The crisis in the agricultural sector

SUMMARY
Recent trends in agricultural commodity prices have been a subject of concern to policy-makers at both EU and national levels. The current common agricultural policy (CAP), for the period 2014 to 2020, represents one of the most market-oriented forms of European agricultural policy since its establishment. This has involved a shift away from price support to direct income support and rural development. However, running parallel with these changes, an analysis of price changes in the main agricultural sectors covering dairy, beef, pig meat, cereals, sugar, and fruit and vegetables shows a significant downward trend.

In response, on top of the first €500 million support package presented in September 2015 and other measures, the Commission recently announced a new package of measures worth €500 million from EU funds to alleviate the crisis in the European agricultural sector, especially in the dairy sector. The latter includes incentives to reduce milk production, conditional adjustment aid and other technical adjustments, which also include advance direct payments and extensions to the period for public intervention and private storage for skimmed milk powder. A taskforce on agricultural markets has also been established and is expected to report later this year. According to the latest Commission short-term outlook for 2016-2017, dairy, meat, and cereal prices are set to remain low, due to ample supply, slow global growth, depreciation in competing currencies and ever-falling energy prices.

It remains to be seen whether the package of measures will be effective. Any such assessment will help future policy considerations, including the most appropriate choice of policy instruments. Looking to the future, to overcome the cyclical and structural crisis, it will be essential to select and identify the most effective measures, or combination of measures, to promote the growth of the agricultural sector.

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Background

The current situation, characterised by low prices for a number of agricultural commodities, has persisted since 2015. It is set within the context of a restructuring of farming practices. Eurostat data show that over the last ten years, the number of farmers within the EU has declined by more than 4 million, from **14.6 million in 2005** to **12.2 million in 2010**, and to about **10.8 million in 2013**. On the basis of this trend, there will be fewer than 10 million farmers in Europe before 2020. In 2005 there were more than **30 million people employed** in agriculture, falling to **22.2 million employed in 2013**. These trends represent clear signals of restructuring of the agricultural sector. In this regard, it is important to distinguish between structural or cyclical elements, as the structural problems are based on something much more fundamental than a crisis or a recession. According to the Oxford Dictionary, a crisis can be defined as ’a time of intense difficulty or danger’ when ’a difficult or important decision must be made’. While changes in prices can be viewed as cyclical in nature, the fall in the labour force in the primary sector, sluggish competitiveness and the decline in numbers of farmers are structural in nature.

Results from a survey from the farms’ representative body COPA-COGECA in the first quarter of 2016 show that confidence amongst farmers is at an all-time low. It points out that European farmers are squeezed by low farm-gate prices and high input costs, and remain pessimistic about both their short-term and long-term prospects.

The common agricultural policy (CAP) for 2014 to 2020 is the most market-oriented CAP ever, involving the abolition of the quota systems (except authorisation for wine planting) and the reduction of intervention prices to a limited safety net tool. In light of this, market forces are the primary driver of EU agricultural production, and price volatility is and will continue to be one of the key challenges facing the sector. Figure 1 helps to illustrate this point as it shows commodity price indices for agriculture, metals and energy. It is adapted from a study by Baffes and Haniotis (2016) which identifies three distinct features characterising recent changes in commodity prices. These are: higher price volatility, significant price co-movement and a higher price level for all three commodity groups compared with the past.

**Figure 1** – Real world commodity price indices for agriculture, metals, and energy

![Figure 1](https://example.com/figure1.png)

To understand the present agricultural crisis, an analysis of price changes is required, covering the main agricultural sectors, namely dairy, beef, pig meat, cereals, sugar, fruit and vegetables.

**Market situation by sector**

**Dairy**

EU milk production has expanded constantly in recent years (mainly in Germany, Poland, Ireland and the Netherlands in volume terms). It rose by 5.6% last year (January-April 2016 compared to January-April 2015) and EU milk deliveries amounted to more than 150 million litres in 2015. Data from the EU's Milk Market Observatory (MMO) show a constant decrease in milk prices. As shown in Figure 2, EU average milk prices were under 27 cents per litre in May 2016 and were even lower on the spot market (see Figure 3) going as low as 23 cents per litre in the Netherlands and 26 cents per litre in Lodi, Italy.

**Figure 2 – Average milk prices paid to producers in the EU-28 (weighted average)**

![Average milk prices paid to producers in the EU-28 (weighted average)](image)

Source: Milk Market Observatory.

**Figure 3 – Weekly milk spot prices, the price paid to producers at a specified time and place, in Lodi (Italy) and the Netherlands**

![Weekly milk spot prices, the price paid to producers at a specified time and place, in Lodi (Italy) and the Netherlands](image)

Source: Milk Market Observatory.
Looking at the world market, the situation facing the dairy sector and the outlook for milk prices is not encouraging. Comparisons can be drawn with the USA and New Zealand. Figure 4 shows that milk prices declined in the United States to 30 cents per litre and in New Zealand to 20 cents per litre. The latter is a direct competitor on the world market because its milk production is more export-oriented than that of other countries, whereas milk prices in the USA are generally equal to or higher than in the EU.

**Figure 4 – World prices of raw milk compared with the EU average price**

![Graph showing milk prices evolution in the USA and New Zealand](source)

Source: Milk Market Observatory.

Although in 2015 and during the first half of 2016 the EU bought more than 320 000 tons of skimmed milk powder at the intervention price of €0.17 per kg, and put in place several measures to support the sector, the milk crisis in the EU has persisted since 2015.

**Beef and pig meat**

Within the EU, the meat sector is one of the most important in EU agriculture. In 2014, the EU bovine livestock herd reached approximately 88 million animals. Two thirds of EU beef comes from the dairy herd (France, Germany, the United Kingdom, Spain, Poland, Italy and Ireland together account for approximately 75% of the total herd); therefore, changes in the dairy sector impact on the beef sector.

Data from the European Commission’s Farm Economy Preview (2015) show that the operating costs of production for all groups of beef farmers have been increasing over the 2004-2012 period. Although over this period beef output has been on a rising trend, the margins for all groups have been 'relatively thin'. The income of breeders and breeder-fatteners is much lower in 2012 than in 2004. However, in the absence of direct payments, farm net value added per annual work unit would have been negative. In respect of beef prices, Figure 5 shows the decline in EU beef prices, comparing May 2015 with May 2016 for each Member State.
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Figure 5 – EU beef prices (€/100 kg) for May 2015 and May 2016 by Member State

This also illustrates the variation in beef prices across the EU. The overall trend for prices in respect of carcasses for young bovines is shown in Figure 6. This illustrates the low level of prices in the first half of 2016, compared to average prices for 2014 and 2015. Prices for both carcasses and live animals have declined over the last year (for example by nearly 4% for heifers and by 4.1% for slaughtered calves).

Figure 6 – Average prices (€/100 kg) of carcasses for young bovines, 2014-2016

Regarding pig meat, the EU is the world’s second biggest producer of pig meat (after China) and the biggest exporter of pig meat and pig-meat products. There has been a significant downward trend in EU pig prices since July 2014 as shown in Figure 7.
By March 2016, EU pig prices had reached their lowest level since 2014. This trend reflected a range of factors, such as rising production alongside reduced consumer demand for pork across Europe, and the loss of the Russian export market, as noted by industry observers (Agriculture and Horticulture Development Board – AHDB). Between 2014 and 2015, most key producing countries recorded declines in their breeding herds. However, in Spain, the pig herd increased, consolidating its position as the EU’s largest breeding herd. This confers advantages in terms of helping it to keep its production costs down. However, as industry observers have noted, significant capital investments make it more difficult for producers to scale back production, as debts need to be serviced. They suggest that a persistent feature of EU pig production is its increasing consolidation, making it less responsive to price signals.

Recent price data for 2016 (see Figure 7) point to an increase in EU pig prices in May and June reflecting increased demand for pig meat from China. A price report for July 2016, showed an average pig carcass price of €163.39/100 kg, representing an increase of 11% over the previous year.

Cereals
In terms of trends, the European Commission, in its short-term outlook for EU arable crops, dairy and meat markets in 2016 and 2017, highlights the decreasing price path for cereals during 2015. At world level, maize and wheat prices decreased by about 10% during 2015 (see Figure 8). The latest report on global food markets by the Food and Agriculture Organization of the United Nations (FAO) indicates that its global cereal price index fell in the third quarter of 2015, down 12.7% year on year and had fallen to 2010 levels. Prices of wheat were 30% lower than in the third quarter of 2014 thanks to record production in 2015, abundant global supply and strong export competition.

At EU level, cereals production stood at approximately 310 million tonnes for 2015/2016 (recorded as the second best over the last five years, behind the 2014/2015 harvest). This scale of production makes the EU a key player in the global market (accounting for 20% of global production). With approximately 151 million tonnes of soft wheat harvested in 2015/2016, EU wheat production set a new record at 15% above the five-year average. As the harvested area declined by 0.6%, the increase in production was solely due to exceptionally high wheat yields averaging 6.3 tonnes/hectare.
One recent commentary has raised the question of whether, over the short term, the low price level will become the ‘new average price level’, reflecting in part the high level of stocks both within the EU and worldwide. Taking account of some of the challenges facing the sector, the Commission’s expectation is that the EU will remain the world’s leading wheat exporter for the next decade.3

Sugar
Currently, the EU’s sugar market is regulated by a reference price and a minimum guaranteed price to growers and production quotas. These are set to expire by 30 September 2017. The EU reference threshold for white sugar is fixed at €404.4 per tonne, and at €335.2 for raw sugar. In terms of trends, international sugar prices have declined over the course of 2015, as shown in Figure 9.
Overall as a recent report highlights, sugar prices are highly volatile. That said, prices for both raw and white sugar recovered slightly in the last months of 2015 to levels not seen since 2014.

Fruit and vegetables
According to Eurostat 2015 data, the value of the EU’s production in the fruit and vegetable sector amounted to almost €60 billion in the EU-28 (prices at farm gate). The main producers are, in order of production value, Spain, Italy, France, Germany, Poland, Greece and the Netherlands. The total area devoted to this sector has constantly declined in the last few years.

Since 2015, fruit and vegetable prices have dropped, especially for fresh fruit (mainly apples, pears, peaches, oranges) and some vegetable products. Figures 12 and 13 show that the EU average price for apples is about 50 cents per kg (at the farm gate) but in some countries such as Poland, it is lower than 20 cents per kg.

Figure 12 – Apple production in the EU

Source: European Commission.

Figure 13 – Apples, EU average prices

Source: European Commission.

In the fruit and vegetable sector, industrial tomato is another product in crisis, where farm gate prices are below 9 cents per kg, which for many farmers is lower than their production costs.

Stakeholders’ view
COPA-COGECA, the organisation representing farmers and agri-cooperatives in the EU, acknowledges the challenge of extreme price volatility, and observes that the current low prices for agricultural products have made EU farmers rather pessimistic about their
future prospects. In terms of policy instruments, it has supported the maintenance of the existing two-pillar structure of the CAP, involving direct payments and rural development, while advocating the strengthening of market management measures and risk management tools as safety nets for farmers. It has also urged the EU to implement policies to reinforce the weak bargaining position of farmers in the food supply chain and enhance the role of producer organisations and cooperatives in managing agricultural markets.

The European Council of Young Farmers (CEJA) released a statement on 28 June 2016 calling for immediate action on the ongoing EU agricultural market crisis. In particular, it called for funds for the implementation of Article 2224 of Regulation No 1308/2013, as well as more medium to long-term measures to ensure crises of such scale are avoided at all costs in future. It also felt that young farmers were affected the most by the crisis after their recent investments in agriculture. The lack of financial backing and cash flow difficulties have added to their vulnerability during this period involving substantial price drops.

The agricultural think-tank, Farm Europe, expects that volatility will remain an issue, and observes that the CAP is currently spending less than 1% of its budget on supporting insurance, while more than 60% is used for direct payments unrelated to market fluctuations. They argue that the existing policy framework provided by the CAP has been insufficient to mitigate the effects of price volatility, as is demonstrated by the on-going crisis in the dairy sector. According to Farm Europe, both EU and national policies have a role to play in helping farmers to manage their risks, by providing appropriate tools such as insurance schemes and strengthening the existing risk management tools. In its view, a new framework for strengthening the insurance mechanism with adequate support from the CAP is required.

These issues have also been the focus of a three-year EU funded research project entitled Ulysses. This study observed that price volatility on agricultural markets was largely driven by factors specific to each market. However, for the most important agricultural commodities, price formation took place primarily on a global scale, which represents a considerable barrier for effective policy-making. One conclusion arising from the study points to the importance of predicting both short-term and long-term drivers of price changes. Predictions of long-term trends in prices are useful for farm investment decisions, while predictions of short-term changes in prices can contribute towards decisions on whether and when to enter into contracts and on whether to raise stock levels.

**European Parliament**

Since 2015, on several occasions, the European Parliament has acknowledged the crisis in the agricultural sector and called on the Commission and Council to take action.

In June 2016, the President of the European Parliament, addressing the European Council, noted that the EU was facing a 'persisting crisis' in the agricultural sector, and that milk farmers, in particular, are struggling to survive. He called on the Commission and Member States to implement fully the measures agreed in September 2015 and March 2016.

The Parliament’s Committee on Agriculture and Rural Development (AGRI) has been actively engaged in addressing the current state of the agricultural sector. On 10 March 2016, it launched an own-initiative report on 'CAP tools to reduce price volatility in agricultural markets'. The draft report, prepared by Angélique Delahaye (EPP, France),
recommended that the Commission should facilitate the introduction of contractual relations by adapting competition law, develop further risk management tools, particularly the various types of insurance and mutual funds, and implement a European agricultural price observatory for the various agricultural sectors.

On 20-21 June 2016, the AGRI Committee considered a presentation of a study entitled 'State of play of risk management tools implemented by Member States during the period 2014-2020: national and European frameworks'. The researchers stressed that whilst Member States were increasingly making use of risk management instruments, these were still in their infancy and represented a very small percentage of the CAP budget. In the subsequent debate, a number of Members made the point that the current crisis in the dairy and pork meat sectors was proof that current CAP risk management tools were inadequate. In reply, the authors of the study stressed that risk management tools were only intended to manage short-term problems (i.e. a temporary fall in prices, the effects of bad weather, etc.). They felt these tools could not deal with structural problems.

On 19 July 2016, an extraordinary meeting of the AGRI Committee was held to enable the Commissioner for Agriculture, Phil Hogan, to present to AGRI Members the Commission’s third package of measures to address the continued crisis affecting the agricultural sector. These are outlined below.

Council
At its meeting on 27-28 June 2016, the Agriculture and Fisheries (AGRIFISH) Council was given an update by the Commission on the agricultural market situation and on the support measures endorsed by the Council at its September 2015 and March 2016 meetings. These involved a €500 million package of support measures and a second package involving budget-neutral instruments such as a voluntary and temporary reduction of milk production (Article 222 of Regulation No 1308/2013) and a temporary relaxation of state aid rules in case of Member States’ support to farmers. Further initiatives have also been undertaken by the Commission (e.g. doubling of the quantitative ceilings for buying in skimmed milk powder and butter at a fixed price in the context of public intervention, and the adoption of a delegated regulation setting further exceptional and temporary support measures for the fruit and vegetables sector). Given continuing concern over the crisis, the Commission presented a new financial package on 18 July 2016 at the AGRIFISH Council, as outlined below.

Commission
The Commission’s earlier response to the crisis was summarised in a previous EPRS briefing. In terms of the package announced on 18 July 2016, this involves €150 million of incentives to reduce milk production (removing more than a million tonnes from the market) through an EU wide measure to correct the supply side of the dairy market. Provision is made for the allocation of €350 million in Member State national envelopes where Member States will have flexibility to define the measures or mix of measures they wish to make available to farmers. Other technical adjustments are included such as derogations from the obligation to maintain herd size in the case of voluntary coupled support to the dairy sector; the provision of advances on direct payments, and extensions to the period for public intervention and for private storage for skimmed milk powder. The Commission will also update the support for withdrawals for fruit and vegetables made by producer organisations. The budget implications of the proposed measures will be incorporated in an amending letter to the draft budget 2017 in the autumn, using the
headroom of heading 2 – preservation and management of natural resources, without recourse to the crisis reserve.

**Outlook**

It is too early to assess the effectiveness of this latest package. The Commission considers it to be a 'robust response' albeit 'an exceptional' one at a time of significant budgetary pressures. In any case, it will take time for such a package to be taken up, based on the experience of the previous package announced in September 2015. In a speech to the European Parliament AGRI Committee on 19 July 2016, Commissioner Hogan indicated that it had taken many Member States until June 2016 to spend or at least notify to the Commission what they had done with the financial assistance they had received. In response to the Commissioner's presentation, a number of MEPs expressed their views and reflections in the AGRI Committee. While the relevance, value and additionality of the new package was acknowledged, some expressed concern that more discretion was being given to Member States, as the latter are able to top up the payments with up to an equal amount of national co-funding. They will have 'flexibility to define the measure or mix of measures they will make available to farmers'.

Concerns were expressed that such arrangements could lead to a distortion of competition between farmers in the Single Market, as Member States will be able to reinforce the package. Some MEPs made the point that the opportunity could be used by Member States to increase market share. Reference was made to the increase in milk production which had occurred in some countries in recent years. To some, the package, while welcome, only addressed the symptoms of the current crisis rather than its causes or the underlying structural weaknesses facing agriculture in the EU.

In response, Commissioner Hogan stressed that the Commission had, in less than a year, mobilised in excess of €1 billion to address the current market downturn. Pointing to 'some recent market developments' in relation to the pig meat market which showed an increase in the average pig carcass price, he considered this demonstrated the impact of the support provided by the Commission.

It remains to be seen how effective the package of measures will be. Any such assessment will help inform future policy considerations, including the most appropriate choice of policy instruments. Set within this context and looking to the future, to overcome the cyclical and structural crisis, it will be essential to select and identify the most effective measures or combination of measures to promote the growth of the agricultural sector. Potentially these may include measures involving:

- efforts to improve farm competitiveness and access to credit through enhanced financial instruments;
- income support to farmers, through decoupled direct payments and specific coupled support;
- risk management tools to mitigate price volatility effects;
- a more job-oriented and simpler rural development policy;
- improved supply management arrangements including voluntary agreements;
- other market measures such as the use of revised private and public storage, including withdrawals from markets for free distribution to needy people;
- increasing exports to third countries through balanced free trade agreements and powerful promotion policies.
Main references


Endnotes

1 See EU Agricultural Outlook: Prospects for EU agricultural markets and income 2015-2025, December 2015, p. 52.
3 See Agri-Europe, 16 June 2016.
4 Article 222 of EU Regulation 1308/2013 allows for measures to respond to periods of severe market imbalances in agricultural markets and after the EU has already used public intervention or private storage. These measures include: temporary planning of production, market withdrawal operations or free distribution of agricultural products.
5 Ulysses stands for ‘Understanding and coping with food markets volatility towards more stable world and EU food systems’.

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