

European Commission
Directorate-General for Agriculture and Rural Development

PROSPECTS FOR
AGRICULTURAL MARKETS
AND INCOME
IN THE EUROPEAN UNION

2007 – 2014

July 2007

EXECUTIVE SUMMARY

The market projections presented in this report for cereals, oilseeds, sugar, meat and dairy products in the EU-27 were established under a specific set of assumptions. These cover the outlook for the macro-economic environment, with a gradual recovery of EU economic growth and a strengthening of the US\$ over the medium term. They also concern world agricultural commodity markets which are projected to show growing demand and trade. This report is based on the information available at the end of June 2007. Whereas the projections take into account the phasing out of maize intervention, they do not consider the latest Commission proposal to set at zero the set-aside rate for autumn 2007 and spring 2008. Furthermore, the projections do not take account of the potential outcome of the multilateral trade negotiations within the framework of the Doha Development Round. Therefore, the Uruguay Round Agreement on Agriculture and other existing trade commitments are assumed to remain unchanged and to be met over the period 2007-2014.

The medium-term projections depict an outlook for the EU **cereal markets** that would appear positive for most EU cereals thanks to the expansion of domestic consumption and cereal exports. Domestic use of cereals is foreseen to increase slightly thanks to the emerging bioethanol and biomass demand in the wake of the initiatives taken by Member States in the framework of the biofuel directive and the biomass action plan. Second generation biofuel processing technologies would become economically viable by the end of the projection period and start contributing to industrial scale to the biofuel production in the EU. Bioethanol production on cereal basis is expected to become a less marginal market outlet from 2010 onwards. On the other hand feed demand would stagnate and then slightly decline due to the increasing use of protein feed residues from biofuel production. The EU would also increasingly benefit from a growing world demand and relatively high world price levels supported by the assumed strengthening of the USD over the medium term. These developments on the internal and external markets would result in relatively balanced cereal markets over the medium term in most EU regions. Public stocks would largely disappear in the early projection period and reach levels of 11 mio t at the end of the projection period.

The phasing-out of maize intervention would substantially reduce the risk of structural surpluses in Hungary, Slovakia, Bulgaria and Romania even under conditions of higher than average maize harvests. Public stocks of maize would largely disappear in Hungary in 2007 mainly supported by the expected low maize harvest in Romania. The availability of maize at competitive prices in northern and central European markets would lead however to a certain crowding-out of barley and partly also of wheat from animal feed. The risks of increasing intervention stocks of barley in Germany as well as of soft wheat in areas with weak transport infrastructure in the EU-12 Member States and Austria would increase particularly under higher than foreseen harvests. From 2009 onwards the on-going trade integration, the improving domestic use in Bulgaria and Romania and the foreseen introduction of the SPS and mandatory set-aside from 2011 in those EU-10 Member States that adopted the SAPS, as well as in Bulgaria and Romania from 2014, should further lead to lower risks for structural surpluses in regional cereal intervention.

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 would however 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 **sugar** markets are characterised by a phase of transition until 2009 during which the reform of the sugar CMO will be implemented. The market situation for the short term is characterised by a high level of total stocks, the beginning of the restructuring of the sugar industry, the phasing-down of in-quota tariffs within the EBA agreement as well as the build-up of the bioethanol industry. The withdrawal of sugar quota for 2 mio t for 2007 would lead to a reduction of some of the short-term market risks most notably the high level of stocks, however, at a certain expense of competitive restructuring. From 2010 onwards the sugar markets are expected to reach balance between domestic production, exports and foreseen imports from the least developed countries in the world. The main influencing factor for the size of EU domestic production over the medium to long term would be the quantity of imports realised from EBA countries. Production is forecasted to remain strong in France, Germany, and the UK as well as in Poland, where cost competitiveness should be the major driver of restructuring. The main medium-term downwards risks as for the European sugar industry are the slow take-up of restructuring as well as the high level of market stocks which could weigh heavily on the prospects post 2009.

The medium-term perspectives for **animal products** are relatively positive for poultry, pig meat and the dairy markets, while beef meat production is expected to continue to decline. Total per capita meat consumption would recover from the 2006 market disruption due to Avian Influenza and is projected to increase by 3.2 % altogether by the end of the forecast period.

Beef production is projected to decline over the medium term below the level of 7.6 mio t in 2014 in line with the structural reduction of the dairy herd and the impact of decoupling. As consumption would exhibit a more modest decline throughout the projection period, imports are expected to increase in order to fill the gap and reach 741 000 t by 2014.

Pig meat production and consumption are projected to increase over the medium term, though at a slower pace than in the past decade, due to the competition from poultry meat and higher feed prices. Extra-EU exports would be facing increasing competition from low-cost producing countries, but EU intra-trade is expected to continue expanding over the forecast period.

The market outlook for **poultry meat** would be affected by the future developments regarding Avian Influenza. The appearance of the H5N1 strain of this virus in the EU in early 2006 caused a short-term disruption in the market balance of poultry meat, with weakening consumer confidence and export opportunities, and thus falling prices leading to lower production. The current report assumes that no further cases would occur over the medium term. As such the medium-term outlook for EU poultry production remains relatively positive as competitive prices with respect to other meats and strong consumer preference should play in favour of poultry. The conclusion of trade agreements with Brazil and Thailand on a new import regime will result in increased imports over the short

term that would be followed by moderate growth over the medium term. As extra-EU exports are projected to exhibit a continued decline, the EU-27 would become a net importer of poultry meat by the end of the forecast period.

Sheep and goat meat production is projected to decline gradually in line with past long-term trends and the impact of decoupling of ewe premiums in the major producing countries. Imports are expected to remain stable throughout the medium term with a slight increase at the end of the projection period in order to meet domestic demand that is projected to decline at a slightly lower rate than production during the later years.

Overall **meat consumption** is projected to increase from the estimated 84 kg/head in 2006 to around 86.7 kg/head by the year 2014. Pig meat would remain the most preferred meat by EU consumers with a share of about 50 %, followed by poultry that would increase its share to 28 % (+1.8 %).

The recently observed decline in EU milk production at a time of favourable market environment characterised by high internal and world prices has a profound impact on the current medium-term perspectives for milk supply and dairy commodity markets. As a result the medium-term outlook for EU milk production has been revised downwards compared to the previous reports. EU-27 **milk production** is projected to expand at a modest rate over the short term in line with the increase in production quotas granted to eleven member states of the EU-15. However, over the medium term milk production would decline gradually to the level of 148.2 mio t in 2014, driven by a steady decrease in subsistence production in the EU-12. The EU-27 dairy herd is projected to fall from 24.2 mio heads in 2006 to around 22 mio animals by 2014.

EU-27 **cheese** production is expected to expand further over the medium term by 10 % altogether, driven by continued strong increases in the EU-12. Exports are foreseen to expand over the short term, but the growth in domestic consumption would absorb most of the increase in cheese production, leading to a steady decline in exports over the medium term.

Due to the lower milk supply and increasing production of higher value added dairy products, bulk dairy products would continue their decline over the projected period. EU-27 **butter** production is foreseen to fall slightly below 2 mio t in 2014. Lower availabilities and increasing competition on the world market would lead to declining butter exports. Intervention stocks, which were emptied in the first semester of 2007, will remain empty until the end of 2014.

The medium-term developments show a continuation of the downward trend for **SMP** output, albeit at a more limited rate. SMP exports are expected to fall further over the forecast period as the decline in production combined with a stagnating domestic demand would maintain EU prices well above world market prices.

Agricultural income estimates have been compiled on the basis of these market projections and the financial perspectives for the EU over the period 2007-2013. The medium-term income projections display a rather favourable outlook as the EU-27 agricultural income would grow by 21 % between 2006 and 2014 in real terms and per labour unit.

This overall gain would mask marked differences between EU-15, the EU-10 and EU-2. Whereas agricultural income in the EU-15 would show a more moderate development with a 9.9 % growth over the period 2006-2014, it is foreseen to display a more pronounced picture in the EU-10 and EU-2 where it would rise steadily by 24.9 % and 71.8 % respectively by 2014. Apart from the generally positive price developments this

growth in income would be supported by the implementation of the CAP, the integration into the single market and most significantly by the sharp rise in the subsidies granted to agricultural producers in the EU-12.