Agricultural Development in European Union: Drivers, Challenges and Perspectives

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1. INTRODUCTION

Globalisation of world trade, consumer-led quality requirements and EU enlargement are the new realities and challenges facing European agriculture today. The changes will affect not only agricultural markets, but also local economies in rural areas. The future of the agricultural sector is closely linked to a balanced development of rural areas. The Community dimension in this relationship is therefore clear: agricultural and rural policy have an important role to play in the cohesion of EU territorial, economic and social policy.

With over 56 percent of the population in the 27 Member States of the European Union (EU) living in rural areas, which cover 91 percent of the territory, rural development is a vitally important policy area. Farming and forestry remain crucial for land use and the management of natural resources in the EU’s rural areas, and as a platform for economic diversification in rural communities. The strengthening of EU rural development policy is, therefore, an overall EU priority.

The European Union has an active rural development policy because this helps to achieve valuable goals for the country sides and for the people who live and work there. The policy is funded partly from the central EU budget and partly from individual Member States' national or regional budgets. Theoretically, individual EU Member States could decide and operate completely independent rural development policies. However, this approach would work poorly in practice. Not all countries in the EU would be able to afford the policy which they needed and many of the issues addressed through rural development policy do not divide up neatly at national or regional boundaries. Also, rural development policy has links to a number of other policies set at EU level. Therefore, the EU has a common rural development policy, which nonetheless places considerable control in the hands of individual Member States and regions. The EU’s rural development policy is all about meeting the challenges faced by our rural areas, and unlocking their potential.

At present, many of the rural areas face significant challenges. Some of the farming and forestry businesses still need to build their competitiveness. More generally, average income per head is lower in rural regions than in towns and cities, while the
skills base is narrower and the service sector is less developed. Also, caring for the rural environment often carries a financial cost.

On the other hand, the European agriculture has a great deal to offer: it gives essential raw materials; it offers new jobs for the rural population; it is a battleground for the fight against climate change. This means that the EU’s Lisbon Strategy for jobs and growth is just as relevant to countryside as to towns and cities.

2. THE EU AGRICULTURAL POLICY FRAMEWORK

The creation of a Common Agricultural Policy was proposed in 1960 by the European Commission and it was followed the signing of the Treaty of Rome in 1957, which established the Common Market. By 1962, three major principles had been established to guide the CAP: market unity, community preference and financial solidarity. Since then, the CAP has been a central element in the European institutional system.

The CAP recognised the need to take account of the social structure of agriculture and of the structural and natural disparities between the various agricultural regions. The CAP is an integrated system of measures which works by maintaining commodity price levels within the EU and by subsidising production. There are three principal mechanisms:

- Import tariffs are applied to specified goods imported into the EU. These are set at a level to raise the world market price up to the EU target price. The target price is chosen as the maximum desirable price for those goods within the EU.
- An internal intervention price is set. If the internal market price falls below the intervention level then the EU will buy up goods to raise the price to the intervention level. The intervention price is set lower than the target price. The internal market price can only vary in the range between the intervention price and target price.
- Subsidies are paid to farmers growing particular crops. This was intended to encourage farmers to choose to grow those crops attracting subsidies and maintain home-grown supplies. Subsidies were generally paid on the area of land growing a particular crop, rather than on the total amount of crop produced.

Although the CAP was very successful in meeting its objective of moving the EU towards self-sufficiency, by the 1980s the EU had to contend with almost permanent surpluses of the major farm commodities, some of which were exported (with the help of subsidies), others of which had to be stored or disposed of within the EU. These measures had a high budgetary cost, distorted some world markets, did not always serve the best interests of farmers and became unpopular with consumers and taxpayers. At the same time society became increasingly concerned about the environmental sustainability of agriculture. This led to a fundamental reform process of the CAP which started in 1992 and was later deepened and extended in 1999 with Agenda 2000. These reforms started the shift from price support to income support (with the reduction in support prices, the introduction of direct payments for a few key agricultural sectors and supply-management tools) and introduced a new rural development policy as a second pillar of the CAP.
Agenda 2000 explicitly established economic, social, and environmental goals within a new reformulated set of objectives for the CAP consistent with the requirements of the Amsterdam Treaty. This had the aim of giving concrete form to *a European Model of Agriculture* and preserving the diversity of farming systems spread throughout Europe, including regions with specific problems, in the years ahead. These objectives involved more market orientation and increased competitiveness, food safety and quality, stabilisation of agricultural incomes, integration of environmental concerns into agricultural policy, developing the vitality of rural areas, simplification and strengthened decentralisation.

This is why the Agenda 2000 reforms follow the development seen in recent years: alongside the market measures and the elements of a competitive European agriculture, the varied needs of the rural world must also be recognised, together with the expectations of today’s society and environmental requirements. The new rural development policy meets these needs. As an essential part of the European agricultural model, it aims to put in place a consistent and lasting framework for guaranteeing the future of rural areas and promoting the maintenance and creation of employment. The principles are as follows:

- The *multifunctionality of agriculture* which implies the recognition and encouragement of the range of services provided by farmers;
- A *multisectoral and integrated* approach to the rural economy in order to diversify activities, create new sources of income and employment and protect the rural heritage;
- *Flexible aids* for rural development, based on subsidiarity and promoting decentralisation, consultation at regional, local and partnership level; and
- *Transparency* in drawing up and managing programmes, based on simplified and more accessible legislation.

One of the main innovations in this policy is the method used to improve integration between the different types of intervention, to help ensure smooth and balanced development in all European rural areas. The main features of this development can be defined as follows: strengthening the agricultural and forestry sector; improving the competitiveness of rural areas; preserving the environment and rural heritage.

The guiding principles for the contribution of the Common Agricultural Policy (CAP) to the Lisbon Strategy were set by the European Council in Göteborg in 2001, confirmed in the Lisbon Strategy Conclusions in Thessaloniki in June 2003: “Strong economic performance” that goes hand in hand with “the sustainable use of natural resources.”

On 2 February 2005 the European Commission relaunched the Lisbon Strategy for the European Union. The strategy seeks to tackle the EU’s urgent need for higher economic growth and job creation and greater competitiveness in world markets. The Lisbon Strategy aims to provide people with a better standard of living in an environmentally and socially sustainable way.

These set of reforms continued until 2007 and aimed at enhancing the competitiveness of the farm sector, promoting a market-oriented, sustainable agriculture and strengthening rural development policy (both funds and policy instruments).
The new rural development policy for the 2007-2013 period now focuses on three core objectives, namely:

— the improvement of the competitiveness of the farming and forestry sectors,
— the improvement of the environment and the countryside through support for land management, and
— the improvement of the quality of life in rural areas and diversification of economic activities.

This most recent wave of policy reform has considerably improved the performance of the EU’s agricultural policy and provided better value for money by supporting and targeting more accurately what taxpayers, citizens and consumers, in their three overlapping and often contrasting functions have demanded:

— more market orientation, and thus increased competitiveness;
— direct support to producers to deliver the positive externalities of agriculture (in environment, food safety, quality and animal welfare) that market mechanisms do not compensate for; and
— more incentives to improve standards and promote sustainability in our rural areas.

Without the CAP many rural areas of Europe would face major economic, social and environmental problems. Rural development measures, in particular, can play a significant role in fostering and maintaining prosperity in rural areas.

3. ROLE OF AGRICULTURE IN THE ECONOMY

3.1. Recent Evolutions in the EU Agriculture Sector

The combined agricultural and food sector represents an important part of the EU economy accounting for 18.6 mil. jobs (8.6 percent of total employment) and for 4 percent of GDP in the EU-27 in 2005 (Figure 1).

**Fig. 1. Contribution of the Agri-food and Forest Sectors to GDP – 2005**

![Graph showing % GDP contribution of Agri-food and Forest Sectors to GDP in 2005](image)

*Source: EC, Situation and prospects for EU agriculture and rural areas (2007).*
Following a long-term pattern common to all developed countries, the importance of the primary sector (agriculture, hunting and forestry) in the economy of EU-27 is declining, supported by the significant productivity gains of labor and capital and the sharp decline in relative prices. Between 2000 and 2005, its share in the overall economy diminished by 1.4 percentage points in terms of employment.

In terms of value-added, the EU-27 primary sector decreased by 0.4 percentage points in the period 2000-2005. Due to unfavorable conditions in the year 2005, it reached around 190 bil. Euro in 2005 and accounted for 1.9 percent of GDP, ranging from less than 0.5 percent in Luxemburg to more than 9 percent in Romania and Bulgaria [EC (2007)].

Within the primary sector, agriculture contributed with 1.4 percent of GDP at EU-27 level and employed 12.7 mil. annual working units in 2006. The share of agriculture in GDP can be considerably higher: it is more than 4 percent in Greece, and close to around 8 percent in Bulgaria and Romania [Popa and Giurca (2007)].

At EU-27 level, agriculture is the main land cover, occupying 47 percent of the territory while the share of forest is a third lower, with 31 percent of the territory. This proportion differs greatly among Member States, forest being the dominant land cover in Nordic (Estonia, Finland, Sweden) and mountainous (Slovenia, Austria) Member States. Besides, at EU-27 level, the share of agricultural area in the territory is proportionally lower in rural areas (40 percent) than in urban areas (53 percent) due to the importance of forests in many rural regions, which may also increase over time. Namely, if, between 1990 and 2000, the loss of agricultural land is mainly linked to urbanization—this shift being often offset by a conversion of forest to agriculture.

The food industry represents an important part of the EU economy, accounting 2.3 percent of total employment and 2.1 percent of GDP for EU-27 in 2005. It is particularly important in Romania, Poland, Ireland, Lithuania, Estonia and Cyprus.

Between 2000 and 2005, this sector developed differently in the various Member States resulting in a stable employment and a slight increase in gross value added at EU-27 level.

The EU is the world's largest producer of food and beverages, but it remains highly polarised and fragmented in terms of size (SMEs account for 99 percent of firms and about 50 percent of total turnover) with significant opportunities and threats for firms.

In terms of value added, the largest activity is manufacture of bread, sugar, confectionary and other food products (around 1/3 of the total sectoral value added), followed by beverages and meat processing (around 1/6 each) and by dairy products (around 9 percent). Whereas the employment on farms decreased significantly over the last few years, the average annual decrease was limited to less than 0.5 percent in the food industry [EC (2007)].

3.2. Structural Changes of the Agricultural Sector in EU

The structure of the agricultural sector shows a wide diversity across countries/regions and sectors owing to the national specificities regarding the agricultural history, climatic and natural conditions and the institutional framework (notably for the land, labor and capital markets). This diversity, which is reflected in the size, farm type
and socioeconomic performance of agricultural holdings, has been further reinforced by the successive enlargement of the EU. Bringing together more than 6.7 mil. farmers from either large-scale agricultural enterprises (but with also private and subsistence farms) or highly fragmented sectors, the EU-12 exhibit a different pattern of structural change from that of the EU-15 with drivers differing both in nature and intensity.

Productivity gains largely supported by technological progress (e.g., mechanisation, development in crop and animal genetics) as well as the overall economic pressures have driven a considerable structural adjustment over the last decades. Yet, the CAP has certainly contributed to cushion this long-term process, thus allowing the maintenance of structural diversity in the agricultural sector of the EU and the slow down of labor outflow from the farm sector.

Whereas the number of holdings in the EU increased from 5.8 mil. in 1980 for EU-9 to 14.5 mil. for EU-27 in 2005 following the successive enlargements, it decreased at an annual rate of 2.4 percent in the EU-15 (Figure 2). Romania (29 percent), Poland (17 percent) and Italy (12 percent) are the most important Member States in terms of holdings [EC (2007)].

**Fig. 2. Evolution of the Number of Agricultural Holdings in the EU—1980-2005**

![Graph showing the evolution of the number of agricultural holdings in the EU from 1980 to 2005.](source: EC, Situation and prospects for EU agriculture and rural areas (2007)).

Like the number of holdings, the agricultural labor force fell by around 2.0 percent per year between 1995 and 2005 in the EU-15 (Figure 3). With more than 80 percent of the labor force coming from holders' family, EU agriculture is still largely based on family farms and on workers employed regularly (12 percent of the labor force). However, a very large share of the employment is not occupied full-time in agriculture. The importance of the part-time farming is also reflected in the labor force used per holding: 55 percent of EU farms require less than one annual work unit.

On the other hand, due to the increase in labor productivity, the average labour force requirement per farm remains rather stable at around 1 annual work unit despite the increase of the average farm size, and more labor intensive activities such as horticulture and dairying which exhibited increasing employment per farm over the last years.
The agricultural labor force is relatively aged, with less than a quarter of managers who are less than 45 years old. This is particularly pronounced in Bulgaria and Romania but also in the old Member States.

The continuation of these long-term trends would lead to a further decline of 21 percent in the employment number in the agricultural sector and the disappearance of 3.3 mil. of farms by 2013.

By contrast, the utilised agricultural area declined only slightly (~3 percent between 1995 and 2005) in the EU-15. Although most of the EU farms can be found in the EU-12, most of the agricultural area remains in the EU-15 (for more than 70 percent).

It seems that the area held by agricultural holdings but not used for agricultural or forestry production plays an important role in meeting the demand for land for other uses than agriculture: it provided 62 percent of the area lost by agriculture in EU-15 between 1995 and 2005.

In 2005, 61 percent of the agricultural area of EU-27 was used for arable crops, 33 percent for permanent grassland and 6 percent for the permanent crops, the share of arable crops being significantly higher in the EU-12 than in EU-15 (72 percent and 57 percent respectively) [EU (2007)].

With the restructuring of the sector, the average physical size of the European farm increased from 13 ha in 1980 to 21.4 ha in 2005 for EU-15. However, the proportion of small farms being still high in most EU-27 Member States (11.9 ha).

### 3.3. EU Agricultural Markets—New Developments

The markets for arable crop have shown exceptional developments lately and there are several reasons for these developments such as:

1. The steady rise in global commodity demand driven by record economic growth rates, urbanisation and changes in dietary patterns (notably for meat) in many parts of the world;
(2) the emergence of new market outlets such as the biofuels market (mainly in the US whereas EU biofuels production would only use between 1 and 2 percent of domestic cereals production); and

(3) the significant slow down in cereal yield growth in the EU (unlike many other producing regions).

Besides these structural factors, the agricultural sector has been affected by a series of adverse climatic conditions in many producing and exporting regions. Therefore, the heat wave in central and eastern Europe (with the most severe impacts being recorded in Bulgaria, Hungary and Romania), unusually abundant rainfall in North-West Europe (in particular in France and Germany) affected considerably the level of crop production in these countries.

The combination of these structural and short-term factors has generated very tight market conditions with a further fall in global stocks to their lowest in more than 10 years. The impact of these factors on prices has been exacerbated by the restrictive policy of some exporting countries (such as Ukraine and Russia).

Regarding the agricultural trade, the EU is the world largest importer of agri-food products. With around 68 billion Euro in 2006, the EU-25 absorbed around 20 percent of world imports. But its agri-food trade has significantly changed in recent years. Despite the decline of the EU export shares in many commodity markets (e.g., sugar, cereals), the competitiveness of the EU has gradually and regularly improved in many agri-food sectors over the most recent years. In 2003, the EU overtook the US as the world leading agricultural exporter. EU exports have further increased and in 2006 they reached an unprecedented level of 72.5 bil.Euro and the EU became a net exporter of agri-food products in the same year. For the first time since the introduction of the CAP, the EU agricultural balance was positive. This reversal in the EU agricultural trade balance is all the more striking as it comes despite the strengthening of the euro and despite enlargement, which resulted in (mechanically) increased net agricultural imports. Since 2004, EU exports have grown faster than imports, hence the improvement in the trade balance, as shown in Figure 4.

![Fig. 4. EU-25 Agri-food Trade (mil. €)](image)

Source: EC, Situation and prospects for EU agriculture and rural areas (2007).
The Figure 4 also indicates the breakdown of EU-25 trade into three categories of agricultural products: commodities, intermediate and final products. Final products dominate EU agri-food trade. While they account for about 55 percent the value of imports, they achieve two-thirds of export sales. When considering that category separately, the balance is positive and has significantly improved in 2006. In other words, the dynamism in final products is one key factor explaining the reversal in the EU agricultural trade balance.

Regarding the composition of trade: 12 of the top-15 exports are final products. Wine, aromas, specific food preparations, whiskies and pig meat (top-5) represent 20 percent of the value of agricultural exports [EU (2007)].

The main imported products are a mix of final and intermediate products, as well as commodities; coffee, soybeans, bananas and wine account for approximately 25 percent of agricultural imports.

The US remains a key partner, both on the import and on the export side, where it absorbs a fifth of EU agricultural exports. Other top-5 partners for exports include neighbouring countries (Russia, Switzerland and Norway) as well as Japan. Two-thirds of EU imports come from developing countries.

The successive reforms of the CAP which have been implemented since 1992 have allowed the income of the whole agricultural sector to increase by some 20 percent in real terms and expressed per full-time labor unit in the EU-15 (Table 1). These income gains have then been consolidated by the Agenda 2000 reform, whereas farm income has stagnated in real terms over the most recent years in the EU-15. As a result farm income grew by more than 40 percent since the early 1980s.

The income growth mainly results from the significant improvement in labor productivity that triggered a sharp decline in the number of farmers as the value added generated by the sector fell steadily in real terms over the past 25 years. The strong gains in factor productivity of the farm sector outpaced the slow development of an inelastic demand for agricultural and food products and thus generated a regular and steep decline in real prices.

Income developments in the EU-12 have been very positive since their accession to the EU. Agricultural income rose by around 60 percent since 2003 supported by higher average agricultural prices, access to the single market and the granting of public support (in the form of direct payments and rural development measures). However, income levels in the EU-12 remain considerably lower than in the EU-15 (around 80 percent lower on average) [Giurca, et al. (2008)].

Farm income varies greatly across Member States and sectors. However, income variability and dispersion across sectors seem to have diminished over the most recent years.

The first estimates for EU-27 agricultural income available from Eurostat for 2007 show a 4.7 percent rise in real income per worker. This income growth mainly results from the sharp rise in commodity prices (both arable crops and milk).

The developments in agricultural income is reflected also by the agricultural input and output price indices evolution in EU-27 Member States. (Figure 5).
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Fig. 5. EU-27 Agricultural Input and Output Price Indices (1995=100)

Source: EC, Update on recent price developments in EU-27 agriculture and food retail (2008).
Despite these positive developments, the economic performance of the agricultural sector in generating income remains some 30 percent below the rest of the economy in the EU-15 and around 75 percent in the EU-12. Furthermore, agricultural households generally enjoy a lower level of disposable income per person than other socio-professional groups.

4. PERSPECTIVES AND CHALLENGES FOR EU AGRICULTURE DEVELOPMENT

4.1. Perspectives Regarding the EU Agriculture

The fundamental medium-term drivers point to an outlook for the EU cereal markets which appears overly positive. These are mainly the expansion of domestic consumption and cereal exports. Domestic use of cereals is foreseen to increase thanks to the growth in the emerging bioethanol and biomass industry in the wake of the initiatives taken by Member States in the framework of the biofuel directive and the biomass action plan.

Under normal weather conditions the 2008 EU harvest should rebound thanks to the removal of mandatory set aside this year and the change of land use favoring the more profitable cereal production. Production conditions of cereals should be favorable and significantly more area would flow into cereal and oilseed production over the medium term (Figure 6).

![Development in Cereal Markets in the EU (mil. t), 1995–2014](image)


The slight growth of the livestock sector in combination with the availability of low-priced residuals from the biofuel production (ethanol and biodiesel) should constrain the developments of cereal feed use which would slightly increase to 169 mil. t in 2014 under a high price environment.

The emerging bioethanol sector bears important opportunities for agriculture and rural regions and critically condition the outlook for arable crops. A continuing high crude oil price environment would improve the competitiveness of European production and subsequent investments should create a more important industry.
The EU would also increasingly benefit from a growing world demand, supported by the relatively high average world price levels and the assumed strengthening of the USD over the medium term. EU cereal markets would remain balanced under a high price environment with some minor regional levels of public stocks (wheat) between 2008 and 2011 in the EU-12.

Even under a low price environment (triggered by a more rapid adjustment in world supply and/or less supportive developments in the biofuel sector), exports should develop positively and reach 22 million ton in 2014 which broadly represents the export potential of the EU in recent years.

The risks of imbalances of EU cereal markets appear moderate and punctual when assessing them under alternative price environments. However, the emerging bioethanol sector appears a crucial factor in this positive assessment. Significant risks for agricultural markets would be related to energy markets as well as to the energy policy framework with important implications.

Market perspectives for the EU oilseed sector are foreseen to be supported by productivity increases, favorable conditions on world markets and the increasing biodiesel demand in the EU.

The medium-term income projections display a rather favorable outlook as the EU-27 agricultural income would grow by 18.1 percent between 2006 and 2014 in real terms and per labor unit (Table 2). This overall gain would mask marked differences between EU-15 and the EU-12. Whereas agricultural income in the EU-15 would show a more moderate development with a 7.1 percent growth over the period 2006-2014, it is foreseen to display a more pronounced picture in the EU-10 and EU-2 where it would rise steadily by 31.2 percent and 87.6 percent respectively by 2014. Apart from the generally positive price developments this growth in income would be supported by the implementation of the CAP, the integration into the single market and most significantly by the sharp rise in the subsidies granted to agricultural producers in the EU-12.

### Table 2

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EU-10: Ten new Member States.

EU-2: Bulgaria and Romania.
Regarding future perspectives for agricultural commodity prices, many structural factors are expected to sustain market prices over the medium term. However, it is forecast that prices would not remain at the exceptional levels recently observed, mainly due to predictable producer responses to high prices (additional supply potential can be mobilised globally and particularly in the developed world) and policy adjustments such as the removal of mandatory set-aside for the 2008-09 marketing campaign, the suspension of the import duties for most cereals until the end of June 2008 and the additional 2 percent dairy quota increase in the EU in 2008. EU and Oceania dairy prices have been continuously converging over recent years, with interregional prices nowadays reaching rather comparable levels.

The impact of higher agricultural prices on consumers should be more limited, given the low share of agricultural raw product value in final product value (approximately 25 percent on average) and the low share of household food expenditure in total household expenditure (14 percent in 2007).

Furthermore regarding the impact of higher agricultural prices on consumers, it should be mentioned that low-income households would be more affected. This can be explained by the higher share of food expenditure in total household expenditure recorded for low-income households and by the fact that low-income households simply have less flexibility to adjust their expenditure in reaction to higher food prices.

4.2. Challenges for the EU Agriculture

The perspectives are subject to a significant number of challenges regarding future economic, market and policy developments which could have major implications for the EU agricultural sector and rural areas.

European rural areas which are very diverse are projected to be influenced by many different factors that include demographic trends, the economic development and environmental conditions. The dynamics of rural areas are increasingly driven by urban economies rather than by rural economies. Urbanisation is spreading into rural areas around metropolitan centers and the service sector develops as the principal economic vector. Urban centers can outstretch into regions with relatively low levels of residential density with the help of telecommunication and transport infrastructure.

However, rural areas are not stable. Marginalisation of rural areas is more than just one problem and relates to regional employment potentials as well as to the structure of rural economies. There are strong migratory currents affecting rural regions with some regions in a critical population situation. Demographic factors should constitute the main long term socio-economic driver for the rural regions.

Agriculture develops within specific regional socio-economic and environmental conditions. The process of structural change in agriculture is a long-term process which depends on the specific regional conditions and continues with or without policy change.

Whether structural change in agriculture creates high or low social costs depends on the specific situation of regions. Social costs will be high in those areas where strong agricultural change coincides with restructuring of the regional economy and population declines through out migration and lower birth rates (e.g., Eastern Finland, Eastern Poland, Southern Hungary, Eastern Germany, and Central France).
However there are also winning regions which have the prospects of benefiting from good economic conditions, migration and progressing structural change. The main positive effect relate to strong economic growth (e.g., regions in Germany, Belgium, France) as well as a possible gain in population through migration combined with strong growth (e.g., regions in Ireland, Spain). Agricultural change in these regions is accompanied by generally positive socio-economic conditions.

Future changes in agricultural domestic, trade and food safety policies of the EU and of the other major players in world commodity markets as well as the outcome of the current round of multilateral trade negotiations may have important implications for the medium-term outlook for agricultural production, consumption, trade and prices as well as the functioning of agricultural markets.

Whilst caution is necessary in asserting that we have entered a new period of strong market prices after two decades of price decreases, it is becoming increasingly clear that structural factors like the growth in global food demand and the development of new market outlets can be reasonably expected to maintain prices at sustained levels over the medium-term. This factor should increase export opportunities of EU cereals, as displayed in the medium term prospects.

However, the existing production structure and potential in the major producing countries seems largely sufficient to supply global demand so that the risk of food shortages appears low. For instance in the EU, additional production will be stimulated by both policy measures (with the proposed removal of the set-aside obligation for 2008) and economic incentives (as the very high cereal prices should constitute an appropriate incentive for farmers to increase production).

The functioning of some key agricultural markets in the EU will critically depend on the pace of integration of the commodity markets of the EU-12 and on the growing importance of transportation costs. As recent experiences have shown, market developments should also remain subject to the risks of sanitary and phyto-sanitary crisis, with their potential dramatic impact on production patterns, trade flows and market prices. Furthermore, the impact of climate change as well as of further productivity gains driven by technological progress could have a strong bearing on future market developments.

Strong and sustainable economic expansion, population growth, urbanisation and dietary changes in many developing regions and in transition economies constitute the main driving force behind the favorable developments projected in most agricultural markets as they are foreseen to lift global food demand and stimulate solid growth in world trade. Any change in this macro-economic framework (and in the economic perspectives for the EU economies) as well as in the currency markets (in particular the $/Euro exchange rate) in the context of present financial crisis could strongly alter the prospects for commodity markets and EU rural economies.

5. CONCLUSIONS

The agricultural and food sector of the EU has shown great resilience and adaptability over the last decades to a rapidly changing technological, economic and social environment. This adjustment took place within a supportive policy setting which contributed to alter the pace of this long-term process. Whereas the agri-food sector still
represents today an important component of the EU economy, it has also shown critical importance for the environment and landscape in contributing over the centuries to creating and maintaining a variety of valuable semi-natural habitats and in continuing today to shape the majority of EU’s landscapes.

The EU agricultural and food sector, which displays a wide diversity across countries and sectors, has mainly developed in rural areas which represent some 91 percent of the EU-27 territory and 56 percent of the total population. These areas tend to lag behind the predominantly urban areas as regards a number of socio-economic indicators.

European rural areas are influenced by many different factors that include demographic trends, the economic development and environmental conditions. Therefore, agriculture develops within specific regional socio-economic and environmental conditions. The process of structural change in agriculture is a long-term process which depends on the specific regional conditions and continues with or without policy change.

The outlook for EU agricultural markets over the next years appears fairly favorable, most notably for the arable crops and dairy sectors. However, these projections are particularly sensitive to critical assumptions regarding the economic environment, policy developments (notably for trade and biofuels) and remain subject to some uncertainties (e.g., potential impact of climate change). These positive market perspectives together with future demographic trends, macro-economic patterns and environmental conditions will have important implications for the medium-term prospects of EU rural areas.

Although a growing number of rural areas are likely to become increasingly driven by factors outside agriculture, many rural areas, in particular those which are remote, depopulated or dependent on farming, are expected to face particular challenges as regards economic and social sustainability. However, these areas have significant potential to meet the growing demand for the provision of rural amenities and tourism as an attractive place to live and work, and as a reservoir of natural resources and highly valued landscapes. These potentials should remain closely linked in many of these rural areas to the presence of a competitive and dynamic agri-food supply-chain.

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