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 in the European Union for the period 2001 - 2008. The results presented are **based on the statistical information available in May 2001**.

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) All policy instruments and measures are expected to operate under the current rules or within the changes already decided by the end of May 2001 for the 2001-2008 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) **It is assumed that all commitments taken within the Uruguay Round Agreement on Agriculture (URAA), 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 2001-2008 period**.

(3) 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 medium-term projections depict an outlook for the EU cereal markets that would appear rather favourable. 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 overall balance of EU cereal markets, with the notable exception of rye.

Yet, the ability of the domestic and international markets to absorb the expansion of EU cereal production and, thus, the stability of EU cereal markets 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 fall of 1 mio ha in 2001 linked to the recovery in oilseed prices (in € terms), the second cut in cereal support prices and the climatically-induced short-term expansion in voluntary set-aside, **total cereal area** would benefit in 2002 from some shift in area from non-textile linseed and oilseed crops and reach to 37.4 mio ha. Cereal area would also be supported by market prices above support levels for common wheat, maize and durum wheat and by the return of voluntary set-aside to more normal levels. From 2003/04 onwards, slightly better price prospects for oilseeds would generate a decline in total cereal area of around 0.5 mio ha over the next six years as direct payments are fully harmonised across COP crops (i.e. cereals-oilseeds-protein). Total cereal area would gradually decrease to 36.8 mio ha by 2008/09.

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 6.15 t/ha in 2008/09, with the highest increases for maize, soft wheat and rye. After a record cereal crop estimated at 212.6 mio t in 2000, **total harvested cereal production** is projected to fall to 206.8 mio t in 2001. It would then bounce back in 2002 and, driven by increasing yields that would largely more than compensate the gradual fall in total cereal area, expand significantly over the medium term to reach 226.5 mio t in 2008. Owing to higher area and yield projections (5 % and 12 % respectively as compared to 1999), **common wheat production** would rapidly expand over 100 mio t and reach a historical high of 106 mio t in 2008. In contrast, **coarse grain production** would fall in the short term from the high levels recorded in 2000, before rising slowly to around 111 mio t over the medium term as yield growth would somewhat outpace the slow decline in area.

After a relative stagnation in 1999, the implementation of the Agenda 2000 CAP reform, the moderate recovery in the prices of the oilseed complex and a relatively weak €/$ exchange rate are all expected to boost cereal competitiveness and to generate a significant increase in domestic demand for cereals. **Total cereal demand** is projected to increase strongly over the medium term, from 181.1 mio t in 1999/00 to 199 mio t in 2008/09. Most of this 18 mio t growth in cereal demand would be driven by **total cereal feed usage**, which would increase to 125.8 mio t in 2008/09 (i.e. an additional 12 mio t), thanks to a larger demand for feed products from the livestock sector (notably from poultry production) and an improved market share. **Total cereal non-feed uses** are also projected to increase by some 6 mio t, from 67.3 mio t in 1999/00 to 73.2 mio t in 2008/09 driven mainly by industrial demand (especially soft wheat).

The implementation of the Agenda 2000 CAP reform, the recovery in world cereal prices and a projected sustained import demand (notably from North Africa and the Middle East) 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. These favourable perspectives would be reinforced by a relatively favourable €/$ exchange rate that is anticipated to further enhance the ability of the EU to export beyond its URAA limits on subsidised exports. After a short-term fall in 2000/01, **total cereal exports** are estimated to increase gradually and reach 32.5 mio t by 2008/09, i.e. well above the URAA limits on subsidised exports (all durum wheat and some significant quantities of soft wheat and barley/malt would be exported without subsidies). **Total cereal imports** are assumed to increase to 7 mio t in the short run and to remain relatively stable over the medium term.

Total cereal stocks would remain below or at around 35 mio t until 2004/05, as the expansion in cereal production would be somewhat limited by the increase in voluntary set-aside and mainly absorbed by a growing domestic feed demand. From 2004/05 onwards, the steady rise in the yields of many cereals would not be able to keep pace with the continuous growth in domestic and international demand and cereal prices would start rising (in particular for soft wheat and barley). In contrast, **rye stocks would continue to build up**, though at a slower rate than in the initial part of the projection period as some land would shift to more profitable cereals. Overall cereal stocks would grow steadily to reach around 40 mio t by 2008/09, of which about 13 mio t of rye in public stores.

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 rapidly improve and become broadly balanced around 2003/04, **the market for rye is projected to become increasingly and structurally unbalanced over the whole projection period as the potential for adjustment in the supply and demand of this cereal would remain largely constrained by its relatively high prices**. The limited scope for increasing rye exports, a stagnating human demand and strong competition from other cereals on the domestic feed market (combined with nutritional limitations) are all foreseen to make public stores an increasingly attractive market outlet for this cereal. Total rye stocks would increase from 3.8 mio t in 1999/00 to 13.8 mio t in 2008/09, of which 13 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 **total "food" oilseed area** is forecast to rebound strongly in 2001/02 thanks to an expansion in sunflower area. It would then decline further in 2002/03, when it would bottom out at 4.4 mio ha with the full implementation of the Agenda 2000 CAP reform. Total oilseed area would gradually and slowly recover to 4.6 mio ha as it would be supported by improved price prospects and productivity increases.

Soya bean and **rape seed area** would fall by 21 % and 17 % respectively in 2002/03 relative to 1999/00, before stabilising at around 300 000 ha and 2.3 mio ha respectively over the medium term. In contrast, after a small short-term decrease in 2000/01 and 2002/03, 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 between 1.9 mio ha and 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 2000/01–2008/09 period.

Oilseed yields are expected to increase in the medium term and reach 2.8 t/ha on average in 2008/09 (i.e. a 1.5 % annual average increase between 2001/02 and 2008/09). Oilseeds (food) **production** is projected to fall from 13.3 mio t in 1999/00 to 11.0 mio t in 2002/03 as total oilseed area drops. It would then increase slightly over the medium term to reach 12.8 mio t in 2008/09 as yields resume rising and oilseed area recovers. Non-food oilseed production would evolve together with the level of set-aside and stabilise at around 2.3-2.4 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 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 falling to 0.90 from 2004 onwards) would in contrast generate some more significant outcome, with a further increase in total stocks of around 17 mio t (equally shared between barley and rye).

Meat and livestock

Beef and veal

By the middle of 2000 the EU beef market was experiencing a situation of relative equilibrium with consumption back to pre-BSE level, good exports, no stocks and prices above support level. The situation changed rapidly in October, when a series of events resulted in a new food scare across Europe, with beef consumption falling rapidly, reaching –27 % in December 2000, compared to the same month of 1999. After a good development in the first 10 months, the drop in November and December 2000 was enormous and sufficient to bring total EU consumption for the year 2000 down to 7.26 mio t, -5 % compared to 1999.

Beef and veal production for the year 2001 is subject to a number of short-term disturbances, and in particular, the large number of animals that have been retained in the farms at the end of 2000 and are expected to be slaughtered in 2001, the “Purchase for Destruction” scheme and the Foot and Mouth (FMD) containment culling that are assumed to withdraw respectively around 230 000 t and 150 000 t in 2001, the estimated impact of the “Special Purchase” scheme, which, at the end of May 2001 is still not fully applied across the EU. In addition to this, we assume that the OTMS scheme in the UK will be maintained until the end of 2002.

After taking into account all these factors, and under the assumption that changes in the production level are only possible after a certain time lag, we estimated beef and veal meat production destined for human consumption at around 7.76 mio t in 2001. Production is then estimated to decrease in the year 2002, as the beef cycle enters the downward path, and reach a minimum by the years 2004/2005 at around 7.67 mio t. Beef production should then slightly increase to reach 7.85 mio t by 2008. Compared to last year’s projections, which did not consider the BSE and FMD crises and therefore can be considered as a reference scenario (what would happen without BSE/FMD crises), production is projected to drop, over the long term (2003-2008), on average by –1 6 %.

Based on the information available for the first months of the year 2001, we assume the reduction of beef consumption for the year 2001 to reach on average –10 % compared to 1999, but we expect beef consumption to recover gradually and return to the decreasing long-term trend after three/four years.

EU **beef imports** are projected to decrease slightly in the short term after the high level recorded in 1999 and 2000, but are likely to increase up to 400 000 t in 2002, and then stabilise in the medium term. **Beef exports** have been strongly influenced by the recent BSE crisis and the outbreaks of FMD in the UK and in other Member States. With the re-opening of some key markets, notably the Russian market, total beef exports (including live trade) are expected to reach around 500 000 t in 2001 (which represent around 60 % of the GATT limit on subsidised exports). Exports are then projected to recover further and to reach 820 000 t by the year 2003 and then stabilise at this level.

Overall, the assumptions and projections outlined above suggest that the current unbalance in the EU beef market is likely to continue and even deteriorate over the short term, with the creation of large internal surplus (up to 740 000 t by 2003). The situation is expected to improve over the medium term with a projected net de-stocking of around 500 000 t between 2004 and 2007. However, this is not expected to clear stocks that are projected to stabilise at around 240 000 t by the end of the forecast period.

Pig meat

After the big increase in production recorded in 1998 and 1999 **pig meat production** decreased by around -2.4 % in 2000, with a positive impact on producer prices and margins. Production is expected to grow in 2001, and a more substantial increase is projected for the year 2002. Over the medium and longer term, growth rates are anticipated to be lower than in the past. **Pig meat consumption** is expected to increase by around 2 % in the year 2001, partly due to the large drop in beef consumption caused by the BSE scare. 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, although 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** decreased by around 100 000 t in 2000 and are likely to be lower in the short term. Exports are then expected to 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 French cutback in production, the dioxin crisis in Belgium and the outbreak of avian influenza in Italy, **poultry production** decreased by -1.2 % in 2000, dropping to 8.6 mio t. The BSE crisis in the beef sector benefited mostly the poultry sector, which is quicker to respond to sudden increase in demand. Production for the year 2001 is expected to increase by around 3.4 %. 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 2000 to around 24.8 kg by the year 2008. This evolution is comparable with the long-term growth of consumption that has been observed in the past.

After the strong increase recorded over the last few years, **imports** are projected 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 in the EU was strongly affected by the Foot and Mouth epidemic and is expected to drop by around 8 % in 2001. In the medium and long term, after an expected gradual recovery, a slight downward trend both for **production** and per capita **consumption** is expected.

Imports could increase slightly in response to shortcomings of domestic sheep meat due to FMD and to a 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 the 10 CEECs.

Milk and dairy products

Milk

Milk deliveries decreased slightly during the year 2000 and are expected to stabilise at around 114.4 mio t in the following years. For the first time in many years, milk production and deliveries did not reach the available reference quantities for various reasons. Partly this could be attributed to the fact that milk reference quantities for certain member states have been increased in the year 2000 and 2001 as part of the Agenda 2000. The low deliveries are also due to the situation in the UK, which reduced strongly its production as a consequence of a fall in milk prices over the last three years.

In the following years, it is expected that milk deliveries will decline slightly each year, reflecting the continuing slight 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 projected to increase again by the end of the forecast period in line with the quota increase in the years 2005-2008 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 that tend to decrease. In addition, direct sales are not concerned because only the quotas for deliveries will be increased.

The higher milk production, linked to the quota increases decided with 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 1.6 % per year on average over the forecast period, the number of dairy cows in the EU is projected to decline from 20.6 mio animals recorded in 2000 (December survey) to around 18.1 mio animals by the year 2008.

Cheese

The medium and long-term outlook for **consumption** is in general positive, but with a slowdown in the growth rate after the big increase recorded in 2000. Per capita consumption is cautiously forecast to rise from 18.3 kg in 2000 to about 19.5 kg by the year 2008. This represents an annual growth rate of around +0.8 %. Total consumption will increase somewhat faster, i.e. by about +1 %, due to the expected small growth of population.

Exports are likely to slowdown somewhat after the increase recorded in 2000. Over the medium term, it is expected that exports could reach about 430/440 000 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 decline despite some signs of stabilisation observed over several years. Forecasts for per capita consumption are set at 4.4 kg by the year 2008, compared to around 4.7 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, unless exports are 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. Over the medium term, the forecast suggests a reduction of SMP **production** from an estimated 1.02 mio t in 2000 to around 891 000 t by the year 2008. 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 last 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[1]. The projections are **based on a status-quo policy hypothesis**. This implies that the projections are based on current policy, constant exchange rates and that **no assumptions** have been made concerning the date and conditions of entry to the EU by the candidate countries[2].

Cereals

Following weather related difficulties in 1999, the **cereal area** was reduced to 22.5 mio ha. A partial recovery to 23.1 mio ha took place in 2000. A further increase to 24.1 mio ha is estimated 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 around 130 000 ha and reach 25.1 mio ha in 2008, 6 % above the average cereal area of the 1996-2000 period. Most of this increase is projected to be common wheat. It is foreseen that the area under cereals will remain rather stable or show small increases in most countries from 2001 to 2008, and only Poland and Bulgaria will see significant increases of 400 000 ha and 230 000 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 3.51 t/ha in year 2008. Based on the above-mentioned assumptions on area and yield an increase in **total cereal production** is expected, up to about 88 mio t in 2008.

Due to a slight increase in per capita consumption, total **human consumption** of cereals is projected to increase by around 0.3 mio t to 19.6 mio t in the period from 2000 to 2008. Following the decrease in animal production and the drought conditions during the summer of 2000, a 6 mio t reduction of cereal **feed use** is expected in 2000/01, most of that in Romania. A 3.5 mio t recovery is projected for 2001 and total feed use of cereals is projected to increase by 5.5 mio t from 43.6 mio t in 2001 to 49 mio t in 2008. This development is mainly due to increasing feed demand in Poland, Hungary and Bulgaria. These feed and food use patterns, combined with relatively stable use for other cereals, will lead to an increase in **total cereal use** from 70 mio t in 2001/02 to 75.5 mio t in 2008/09.

These projections on production and use will leave an increasing amount of cereals available for export. The net **balance of exportable cereals** is foreseen to grow to 12 mio t in 2008, of which 10 mio t of common wheat and just 2 mio t of coarse grains.

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[1] Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

[2] This is purely a working assumption and does not prejudge the effective entry date of any candidate country or the modalities of accession.

Oilseeds

The **area** grown under oilseeds decreased significantly in 2000 to 3.0 mio ha from 3.7 mio ha in 1999, due to low prices, especially for rapeseed and soya in 1999. A slight recovery in 2001 to 3.1 mio ha is foreseen. It is projected that the total oilseed area will only show very limited increases to 3.3 mio ha by 2008. **Yield** is foreseen to grow at around 0.7 % annually, a lower rate than that of cereals. Increase is foreseen for rapeseed while sunflower seed should stay mainly unchanged.

Due to the drought in 2000, **oilseed production** decreased to 3.9 mio t. In 2001, a recovery to above 5 mio t is estimated. Based on the projections on area and yields mentioned above, total production should reach 5.6 mio t in 2008. This is below the record crop of 6 mio t in 1999.

Internal use/crushing is expected to increase from 4.4 mio t in 1999/00 to 4.8 mio t in 2008/09. The quantities available for exports should remain stable at around 0.8-0.9 mio t with most of this being rapeseed.

Milk

It is projected that the **number of dairy cows** will continue to decrease until 2008. The total number of dairy cows decreased from 7.7 mio in 1999 to 7.3 mio in 2000. A further reduction to just 7.1 mio cows is expected in 2001. It is projected that the dairy cow numbers should continue to decline by around 120 000 heads per year until 2008, due to the continued restructuring pressure in the dairy farming sector, which is not expected to disappear in the immediate future. However, this annual reduction is lower than that observed in the 1990s. It is projected that the **average yield per cow** should go up on average by 1.3 % annually in the projection period (at the same percentage rate as in the EU).

The increase in yield per cow coupled with the decrease in cow numbers lead to a slight decrease in **milk production** by no less than 1 mio t from 28.3 mio t in 1999 to 27.3 mio t in 2000, followed by a minor decrease to 27.2 mio t in 2001. From 2002 onwards, production is projected to show an annual decrease of little more than 100 000 t and should reach 26.3 mio t in 2008. Of this projected 1 mio t decrease from 2001 to 2008, 0.7 mio t would take place in Poland and 0.2 mio t in Romania.

It is assumed that the internal use of milk and milk products should remain stable at 25.6 to 25.3 mio t. Whereas milk used for feed should decrease, the human consumption should stay mostly unchanged at around 23.5 mio t. An increased demand for fresh milk products and cheese will be offset by a decrease in drinking milk use, mostly resulting from declining direct sales and on farm consumption.

Based on these projections on production and consumption, the CEECs are projected to have a net exportable balance of 1.5 mio t in 2001, down from 2.7 mio t in 1998, and projected to decrease gradually to 0.85 mio t in 2008.

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 in line with the decrease in the dairy herd. The increase in suckler cow production will not compensate for this decrease in beef production from the dairy herd. Total beef and veal production is projected at 0.9 mio t in 2008 down from 1.11 mio t in 1998.

Internal consumption decreased in the CEECs during the second half of the 1990s as production declined. It is projected that total internal use should decrease to 0.96 mio t during the forecast period. This development together with the reduced production would lead to most of the CEECs becoming net importers of small amounts of beef and veal.

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 following the Russian crisis, total pig meat production is projected to increase from 4.1 mio t in 2001 to 4.6 mio t in 2008. A significant part of this supplementary production is estimated to be consumed in the CEECs. Per capita consumption in the CEECs is projected to go up from 39.1 kg in 2000 to 42.1 kg in 2008. Higher consumption is expected in all CEECs.

It is expected that the CEECs will be able to continue to be net exporters of pig meat, with the net exportable surplus decreasing from 200 000 t in 1999 to 80 000 t in 2000. A further reduction is estimated for 2001. It should then return back to around 200 000 t in 2008. 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 and ensure market share domestically and on export markets.

Poultry meat

Since transition, consumption and production have constantly set new highs nearly every year. It is projected to continue so, and production should go beyond 2 mio t in 2006 compared to 1.7 mio t in 2000. This increase is the result of a yearly growth of more than 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 annually, is assumed to grow by 3.1 kg from 2000 to 2008 - or by more than 2 % annually, and reach 19 kg/capita in 2008. During the projection period it is foreseen that the CEECs should have a net exportable balance increasing to 120 000 t in 2008. Hungary is projected to continue to be the main net exporter.

Chapter III Prospects for world agricultural markets

The prospects for world agricultural markets are mainly based on reports and projections released by the most prominent institutions in this field, namely the FAPRI, the OECD, the USDA and the FAO. These organisations foresee that, in the initial years of the outlook period, agricultural markets would gradually recover from the marked and prolonged downturn that resulted in weak agricultural commodity prices. Longer-term developments in the agricultural markets would reflect an improved macro-economic environment with more broadly based, robust and sustainable growth. Combined with higher population and changes in dietary pattern, notably in many emerging economies, these prospects for stronger economic growth would support a steady increase in food demand.

World trade in agricultural commodities would exhibit a sustained expansion as demand for food products would outpace production, especially in many developing countries. The tightening of the stock-to-use ratio would in turn strengthen world prices over the medium term. Most of the growth would come from the non-OECD regions, which would constitute the main driving force behind these favourable perspectives.

However, if the main trends in market fundamentals may all reasonably be expected to be positive, it is important to stress that these projections remain subject to many uncertainties that should moderate the strong pattern forecasted for future trade and price growth. The most important include the future course of agricultural policy reforms, the new round of multilateral trade negotiations, the future macro-economic perspectives (especially in view of the short-term concerns about a steeper-than-expected downturn in world growth led by a marked slowdown in the US and a stalling recovery in Japan) and the scope for further productivity growth in some regions. Some recent market developments, such as the crises in the animal sector of the EU, could also have a significant impact on the outlook of agricultural markets. In view of these uncertainties, a cautious assessment of these relatively favourable prospects is deemed necessary.

Cereals

World cereal markets would gradually emerge from a short-term situation marked by large supply, ample stocks and relatively weak demand. Over the medium term, higher cereal demand, fuelled by an improved economic environment, population growth as well as changes in the dietary pattern in some major importing countries, would generate a tightening of stock-to-use ratios. As domestic supply is not projected to meet the pace of a rapidly expanding demand in many developing countries, including China, North Africa and Latin America, the growth in cereal consumption would set the stage for a solid increase in global cereal trade. After 15 years of relative stagnation, total cereal trade is foreseen to increase by 17 % by 2008/09, 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 2.2 %-2.6 %, whereas wheat trade would demonstrate a more modest pattern with an annual average ranging between 1.3 % and 1.8 % over the 2000/01-2008/09 period.

After bottoming out in 1999/00, world prices would exhibit a modest and gradual recovery over the medium term as supply adjusts and global demand strengthens. HRW wheat prices would reach 152 $/t by 2008/09 in the FAPRI projections (the SRW wheat, which broadly corresponds to EU wheat quality, generally quotes around 10 % below the HRW wheat reference), whereas maize and barley prices would exhibit a similar trend at 112 $/t and 102 $/t[3] respectively by 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 148 $/t and 108 $/t respectively in 2006/07. 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 2008/09.

3 OECD projections: St Lawrence reference.

Oilseeds

The oilseed sector is still foreseen to demonstrate a slow and modest recovery from a current situation characterised by very weak prices, stemming from excess supplies, relatively weak demand and a combination of policy and macro-economic factors (notably the support system in the US). In the longer run, the robust expansion in the demand for oilseed and oilseed products that is anticipated by most agencies would contribute to gradually restore market balance as supply exhibits only moderate increases. Global demand would benefit from the consolidation of the recovery in world economic growth that would stimulate increased human consumption of vegetable oils as well as the use of oilseed meals for the livestock sector. Trade in oilseeds is anticipated to increase faster over the projection period than in the 1980s, but more slowly 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 thanks to an improved demand. By 2008/09, soybean prices would reach 236 $/t in the FAPRI projections (the OECD anticipates a similar, though more positive, pattern with soybean prices at 256 $/t by 2006/07). Soybean meal prices would broadly stagnate over the medium term, ranging between 199 $/t and 208 $/t in 2008/09.

Prospects of rising incomes drive the solid expansion in vegetable oil consumption. Palm oil and soybean oil would capture the greatest share of an expanding demand for and trade of vegetable oil. Growth in oilseed oil trade would be stronger than that of oilseeds and oilseed meals, though lower than in the 1990s. The strong dependence of trade in vegetable oil from developing countries, notably China, India and Pakistan, makes the outlook very sensitive to the economic prospects in these countries.

Meat

The general perspectives for the global meat markets would be rather favourable over the medium term with growing production, consumption and trade. The increase in meat consumption would be supported by a favourable macro-economic environment of sustained income growth, in particular in the emerging economies of Asia and Latin America. As higher meat demand would take place in net importing countries, world trade would rise and world prices strengthen over the medium and long term. The FAPRI and USDA projections exhibit an expansion in beef trade ranging between 0.8 mio t and 0.95 mio t over the 2000-2008 period (i.e. by 18 % and 30 % respectively), with most of the growth from Russian, Asian and Mexican imports. Pig meat trade is projected to rise by around 0.6 mio t over the same period (i.e. 25-30 %), driven by strong import demand from China, Japan, Russia and Mexico.

Poultry meat would capture the largest proportion of the increased global meat demand thanks to low production costs and consumer and social preferences. Trade in poultry meat is also projected to trend upwards, with increases in the range of 0.6 to 1.1 mio t (i.e. between 15 % and 22 %). Much would depend on the prospects for import demand from China and Russia, with Russian import demand closely linked to the pace of recovery of the production sector and to the economic and political outlook.

Beef 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. Poultry and pig meat prices are generally expected to rise over the projection horizon. However, structural changes and technological improvement in the meat sector should support production growth and thus moderate future price trends. The increasing number of export suppliers and greater competition between meats should also contribute to maintain world prices under pressure.

Milk and dairy products

The OECD and FAPRI projections suggest a rather favourable medium-term outlook for the milk and dairy markets. Stimulated by higher demand and stronger producer prices, milk production is set to expand in a number of countries, mainly outside the OECD area. According to the OECD, world cow milk production is projected to increase by 67 mio t from 2000 to 2006 (i.e. 12 %), with strong gains in China, India, Brazil, Argentina and Mexico.

Higher demand for dairy products would mainly originate from developing countries where growing population, rising disposable income, urbanisation and changing dietary pattern would set the stage for a strong and sustained rise in the consumption of dairy products, in particular of cheese and butter. In contrast, global demand for dairy products in the OECD area is not projected to show major changes over the medium term (even if cheese and whole milk powder are expected to experience some significant gains). As domestic production would not keep pace with the overall demand for dairy products in some regions of the non-OECD area (mainly China, South East Asia, Middle East and the FSU), scope for additional, though increasingly regionalised, trade is foreseen. 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) that has been observed since the mid-1980s, would continue over the medium term. Yet, this trend towards more differentiated products and markets should make trade projections for dairy products more complex as they would become more dependent on dairy firms' cost structure, production and marketing strategy.

After the sharp decline recorded in 1999 for cheese and milk powder and in 2000 for butter, world market prices of dairy products are predicted to increase over the medium term, supported by the return of economic growth and a strengthening demand. The prices of most dairy products would stand at levels above those experienced in the early and late 1990s. Cheese prices would demonstrate the strongest rise, thanks to very favourable developments on the demand side. Butter prices would experience a more modest pattern, as they would remain strongly linked to the uncertain Russian market. After peaking in 2000, milk powder prices should fall a little in 2001 and resume increasing from 2003 onwards. These perspectives would remain dependent on the future developments in some key emerging markets and on the potential impact of the changes in national dairy policies that have been adopted or scheduled in a certain number of countries.

Key issues

If the outlook for agricultural markets over the next seven years appears rather positive as agricultural markets would emerge from a prolonged downturn marked by very weak agricultural commodity prices, it clearly remains subject to some uncertainties. In this respect, three main areas of uncertainty can be identified:

- *The economic prospects:* Strong and sustainable economic expansion in many emerging economies would constitute the main driving force behind the recovery in most agricultural markets as it would lift global food demand and stimulate solid growth in world trade. However, since the publication of these favourable macro-economic projections, short-term prospects for global growth have weakened significantly and concerns remain about a steeper-than-expected downturn in world growth, led by a marked slowdown in the US, a stalling recovery in Japan and moderate growth in the EU and in a number of emerging economies (notably those with a close link with the US economy). If a number of factors, including falling interest rates in the US, receding inflationary risks and reduced external and financial vulnerability of many emerging economies, may suggest a relatively moderate and short-lived slowdown, risks of a less favourable outcome are still significant.

- *The scope for production growth:* the projected increase in trade and prices over the medium term, one of the major outcomes of the projections, is strongly conditioned by the slow adjustment of agricultural supply to the expansion of food demand in some regions of the world. Yet, the extent to which production would become increasingly outpaced by a rising domestic consumption remains unclear as the scope for further production increase in some major importing regions constitutes a key uncertainty for the medium-term outlook, notably for crop products. Policy management and development in some major importing countries –such as China- and exporting countries -such as the EU and the US with the land set-aside instrument- could also have far reaching implications for the future level of world agricultural supply.

- *The policy and trade environment:* Future changes in agricultural policies as well as the new round of multilateral trade negotiations may have important implications for the medium-term outlook of agricultural products. The possible emergence of new issues related to food safety, food quality and the environment may also be foreseen to impact future developments in agricultural production, consumption and trade as well as the functioning of agricultural markets.