European Agriculture at a Crossroad

European agriculture has come a long way in the last three decades from being one of the largest importers of agricultural commodities to a major exporter. These historic transformations have been possible due to the Common Agricultural Policy (CAP), which has regulated agricultural markets in the European Union (EU) since the 1960s. These policies have led to significant expansion of agricultural exports (and a concurrent reduction in agricultural imports) because the growth in production stimulated by the favorable price regime has been greater than increase in consumption. However, these achievements have come with a heavy price tag, costing taxpayers billions of ECU.1 The program expenditure for agriculture has grown from 9 billion ECU in 1978 to 35 billion ECU in 1991. In addition, increased subsidized exports from the EU led to conflicts with other food exporting countries such as the United States, Canada, Australia, and Argentina.

It was primarily unsustainable costs and growing trade disputes that prompted the EU to adopt a series of policy reforms in 1992, leading to reduction in domestic intervention prices, introduction of compensatory direct payments to farmers, and compulsory set-aside provisions (which require producers to idle a set percentage of land). These reforms, referred to as the MacSharry reforms, have been successful in reducing intervention stocks, but their effect on containing the budget is somewhat questionable. Current budgetary expenditure for CAP is approximately 45 billion ECU (Feedstuffs, January 18, 1999).

The continuously changing EU agriculture has reached a major crossroad and is likely to go through some important changes in the next decade. These changes could include another set of reforms, known as Agenda 2000, and an eastward expansion of the EU to include 10 Central and Eastern European countries (CEECs) and three other countries, Norway, Switzerland, and Cyprus. The proposed Agenda 2000 reforms include lowering the intervention price for all grains by another 20 percent to a level closer to the world grain prices, and putting the mandatory set-aside at 0 percent.

The impacts of Agenda 2000 on the cereal sector largely depend on the baseline assumptions regarding set-aside rate. The larger the set-aside rates in the baseline, the greater impact Agenda 2000 will have on the cereal sector. Last year, the FAPRI baseline had 5 percent set-aside in all years of the analysis. Consequently, reducing set-aside to 0 percent results in an increase in planting by 1 million hectares, with most of the growth occurring in wheat area, and cereal production increasing by more than 4 million metric tons (mmt). Similarly, the higher set-aside in the baseline (which can be assumed up to 15 percent) is likely to result in much higher area planted and, consequently, in higher production. For oilseeds, there is expected to be some shifting from crop to crop during the analysis period, even though overall oilseed area remains more or less same. Rapeseed is expected to capture the majority of the area expansion, even taking land away from sunflowers. Even with a decrease in oilseed aid and increase in cereal aid payments under Agenda 2000, the oilseed return remains competitive, relative to grain, keeping the oilseed area near the baseline level.

On the demand side, cereal consumption is projected to rise by 1 percent, relative to the baseline, because of the increase in barley and maize feed consumption. However, wheat domestic use is projected to decline slightly, whereas wheat exports
should rise by 29 percent in the initial years and remain more than 17 percent above the baseline levels for the later years. Higher EU wheat exports result in decline in world wheat prices by only 1 to 3 percent.

In addition, EU enlargement will have important ramifications for the international agricultural market, including U.S. agriculture. The EU has already expanded four times since its inception in 1957 from six to 15 member countries. At this time, a definite timetable for further expansion is not finalized, but accession could occur as early as 2002. The first group of countries that could join the EU by the year 2002 includes four CEECs (Poland, Hungary, Czech Republic, and Slovakia), plus Norway and Switzerland. Depending on the conditions under which the CEECs join the EU, the enlargement could have profound impacts on EU agriculture. The agricultural production and consumption in CEEC dropped significantly in the early 1990s due to changes in agricultural policy from governmental central planning to more market-driven economies as production and consumption subsidies were either reduced or eliminated. However, agricultural production, particularly in crops, has been responding to the new market-oriented system much faster than consumption. Assuming the slow recovery of production continues, there is potential for surplus production and higher exports in the future. Export potential from this region is even higher if the CEECs enter the EU with CAPs and associated higher intervention prices.  

1. The ECU is the European Currency Unit.

China’s Livestock Statistics: Implications for Export Markets

In the last three years, many researchers in China and abroad have become aware of inconsistencies in China’s published livestock statistics. According to numbers reported in the China Statistical Yearbook, Chinese production of beef, pork, poultry, and eggs increased 186 percent from 1986 to 1996. Over the same time period, consumption of livestock products derived from household surveys rose only 36 percent. Figure 1 shows that the difference between reported production and surveyed consumption has been growing rapidly over the last decade.

Discrepancy in Statistics

There are several factors that contribute to the apparent discrepancy between the production and consumption statistics. First, the surveyed consumption levels increasingly underestimate actual meat consumption because they do not adequately account for away-from-home consumption. However, in order for away-from-home consumption to explain all of the difference between the two series, Chinese consumers, on average, would have to consume almost as much meat away from home as they prepare in the home.

Second, a factor that is of growing importance is the increasing number of migrant workers living in urban areas. These people are classified as rural residents, but they live in urban areas and adopt, to some extent, the more protein-rich diets of urban dwellers. These people are not accounted for in the regular consumption surveys and therefore contribute to the under-reporting of meat consumption in survey statistics.

Third, human “errors” are a likely cause of the bulk of the difference. Production levels have frequently been used in the Chinese government to assess the achievements of regional bureaucrats and political leaders. Under the centrally planned economy, the statistics reported by local officials could be validated by checking the records of production teams and collective farms.

After 1984, the household became the primary production unit, and validating the statistics reported by low-level bureaucrats involved surveying the households and corroborating these numbers with village and township records. Therefore, it became prohibitively expensive to maintain the level of accuracy achieved under the collective system. Furthermore, domestic meat markets were liberalized during the mid-1980s. As a consequence, records kept by government marketing agencies were no longer representative of actual meat marketing levels. Without adequate checks, it became less costly for local bureaucrats to inflate the production numbers in their districts and thereby increase their likelihood of promotion. As officials attempt to maintain year-on-year increases in production, the inflation introduced in the production statistics grows.

CARD Analysis Seeks Accurate Estimates

Researchers at the Center for Agricultural and Rural Development (CARD) at Iowa State have made a preliminary attempt to distill more accurate production estimates from the available statistics. The results of their analysis...
indicate that actual 1996 pork production was 40 percent lower than the 40.3 mmt reported by China’s State Statistical Bureau (SSB). Production of other livestock products was estimated at between 50 and 70 percent below the reported levels.

The implications of the analysis results are twofold. First, Chinese meat consumption is not increasing as rapidly as many people had previously thought. Thus, the market for imported meat products, though still potentially lucrative, may not be as great as the official statistics imply. Second, feed use per kilogram of meat produced in China is much higher than previously thought. As meat production continues to increase in China, the consumption of feed grains should increase proportionately, reducing China’s net exports of corn. It should be kept in mind that these estimates are based on strong assumptions regarding away-from-home consumption and the accuracy of Chinese statistics before 1984. Ongoing research at CARD will provide more accurate estimates in the near future. •

Turkey Takes Steps toward Membership in the European Union

Turkey has been taking steps to gain membership in the European Union (EU) for decades, and in 1996 it officially joined in a customs union with the EU. The customs union agreement, however, was directed primarily toward trade in manufactured goods and raw materials. Tariffs on most agricultural commodities were not harmonized, and agricultural trade between Turkey and the EU was not liberalized because of the significant differences in domestic agricultural policies in the two countries. The customs union in agricultural commodities is to be completed as Turkey harmonizes its domestic agricultural policies with the EU’s Common Agricultural Policy (CAP).

The CAP is not only an impediment to Turkey’s bid for membership in the EU, but the recent efforts to expand the Union to include several Eastern European countries have spotlighted potential problems of extending the CAP to new member countries. The EU Commission stated, in its explanatory memorandum describing the Agenda 2000 proposal to reform the CAP, that the prospect of enlarging the Union is an important factor in its decision to work toward reform.

This article briefly summarizes the results of a recent analysis of Turkey’s accession to the EU conducted by the FAPRI staff in cooperation with the Agricultural Economic Research Institute in Ankara, Turkey. The analysis focuses on the livestock and feed sector. Although Turkey is not likely to join the EU in the next few years, the analysis assumes that Turkey becomes an EU member country in 2000, just as the European Commission is enacting the CAP reforms embodied in the March 1998 Agenda 2000 proposal.

Impacts on Turkey’s Livestock Industry

The impact of Turkey’s accession to the EU is greatest in the beef and sheep sectors. Domestic beef prices in Turkey fall to the EU average price, which lies more than 45 percent below the baseline price in Turkey. Consequently, annual beef production declines an average of 22.9 percent, a reduction of 127 thousand metric tons (tmt). Following accession, total Turkish beef consumption in 2000 exceeds 1.1 million metric tons (mmt), and it continues to grow to 1.7 mmt by the end of the simulation period in 2007. Beef imports increase rapidly to fill the gap between production and consumption, reaching 1.2 mmt by 2007. The impacts on the sheep sector are similar. The domestic mutton price falls 55.5 percent, causing consumption to more than double; meanwhile, sheep meat production progressively declines to 37.9 percent below the baseline level.

Despite price declines of similar magnitude, Turkish production of broiler meat does not decline as dramatically as beef and mutton production after accession to the EU. The strong dependence of broiler production on feed grains works to its advantage because feed costs decline sharply under the Agenda 2000 proposal. This enables most broiler operations to remain viable at lower prices for chicken. In this scenario, Turkish broiler prices decline in excess of 40 percent relative to the baseline, but wheat, corn, and barley prices decline 27, 41, and 3.6 percent, respectively. Consequently, broiler production declines 7.3 percent in 2000; but by the end of the simulation period, broiler output is only 3.9 percent below the baseline level. Even with small declines in production, broiler imports surge to 713 tmt by 2007, as chicken consumption increases to 23.3 kilograms per person at the lower price levels. Similar impacts occur in the Turkish egg sector.

The policy implications of this analysis are threefold. First, if Turkish livestock producers are going to survive in the more competitive price environment that is expected under the proposed CAP reforms, they will have to adopt production techniques that reduce costs and enhance productivity. This is particularly important if the compensatory payments to EU livestock producers are not extended to new member countries under a reformed CAP. Turkish agricultural policies that help producers invest in and adopt improved production and management practices will speed the adjustment to a more efficient livestock industry, one that can better compete in the international marketplace. On the contrary, price supports and import barriers enable inefficient producers to remain viable, and this helps slow agricultural adjustment. Second, if Turkey joins the EU under a reformed CAP, Turkish livestock producers will be devastated, unless reforms are in place to improve productivity in the domestic market. Third, agricultural support policies that increase consumer prices greatly slow the improvement of Turkish diets (i.e., greater animal protein consumption). Although the welfare measurements in this study indicate that the consumer gains following accession to the EU are trivial compared to the financial losses of producers, these calculations do not incorporate the value of better health and longevity that is generally associated with more protein-rich diets. •
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