The 2016 EU Agricultural Outlook Conference

Structural change in EU agriculture: past drivers and emerging challenges

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Outline

1. The policy impact on structural reforms...
2. ...main lessons from past drivers...
3. ...and main emerging challenges
The long drive of CAP reform...

Source: DG AGRI.
...bridged the gap between EU and world prices...

Source: AGRI calculations based on European Commission AGRI and OECD data.
...turned the EU into a net agro-food exporter...

Source: COMEXT.
...and a major agro-trade player...
...while providing **relative** income stability...

**Source:** AGRI calculations based on ESTAT and ERS/USDA data.
...and some positive environmental externalities

Source: AGRI calculations based on ESTAT data.
The evolution of EU farm income indicates challenges...

**EU agricultural income (nominal terms)**

Source: EUROSTAT

Revenues vs Costs 2000-2015

Source: AGRI calculations based on ESTAT data.
...especially in the EU's farm cost and revenue structure

Source: AGRI calculations based on ESTAT data.
EU agricultural productivity grows slowly but steadily...

- Productivity growth is key to meet the challenge of feeding more people, better, in a resource constrained world

- Annual TFP growth in the EU **0.8%**
  - Labour productivity gains are due to labour outflow...
  - ...substituted by capital prior to economic crisis
  - ...but now growing without increasing capital inflow

- EU-N13 show higher growth but from lower level
...under the influence of economic and policy drivers

- Innovation, investment and technological change
  - Horizon 2020, EIP-AGRI, ... (A → B)
- Efficiency gains through better farm management
  - RD programs (C → A)
  - Decoupling (A → D)
- Efficiency changes from regulations
  - Greening
  - Nitrate directive, Sustainable use directive, ...
- Enabling rural environment
  - RD programs
- Structural change
  - Decoupling
- Climate change
  - Greening, cross-compliance

![Graph showing Quantity of outputs (y) vs. Quantity of inputs (x) with points A, B, C, D and lines representing Technological progress, Allocative efficiency, Technical efficiency increase, and Allocative efficiency increase.](image)
The "take away" messages

The main impact of CAP reform on structural change was on competitiveness

- The narrowing of the gap between EU and world prices was part of the policy design...
- ...and the relative stability of farm income the result of strong income support...
- ...but the improvement in agro-food trade is indicative of long-term strengths in EU value-added

Addressing productivity challenges becomes increasingly knowledge-driven

- Best farm practices spread fast with precision farming, but a knowledge gap exists
- Up-stream, down-stream and horizontal linkages are potentially growth- and job-enhancing
- Technology and innovation will determine net employment and environmental effect

Main challenge for future policy reform will come where bottlenecks exist

- Land remains a constraining factor for EU agriculture – and this will only get more difficult
- Input use challenges reflect the global deterioration of the terms of trade for agriculture
- Climate action is key to bring policy coherence and perspective to sustainability in agriculture

- Investment and generational renewal are the key in addressing these challenges
Reports and data available at:

http://ec.europa.eu/agriculture/index_en.htm


http://ec.europa.eu/agriculture/trade-analysis/index_en.htm

Thank you for your attention!