# The Economic Downturn - The Challenge for Agriculture

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The last twelve months have changed the economic and political landscape in Europe and the wider world. This upheaval is far from over and there is a need for constant re-assessment of the situation and the implications for different interests in civil society, including the environment. In this briefing, we examine some of the possible impacts of the economic downturn on the agricultural sector, and some of the implications for the policy environment. We analyse the way in which agriculture is being factored into the current set of economic recovery plans, and how comfortably the sector could sit within any future 'Green New Deal', promoted by some as providing the means to unite long term economic recovery with environmental protection. Ensuring the more environmentally sustainable use of agricultural land in the future, however, requires enough foresight to look beyond the more immediate threats borne by the downturn. From this perspective, we need to ensure that the future agricultural policy framework and budget are fit for responding to the increasingly urgent challenges that lie ahead, such as our ability to feed ourselves, the need to shift to a less carbon intensive economy, and to continue to enhance the protection of biodiversity and natural resources.

**The Emerging Impact of the Economic Downturn on Farming and Food Prices**

There are good reasons to maintain confidence in the EU's farming sector this year, amid the ongoing economic downturn. Food is a non-discretionary item of household expenditure and demand for agricultural commodities is thus likely to be maintained, to the benefit of farmers and the upstream food processing industry. In some sectors, such as cereals, agricultural incomes also rose in 2007 and 2008 when a short-term rise in commodity prices propelled higher returns, providing some farmers with the opportunity to re-invest in their businesses[i]. The price of inputs has also declined somewhat from the highs of 2008, in line with the fall in energy prices, although these remain subject to some volatility.

However, there are also reasons for concern. The growth in income in 2007 and 2008 was not shared by all sectors. In the UK, for example, livestock farmers were expected to experience a decline in income in 2007-2008 (Defra, 2008), whilst the forecast income from farming in the UK for 2008-2009 is expected to fall by 8% (Agra Europe, 2009a). The downturn may influence consumer purchasing behaviour, to the benefit of some farmers, but may also create financial stress for others. For example, consumer demand may decline for higher value added premium products, such as those that are produced to organic or high animal welfare standards[ii]. It has also been reported that some UK farmers may fail to stay in business this year because of a struggle to access credit (BBC News, 2009). Evidence also shows that the price of farmland is falling in some parts of Europe. In the UK, the value of farmland fell by 5.2% in the final quarter of 2008, with a further fall of 6% forecast for 2009, mainly as a result of decreased demand from lifestyle buyers (FT, 2009). The price of farmland in Ireland fell by 17% in 2008 (Agra Europe, 2009b). It is unclear whether these examples are symptomatic of a European-wide trend. Whilst a reduction in the cost of farmland may benefit new entrants to the profession, it signals the onset of a broad decline in asset value, as witnessed in other sectors of the economy.

The economic outlook for farming is far less buoyant than it was one year ago. The prices of agricultural commodities have dropped since their peak in 2007 and early 2008[iii]. For example, the price of soft wheat declined from €260 per tonne to €135 per tonne between March 2008 and January 2009 (Fischer Boel, 2009). Whilst this may weaken the relative economic performance of farming this year, a drop in commodity prices should benefit consumers. At its peak, high commodity prices drove up consumer food prices, leading to a decrease in EU household purchasing power by around 1%, and impacting the most on the 16% of EU citizens who live below the poverty threshold (CEC, 2008).

Whilst prices have declined from their recent historic high, there is some agreement among the key institutions involved in forecasting agricultural markets that, in the coming ten years, the prices of agricultural commodities will remain at a higher average level than over the past decade (CEC, 2008; OECD-FAO, 2008)[iv]. In the current economic climate uncertainties remain about future price developments, although analysts share the view that the price of commodities will continue to remain volatile, due to an array of factors, with knock-on impacts for farm-gate prices and the cost of food to consumers. These factors include short-term weather related supply shocks, but also changes of a more far-reaching, structural nature, which are likely to be among the dominant influences on the profitability of farming and the cost and availability of food in the longer term. These include the continuing increase in demand for biofuel feedstocks, a rising world population and changing consumption habits, most notably the greater demand for meat and dairy products in countries such as China, the levelling out of cereal yields, volatile oil prices and climate change (CEC, 2008).

This analysis suggests that income from farming and the price of food to consumers are likely to be subject to some fluctuation, and some uncertainty, this year and in the years ahead. This can only partly be attributed to the impacts triggered by the economic downturn, as there are other structural changes at play which will provide a stronger and longer lasting influence on farm management and farming income.

**Policy Challenges**

The economic downturn presents both opportunities and threats to the broader agricultural policy environment. A deteriorating economic situation may provide an excuse to increase protectionism, and, potentially, to delay the implementation of legislation and other efforts geared towards making environmental progress. As national budgets tighten, there may also be implications for agricultural spending.

*A shift to greater protectionism*

The recent direction of travel within the EU has been to introduce reforms to make its farmers more competitive on the world stage. Market management measures, such as the use of export subsidies and the buying up of excess stocks, became unfashionable policy tools at the time of the 2003 reform, not least due to pressure from the international community through the WTO. However, the current economic climate may be deterring progress towards further market liberalisation in the ongoing Doha Round of world trade talks (Barbier, 2009). Furthermore, the use of protectionist measures is regaining some ground in response to market volatility. Earlier this year, for example, the EU re-introduced export refunds for the dairy sector in response to declining market prices (CEC, 2009)[v]. Protests by farmers in Greece in January also led to their government putting together a €500m aid package (Agra Facts, 2009). Whilst isolated examples, these provide an indication that a long term political desire to open markets - and so contribute to efforts to encourage trade with developing countries and promote poverty alleviation - may continue to be rebalanced by the use of short term protectionist measures.

*A potential crisis of regulation*

Regulation forms a central plank of public policy by establishing the standards that farmers are expected to meet in undertaking agricultural management. Regulation serves to pass the cost of meeting standards to the farmer, in line with the Polluter Pays Principle. Within the EU context, farmer lobby groups often complain about the cost of meeting demanding EU standards. In an economic downturn, a strategy of government may be to postpone the introduction of new legislation and hence defer the point at which the farmer would need to incur further costs. This is a speculative proposition, but if enacted, may slow progress towards alleviating some of agriculture's negative environmental impacts.

*Mixed messages for funding*

Potentially signalling the onset of a broader crisis for agricultural funding in Europe, Ireland announced in December 2008 that it would slash spending on rural development measures in 2009. Reductions have been made to Less Favoured Area payments, whilst the early retirement scheme and grants for new entrants have been suspended (Agra Facts, 2008). However, the current economic situation may also provide governments the opportunity to re-prioritise agricultural spending, as shown by examples from Hungary and the USA.

The new Member States are allowed to provide national funding in addition to their EU allocation in order to boost the value of the Single Payment Scheme. In January

2009, Hungary announced that it will reduce the amount of additional national money it spends in the way by 40% this year (Agra Europe, 2009c). The remaining funding will be focussed at livestock farming, which is in the worst position economically, thus potentially helping to secure the maintenance of livestock systems located in more economically marginal and environmentally fragile areas.

In the USA, President Obama has proposed to address a growing national budget deficit by revising the 2008 Farm Bill. The most recent budget proposal calls for the phasing out of direct payments to farmers with annual sales of over US$ 500,000 and reducing support for cotton storage. Whilst reducing the overall agricultural budget, under the proposal, funding would be increased for conservation and rural renewable energy projects (ICTSD, 2009). This proposal is likely to come up against extremely stiff opposition in Congress.

The extent to which the financial crisis will impact on EU funding in the longer term is a matter of some speculation, with the current budget reasonably firm until 2013. However, with the EU budget review being conducted in a time of economic austerity, the expectation expressed during last year's stakeholder consultation that expenditure on agriculture should be reduced for the period from 2014 may gain further ground. Viewed in a positive light, the economic downturn may add further impetus for policymakers to re-evaluate the uses to which agricultural expenditure is put, and to re-focus it where it might provide the greatest level of benefit.

**The Policy Response: 'Green' Stimulus Packages**

The response of many governments to the tumultuous market conditions of the past 12 months is to re-invigorate the economy with recovery plans, seeking to maintain and create jobs, and to stimulate economic growth. The focus of intervention of many governments is therefore to prop up those sectors that are viewed as strategically important, such as the financial sector and the automotive industry. Numerous calls are now being made by a range of institutions and think-tanks to ensure that national stimulus packages do not only solve short term monetary problems, such as access to credit, but act to embolden a strategy that links economic recovery with longer term environmental sustainability (Barbier, 2009; Bowen *et al.*, 2009; E3G, 2009; Center for American Progress, 2008). It is recognised that these packages come at a critical moment in the timeframe for responding to climate change in particular. A key idea behind 'greening' stimulus packages - which are set to reach a global total value of US$2 trillion to US$3 trillion (Bowen *et al.*, 2009; HSBC Global Research, 2009) - is to ensure the opportunity is taken to support the transition to a low carbon economy.

The EU Member States are planning a stimulus totalling at least 1.5% of GDP (€200 billion), as detailed in the European Economic Recovery Plan[vi]. The Plan, subject to ongoing discussion, is set to be approved at the Spring European Council on 19-20 March. There is a rural element to the proposed Plan. At the time of writing, a total of €1bn is likely to be set aside for stimulating the expansion of broadband internet access in rural areas[vii]. A further €0.5bn may be allocated to the 'new challenges' identified by the 2008 CAP Health Check, although the exact figure remains subject to revision.

The provision of additional funding for these challenges - climate change adaptation and mitigation, renewable energy, water management, biodiversity conservation, and the restructuring of the dairy sector - should represent a 'green' element of the economic recovery plan, if it features in the final agreement. Along with the additional funds for the new challenges generated by the shift to a higher rate of compulsory modulation, the budgetary framework for the rural development sphere of the CAP appears to be somewhat stronger than it was before the Health Check and the onset of the economic downturn.

**The Case for a 'Green' New Deal**

The current economic recovery plans provide a short-term, reasonably targeted stimulus for creating jobs and boosting the economy. There is a second, more radical school of thought that calls for the fundamental and long-term re-orientation of the global economy to a model that firmly embeds environmental security in a strategy of wealth generation. The mix of policies this requires has been termed the 'Green New Deal', although the range of ideas this term encapsulates remains somewhat fluid[viii]. According to its proponents - primarily Barbier (2009) and the New Economics Foundation (2008), although the term was earlier used by Friedman (2007) - the financial collapse, environmental degradation, water and ecological scarcity, dependence on fossil fuels, poverty alleviation and climate change provide the key global challenges of our time. They are overlapping challenges that require urgent, sustained and co-ordinated action. The New Economics Foundation (2008) suggests that the policies put in place by the Green New Deal should address climate change by, for example, improving energy efficiency and providing investment in research and development. Barbier (2009) broadens its remit to the protection of ecosystems and the alleviation of poverty. Others have since supported the concept (for example, the chair of the Environment Agency for England and Wales (EA, 2008)), whilst others have highlighted that it does not necessarily provide a 'single solution' to the economic and climate crises (The Economist, 2008).

The Green New Deal arguably promotes a critique of contemporary capitalism, and in some ways is aligned to longer established concepts such as ecological modernisation (Mol, 2001). However, a conceptualisation of the policy instruments that might be appropriate to enacting the Green New Deal remains somewhat vague, with the examples given largely similar to those featured within 'green' economic recovery plans.

The relevance of the Green New Deal to the rural land use sector remains to be seen. In terms of its environmental component, in many ways the Green New Deal does not represent a radical departure from the current policy framework. There is a high level of state intervention in agriculture, which has boosted productivity, and alongside regulation, has, over time, sought to internalise the negative environmental externalities inherent to the agricultural production process and compensate for the provision of environmental benefits. Given that employment in the agricultural sector and its contribution to GDP have declined, the relevance of the rural land use sector to the other components of the Green New Deal - job creation and wealth generation – appears weak. However, it may be relevant to the development of the broader, diversified rural economy, in terms of, for example, providing local, renewable forms of energy and heating, and potentially, jobs and other sources of income. Again, however, the rural development Pillar of the CAP already pursues these kinds of objectives.

## Looking Beyond the Downturn – A Conclusion

The agricultural and rural land use sectors are not insulated from broader economic change. The current downturn may result in financial stress for some farm businesses, as a result of changing consumption habits, and in some places, reductions to agricultural funding. There are also some more positive signs. The economic downturn is, for example, pushing governments to re-evaluate how a diminishing agricultural budget can best be spent, as demonstrated by recent developments in Hungary and the USA.

It is important that sustained economic growth should be united with environmental security in all parts of the economy. This is the key message offered by the proponents of the Green New Deal and by those arguing for green economic recovery plans. Within the rural land use sector, many of the policy measures to ally economic activity with the production of environmental benefits are already in place, but they need to be implemented effectively, with sufficient levels of uptake and funding to ensure that objectives are being met. Thus, one priority for those with a stake in European agricultural and rural policy is to look beyond the more immediate threats borne by the downturn, and to ensure that the future agricultural policy framework - and its associated budget - is fit for responding to the increasingly urgent challenges that lie ahead. These include our ability to feed ourselves, to continue to enhance the protection of biodiversity and natural resources, and the need to shift to a less carbon intensive economy.



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## Endnotes

[i] For example, the total income from farming in the UK rose by 36% in real terms in 2008 despite higher input costs. This was largely a result of the high level of agricultural commodity prices in the first half of the year (Agra Europe, 2009a).
[ii] In the UK this has led to the Soil Association, the key certifying body for organic standards to consider allowing organic livestock producers to use substantially cheaper conventionally produced animal feed. In the event, the Soil Association decided not to relax its standards (Soil Association, 2009).
[iii] There is some agreement that this was caused by a number of temporary phenomena, such as a decline in global stock levels, poor weather conditions in core grain producing countries, temporary trading restrictions in some countries, and according to some analysts, the activity of market speculators investing in commodity futures (Chatham House, 2009).
[iv] For example, the average price of wheat, maize and skimmed milk powder between 2008 and 2017 is predicted to be 40 to 60% higher (in nominal terms) than in the preceding ten year period of 1998 to 2007 (OECD-FAO, 2008).
[v] This decision came only months after the EU's agricultural ministers chose to increase milk quotas as part of a broader strategy to broker the restructuring of the dairy sector to a more solid, competitive footing.
[vi] See: Communication from the Commission to the European Council, A European Economic Recovery Plan, COM(2008) 800, 26.11.2008; Communication for the Spring European Council, 'Driving European recovery', COM(2009) 114, 4.3.2009.
[vii] See: Communication from the Commission to the Council and the European Parliament, Better Access for Rural Areas to Modern ICT, COM (2009) 103, 3.3.2009.
[viii] The term achieved prominence in the summer of 2008, with the publication of 'A Green New Deal: Joined Up Policies to Solve the Triple Crunch of the Credit Crisis, Climate Change and High Oil Prices', by the Green New Deal Group, spearheaded by the New Economic Foundation and largely written for UK policymakers. Taking inspiration from the set of policies introduced by President Roosevelt to stimulate economic recovery during the time of the Great Depression in 1930s USA, the authors argue that their version of the Green New Deal presents 'a route map for the journey from energy and economic insecurity to one of energy and environmental security'. This route map involves introducing 'policies and novel funding mechanisms that will reduce emissions contributing to climate change and allow us to cope better with … coming energy shortages'. The second most substantial report on the subject to date is a product of UNEP's 'Green Economy Initiative', launched in October 2008. Its first report, 'A Global Green New Deal' written by Edward Barbier, was published in February 2009, and puts forward three objectives: to revive the world economy, create employment opportunities and protect vulnerable groups; to reduce carbon dependency, ecosystem degradation and water scarcity, and; further the Millennium Development Goal of ending extreme poverty by 2025. Realising such a re-orientation in outlook may depend, however, on the wider diffusion of what Harman (2009) calls 'ecologically intelligent politics'.