European Commission
Agriculture and Rural Development

Making EU Agriculture Fit for Global Competition

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Europe's rural areas in action - Facing the challenges of tomorrow

Limassol, Cyprus, October 16-17, 2008

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European Dairy Farmers

agri benchmark

Content

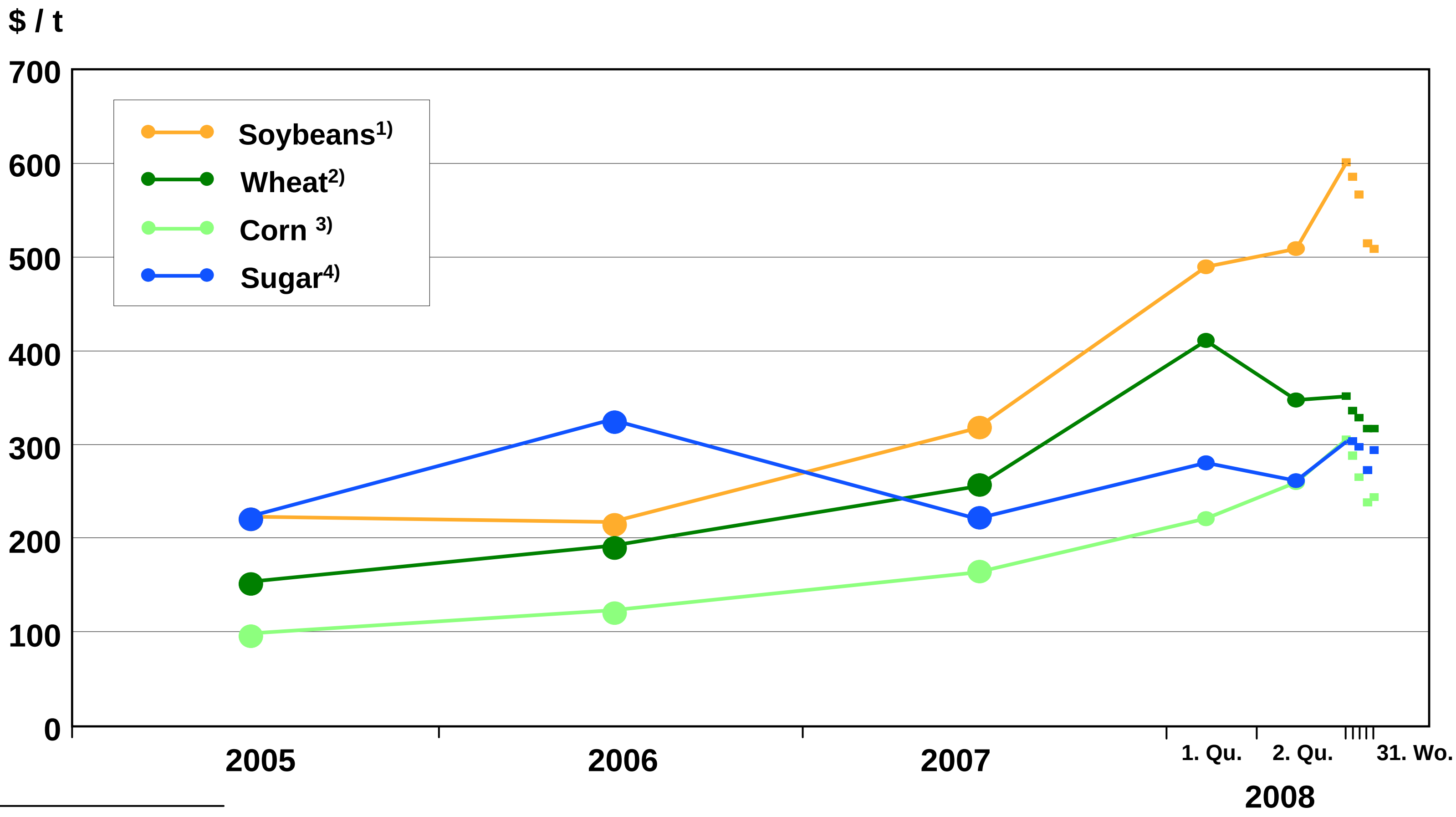
Part 1

Status Quo: Fit for global competition?

Part 2

Future: How to improve?

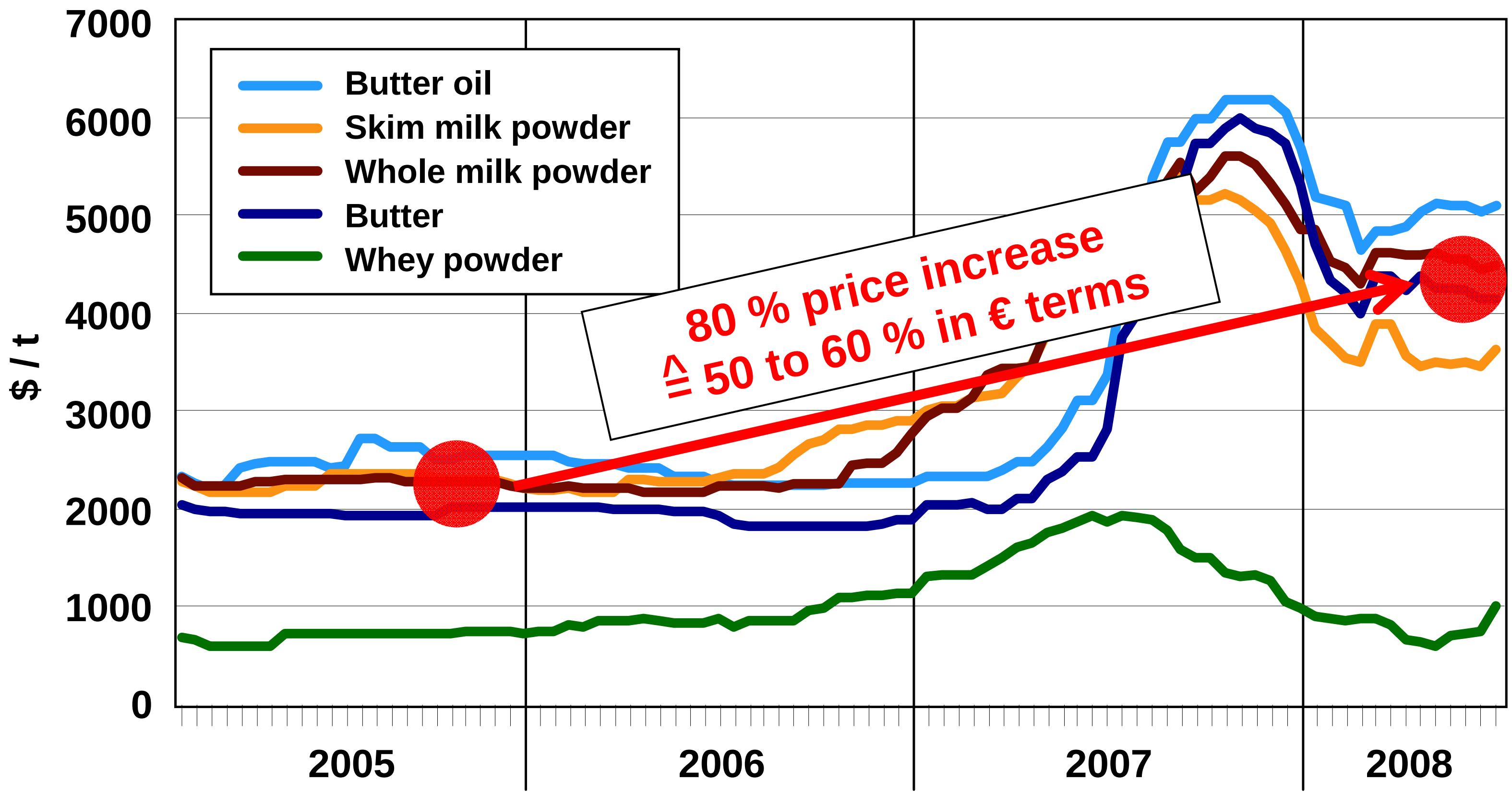
World Prices for Selected Crops, 2005 - 2008



1) Soybeans futures (first contract forward) No. 2 yellow, CBOT. 2) U.S: No. 1 hard red winter, FOB Gulf.
3) U.S: No. 2 yellow, FOG Gulf. 4) CSCE contract No. 11<, nearest future position, NYBOT.

Quelle: IMF Primary Commodity Prices , 2008 (www.imf.org/external/np/res/commod/index.asp)

World Prices for Dairy Products, 2005 – 2008
(Export prices Western Europe, US-$ / ton)



Export prices for dairy products, Oceania, US-$ / t fob port, week 25 of each year, average between min. and max.

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Source: USDA-AMS, own calculations

World Markets for Agricultural Commodities, Future Perspectives

- High prices for crude oil = long-term minimum price for the global agribusiness (e.g.:140 $/bbl → wheat price > 200 $/t).
- It needs bioenergy plants to make that mechanism work → temporarily, agricultural prices may decrease despite of high crude oil prices.
- This would, however, lead to an accelerated build-up of ethanol plants, closing again the price gap between agricultural and energy products.

→If crude oil prices stay on a high level, agricultural commodity prices will be so high that competitiveness of EU agricultural land use is ensured. (except very marginal locations →LFA policies)

→Can we conclude that competitiveness of EU agriculture is no longer a relevant problem?

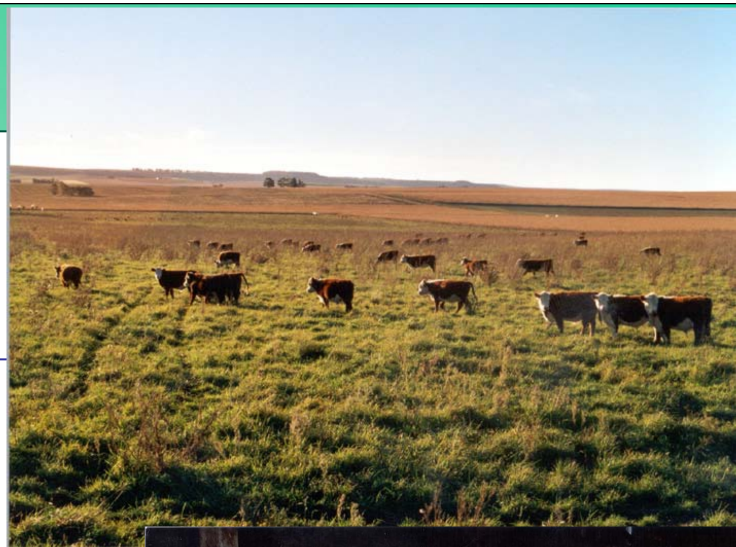
A Different Perspective on Competitiveness

- Higher agricultural commodity prices → higher land rents
- Increased competition for land → structural change keeps going, no matter whether prices are high or low.
- Liberalization and globalization → production of goods will move to the most suitable locations worldwide.

→ Most probably, “agricultural land use” in general will be competitive in almost all EU regions (→competitiveness of agriculture is probably not a problem).

→ But it is unclear which branches and production systems (within agriculture) will be competitive (→competitiveness of agricultural branches and regions may be a problem).

Example:
Beef Production Systems

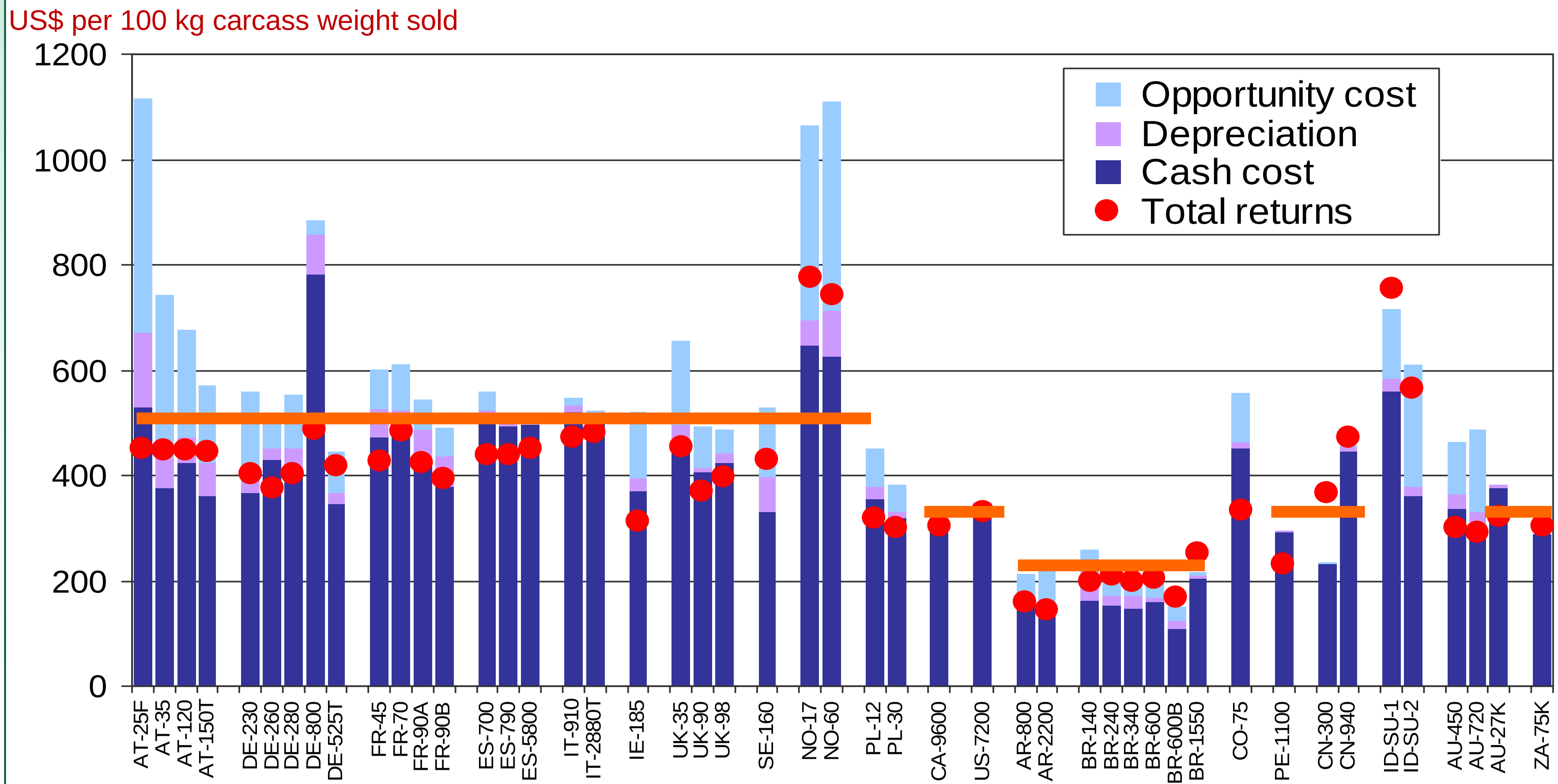


Pasture Systems, predominantly in the southern hemisphere, Ireland and UK, mainly steers on the pasture

Corn (+ Gras) Silage + Grain / Concentrate / Soy Systems in high-input farms in Austria, Germany, France, Italy, UK, China, mainly bulls in the barn

Corn, Grain + Hay (Straw) Systems, predominantly in the US, Canada, Australia, Spain, mainly steers in feedlots

Total Cost and Returns of Beef Production



75% of “agribenchmark beef production” with production costs < 350 US$/100kg

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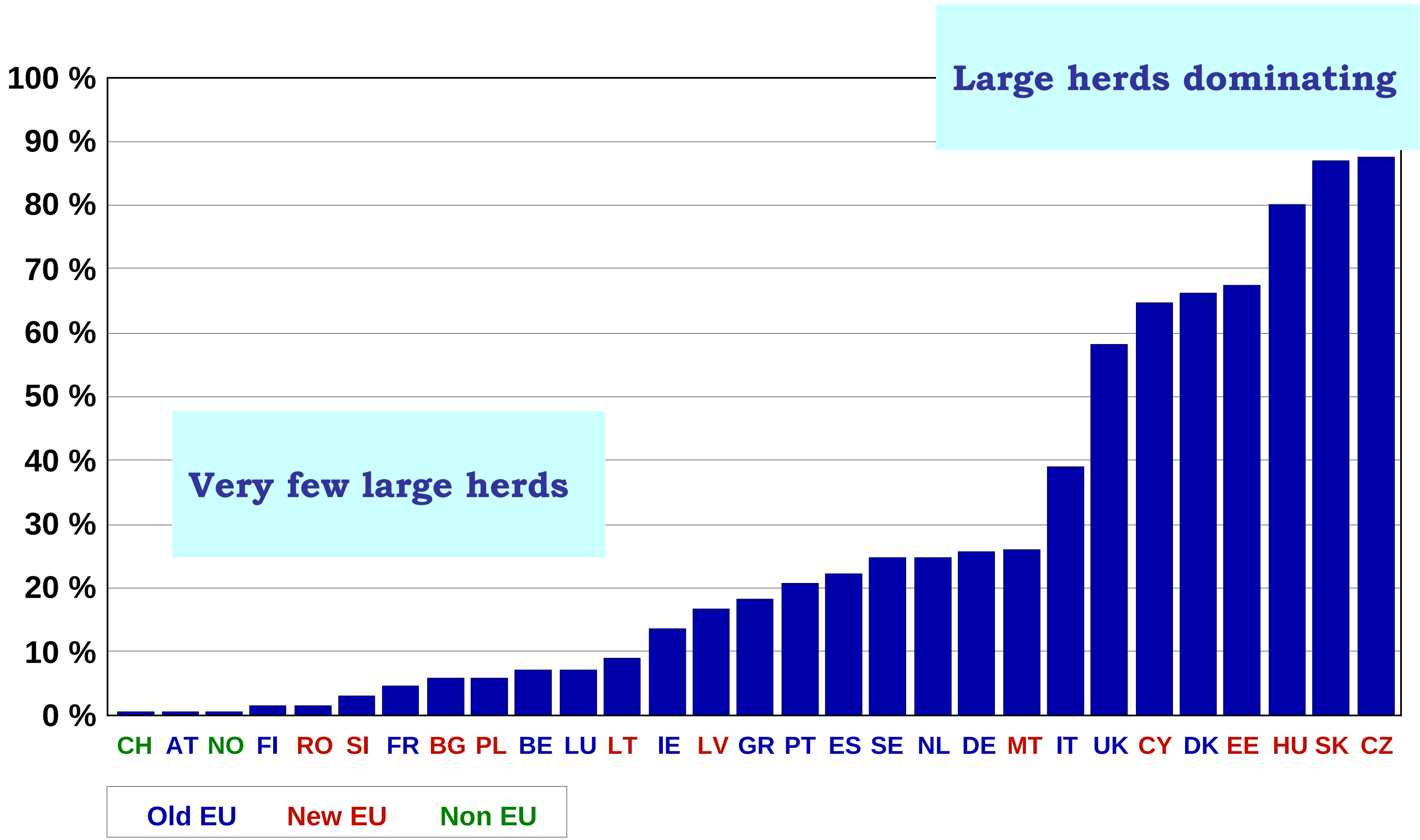
Source: Own calculations

Farm size: Huge differences within Europe

(Share of dairy cows in large herds (>100 dairy cows), 2005)



Source: EUROSTAT, own calculations

Some Tentative Hypotheses on Agr. Branches

- Arable Production is relatively competitive (except few crops like sugar).
- Grassland and Livestock Production may suffer more from liberalization and globalization.
- If competitiveness is not sufficient, structural change can help (but more easily in arable production).
- For the progress of rural areas, the competitiveness of labour-intensive branches is more important (livestock, horticulture)

→ If political support is needed, it should probably focus on less favored areas, grassland regions, livestock and horticulture production.

Production and Net-Export of Dairy and Meat Products, EU-27, 2007 and 2014 (Forecast EU-Commission)

	Produktion (Mio. t)				Netto-Export (Mio. t)[1)]		
	2007	2014	Δ (Mio.t)	Δ (%)	2007	2014	Δ (Mio. t)
Käse	9.078	9.756	678	+7,5%	518	425	-93
Butter	2.070	1.967	-103	-5,0%	64	1	-63
MMP	861	811	-50	-5,8%	43	7	-40
Rindfleisch	7.980	7.547	-433	-5,4%	-444	-685	-241
Schweinefleisch	22.049	22.557	508	+2,3%	1.257	1.117	-140
Geflügelfleisch	11.160	12.034	874	+7,8%	178	-54	-232
Schaf-/Ziegenfleisch	1.099	1.027	-72	-6,6%	-271	-274	-3
Summe	54.297	55.699	1.402	+2,6%	1.345	537	-808

1) Eigene Berechnung in Abweichung von EU-Vorlage ohne Lagerbestandsveränderung. Quelle: Europäische Kommission 2007, eigene Berechnungen.

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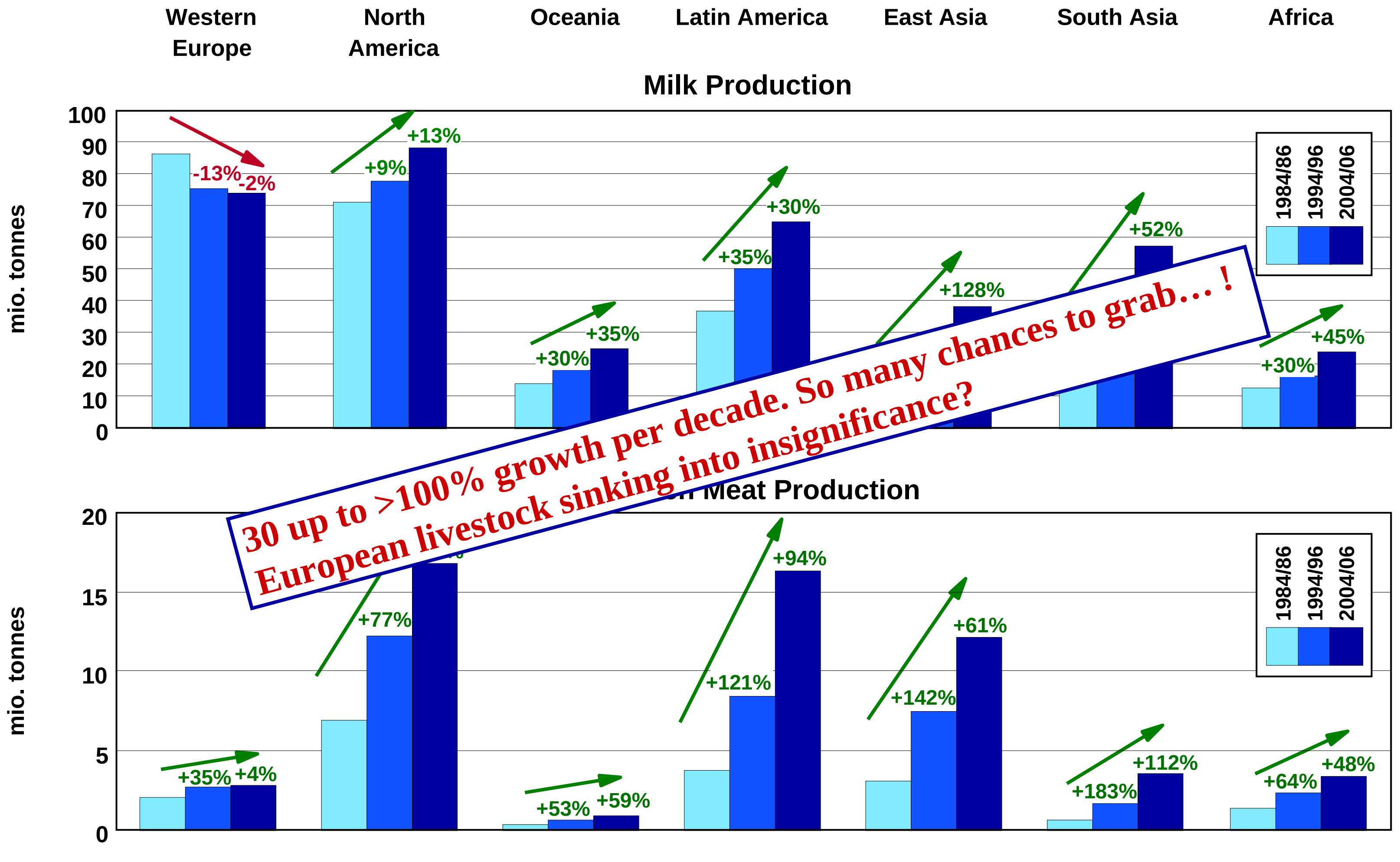
Production of Milk and Chicken Meat
(Selected World Regions, from 1984/86 to 2004/06)



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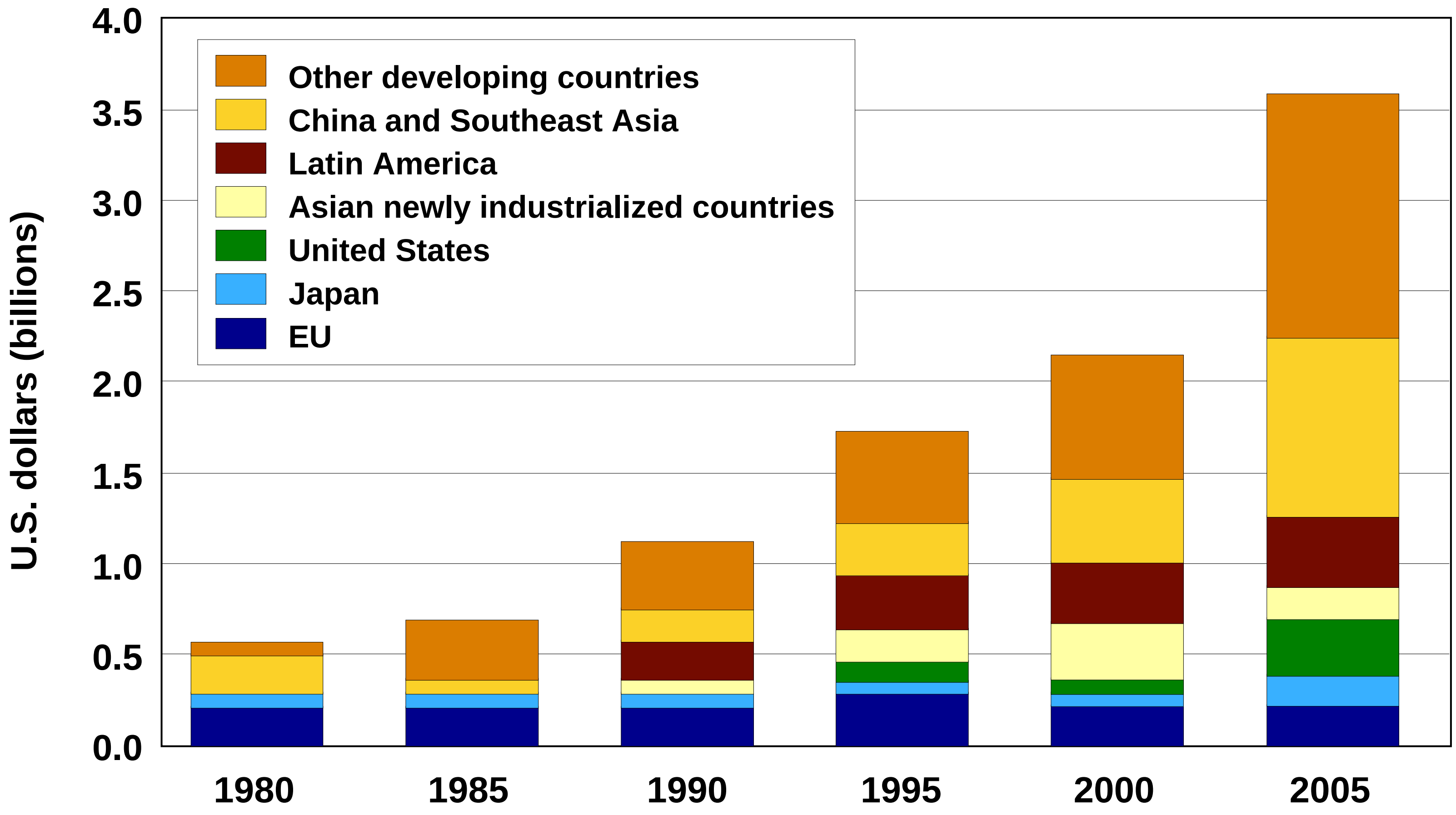
Source: FAO STAT, own calculations.

New Zealand is Capturing the New Markets

(Destination of New Zealand dairy exports,1980 – 2005)



Source: USDA-ERS, based on data from New Zealand Statistics

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General Recommendations (all EU policies)

- **Access to modern technology (including GMO) and cheap feedstuffs (including animal protein), if safe**
- **Protection of Geographical Indications (backed by WTO)**
- **Stepwise reduction of import tariffs; abolishment of quota systems; full decoupling of payments**
- **Animal welfare policy and environmental regulations on basis of sound judgement**
- **No public support for inefficient bioenergy concepts**
- **Better infrastructure for export of high-quality EU food**
- **Revision of agricultural research and technology transfer**
- **Amalgamation of CAP-pillars I and II. Long-run principle: payments in return for *extra* services (not "cross compliance")**

Special Recommendations (EU Rural Policy)

- **Further strengthening of the bottom-up approach**
  - Regions: decide about goals and instruments
  - EU: organize fiscal equalization, evaluation, transparency
- **Transform “investment aid” towards “innovation aid”**
  - Focus on risky investments with high innovation potential
  - Linked to accompanying research and advisory systems
  - Based on benchmarking (do right things & do things right)
  - Embedded in a network of “demonstration farms”
- **Same principles (model regions, link to research, …) for “reallocation of land”, “market structure improvement”, etc.**
- **Branches: Focus on livestock, grassland and horticulture**
- **Additional focus on “natural disaster prevention & repair” and on “prevention of epidemic diseases”**

Source: USDA-ERS, based on data from New Zealand Statistics

Thank you for listening!