



Domestic and International Pressures for European Agricultural Adjustment and Their Implications

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DRIVERS OF AGRICULTURAL ADJUSTMENT



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- 1. Agricultural policy and markets.**
- 2. General economic and social forces.**



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1. Agricultural policy and markets.

- **WTO/International**
- **Environmental/amenity issues**
- **Budgetary constraints**
- **EU enlargement**
- **High cereal and crude oil prices**



DRIVERS OF AGRICULTURAL ADJUSTMENT

2. General economic and social forces.

- **Changing opportunity costs of labour.**
- **Changing perceptions about work conditions.**
- **Multiple use demands for rural land.**
- **Power of supermarkets – control of supply chain.**



Hypothesis 1:

General economic and social drivers are more powerful forces for agricultural adjustment than agricultural policy reform.



Hypothesis 2:

Structural agricultural adjustment is continuous (in USA and EU) and only responds slightly to economic shocks of any type – ag. policy or general.



Hypothesis 3:

Structural adjustment in farm businesses serves to keep most land in production, and maintain production levels by promoting productivity increases, despite declining aggregate net farming income.

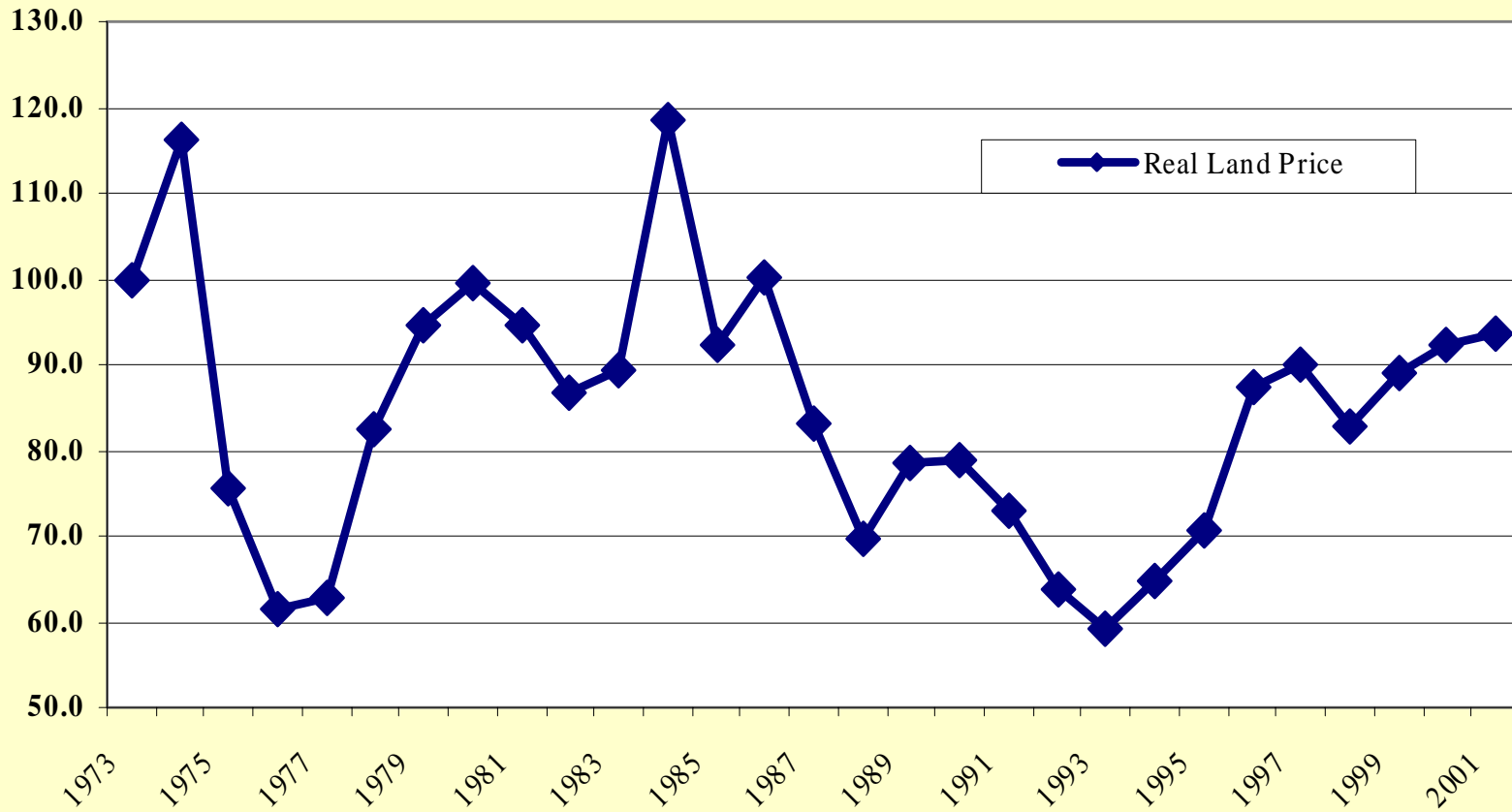


Steady Change:

- **Slow loss of land from agriculture – 0.3% p.a. in UK**
- **High land prices in peri-urban and scenic areas.**
- **High rural property prices.**
- **More lifestyle land owners (“horsiculture”, land renting)**
- **Increased scale of commercial farming inc. organic.**
- **Subsidisation of farming by off-farm income.**

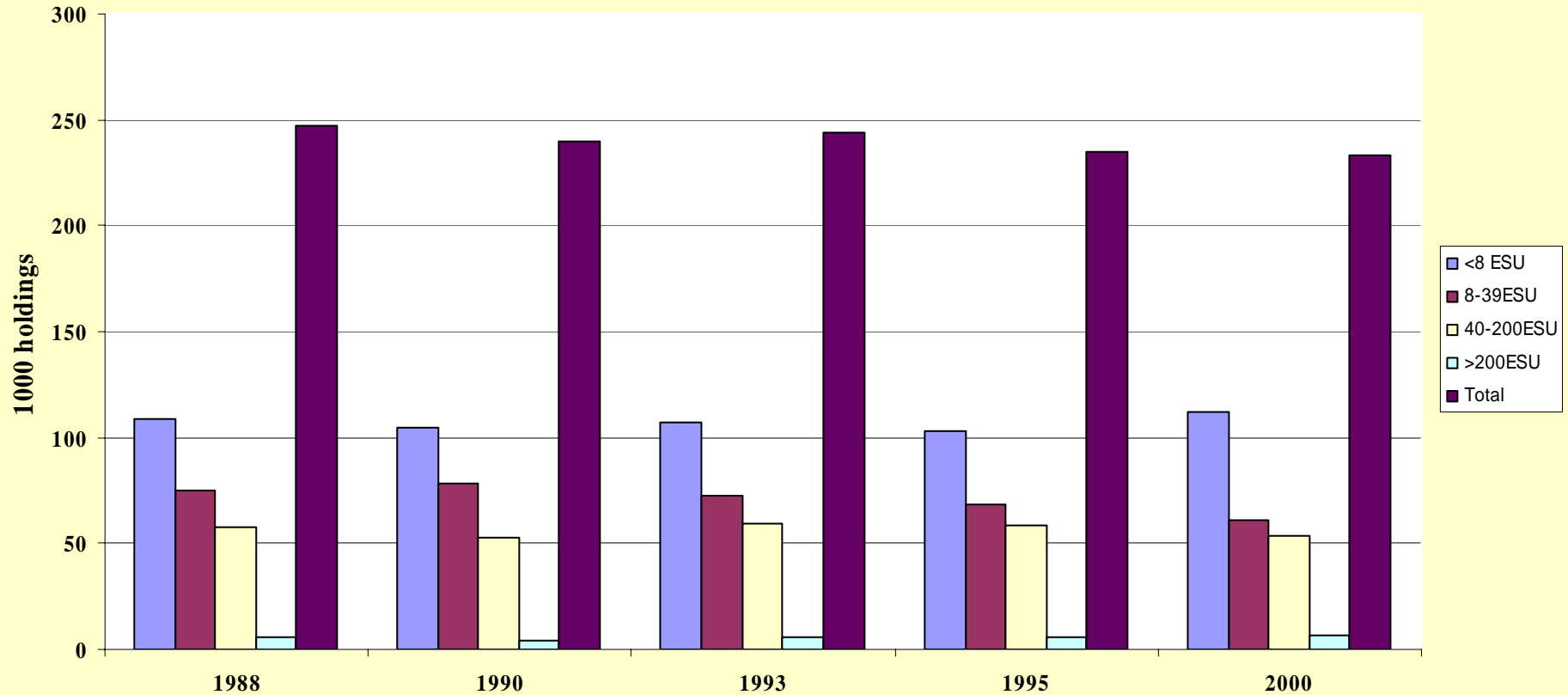


Figure 1. UK Real Land Price Index 1973 - 2001



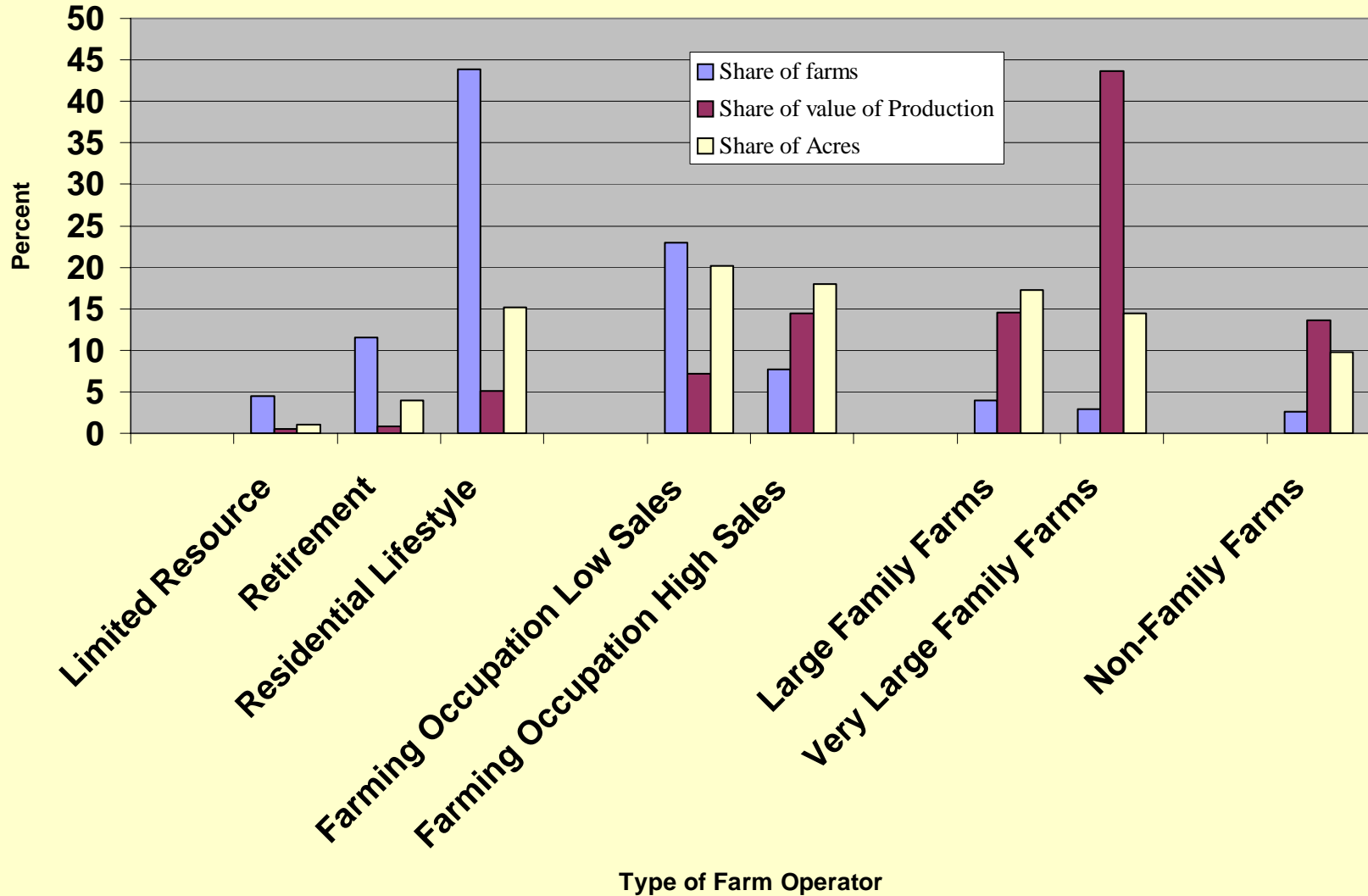


Changing Structure of UK Agriculture



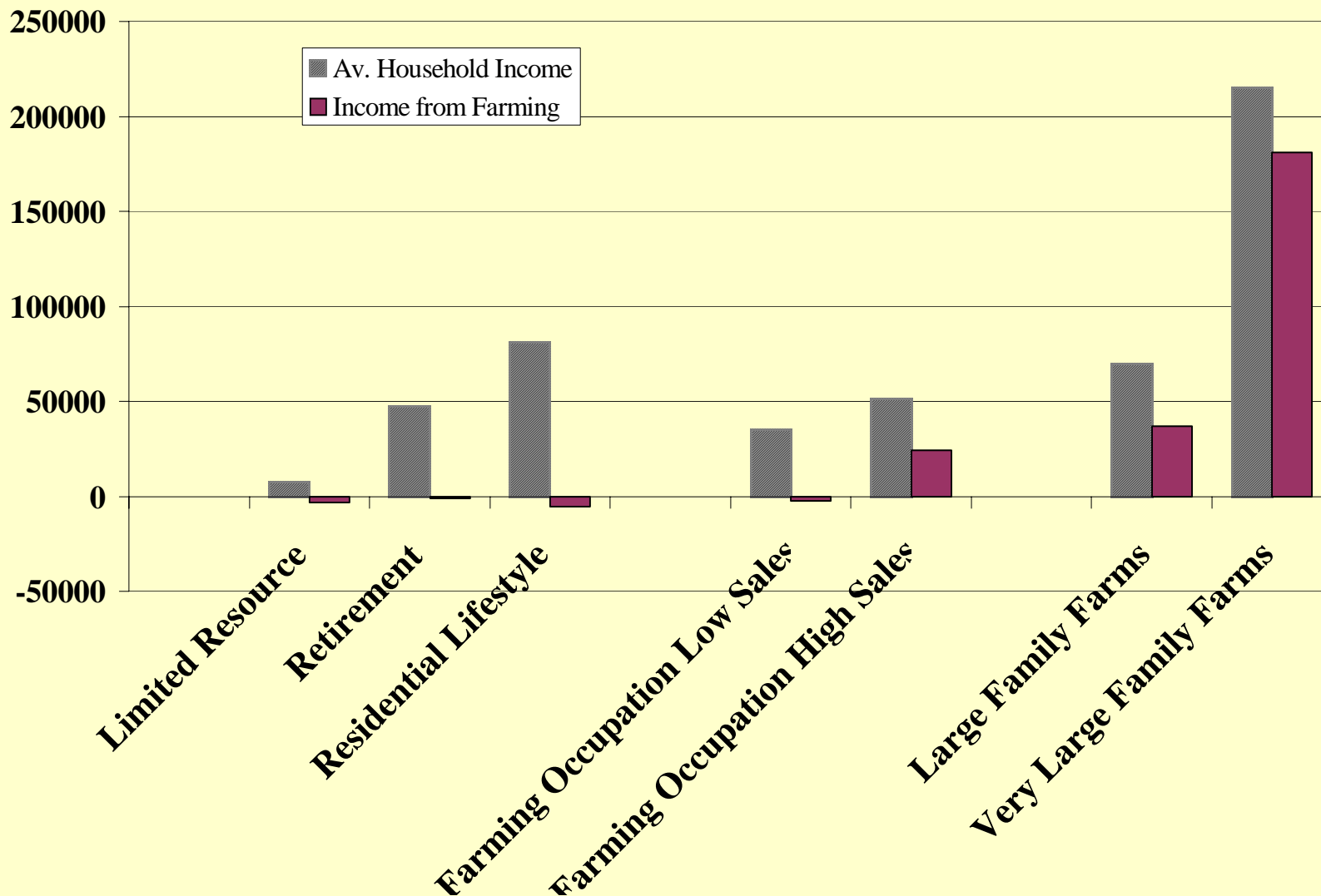


Structure of US Farming 2001



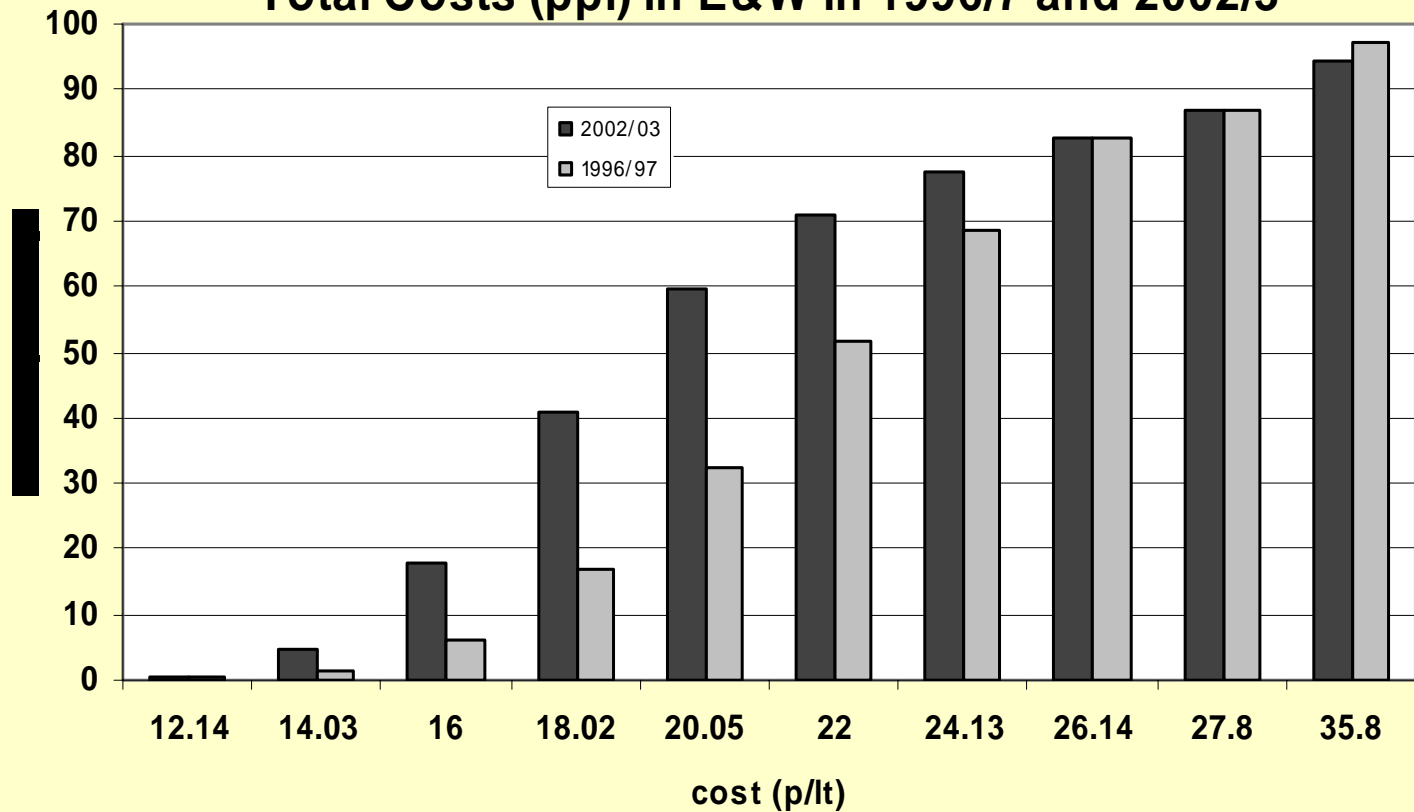


Source of Farming Income US 2001 (dollars per holding).





Implied Cumulative Percentage of Dairy Holdings by Total Costs (ppl) in E&W in 1996/97 and 2002/3





USA Data 2001

Small herds (<50) – Av cost 19.2 ppl

50,000 herds – 64% “not profitable” at 15 ppl

Medium herds (50-199) – Av cost 16.4 ppl

53% “not profitable”

Large herds (200-499) - Av cost 14.75 ppl

8,000 herds – 39% “not profitable”

Industrial-scale (>500) _ Av. cost 12.74 ppl

200+ units – 11% “not profitable”

Source: McElroy et al. (2002) Ag.Income and Finance Outlook, ERS USDA



Broad Conclusions

- 1. EU ag. self-sufficiency will be maintained.**
- 2. Some shift of production from west to east.**
- 3. Higher environmental protection costs in north-west europe.**
- 4. Increasing polarisation between life-style and commercial producers.**
- 5. Real net income from farming continues to fall.**
- 6. More dependency on non-farming income.**
- 7. No major policy shifts until after 2014.**
- 8. Biodiversity and amenity policy should be targeted on non-commercial farms.**