



Conditions for farming – transition periods and unequal CAP

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Cross-border Latvian/Lithuanian CAP Conference “Implications of CAP inequality – consequences and opportunities”

4th May 2012, Kaunas, Lithuania

Outline

1. Timeline of transitions for Baltic States since 1991

2. Conditions for farming in Baltic States and EU:

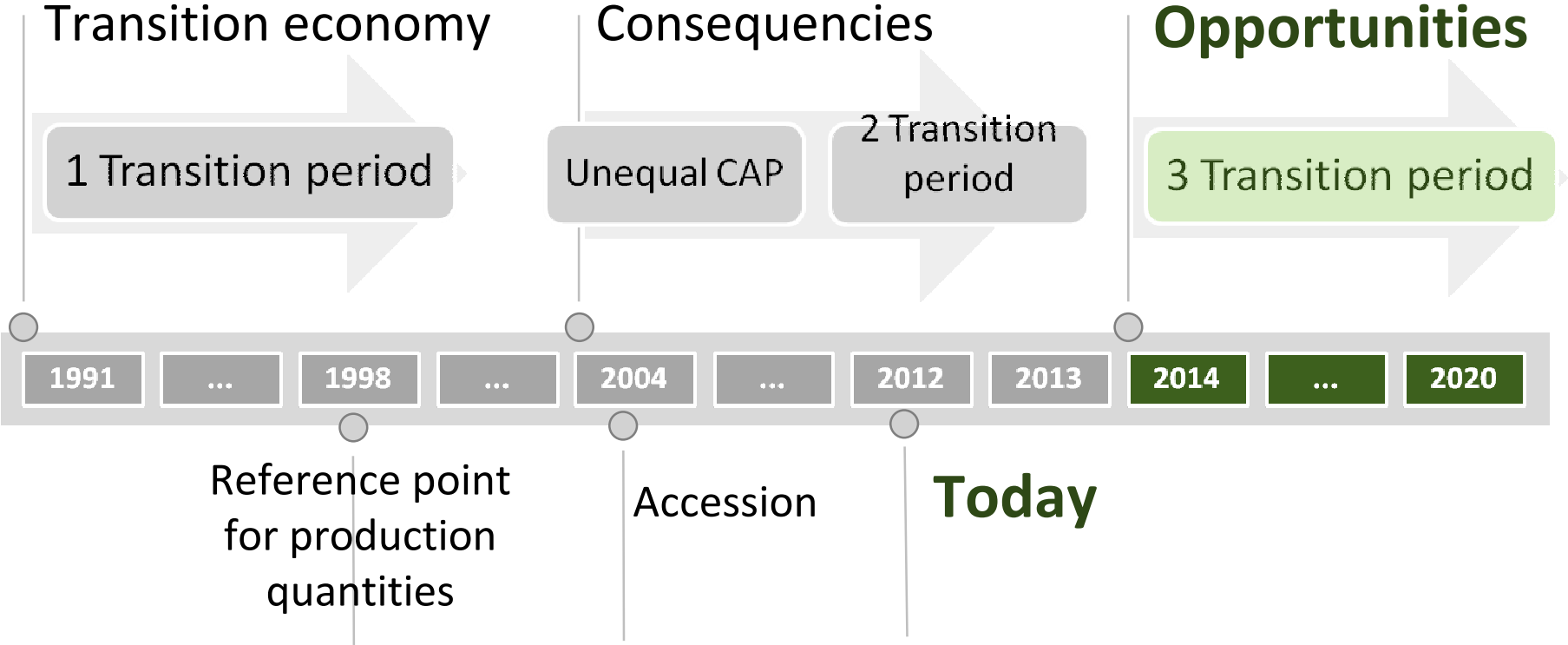
- Natural
- Socio-economic
- Policy

3. CAP consequences regarding 3 key aspects: competitiveness, sustainability and territorial development.

4. Conclusions about CAP opportunities. What about European integration?



Timeline of transitions for Baltic States



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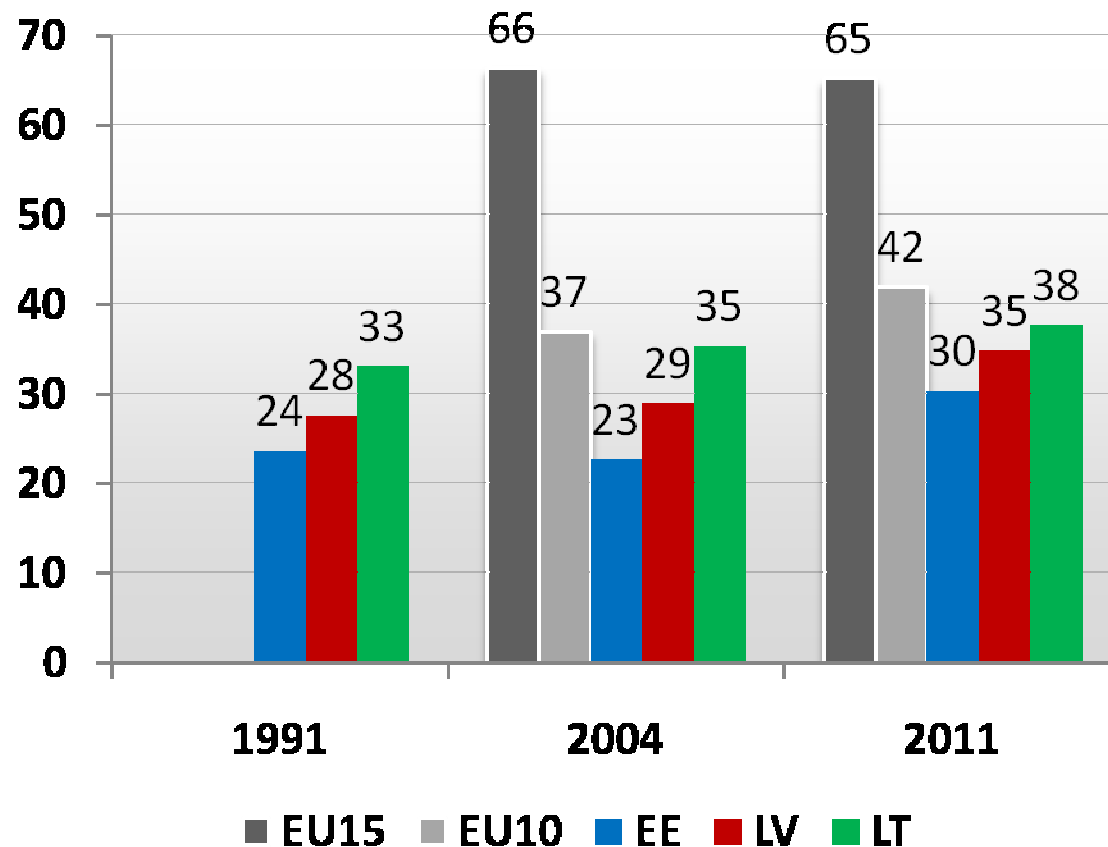
Natural conditions

- Quality of production resources (soil, genetic resources, etc.)
- Environmental conditions
- **Climat and weather conditions – the concern and challenge of EU for the next planning and reform period in 2014-2020**



Yield levels and variations

Soft wheat, 100kg/ha



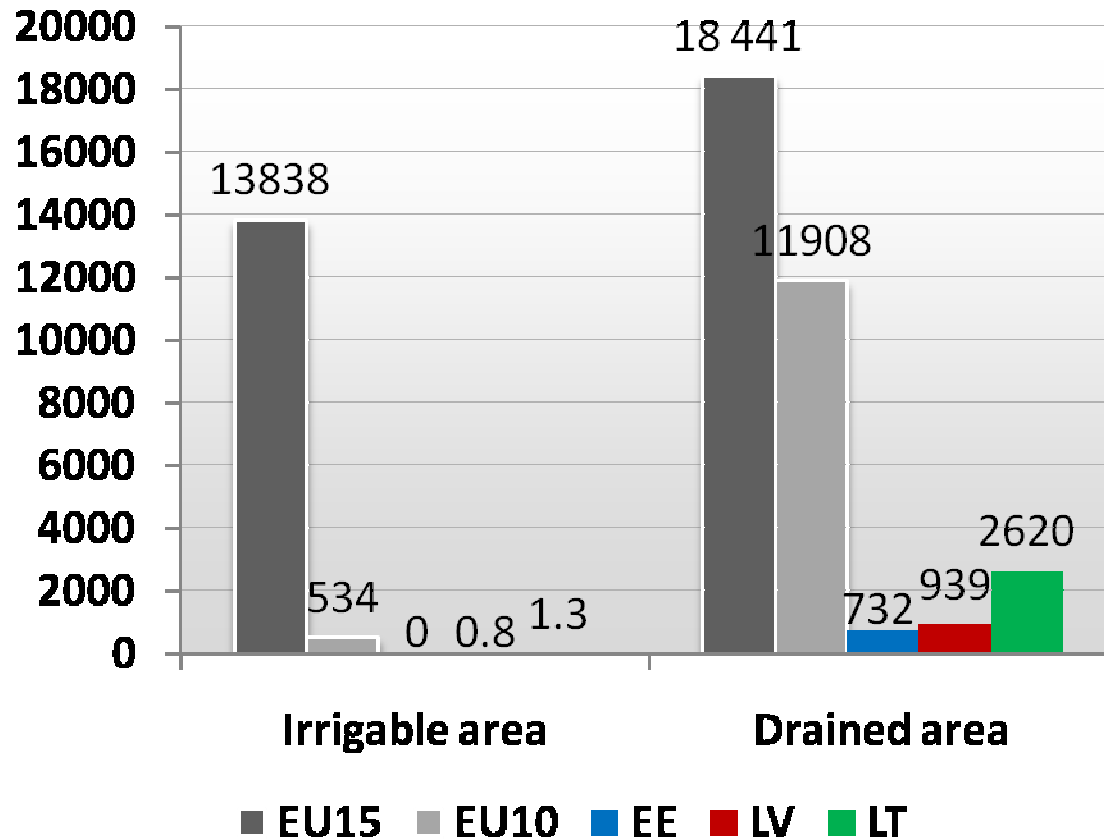
- The yield development show that due to climat change reasons extention of agricultural production in Nordic/Eastern part of the EU should be considered.
- Due to weather conditions and economic transition the Baltic states still have to devote more efforts to risk management process. Yield variation measured as 5 years Standard deviation in 2011 was 10%, 9% and 14% of corresponding 5 years average level in EE, LV, LT, while only 5% in EU15 and 6% in EU10 on average.

Data source: Eurostat



Irrigable and drained areas

1000 ha



- Considering production costs there is often assumed only irrigation costs. Although area needed drainage is significantly bigger all over the EU.

Data source: Eurostat;
Frankfurt Hydrology
Paper (2005)



Socio-economic conditions

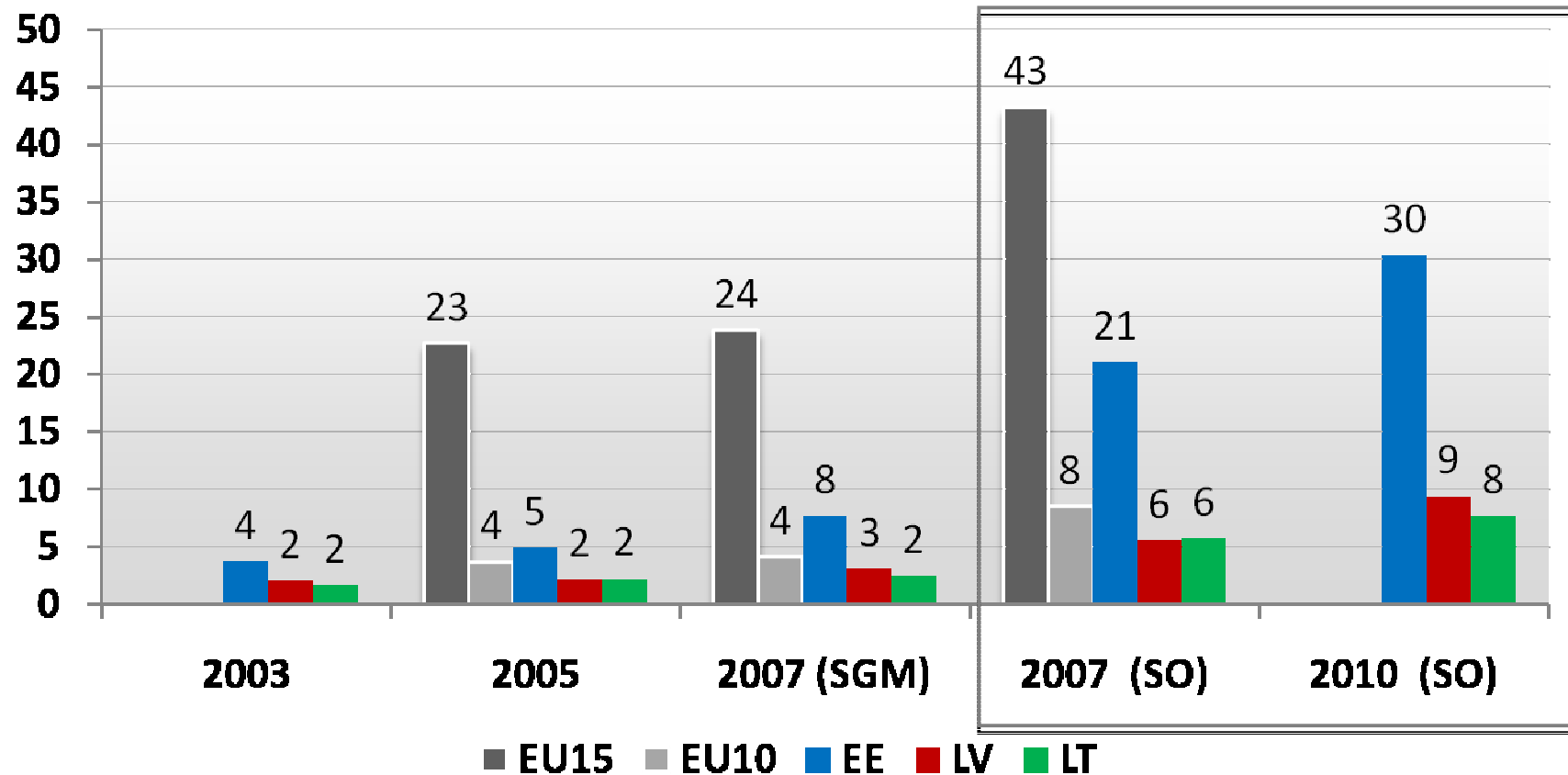
- Farm structure (size)
- Use of resources and production factors – productivity and economic efficiency



Farm structure: average size

Standard gross margin (SGM) in ESU per farm (2003-2007)

Standard output (SO) in 1000 EUR per farm (2007-2010)

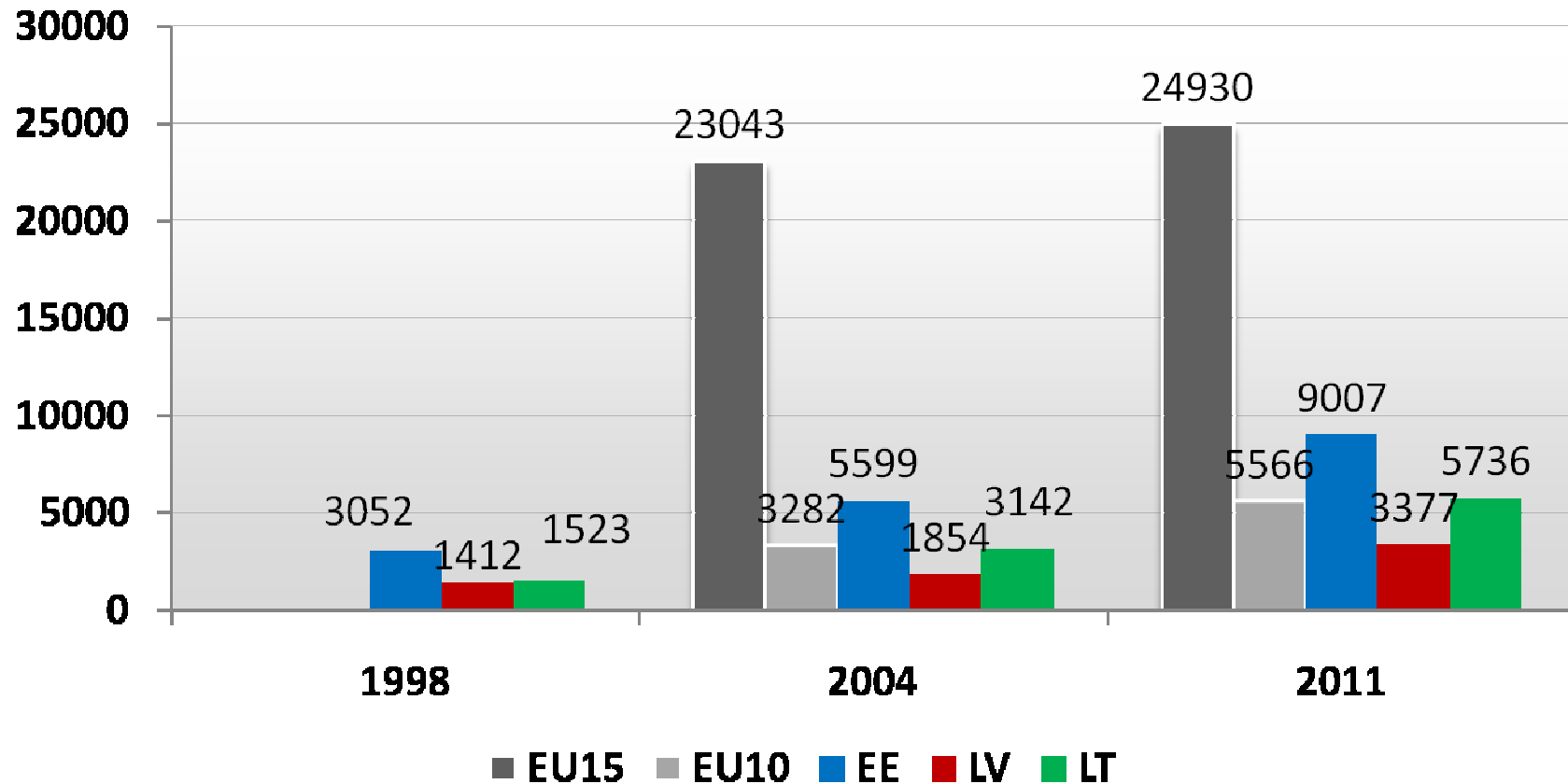


Data source: Eurostat; CSB of Latvia, Statistics Lithuania



Labour productivity

Gross value added (GVA) per annual working unit (AWU), EUR



Data source: Eurostat (EAA)



Policy conditions

- The difference between average level of direct support per ha in EU15 and EU12 in 2010 was almost two times.
- The national co-financing level for rural development programs is 50% on average in EU15 and 29% in EU12 in 2007-2013.



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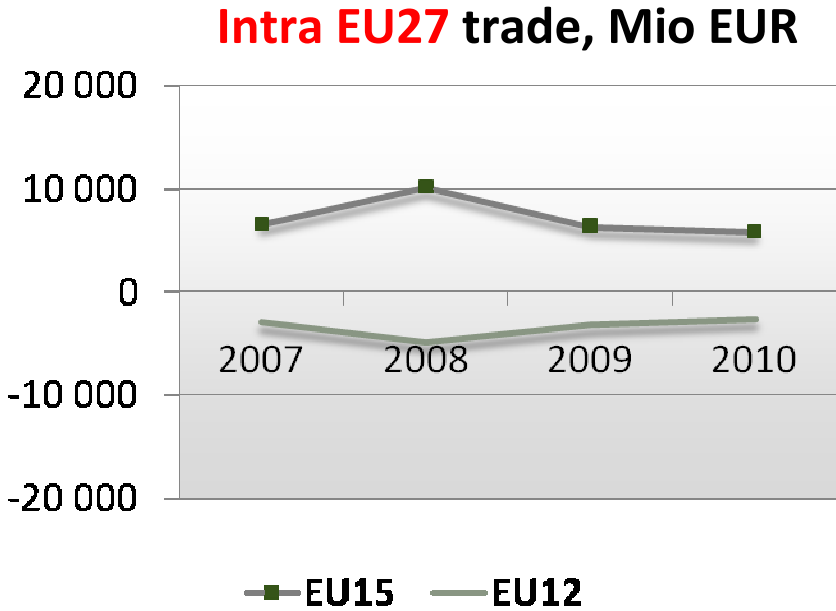
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CAP consequences regarding competitiveness.

Food trade balances



Source: Eurostat data



Relative trade advantage (RTA) indicator

Trade measures of competitiveness: relative trade advantage (RTA) indicator

- Formulated by Balassa (1965) and modified by Vollrath (1991) used for evaluation and comparison of the level of competitiveness of the country and sector;
- Relative trade advantage indicator

$$RTA_{ij} = RXA_{ij} - RMA_{ij}$$

for the i-th country and j-th commodity, where

$$RXA_{ij} = (X_{ij}/X_{ik}) / (X_{nj}/X_{nk})$$

$$RMA_{ij} = (M_{ij}/M_{ik}) / (M_{nj}/M_{nk}), \text{ and}$$

X are exports; M – imports; k denotes all commodities other than j; n denotes all countries other than i.

- A positive value of RTA is an indication of comparative advantage.



Relative trade advantage (RTA) indicator

A positive value of RTA is an indication of comparative advantage

		2007	2008	2009	2010
Estonia	Food	-0.02	-0.14	-0.34	-0.14
	Agriculture	2.62	2.50	2.39	2.57
Latvia	Food	0.60	0.59	0.06	0.41
	Agriculture	10.11	6.99	7.18	8.06
Lithuania	Food	1.40	0.90	0.84	0.93
	Agriculture	0.75	0.38	0.33	0.47
EU-27 average	Food	-0.02	0.01	-0.04	0.04
	Agriculture	-0.08	-0.05	-0.03	-0.06

Source: LVAEI calculations based on WTO data



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Regional integration

- The motivation of countries for making regions are mostly based on expectations how efficient it may function, what will be the impact on economic growth for members and at what extent will be a convergence of economic performance between participating countries. Regional integration is the degree at what those expectation are fulfilled (Matthews, 2003).
- The integration goes in line with the political developments. In several research, the integration processes built on asymmetric groups where a leading country/countries perceives enough benefits to justify the provision of the collective good has been expected to be the more dynamic and effective ones.
- In other research it has been assumed that the basic pre-condition for regional integration is a stronger domestic development experienced by each country in the region combined with the political and social willingness to build the trade block. And there should not be large margin of difference in the domestic development (political, social, economic and technological) among its members (Estrada, 2009).



Conclusions

- The three Baltic states have passed severe economic transition period since 1991 before accession into the EU. Impact of the “Soviet heritage” on development of Baltic agriculture has been evaluated and quantified as the coefficient 1.47 (Miglavs, 2003).
- Unequal CAP doesn't serve neither helping to overcome the initial gap in economic development nor to continue the growth in line with other EU countries.
- Baltic states have demonstrated the progress, however, without equal policy conditions it is difficult to obtain. At certain stage of economic development and certain endowment with production factors the agro-food sector has a comparative advantage in national economics. Although, without equal competition conditions the comparative advantages can't be properly explored.
- It should be the EU common interest to promote regional integration and to fulfill the preconditions needed.



Thank you!

Contact

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