

## Executive summary

### Chapter I Prospects for agricultural markets in the European Union

#### Introduction

This chapter summarises the main results and underlying assumptions of medium-term projections for some key agricultural products (i.e. cereals, oilseeds, meat and milk products) in the European Union for the period 2000 - 2007. The results presented are the final outcome of different approaches (econometric methods, statistical analyses, specific assumptions, expert judgements, etc.), depending on the products and variables concerned. They are **based on the statistical information available at the beginning of October 2000**.

**These projections do not incorporate the latest short-term developments on agricultural markets**, in particular the most recent developments in the **beef sector** in the European Union. It would appear to be too early at this stage for any assessment of the longer-term impact of these developments.

However, the projections presented here may well be considered as a reference baseline for such an analysis. An update, taking into account the most recent regulatory and market developments in the beef and protein sectors, will be published as soon as possible.

**These projections are not intended to constitute a forecast of what the future will be**, but instead a description of what may happen under a specific set of assumptions and circumstances, which, at the time of projections were judged plausible. The most important assumptions concern the domestic agricultural policy and trade environment:

- (1) As regards agricultural policy, all policy instruments and measures are expected to operate under the current rules or within the changes already decided for the 2000-2007 period. In that perspective, the implementation of the **reform of the Common Agricultural Policy** adopted in the framework of **Agenda 2000** is fully taken into account from 2000 onwards.
- (2) The second important assumption relates to trade in agricultural products and, in particular, to the commitments derived from the Uruguay Round Agreement on Agriculture. **It is assumed that all URAA commitments regarding market access and subsidised exports will be fully respected**. Thus, subsidised exports are expected not to exceed the annual URAA limits, whereas imports under current and minimum access are fully incorporated. **In addition, the URAA commitments are assumed to remain unchanged over the 2001-2007 period**. Finally, the trade agreements that have been concluded by the EU with the 10 CEECs candidate countries in the course of 2000 have been taken into account in these market projections.

## Arable crops

### *Cereals*

The outlook for the EU cereal market as a whole appears rather favourable over the medium-term. In spite of a further expansion in cereal production, total cereal stocks would remain constrained at reasonable levels for most of the projection period as the implementation of the Agenda 2000 CAP reform would strongly improve cereal competitiveness on both the internal and external markets. The expected recovery in world cereal markets and a favourable currency environment would also contribute significantly to the balance of EU cereal markets.

However, EU cereal markets would still remain rather delicately balanced as some excess supply is foreseen to emerge by 2005/06. In that context, the ability of the domestic and international markets to absorb the continuous growth in cereal productivity would become increasingly and critically dependent on the situation on the world cereal markets and on the developments of the €/ \$ exchange rate.

After an estimated increase of 1.1 mio ha from 1999/00 to 2000/01 in line with a fall in oilseed, protein and non-textile linseed area, the **total cereal area** would stabilise around 37.1 mio ha by 2002/03. Supported by market prices above support levels in the short-term (notably for soft wheat, maize and durum wheat), cereal area would benefit from some further shift in area from non-textile linseed and oilseed production that would partially offset an increase in voluntary set-aside. From 2002/03 onwards when the Agenda 2000 CAP reform is fully implemented across the arable sector, cereal area is projected to stagnate at around 37 mio ha as oilseed production is expected to benefit from improved price perspectives.

**Yield** trends observed since the mid-1980s are assumed to continue over the projection period, although at a lower rate (around 1.3 % per annum). Average cereal yields would reach 6.07 t/ha in 2007/08, with the highest increases for maize and soft wheat. **Total harvested cereal production** would increase from 212 mio t in 2000/01 to 224 mio t in 2007/08 driven by increasing yields. In line with higher area and yield projections (7 % and 11 % respectively as compared to 1999/00), soft wheat production would rapidly expand over 100 mio t and reach a historical high of 106 mio t in 2007/08. Barley production is projected to stagnate below 48 mio t over the next seven years owing to low profitability prospects.

After two years of relative stagnation, the implementation of the Agenda 2000 CAP reform and a relatively favourable €/ \$ exchange rate (close to parity) are foreseen to boost cereal competitiveness and to generate a significant increase in domestic demand for cereals. **Total cereal demand** is projected to increase steadily over the medium term, from 178 mio t in 1999/00 to 196 mio t in 2007/08 (i.e. a 18 mio t growth). A larger demand for feed products combined with an improved market share is expected to stimulate a rise in total feed use of cereals estimated at more than 10 % from 1999/00 to 2007/08, when **total cereal feed usage** would amount to 122 mio t (a 13 mio t increase as compared to 1999/00). **Non-feed uses** of total cereals are projected to increase by 5 mio t, from 68.5 mio t in 1999/00 to 73.5 mio t in 2007/08 driven mainly by industrial demand.

The implementation of the Agenda 2000 CAP reform, the recovery in world cereal prices and a sustained import demand are all foreseen to improve EU cereal competitiveness and

set the stage for a sustained development in EU cereal exports over the next seven years. A relatively favourable €/€ exchange rate is also anticipated to further enhance the ability of the EU to export beyond its URAA limits on subsidised exports. After a short-term fall, **total cereal exports** are estimated to increase gradually and reach 31.5 mio t by 2007/08, i.e. well above the URAA limits on subsidised exports (durum wheat and some soft wheat and barley/malt would be exported without subsidies). **Total cereal imports** are assumed to increase to 6.7 mio t in the short-run and to remain relatively stable over the medium-term.

**Total cereal stocks** would remain below 35 mio t until 2004/05, as the expansion in cereal production would be somewhat limited by the increase in voluntary set-aside and domestic (feed) demand would increase strongly, driven by an increased price competitiveness. From 2005/06 onwards, the continuous growth in domestic and international demand would not be able to keep pace with the steady rise in cereal yields (in the cautious assumption of limited unsubsidised barley exports). As a result, total stocks would start growing steadily to reach around 41 mio t by 2007/08.

However, these general trends mask widely diverging prospects across cereals. The markets for soft wheat, durum wheat and maize are expected to remain rather tight throughout the whole period. Despite an increase in production levels, these cereals would benefit from a steady growth in domestic and/or external demand, which is foreseen to keep their market prices above support levels. Whereas the barley market would improve rapidly and become broadly balanced around 2003/04, the market for rye is projected to become increasingly and structurally unbalanced over the whole projection period, with total stocks increasing from 3.8 mio t in 1999/00 to 15.7 mio t in 2007/08, of which 15 mio t in intervention stocks.

### *Oilseeds*

After a marked fall estimated at 0.4 mio ha in 2000/01 (due mainly to rape seed), the **“food” oilseed area** is foreseen to decline further in 2002/03 when the Agenda 2000 CAP reform is fully implemented. It would then gradually recover to levels above 4.6 mio ha as it would be supported by improved price prospects and productivity increases. Soya bean would be most affected, its area falling by more than 31 % in 2002/03 relative to 1999/00, before stabilising below 300 000 ha over the medium term.

The decline in area would be less marked for rape seed, reaching 15 % at the end of the projection period relatively to 1999/00, i.e. an area of around 2.3 mio ha. In contrast, after a small short-term decrease, the area allocated to sunflower seed is foreseen to increase slightly by the end of the period relatively to 1999/00. Its area would stabilise above 2.0 mio ha over the medium term. **Non-food oilseed area** is estimated to adapt to the level of the set-aside rate and to stabilise at around 0.8 mio ha over the 2000/01–2007/08 period.

**Oilseed yields** are expected to increase in the medium term and reach 2.7 t/ha on average in 2007/08. Oilseeds (food) **production** is projected to fall from 13.3 mio t in 1999/00 to 10.9 mio t in 2002/03 as total oilseed area drops. It will then increase slightly over the medium term to reach 12.4 mio t in 2007/08. Non-food oilseed production will evolve together with the level of set-aside and stabilise around 2.3 mio t over the medium term.

## *Uncertainties*

These projections for the EU cereal and oilseed markets are based on a number of assumptions regarding future economic and market developments. In that respect, they are subject to some uncertainties that could have major implications for the EU arable crop markets, notably the future developments on the world cereal and oilseed markets and the medium-term outlook for the €/ \$ exchange rate. Any change in any of these assumptions could significantly alter the medium-term perspectives. A sensitivity analysis shows that if a weaker € environment would not drastically change the overall market perspectives for the arable crop sector, a stronger € (i.e. a €/ \$ exchange rate gradually decreasing to 0.95 by 2007) would in contrast generate some more significant outcome, with a further increase in total stocks of around 10 mio t (equally shared between barley and rye).

## **Meat and livestock**

### *Beef and veal*

The projections for the beef sector are based on the statistics available at the 1<sup>st</sup> of October 2000 and, therefore, do not take into account the latest regulatory and market developments in the beef sector and their potential impact on the medium term outlook (cf. Introduction). **Beef production** is expected to continue to slightly increase after the cyclical down was reached in 1999. Production is expected to continue to increase until the end of the year 2001, when it is expected to reach its next peak, then entering into a downward phase until the year 2004 before resuming again from 2005 on. **Beef/veal consumption** recovered completely from the big drop experienced in 1996 under the influence of the BSE scare. Per capita consumption is expected to stabilise somewhat in the next few years year when the substantial institutional price cut by –20 %, decided within the context of Agenda 2000 decisions, together with higher production foreseen for the next years, will contribute to reduce internal prices.

EU **beef imports** are projected to decrease slightly in the short term after the high level recorded in 2000, and are likely to remain more or less unchanged in the medium term. The possible increase in imports due to the recent “double-zero” agreements with 10 accession countries could be outweighed by the lower internal prices foreseen over the long term that will reduce somewhat the attractiveness of the EU market. Despite the internal price reduction that is expected over the medium term, the bulk of EU **beef exports** will continue to be subject to export refunds. However, the recent evolution of the €/\$ exchange rate allowed to reduce drastically the export refunds, which, for some products, have been set to zero and some quantities have been exported without support. Furthermore, it is expected that world market prices for beef will strengthen over the medium term. Thus, the gap between EU and world market prices is likely to narrow in the future. It is assumed that, at least for some products and/or destinations, small volumes of unsubsidised exports can be envisaged to continue up to the end of the forecast period. Total exports are foreseen to adapt to the supply situation, especially from 2003 on, when, in line with Agenda 2000 decisions, intervention will be replaced by a “safety net” system.

Overall, the assumptions and forecasts outlined above suggest that a balanced EU beef market is likely to be achieved over the medium term with, nevertheless, continued cyclical movements. Variations in exports, mainly determined by changes in the refund rate, seem to be sufficient in order to cope with the cyclical up and down in beef

production. Nevertheless, some **stocks** (mostly private stocks) are expected to be necessary by the end of the forecast period, in order to balance the market during the peak of the next beef cycle.

### *Pig meat*

After the big increase in production recorded in 1998 and 1999 **pig meat production** is expected to decrease by around -2.5 % in 2000, with a positive impact on producer prices and margins. Anyway production is not foreseen to go back to 1996-1997 levels and, after the relative small reduction of 2000, production is projected to increase from 2001 on. Over the medium and longer term, there is a certain scope for further growth, but the growth rates are anticipated to be lower than in the past. **Pig meat consumption** is expected to decrease by -1.1 % in the year 2000. However, the medium and long-term outlook for pig meat **consumption**, is in general positive since pig meat is likely to continue to be favoured by consumers, but clearly less than poultry.

**Imports** are projected to slightly increase over the medium term, following the increased market access commitments allowed under the double zero agreements. Compared to the record level of 1999, **exports** are likely to be lower in the short term but should slightly increase over the medium term in line with higher EU production and growing international trade.

### *Poultry*

After the slowdown recorded in 1999 due to the Dioxin crisis in Belgium and the outbreak of avian influenza in Italy, **poultry production** should decrease by -1.2% in 2000, going back to 8.7 mio t. In the medium and long term, the outlook for poultry is still positive and the sector should retain its relatively strong growth. Very competitive prices with respect to other meats and strong consumer preference should continue to play in favour of poultry. Per capita **consumption** is forecast to increase from 21.4 kg in 1999 to around 24.5 kg by the year 2007, with a short period of slowing down in 2000/2001. This evolution is comparable with the long-term growth of consumption that has been observed in the past.

**Imports** are forecast to increase slightly over the medium term, on the assumption that the actual level of border protection and current access will be maintained and that, in addition, imports under GATT minimum access and other market access agreements will increase somewhat. **Exports** are likely to continue to grow slightly in the medium term in line with higher EU production and growing international trade.

### *Sheep and goat*

Production of sheep/goat meat was stable in 1999 and is expected to slightly decrease during the year 2000 by -0.3 %. In the medium and long term, a slight downward trend both for **production** and per capita **consumption** is expected.

**Imports** could increase slightly in response to somewhat better use of market access commitments granted to some third countries as well as the possible impact of increased quotas under the double zero agreement with 10 CEECs.

## Milk and dairy products

### *Milk*

**Milk deliveries** were expected to increase over time as a consequence of the quota increases scheduled for the years 2000-2002 and 2005-2008. However, milk deliveries increased sharply already in 1999 and will probably change the short-term developments. Deliveries are therefore projected to decrease slightly during the year 2000 and stabilise at around 114.4 mio t in the following years. The quota increase in the years 2000 and 2001 by about 1.4 mio t is therefore not likely to lead to higher milk deliveries in the short term as a large part of the quota increase corresponds to a production that already exists. In the following years, it is expected that milk deliveries will decline slightly each year, reflecting the continuing increase in the milk **fat content** that reduces the margin for milk deliveries to dairies if the historical reference fat content is exceeded. Milk deliveries are forecast to increase again by the end of the forecast period in line with the quota increase in the years 2005-2007 which forms part of the second reform step and that is linked to the cut in support prices.

As far as **milk production** is concerned, the impact should be somewhat lower due to the expected evolution of on farm milk use, which is not governed by quotas and that tend to decrease. In addition, direct sales are not concerned because only the quotas for deliveries will be increased.

The higher milk production, which is forecast under Agenda 2000, is likely to slow down somewhat the long-term decline of the **dairy herd**. Assuming a further increase of milk yields by around 1.70 % per year on average over the forecast period, the number of dairy cows in the EU is projected to decline from 21.2 mio animals recorded in 1999 (December survey) to around 18.7 mio animals by the year 2007.

### *Cheese*

The medium and long-term outlook for **consumption** is in general positive, but with a slow down in the growth rate. Per capita consumption is cautiously forecast to rise from 17.8 kg in 1999 to about 19.2 kg by the year 2007. This represents an annual growth rate of around +1.0 %. Total consumption will increase somewhat faster, i.e. by about +1.3 %, due to the expected small growth of population.

**Exports** are likely to recover only marginally from the low levels experienced in 1998 and 1999. Over the medium term, it is expected that exports could reach about 420/430 000 t, with the perspective to increase somewhat at the end of the forecast period. This small increase should be seen against the background of the gradual implementation of the cut in milk support price that, together with expected higher world prices, should contribute to increase the competitiveness of European cheese on the world market. **Imports** are forecast to continue to increase over the medium-term, reflecting improved market access granted to third countries within the GATT Uruguay Round and some bilateral trade agreements.

Based on the above trends for domestic use and external trade, cheese **production** is forecast to keep its steady increase, but at a relatively lower rate in comparison to the past. Due to the constraining nature of the GATT commitments for exports, the expected average yearly growth rate for production is only slightly higher than that of total cheese consumption. Without these constraints, cheese production would be higher and absorb

more milk, reducing production of other dairy products, in particular butter and skimmed milk powder (which can be sold into intervention).

### ***Butter***

Butter **production** is forecast to decrease slightly in spite of the higher supply of milk fat due to increased milk deliveries. It appears that the increase in milk deliveries recorded in 1999, which anticipated the 2000/2002 quota increase, was only partly used in the manufacturing of butter and SMP. The production of other dairy products, and in particular cheese, is likely to absorb an important part of the additional deliveries, following the evolution of the demand side. Butter **consumption** tends still to a slight decline despite some signs of stabilisation observed over several years. Forecasts for per capita consumption are set at 4.36 kg by the year 2007, compared to around 4.63 kg currently. This forecast implies an annual rate of change of around -0.8 %. The expected decrease in total consumption is somewhat lower (-0.6 %) due to the anticipated small population increase.

**Imports** of butter are projected to continue to increase in the short term before stabilising at around 110 000 t over the medium term, following the GATT outcome (increase in minimum access tariff quotas) and other import commitments. Butter **exports** are set at around 200 000 t each year, after an anticipated recovery in the short term, mainly due to normalisation of trade with Russia after the crisis in 1998.

The balance sheet for butter shows that, if exports will not be considerably higher than assumed, some pressure on **intervention stocks** can be expected, despite continuous and sustained support of domestic use.

### ***Skimmed milk powder***

In the medium and long-term, the downward trend both for production and consumption of SMP should continue after a short interruption in 1999/2000. Over the medium term, the forecast suggests a reduction of SMP **production** from an estimated 1.18 mio t in 1999 to around 978 000 t by the year 2007. While human **consumption** of SMP is projected to remain more or less stable, the use of SMP in the animal feed sector should continue to decline over time.

**Imports** are forecast to keep increasing slightly over the medium term. SMP **exports** are set at 230 000 t, a volume that is expected to be the likely maximum that can be reached each year on average over the forecast period, without excluding some fluctuations around.

Overall, the forecasts show a market situation where SMP intervention stocks, after the strong reduction that took place in the current year, tend to slightly increase in the long term.

## **Chapter II    Prospects for agricultural markets in the candidate countries from Central and Eastern Europe**

This chapter provides an overview of the current and expected medium-term developments in a number of the main agricultural commodity sectors in the 10 Central and Eastern European Countries (CEECs) which are candidates for accession to the

European Union<sup>1</sup>. The projections are **based on a status-quo policy hypothesis**. This means that the projections are based on current policy and **no assumptions** have been made concerning the date and conditions of entry to the EU by candidate countries<sup>2</sup>.

### *Cereals*

Due to weather related problems the area under cereal decreased from 24.2 mio ha in 1998 to 22.5 mio ha in 1999. A partial recovery to 23.2 mio ha is estimated for 2000. A further increase to 24 mio ha is projected for 2001. For the rest of the projection period, it is expected that the total area under cereals in the CEECs will show a minor annual increase of 130 000 ha and reach 24.9 mio ha in 2007, 5 % above the average cereal area of 1996-1999. Most of this increased cereal area is projected to be common wheat. It is assumed that the area under cereals will stay rather stable or show small increases in most countries from 2001 to 2007, and only Poland and Bulgaria will see significant increases of 400 000 ha and 250 000 ha respectively. It is expected that the average cereal yield for the CEECs will continue to increase, at around 1.2 % per annum and reach on average 3.44 t/ha in year 2007. Based on the above-mentioned assumptions on area and yield an increase in total cereal production is expected, up to about 86 mio t in 2007.

Due to a slight increase in per capita consumption, total human consumption of cereals is projected to go up by around 300 000 t to 19.2 mio t in the period from 1999 to 2007. Following the drought conditions in 2000 a 4 mio reduction of feed use of cereals is expected, in particular in Romania. A recovery is projected for 2001 and total feed use of cereals is projected to increase by 4.5 mio t from 44.3 mio t in 2001 to 48.8 mio t in 2007. This development is mainly due to increases in Poland, Hungary and Bulgaria and is based on the projected development in meat production (pig meat and poultry). These feed and food use patterns combined with relatively stable other cereal use will lead to an increase in total cereal use from 71 mio t in 2001/2002 to 75 mio t in 2006/07.

The assumptions on production and use during the projection period will leave an increasing amount of cereals available for export. The net balance of exportable cereals is foreseen to grow to 10 mio t in 2007.

### *Oilseeds*

The area grown under oilseeds decreased significantly in year 2000 to 3.0 mio ha from 3.7 mio ha in 1999, due to the low prices especially for rapeseed and soya in 1999. It is projected that the total oilseed area will stay stable at 3.2 mio ha during the projection period. Yield is foreseen to grow at around 0.8 % annually, a slower rate than that of cereals. As in the EU the increase should be higher for rapeseed than for sunflower seed.

Due to the drought, oilseed production decreased to 4.3 mio t in 2000. In 2001 a recovery to 5.0 mio is projected. Based on the assumptions on area and yields mentioned above, total production should reach 5.4 mio t in year 2007. This is below the record crop in 1999.

---

<sup>1</sup> Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

<sup>2</sup> This is purely a working assumption and does not prejudge the effective entry date of any candidate country or the modalities of accession.

Internal use/crushing is expected to increase from 4.4 mio t in 1999/2000 to 4.8 mio t in 2007. The quantities available for exports should stay stable at around 0.6 mio t with most of this being rapeseed.

### ***Milk***

In the projection period it is assumed that the number of dairy cows will continue to decrease until 2005, but then begin to recover slowly. The total number of dairy cows is projected to decrease from 7.9 mio in 1999 to 7.4 mio in 2007. It is projected that the average yield per cow should go up on average by 1.5 % annually in the projection period (at the same rate as in the EU). The assumed increases in yield per cow coupled with the decrease in cow numbers will lead to an decrease in milk production from 28 mio t in 1999 to 27.3 mio t in 2001. From 2002 and onwards production is projected to increase and should be above 29 mio t in 2007. Of this projected 2 mio t increase from 2001 to 2007, 1 mio t should be in Poland and 0.4 mio t in Romania.

It is assumed that the internal use of milk and milk products should increase in the projection period, however slightly less than production. It is expected that most of the increased milk demand in the CEECs will come mainly from an increase in consumption of fresh milk products and cheese. Total internal use of milk is projected to reach nearly 27.7 mio t in 2007 compared to 26.1 mio t in 1999, with annual increases of 1.0 to 1.4 % during the projection period.

Based on these trends in production and consumption the CEECs are projected to have a net export balance of 1.6 mio t in 2001, down from 2.7 mio t in 1998. During the projection period the net exportable surplus is projected to be stable, but should increase slightly during the latter years. The projections in the dairy sector are based on the assumption that the ongoing restructuring of the milk producers, as well as in dairy processing, will continue.

### ***Beef and veal***

The production of beef and veal in the CEECs is mainly linked to the dairy herd, as only limited numbers of herds with suckler cows are present in the CEECs. During the projection period it is expected that the number of animals slaughtered will decrease slightly. As the number of dairy cows continues to decrease, it is assumed that beef and veal production will do the same. The increase in suckler cow production will not compensate for this decrease in beef production from the dairy herd. The average slaughter weight is projected as stable at 189 kg/head. Total beef and veal production is projected at 1.05 mio t in 2007 down from 1.16 mio t in 1998.

Internal consumption has decreased in the CEECs during the second half of the nineties. It is assumed that total internal use should stay stable at around 1.0 mio t during the forecast period. This development together with the decreased production may lead to a significant number of CEECs becoming net importers of beef.

### ***Pig meat***

Pig meat is the most important meat produced and consumed in the CEECs, and is expected to continue to be so. After a reduction in production in 2000 following the Russian crisis in 1998, total pig meat production is projected to increase from 4.22 mio t in 2000 to 4.7 mio t in 2007. A significant part of this increased production is estimated to

be consumed in the CEECs. Per capita consumption in the CEECs is projected to increase from 41.5 kg in 1999 to 42.3 kg in 2007. Increases are expected in all CEECs.

It is expected that the CEECs will be able to continue to be net exporters of pig meat. The net exportable surplus is expected to decrease from 260 000 t in 1999 to 130 000 t in 2000. It is projected to decrease slightly in 2001 and 2002 and thereafter increase to 250 000 t in 2007. These net exports should mostly come from Poland and Hungary. These projections are based on the assumption that the producers and processors in the CEECs can overcome most cost pressures including relatively high cereal and oilseed prices, which will increase prices for animal feed.

### ***Poultry meat***

Total production of poultry meat is projected to go beyond 2 mio t in 2007 compared to 1.7 mio t in 1998. This increase is the result of a yearly growth of around 2.0 %, and the most significant increases are projected to take place in Romania, Hungary and Poland.

The increase in production is mostly demand driven by the internal market in the CEECs. Per capita consumption, which in 1996, 1997 and 1998 grew by 1 kg, is assumed to grow by 2.1 kg from 1999 to 2007 - or by nearly 2 % annually, and should go beyond 18 kg/capita in 2007. It is not expected that the CEECs will be able to increase their net-exports during the period. Net exports from the CEECs may in fact be unchanged at around 110 000 t during the projection period. However, Hungary is projected to continue to be a net exporter, and Poland should become a net importer.

## **Chapter III Prospects for world markets**

There is a broad consensus among analysts that the medium-term outlook for agricultural products would be characterised by a steady growth in demand that would generate a sustained expansion in trade. Prospects for an increased consumption of food products, mainly in the developing countries, combined with the limited possibilities to proportionally increase domestic production are expected to gradually boost world trade and strengthen world prices over the medium-term. If short-term developments are foreseen to remain dominated by the slow adjustment of agricultural supply to very low price levels, the faster-than-expected recovery in the global economic situation towards a strong and stable economic growth would generate over the medium-term an expansion in global agricultural and food demand, notably in the non-OECD regions which would constitute the main driving force behind these favourable prospects.

Whereas the situation of agricultural markets is expected to improve over the medium-term, the initial years of the projection period would still reflect the difficult situation of many agricultural markets. Owing to a combination of market, economic and policy factors, the general fall in prices observed in many agricultural markets has been deeper and longer than originally expected. The slow adjustment of supply and the strong rebound in the global economy are expected to stimulate world demand and draw down stocks. World prices and global trade of most agricultural commodities would in turn strengthen. However, prices would remain at low levels in the short-term, while recovery would only take place over the medium term and at a more moderate level and pace than previously foreseen.

If the main trends in market fundamentals are expected to be positive, it is important to stress that these projections remain subject to some uncertainties. The most important include in particular the future course of agricultural policy reforms, the new round of

multilateral trade negotiations, the future macro-economic perspectives (in terms notably of future economic growth and currency fluctuations) and the scope for further productivity growth in some regions. In view of these uncertainties, a cautious assessment of these relatively favourable prospects for most agricultural markets is deemed necessary.

### *Cereals*

Depressed market prices generated by large global supplies and weaker import demand are expected to restrain global cereal supply in the short term. Over the medium term, prospects for a strong increase in cereal demand combined with supply adjustment in the cereal sector are foreseen to provide the basis for a tightening of stock-to-use ratios and a moderate recovery in prices. Productivity growth is foreseen to account for most of the supply increase (estimated between 12 and 16 % over the next seven years). Higher cereal consumption, fuelled by economic and population growth as well as dietary changes, combined with limited production potential is forecast to stimulate cereal imports in a large number of non-OECD countries, including China, North Africa and Latin America.

After 15 years of relative stagnation, total cereal trade is expected to increase between 18 % and 20 % by the year 2007/08, with coarse grains exhibiting a stronger pattern driven by increasing meat consumption in many developing countries and the ensuing expansion of their livestock sector. Global trade in coarse grains would strengthen with annual growth averaging about 2.3 %-2.6 %, whereas wheat trade is projected to grow by an annual average of around 2.0 % over the 1999/00-2007/08 period.

After bottoming out by the turn of the century, world prices would exhibit a slow recovery over the medium term as supply adjusts and global demand strengthens. HRW wheat prices are expected to range between 156 \$/t and 173 \$/t by 2007/08 respectively in the FAPRI and USDA projections, whereas maize and barley prices would develop between 111 \$/t and 130 \$/t respectively at the end of the projection period. A similar price outlook is projected by the OECD, with wheat and maize prices strengthening over the medium term to 153 \$/t and 117 \$/t respectively in 2005/06. Durum wheat prices would follow a similar trend, rising from around 150 \$/t in 2000/01 (for EU durum wheat quality) to 180 \$/t by 2007/08.

### *Oilseeds*

The oilseed sector is expected to exhibit a gradual, yet modest recovery from a current situation characterised by very low prices, generated by plentiful supplies, weak demand and a combination of policy and macro-economic factors. In the short-term, global oilseed supply is expected to adjust slowly owing mainly to policy factors (notably the support system in the US). In the longer run, most organisations foresee that the expansion of demand for oilseed and oilseed products would gradually restore market balance as supply exhibits only moderate increases. The growing demand for vegetable oils for human consumption as well as for oilseed meals, which should benefit from the expansion of the feed-livestock sector, would support a recovery in market prices over the outlook horizon. The consolidation of the recovery in the global economy would stimulate further expansion of trade (though at a lower pace than in the early 1990s).

The prices of oilseeds and oilseed products would remain at depressed levels in the short-term, before strengthening over the rest of the period. By 2007/08, soybean prices would

range between 245 \$/t and 282 \$/t in the FAPRI and USDA projections respectively (the OECD anticipates a similar pattern with soybean prices at 240 \$/t by 2005/06). Soybean meal prices would also trend upwards over the medium term, reaching between 178 \$/t and 214 \$/t in 2007/08.

Palm oil and soybean oil are projected to capture the greatest share of an expanding demand and trade for vegetable oil. Growth in oilseed oil trade would be stronger than that of oilseeds and oilseed meals, though lower than in the early 1990s. The strong dependence of trade in vegetable oil from developing countries makes the outlook very sensitive to the economic prospects in these countries.

### ***Meat***

The prospects for an increase in the consumption of meat in response to income growth, in particular in the rapidly industrialising economies of Asia and Latin America, are expected to stimulate world trade and strengthen world prices for meat over the medium and long term, with poultry meat exhibiting the strongest gains. Beef trade would increase by more than 0.6 mio t over the 1999-2007 period (i.e. 17 %), with most of the growth from Asian and Mexican imports. Pig meat trade is projected to rise by around 0.4-0.5 mio t over the same period (i.e. 20 %). Global trade in poultry meat is also projected to trend upwards, with increases in the range of 1.1 to 1.7 mio t (i.e. up to 30 %) according to different analysts. However, the medium-term perspectives in the FSU and China, notably in terms of structural adjustment of the animal production sector and strength of meat demand growth, clearly remain a potential source of major uncertainty for world trade.

Beef and poultry prices would strengthen over the medium term supported by a strong demand and limited growth in production. The magnitude of the recovery would nevertheless remain dependent on the strength of the economic rebound in some key importing countries of the non-OECD area. Furthermore, the changing structure of the world beef market, the emergence of new exporting countries and the increasing competition from other meats should restrain upward beef price tendencies. After a drastic adjustment over the last few years, pig meat prices are generally expected to rise over the projection horizon. The magnitude of this recovery, driven by higher feeding costs and strong demand, is foreseen to remain largely tempered by the continued efficiency gains in feeding practices and increased competition from other meats.

### ***Milk and dairy products***

As for the other agricultural products, the medium-term outlook for the milk and dairy markets appears to be rather favourable. Stimulated by increasing consumption and higher producer prices, milk production is set to expand in a number of countries, mainly outside the OECD area and in those OECD countries that do not use production quotas. According to the OECD, world cow milk production is likely to increase by more than 60 mio t from 1999 to 2005. The greatest increase in milk output is foreseen in India, some other Asian countries (China, Pakistan) and several countries of Latin America (mainly Brazil, Argentina and Mexico).

The growing demand for dairy products would mainly originate from developing countries where growing population, improved economic conditions, increasing urbanisation and a shift towards “western” diet would boost demand for dairy products (except skimmed milk powder). The OECD anticipates that the gradual shift in world trade from supply-led

bulk dairy products (i.e. SMP and butter) towards higher value added products (such as cheese) would continue over the medium term. After a short-term decline, world market prices of dairy products are predicted to gradually recover, supported by the return of economic growth and a strengthening demand, and to remain above the levels experienced in the early 1990s. Price prospects for cheese would exhibit the most favourable development. The positive cumulative impact of stronger import demand and lower subsidised exports on the future development in dairy prices may be expected over the medium-term to be somewhat tempered by rising world milk production and the uncertainty surrounding the real impact of the recent economic crisis on some major importers (such as Russia, Brazil, Indonesia) and the speed and sustainability of their economic recovery.

### ***Key issues***

If the outlook for agricultural markets over the next seven years appears rather positive when compared to the situation in the 1980s and early 1990s, it remains subject to some uncertainties. In this regard, three main areas of uncertainties can be identified:

- *The economic perspectives:* concerns remain about the persistence of a number of economic and financial imbalances in the global economy, the medium-term prospects for many emerging and transition economies, and the rise in oil prices. Global imbalances include the uneven pattern of economic growth in the US, Japan and the EU, the resulting increase in the external account imbalances and the seemingly misalignment of their currencies (in view of the medium-term fundamentals).
- *The scope for production growth:* the slow supply adjustment of agricultural products to the expansion in demand constitutes a major outcome of these medium-term projections as it strongly conditions the expected increase in trade and prices. Yet, scope for further increase in production still remains a key uncertainty for the medium-term outlook, notably for crop products.
- *The policy and trade environment:* future course of agricultural policy reforms as well as the new round of WTO multilateral trade negotiations may have important implications for the medium-term outlook of agricultural products.