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
Making EU Agriculture Fit for Global Competition

Prof. Dr. Folkhard Isermeyer

Limassol, Cyprus, October 2008
Content

Part 1

_Status Quo: Fit for global competition?_

Part 2

_Future: How to improve?_
World Prices for Selected Crops, 2005 - 2008

Soybeans1)  Wheat2)  Corn 3)  Sugar4)

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.

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

Source: USDA-AMS, own calculations

Export prices for dairy products, Oceania, US-$ / t fob port, week 25 of each year, average between min. and max.
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 $\rightarrow$ higher land rents
- Increased competition for land $\rightarrow$ structural change keeps going, no matter whether prices are high or low.
- Liberalization and globalization $\rightarrow$ production of goods will move to the most suitable locations worldwide.

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

$\rightarrow$ But it is unclear which branches and production systems (within agriculture) will be competitive ($\rightarrow$ 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

Source: Own calculations

Opportunity cost
Depreciation
Cash cost
Total returns

US$ per 100 kg carcass weight sold
Farm size: Huge differences within Europe
(Share of dairy cows in large herds (>100 dairy cows), 2005)

Isermeyer

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)

<table>
<thead>
<tr>
<th>Produce (Mio. t)</th>
<th>2007</th>
<th>2014</th>
<th>Δ (Mio t)</th>
<th>Δ (%)</th>
<th>Netto-Export (Mio. t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Käse</td>
<td>9.078</td>
<td>9.756</td>
<td>678</td>
<td>+7.5%</td>
<td>518</td>
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<tr>
<td>Butter</td>
<td>2.070</td>
<td>1.967</td>
<td>-103</td>
<td>-5.0%</td>
<td>64</td>
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<tr>
<td>MMP</td>
<td>861</td>
<td>811</td>
<td>-50</td>
<td>-5.8%</td>
<td>43</td>
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<tr>
<td>Rindfleisch</td>
<td>7.980</td>
<td>7.547</td>
<td>-433</td>
<td>-5.4%</td>
<td>-444</td>
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<tr>
<td>Schweinefleisch</td>
<td>22.049</td>
<td>22.557</td>
<td>508</td>
<td>+2.3%</td>
<td>1.257</td>
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<td>Geflügelfleisch</td>
<td>11.160</td>
<td>12.034</td>
<td>874</td>
<td>+7.8%</td>
<td>178</td>
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<tr>
<td>Schaf-/Ziegenfleisch</td>
<td>1.099</td>
<td>1.027</td>
<td>-72</td>
<td>-6.6%</td>
<td>-271</td>
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<tr>
<td><strong>Summe</strong></td>
<td>54.297</td>
<td>55.699</td>
<td>1.402</td>
<td>+2.6%</td>
<td>1.345</td>
</tr>
</tbody>
</table>

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

30 up to >100% growth per decade. So many chances to grab…!
European livestock sinking into insignificance?
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
Content

Part 1

Status Quo: Fit for global competition?

Part 2

Future: How to improve?
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 “reallocaion 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”**
Thank you for listening!