

**CAP reform through analytical lenses**  
**Brussels, 19 December 2011**

**Food Security and Competitiveness of the Agri-Food Chain**

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## *World food security (I)*

➤ How to feed 9 billion people by 2050 while simultaneously taking into account other world challenges: environment (soil, water, biodiversity and GHG), fossil energy depletion and the growth of inequalities?

- A quantitative and qualitative challenge
- Around 1 billion people are undernourished
- Around 1 billion people suffer from over-nutrition / obesity

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## *World food Security (II)*

### ➤ On the consumption side, three levels:

- Poverty alleviation
- Reduction of losses and waste at distribution and final consumption stages
- Changing unbalanced food diets / behaviours

### ➤ On the production side:

- Agricultural production growth
- But land scarcity
- Production growth mainly by increasing yields
- But yield “stagnation” at world and EU level
- Furthermore, environment and natural resources
- **The ecological intensification challenge at world and EU level**

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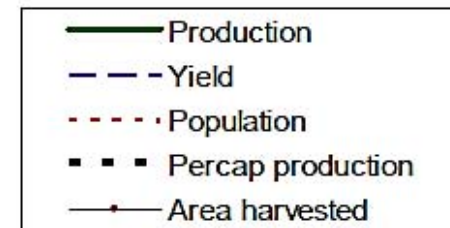
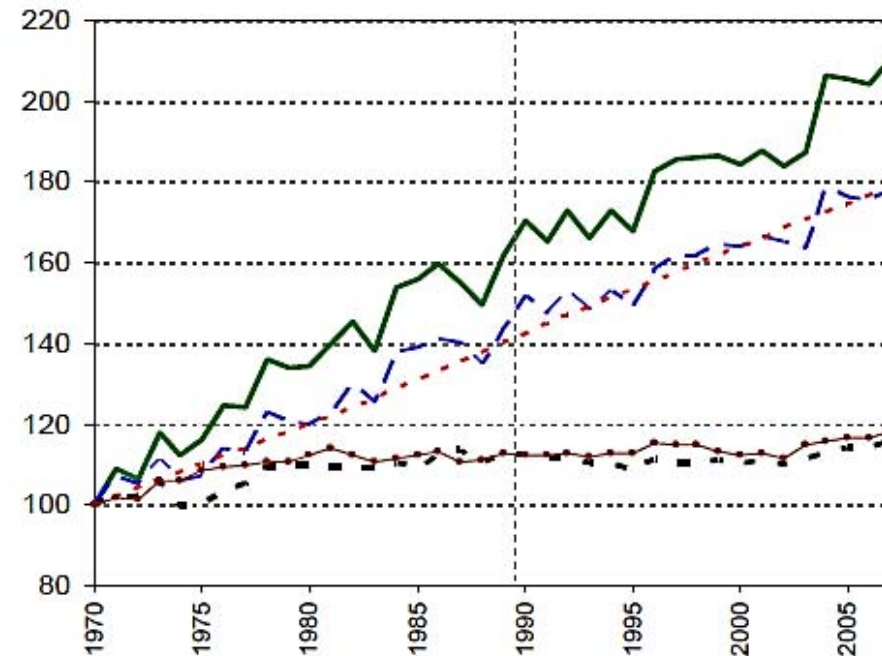
# Total world grain & oilseeds<sup>1</sup>

Production, yield, area harvested, population & percap production

## Exponential trend growth rates:

	1970-90	90-07
Production	2.2	1.3
Yields	2.0	1.1
Area	0.15	0.14
Population	1.7	1.4
Per capita production	0.56	0.11

Index: 1970 = 100



<sup>1</sup> Total oilseeds = soybeans + rapeseed + sunflowers

## **World food security (III)**

Furthermore

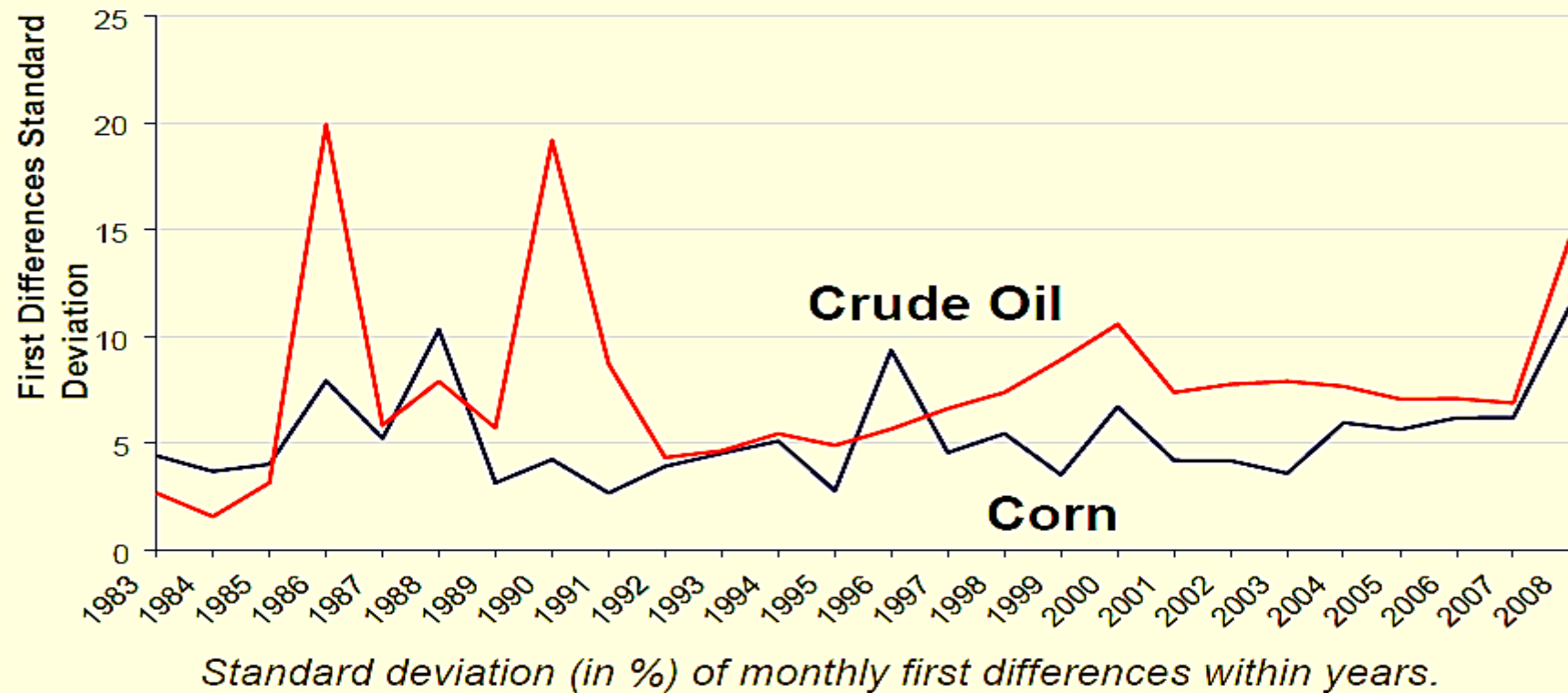
- Because of world demography heterogeneity, **more agricultural trade** will be needed from exporting zones (LA, North America and FSU) towards Africa (SSA) and Asia (SE Asia)
  - Place of the EU?
  
- Agricultural prices should be relatively high in the decades to come
  - **High but volatile agricultural prices** in the EU (less border protection, less price support, decoupling, climate change, biological invasions, increasing linkages with non-agricultural markets notably energy and financial markets)

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# Price Volatility of Corn and Oil 1983-2008

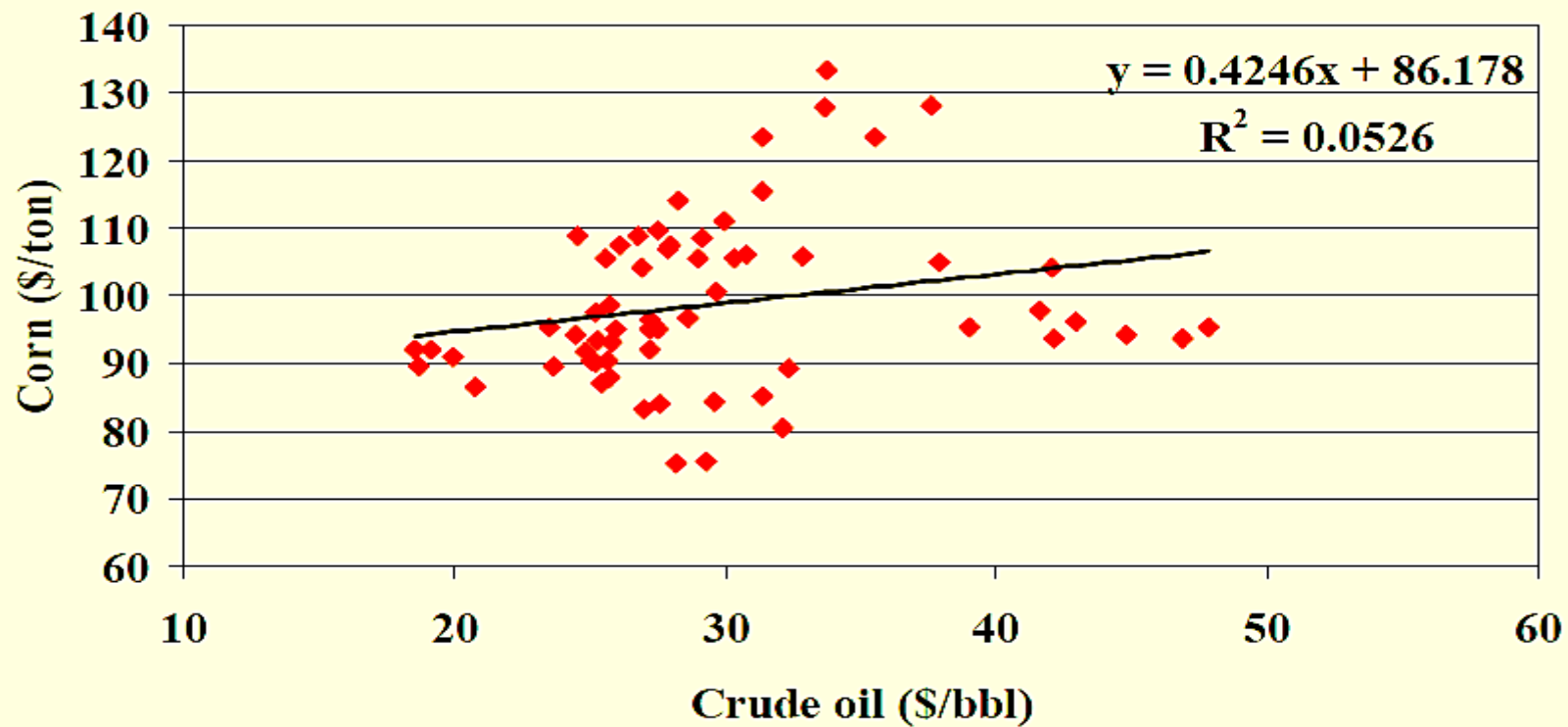
Are corn and oil price volatility converging?



(C. Delgado)

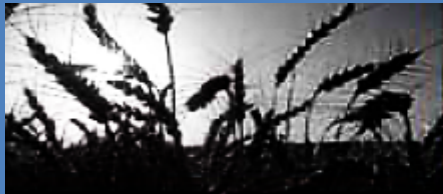


## Linkages: Corn and Crude Oil (<\$50/bbl)

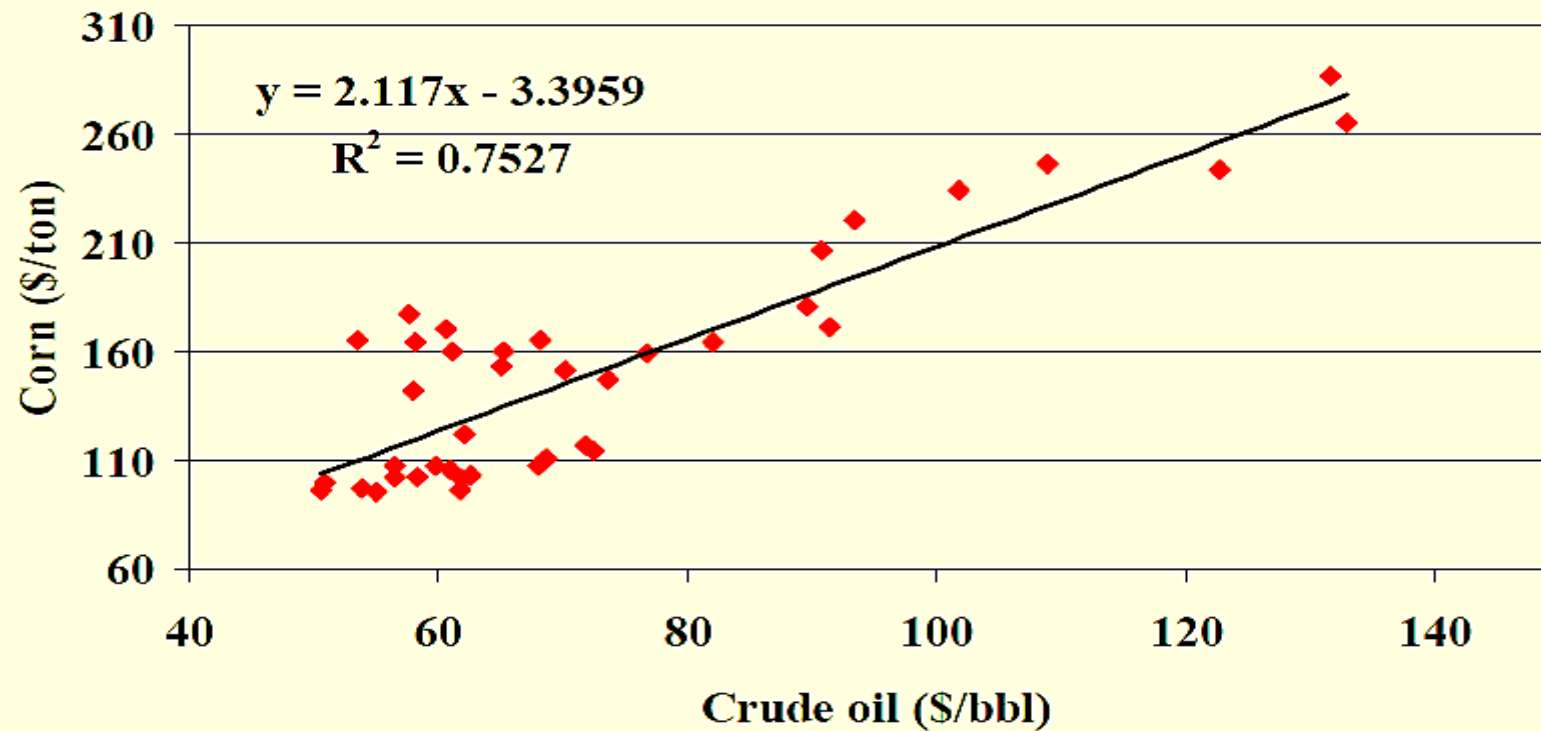


Source: Don Mitchell, World Bank DEC-PG

(C. Delgado)



## Linkages: Corn and Crude Oil (>\$50)



Source: Don Mitchell, World Bank DEC-PG

(C. Delgado)



## *The necessity of a competitive and ecological EU agri-food chain (I)*

- In the EU, land is scarce and yields are high (in average)
- Negative environmental impacts (soil, water, biodiversity, etc.)
  - Although the CAP reform process has significantly reduced policy incentives biased in favour of “intensification”
  - Decoupling is not sufficient from improving the quality of environment in agro-ecosystems
  - Legitimacy of cross-compliance, the greening of Pillar I and agri-environmental measures in Pillar II
    - Once one admits the distinction between the two pillars is justified for other reasons than political ones!
    - And even if, of course, margins of progress exist (policy instruments based on environmental results and not on means used)

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## ***The necessity of a competitive and ecological EU agri-food chain (II)***

➤ Simultaneously,

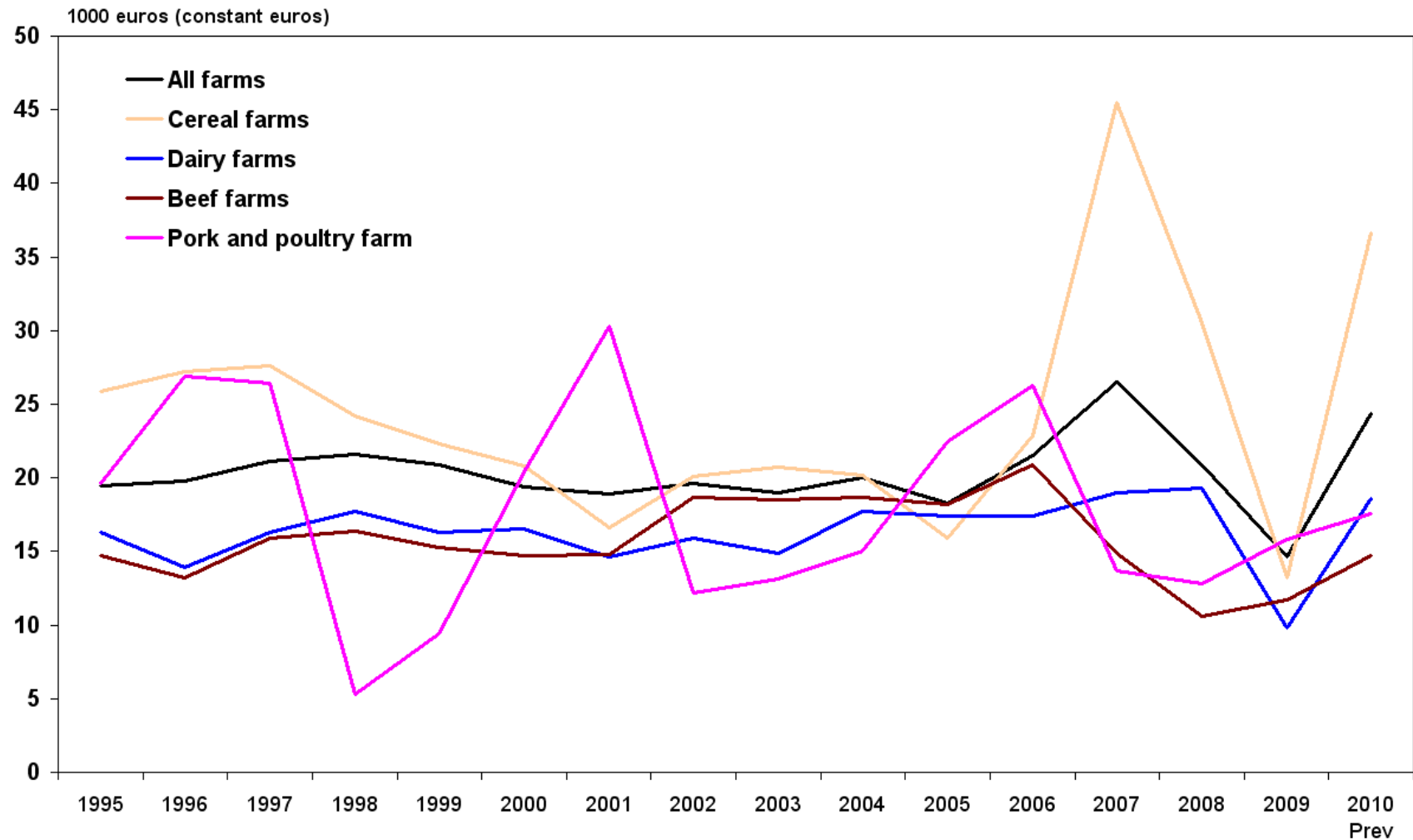
- World food security
- World market globalization
- Less EU border protection (multilateral and/or bilateral agreements) and suppression of export subsidies
- Volatility (agricultural products, agricultural inputs, farm incomes)
- Necessity of a competitive EU farm sector, more generally of an EU agri-food chain

### **CAP objectives: sustainability, competitiveness, stabilization**

- Sustainability (environment and territory) : cross-compliance, greening of Pillar I, areas with natural constraints, measures of Pillar II
- Stabilization: crisis reserve and risk management toolkit
- Steps in the right direction but the devil in the details (EU budget, CAP budget, Effectiveness of greening measures, contra-cyclical payments, etc.)
- Competitiveness?

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## Farm income per family AWU (example of France)



## **Is there a competitiveness problem in the EU agri-food chain? (I)**

### **➤ Agricultural production**

- Stagnation in developed countries which, following the URAA, have decreased coupled support (UE)
- Growth in other developed countries and emerging countries (+5% per year in Brazil)

### **➤ Productivity**

- Partial productivity of raw materials does not improve in EU agriculture while it improves in the US
- Productivity gains are rather small in the EU agri-food industry, more marked in some countries (France)

### **➤ Agri-food trade balance**

- Deterioration in a majority of EU MS with the exception of Germany and some new EU-15 MS

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## *Analysis in relation to CAP reform proposals of October 2011 (I)*

- Difficult to isolate what is due to the agricultural sector versus the agri-food industry
- An issue vis-à-vis non-EU third countries (international competitiveness of the EU agri-food chain) and also, and perhaps more importantly, within the EU between MS

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## **Analysis in relation to CAP reform proposals of October 2011 (II)**

### ➤ **Lower productivity / yield gains in EU agriculture**

- Environment and competitiveness: ecological intensification
- **CAP focus on innovation is a step in the right direction (European Innovation Partnership for agricultural productivity and sustainability)**
- Promoting resource efficiency, productivity, the low emission, climate-friendly and resilient development of agriculture, forestry and rural areas through greater cooperation between agriculture and research in order to accelerate technological transfer to agriculture practice
- Yes but
  - Not sufficient if **basic research** is not included
  - Not only an issue of transfer of knowledge and technology, but of basic knowledge (predictive biology, genetics, genomics and biotechnology, agro-ecology, etc.): both disciplinary and integrated (systemic) research
  - Not sufficient if the **whole food chain** is not included
  - Not sufficient if funds are only marginal (**public / private cooperation; European and national funds**)

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## *Analysis in relation to CAP reform proposals of October 2011 (III)*

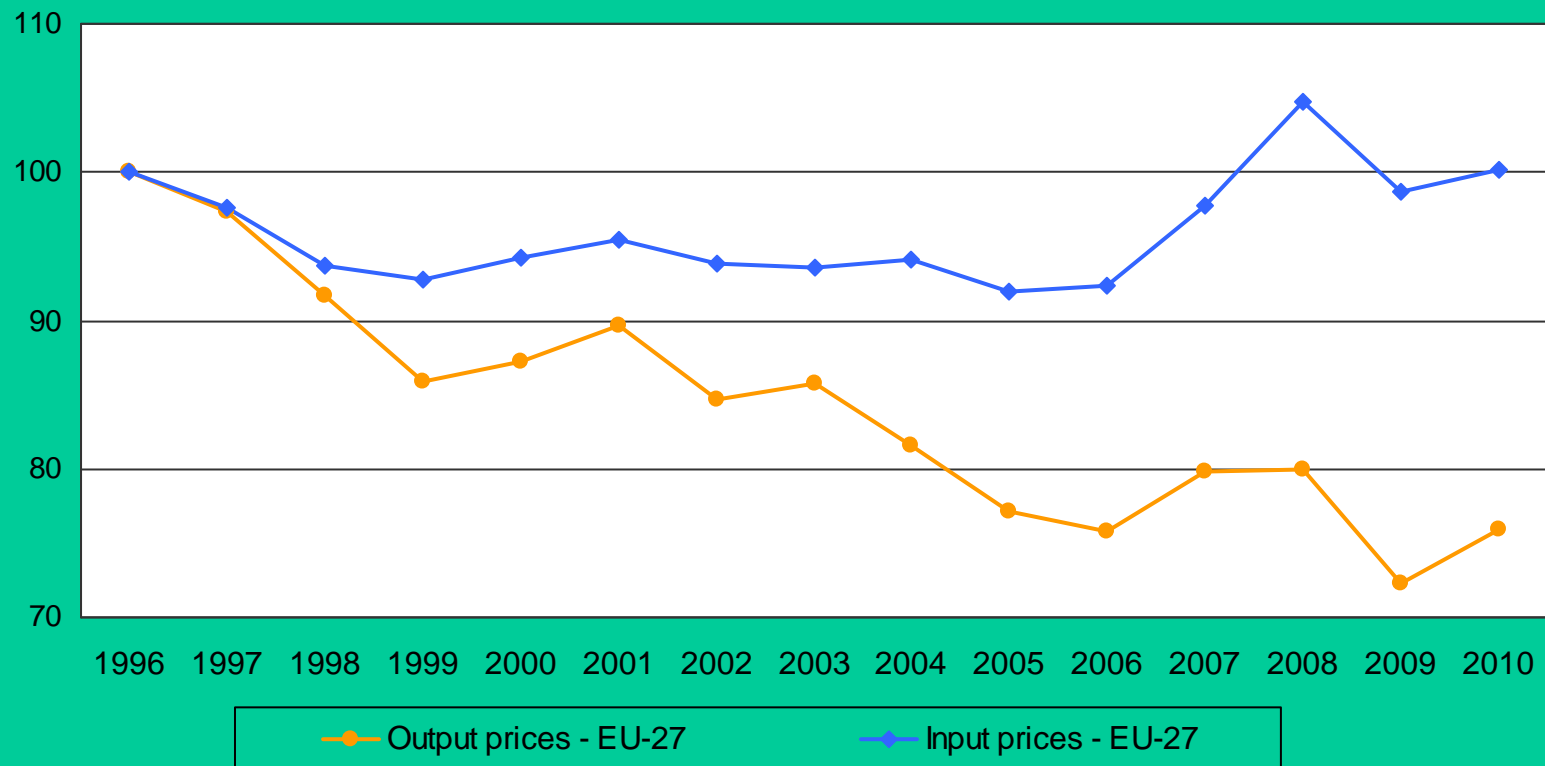
### ➤ **Agricultural and agri-food production costs**

- **An issue vis-à-vis non-EU third countries and within the EU (cf. France / Germany)**
- A common market for agricultural products but not for agricultural factors of production (land, capital, labour, raw materials)
- Too low adaptation of production factors / costs to the evolution of production volumes
- Labour factor more expensive in some countries: yes, but is the solution of decreasing wages in EU agriculture and agri-food chain really sustainable?
- More binding environmental and sanitary constraints: yes, probably more important in the animal domain than in the domain of crops; yes, but a necessity (Cf. WTO)

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# Agricultural EU Output and Input Prices

(real price index, 1996 = 100)



Source: Eurostat

SPACE

15 septembre 2011

ALIMENTATION  
AGRICULTURE  
ENVIRONNEMENT





## *Analysis in relation to CAP reform proposals of October 2011 (IV)*

### ➤ Production costs and production structures

- **Heterogeneity of agriculture and agri-food structures** (too many small structures?)
- A highly diversified EU agricultural and agri-food model: advantages and ... disadvantages
  - **More specialisation at a national / regional scale** (economies of scale)?
  - **Excessive pride of the EU agricultural and food model** though, in particular, an excessive number of official signs of quality that do not recognize EU and non-EU consumers

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## *Analysis in relation to CAP reform proposals of October 2011 (V)*

### ➤ Production costs and production structures

- **Better organisation of producers**
  - **Contractualization?**
  - In order to improve farmers' negotiation position in the food chain (producer and inter-branch organization)
  - But **potential double marginalization** and finally high consumer prices!
  - If there is a negotiation power problem for farmers vis-à-vis the rest of the food chain, the first-best solution is to diminish the negotiation / market power of the agri-food and retailing sectors
  
- **Diversification of incomes of farm households**
  - **Part-time farming**
  - **Payments for Environmental Services (PSE):** water, biodiversity, GHG

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