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United States Department of Agriculture

USDA's
93rd
Annual

Agricultural Outlook Forum

A New Horizon: The Future of Agriculture

February 23-24, 2017 • Crystal Gateway Marriott Hotel, Arlington, Virginia

Presentation from the USDA Agricultural Outlook Forum 2017

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

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Arlington, Virginia



Agriculture
and Rural
Development

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*

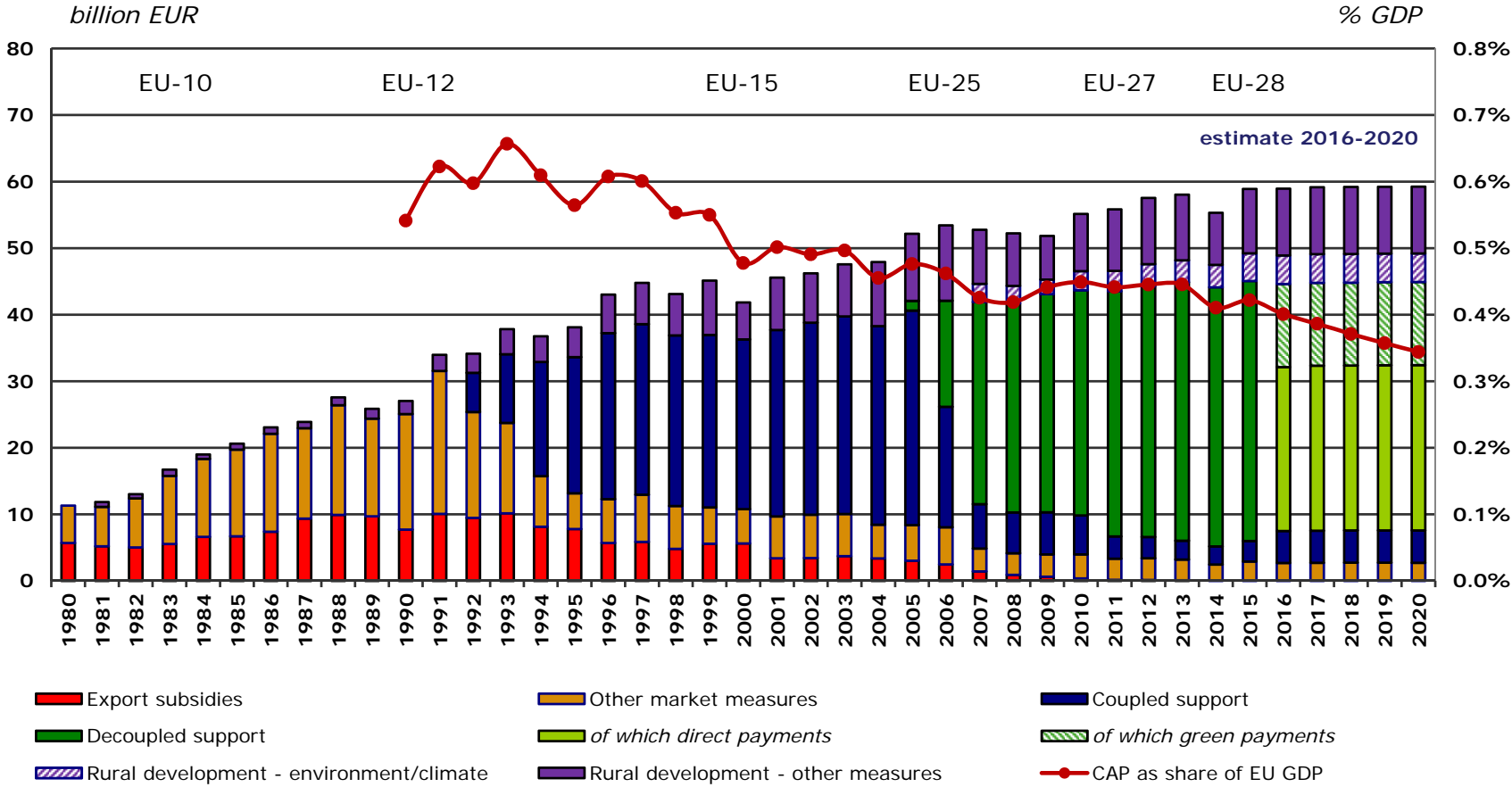
#FutureofCAP



Outline of issues covered

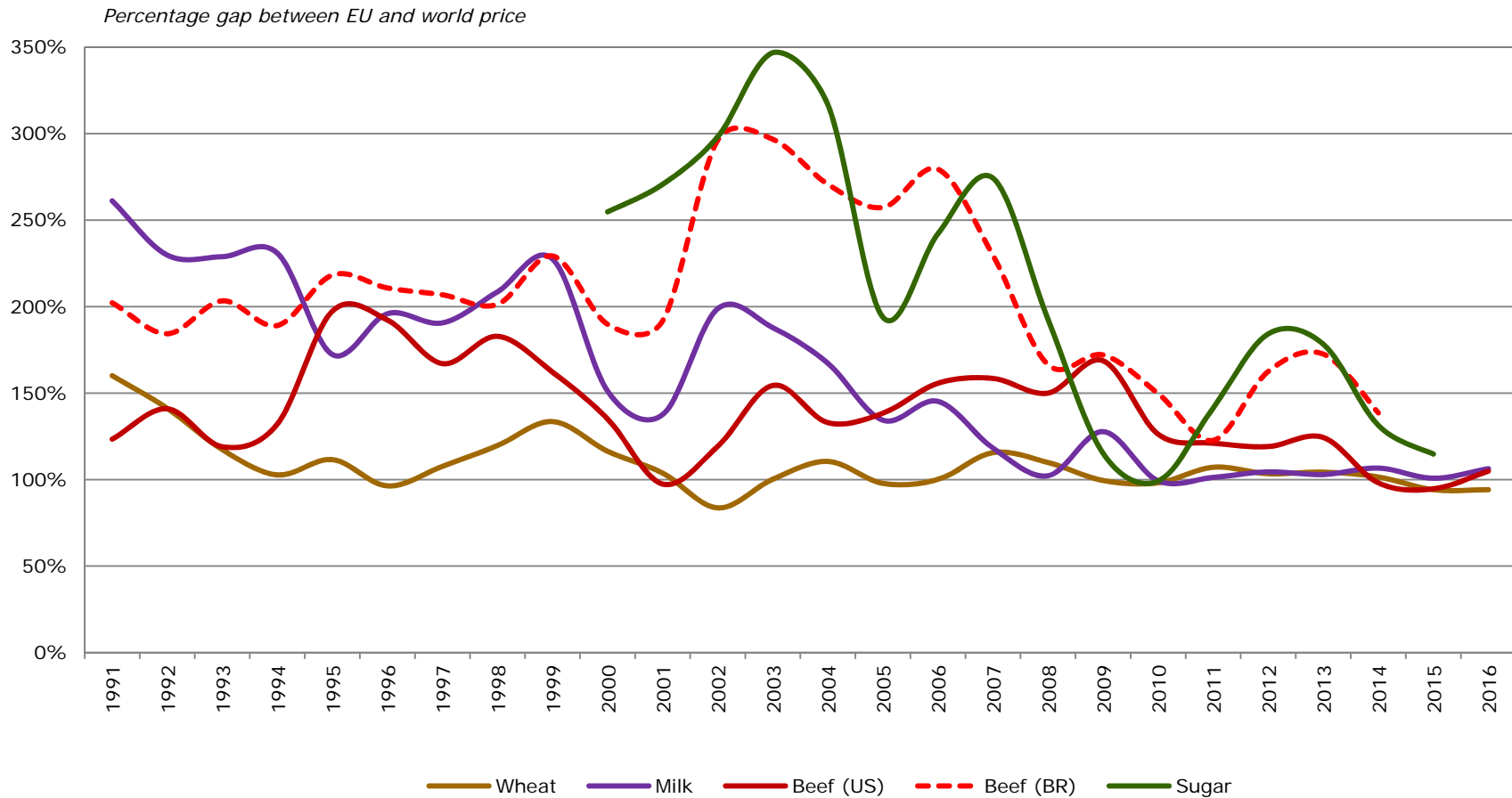
1. The outcome of the CAP reform process at a glance...
2. ...some new global and policy challenges...
3. ...and the broader policy questions around them

The long drive of CAP reform...



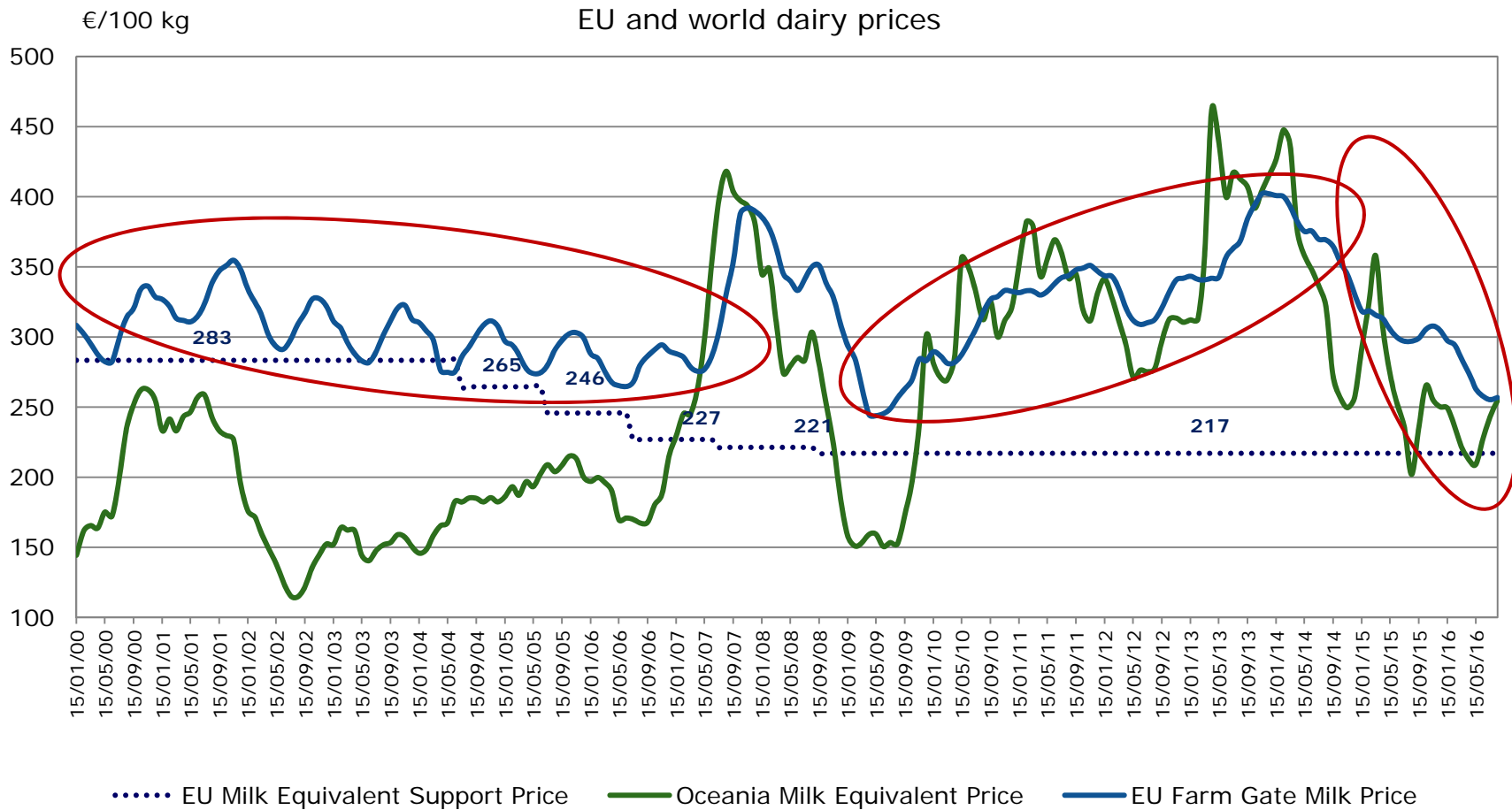
Source: DG AGRI.

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



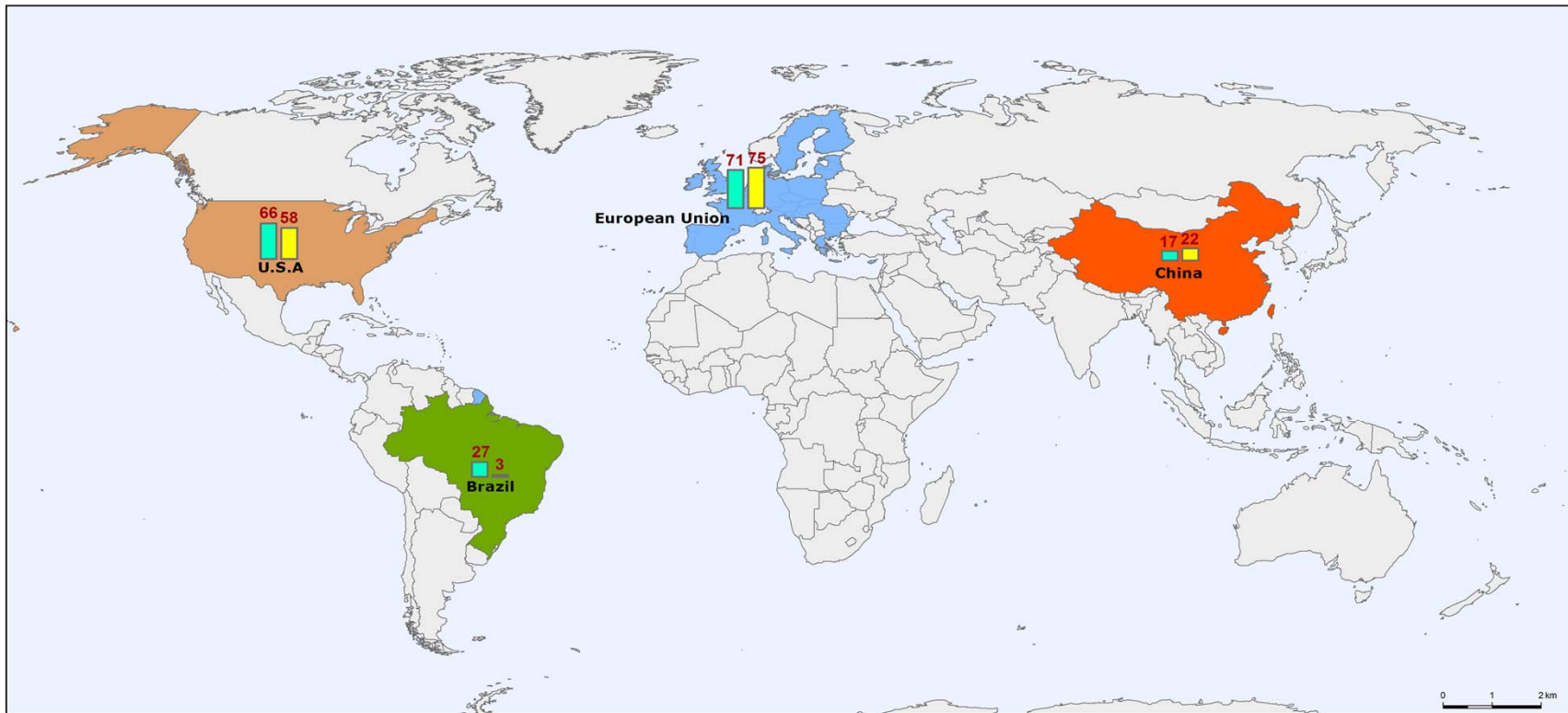
Source: AGRI calculations based on European Commission AGRI and OECD data.

...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)

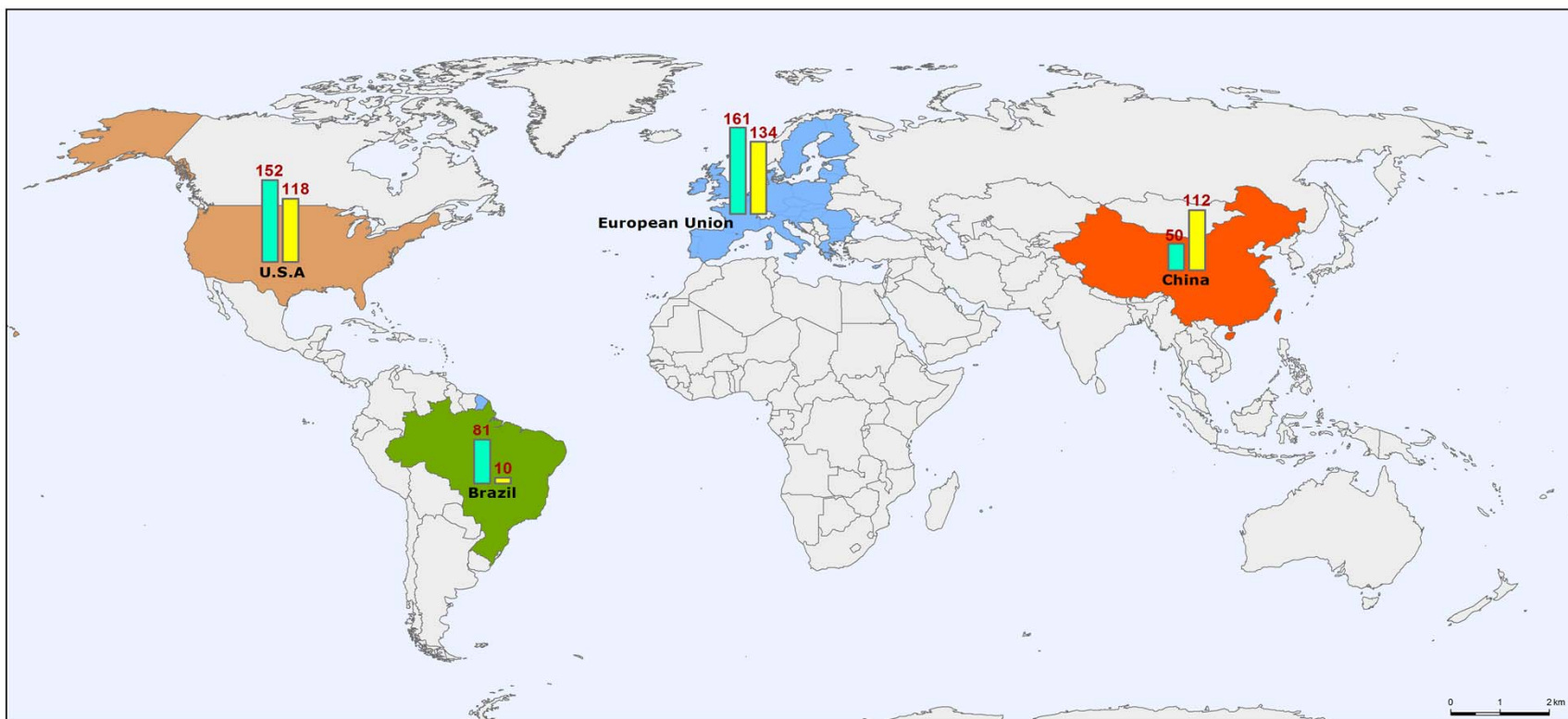
 Exports
 Imports

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

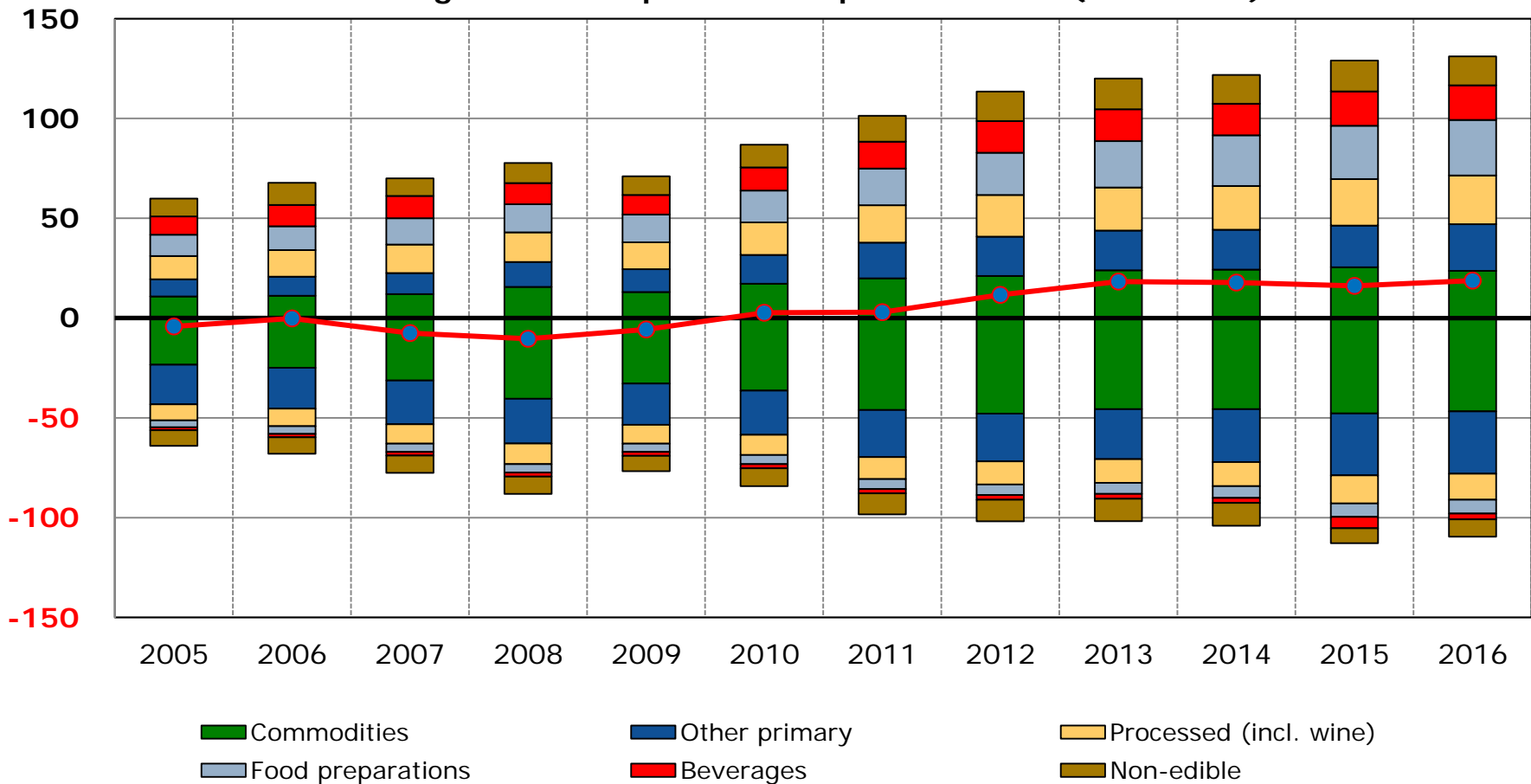
Source: COMEXT, GTA
Cartography: DG AGRI GIS-Team 12/2016

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

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Note : The borders of the map does not necessarily represent the official position of the EU. The map has only a statistical value.

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

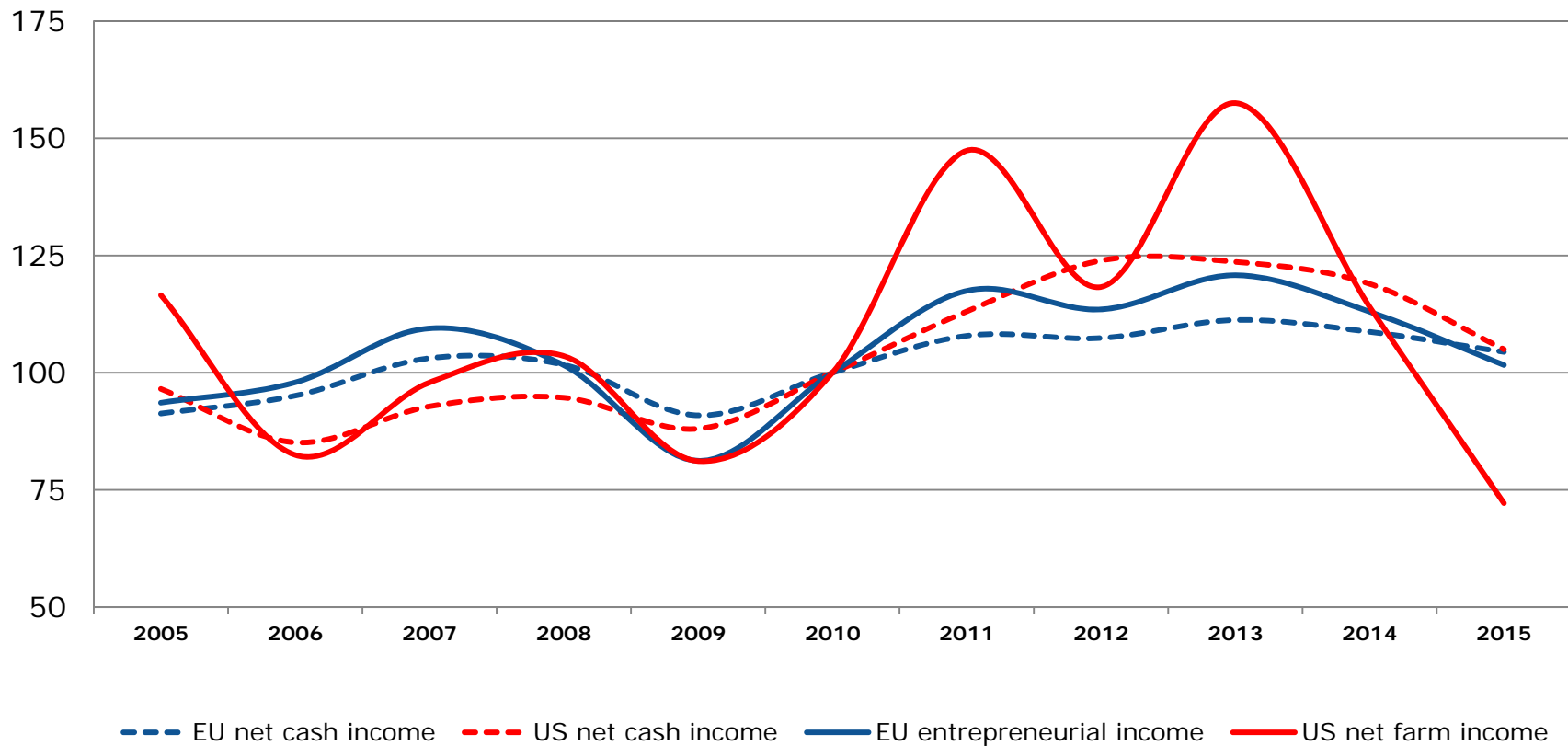
EU agricultural exports and imports 2005-15 (in billion €)



Source: COMEXT.

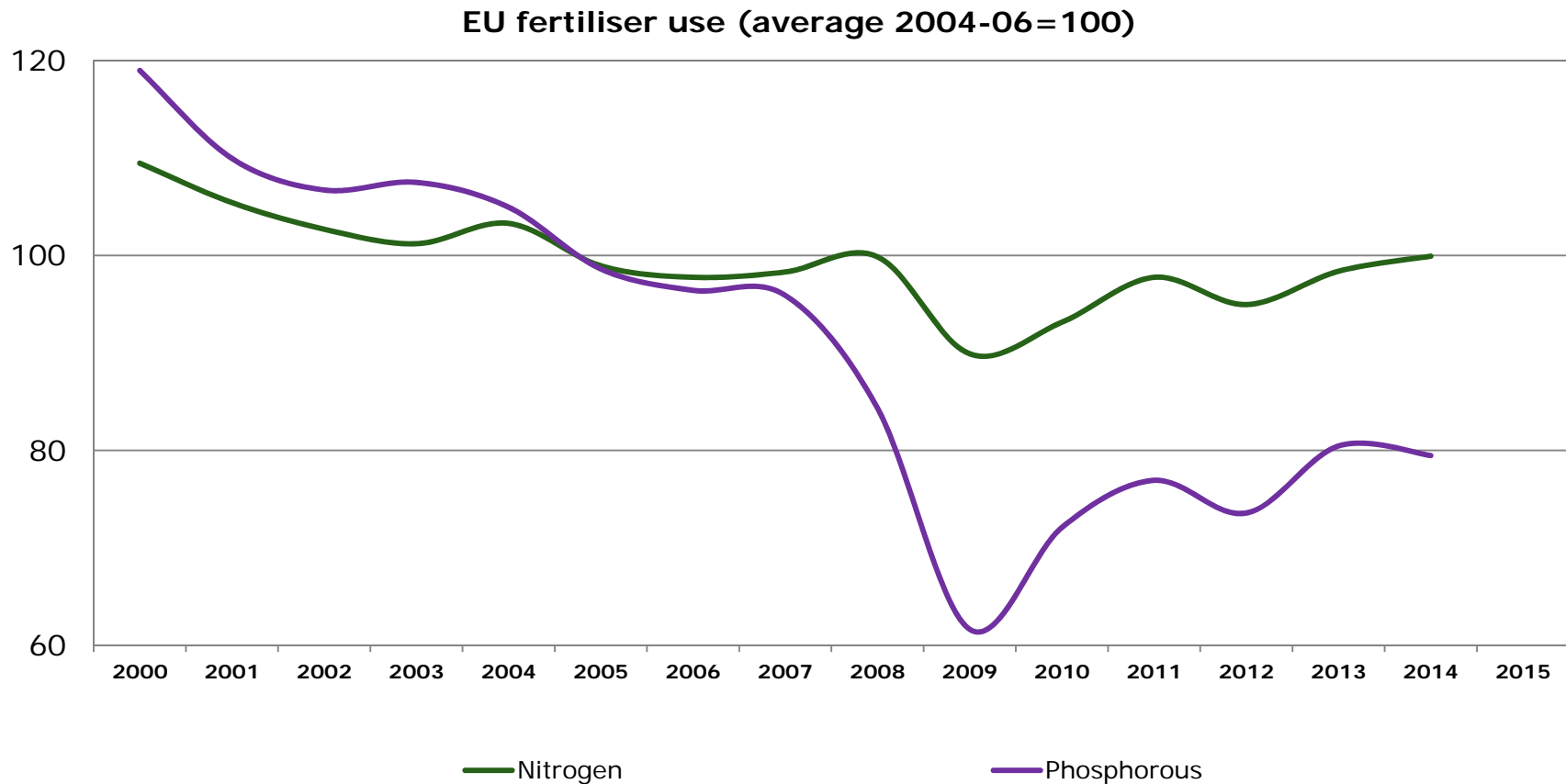
...while providing relative income stability...

EU and US nominal farm income (2010=100)



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

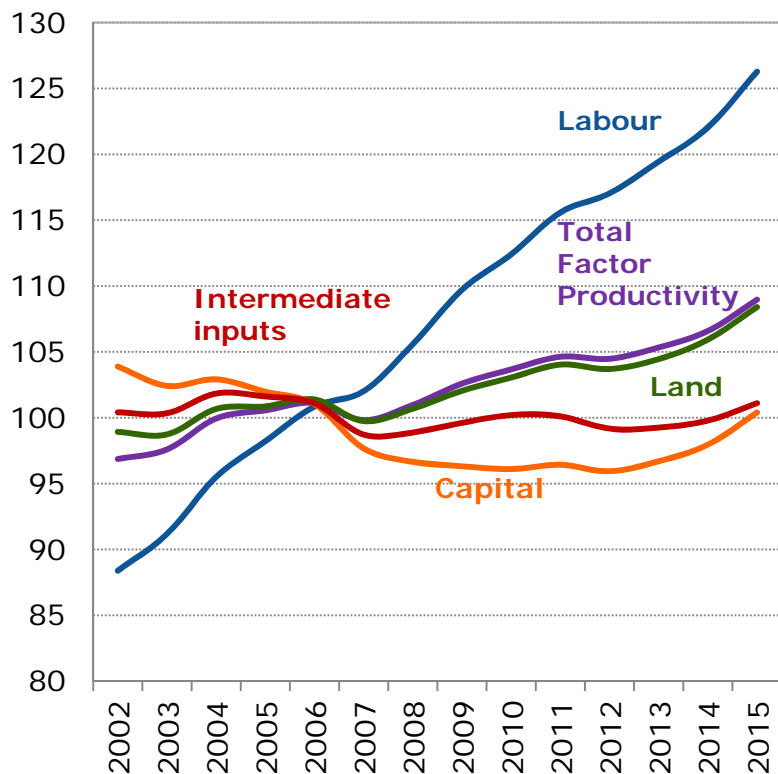
... and some positive environmental externalities



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

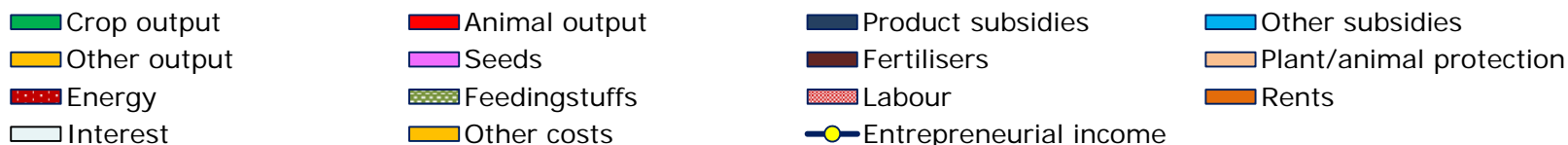
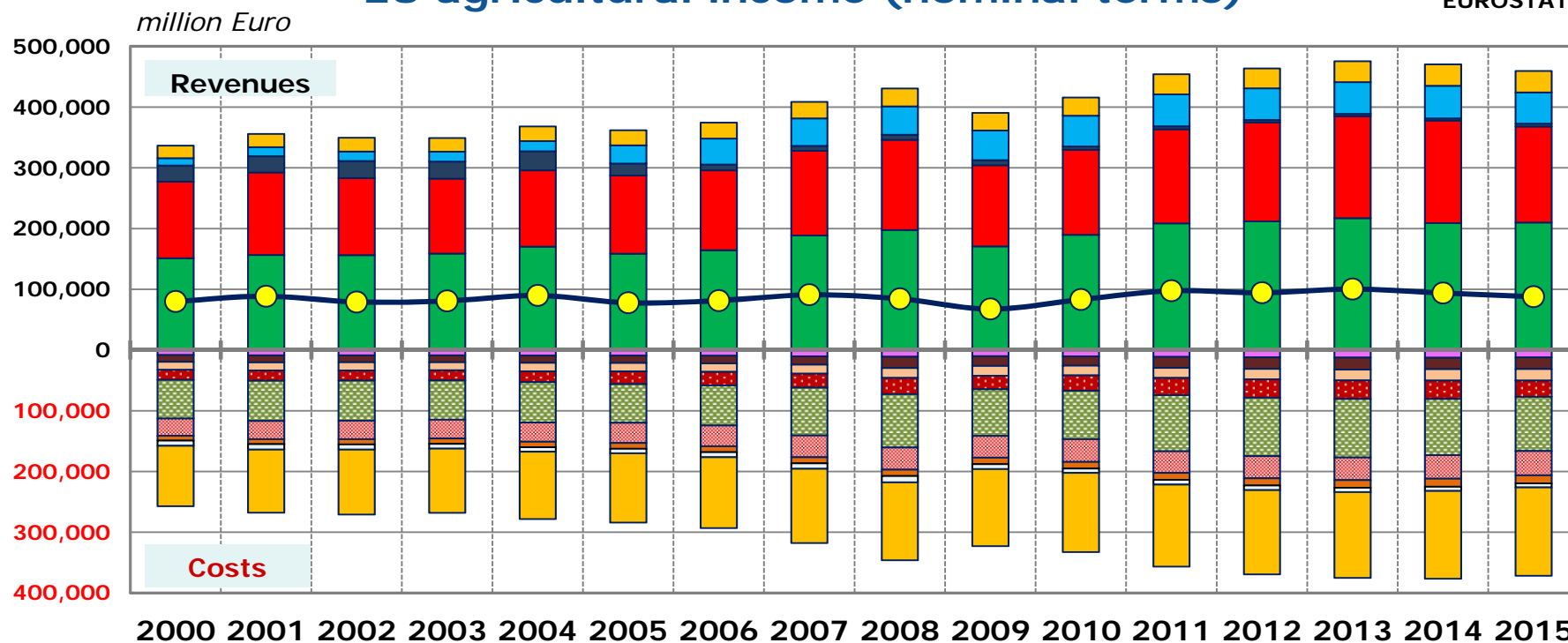
EU-N13 exhibit higher productivity growth

- ... 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)

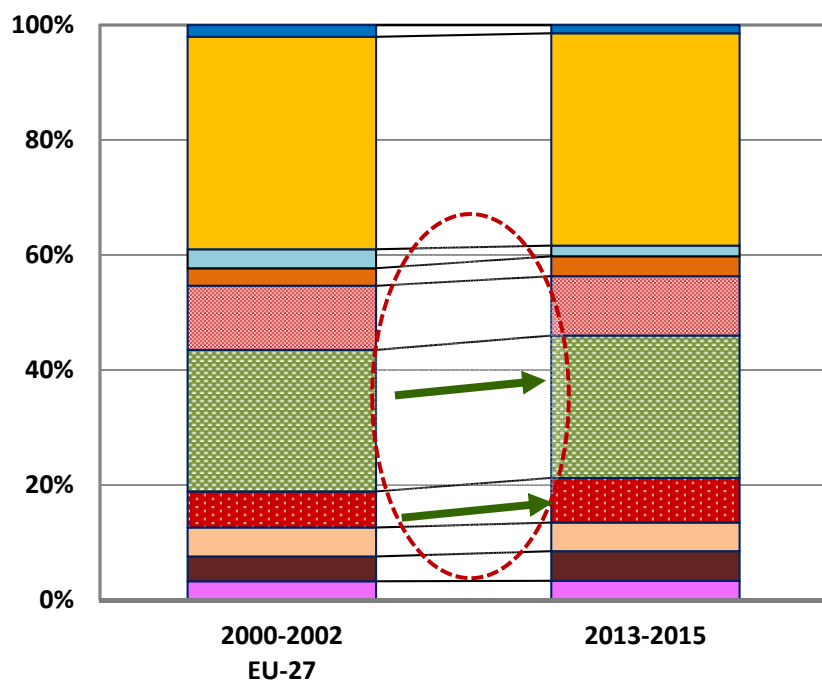
Source: EUROSTAT



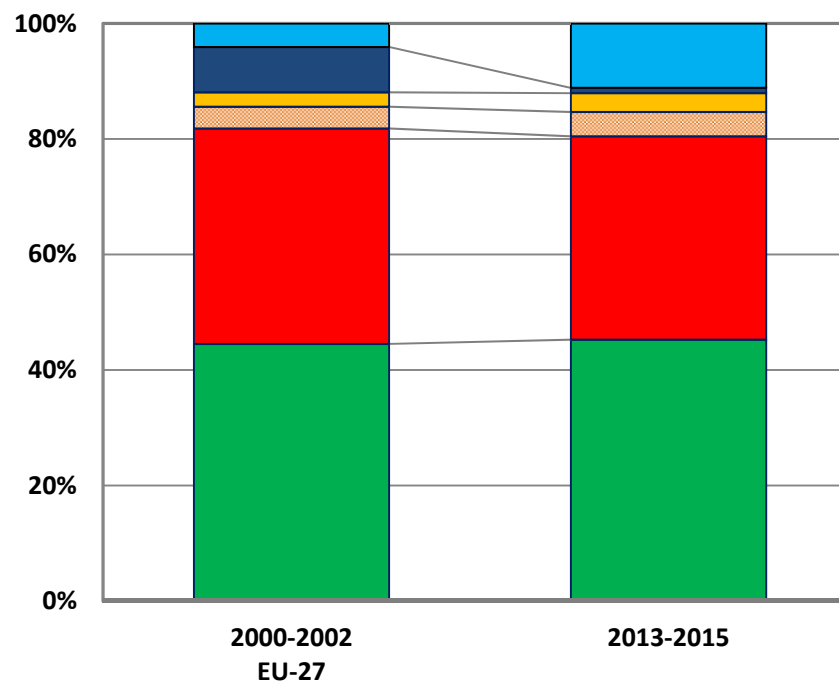
Source: AGRI calculations based on ESTAT data.

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

Cost Structure



Revenue Structure



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

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

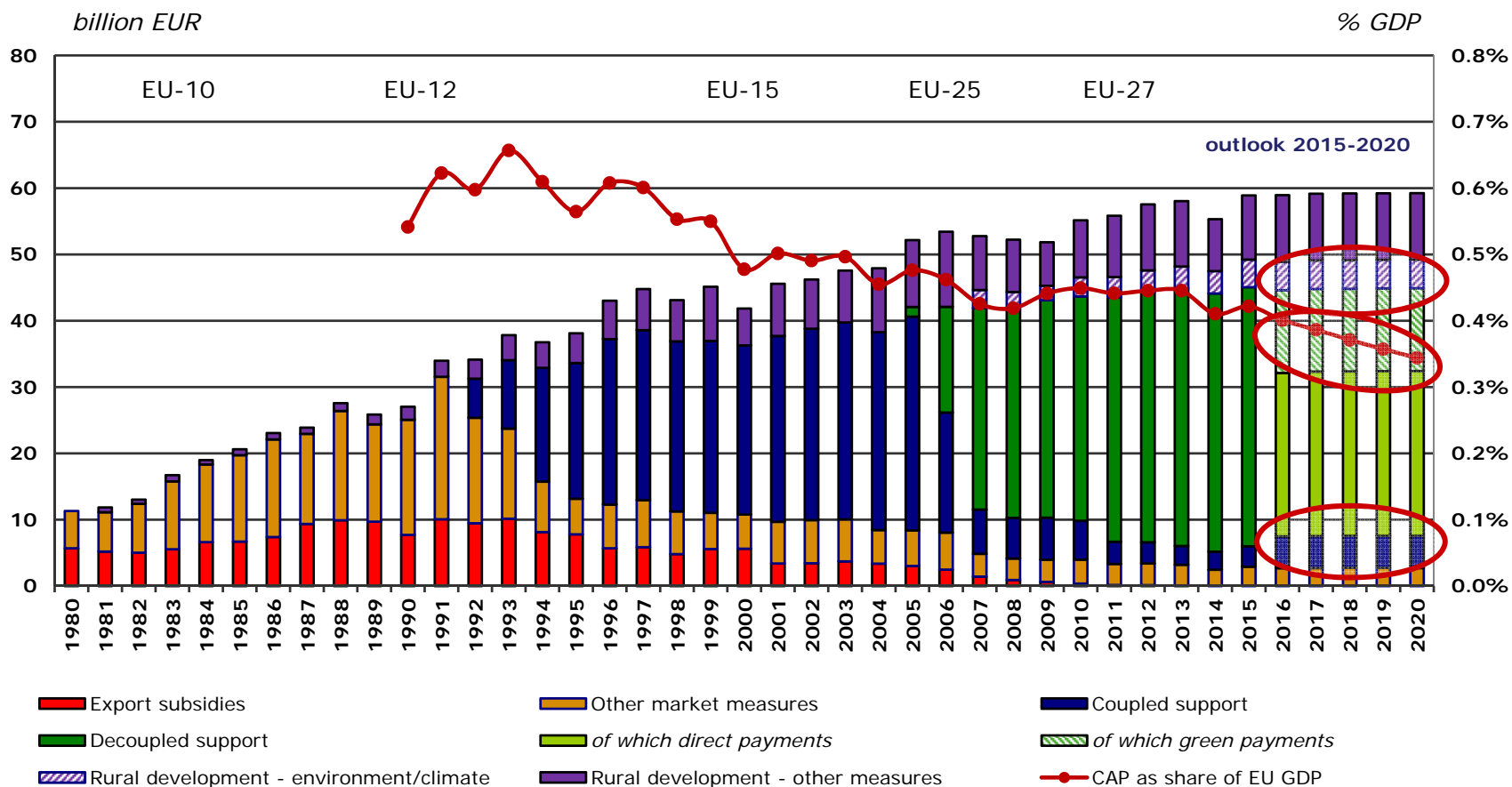
Shortcomings of the CAP reform path

- *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

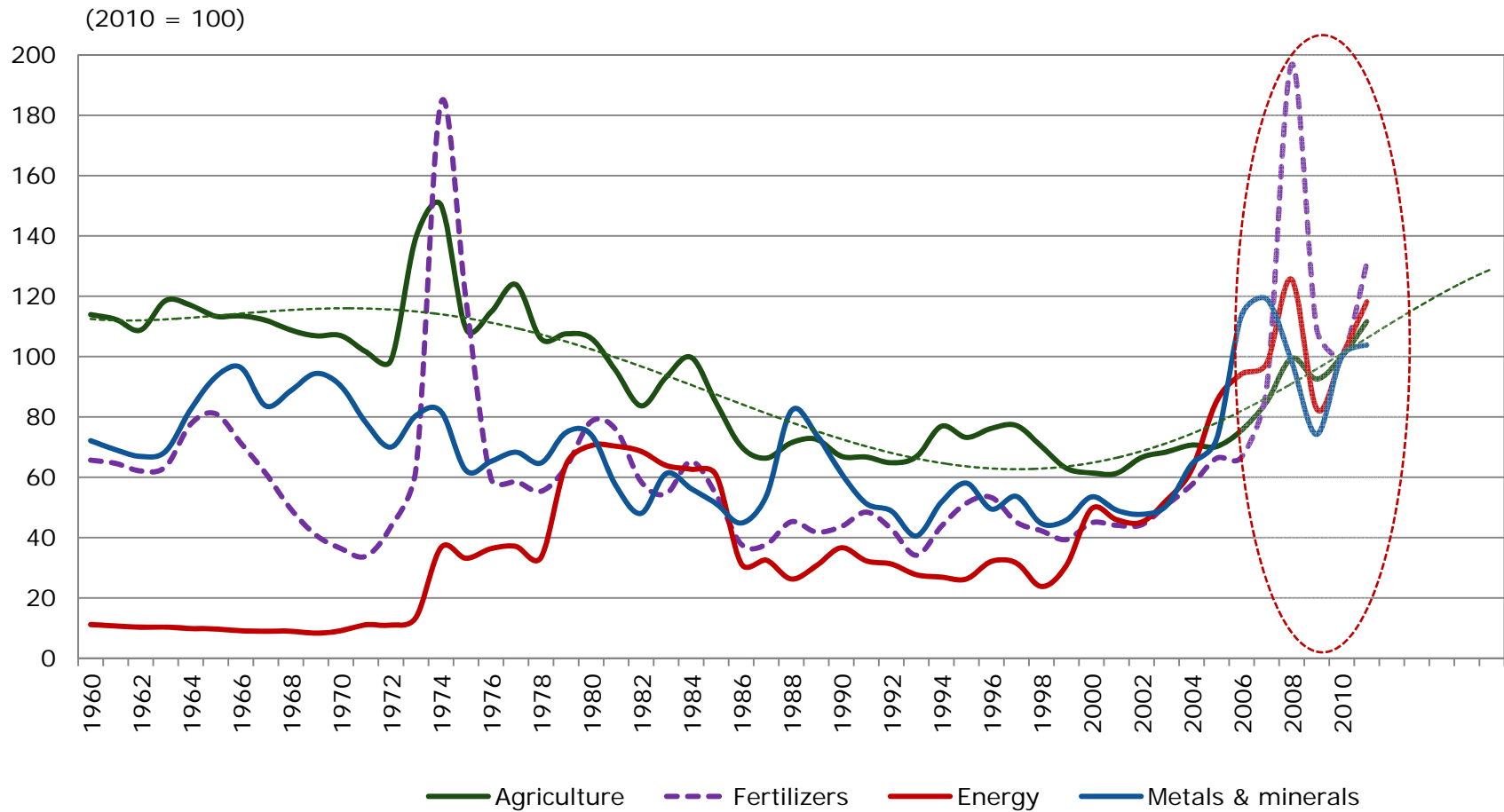
- *The changing commodity, economic and price environment*
- *The changing global trade environment*
- *New climate change, environmental and broader sustainability priorities*

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



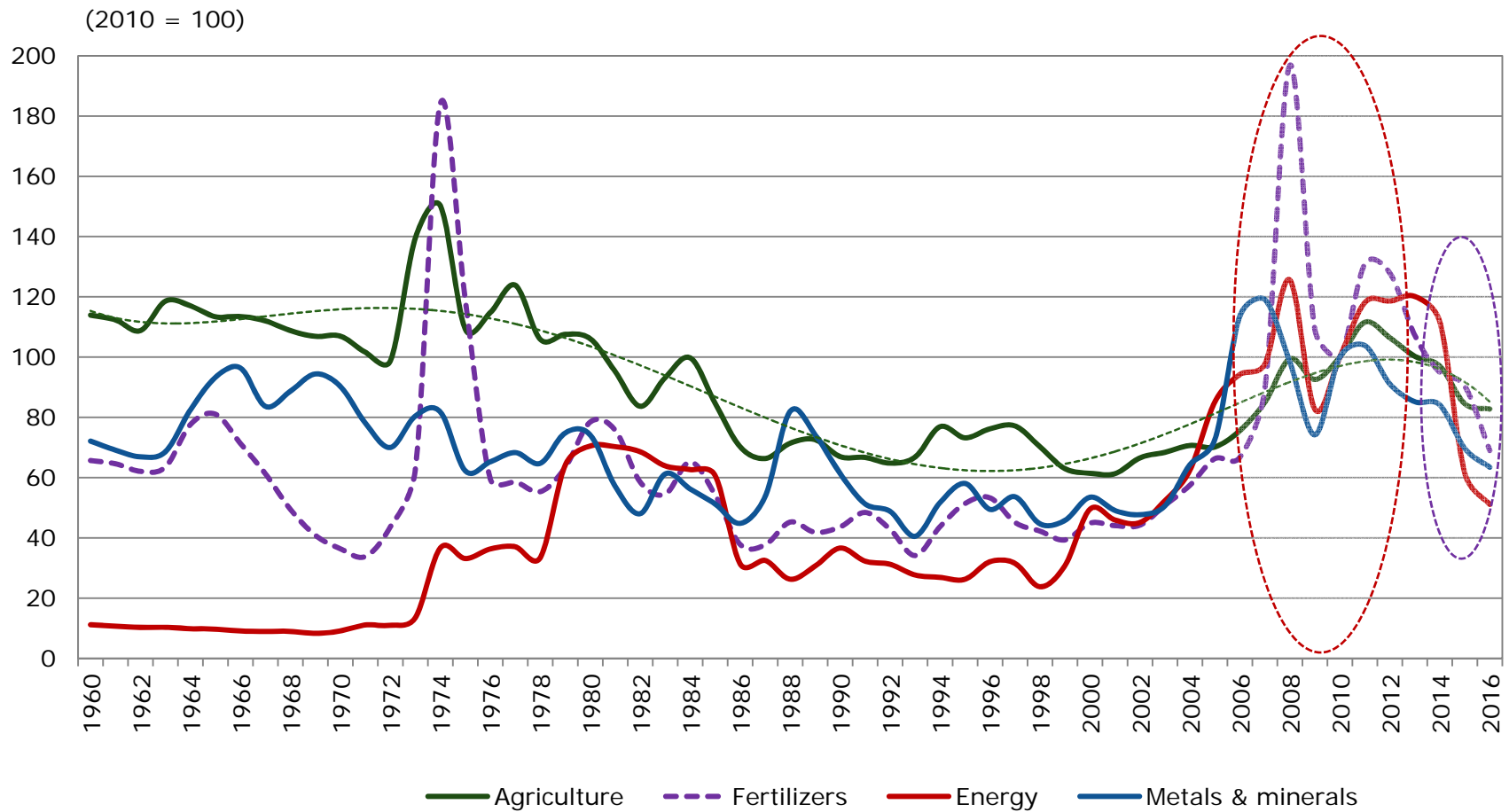
Source: DG AGRI.

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



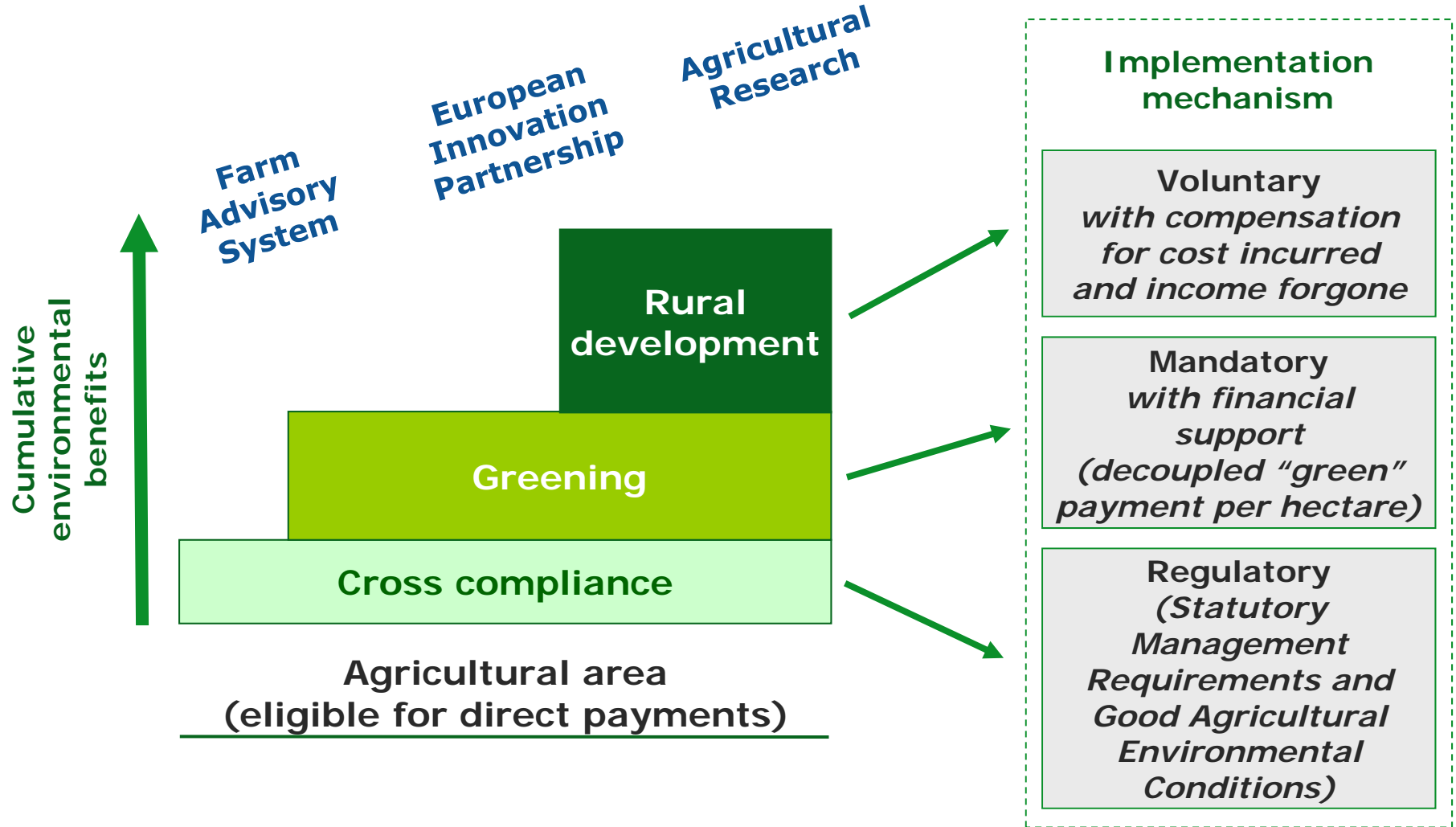
Source: World Bank.

...has dramatically changed in recent years

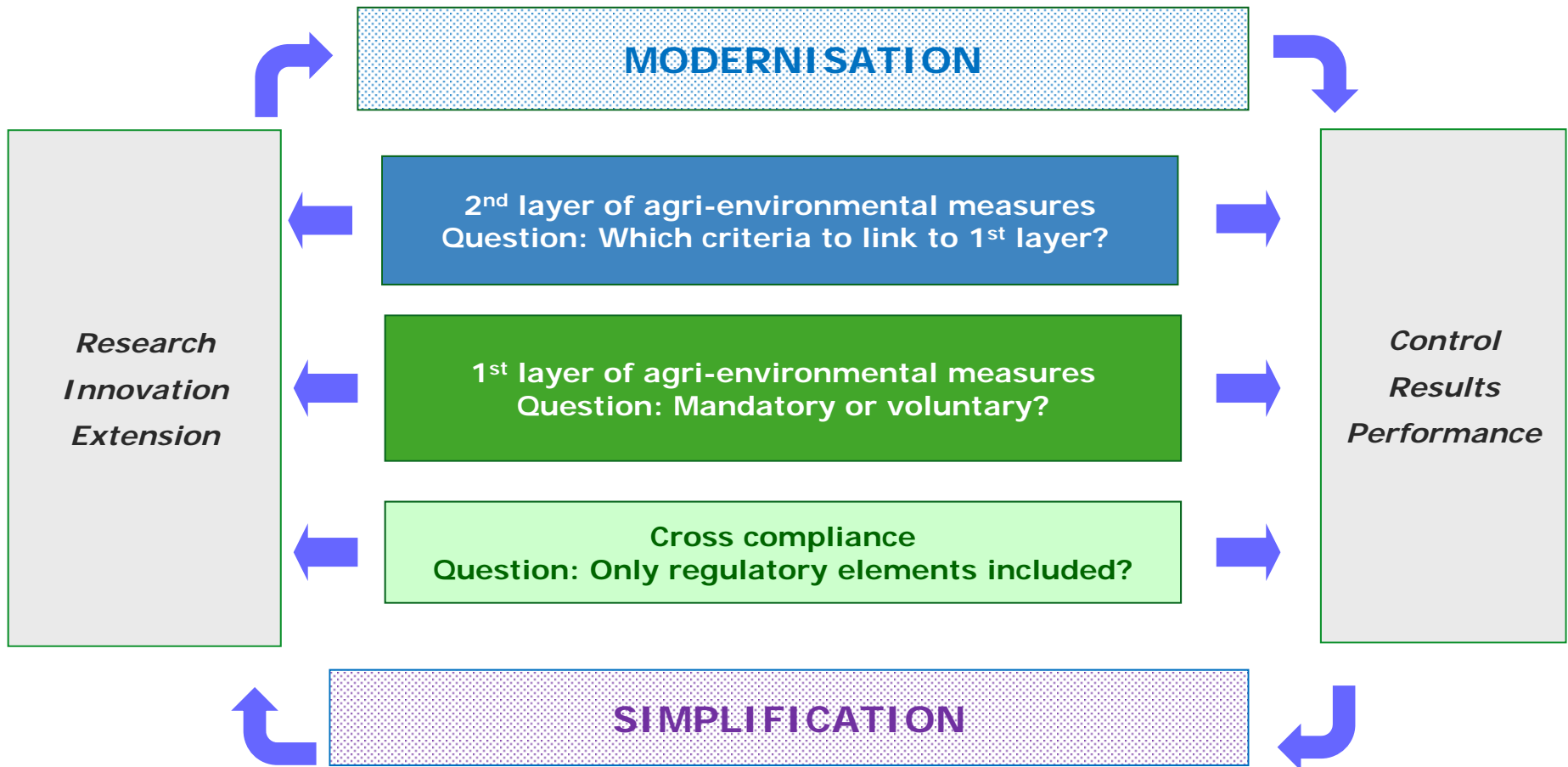


Source: World Bank.

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/policy-perspectives/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

https://ec.europa.eu/agriculture/events/2016-outlook-conference_en

http://ec.europa.eu/agriculture/statistics_en

http://ec.europa.eu/agriculture/cap-indicators_en

https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en

Thank you for your attention!