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## Presentation from the USDA Agricultural Outlook Forum 2017

United States Department of Agriculture  
93<sup>rd</sup> Annual Agricultural Outlook Forum  
“A New Horizon: The Future of Agriculture”

February 23-24, 2017  
Arlington, Virginia



European  
Commission



# Modernising and Simplifying the Common Agricultural Policy: *drivers, challenges and priorities*

*Presentation in  
USDA's Agricultural Outlook Forum:  
Farm Policy Changes: Home and Abroad*

*Arlington, Virginia, 24 February 2017*

*Tassos Haniotis  
Director*

*AGRI.C - Strategy, Simplification and Policy Analysis  
European Commission*

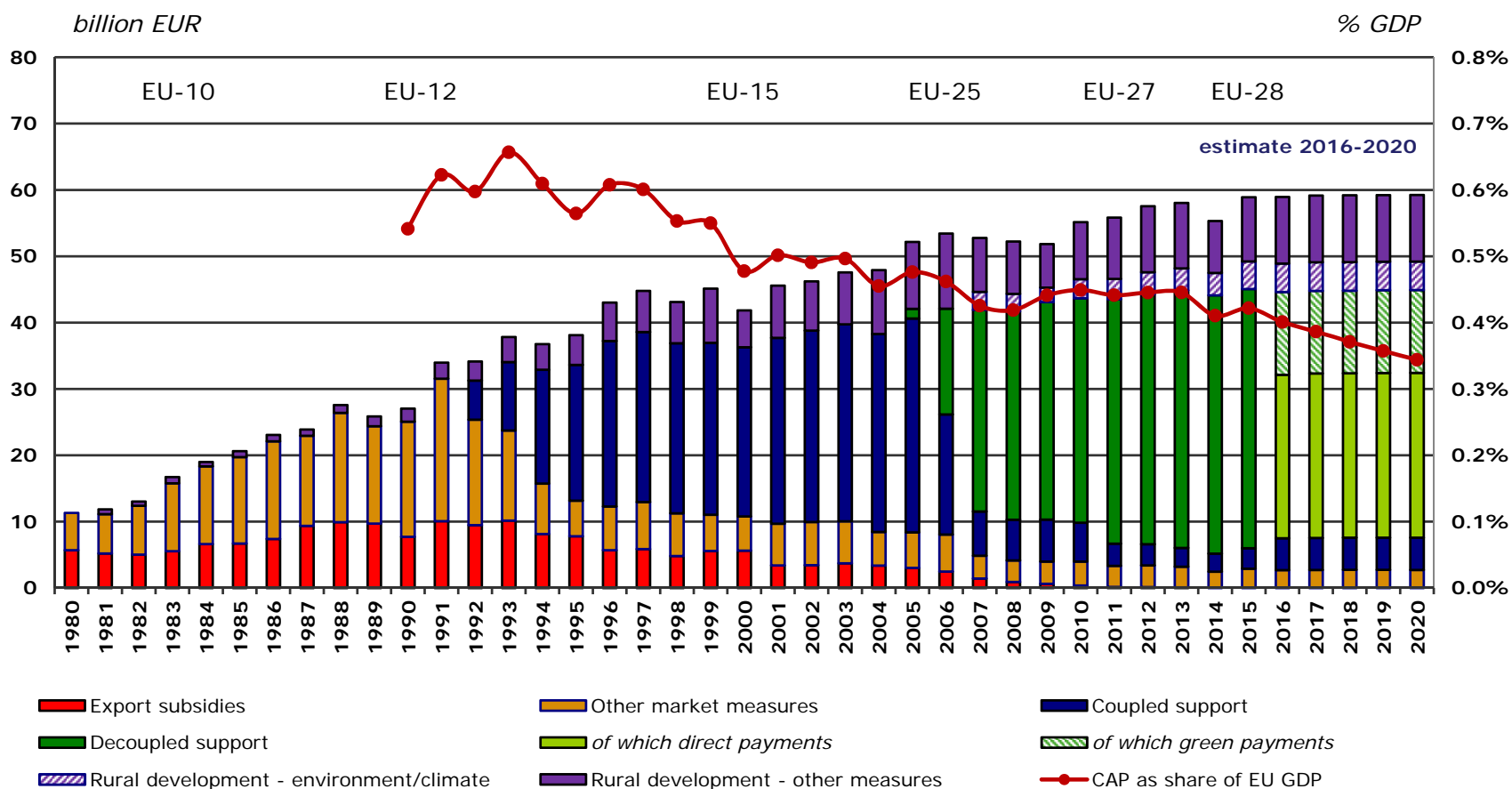
#FutureofCAP

Agriculture  
and Rural  
Development

## Outline of issues covered

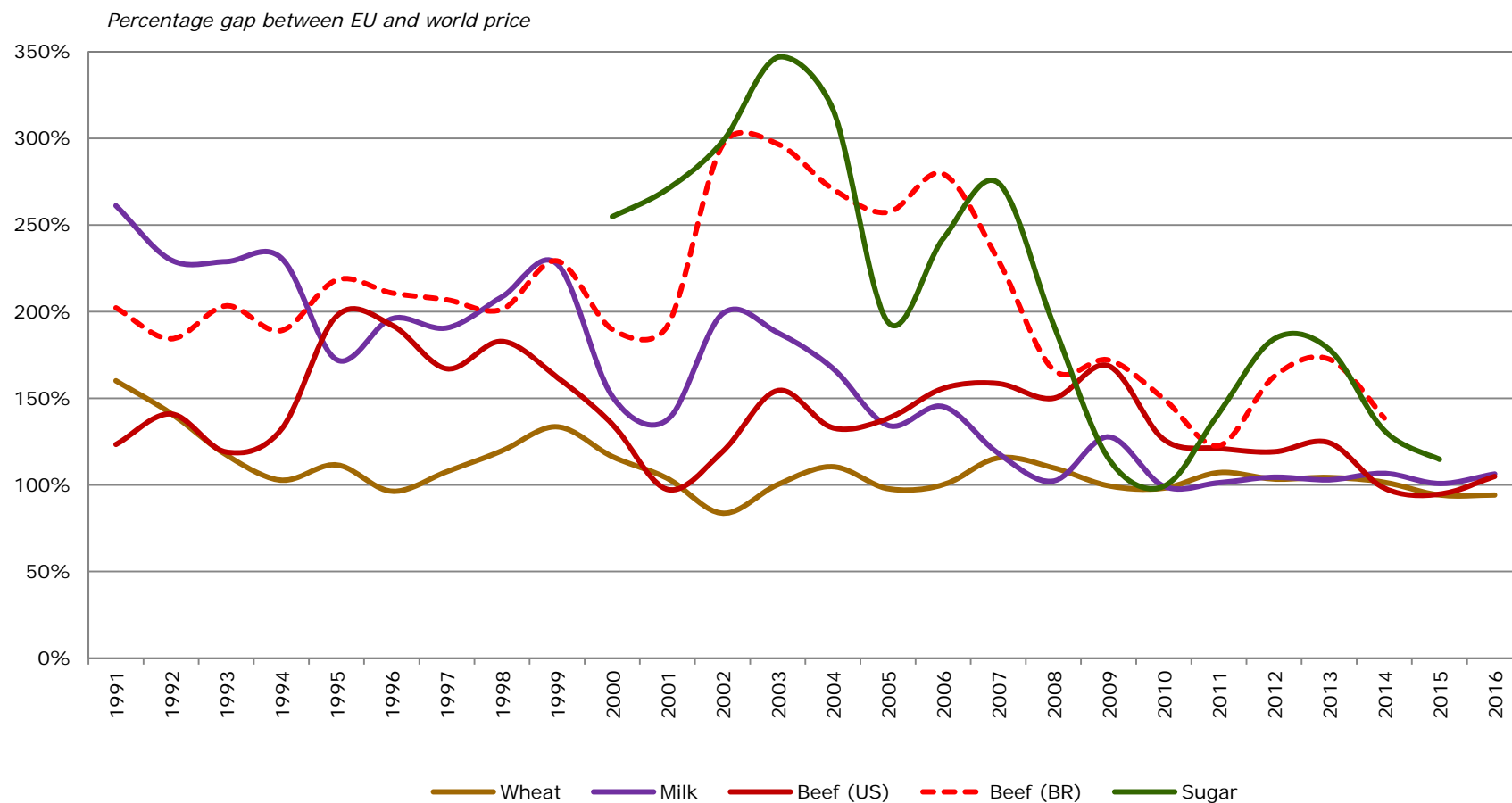
1. The outcome of the CAP reform process at a glance...
2. ...some new global and policy challenges...
3. ...and the broader policy questions around them

## The long drive of CAP reform...



Source: DG AGRI.

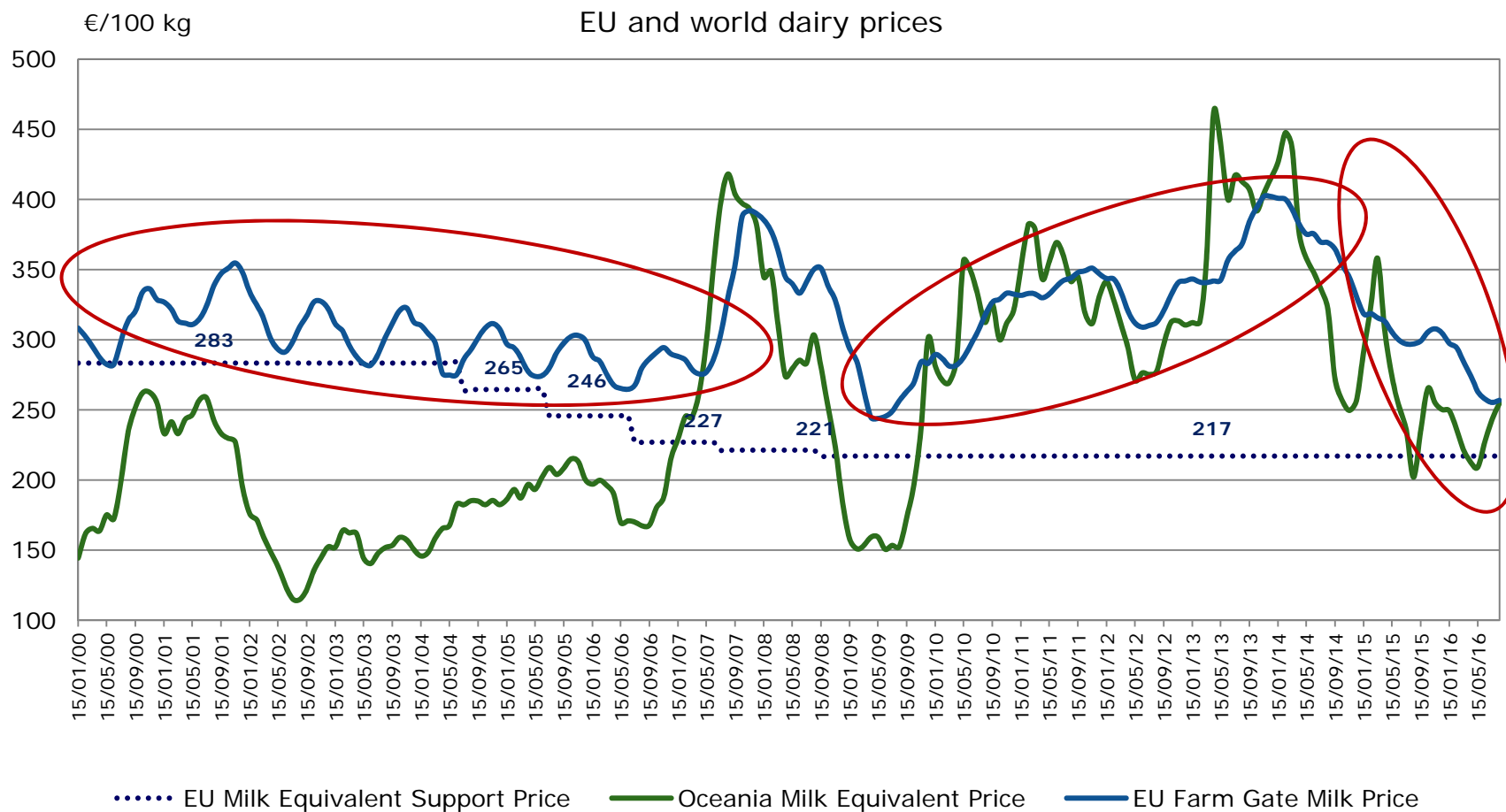
## ...bridged the gap between EU and world prices...



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

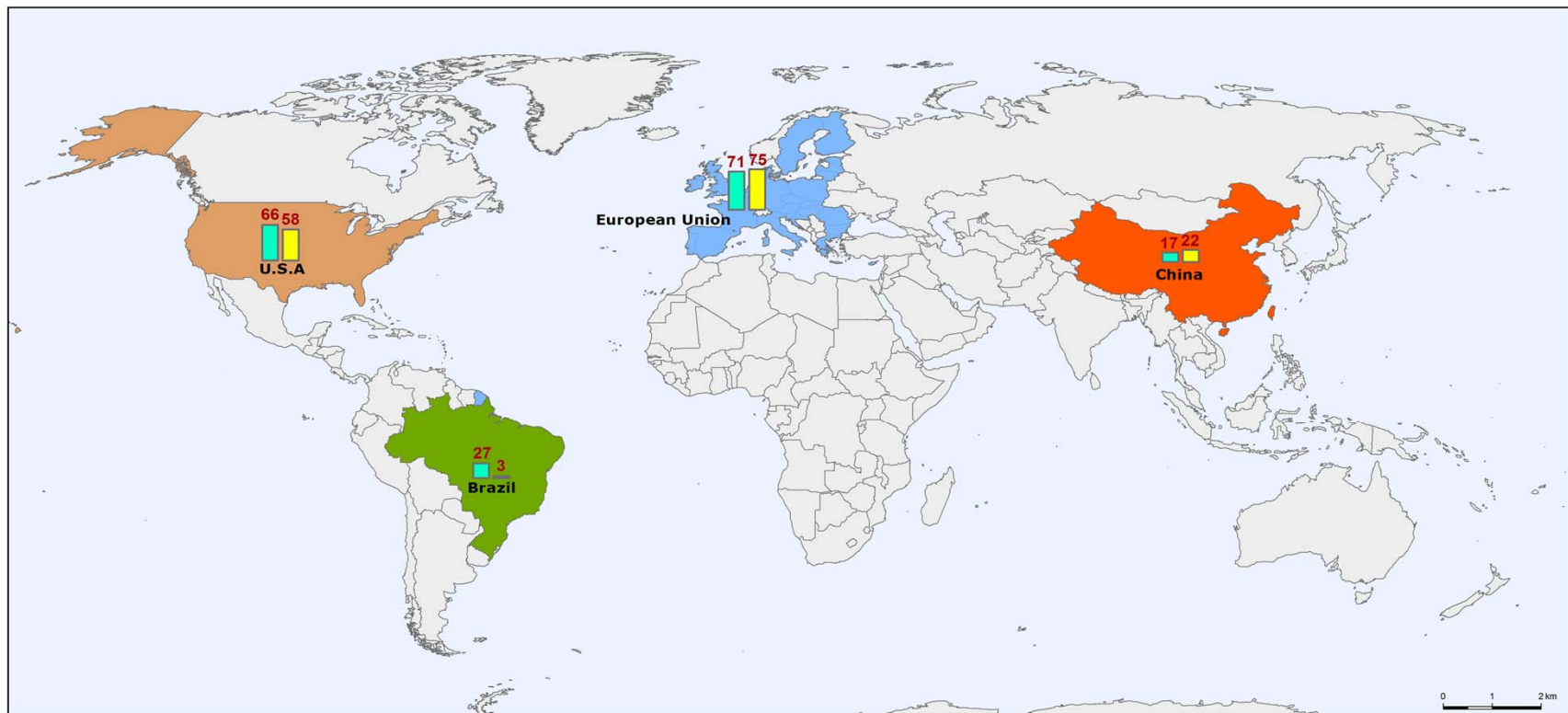


...with all the pros and cons this brings...



Source: DG Agriculture and Rural Development calculations based on ESTAT and OECD/FAO data.

...and turned the EU from major agro-trade player...



Agri-Food Trade (Avg 2003-2005 in billion USD)

Exports  
Imports

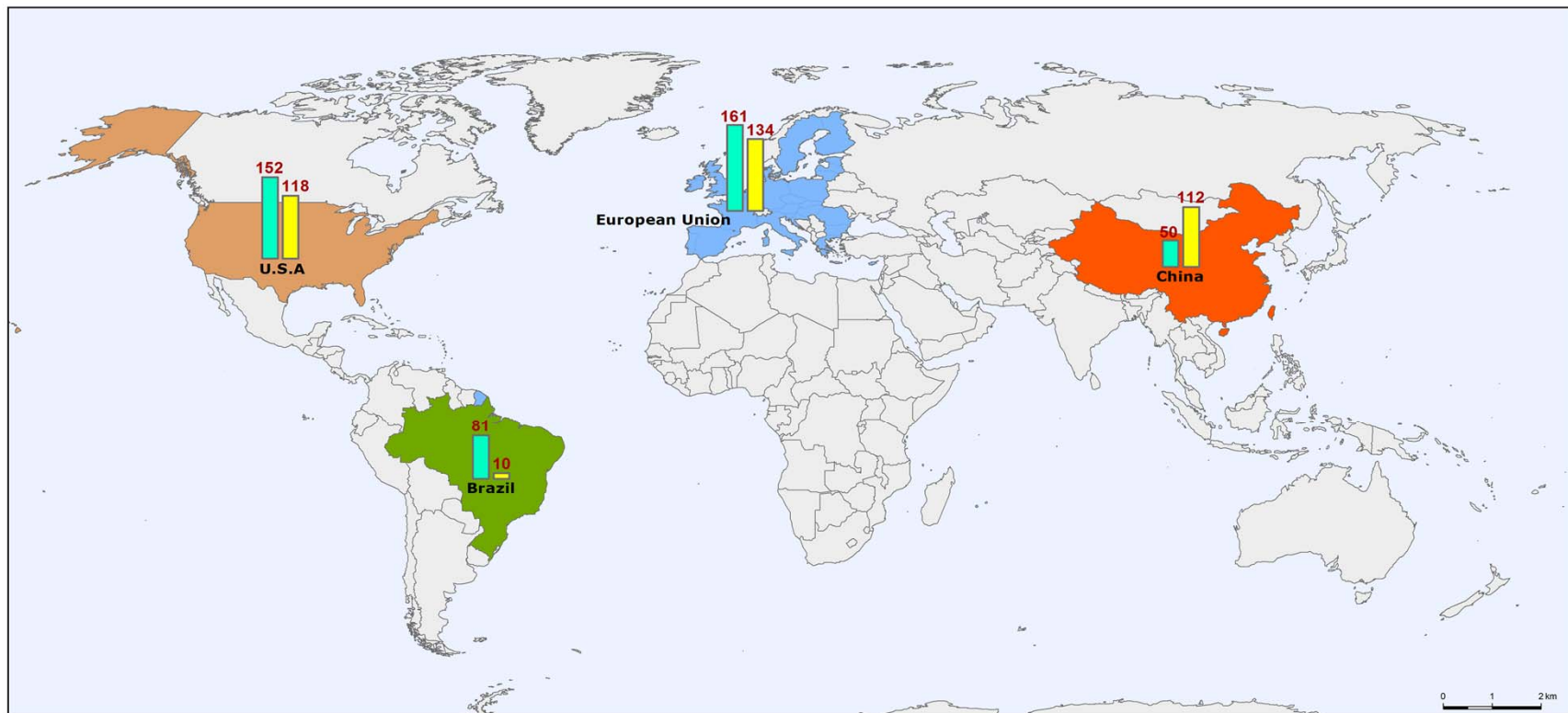
Source: COMEXT, GTA  
Cartography: DG AGRI GIS-Team 12/2016

Map Projection World: Eckert III - Map Scale 1:110.000.000

© EuroGeographics Association for the Administrative Boundaries  
Note : The borders of the map does not necessarily represent  
the official position of the EU. The map has only a statistical value.



...in a rapidly expanding world trade environment...



Agri-Food Trade (Avg 2013-2015 in billion USD)

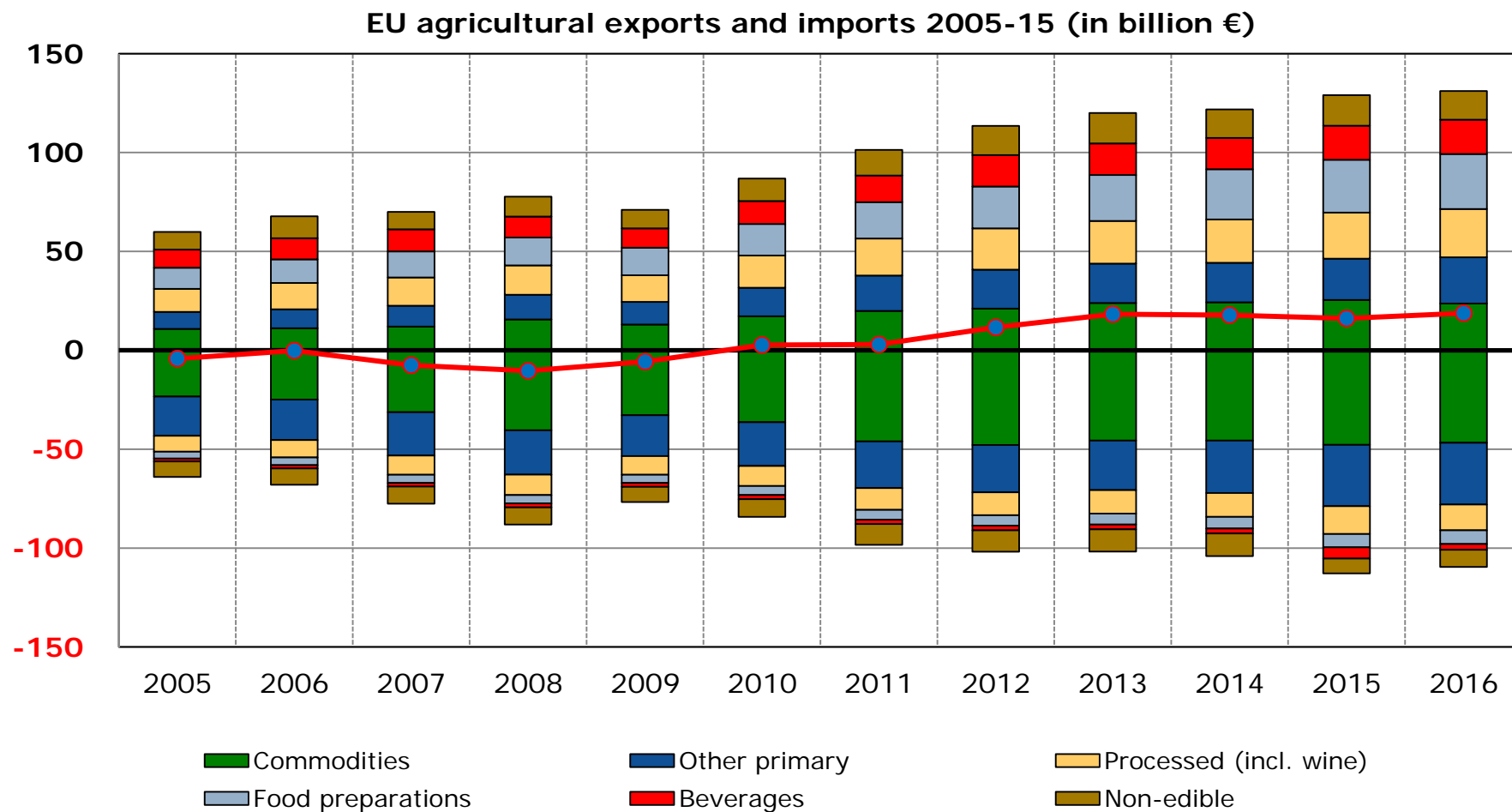
Exports  
Imports

Source: COMEXT, GTA  
Cartography: DG AGRI GIS-Team 12/2016

Map Projection World: Eckert III - Map Scale 1:110.000.000

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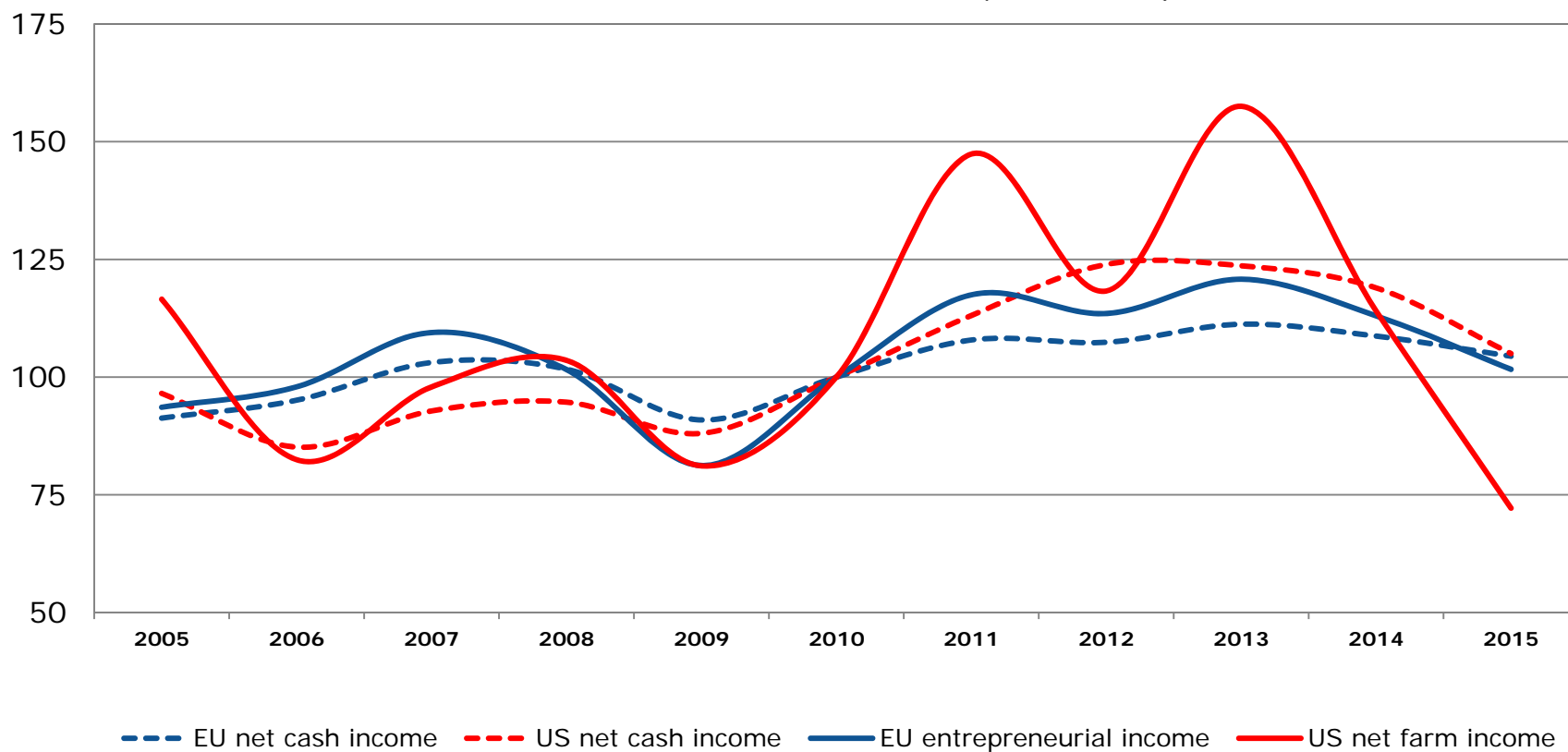
## ...into a net agro-food exporter...



Source: COMEXT.

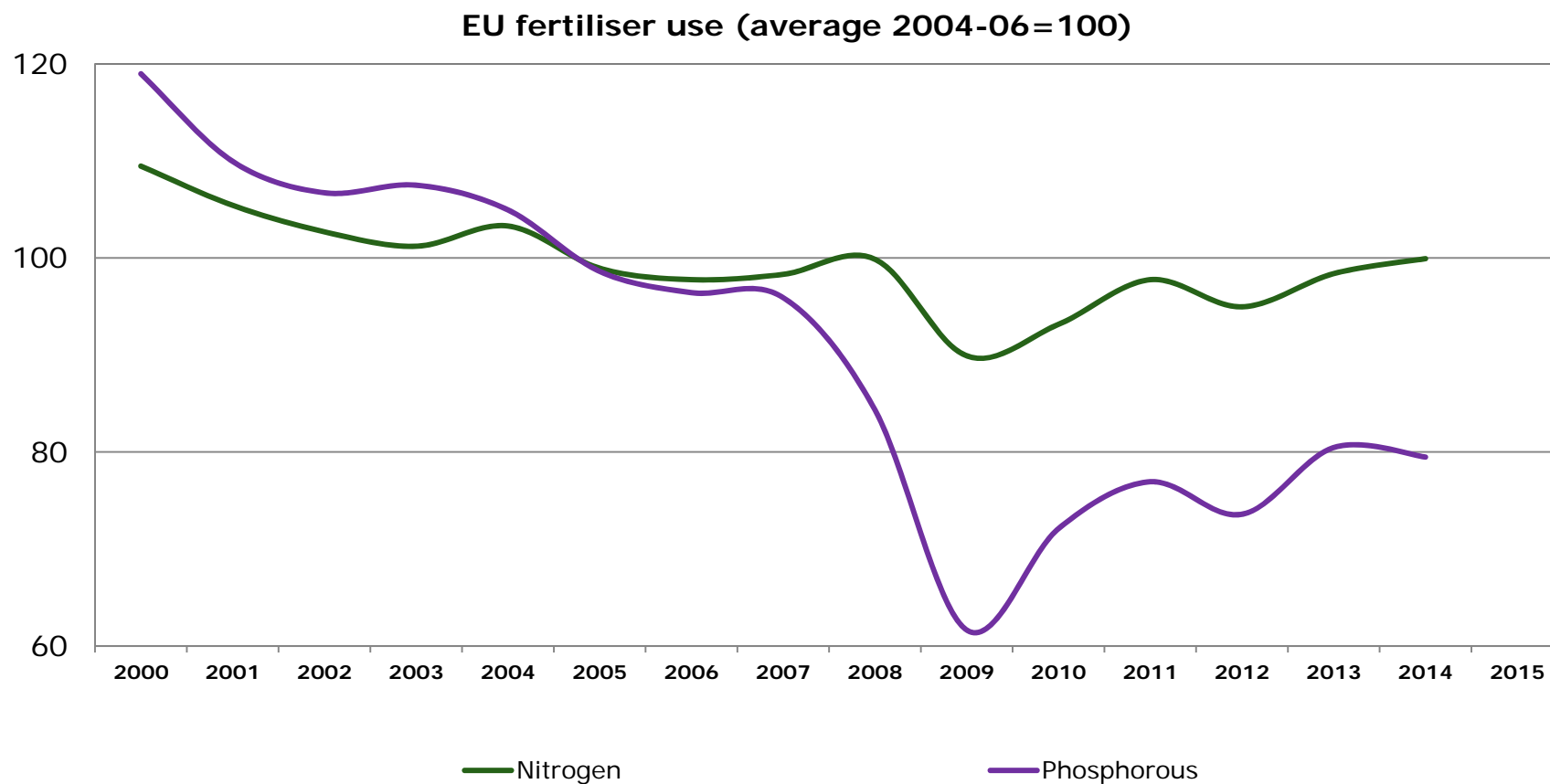
...while providing relative income stability...

EU and US nominal farm income (2010=100)



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

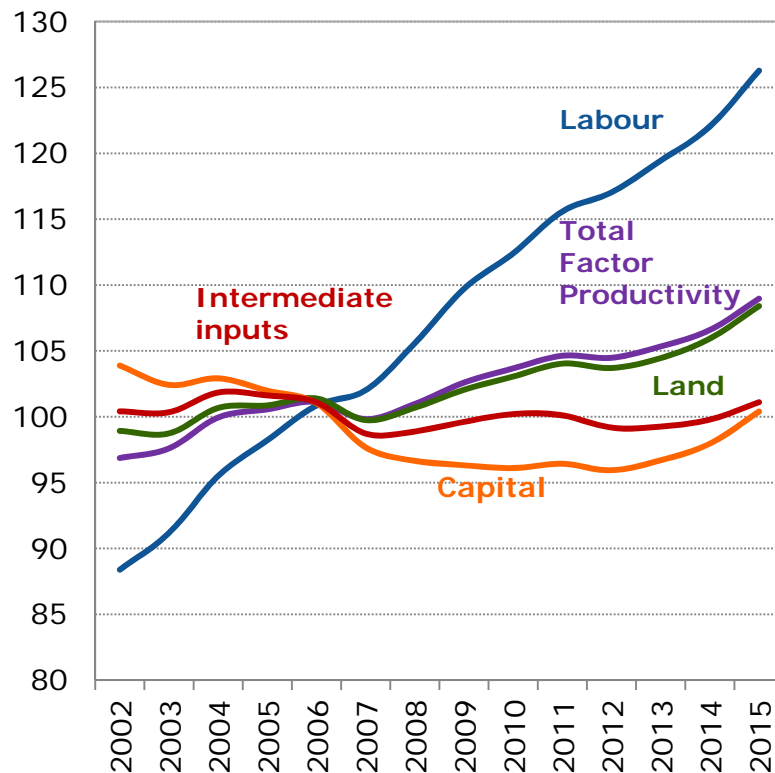
## ... and some positive environmental externalities



Source: AGRI calculations based on ESTAT data.

## EU agricultural productivity grows slowly...

*Productivity growth in EU agriculture*



3-year moving average (2005=100)

### Productivity growth key to meet challenge

- ...of feeding more people...
- ...feeding them better nutritionally...
- ...and doing so in a resource-constrained world

### Annual TFP growth in the EU is at 0.8%

- ...with main productivity gains from labour outflow...
- ...substituted by capital prior to economic crisis
- ...but now growing without increasing capital inflow

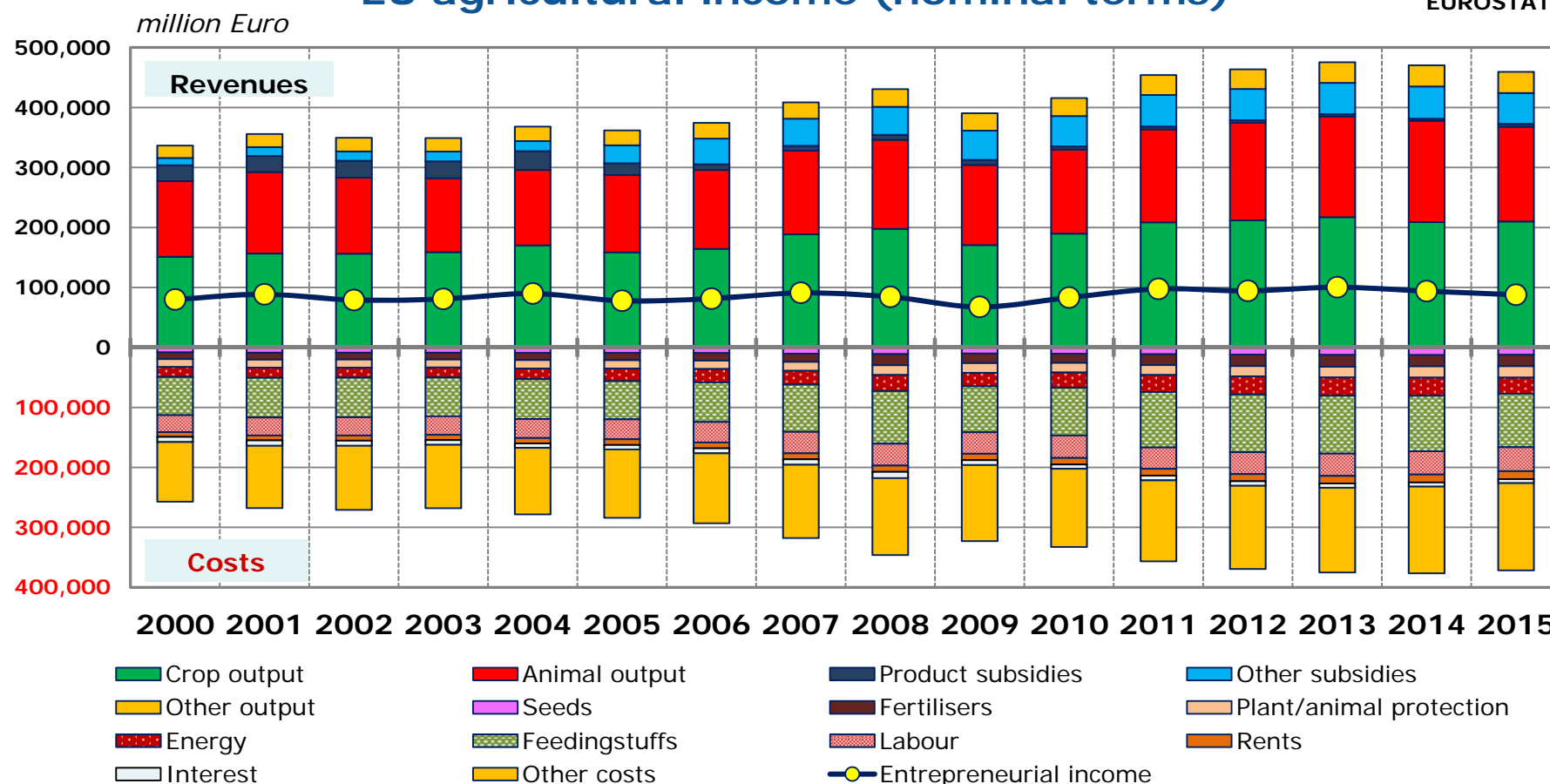
### EU-N13 exhibit higher productivity growth

- ... but from lower starting level...
- ...with some labour definition adjustments...
- ...and higher investment

...with EU farm income evolution pointing at challenges...

## EU agricultural income (nominal terms)

Source:  
EUROSTAT

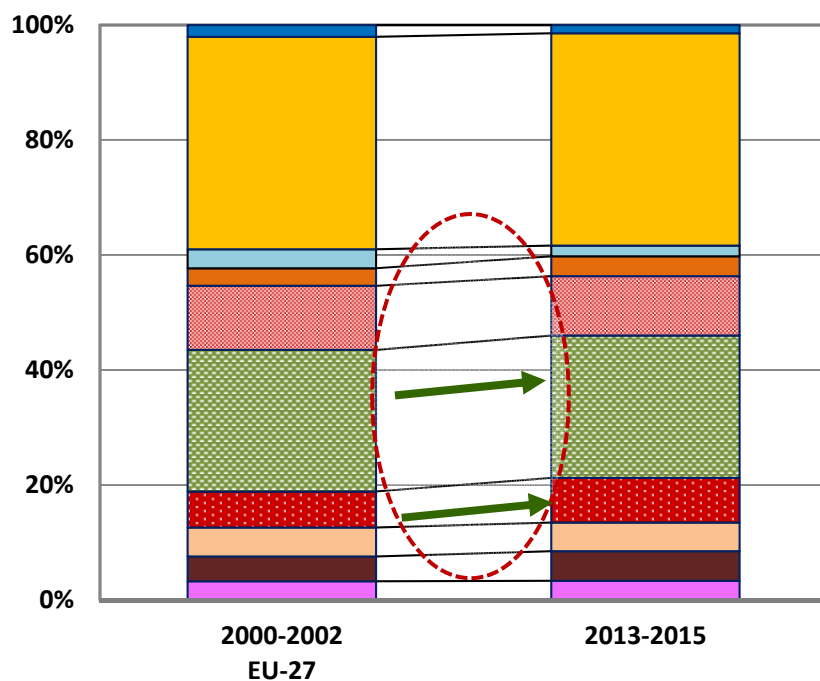


Source: AGRI calculations based on ESTAT data.



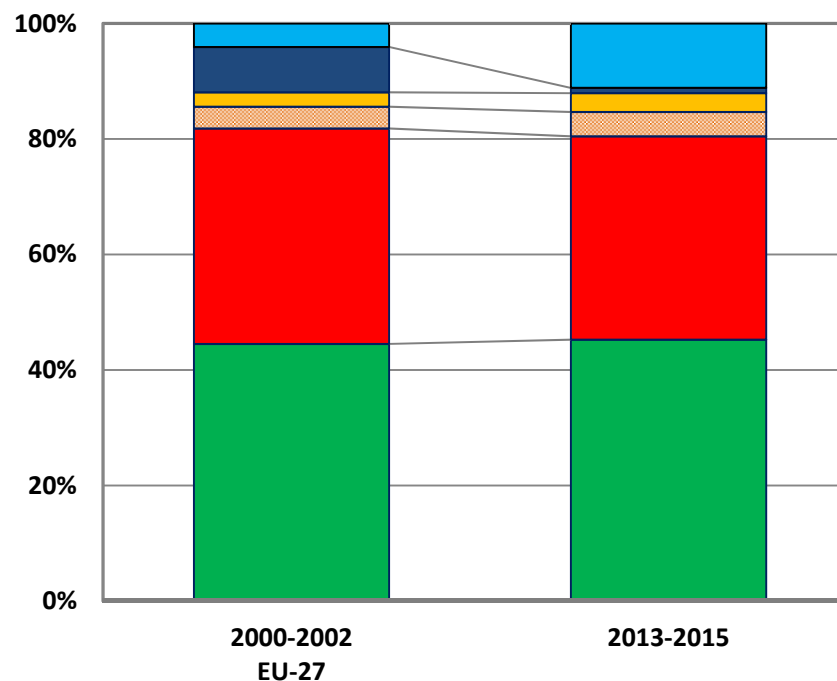
## ...especially in the EU's farm cost structure

### Cost Structure



- Taxes
- Interest
- Labour
- Energy
- Fertilisers
- Other costs
- Rents
- Feedingstuffs
- Plant/animal protection
- Seeds

### Revenue Structure



- Other subsidies
- Non-agricultural secondary
- Animal output
- Product subsidies
- Agricultural services output
- Crop output

Source: AGRI calculations based on ESTAT data.



## Summarising the debate

### Achievements of the CAP reform path

- *Bridging the gap between world and EU farm prices, thus increasing competitiveness*
- *Turning the EU from a major trade player for both exports and imports into a net agro-food exporter*
- *Providing relative income stability within a very volatile income and price environment*

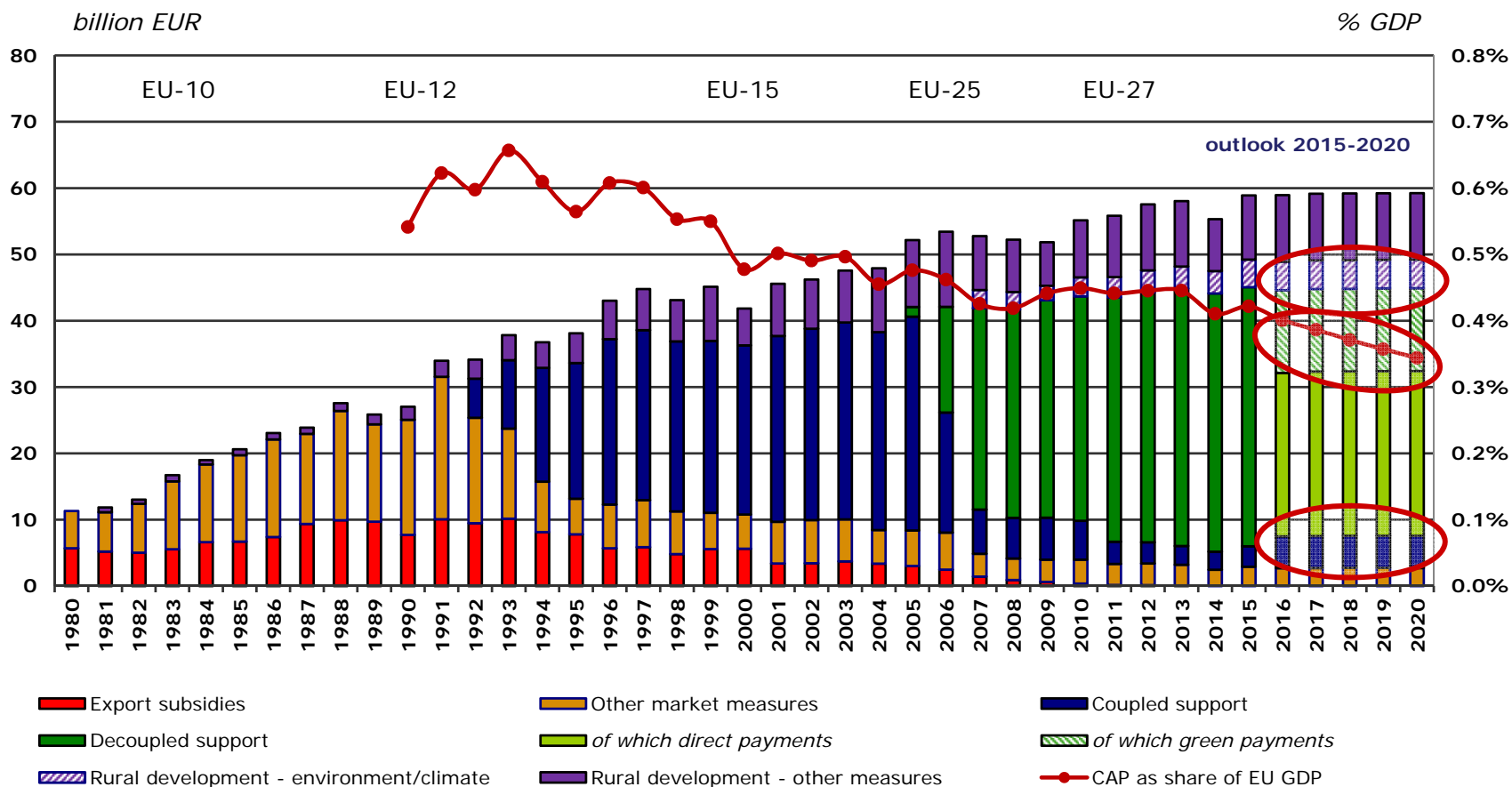
### Shortcomings of the CAP reform path

- *Despite progress, the environmental performance of EU agriculture requires further improvement*
- *Productivity growth is essentially driven by the outflow of labour, and less by research or innovation*
- *The degree of fairness, "greenness" and simplicity of the CAP are still hotly debated*

### Drivers and future challenges

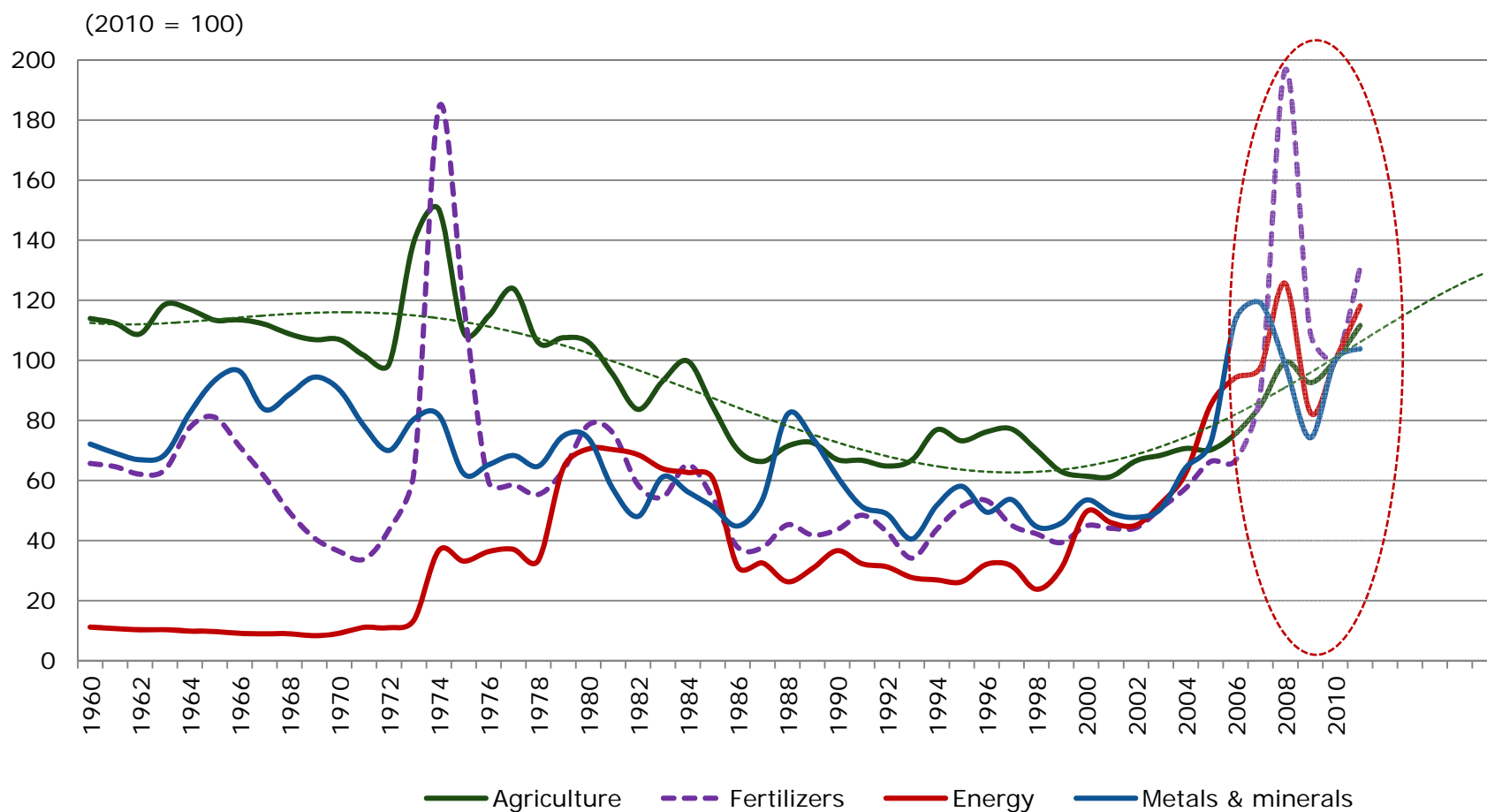
- *The changing commodity, economic and price environment*
- *The changing global trade environment*
- *New climate change, environmental and broader sustainability priorities*

## Main issues for the future CAP debate: *public money for private and/or public goods?*



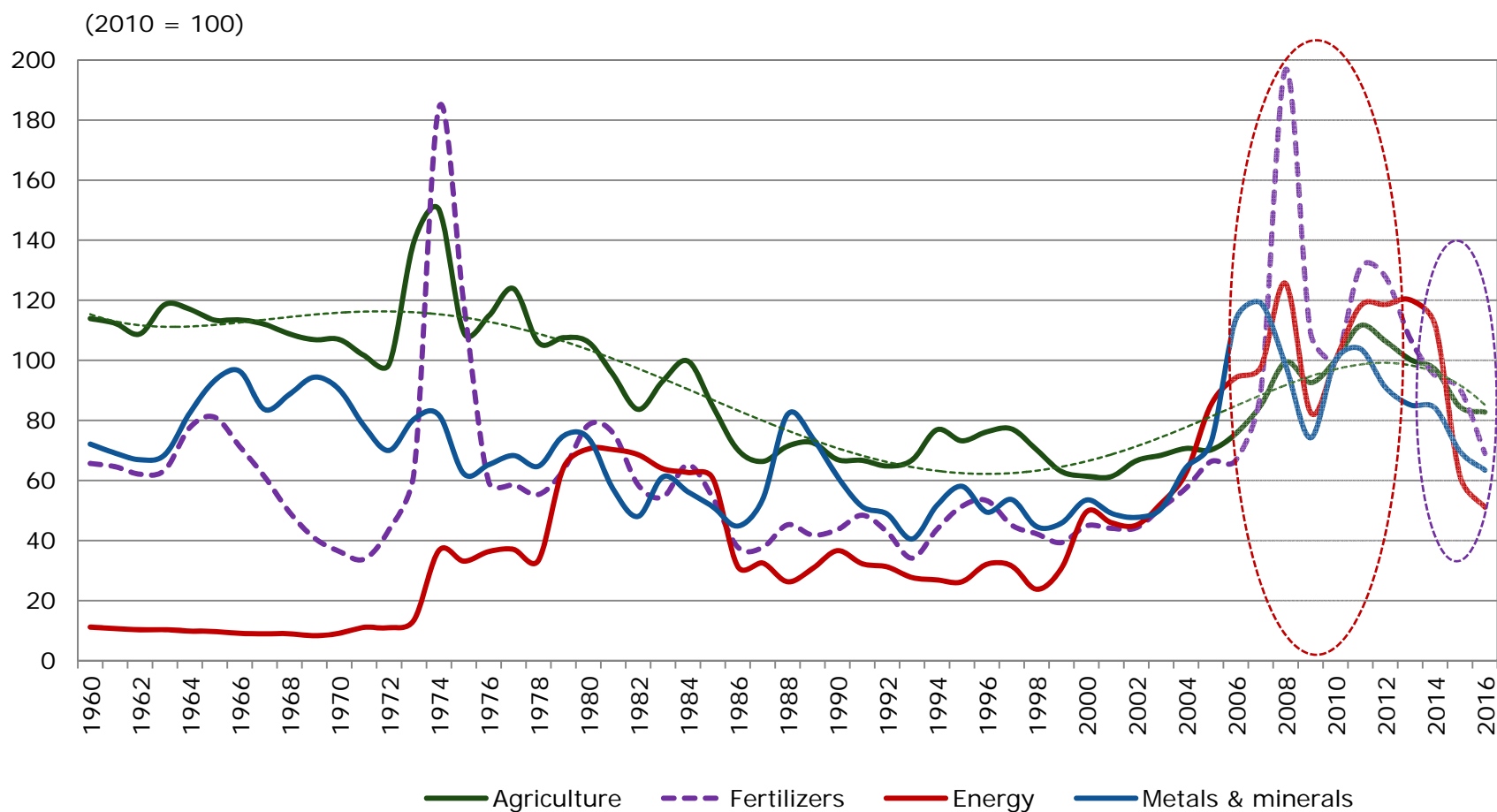
Source: DG AGRI.

## The trend in real commodity prices observed till 2011...



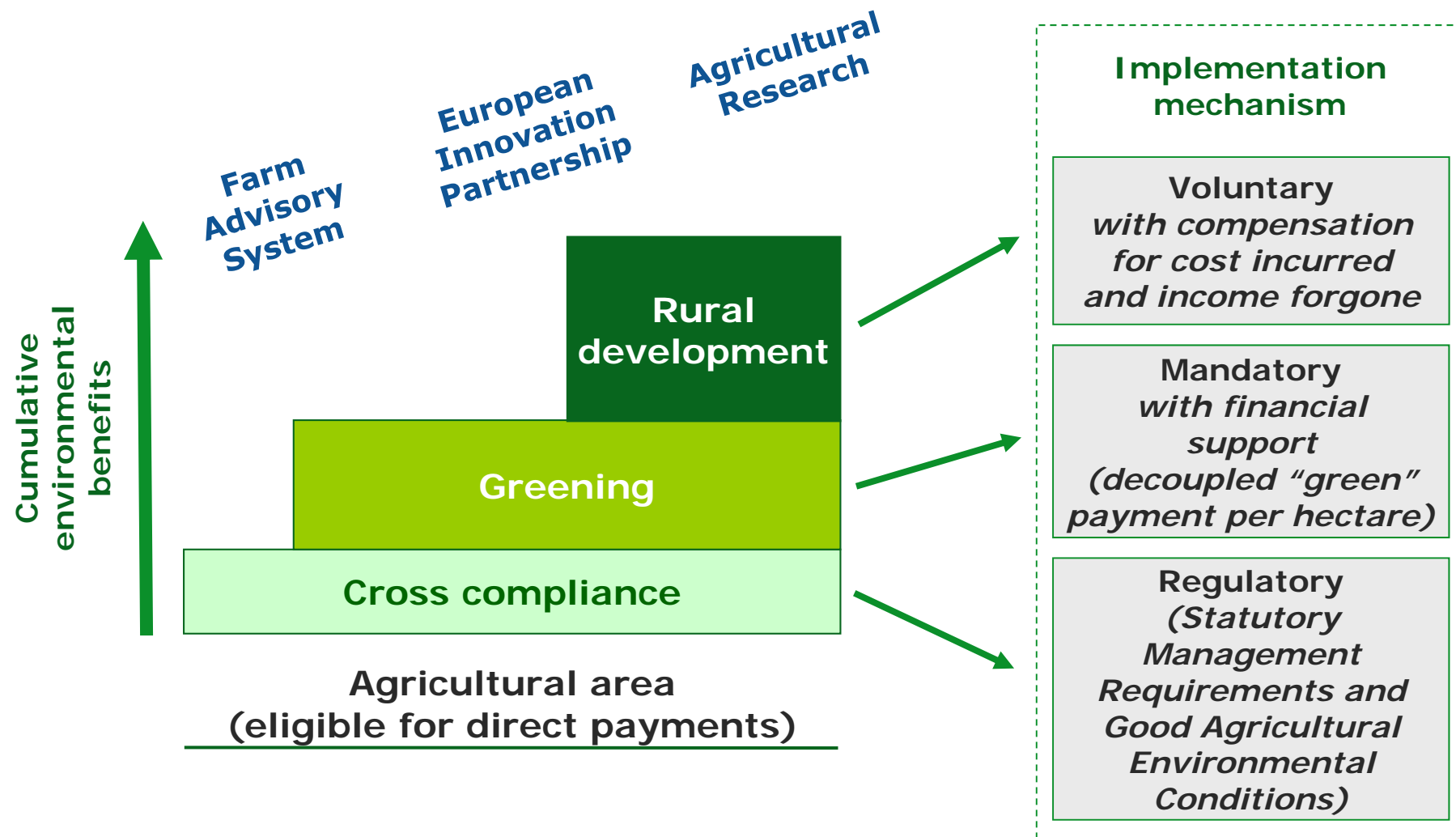
Source: World Bank.

...has dramatically changed in recent years



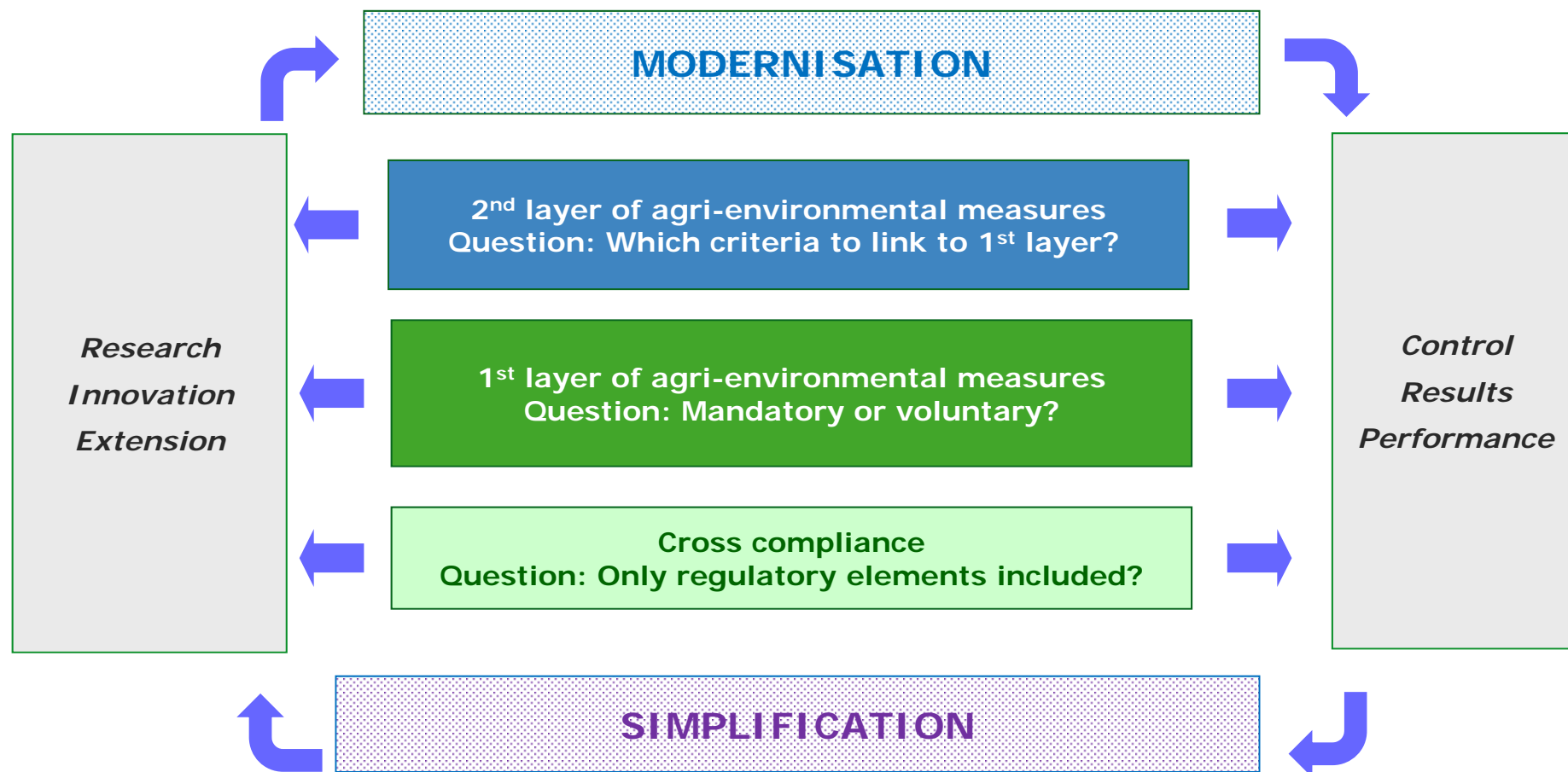
Source: World Bank.

## The "greening" architecture of the CAP...





...raised questions on its complexity



## On tensions, synergies and targets

### Tensions that the future CAP has to address

- *The economy versus the environment – and the impact of cost pressure on environmental ambitions*
- *Subsidiarity versus simplification – especially with respect to EU value added priorities*
- *Jobs versus growth – the difficult, but also promising impact of new technologies on agriculture*

### Synergies that the future CAP has to develop

- *Find the right balance of support between the private and the public good – both face market failures*
- *Redefine the balance between EU, MS and farm responsibilities – to simplify and avoid policy failures*
- *Address jobs and growth challenges in rural areas and in the food chain – to enhance resilience*

### Main questions that the future CAP has to reassess and address

- *Should support focus on the output side (quantity, price, revenue): what to support, and how?*
- *Should support focus on the input side (capital, land, labour): what to support, and how?*
- *Answering the above are preconditions to address, in the appropriate time, the big unknowns*



## Issues, challenges, context

### Questions on old persisting issues

- *Income support (logic, distribution, capitalisation) still questioned, yet evidence is very often ignored*
- *Despite two parallel systems of DPs in place, still very weak agronomic or economic specificity*
- *Some support measures often contrast an EU added value logic with its exact opposite*

### Questions on current and emerging challenges

- *Better targeting requires a clear choice of the main target – is it the farm or its land?*
- *Shift towards performance requires a fundamental rethinking of control logic (what, why, how)*
- *Technologies (especially EU-made ones) provide major opportunities, yet much resistance in use*

### Thinking within context – of emerging drivers and challenges

- *The CAP is a vehicle for addressing opportunities and challenges for climate and the environment*
- *Quantifying CAP's wider contribution on jobs and growth is difficult, identifying this role is clearer*
- *Bottlenecks in the food chain provide opportunity to refocus (some) policy responses*



## **Reports and data available at:**

[http://ec.europa.eu/agriculture/index\\_en.htm](http://ec.europa.eu/agriculture/index_en.htm)

[http://ec.europa.eu/agriculture/policy-perspectives/index\\_en.htm](http://ec.europa.eu/agriculture/policy-perspectives/index_en.htm)

[http://ec.europa.eu/agriculture/policy-perspectives/impact-assessment/index\\_en.htm](http://ec.europa.eu/agriculture/policy-perspectives/impact-assessment/index_en.htm)

[http://ec.europa.eu/agriculture/markets-and-prices/index\\_en.htm](http://ec.europa.eu/agriculture/markets-and-prices/index_en.htm)

[https://ec.europa.eu/agriculture/events/2016-outlook-conference\\_en](https://ec.europa.eu/agriculture/events/2016-outlook-conference_en)

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[https://ec.europa.eu/agriculture/consultations/cap-modernising/2017\\_en](https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en)

**Thank you for your attention!**