

Global challenges, CAP prospects: an EU perspective

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Outline

1. The shifting environment of agricultural markets...
2. ...its impact on existing trends, drivers and challenges...
3. ...and the role of the Common Agricultural Policy

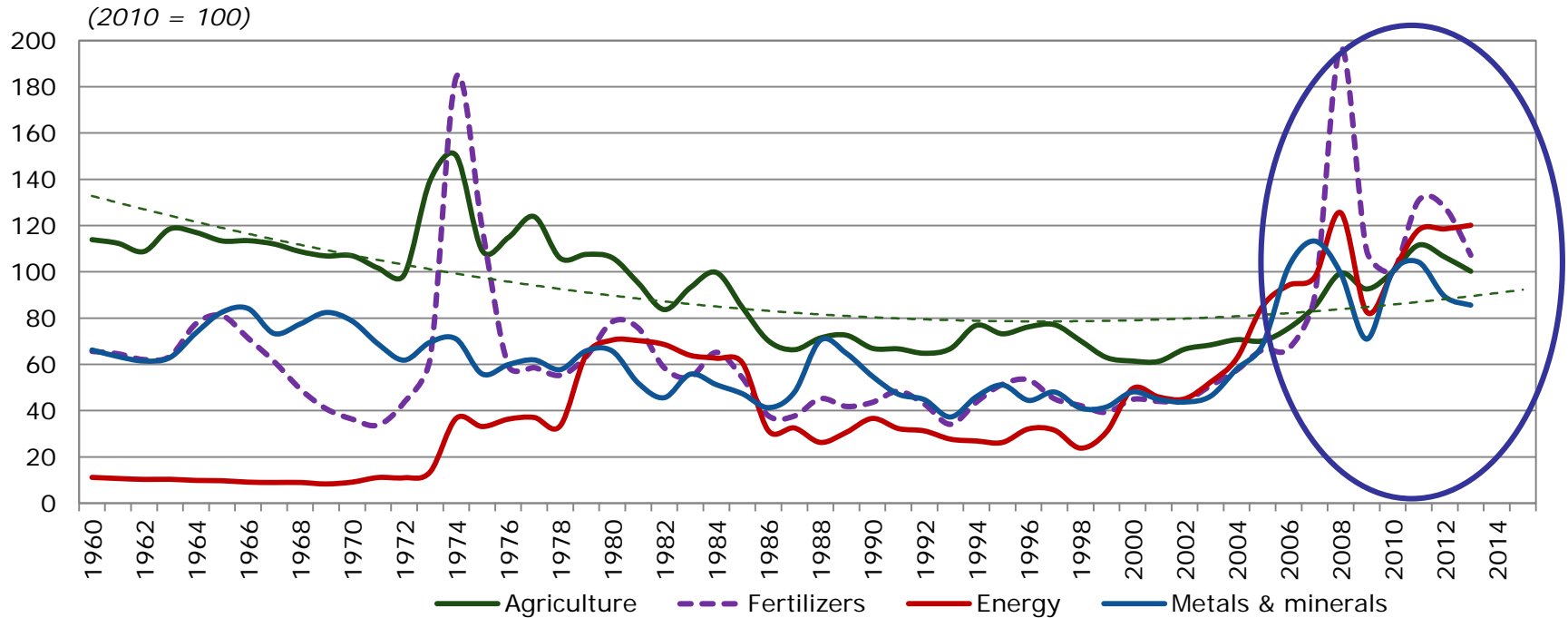
What a difference two years make...

GDP slowdown (especially in emerging economies) and oversupply...

...lead to a generalised decline in commodity prices...

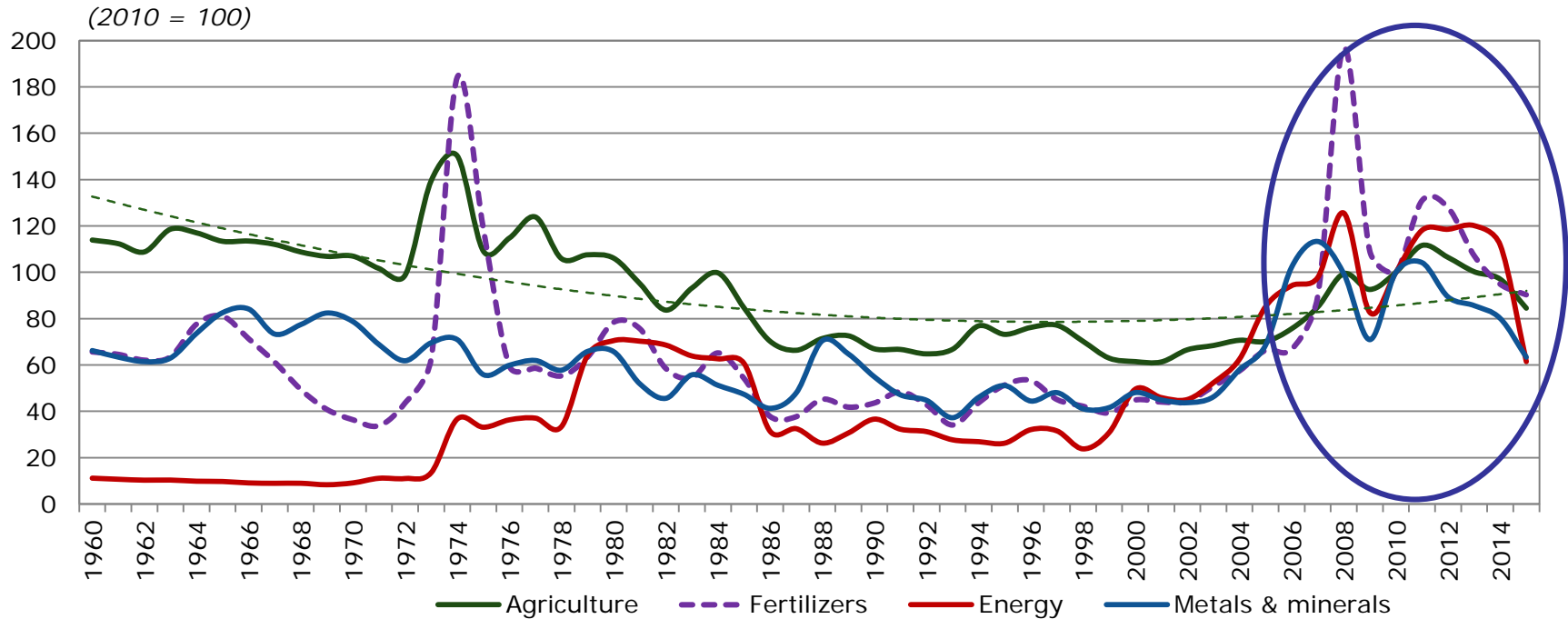
...including in prices of all major agricultural markets

Trends in real commodity prices – ABARES 2014



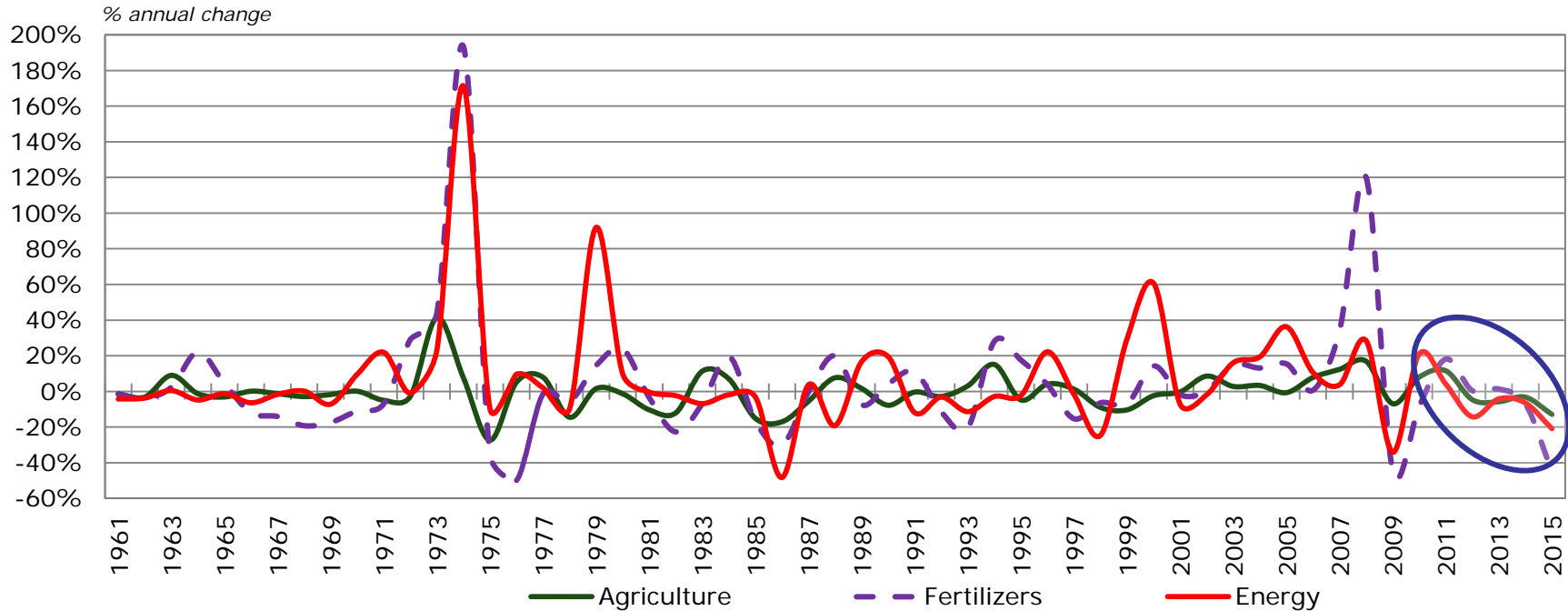
Source: World Bank

Trends in real commodity prices – ABARES 2016



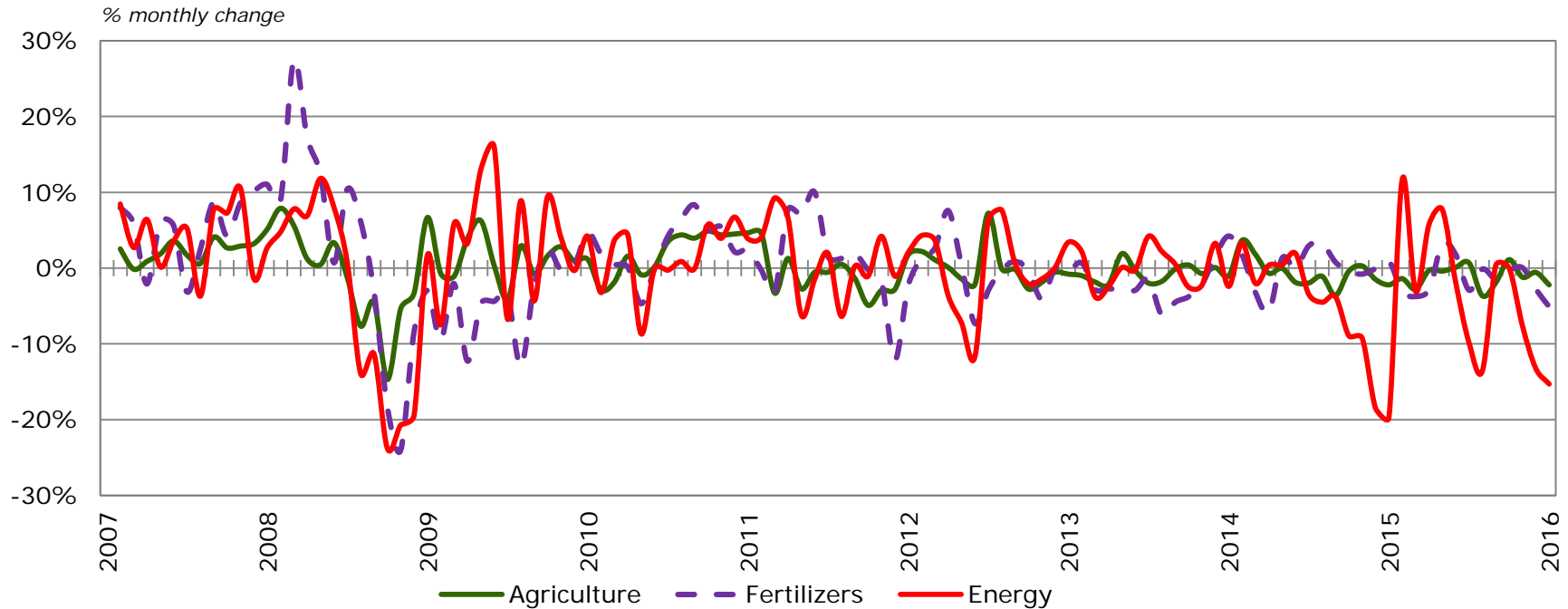
Source: World Bank

Annual change in real commodity prices, 1961-2015



Source: DG AGRI calculations on World Bank data.

Monthly change in nominal commodity prices, 2007-15



Source: DG AGRI calculations on World Bank data.

Commodity price changes during specific periods

<i>Period</i>	Agriculture	Fertilisers	Energy	Metals/Minerals
2008/1997	29%	336%	298%	107%
2009/2008	-7%	-45%	-34%	-29%
2011/2009	21%	20%	43%	47%
2015/2011	-24%	-31%	-48%	-39%
2015/2008	-15%	-54%	-51%	-36%
2015/1997	10%	100%	95%	32%

Source: AGRI calculations on World Bank data.

Main uncertainties

The macroeconomic picture

- *The persistence of sluggish GDP growth – now also expanding to emerging economies*
- *The exchange rate volatility – leading to price declines appearing as price increases for others*
- *The long-term price level of crude oil - will disinvestment hit supply post-2020?*

The demand side picture

- *Population dynamics are characterised by significant asymmetries in trends*
- *Dietary patterns also reflect different, often counter-intuitive developments*
- *Diverging trends and cross-cutting effects exist within the same group of commodities*

The supply side picture

- *The wider energy picture – not just crude oil but also impacts from natural gas etc.*
- *Short-term and long-term impacts of climatic events, including from climate change*
- *Diverging productivity patterns (and not just in yields..., e.g. RTD, innovation, etc.)*

Main conclusions

The new market environment

- *Commodity markets seem to have returned to more “fundamental” drivers*
- *The commodity “super-cycle” effect of China seems to be over*
- *The impact on price level is more clear than impact on co-movement or on volatility*

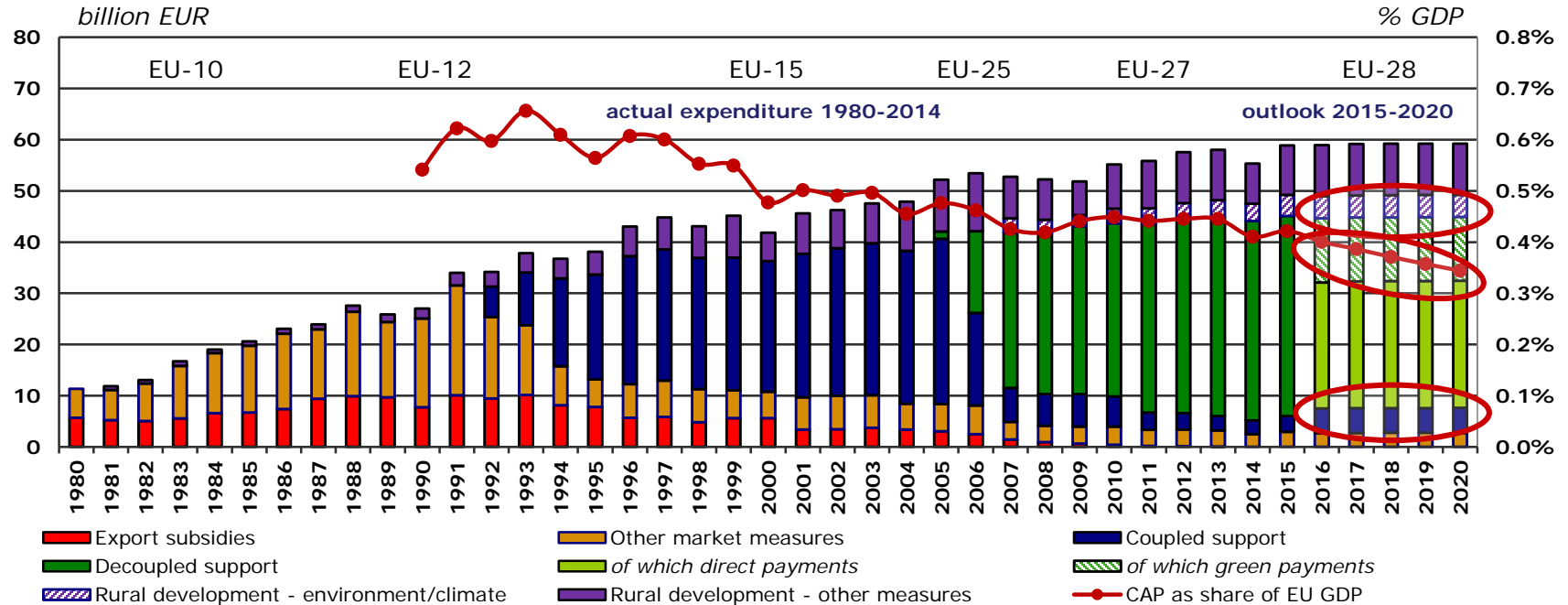
The new trade environment

- *Trade in both food commodities and food products will remain strong*
- *Demand in most emerging economies will grow faster than their domestic production*
- *Yet, as always, in agricultural markets the surprise is around the corner...*

The new price environment

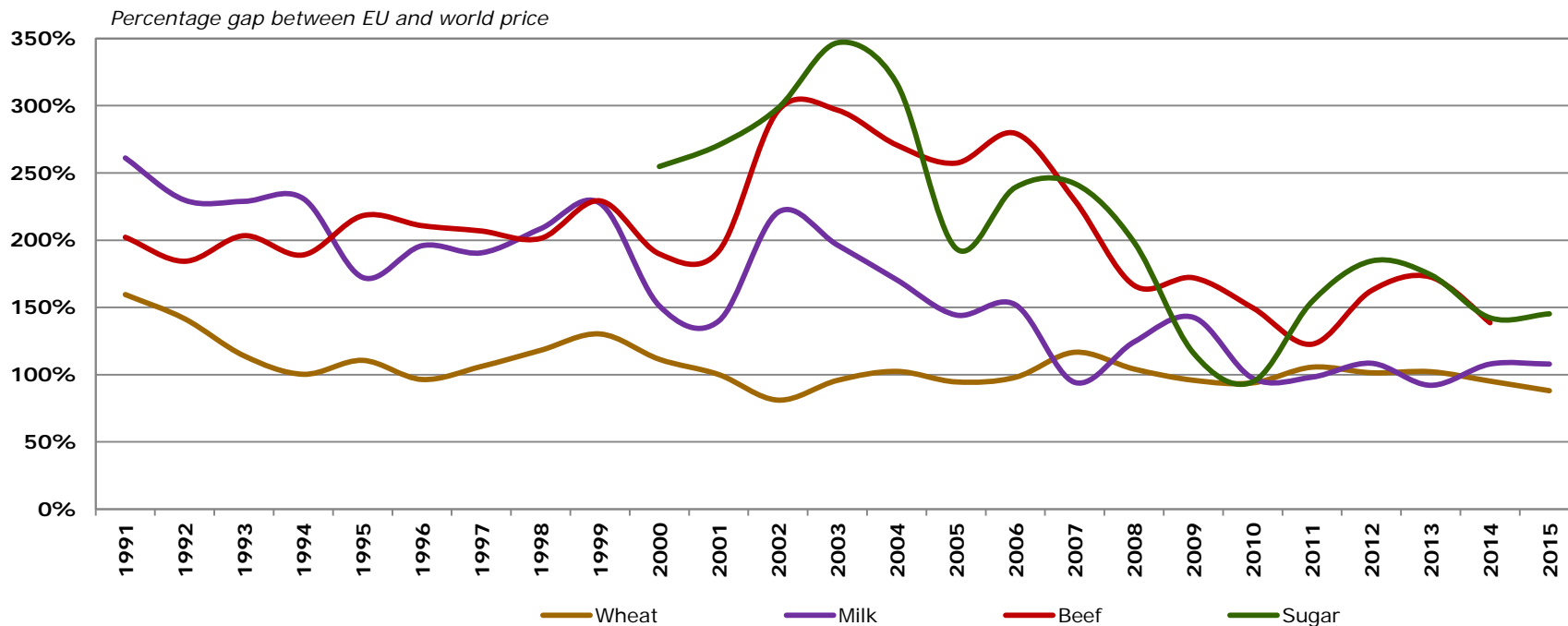
- *Despite significant declines, prices are still higher than pre-financial crisis levels*
- *The terms of trade for agriculture may improve some if energy prices stay low, but lost a lot...*
- *Where in-between the highs and lows of the post-2008 situation does the likely price path lie?*

CAP reform path and CAP budget, 1980-2020



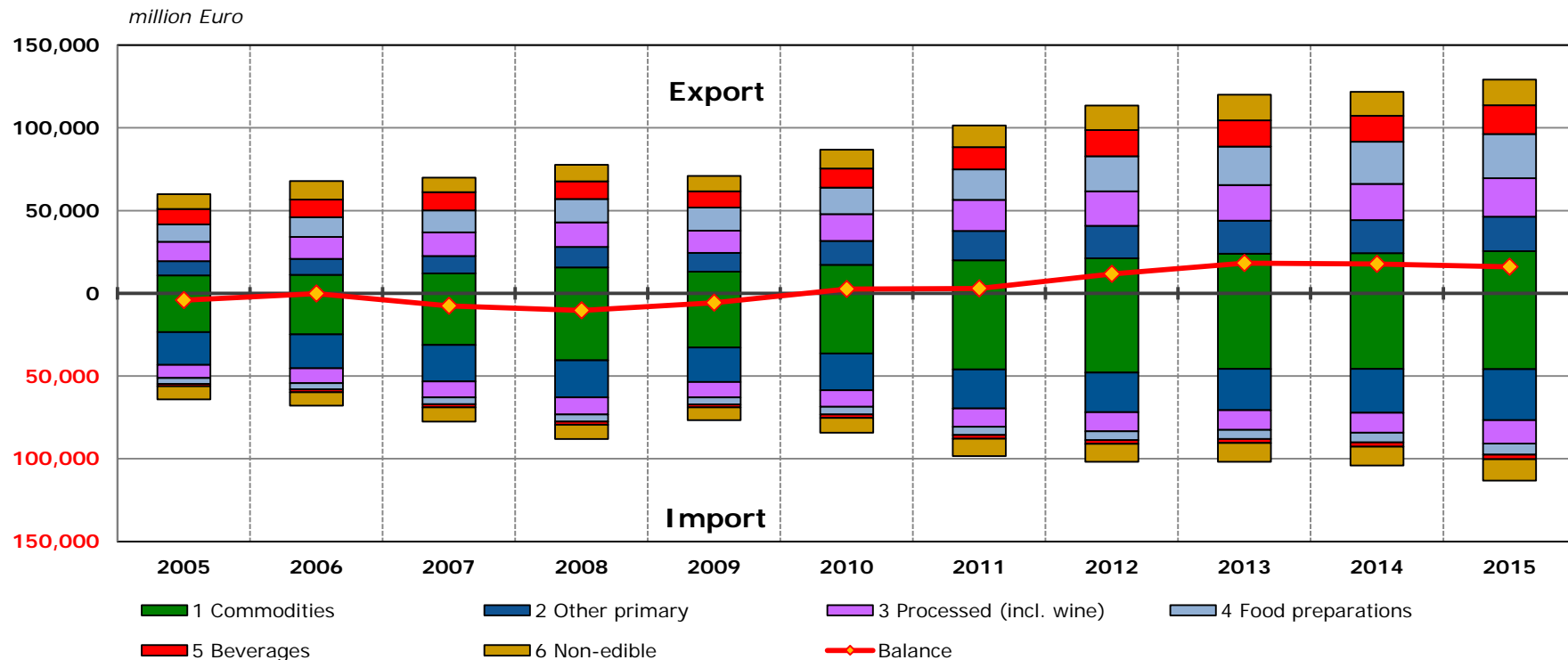
Source: DG AGRI.

Long-term trends in EU-world price gap

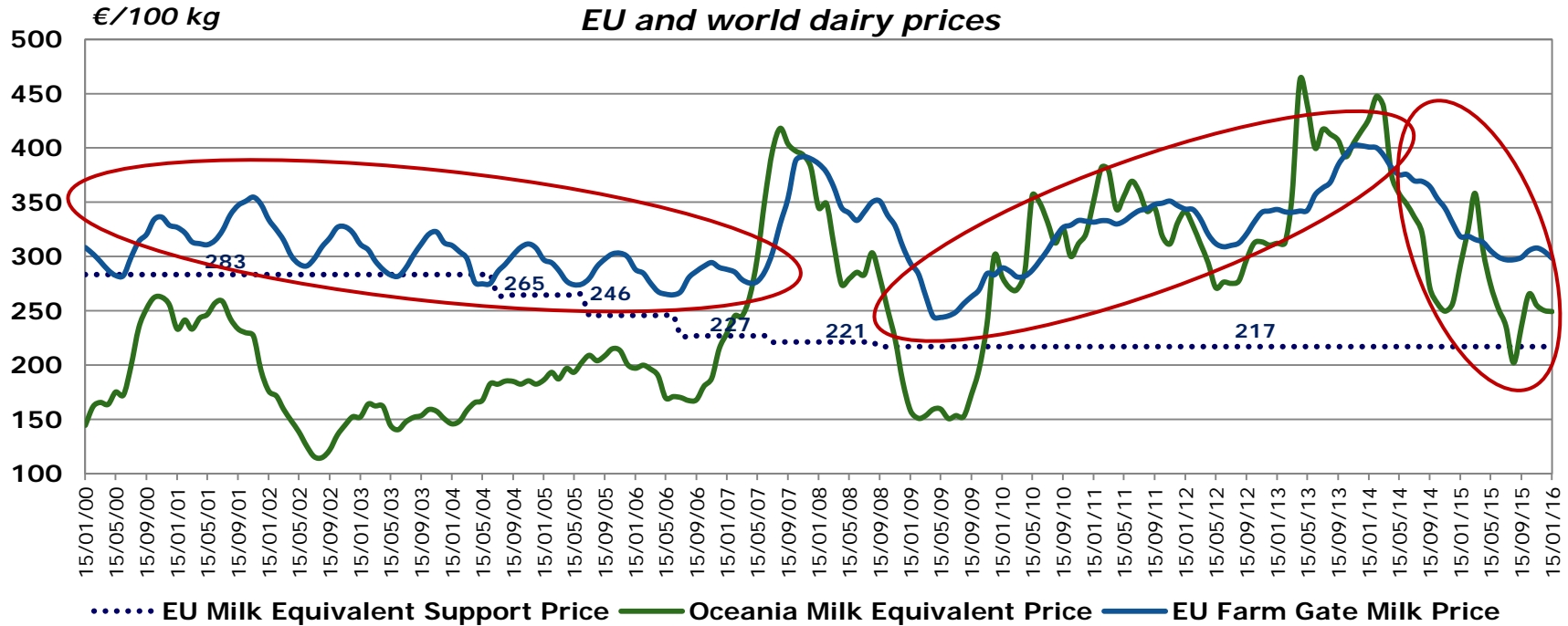


Source: AGRI calculations based on European Commission AGRI and OECD data.

EU28 agri-food trade, 2005-15

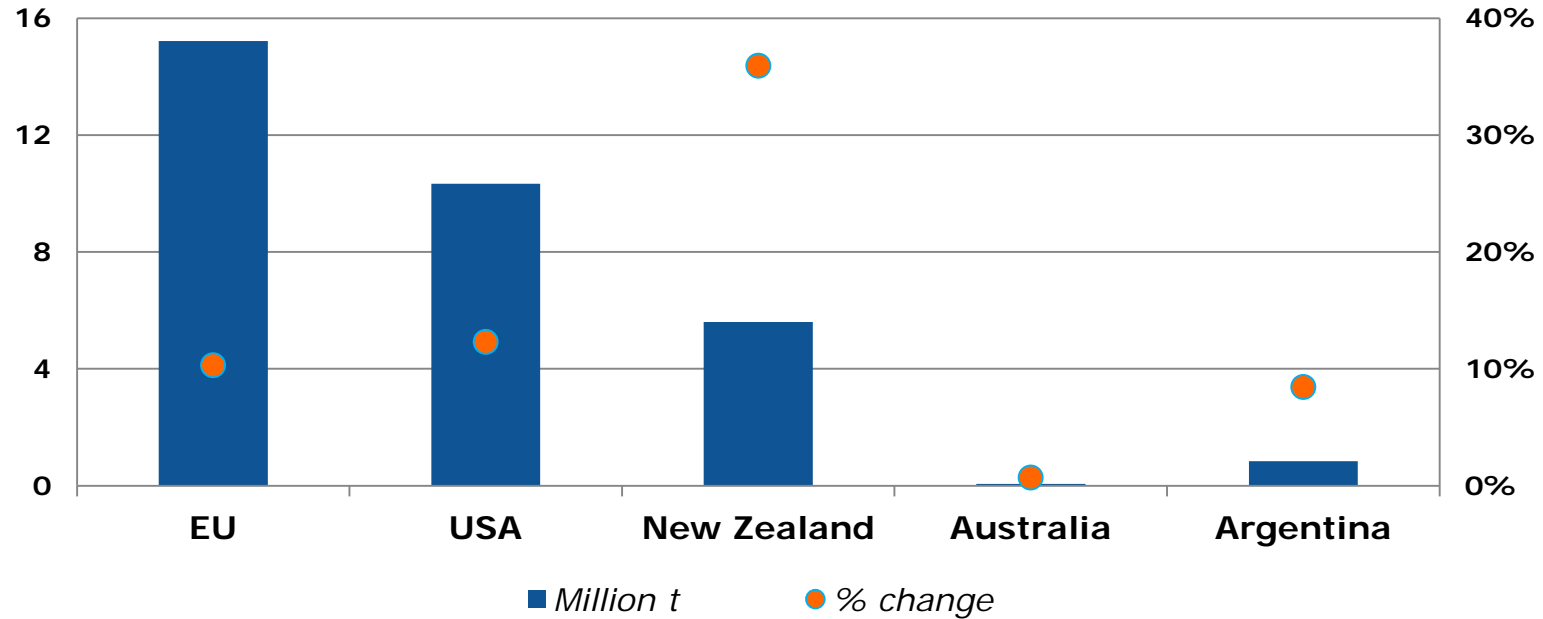


Dairy price challenges...



Source: DG Agriculture and Rural Development calculations

Cumulative change in milk production, 2007-15



Main short-term dairy market challenges...

Demand

- Jan-Nov 2015 world consumption -1.1% (first decline since 2008)
- Jul-Nov 2015 global demand picking up again + 3 %

Supply

- Main producing regions increase supply by 1.6% in 2015
- EU supply up stronger, by 2.5% in 2015 (multiple reasons)

Trade

- Expected future world import growth of roughly + 2 % annually
- EU exports + 5.2 % Jul-Nov 2015 (despite Russian ban)

...placed in a broader perspective

Multiple causes lie behind the recent dairy crisis – opinions for their weight differ

- *World oversupply coincides with slowdown in Chinese imports and the Russian embargo*
- *Broader macro developments (exchange rate, oil) push all commodity prices down*
- *Recent increase of the EU dairy herd reverses a very long downward trend*

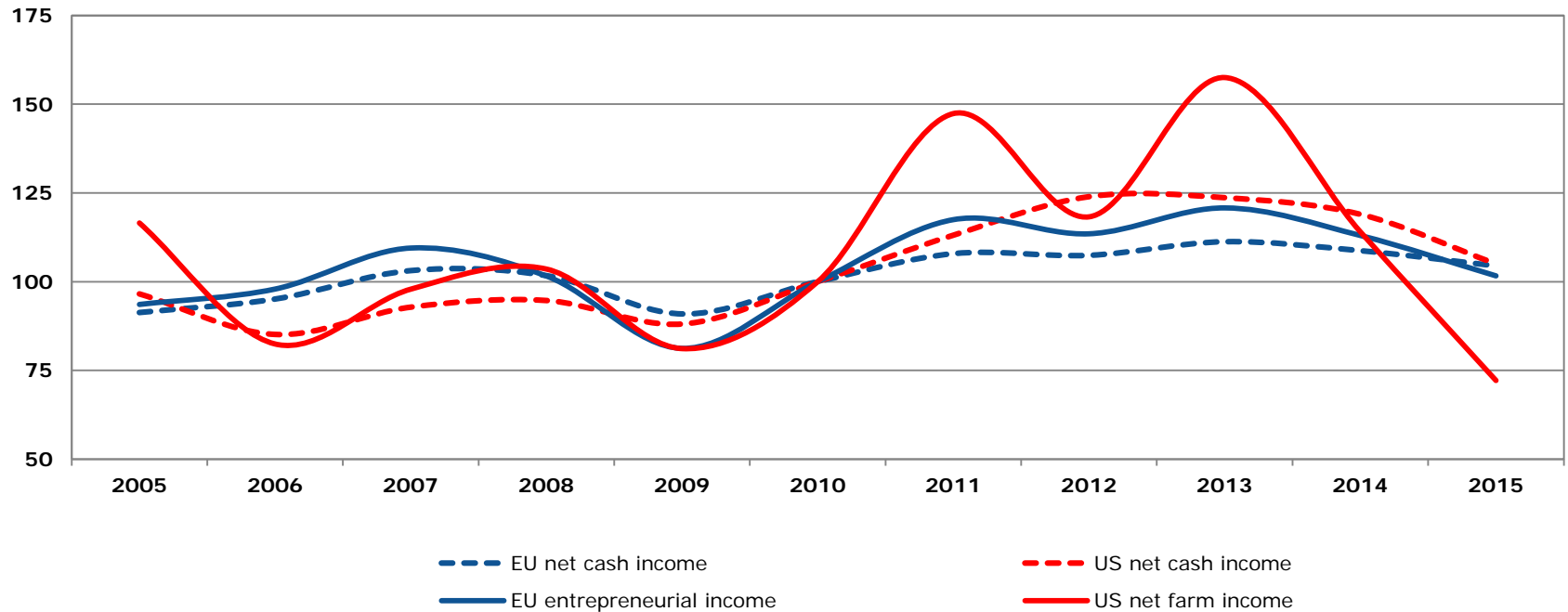
The EU's main policy response focused on targeting income

- *By addressing immediately the cash-flow difficulties farmers were facing*
- *By attempting to stabilise markets, maximising the use of existing measures*
- *By aiming to improve the functioning of the supply chain (setting of Ag Markets Task Force)*

The EU's policy response refrained from replacing market signals

- *Higher price signals in the context of oversupply will amplify price pressures*
- *Long-term competitiveness and market orientation of CAP need to continue*
- *Similar price pressures exist also under very different farm policy regimes*

EU and US nominal farm income (2010 = 100)



Source: AGRI calculations based on ESTAT and ERS/USDA data.

The bottom line – CAP for which agriculture?

Agriculture as the 2 % sector

- *Narrow focus on sectorial interests exposes agriculture's low GDP share and overall economic weight*
- *Product-driven concerns are real and justified; yet product-driven responses divide policy objectives*
- *Policy is driven on the defensive to justify its spending, instead of justifying its broader objectives*

Agriculture as the 40 % sector

- *Land use, as the new focus of the CAP, addresses both environmental and climate challenges*
- *Wider territorial policy scope brings wider growth and employment links to the forefront*
- *Addressing the supply chain functioning is also relevant for land-use and food waste*

Agriculture as the 100 % sector

- *Food demand-driven policy concerns unify policy focus and reform opportunities*
- *Up-stream, down-stream and horizontal linkages are potentially growth and job enhancing*
- *Technology and innovation will determine net employment and environmental effect*

Reports and data available at:

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

http://ec.europa.eu/agriculture/markets-and-prices/index_en.htm

http://ec.europa.eu/agriculture/policy-perspectives/index_en.htm

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

Thank you for your attention!