



Leibniz Institute of Agricultural Development
in Central and Eastern Europe

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P R E S S R E L E A S E

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How severely are EU farmers really hurt by the financial crisis?

Study by IAMO researchers gives insight into the situation of the agricultural sector

Halle (Saale), 13. September 2013 – European economies and the European Union (EU) as a political and economic project are currently in deep trouble. Martin Petrick and Mathias Kloss, researchers at Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO), outline in a study published in *Choices - The magazine of food, farm, and resource issues* (Vol. 28) how severely EU farmers are hurt by the financial crisis. From analyzing the development of the crisis starting in spring 2007 in the U.S., Petrick and Kloss identify three ways how the financial crisis could have distressed EU farmers: First via a breakdown of credit supply for agricultural borrowers, second via a reduction of farm incomes by a decline in food demand and third through spending cuts in agricultural and rural policies.

Financial situation of farmers

“The countries most affected by the financial crisis may not be those with the most exposed farming sector. In particular, Greece, Ireland, Italy and Spain tend to be dominated by small farms exhibiting low investment levels in the past.” summarizes Petrick one of the outcomes of their study. Farmers in all countries show very low debt levels. An exception is Denmark where farmers are very entrepreneurial in a quite liberal financial system. But here too, impacts of the financial crisis were visible in the investment behavior in 2009. For Greece and Italy, figures indicate that farmers are effectively running down their capital stock. Regarding lending rates, Petrick and Kloss outline that they grew with the increasing stress on financial markets in the mid-2000s, but then fell with significantly loosened monetary policies after September 2008. They could not identify an agri-premium for new loan contracts. Only Portuguese farmers tend to pay lower rates than firms do in

the rest of the economy. In Greece, on the other hand, farmers do have to deal with excessively high interest rate levels. For the level of return on capital, Kloss points out: “In all countries looked at, the marginal return on fixed capital is substantially below the return on working capital. In fact, it is typically negative. This is a sign of over-capitalization in agriculture and not of credit rationing.”

Crisis effects on commodity markets and policy responses

Looking at the effects on commodity markets, the European food industry seemed to have weathered the crisis relatively well. Only on the dairy market the world financial crisis led to a drastic decline in the demand for dairy products. Prices failed to fully adjust at the consumer level. Margins for dairy processors and retailers increased, while consumer demand did not rise enough to buffer the price drop at the farm level. This provoked protests and complaints from dairy farmers. “Policy makers not only responded with a multimillion euro rescue package for EU milk producers”, Petrick explains, “but in the end the European Commission promoted a restructuring of dairy markets, including new regulations on contracting.”

Most EU farmers little exposed, many well protected

The study by Petrick and Kloss indicates that some but definitely not the majority of EU farmers faced difficulties in credit access after the outbreak of the financial crisis. Low debt levels and declining interest rates insulated most farms in the crisis regions from excessive risk exposure. But the researchers also highlight that what helped during the current banking crisis may turn out to be a bottleneck for future development of the sector. Institutional weakness in banking may slow down structural change and inhibit further modernization. At the same time the extraordinary level of public support for the agricultural sector as shown during the dairy crisis will in all likelihood be available in the near future, thus continuing to shield farmers from the most severe crisis impacts.

For more information on the subject please see:

Petrick, M., Kloss, M. (2013): Exposure of EU Farmers to the Financial Crisis, Choices - The magazine of food, farm, and resource issues, Vol. 28, No. 2, pp. 1-6.

<http://www.choicesmagazine.org/choices-magazine/theme-articles/the-eurozone-crisis-and-its-implications-for-agriculture-in-selected-regions-of-the-world/exposure-of-eu-farmers-to-the-financial-crisis>

About IAMO

The Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO) analyses economic, social and political processes of change in the agricultural and food sector, and in rural areas. The geographic focus covers the enlarging EU, transition regions of Central, Eastern and South Eastern Europe, as well as Central and Eastern Asia. IAMO is making a contribution towards enhancing understanding of institutional, structural and technological changes. Moreover, IAMO is studying the resulting impacts on the agricultural and food sector as well as the living conditions of rural populations. The outcomes of our work are used to derive and analyse strategies and options for enterprises, agricultural markets and politics. Since its foundation in 1994, IAMO has been part of the Leibniz Association, a German community of independent research institutes.

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