

# Europe's experience with productivity, policy and profits

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# Outline

- A. European Policy platform – DG Agriculture
- B. Productivity Vs. Production
- C. Profit Trends
- D. Summary

# Outline

## A. European Policy platform – DG Agriculture

- Policy objectives
- Payment Structures
- Coupled and Decoupled

## B. Productivity Vs. Production

## C. Profit Trends

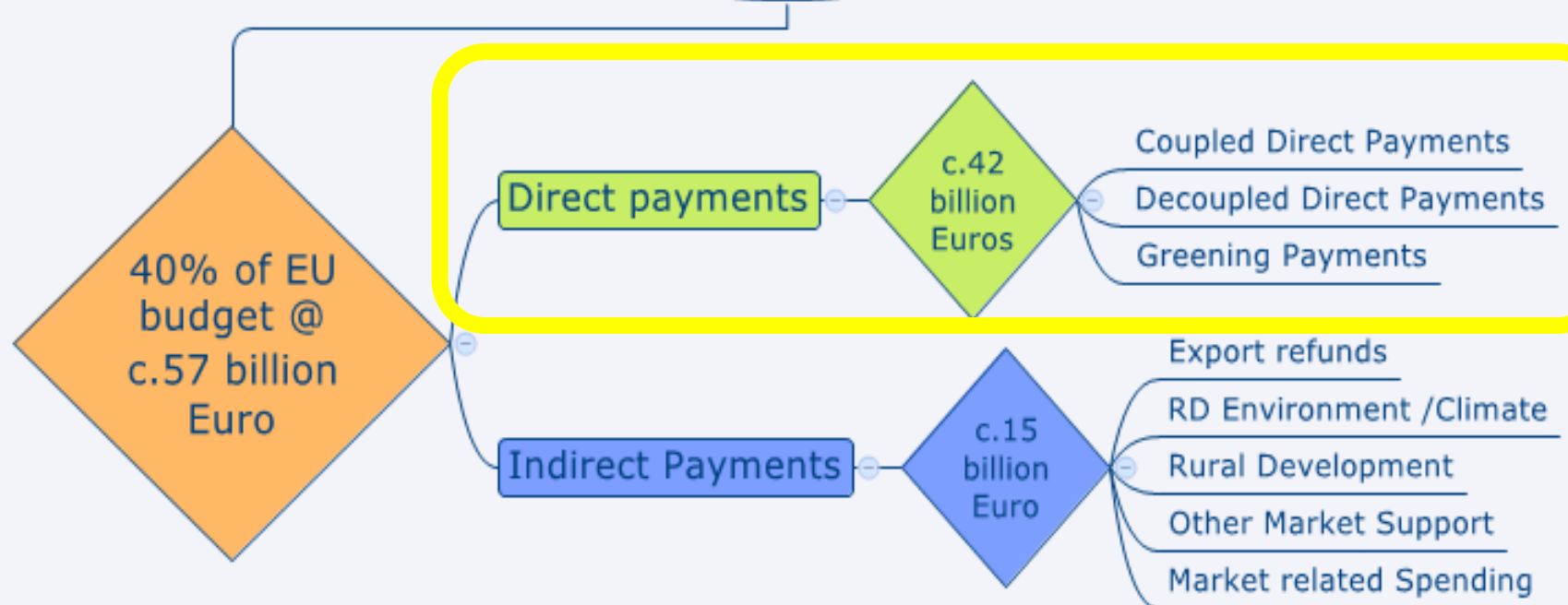
## D. Summary

# A. European Policy platform

## The - preliminary - 2014-2019 European Commission



# EU Agriculture CAP Payments



# What are Decoupled payments?

- Annual payments made to farmers regardless of land use or crop production
- Decoupling is the removal of the link between the receipt of a direct payment and the production of a specific product.
- Decoupled payments are allocated based on historic entitlements
- Introduced in to the CAP 2003

# What are Greening payments?

- Annual payments made to farmers for meeting specific environmental objectives
- Greening payments are established on a link between a farming systems and a range of specific environmental objectives.
- Greening payments are allocated based on farmers delivering environmental practices
- Introduced in to the CAP 2013

# The DG Agri Strategic Objectives

The Common CAP objectives are:

1. Viable food production, with the focus on agricultural income, agricultural productivity and price stability
2. Sustainable management of natural resources and climate action, with a focus on greenhouse gas emissions, biodiversity, soil and water
3. Balanced territorial development, with a focus on rural employment, growth and poverty in rural areas



Productivity, Profit



Environment



Rural Economy



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**PROFIT**



**PLANET**



**PEOPLE**

# Innovation & Policy



- Rapid pace of proliferation of innovations



- Growing adoption of new business models, such as sharing-based, freemium, and subscription-based, leading to increased diversity of competitors



- Industry convergence and blurring of market boundaries



- Deliberate restraint on the part of regulators in order to allow innovations to gain steam



- Growing consumer activism and empowerment

# Talk Outline

A. European Policy platform – DG Agriculture

**B. Productivity Vs. Production**

- The basics – theory revisited
- What's happening? -TFP in Europe

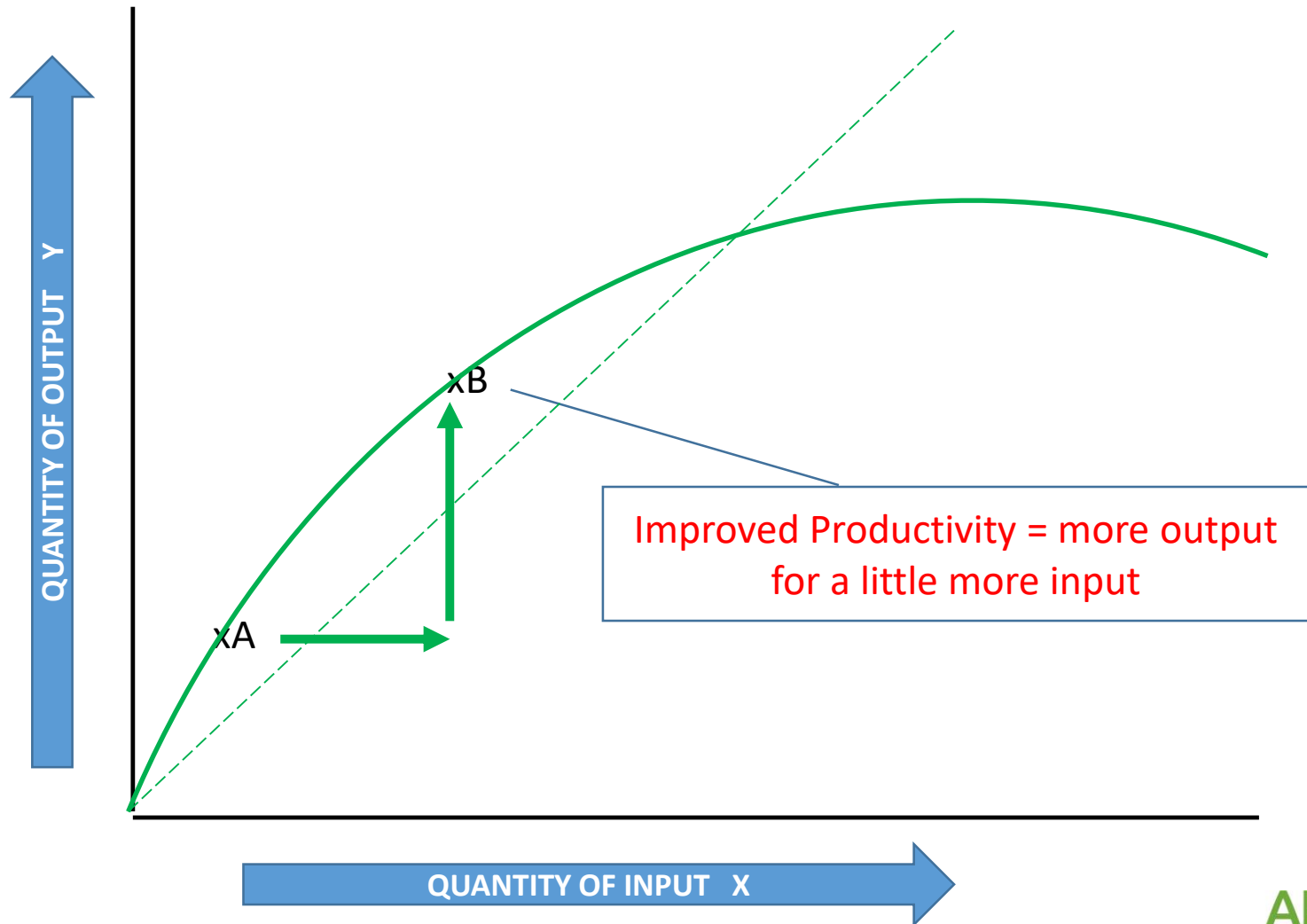
C. Profit Trends

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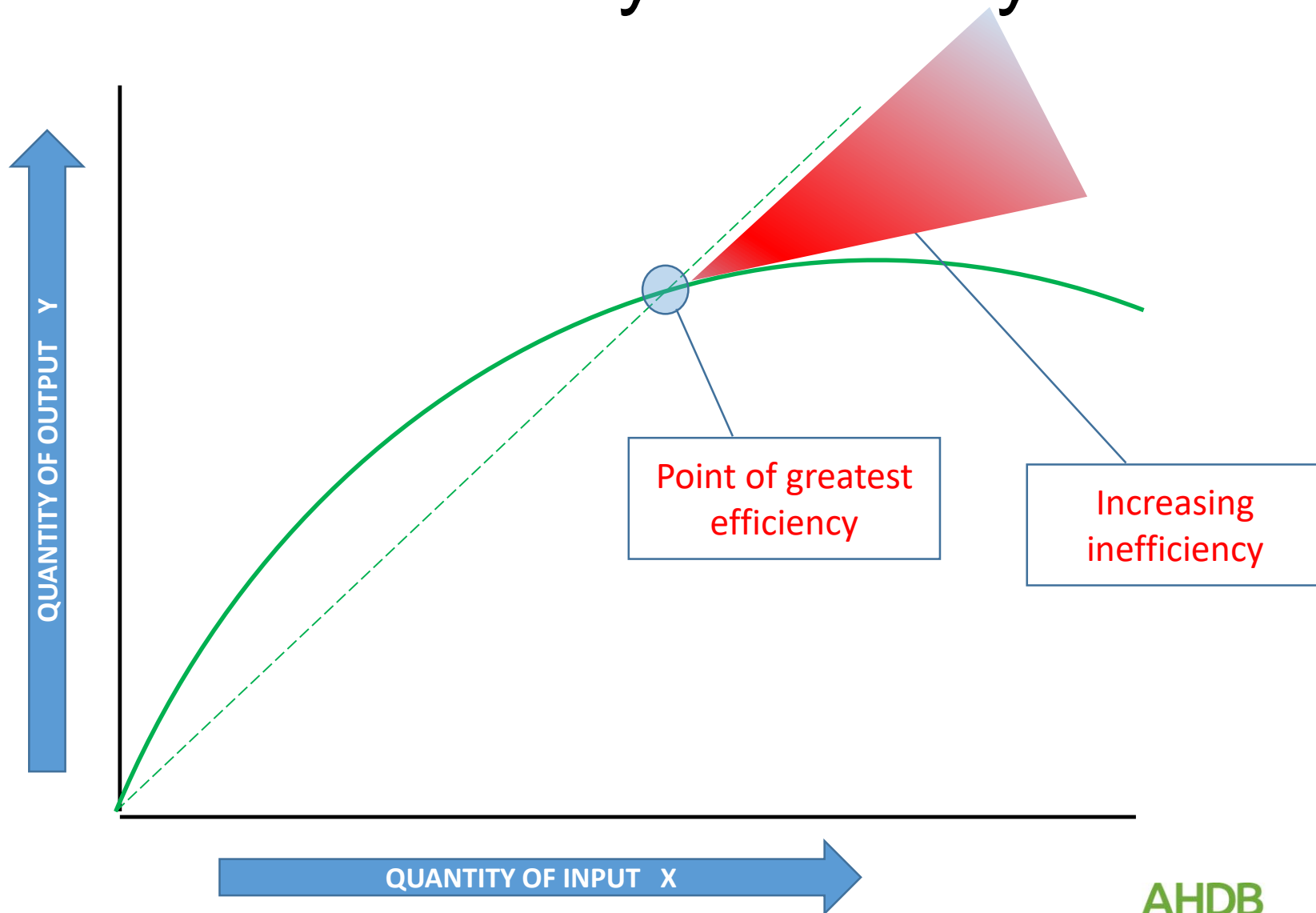
# Productivity Vs Production

- **Production** is the process of generating output regardless of efficiency
  - ***number of units of output***, yield or turnover without considering marginal cost or benefits
- **Productivity** can be defined as the effectiveness of productive effort, efficiency in production
  - ***rate of output per unit of input*** (labour productivity can be measured as units produced per hour of labour used).
- We confuse improved yields or turnover with improved productivity or % returns

# Productivity growth reminder

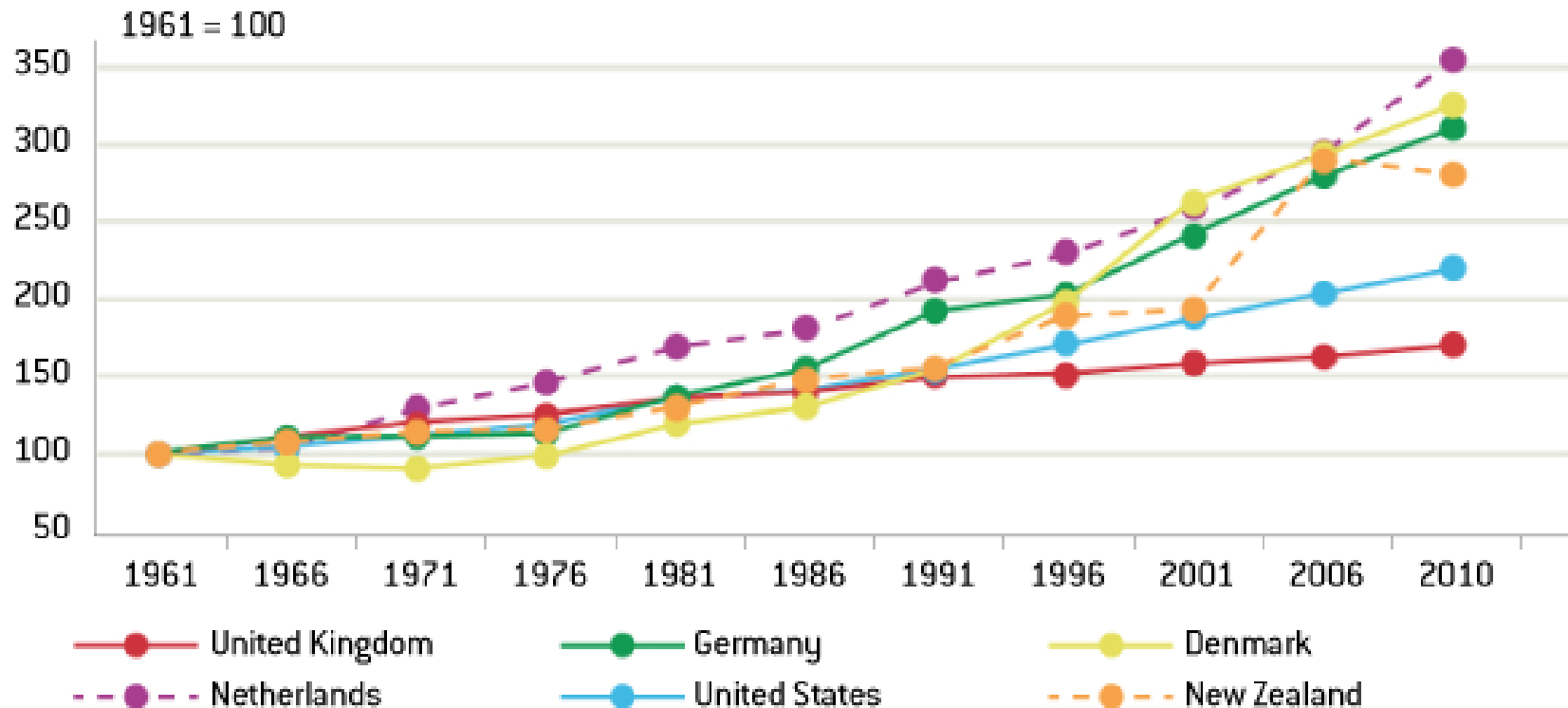


# Productivity efficiency



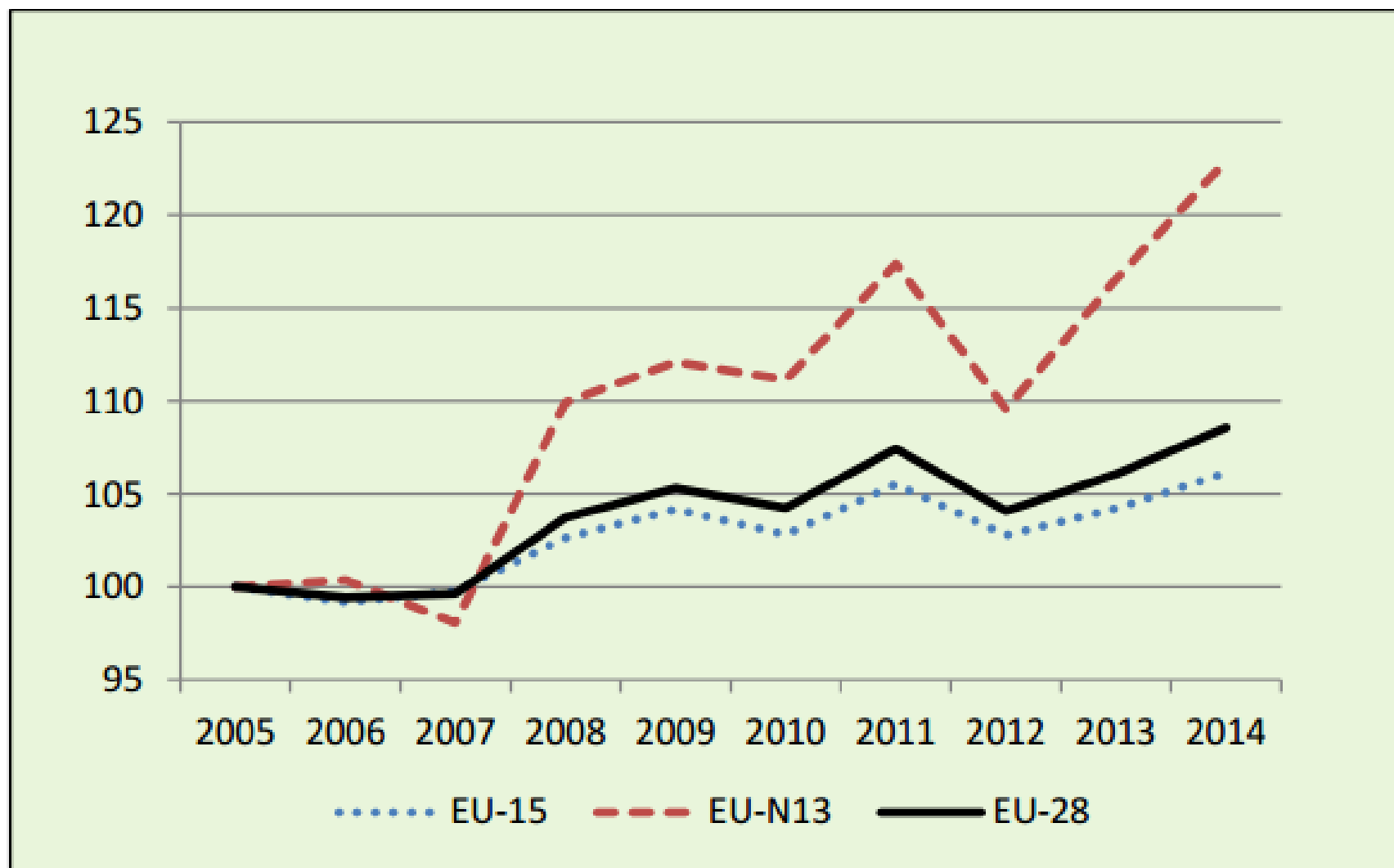
# Long-run Productivity changes

## AGRICULTURAL TOTAL FACTOR PRODUCTIVITY



Source: USDA/FAO

**Chart: EU agricultural total factor productivity index<sup>15</sup>**

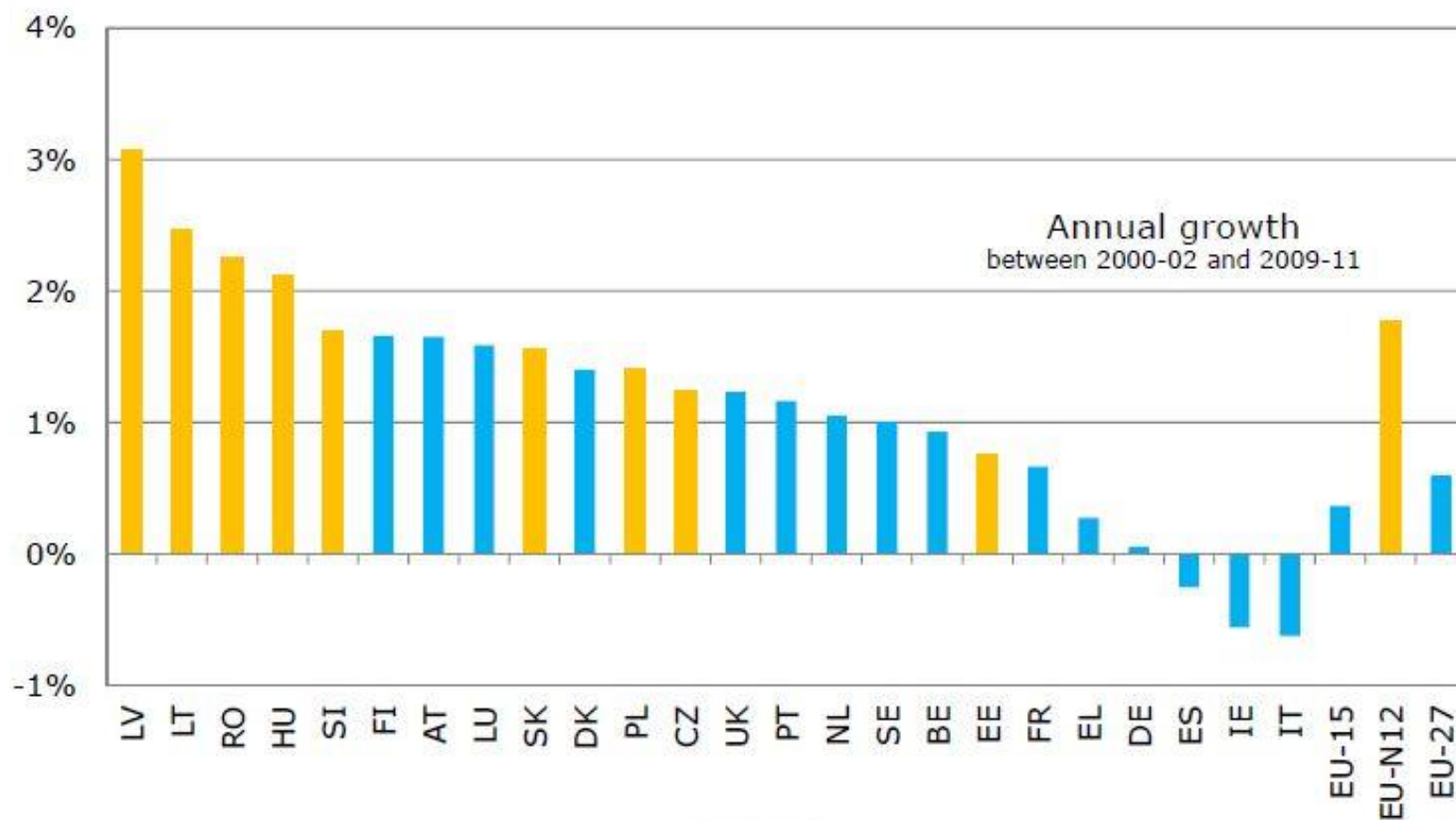


**Source: Eurostat – Economic Accounts for Agriculture, Land Use Survey and FSS**

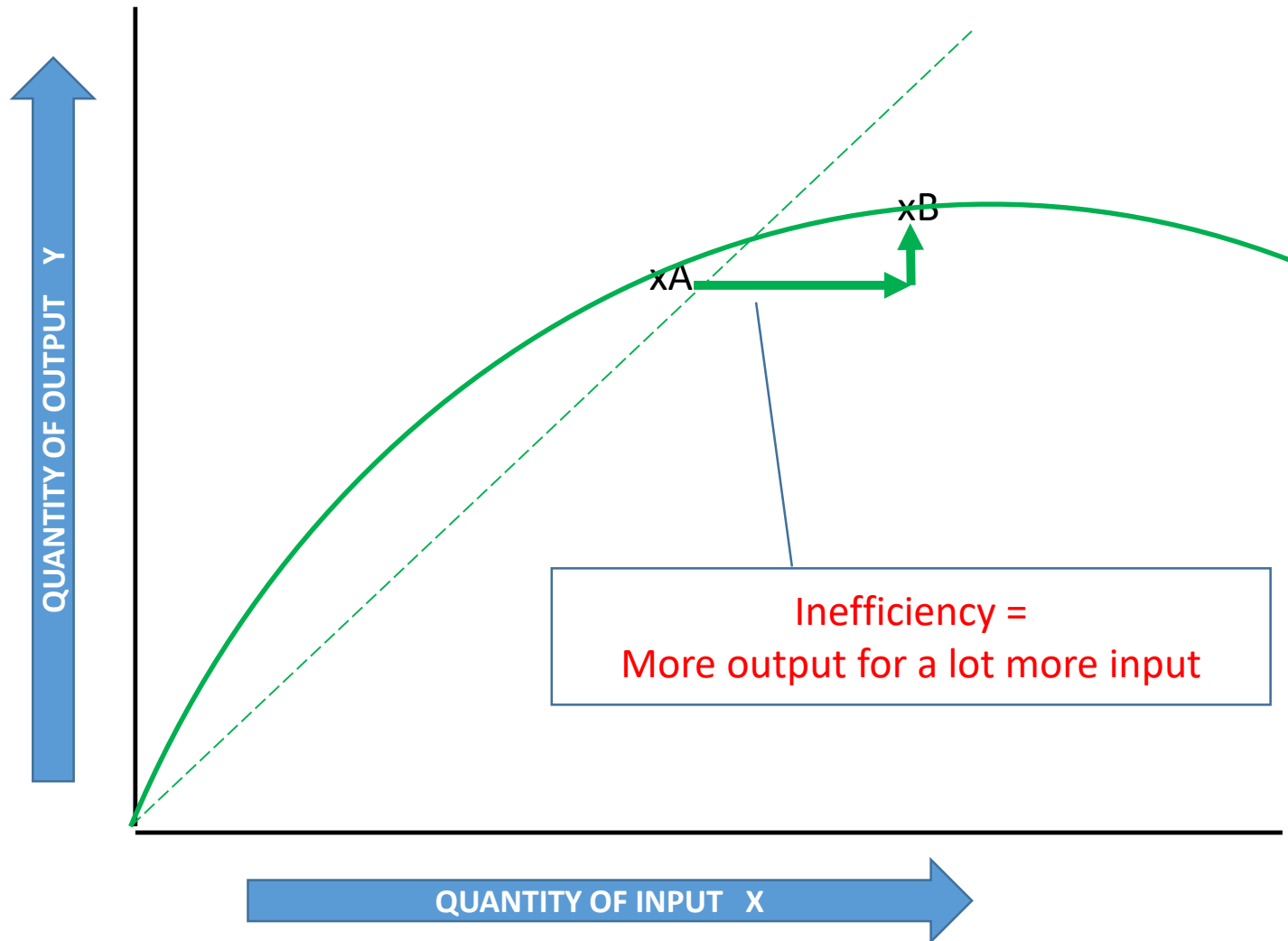
15 = EU-28; Index 2005 = 100, Croatia's reference year is 2007.



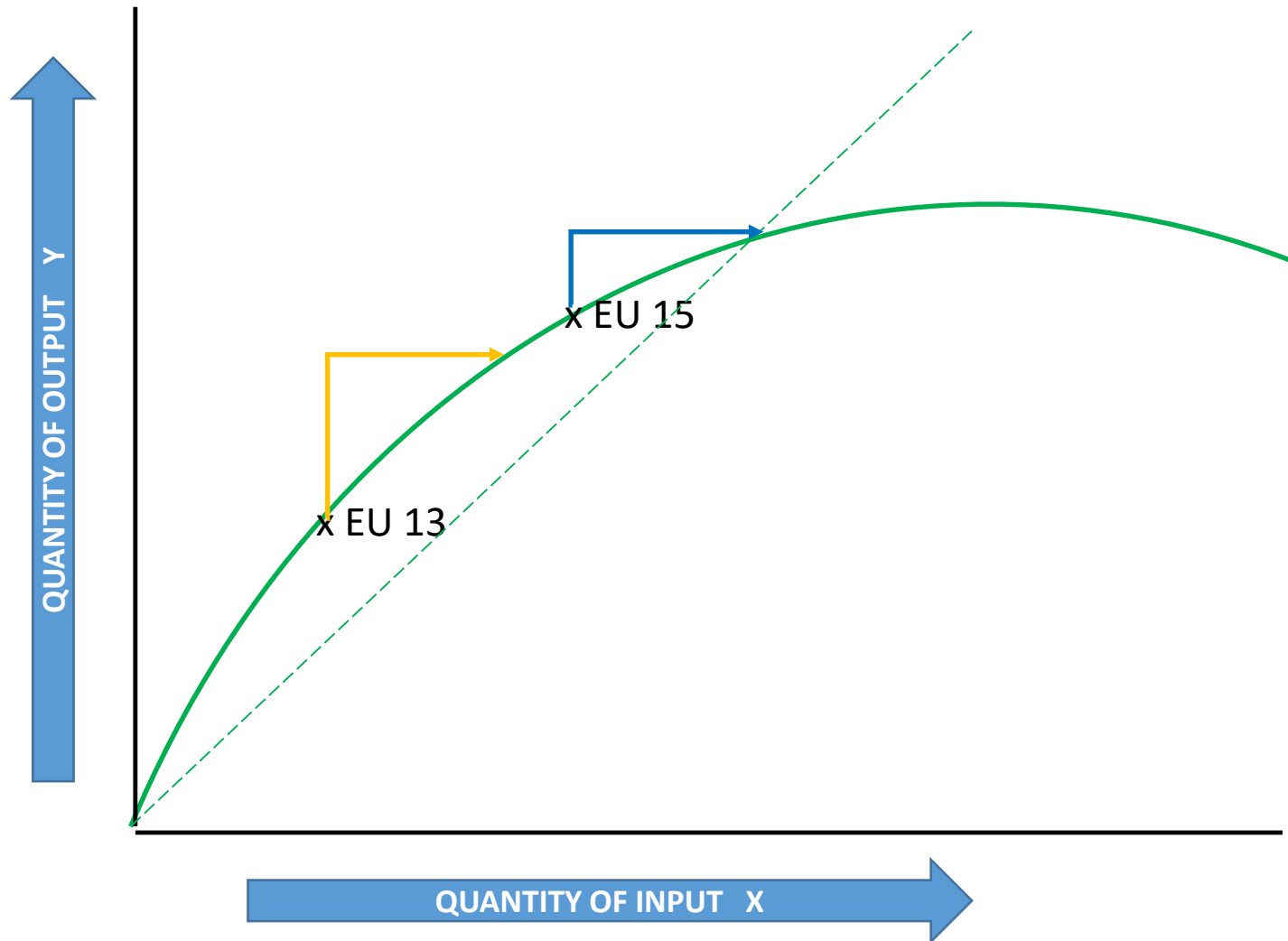
## The higher TFP growth in the EU-12...



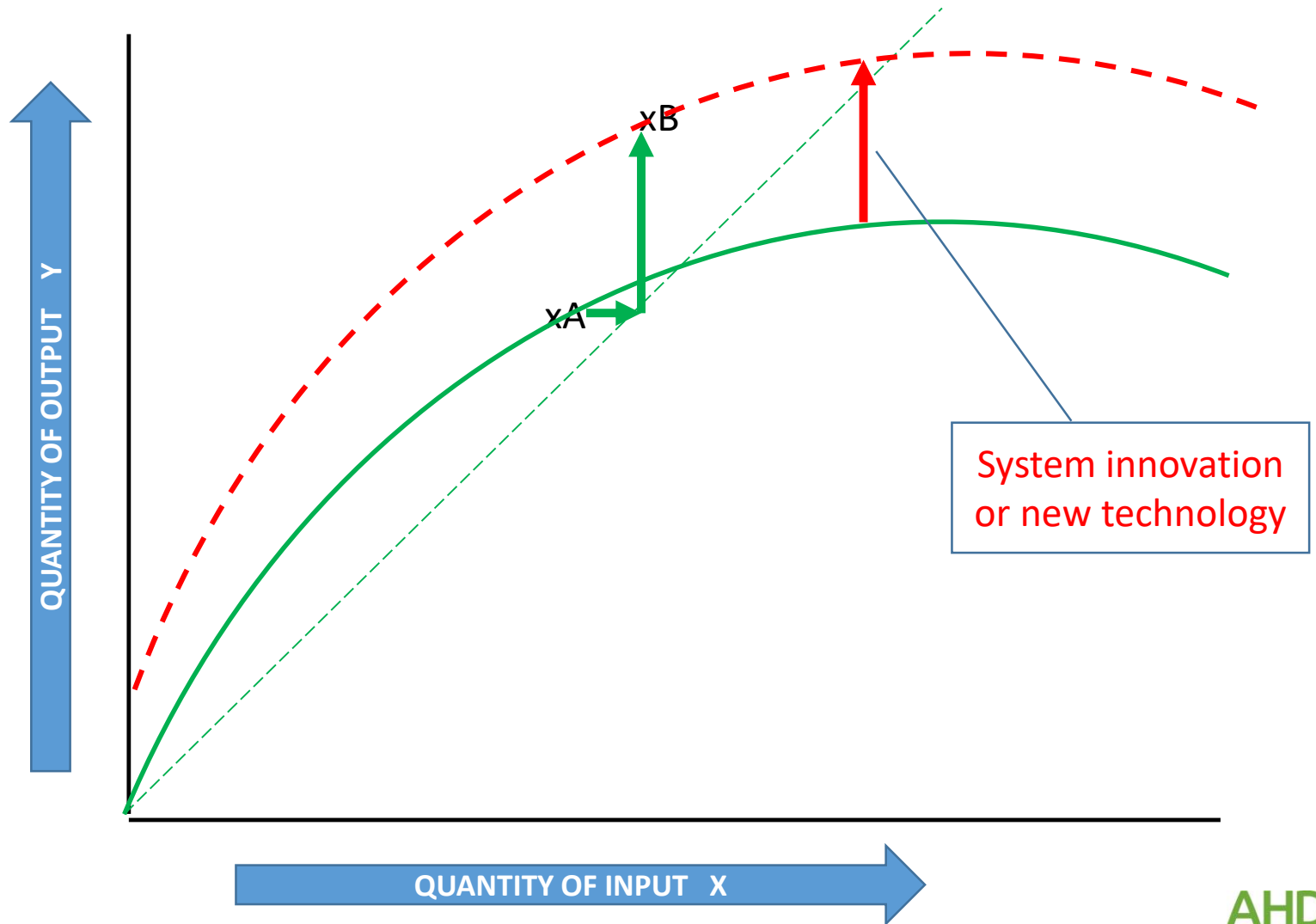
# Productivity efficiency



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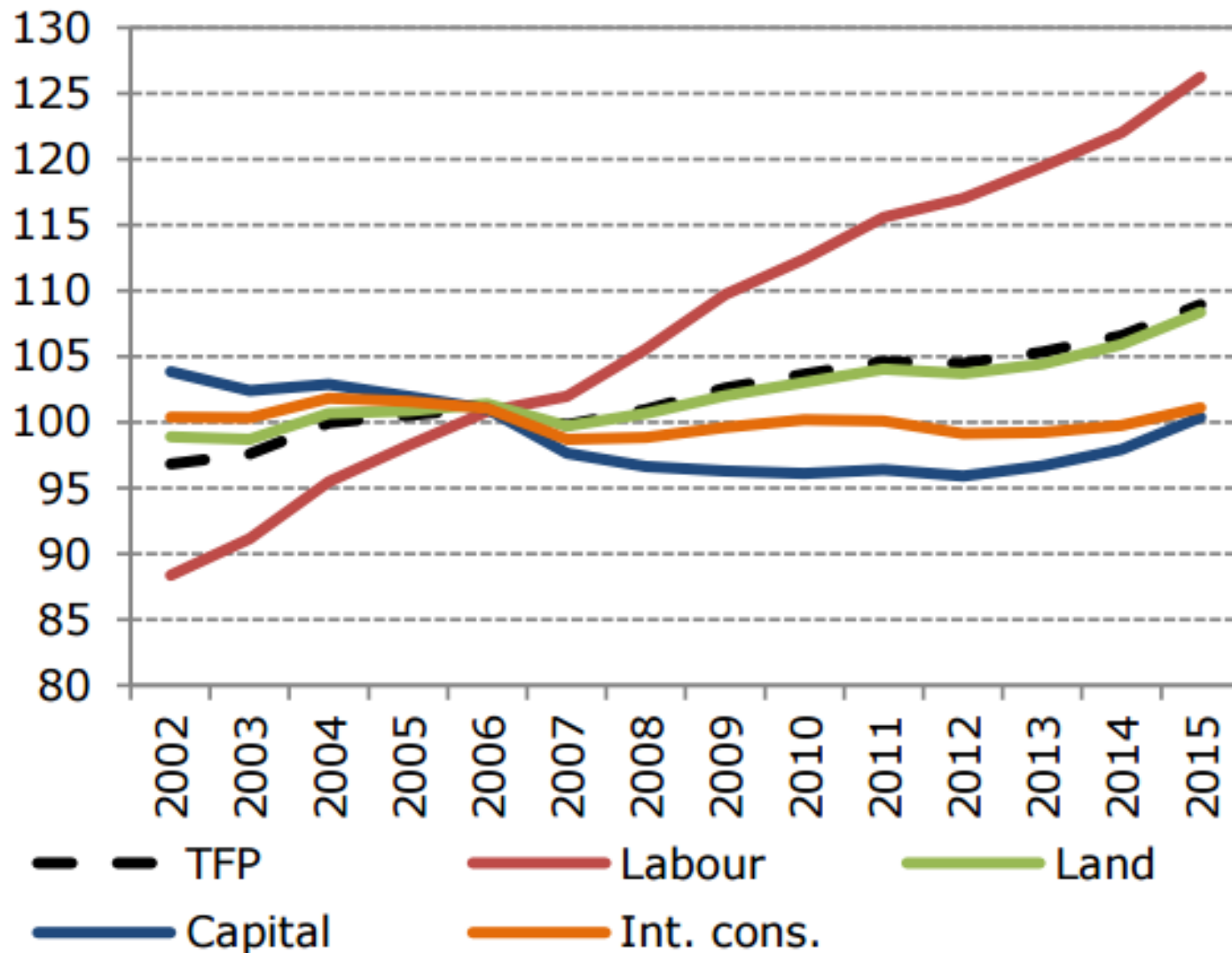
# Productivity Frontiers



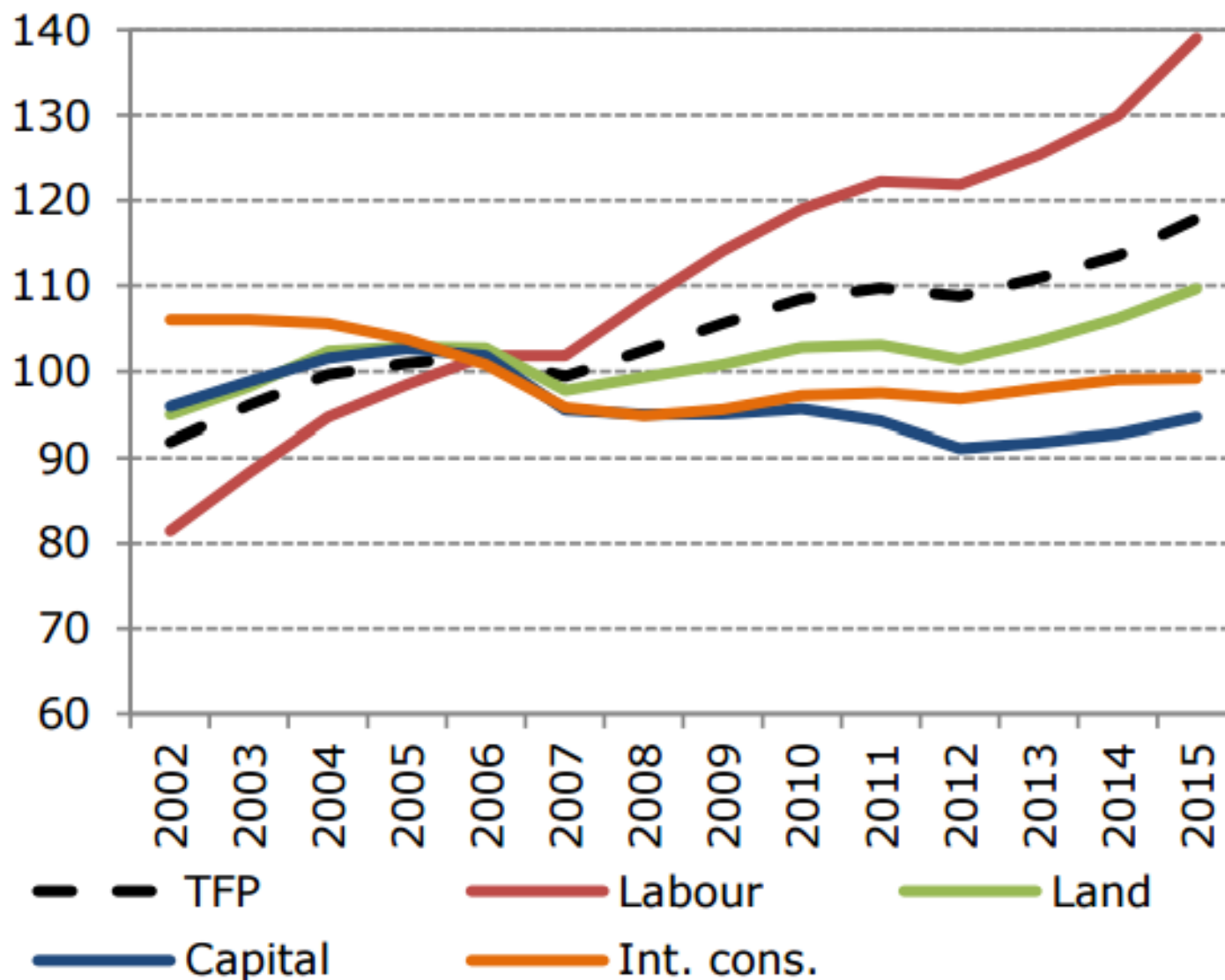
# B. Productivity & Production

- Productivity in the EU has increased over time, but has slowed down in recent years:
  - while annual TFP growth exceeded 1% between 1995 and 2005,
  - it only reached 0.8% between 2005 and 2015
- This does not show how different components of productivity have changed?

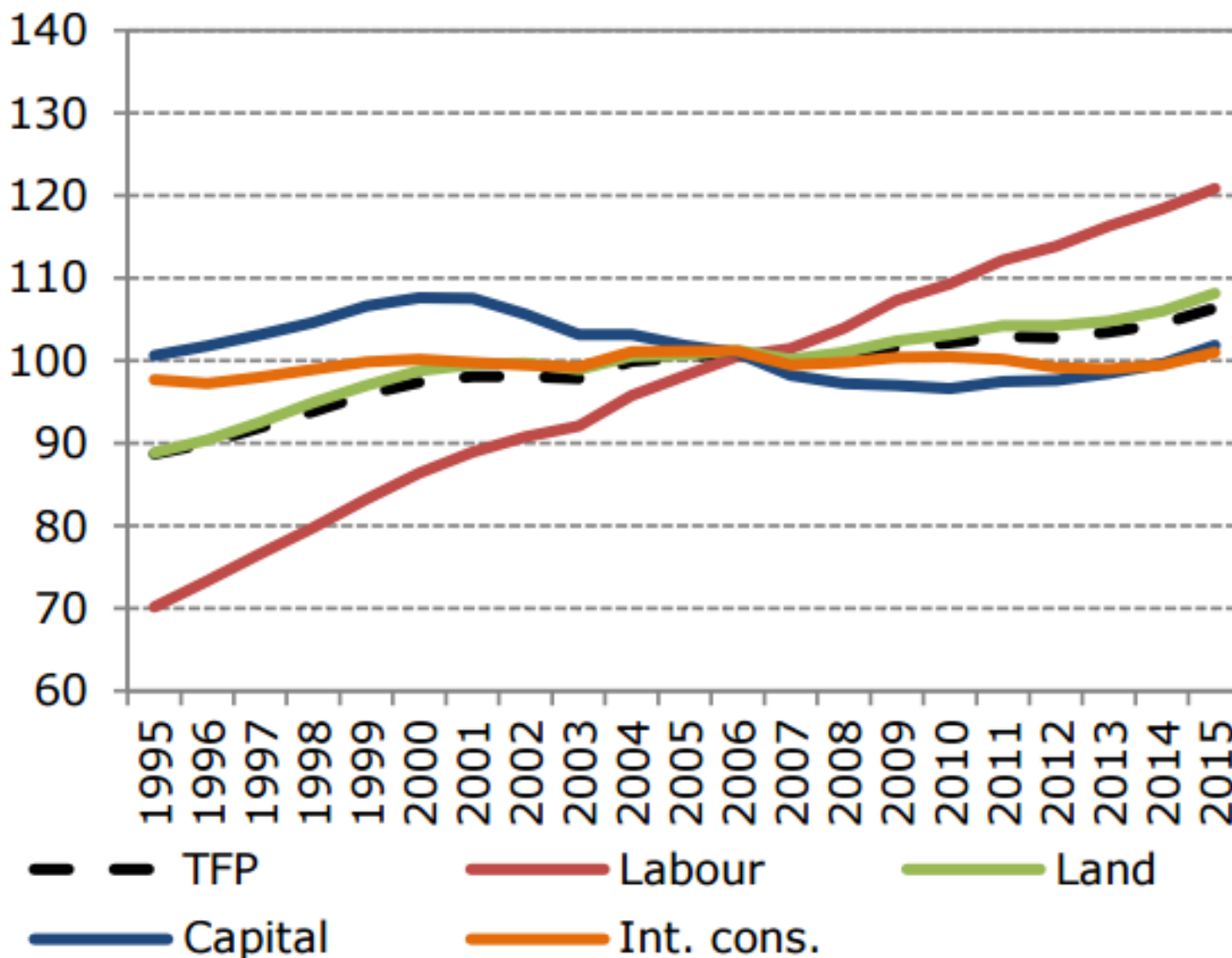
# Total and partial factor productivity in the EU-28



# Total and partial factor productivity in the EU-New13



# Total and partial factor productivity in the EU-Old15

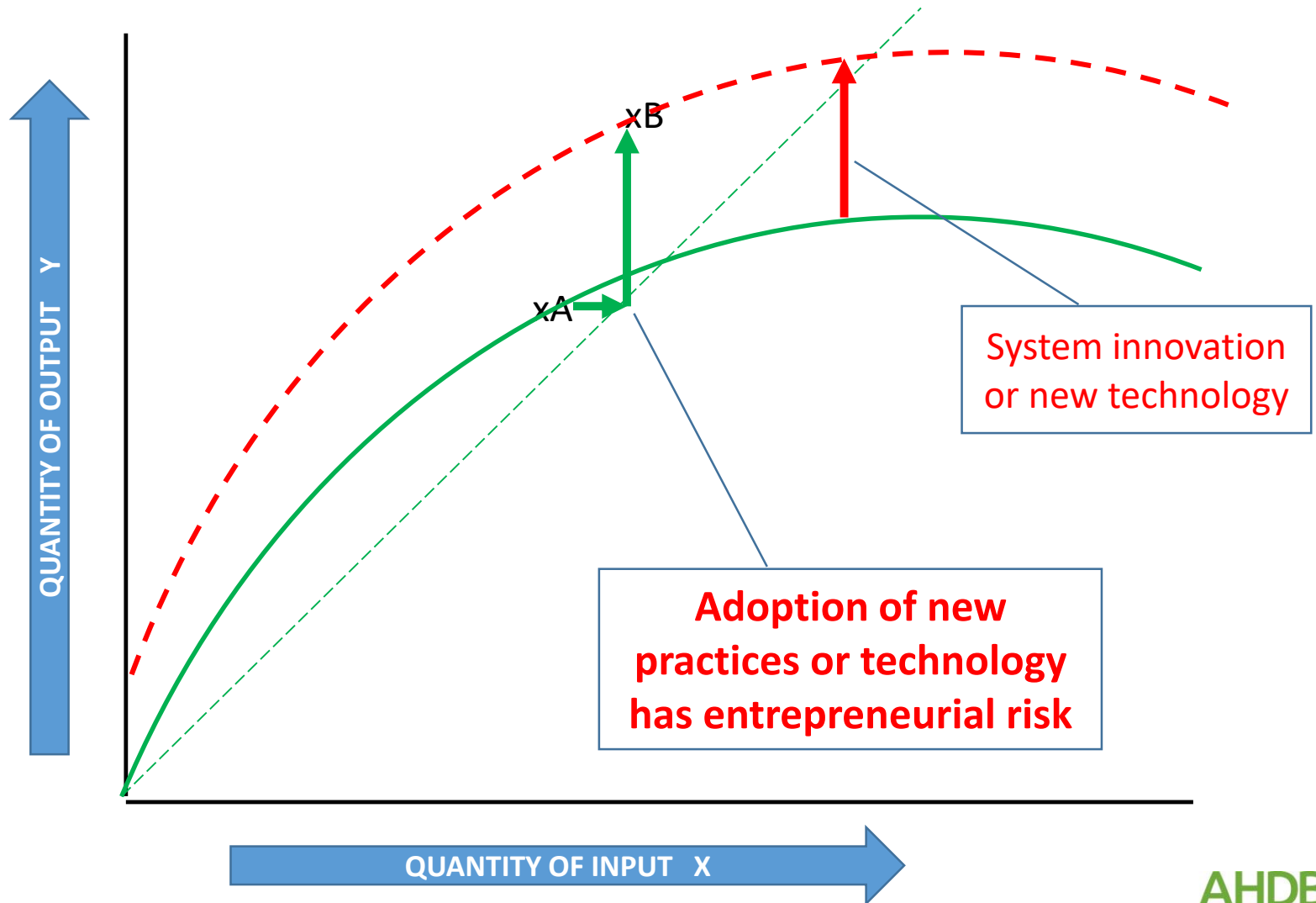




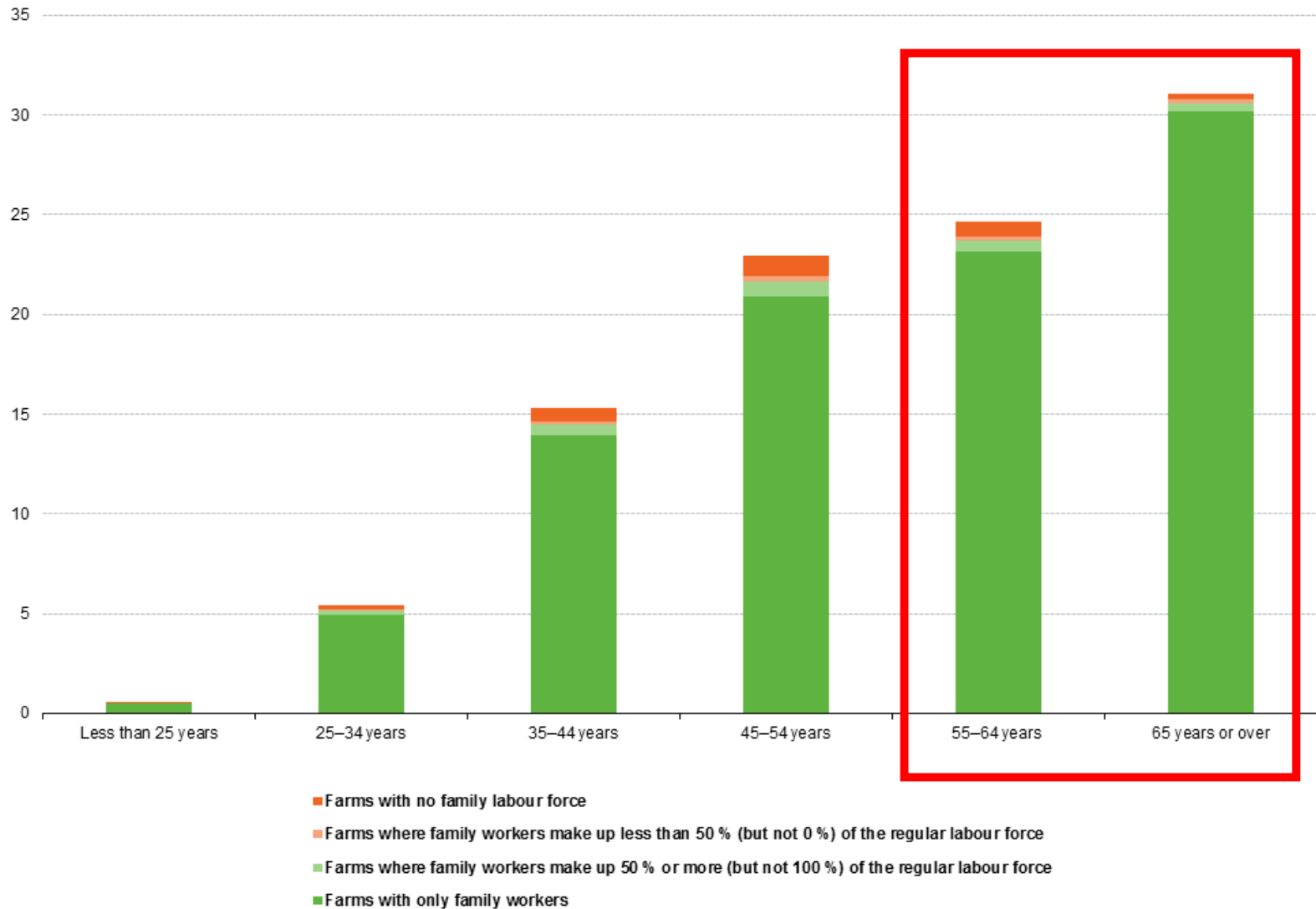
# B. Productivity & Production

- Labour Productivity has improved
  - EU output has grown in the context of a shrinking workforce Since 2005 output increased by 6% while the workforce declined by 25%
- Capital productivity declined
  - Substitution of machinery and building for labour have eroded overall efficiency.
- As an industry farming is becoming more demanding, longer hours and more investment.
- Innovation is the route to productive gains

# Productivity efficiency



# Europe's Aging Farm Managers



# Outline

A. European Policy platform – DG Agriculture

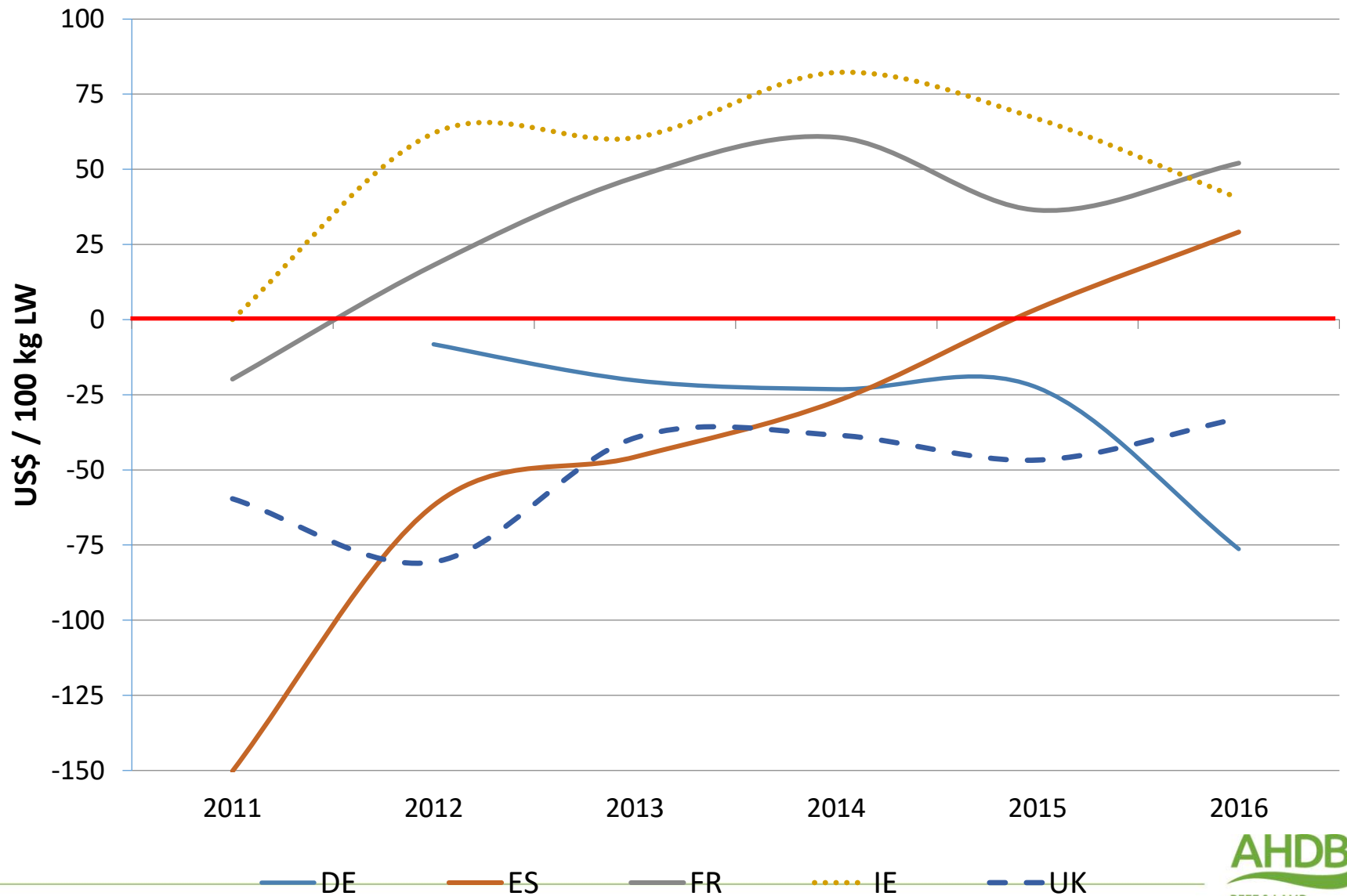
B. Productivity Vs. Production

**C. Profit Trends**

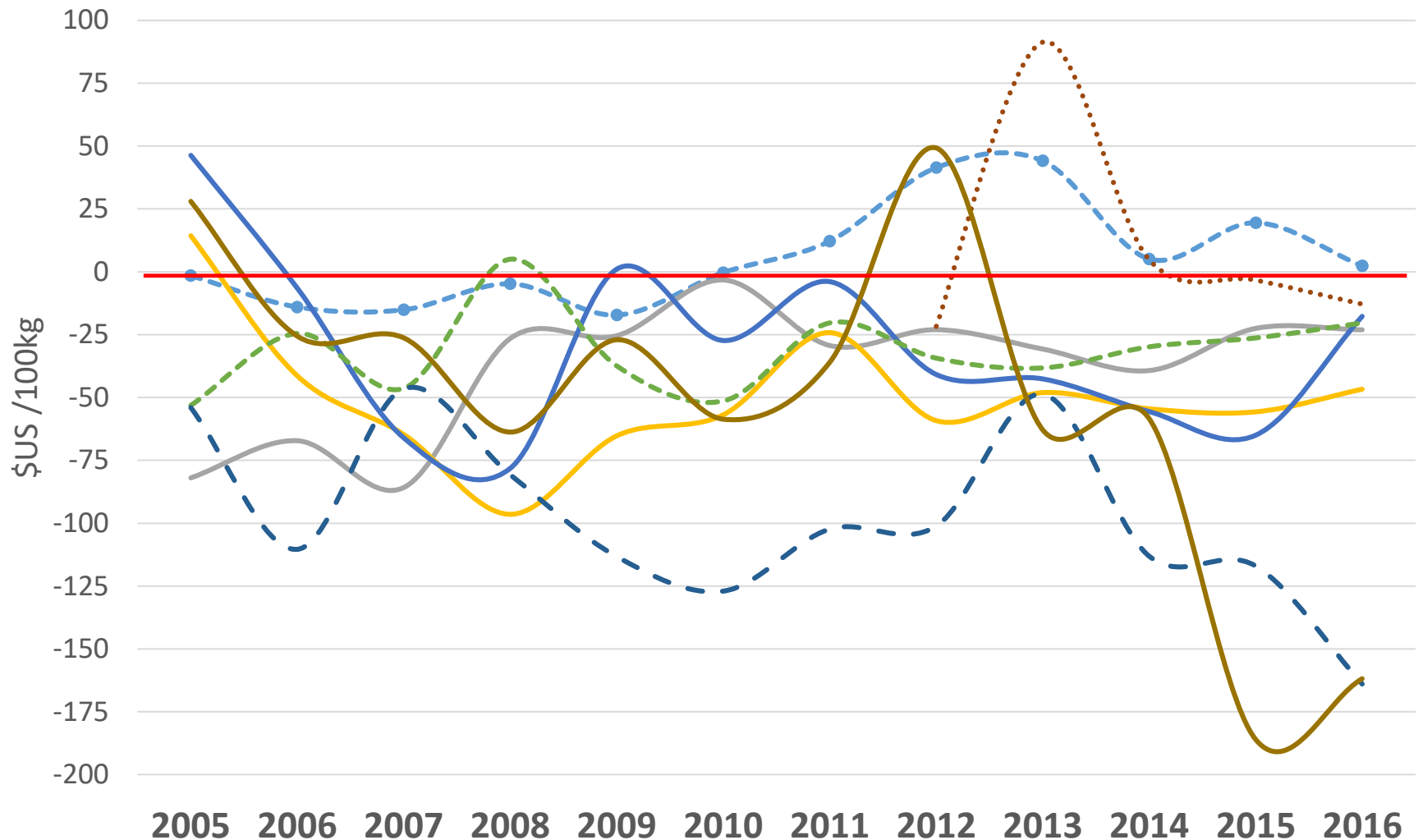
➤ What's happening? - Trends in the EU

D. Summary

# Sheep Meat - Mid-term profitability: (Total Returns - Cash costs – Deprn = MTP)

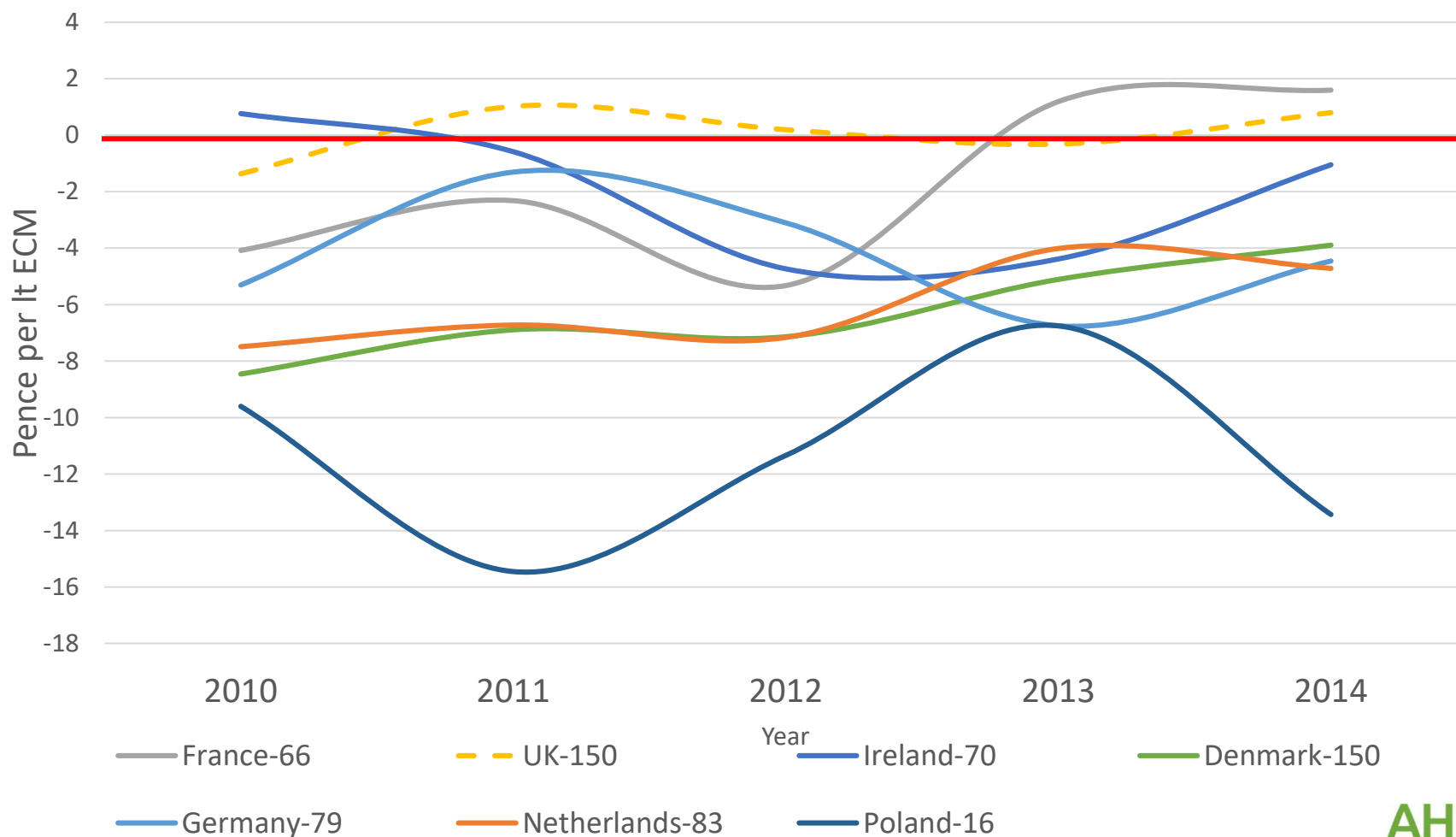


# Beef Finishing - Medium-term Profit in selected EU Countries



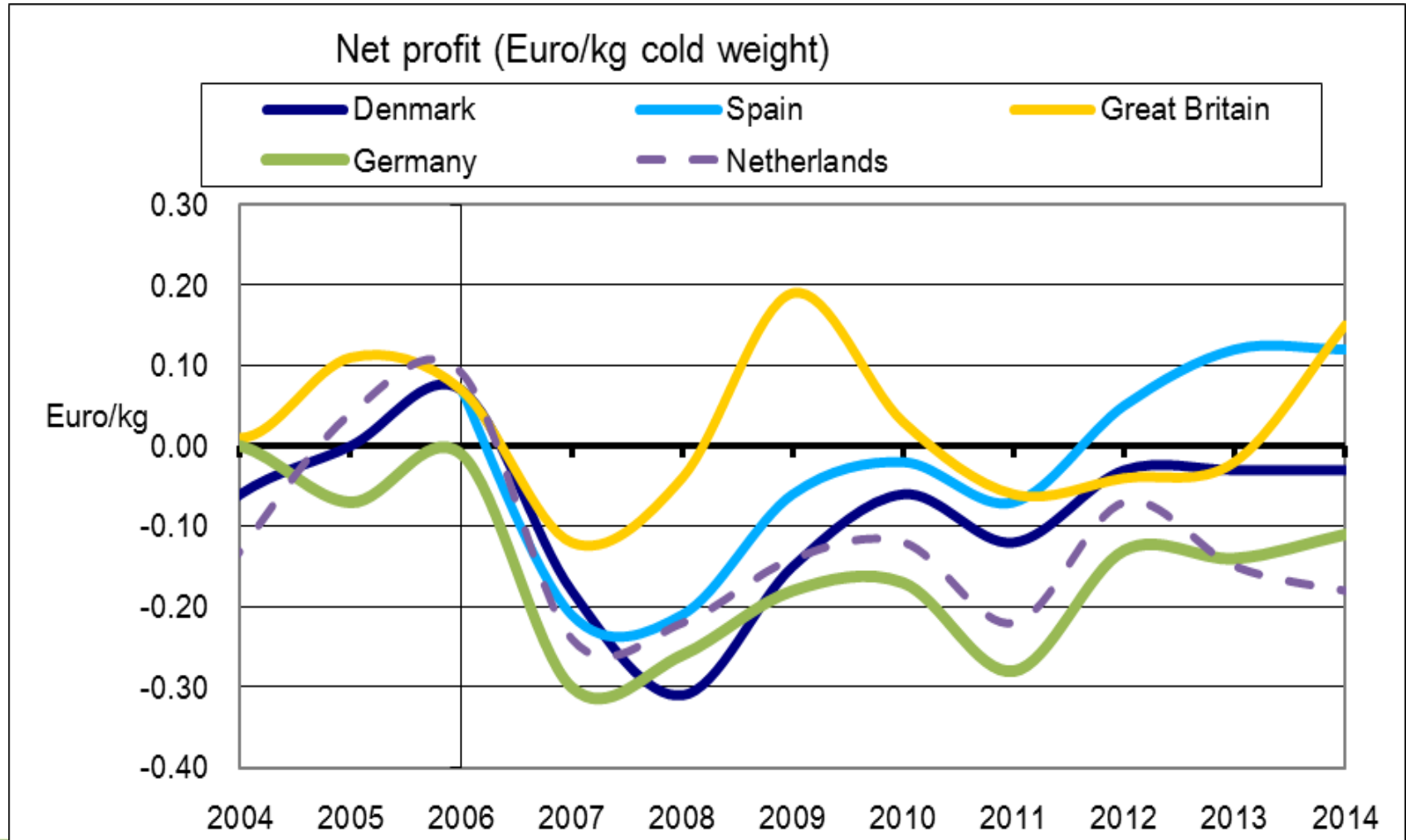
—●— AT — DE — FR — ES — IT — UK ..... IE — PL

# Milk – Long Term Profit in selected EU countries



Source: IFCN

# Pork – Long Term Profit in selected EU countries





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  - What's happening? - Trends in the EU
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# Summary

- EU triple bottom line of People, Planet, Profit
- EU long term profit from Beef and Lamb is weak
  - Often production is sustained by undervaluing own labour or assets.
  - This seems to apply to other livestock products
- EU policy of subsidy allows producers to continue
  - This might be at the expense of innovation, productivity developments and succession.

# Summary

- Productivity gains of the future will come from new technologies and innovative practices not bigger yields or more output
- Adoption of changes in farming practices will be lead by farming entrepreneurs
- The industry is developing succession problems
- A question for policy makers to consider is to what extent do decoupled payments
  - depress farmers risk appetite?
  - and inhibit good succession?

Thank you  
&  
Questions?