

European Commission
Directorate-General for Agriculture

PROSPECTS FOR
AGRICULTURAL MARKETS
AND INCOME

2005 – 2012

Update for the EU-25

**Scenario analysis
on decoupling**

December 2005

EXECUTIVE SUMMARY

Market and income projections for the EU-25

This update of the prospects for agricultural markets and income has been established under a set of assumptions which are broadly in line with those used in the July 2005 report. In particular, **these do not take into account the recent decisions adopted in the framework of the Doha Development Round of trade negotiations in Hong-Kong in December 2005 and the conclusions of the Council of the European Union adopted in December 2005 in Brussels on the 2007-2013 financial perspectives** nor does it take into account the effect of the recently adopted sugar reform.

In the **cereals market** production in 2005 is expected to have fallen to around 250 mio t, but high stock levels from 2004 would continue to leave the cereal markets in a fragile situation over the next three years. The combined impact of high mandatory set-aside, the implementation of the single farm payment and moderate prospects for yield growth would limit production growth over the medium term. This would generate a gradual fall in stock levels which would also be supported by further gains on the domestic market and more favourable conditions on world markets.

Although the projected overall balance of the EU cereals market is positive **specific difficulties could arise** for coarse grains, in particular for barley, and **on a regional scope for soft wheat and maize** (linked to the situation of the landlocked new Member States of central Europe which may still be faced with infrastructure difficulties over the short to medium term).

Market perspectives for the EU **oilseed sector** are foreseen to be supported by productivity increases, favourable conditions on world markets and the increasing biodiesel demand in the EU. The production potential for non-food oilseeds, however, would remain constrained by the limitations of the Blair House agreement (with a maximum production of 1 mio t of soybean meal equivalent on set aside land). Despite the projected moderate increase in oilseed production, the EU will continue to remain a large net importer of oilseeds.

The medium-term perspectives for the **meat sector** are positive for poultry and pig meat markets, while beef meat production is expected to decline as a consequence of the CAP reform and strong competition from the world market. Overall per capita meat consumption is projected to increase by 2.2 % by 2012. It should be acknowledged that these relatively positive projections for the meat markets do not take into account any effects of the Avian influenza since December 2005 nor the potential dramatic impact that an **Avian influenza outbreak in the EU** could have on the EU markets, with disrupted production and consumptions patterns, trade flows and a pronounced effect on market prices.

Poultry and pig meat projections have been revised slightly downward compared to the July 2005 forecasts in view of the latest short-term expectations. Changes to the historical statistics of the new Member States have triggered a downward revision of beef and sheep and goat production projections. The latest available trade figures have lowered expectations of beef and poultry exports but raised the level of pig meat exports foreseen over the medium term.

The market balance for the major **dairy products** is expected to improve over the medium term, with increasing cheese production and consumption, but lower availabilities of butter and SMP. Revisions have also been carried out for the dairy sector projections based on updated short-term expectations.

Based on these market projections and the financial perspectives for the EU over the period 2005-2012 as originally proposed by the European Commission, the medium-term income projections display a rather favourable outlook as the EU-25 **agricultural income** would grow by 12.8 % between 2004 and 2012 in real terms and per labour unit.

If the outlook for EU agricultural markets and income over the next seven years appears relatively favourable, it clearly remains subject to some important uncertainties. The latter relate in particular to the outcome of the Doha Development Round of trade negotiations and to the risks linked to animal disease such as Avian Influenza, which could have far reaching implications for the future pattern of EU agricultural markets.

Decoupling scenario analysis: regional impact in 2012

The regionally-differentiated analysis of the EU-25 agricultural sector in 2012 under *status quo* policy implementation points out that total oilseed acreage and set-aside and fallow land would slightly increase, mainly at the expense of total cereal acreage. The largest amount of EU-25 cereal production in 2012 would be harvested in northern France, eastern England, north-western Germany, western Poland and Hungary. These regions would show shares of cereals in crop rotation of more than 50 % and yield levels of up to 10 t/ha.

The total EU-25 cattle herd is foreseen to decrease due to the quota-driven structural decline in dairy cow herd size, but also as a consequence of beef meat production abandonment mainly in the Member States which have fully decoupled their cattle premiums. In 2012, most of the EU-25 cattle herd would be located in the traditional dairy producing regions along the Atlantic bow and the North Sea coast and in south-eastern Germany and northern Italy. The biggest suckler cow herds would be found in Ireland, in the French regions Pays de la Loire, Bourgogne, Limousin, Auvergne and Midi-Pyrenees and in the Spanish regions Castilla y Leon and Extremadura. White meat production is expected to increase further, especially in Denmark, Spain, western Poland, northern Italy, in the French regions of Bretagne and Pays de la Loire and in the German regions of Weser-Ems and Münster.

Agricultural income per ha in 2012 would be particularly high in those regions specialised in high value adding permanent crops, fruit, vegetable and livestock production, such as Valencia and Murcia in Spain, Emilia-Romagna and Puglia in Italy and regions in the southern part of the Netherlands and in the northern part of Belgium. Producers throughout the EU-N10 regions would largely benefit from their integration into the Single Market and the implementation of the CAP.

The analysis of the differentiated impact of alternative decoupling scenarios show that the (*status quo*) policy implementation notified by the Member States already provides considerable benefits as regards the sectors' regional competitiveness, market orientation and income situation in comparison to a full coupling policy situation. However, additional benefits could be gained by decoupling to the full extent in line with current policy provisions. It is projected that full decoupling would raise the overall EU-25 agricultural income by 0.8 % by reducing the production and market distorting policy effects, thus enabling a more efficient

allocation of resources. Producers would furthermore benefit from greater market orientation in their production decisions and from higher prices which would broadly compensate lower levels of production. Most EU-25 regions would gain additional income thanks to a higher transfer efficiency of direct income support through full decoupling.