# EU agricultural policy in a global context

Giovanni Anania

Department of Economics and Statistics
University of Calabria, Italy



“Reflections on the CAP from a long-run perspective”
Brussels, 26 February 2009

# *Reflections on the* EU agricultural policy in a global context *from a long run perspective: what implications for the CAP?*

Giovanni Anania

Department of Economics and Statistics
University of Calabria, Italy

n perspective”, Brussels, 26 February 2009]

## reflections, *from a long run perspective,* on

- the *key drivers* of the road ahead
- the implications for EU policies for agriculture and rural development





## 1. Globalization

[Giovanni Anania, "*Reflections on the CAP from a long run perspective*", Brussels, 26 February 2009]

*"the progressive, rapid increase of the spatial size of the potential market for any given good"*





- → trade will keep expanding at a fast pace
- → increased price competition -- for all products, domestically as well as internationally

*(less competitive farm and food industry segments producing relatively undifferentiated products will be driven out of the market)*

- → converging (and more diversified) food consumption patterns
- → diffusion of "*global products*"

*(scale economies, increased industry concentration; higher safety risks?)*

***…but, at the same time,***

→ **increased demand for "quality" products, i.e. products which are differentiated because of specific *product* or *process* quality attributes which (certain) consumers recognize and are willing to pay for**

***(opportunities for agricultural and agro-food segments able (a) to produce differentiated quality products and (b) to market them globally)***





1. **Globalization**
2. **Increased international competition as a result of trade policy changes**

## *multilateral trade negotiations, what to expect?*

- ***Yes!*** **…by 2030 there will be an agreement concluding the DDA round**

  ***the negotiations and the agreement will not effect developments in EU policies for agricultural and rural development***

- **another round by 2030?**

→ **increased market access on MFN basis**

→ **the WTO framework will be strengthened**



## *changes in EU trade policies*

***deepening*** **and** ***widening*** **of EU trade preferences in agro-food products**

- **the *Economic Partnership Agreements* with ACP countries**
- **EU enlargement to the Balkans, Turkey (?), …**
- **the *European Neighborhood Policy,* economic integration in the Mediterranean and along the Eastern border**
- **bilateral and regional trade agreements currently being negotiated**
- ***increased capacity of partner countries to exploit potential benefits of trade preferences***

→ **further "market re-orientation" of EU prices of agro-food products**

***i.e. lower and more volatile domestic prices***





1. **Globalization**
2. **Increased international competition as a result of trade policy changes**
3. **Economic growth**

## economic growth

- per capita incomes expected to grow everywhere, although at different rates
- per capita food consumption in developing countries will increase
- per capita food expenditure will increase
- composition of food consumption will change
- demand for quality differentiated food products will expand
- demand for food *ready-to-be-consumed* and *consumed away-from-home* will expand
- in developed countries demand for environmental protection and public goods and services will increase



## economic growth

→ trade in agro-food products will continue to increase; south-south, south-north and north-south trade will all expand

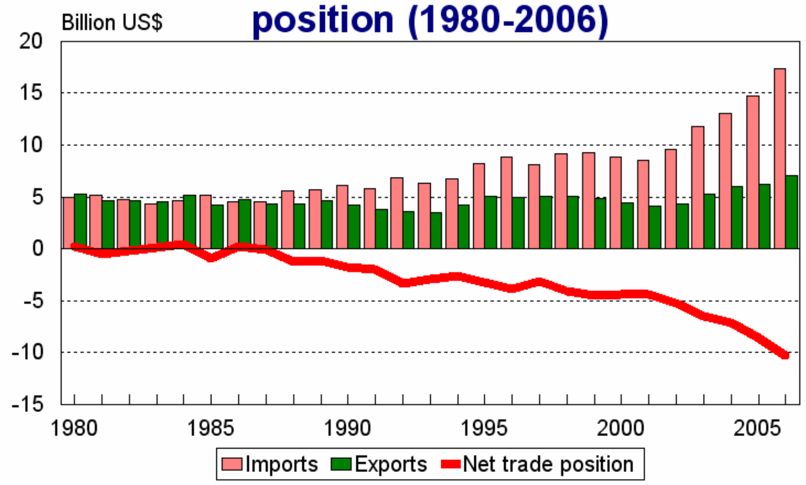
→ higher-value products will be a larger and growing share of food consumption

→ quality differentiated products will be a larger and growing share of food consumed by richer consumers

***will malnutrition decline?***

## …looking to the past to understand what may lie ahead

**Least Developed Countries. Agricultural products: imports, exports and net trade position (1980-2006)**

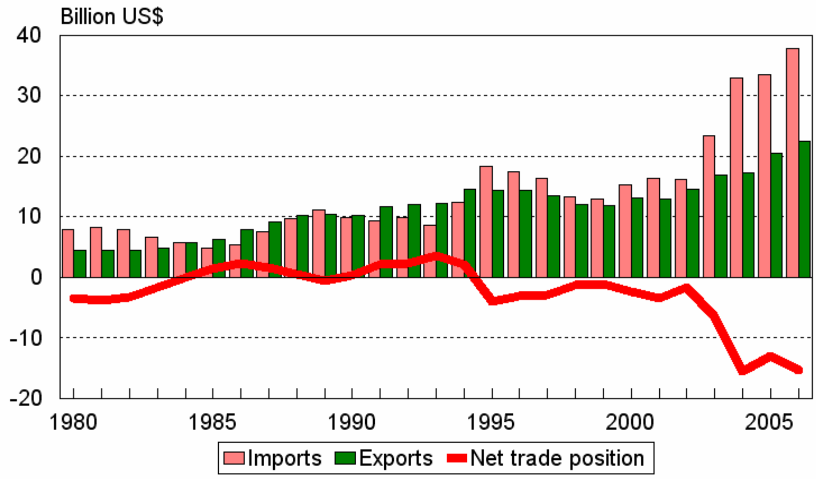



Source: Faostat.



## …looking to the past to understand what may lie ahead

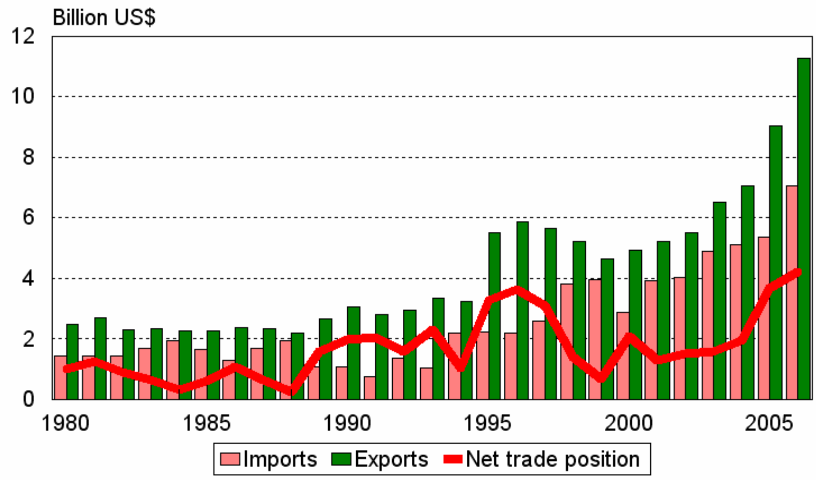
**China. Agricultural products: imports, exports and net trade position (1980-2006)**




Source: Faostat.

## …looking to the past to understand what may lie ahead

### India. Agricultural products: imports, exports and net trade position (1980-2006)

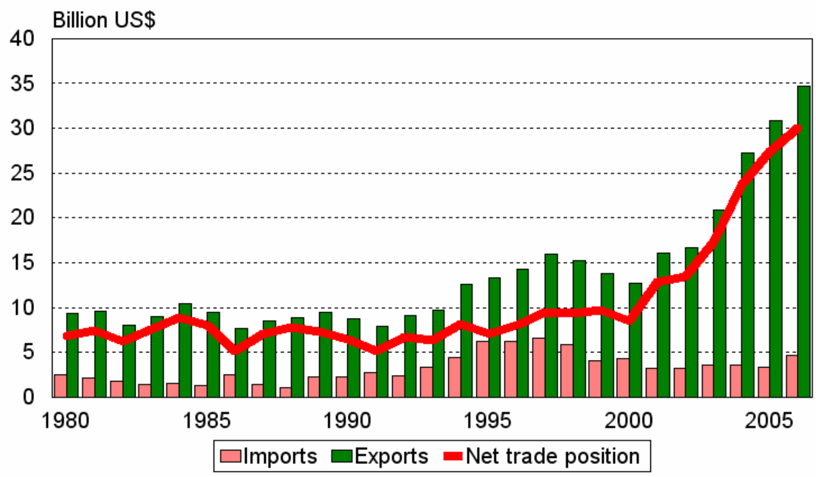



Source: Faostat.



## …looking to the past to understand what may lie ahead

### Brazil. Agricultural products: imports, exports and net trade position (1980-2006)




Source: Faostat.

## the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth
4. Demographic changes



## demographic changes

- world population is expected to grow at a still robust, though declining, rate
  - → food consumption will increase
- the age structure of the population will change (in opposite directions in high and low rate of growth countries)
  - → composition of food consumption will change

## the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth
4. Demographic changes
5. Increased international competition as a result of non policy-related changes



## increased competition (non policy-related changes)

*changes in the relative competitiveness of agro-food systems*

- structural adjustment
- production and adoption of innovations
- competitiveness and institutional strengthening

*where to look to?*

...to the more developed and more dynamic components of the developing world and transition economies (more than least developed and other developed countries)

## the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth
4. Demographic changes
5. Increased international competition as a result of non policy-related changes
6. Further structural changes in the food retail industry



## changes in the food retail industry

- more and more food bought in large stores, everywhere
- increase in the (*already very high*) concentration of the food retail sector
- more, and more stringent, food safety and quality standards set by the retail sector
- potential suppliers required to be able to perform an increasing number of tasks: from delivering a basket of food products, in large volumes, over an extended period of time throughout the year, to providing logistical services

## changes in the food retail industry

→ increased imbalance of power distribution along the food chain; increasingly challenging minimum requirements to be satisfied by the agro-food firms in order to be considered by the retail sector as potential suppliers

*(need for adjustments at farm level and for horizontal and vertical coordination or integration)*

*(a barrier to trade: some excluded, some protected from low-cost competition …but nevertheless subject to the market power exerted by the retail sector)*



## the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth
4. Demographic changes
5. Increased international competition as a result of non policy-related changes
6. Further structural changes in the food retail industry
7. Demand for non-food agricultural products

## the main key drivers of the road ahead

1. Globalization
2. Increased international competition as a result of trade policy changes
3. Economic growth
4. Demographic changes
5. Increased international competition as a result of non policy-related changes
6. Further structural changes in the food retail industry
7. Demand for non-food agricultural products
8. Malnutrition will decline, but will not disappear



## food security still an issue

- according to FAO, and without taking into consideration the effects of the financial crisis, next year 680 million people will be chronically undernourished, 10% of world population
- but world food supply in 2010 will be equivalent to 2900 calories per capita per day (2500 are needed for a healthy life, 1900 is the threshold of undernourishment)
- the answer is not more food, the answer is poverty reduction

[Giovanni Anania, "*Reflections on the CAP from a long run perspective*", Brussels, 26 February 2009]

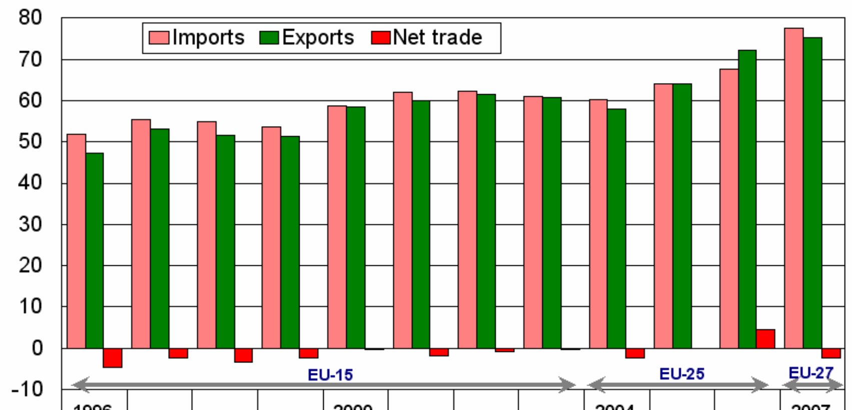
## *the global context: the EU, a major global player*

- **in global agro-food markets**
  **#2 exporter in 2007, 9.6% of the world market**
  **#1 importer, 12.5%**



## *…looking to the past to understand what may lie ahead*

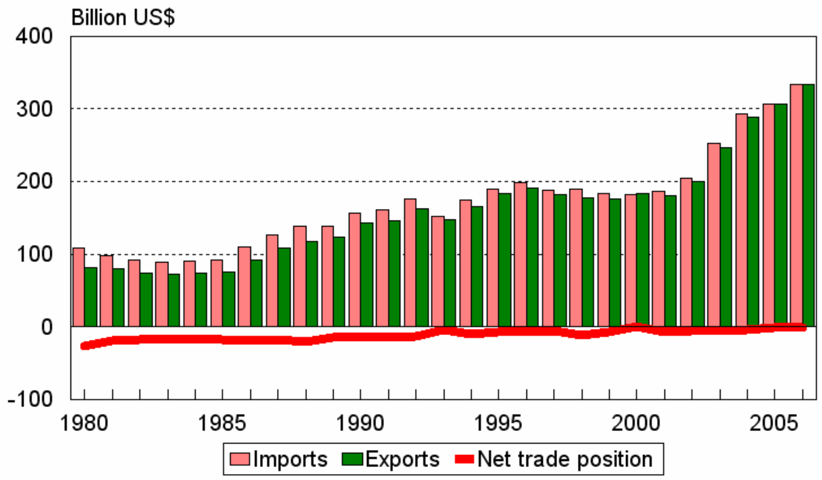
**European Union. Agricultural products. Imports, Exports and Net trade position (excluding intra EU trade)** (96-03: EU-15; 04-06: EU-25; 07 EU-27; Billion euro)




| | 1996 | | | | 2000 | | | | 2004 | | | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Imports | 51,872 | 55,307 | 54,87 | 53,616 | 58,64 | 62,028 | 62,256 | 61,014 | 60,35 | 64,018 | 67,738 | 77,515 |
| Exports | 47,319 | 53,035 | 51,603 | 51,23 | 58,426 | 60,068 | 61,547 | 60,632 | 58,059 | 63,986 | 72,265 | 75,251 |
| Net trade | -4,553 | -2,272 | -3,267 | -2,386 | -0,214 | -1,96 | -0,709 | -0,382 | -2,291 | -0,032 | 4,527 | -2,264 |

Source: Eurostat.

## European Union. Agricultural products: imports, exports and net trade position (1980-2006)

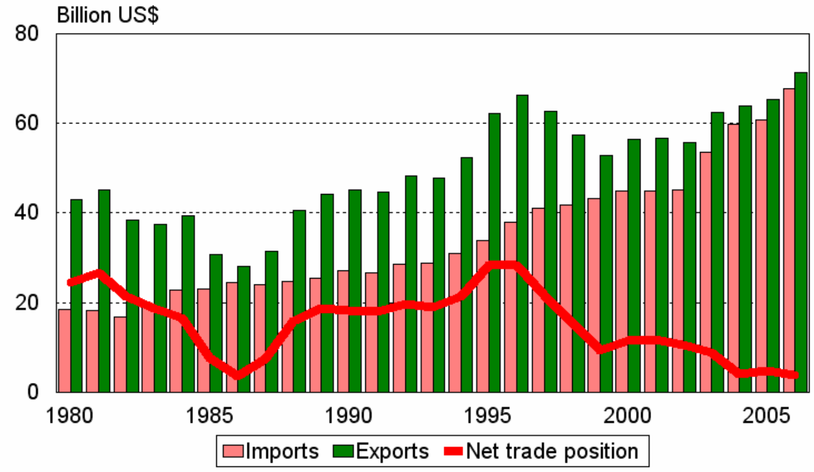



Source: Faostat.



*…looking to the past to understand what may lie ahead*

## Usa. Agricultural products: imports, exports and net trade position (1980-2006)




Source: Faostat.

[Giovanni Anania, "*Reflections on the CAP from a long run perspective*", Brussels, 26 February 2009]

## *the global context: the EU, a major global player*

- in global agro-food markets
  **#2 exporter in 2007, 9.6% of the world market**
  **#1 importer, 12.5%**

- in global markets
  **#1 merchandise exporter, 16.4%**
  **#2 importer, 18.4%**

- in the international relations playing field

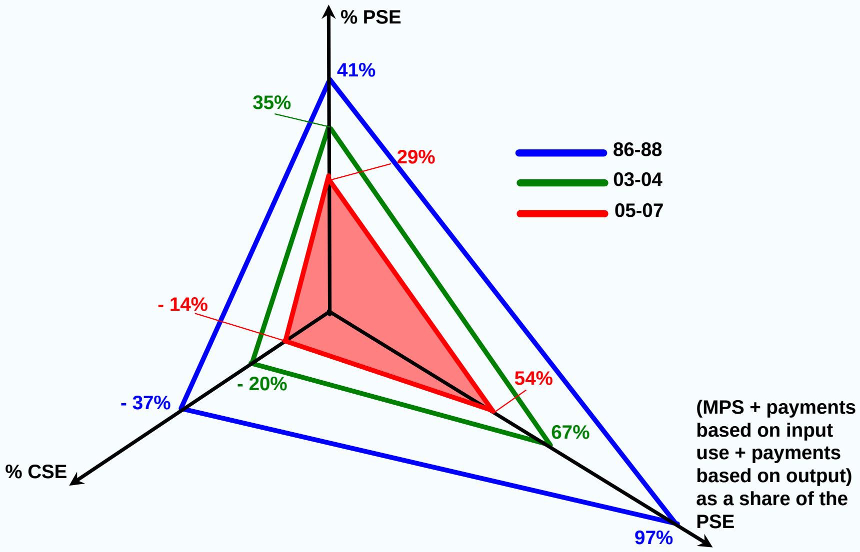
…and *a responsible global player*



## *key implications of the global context in 2030*

- greatly expanded trade, larger and more integrated markets
- high-value products will constitute a larger share of food expenditure
- increased price competition (on domestic as well as international markets) from systems able to produce at *low costs* undifferentiated products (commodities) or products with a low level of differentiation (i.e. with a relatively high degree of substitutability with "similar" products)
- increased market opportunities for quality differentiated products
- increased farm income volatility

*…looking to the past to understand what may lie ahead*








## *…more of the same:*

- fewer financial resources for the CAP
- regionalization of direct payments?
- stronger and more effectively enforced cross-compliance conditions *(…or the other way around?)*
- more voluntary schemes to support production of non-market, socially valuable, good and services
- a more uniform CAP in the EU-15 and EU-12
- more space for national choices in policy implementation

- **plus, possibly, something a little different from what we have already seen:**
  - **new (genuine) safety net policy instruments**
  - **partial (re)nationalization?**

***is this what is needed to face the new challenges from the evolving global context?***





***what is missing?***

→ **more (and more effective) policies aimed at strengthening the *__competitiveness__* of EU agri-food systems, domestically and abroad**

## three priorities:

→ the ***economy of scale*** competitive wedge

→ the ***quality-based*** competitive wedge

→ the ***innovation-based*** competitive wedge





## the *economy of scale* competitive wedge

**(for large components of certain agricultures the issue of the *structural adjustment* of farms is a prerequisite for competitiveness)**

**European Union 15. Average farm size (UAA) in 1987 and 2005 (ha; % changes)**

| | 1987 | 2005 | % change 05-87 |
|---|---|---|---|
| Austria | ... | 19,1 | |
| Belgium | 17,3 | 27,1 | *56,5* |
| Denmark | 32,5 | 53,6 | *65,0* |
| Finland | 13,2 | 32,1 | *142,9* |
| France | 30,7 | 48,7 | *58,5* |
| Germany | 17,6 | 43,7 | *148,2* |
| Greece | 5,3 | **4,8** | ***-9,8*** |
| Ireland | 22,7 | 31,8 | *40,1* |
| Italy | 7,7 | **7,4** | ***-4,5*** |
| Luxembourg | 33,2 | 53,8 | *61,9* |
| Netherlands | 17,2 | 23,9 | *39,2* |
| Portugal | 8,3 | **11,4** | *36,9* |
| Spain | 16 | 23,0 | *43,9* |
| Sweden | 33,5 | 42,1 | *25,7* |
| United Kingdom | 68,9 | 55,7 | *-19,2* |

*the farm structure adjustment issue*

**European Union 12. Average farm size (UAA) in 2005 (ha)**

| | 2005 |
|---|---|
| Bulgaria | 5,1 |
| Check Republic | 84,1 |
| Cyprus | 3,4 |
| Estonia | 29,9 |
| Hungary | 6,0 |
| Latvia | 13,2 |
| Lituania | 11,0 |
| Malta | 0,9 |
| Poland | 6,0 |
| Romania | 3,3 |
| Slovak Republic | 27,4 |
| Slovenia | 6,3 |
| EU27 | 11,9 |
| EU25 | 16,0 |
| EU15 | 21,4 |

*the farm structure adjustment issue*

## the *quality-based* competitive wedge

quality → qualit<u>ies</u> (…consumer driven)

including: origin, food safety standards, organic, animal welfare standards, no GMOs, …

current EU "*product quality policy*" inadequate

...the *Communication on agricultural product quality policy* in May





## an agro-food product quality policy articulated in two, integrated, components:

- a regulatory component, to effectively
  (a) define quality characteristics, and
  (b) design controls to assure consumers that what they buy really is what they are told they are buying
- a policy action supporting the structural investments needed to help farms and firms to effectively exploit the potential value of the quality characteristics of their products

## the *innovation-based* competitive wedge

- product innovation
- innovation in the production process
- innovation in the services sold with the product
- from farm competitiveness to chain/territory competitiveness





***the competitiveness of European agro-food systems – regardless of their strategic market positioning (…undifferentiated/highly differentiated product markets) – will crucially depend, <u>more than in the past or today</u>, on maintaining an innovation-based competitive wedge***

## *the innovation-based competitive wedge*

maintaining this competitive wedge will depend on the capacity to continuously produce and rapidly adopt technological innovations related to both reducing costs and producing/improving product quality attributes

this implies the production and adoption of appropriate technologies in a very wide spectrum of areas, including product and process innovations, innovations in post-harvest technologies, processing, marketing, packaging, transportation and other logistic services



## *the innovation-based competitive wedge*

maintaining and strengthening an "*innovation-based*" competitive wedge requires much more than researchers producing innovations…

competitiveness will depend as much as on producing innovations as on ensuring a quick and smooth adoption process

→ the need to develop *integrated innovation policy plans* which extend over research, development, extension and adoption activities in a single plan of action

## conclusions

**looking at the CAP in a global context from a long run perspective:**

- → the current CAP appears inadequate to face the challenges ahead
- → the same is true for a CAP after incorporating the reforms which, based on recent trends, are likely to occur
- → new policy instruments are needed to help the farms with the potential to compete on the market



*Grazie!*