

Perspectives on European Agriculture in 2020

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Earlier 2020 briefs identified annual growth rates for world population of 1.7 percent per year based on United Nations projections and per capita income growth in low- and middle-income economies of 2.9 percent as the major driving forces for growth in agricultural demand. These growth rates would probably result in a food demand increase of 2.5--3.0 percent, which should then be matched by agricultural production. Over the period 1970--90, production grew 2.3 percent annually, but most experts agree that major efforts will be needed to sustain a growth rate of about 2 percent in the future. Though most of this production growth will be realized within the regions, some food will have to be imported, and international trade will play an increasingly important role. Drawing on a recent study of European Union (EU) agriculture, this brief focuses on the EU-12 members in 1994 and discusses the consequences of possible further reforms of the EU's Common Agricultural Policy (CAP) on its agriculture and its potential as an agricultural exporter.

The EU and CAP Reform

Boosted by high support prices, EU agriculture is dynamic and productive. The EU is now a net exporter of cereals, meat, and milk products. This achievement comes with two problems: first, surpluses can only be disposed of by using export subsidies, leading to confrontations with other exporters; second, the high internal prices adopted by the EU to subsidize its exports and to support its farmers have led to steadily rising agricultural outlays in the budget. These pressures led to a reform of the CAP in 1992, which then paved the way for the General Agreement on Tariffs and Trade (GATT). This new policy environment will change the position of the EU on the world market and open new opportunities.

The EU is already a major player on world food markets. It is a large importer of coffee, tea, cacao, oilseeds, tropical fruits, and feedstuffs. Exports mainly consist of temperate products such as dairy, wheat, meat, and horticultural products. EU agriculture is characterized by high productivity per farmer and per hectare, and by high internal prices that are realized through high rates of protection on exports. Rates of protection on agricultural imports are virtually prohibitive, except on tropical products, fats and oils, and animal feeds such as protein feeds (cakes) and carbohydrates (corn gluten and cassava, for example). Tables 1 and 2 illustrate the EU's international role.

Table 1--Share of EU-12 in world production, 1990

Commodity	World	EU-12	Share
	(million metric tons)		(percent)
Wheat	601.7	80.2	13.3
Coarse grains	848.0	78.1	9.2
Oilseeds	250.3	10.4	4.2
Sugar	110.8	17.3	15.6
Milk	477.6	109.4	22.9
Bovine meat	51.6	7.7	14.9
Pork	69.9	13.4	19.2
Poultry meat	39.9	6.3	15.9

Source: C. Folmer et al. 1995. *The common agricultural policy beyond the MacSharry reform*. Amsterdam: North Holland.

Table 2--Share of EU-12 in world trade, 1989

Commodity	Imports	Exports
	(percent)	
Cereals	3.1	15.0
Oilseeds	44.3	0.2
Sugar	6.9	17.8
Butter	8.8	43.7
Cheese	13.1	49.3
Bovine meat	6.6	23.9
Pork	4.0	23.5
Poultry meat	5.6	23.8
Eggs	9.3	30.4

Source: C. Folmer et al. 1995. *The common agricultural policy beyond the MacSharry reform*. Amsterdam: North Holland.

These shares shifted somewhat during the 1980s, with the production share decreasing slightly, except for a few policy-induced changes such as an increase in oilseeds. The main explanation for the decrease is the policy to reduce production in EU member states through production quotas. Because cereals, sugar, and bovine meat surpluses could be exported, thanks to substantial subsidies, the EU's shares in world trade rose slightly. For dairy products, where production quotas were reduced on several occasions, export shares fell a few percent.

In 1992 the EU adopted a major CAP reform, enabling it to successfully conclude the GATT agreement in 1994. The EU's future role on the world market will again greatly depend on the CAP, which could in principle develop in one of two almost diametrically opposite directions: either toward free trade or toward interventionism.

Liberalization

From 1996 on, under the free-trade scenario, the current trend toward liberalization set in motion by the 1992 reform is expected to continue. It assumes that support prices will gradually decrease, while farmers' incomes will be maintained via compensation payments linked to land area operated and to the livestock numbers of each farm. Production quotas are expected to remain tight and set-aside programs effective. The scenario projects that EU consumers will face some net welfare gains (lower prices compensate for the increase in taxes, resulting in annual per capita gains of about US\$20). It projects that until 2005 there will be no expansion in EU exports, with the possible exception of bovine meat. Beyond 2005, however, as internal support prices fall to world market levels, production controls will become unnecessary and the set-asides can be abolished. Under modest assumptions about the increase in productivity, it becomes possible to prevent farm incomes from falling over time, while compensation payments are being phased out. By then, the EU will have become a competitive agricultural exporter, primarily of wheat, dairy products, and bovine meat.

As a variant, a scenario with faster and more rigorous liberalization was developed. In this scenario, farm supports would be decoupled fully from production levels (land and livestock numbers) and temporary lump-sum payments would prevent a drastic restructuring of the agriculture sector. It appears that consumers would benefit somewhat more (about US\$40 per capita), and exports could grow faster because production controls would be abolished earlier. Net cereal exports would double by 2005 and reach 30 million metric tons.

Intervention

Alternatively, the intervention scenario assumes that the major trading blocs will return to protectionist strategies. The EU would then retrench to a regime of high internal prices to support farm incomes and use additional supply controls to limit subsidized exports. This scenario undeniably has some clear advantages: it avoids the direct payments that are needed for decoupled support, and since the reduction of support improves the competitiveness of EU-produced grains relative to imported protein feeds and carbohydrates, more farmers will raise their livestock on locally grown feeds. Intermediate demand for cereals will increase by 1.5 percent per year, while intermediate demand for cereal substitutes is expected to fall by 1 percent per year. This so-called rebalancing process is expected to ease environmental pressures. There will be some welfare losses for European consumers--about US\$45 per capita per year. Yet the welfare loss inflicted

on foreign consumers cannot be ignored, nor the important loss of the intensive livestock sector, which will face high feed prices.

Overall, the CAP is expected to evolve in the direction of free trade. In the baseline scenario, agricultural prices of the EU would fall gradually to world market levels and production quotas would be relaxed. Thus, the transition to free-trade conditions would be smooth and made easier by temporary compensation payments to farmers. Due to demand pressures and the limited scope for expanding agricultural production around the world, the fall in world market prices would be much slower than in the 1980s, making it easier for EU agriculture to conform to these prices. By 2020, as a result of growth in productivity, a reduction in the farm population from 18 million farmers now to less than 10 million in 2020, and increased farm size, the sector will be able to survive without protection. Moreover, since consumer demand will almost stagnate in the EU due to the lack of population growth and satiation of the consumer, exports are expected to grow significantly.

Three commodity groups account for most of this expansion (Table 3). The rebalancing process will enable the EU to become self-sufficient in feedgrains, while the exportable surplus of wheat will more than double in the period 2005--2020. In the variant where the EU liberalizes faster, these exports are already attained by the year 2010.

Table 3--The EU's exports in 2020

Commodity	1995	2020	Net Change
	(million metric tons)		(percent)
Wheat	14.6	35.2	20.6
Coarse grains	5.6	-4.4	-10.0
Fats and oils	-4.6	-6.4	-1.8
Butter	0.1	0.7	0.6
Other dairy products	7.9	26.5	18.6
Bovine meat	0.2	4.1	3.9

Source: C. Folmer et al. 1995. *The common agricultural policy beyond the MacSharry reform*. Amsterdam: North Holland.

Long-Term Availability of Land and Labor is Uncertain

The main uncertainty regarding the long-term future of EU agriculture relates less to prices than to factor availability. First, the farm population is aging more rapidly than the nonfarm population:

a significant number of young farmers choose to leave agriculture or are forced to do so by economic conditions. While this process facilitates the restructuring of the sector, it is not clear when this outmigration will end and whether, by 2020, a sufficient number of farmers will remain to till the land.

Second, the availability of sufficient agricultural land should not be taken for granted. So far agriculture has largely been the most profitable use of rural land. Legal regulations in effect in most member countries make it difficult to convert agricultural land to any other use. This may change when lower price and income supports are decoupled from land (which is not now the case under the CAP), making it rewarding to use land for parks, camping, infrastructure, or real estate development. The EU would then quickly lose its place as a wheat exporter. For example, if the agricultural area is 10 percent lower in 2020 than in the baseline scenario, the EU will become a net cereal importer. Considering the uncertainty about long-term food availability, the EU would be well advised to protect the productivity of its land resources and ensure that a significant part of nonagricultural land can readily be reconverted to agricultural use if the need arises.

The Future of European Agriculture

The right policies can lift the pressures on the CAP and lead gradually to a competitive European agriculture. International markets for cereals, dairy products, and meat are expected to grow substantially in the future, and will provide a fair playing ground for European exporters. The budgetary pressure of the CAP will be released when the regime of high support prices is replaced by social and income policy. In addition, policies are needed to preserve the productivity and availability of agricultural land and labor.

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