The role of CAP in addressing jobs and growth challenges

147th EAAE Seminar
CAP impact on Economic Growth and Sustainability of Agriculture and Rural Areas

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Tassos Haniotis
Director
Economic analysis, perspectives and evaluations; communication
DG Agriculture and Rural Development
European Commission

European Commission

Agriculture and Rural Development

Outline

1. Drivers of CAP challenges – the big picture

2. Impact from economic developments and trends

3. The link to CAP and its policy responses

CAP challenges have become broader in scope

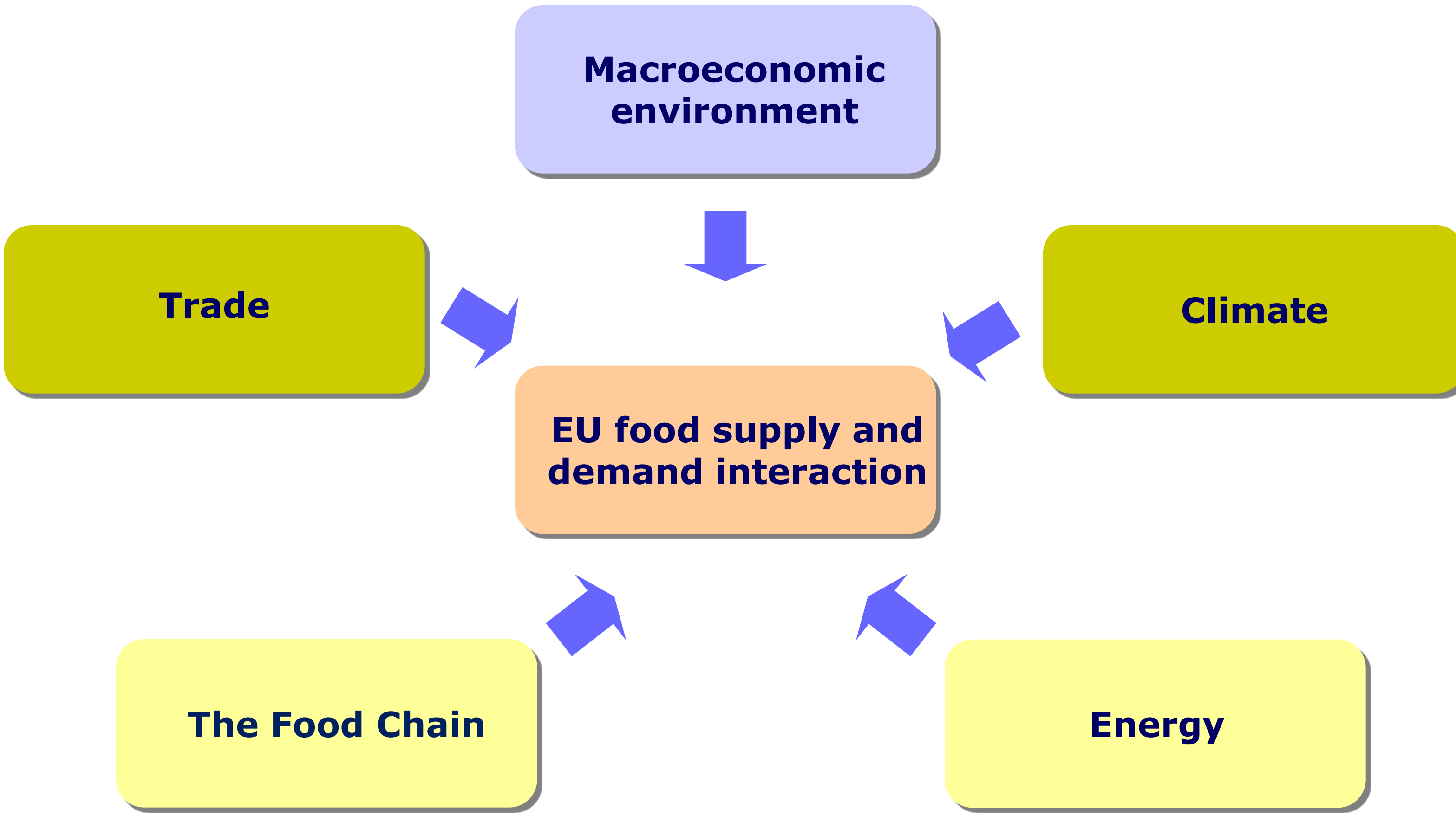
...and the three aspects of sustainability more linked

Agriculture is always driven by economic challenges…

…but sustainability concerns are becoming more pressing…

…thus requiring better identification of scope for public intervention

CAP drivers and challenges



The multiple layers of CAP objectives

CAP general objectives

- Viable food production
- Sustainable management of natural resources and climate action
- Balanced territorial development

CAP specific objectives

- Enhance farm income
- Improve agricultural competitiveness
- Foster innovation
- Provide environmental public goods
- Pursue climate change mitigation and adaptation
- Maintain agricultural diversity across the EU

Pillar I specific objectives

- Maintain market stability
- Meet consumer expectations

Pillar II specific objectives

- Promote socioeconomic development of rural areas

CSF* thematic objectives

**CSF: Common Strategic Framework including the EFRD, ESF, CF, EAFRD and EMFF*

The "Junker Commission" priorities

1. Jobs and growth
2. Digital economy
3. Energy and climate change
4. Internal market
5. Economic and monetary Union
6. TTIP
7. Justice and fundamental rights
8. Migration policy
9. Global actor
10. Governance

Long-term CAP priorities

Market orientation and competitiveness

Knowledge based sustainable agriculture

Food chain

Long-term CAP priorities

Rural areas and jobs

Generational renewal

Price developments and risk concerns

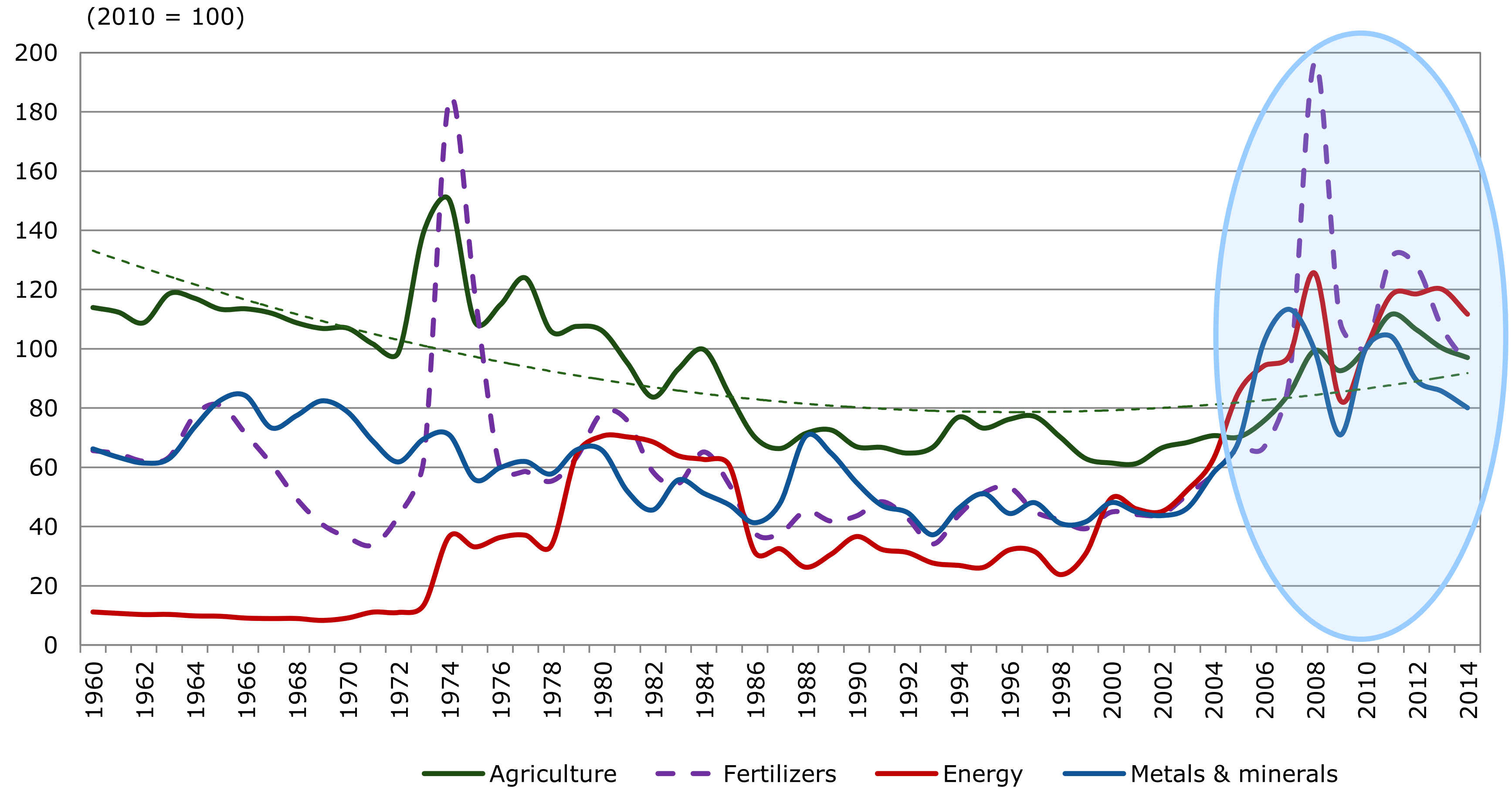
Three parallel developments in agricultural prices

Price volatility (real or perceived) draws more attention…

…the future price level draws more questions…

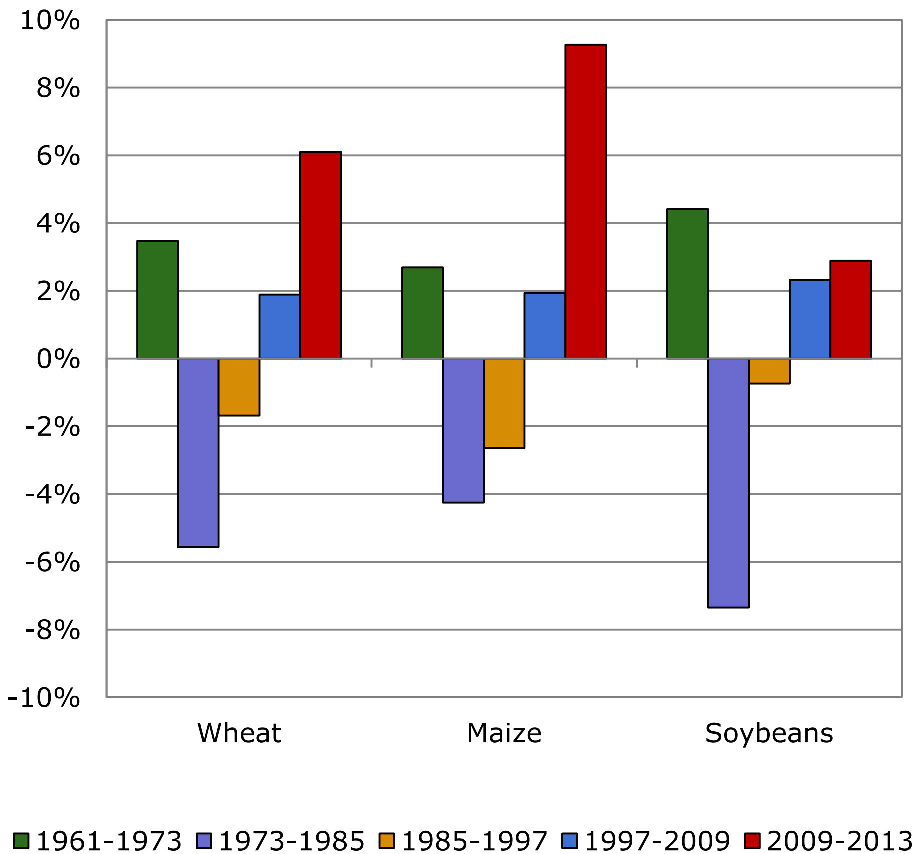
…yet co-movement may generate more impact on prices

Trends in real commodity prices

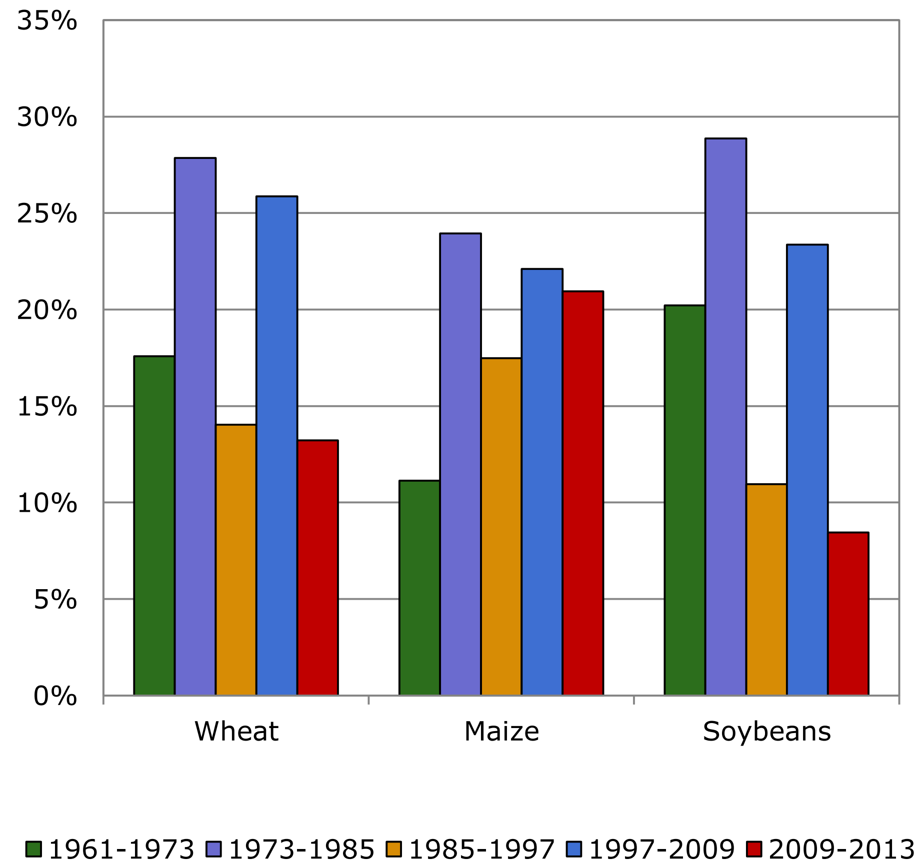


Source: World Bank

Annual growth rate (real prices)



Coefficient of variation (volatility)



Source: Calculations based on World Bank

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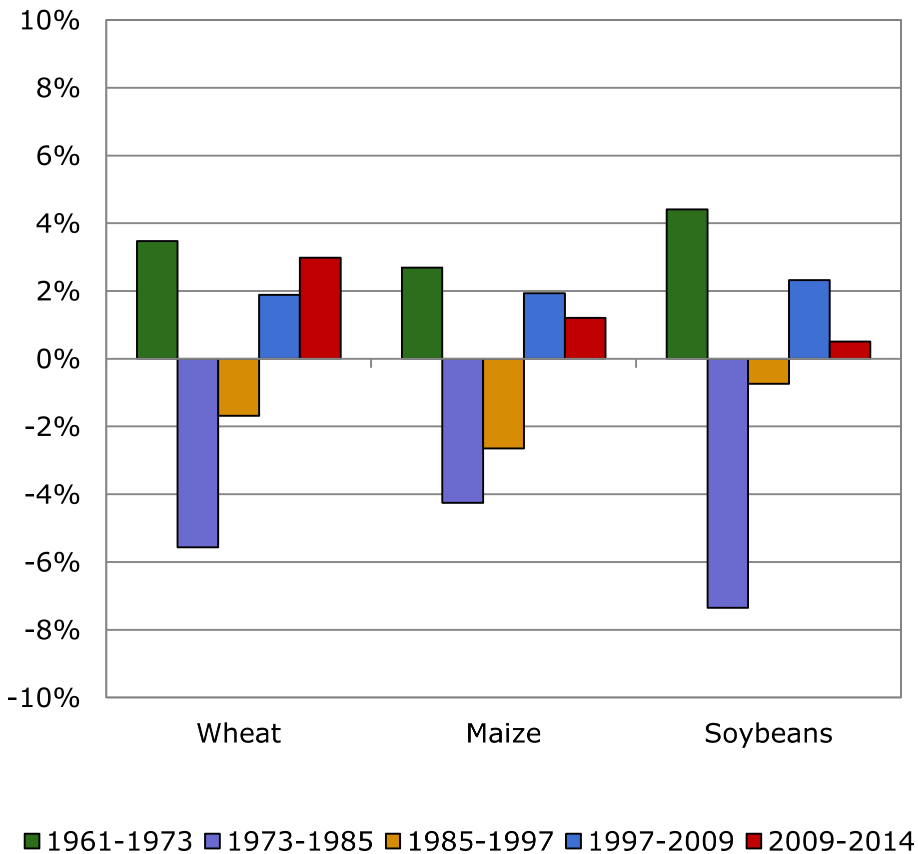

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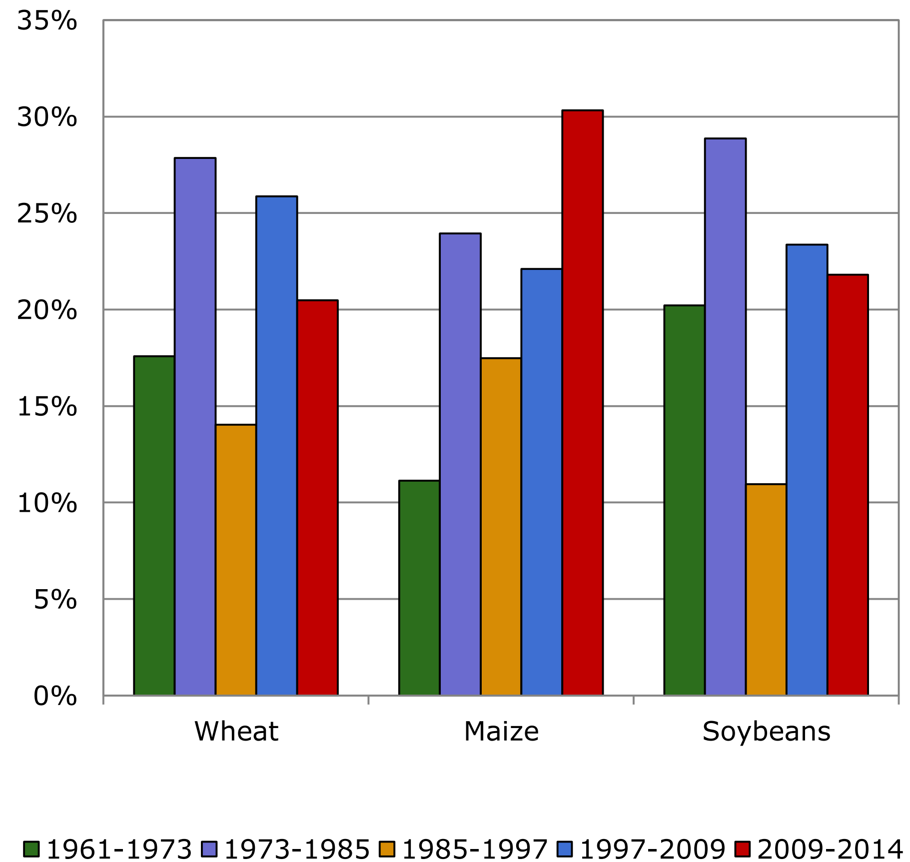

Source: Calculations based on World Bank

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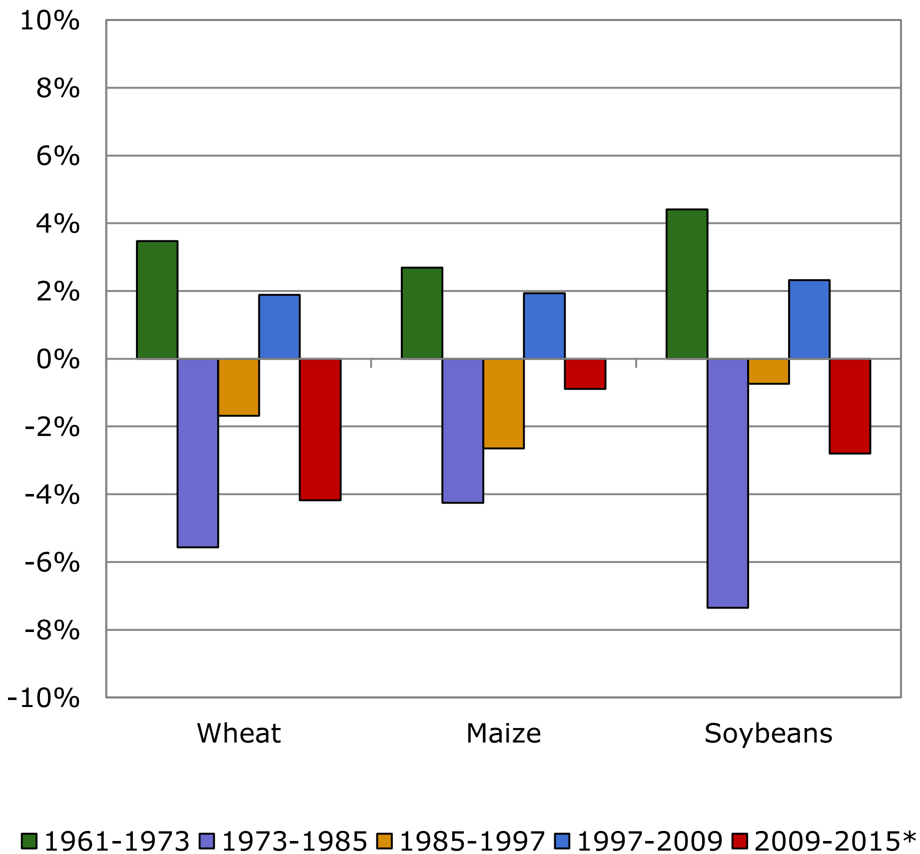

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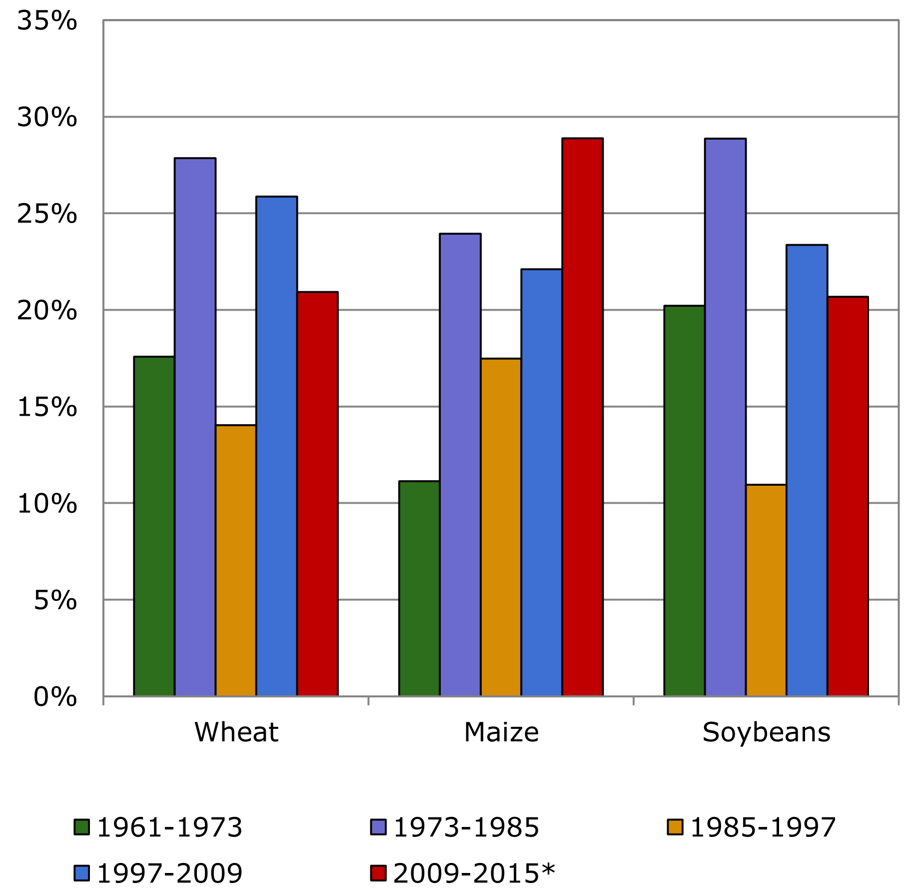
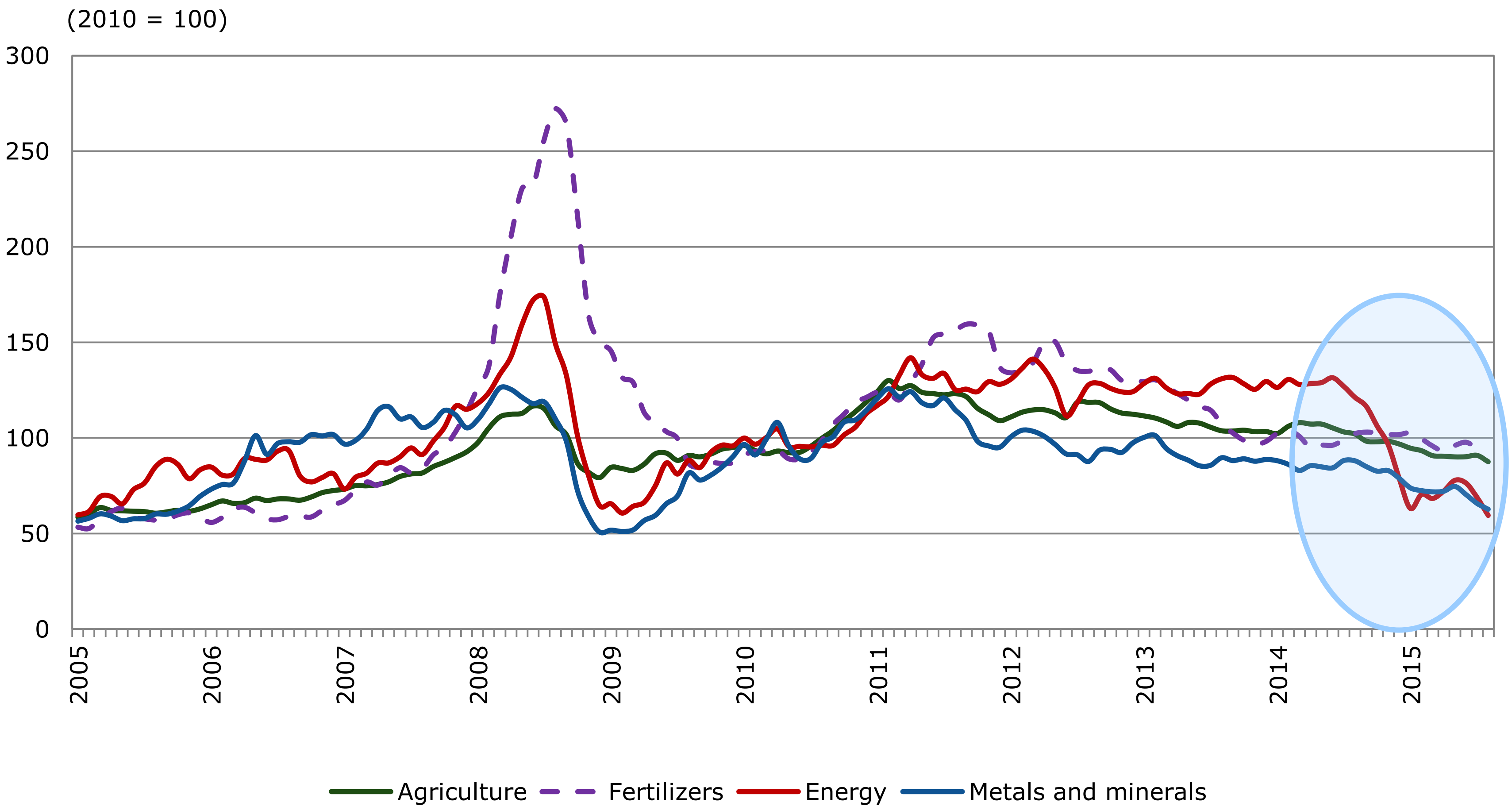


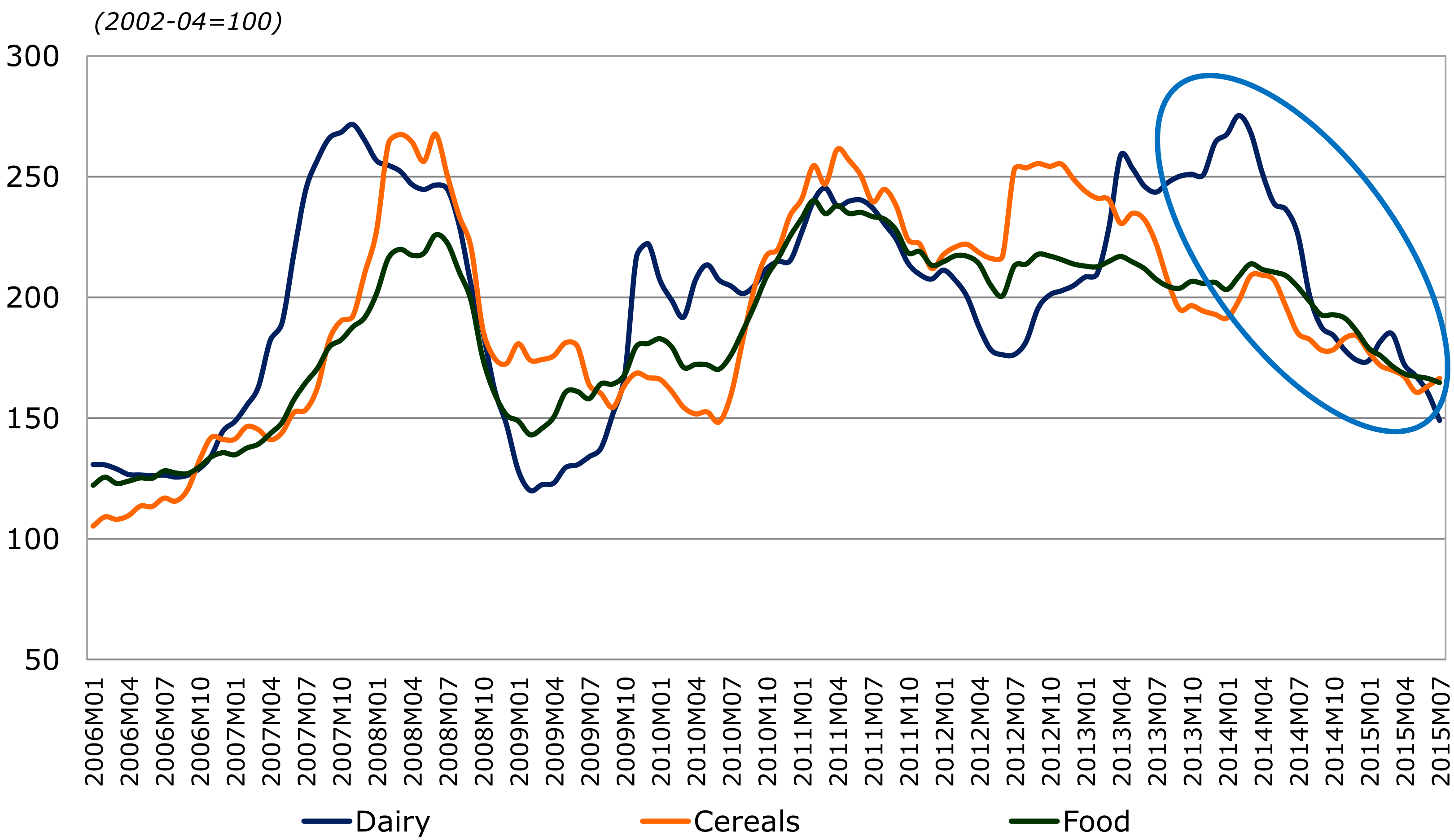
Source: Calculations based on World Bank

Monthly <u>nominal</u> commodity price indexes

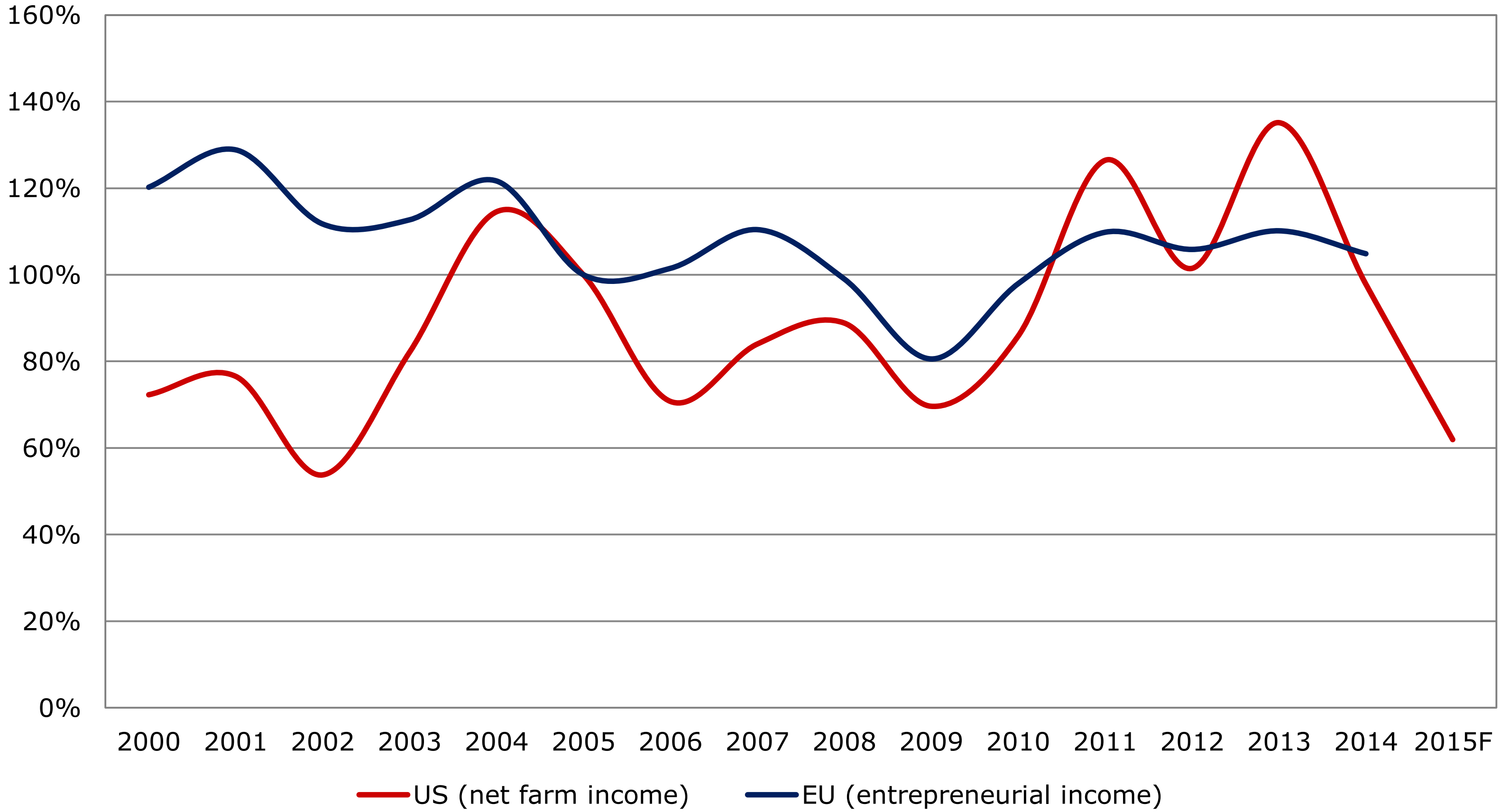


Source: World Bank

FAO real food price indices

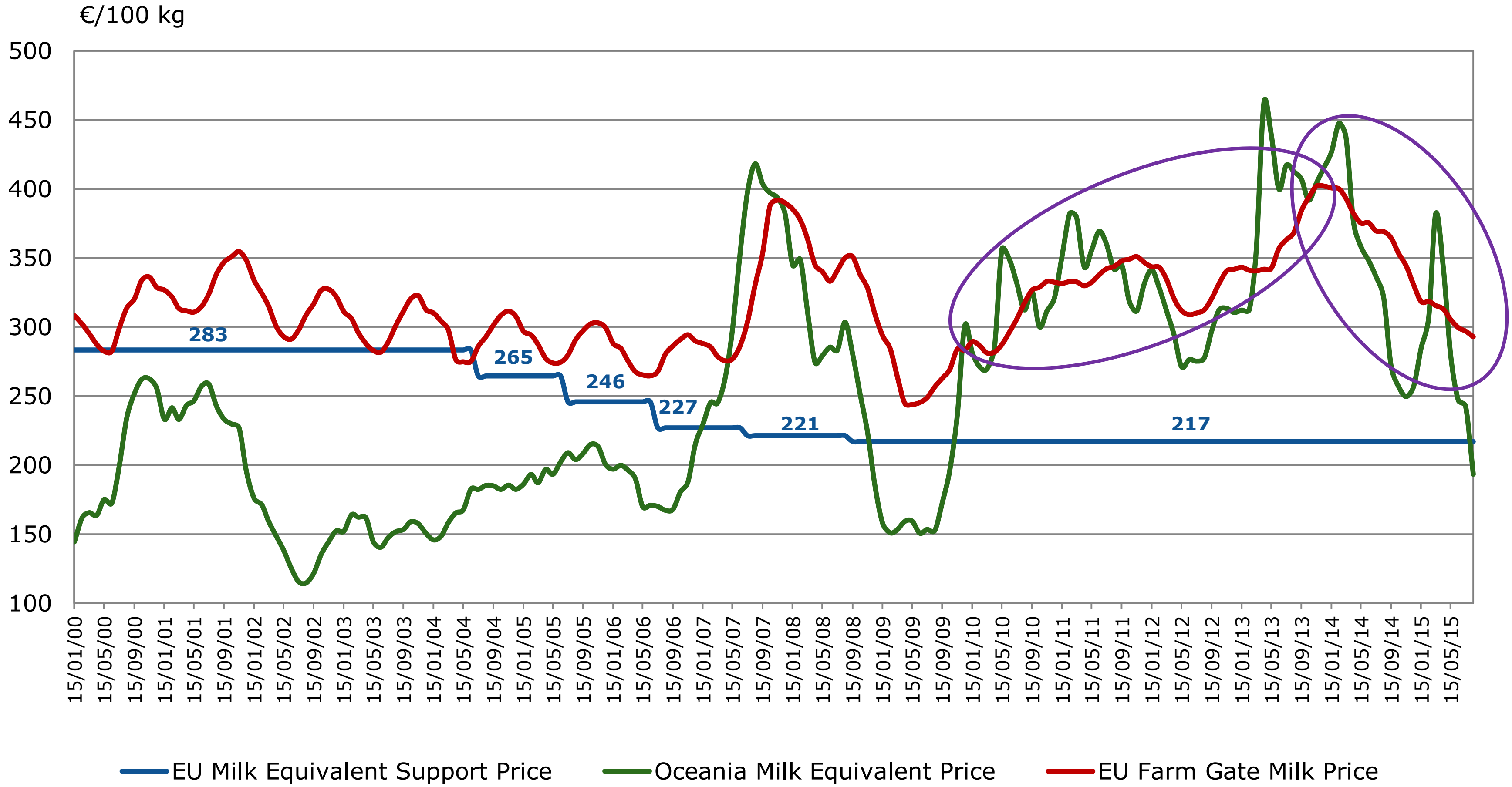


Farm incomes globally under stress
(2005 = 100)



Source: Eurostat; USDA/ERS.

A recent example - EU dairy market



Source: DG Agriculture and Rural Development calculations

Short-term challenges and broader perspectives

What causes lie behind the recent dairy crisis?

- *The increase (2013 and 2014) of the EU dairy herd, reversing a very long trend*
- *The slowdown in the world economy, which affects all producers regardless of policy*
- *Broader macro developments (exchange rate, oil) which push commodity prices down*

The EU's main policy response is to target income by:

- *addressing immediately the cash-flow difficulties farmers are facing*
- *stabilising markets by maximising the use of existing measures*
- *addressing the functioning of the supply chain*

The EU's policy response is not to replace 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 exists also under different policy regimes*

"SWOTing" jobs and growth challenges

The counterintuitive role of EU agriculture in jobs

Primary agriculture sheds labour away with structural adjustment…

…but job/growth opportunities exist along the food chain…

…and role of ag-linkages to services in rural areas is often underestimated

Jobs and Growth in Rural Areas - Strengths

Favourable conditions for growth

- *EU rural areas are characterised by generally good climatic conditions*
- *High skilled labour force present, especially among young*
- *Family farm basis allows more balanced links to jobs*

Proximity to natural and culturally-linked amenities

- *Long history of agriculture in Europe distinguishes it from "new world" farming*
- *Agriculture is part of deeply rooted and diverse EU cultural traditions around food*
- *Urban-rural links, although weaker than in the past, still present in EU context*

Involvement of multiple stakeholders, with positive governance effect

- *National policies involve actors at various levels*
- *EU policies complement national policies at regional and sectorial level*
- *Multiple active networks of stakeholders are present*

Jobs and Growth in Rural Areas - Weaknesses

Inequality and high heterogeneity among regions and MS

- *Socioeconomic conditions vary, but generally challenge more rural areas*
- *Administrative weaknesses are more pronounced in weaker regions*
- *Cohesion challenges persist*

Mentality-linked constraints lead to resistance to change

- *Traditionalism often hampers adjustment*
- *Conservativism blocks innovative initiatives*
- *Close societies often see all change as threat*

Non-tangible policy effects are difficult to assess

- *Impact from different interventions often interlinked, but rarely fully assessed*
- *Best practices also result from individual efforts, sometimes "despite" policies*
- *Potential tension exists in net job creation linked to agriculture and to rural areas*

Jobs and Growth in Rural Areas - Opportunities

Promotion of cultural inheritance, local traditions

- *Local market dynamics adds new dimension and job opportunities*
- *Some export potential is also generated (more based on value than on volumes)*
- *Links to urban centers are kept and enhanced*

Development of collective approaches

- *Rural development networks part of existing reality*
- *New initiatives strengthen and expand scope of cooperation*
- *Newcomers are often based on existing, or develop new collectivities*

Potential for agro-services

- *Image of rural areas helps quality-based tourism*
- *Quality brings more value added, and often (albeit not always) more jobs*
- *Agro-food related services are of most dynamic, innovative sectors*

Jobs and Growth in Rural Areas - Threats

Asymmetric population dynamics

- *Depopulation characterise some rural areas…*
- *…peri-urbanisation characterises others…*
- *…and uneven, seasonal influxes in others*

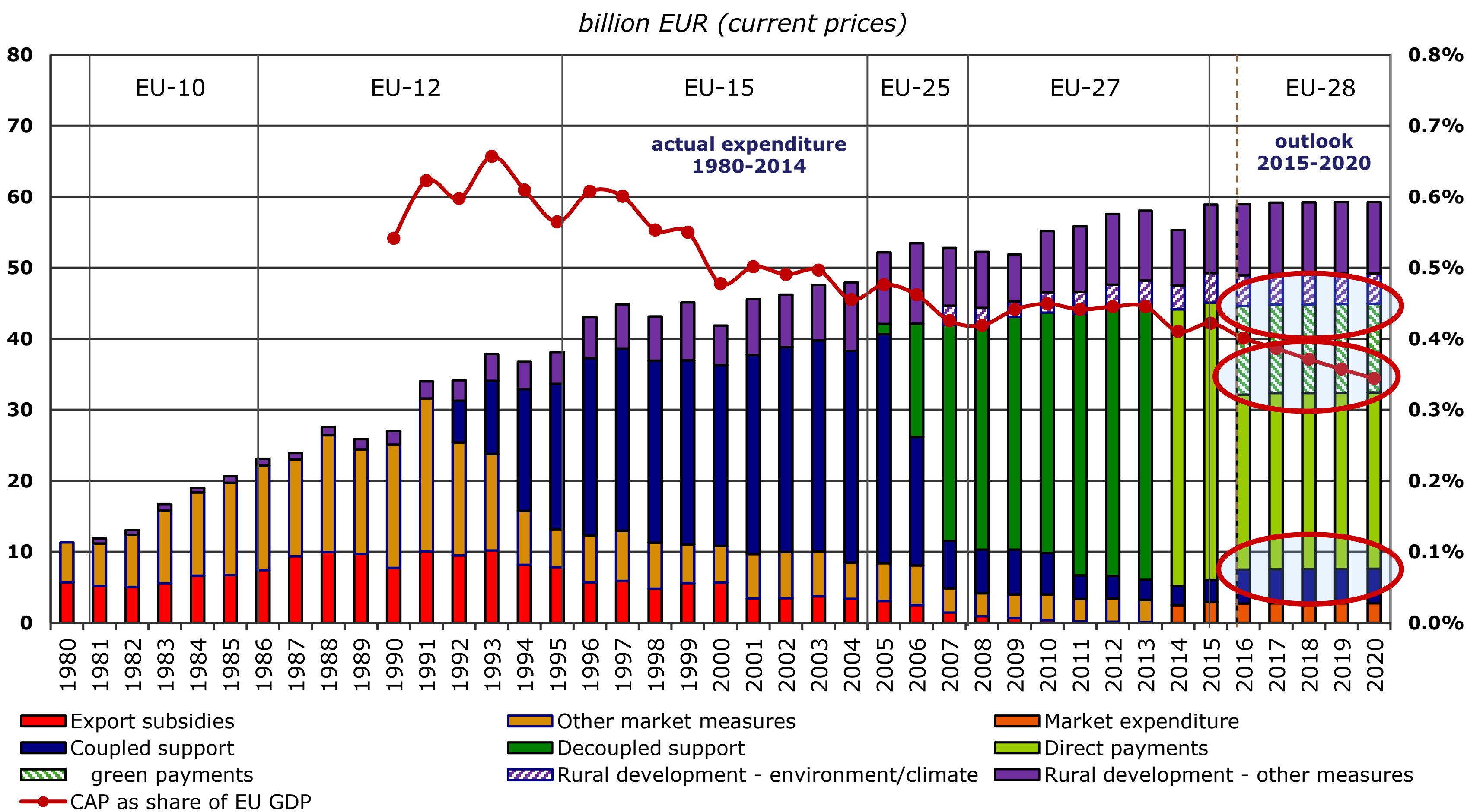
Persistent structural bottlenecks

- *Lack of basic services, infrastructures*
- *Lack of human capital*
- *Credit crunch*

Uneven, untargeted funding

- *Targeting of funding not always linked to long-term needs*
- *Inefficiencies in policy synergies*
- *Reduction in agricultural funding*

CAP reform path and CAP budget, 1980-2020



Source: DG AGRI.

Long-term challenges and the jobs agenda

Agriculture as the 2 % sector

- *Focus on narrow sectorial interests exposes it to declining GDP share*
- *Product-driven concerns further divide policy objectives*
- *Policy always on defensive to justify spending and not its broader objectives*

Agriculture as the 50 % sector

- *Land use has become the new focus of the CAP*
- *Wider territorial policy scope bring wider employment links to the forefront*
- *addressing the functioning of the supply chain*

Agriculture as the 100 % sector

- *Food, as demand-driven policy focus, unifies policy concerns and reform opportunities*
- *Up-stream, down-stream and horizontal linkages are potentially job/growth enhancing*
- *Role of technology and innovation in productivity challenges net employment effect*

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/markets-and-prices/index_en.htm

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

Thank you for your attention!