safety net for market crises
- Disturbance clauses in market measures
- Sector specific measures (fruit and vegetables, wine)

Existing producer safety nets
- Direct payments – income support for the joint delivery of private/public good
- Rural development measures also provide indirect income support
- Insurance/mutual funds at EU and national level

Why the increased interest in risk management?
- Volatility in agricultural production and prices
- Impact of the economic crisis on agriculture
- Food security in the context of climate change and limited resources
The CAP debate at a glance

- Economic crisis
- Budget
- Climate change
The CAP and the budget

Direct payments

Markets

Rural Development

Modulation

Pillar I

Pillar II

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CAP reform and producer safety nets
The CAP and the budget

Direct payments

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Evolution of commodity price indexes (1960-2009)

(2000 = 100)

Source: World Bank, March 2010
The CAP debate at a glance

**Markets**
- Food chain issues
- Risk management
- Market instruments

**Direct payments**
- Income

**Rural development**
- Structural adjustment

**Budget**

**Economic crisis**

**Public goods**

**Climate change**

- Markets
- Direct payments
- Rural development
- Budget
Cumulative reductions in EU price support

Cumulative % reduction in price support from 1991 to 2009

Source: European Commission - DG Agriculture and Rural Development

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CAP reform and producer safety nets
The evolving role of EU support prices - wheat

( in € per metric tonne )

Sources: European Commission - DG Agriculture and Rural Development and World Bank

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CAP reform and producer safety nets
Impact of CAP reforms on EU net production surplus

Production as % of consumption

Wheat Barley Maize Beef Pork Poultry SMP Butter Cheese Sugar

Net production surplus: 1990/1994 avg
Net production surplus: 2005/2009 avg

Sources: European Commission – Eurostat and DG Agriculture and Rural Development
Recent trends in some commodity market prices

**EUR/t for maize and fresh milk**

- **Maize, US, Gulf**
- **Fresh milk, EU**
- **Crude oil, EUR/bbl**

**Sources:** European Commission - DG Agriculture and Rural Development and World Bank
Long-term price evolution along the food supply chain

Source: European Commission – DG Economic and Financial Affairs, based on Eurostat and Agriview data
The CAP debate at a glance

Markets
- Food chain issues
- Risk management
- Market instruments

Economic crisis

Direct payments
- Basic rate
- Other criteria
- GAEC

Income

Rural development

Structural adjustment

Public goods

Climate change

Budget
Share of DP and total subsidies in agricultural income

Source: European Commission – DG Agriculture and Rural Development
EU developments in agricultural income
(agricultural income/AWU in real terms)

EU-15

EU-12

( Index 2000 = 100 )

Source: Eurostat
Recent evolution of agricultural input and output prices

(2000 = 100)

Source: Eurostat
What risk to manage - and how?

- **We need to define the problem we want to solve**
  - Do we want price stability?
  - Do we want income stability?
  - Do we want to minimise (inevitable) price and/or income variability?

- **We need to clarify the appropriate policy measure**
  - Price safety net is not the same as price guarantee
  - Income insurance is not the same as revenue insurance
  - The mix of level of policy intervention (what at EU, what at MS level) is crucial

- **We need to view policy in its totality**
  - Different measures aim to achieve different objectives
  - Some “leakage” is inevitable in real world policies
  - Real challenge is to achieve coherence and consistency of overall policy direction
Thank you