



European Commission
Agriculture and Rural Development



Prospects for agricultural markets and income in the European Union 2008-2015



Structure of the presentation

- **Introduction**
 - How to interpret the projections
 - Methodological approach
 - Main assumptions
- **Main results:**
 - Market projections for cereals, oilseeds, meat, milk and dairy products
 - Income projections for EU agriculture



How to interpret the projections

- not as a forecast of what the future will be, but a *description of what may happen under a specific set of assumptions*, which at the time of projections were judged plausible.
- they should be seen as a benchmark for assessing the medium-term impact of future market and policy issues



Methodological approach - markets

- **Models used:** current market projections carried out using two recursive dynamic partial equilibrium models (ESIM and Aglink)
- **Data used:** market and policy information available at the end of January 2009
- **Results:** model output consists of supply balance sheets for main commodities and market prices. Income projections mainly based on Economic Accounts for Agriculture and model output
- **Detailed results for:**
 - EU-27, EU-15 and EU-12 aggregates
 - Cereals, oilseeds, meat, eggs and dairy markets



Methodological approach - income

- **Value of agricultural production based on**
 - market projections for arable crops, meat and milk sectors
 - historical trends for other sectors
- **Value of costs based on**
 - market projections for feed and seed use
 - correlation with crude oil price for fertilizer and energy
 - correlation with inflation for services
- **Subsidies based on**
 - estimated direct payments and RD funds
 - assumed top-ups and co-financing by Member States
- **Labour assumed to follow historical trend**



Policy assumptions

- **CAP in its current (post Health Check) form**
 - Phasing out milk quotas
 - Intervention mechanism reduced to wheat, butter and skimmed milk powder
 - Further decoupling until 2012
 - SAPS maintained until 2013 (inclusive)
 - Abolition of mandatory set-aside
 - Increased modulation
- **World trade remains in conformity with the Uruguay Round Agreement on Agriculture**

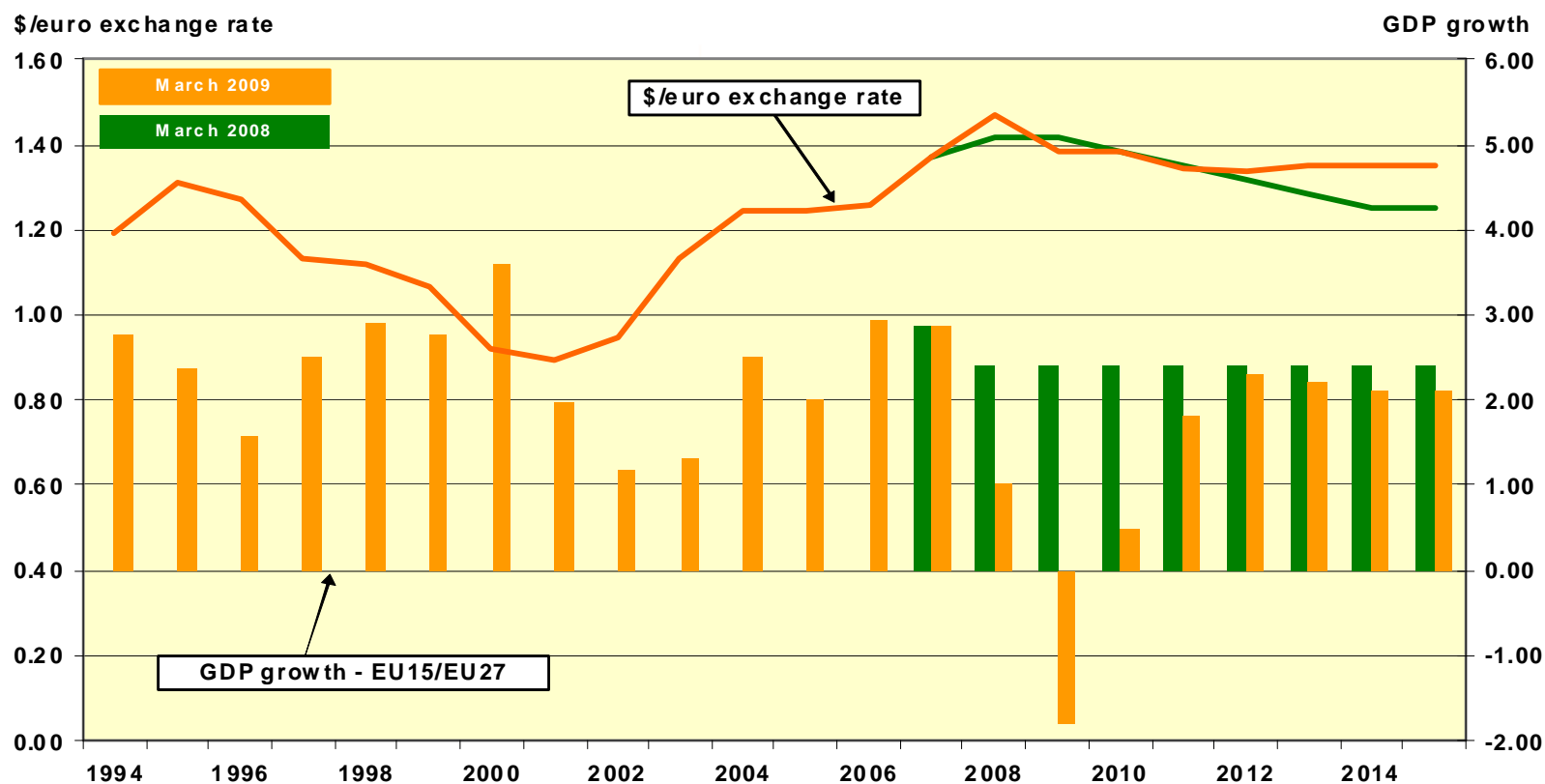


Macro-economic assumptions

- **Economic crisis beclouds the short-term outlook**
- **Medium-term prospects remain favourable**
 - EU GDP growth around +2.1% per year
 - USD/EUR exchange rate to stabilise around 1.35
 - EU inflation around 1.9% per year
 - EU population growth would slow to 0.3% per year
 - Crude oil price fluctuates between 78-85 USD/barrel
 - World GDP growth above 3.6% per year
- **High degree of uncertainty as the economic outlook remains subject to a number of (mainly downside) risks**



Assumptions for USD/EUR exchange rate and GDP growth (compared to assumptions in March 2008)





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Prospects for agricultural markets 2008-2015

Cereal and oilseed sectors



Overview

Over the short term cereal prices to remain at relatively low level due to

- Lower demand linked to economic crisis (mainly through feed demand)
- Removal of set aside

Prices are projected to recover over the medium term thanks to

- expanding biofuel demand
- moderate yield growth and
- EU and world stocks ar relatively low level

Low risk of (regional) imbalance on EU cereal markets

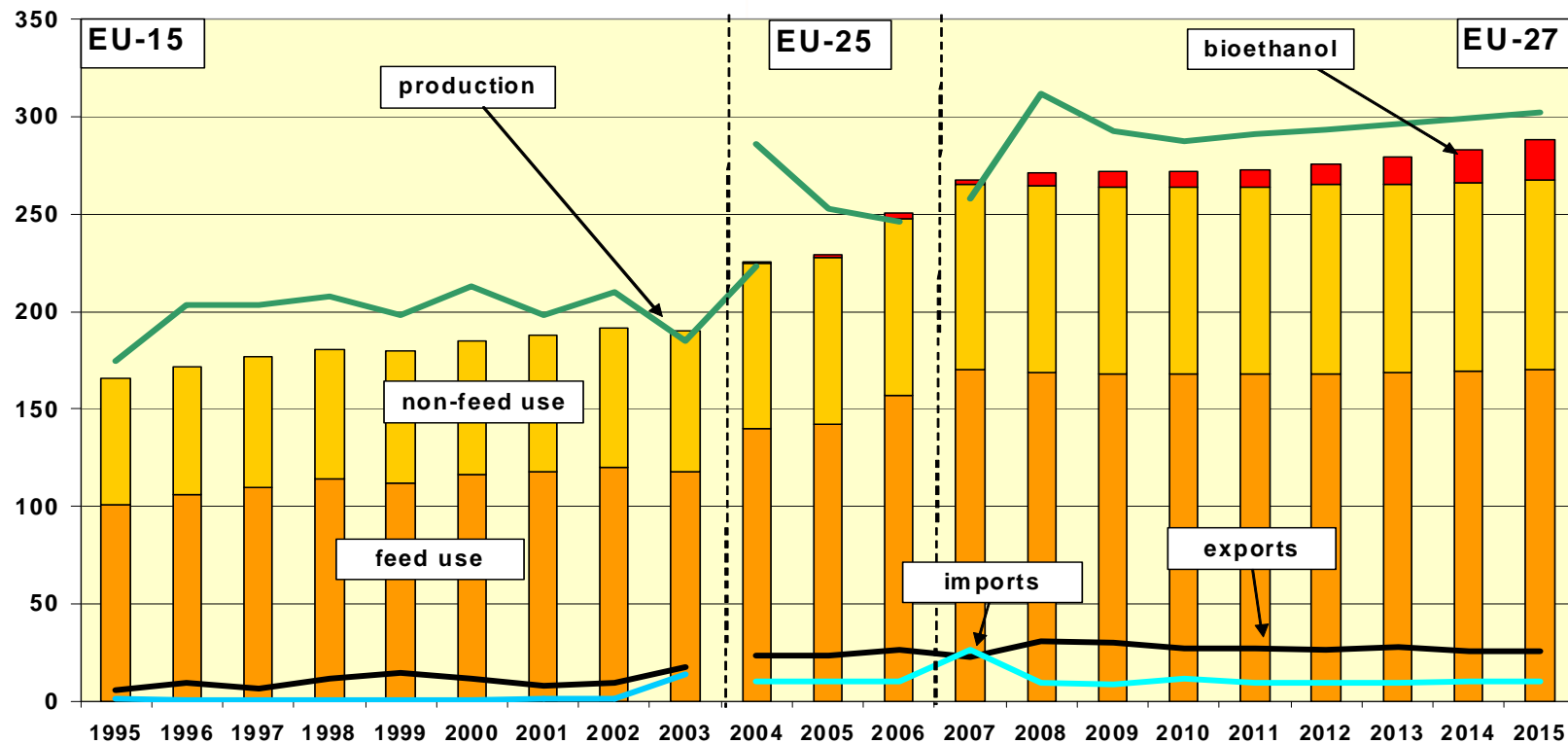
Changing price relations in favour of coarse grains (mainly maize)

... but greater risk of price fluctuations



Slightly expanding cereal markets and emerging bioethanol markets....

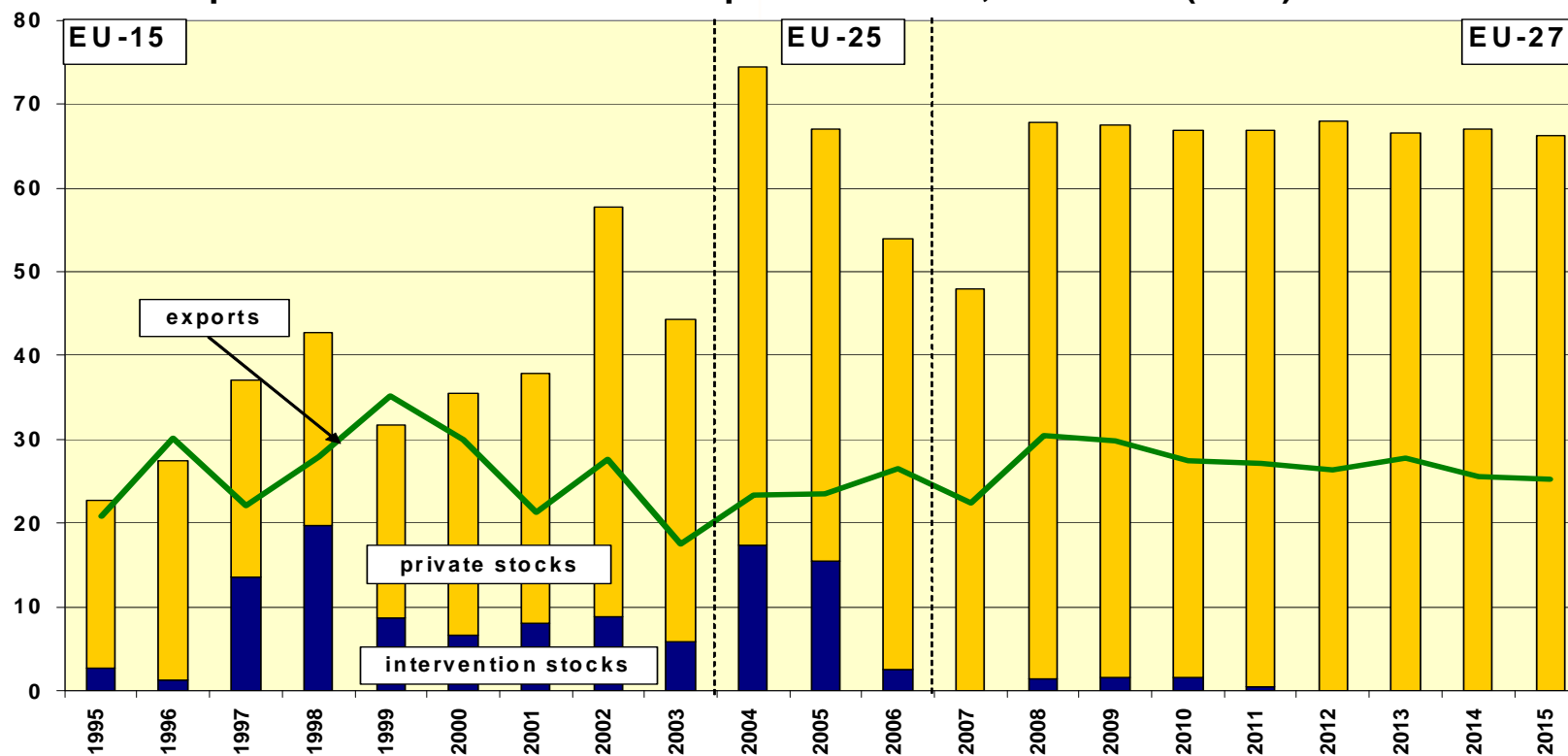
Development of cereal markets in the EU, 1995-2015 (mio t)





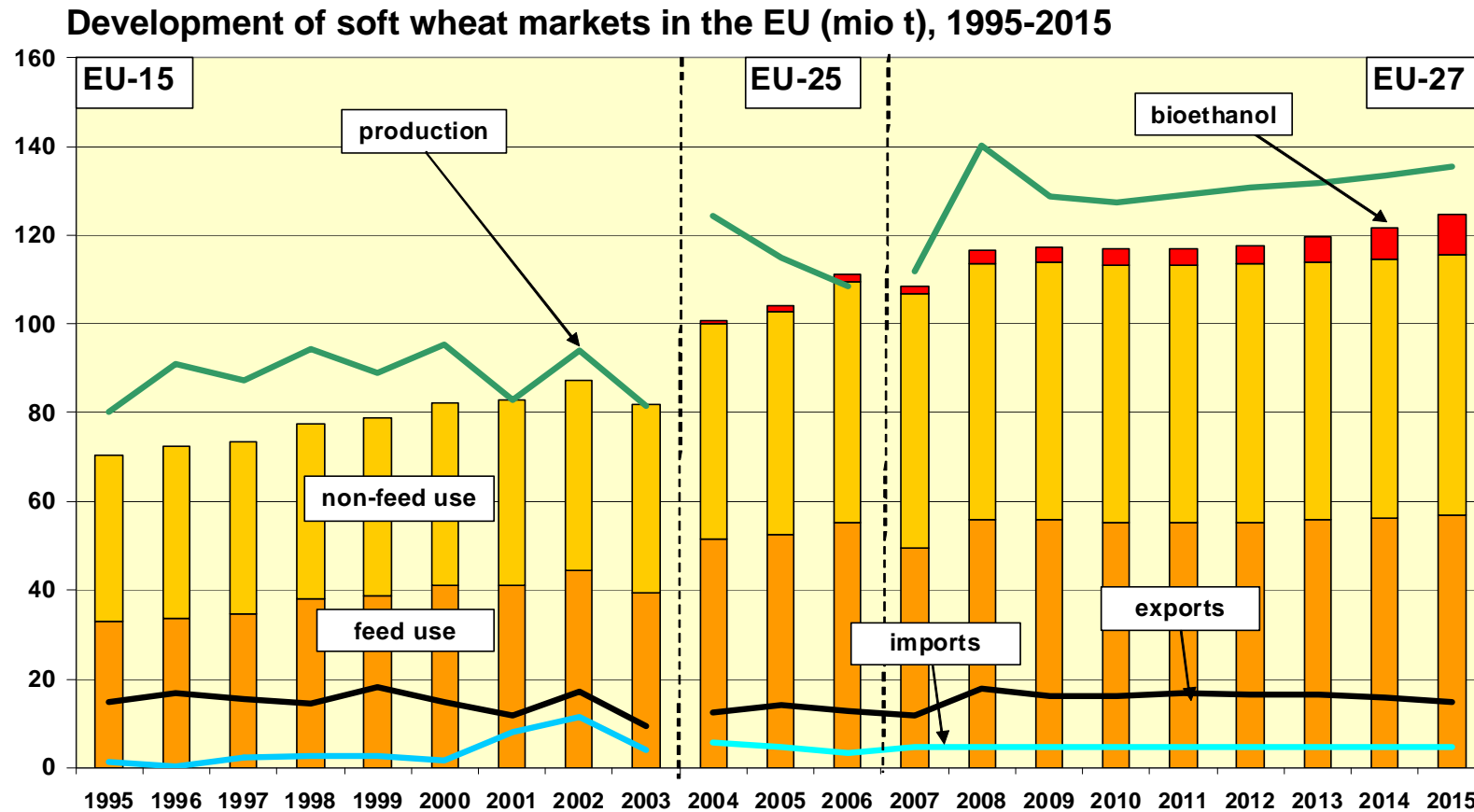
... lead to a return to modest levels of stocks on EU cereal markets

Development of stocks and cereal exports in the EU, 1995-2015 (mio t)





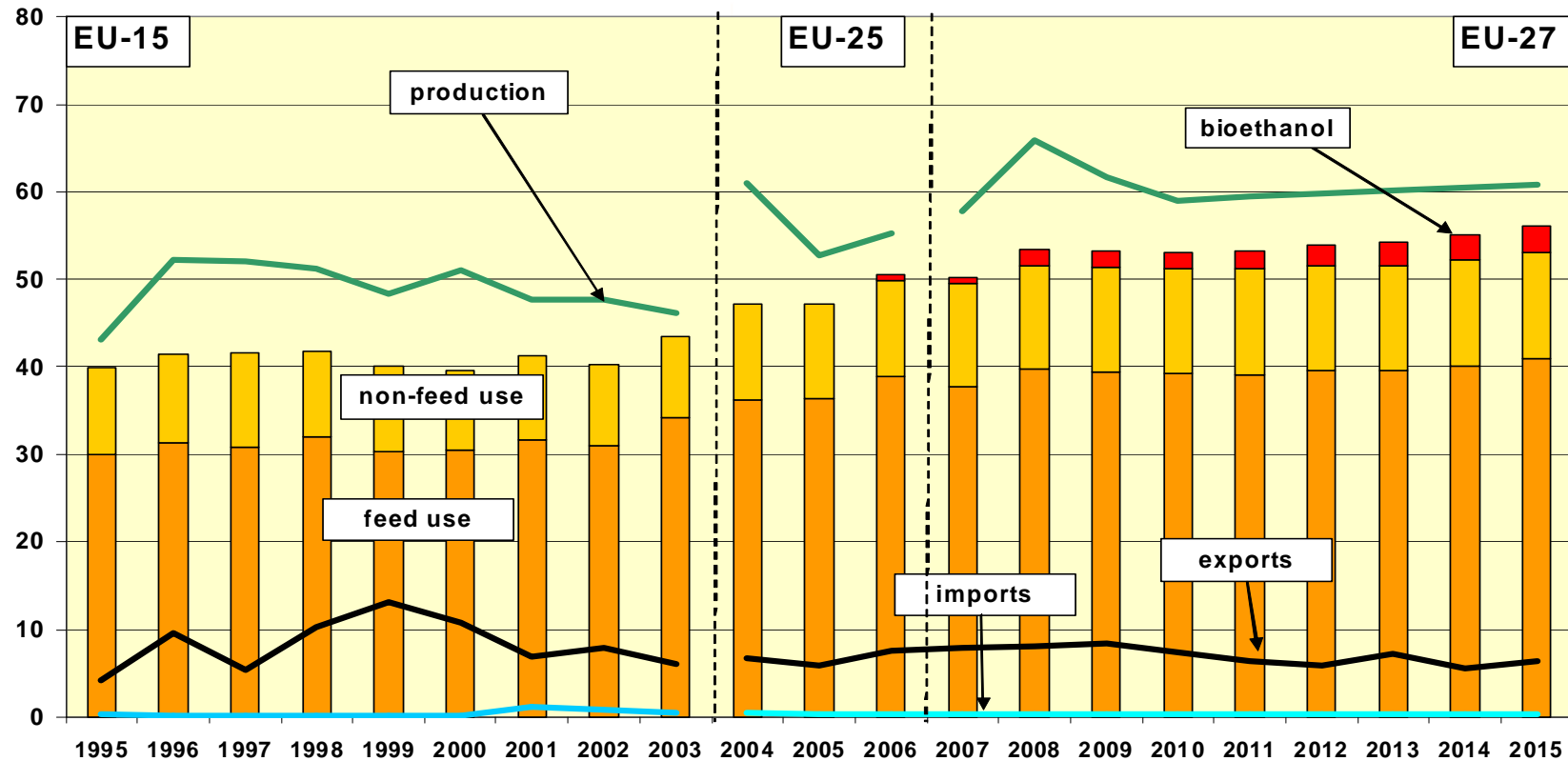
Medium-term perspectives for soft wheat





Medium-term perspectives for barley

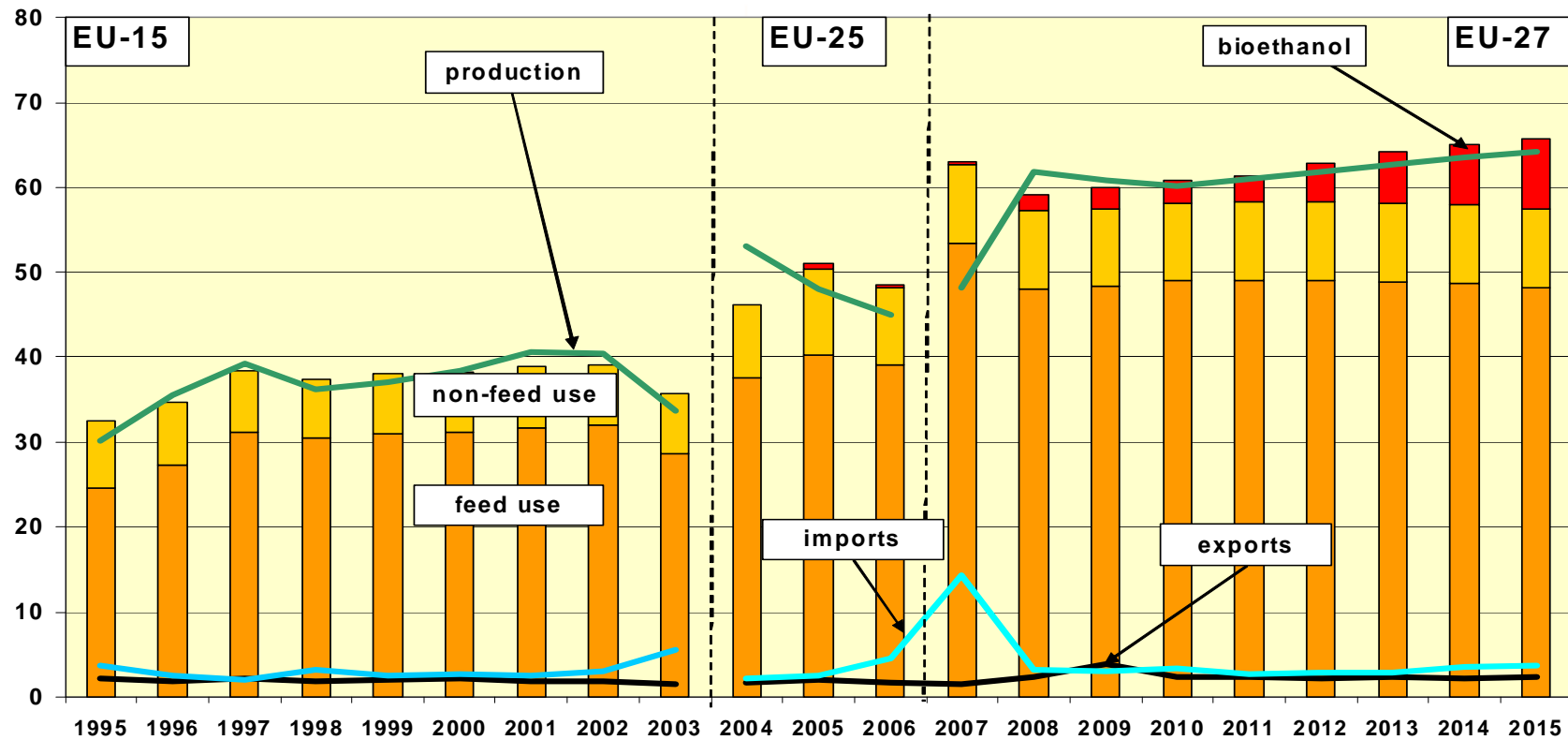
Development of barley markets in the EU (mio t), 1995-2015





Medium-term perspectives for maize

Development of maize markets in the EU (mio t), 1995-2015





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Prospects for agricultural markets 2008-2015

Meat sector



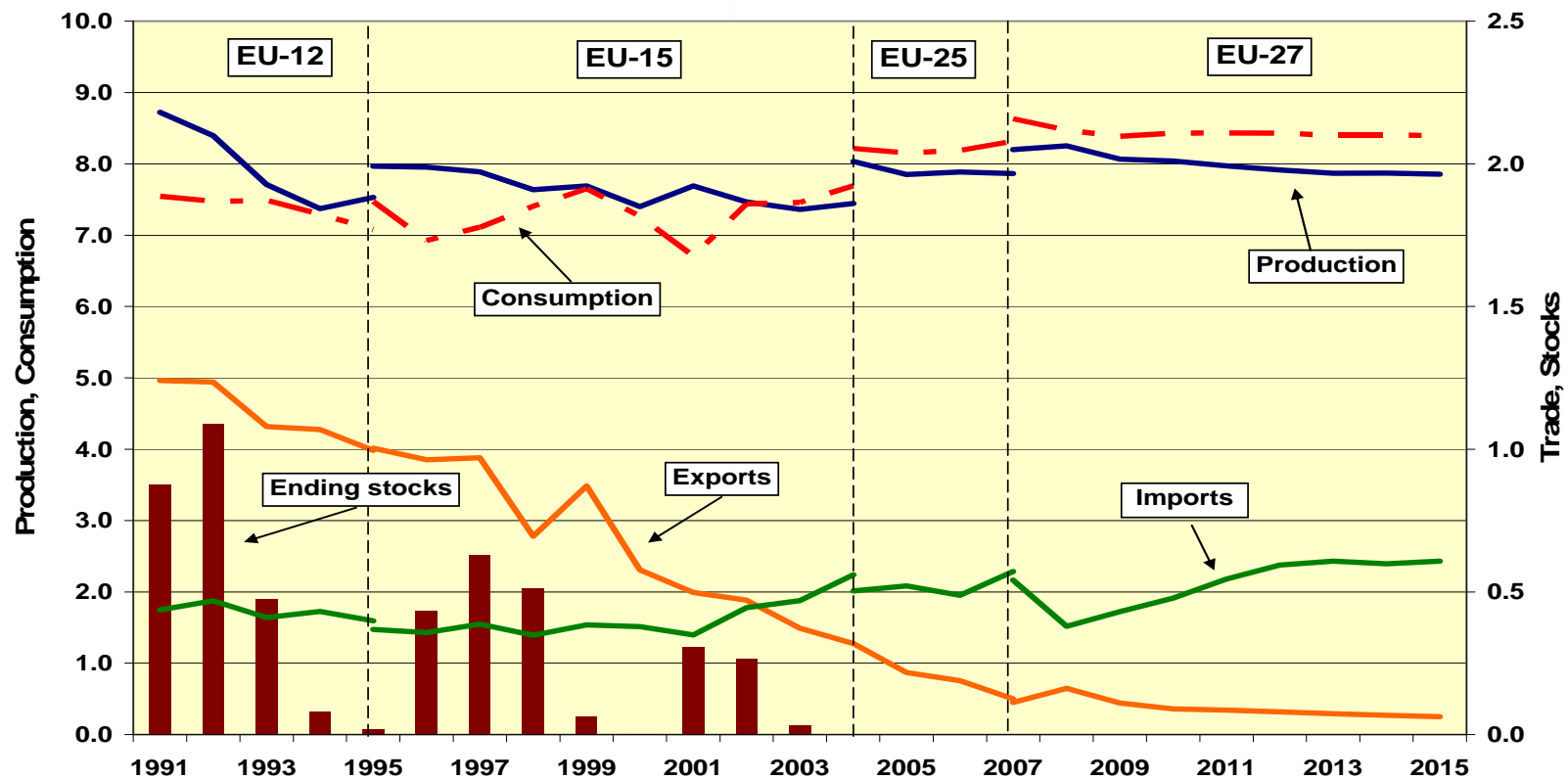
Overview

- **Economic crisis constrains short-term prospects through**
 - Impact on disposable income
 - exchange rate developments and credit constraints
- **Medium-term prospects remain positive**
 - EU per capita consumption to reach 87.6kg in 2015 (+2.9%)
 - outpacing production growth
 - and attracting increased imports
- **Poultry and pig meat production displays steady growth, but beef and sheep/goat production declines**
- **EU exports return to a declining path in light of increased competition from lower cost exporters and unfavourable exchange rate developments**



Beef: net importing position to strengthen

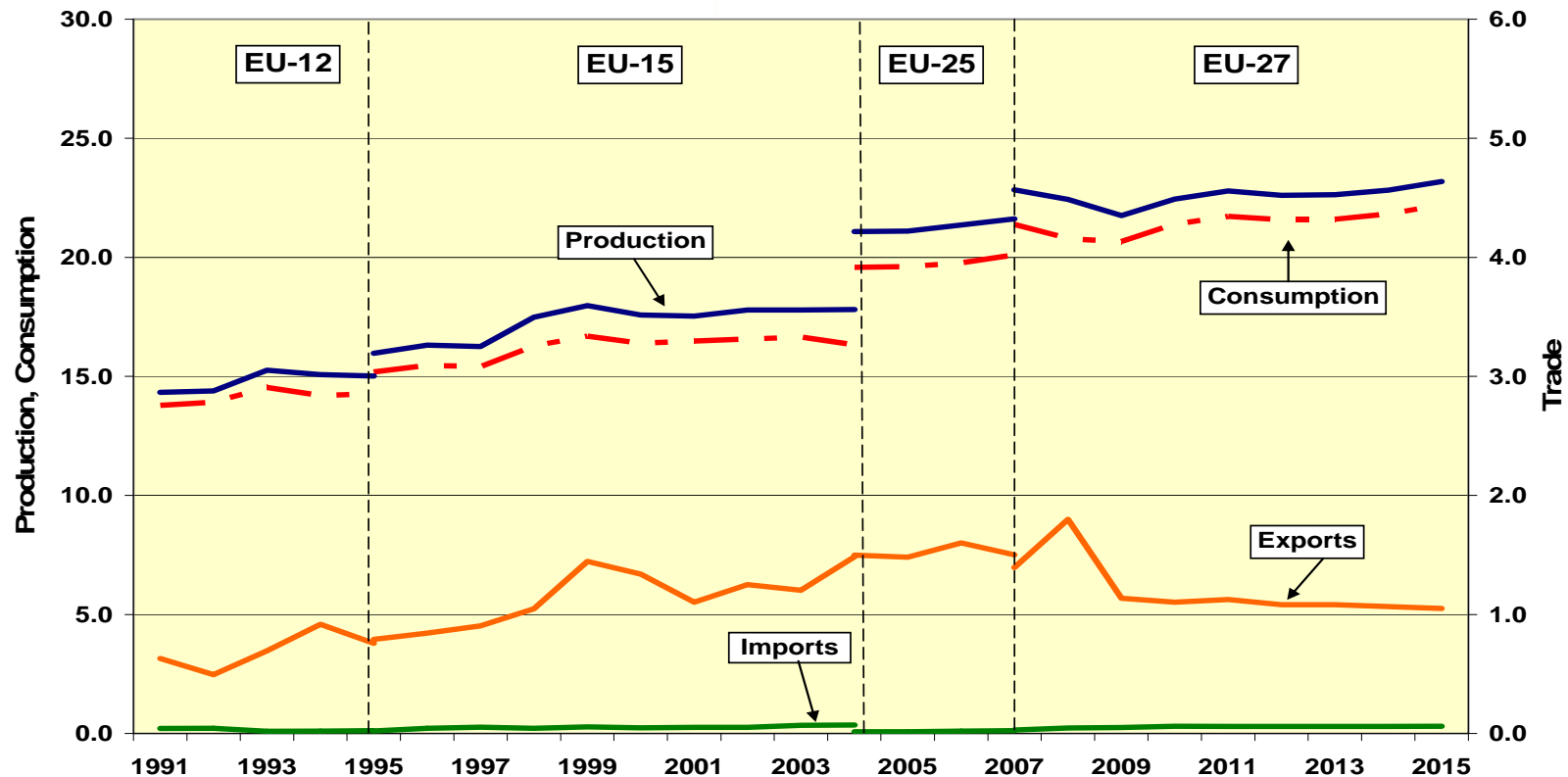
EU production, consumption, trade and intervention stocks (mio t c.w.e.)





Pig meat: steady growth in production and consumption, but exports lose potential

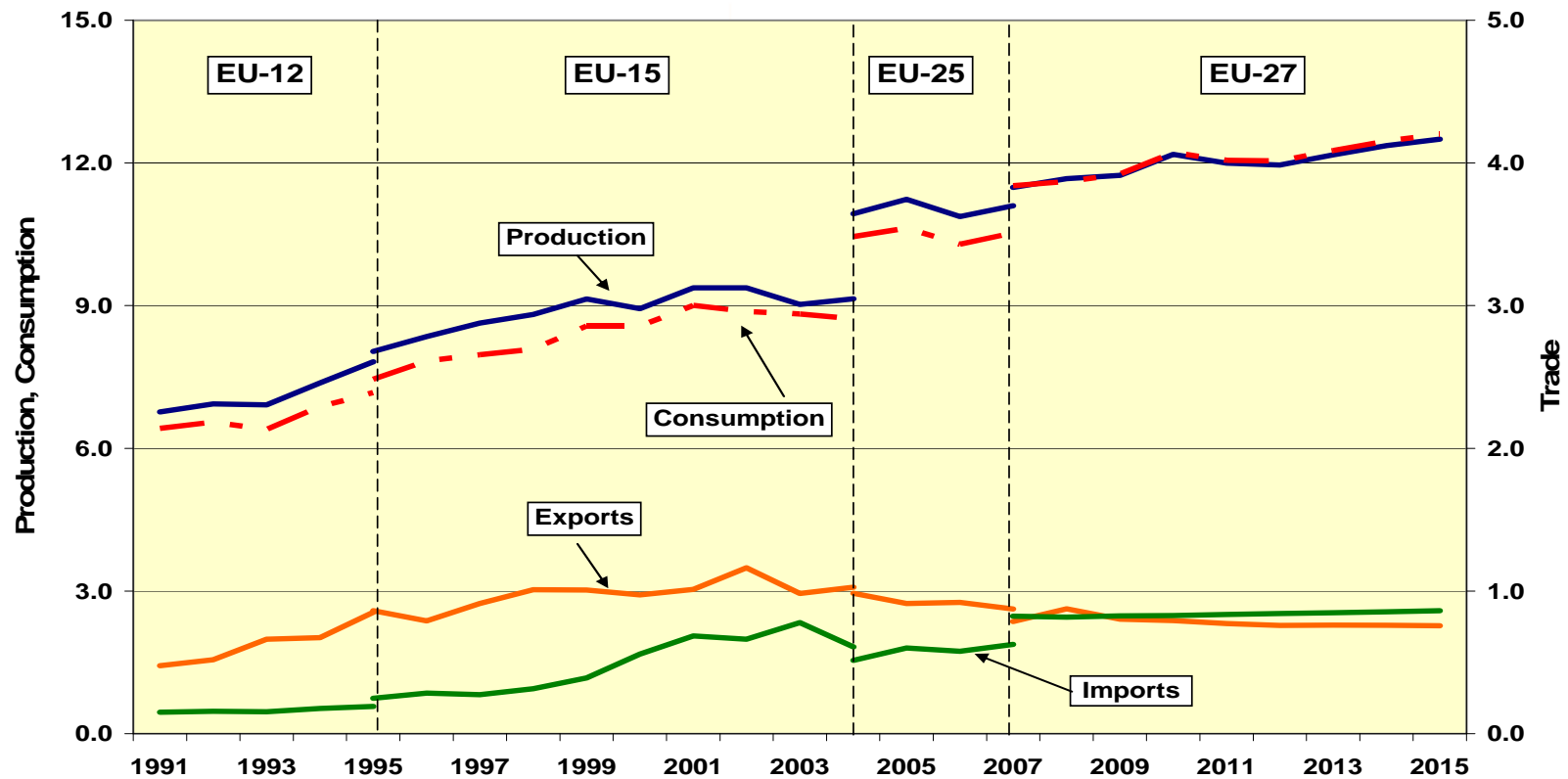
EU production, consumption and trade (mio t c.w.e.)





Poultry meat: strong consumer preference drives production growth, but imports exceed EU exports

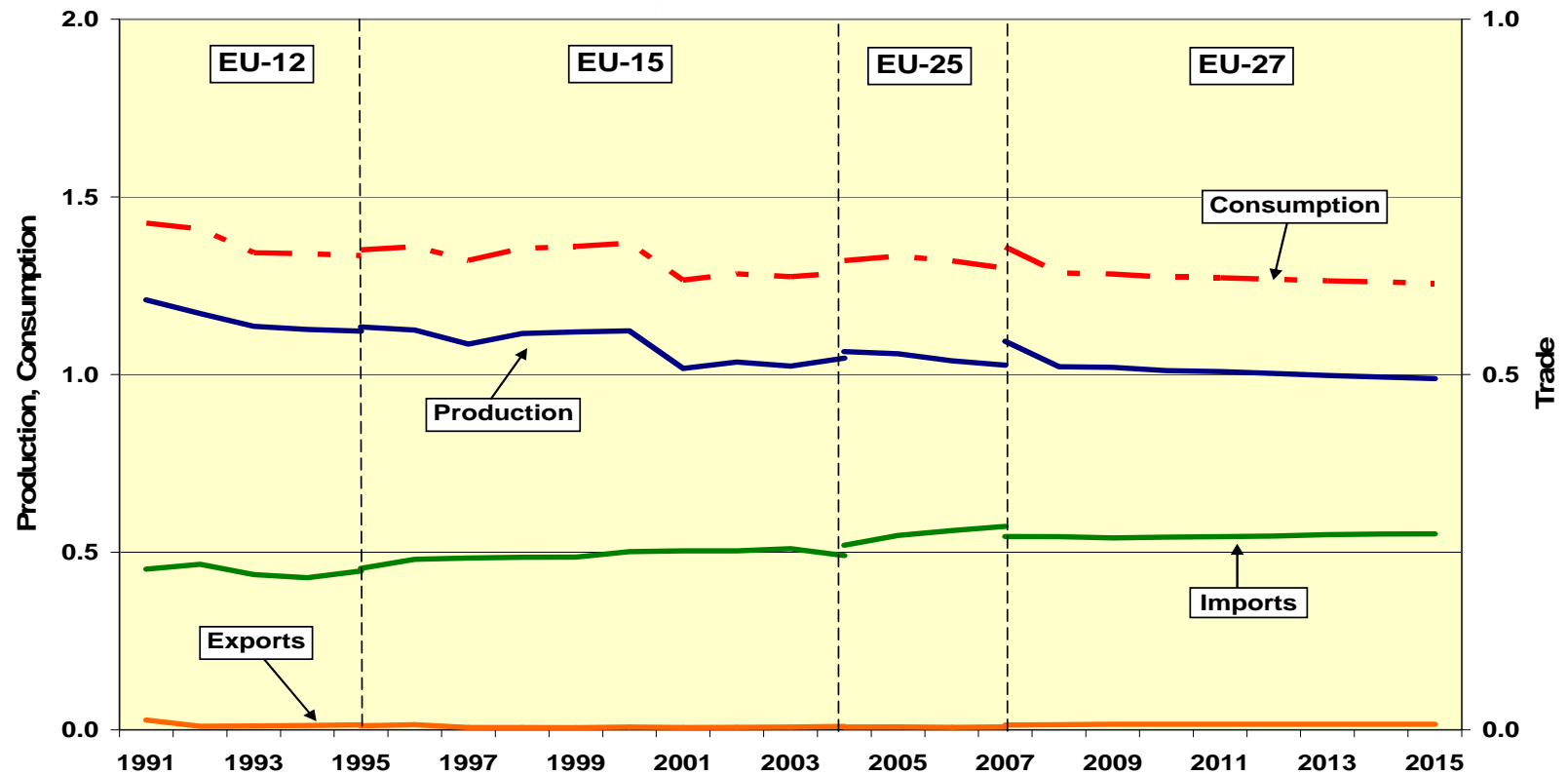
EU production, consumption and trade (mio t c.w.e.)





Sheep and goat: continued decline in production

EU production, consumption and trade (mio t c.w.e.)





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Prospects for agricultural markets 2008-2015

Milk and dairy sector



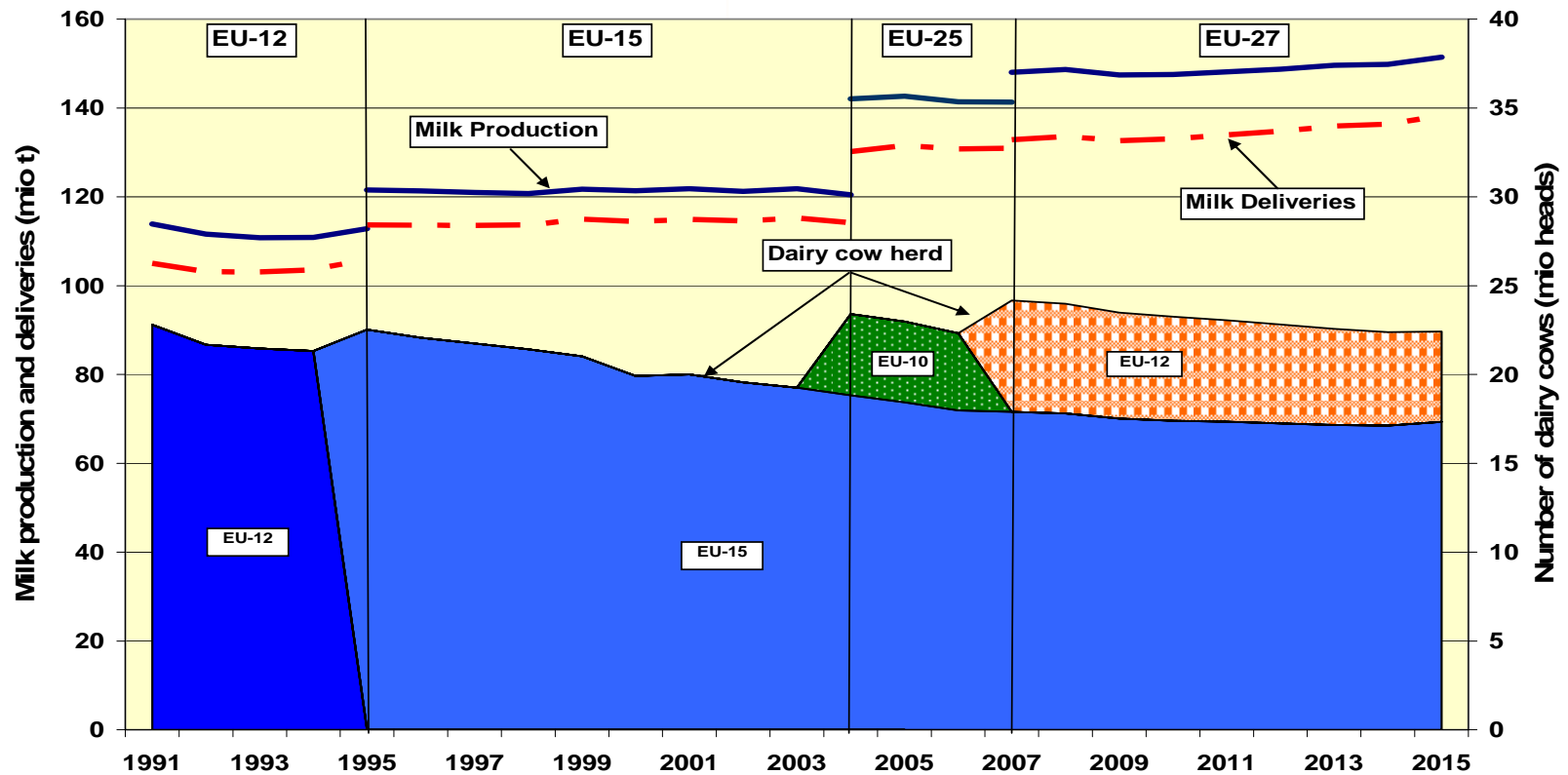
Overview

- **Difficult situation over the short-term**
 - Low commodity prices induce a significant decline in the milk price paid to producers
 - Increasing underutilisation of available milk quotas
 - Market measures required to balance markets
- **Medium-term prospects remain favourable for high value-added commodities, but bulk commodity markets recover over a lengthier (de-stocking) period**
- **Milk price projected to remain depressed and production remains below the quota level on aggregate**



Milk supply: growth remains below potential

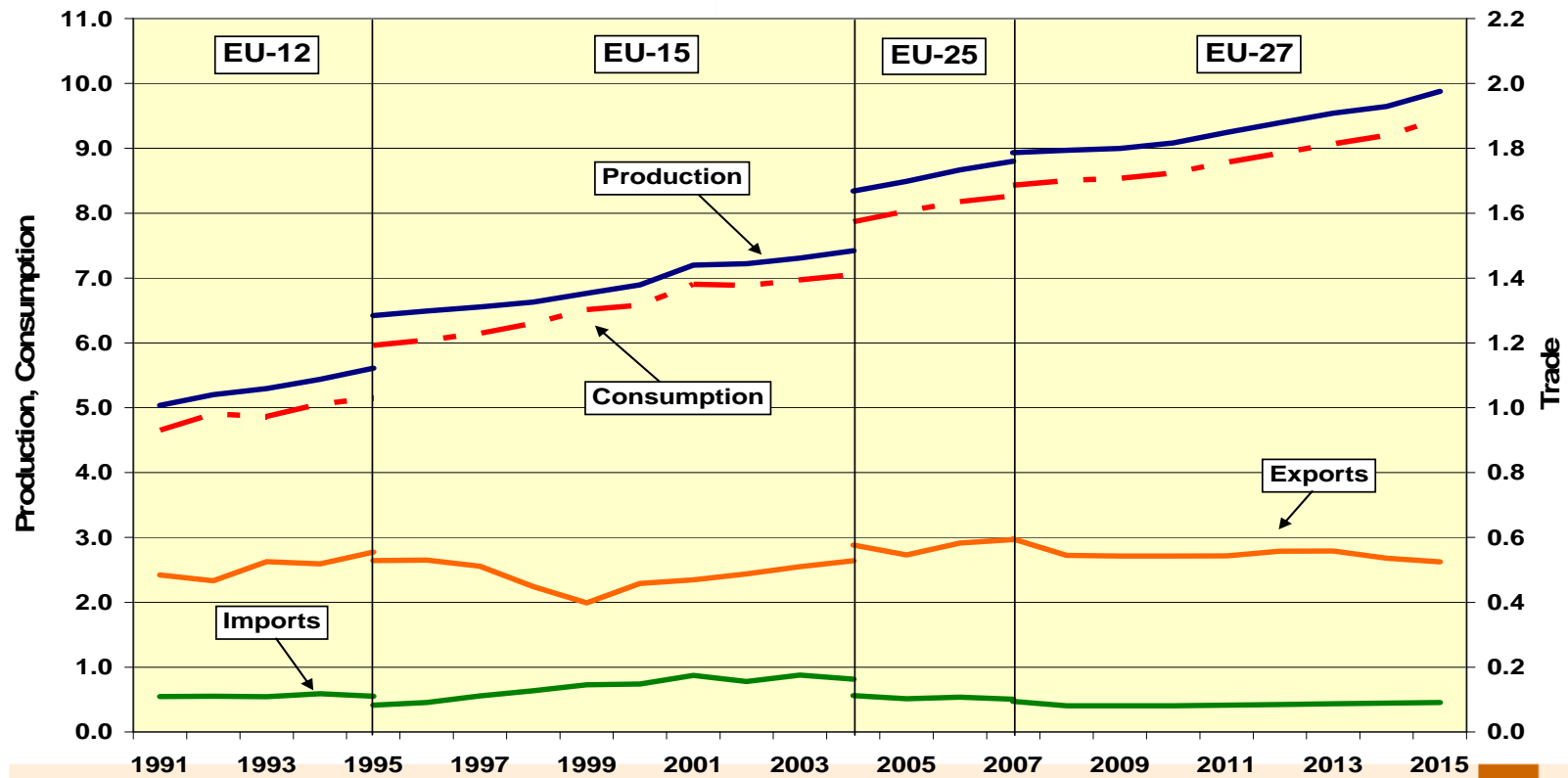
EU milk production, deliveries to dairies, dairy cows





Cheese: demand prospects remain favourable and drive production growth

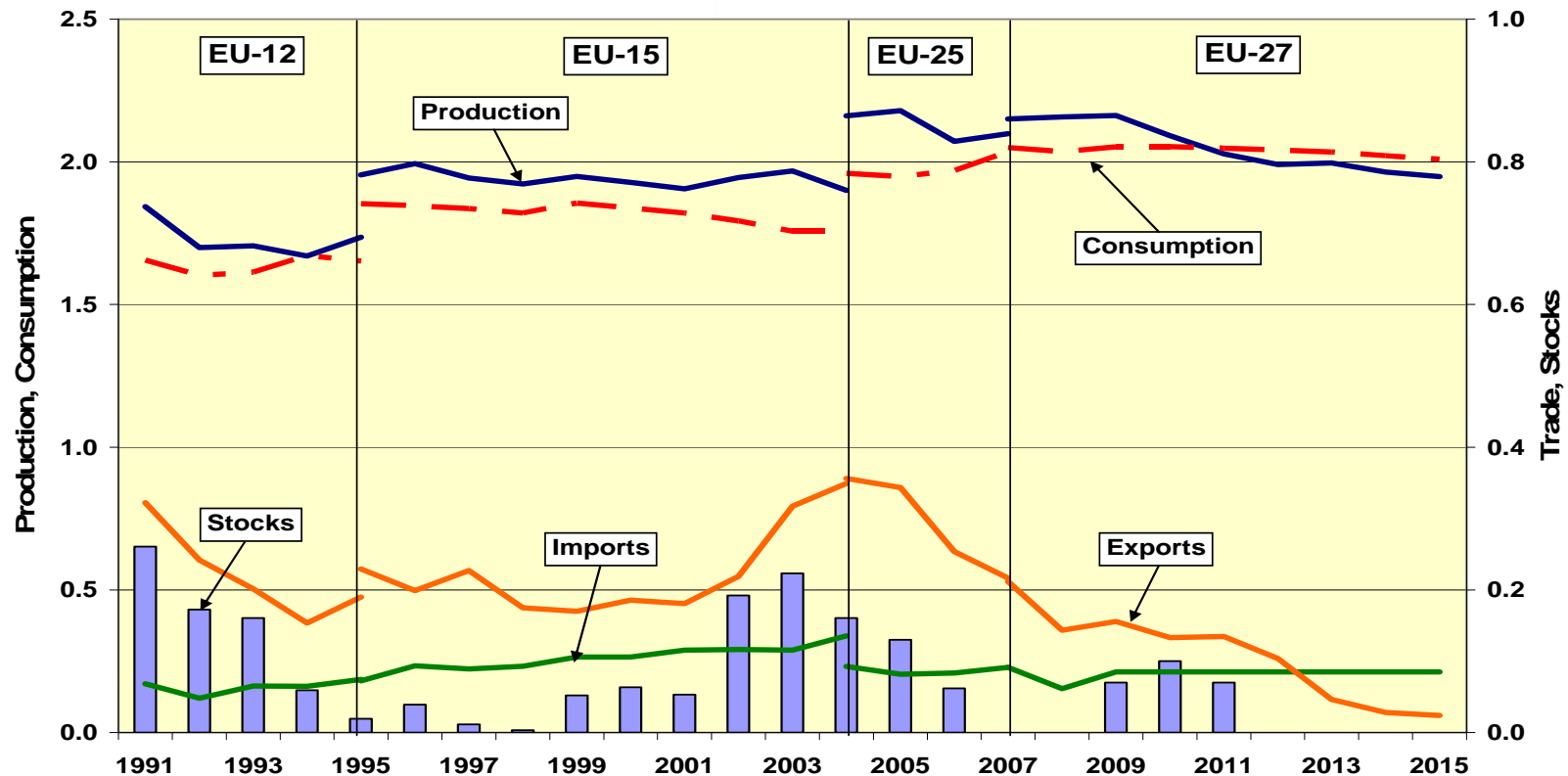
EU production, consumption and trade (mio t)





Butter: declining production lead to the disappearance of public stocks by 2012

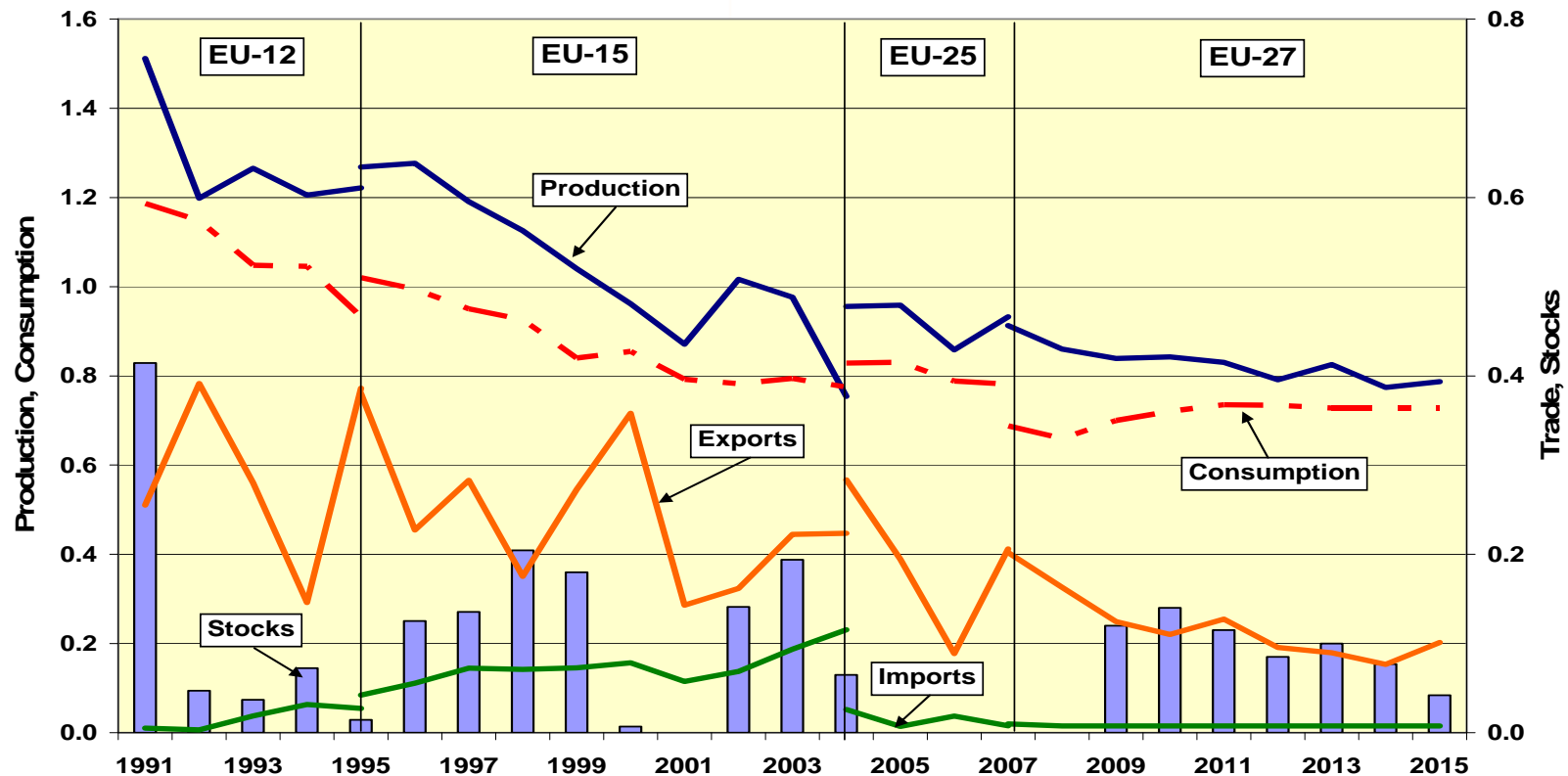
EU production, consumption, trade and intervention stocks (mio t)





SMP: lengthy de-stocking from intervention with little support from exports (facing strong competition)

EU production, consumption, trade and intervention stocks (mio t)



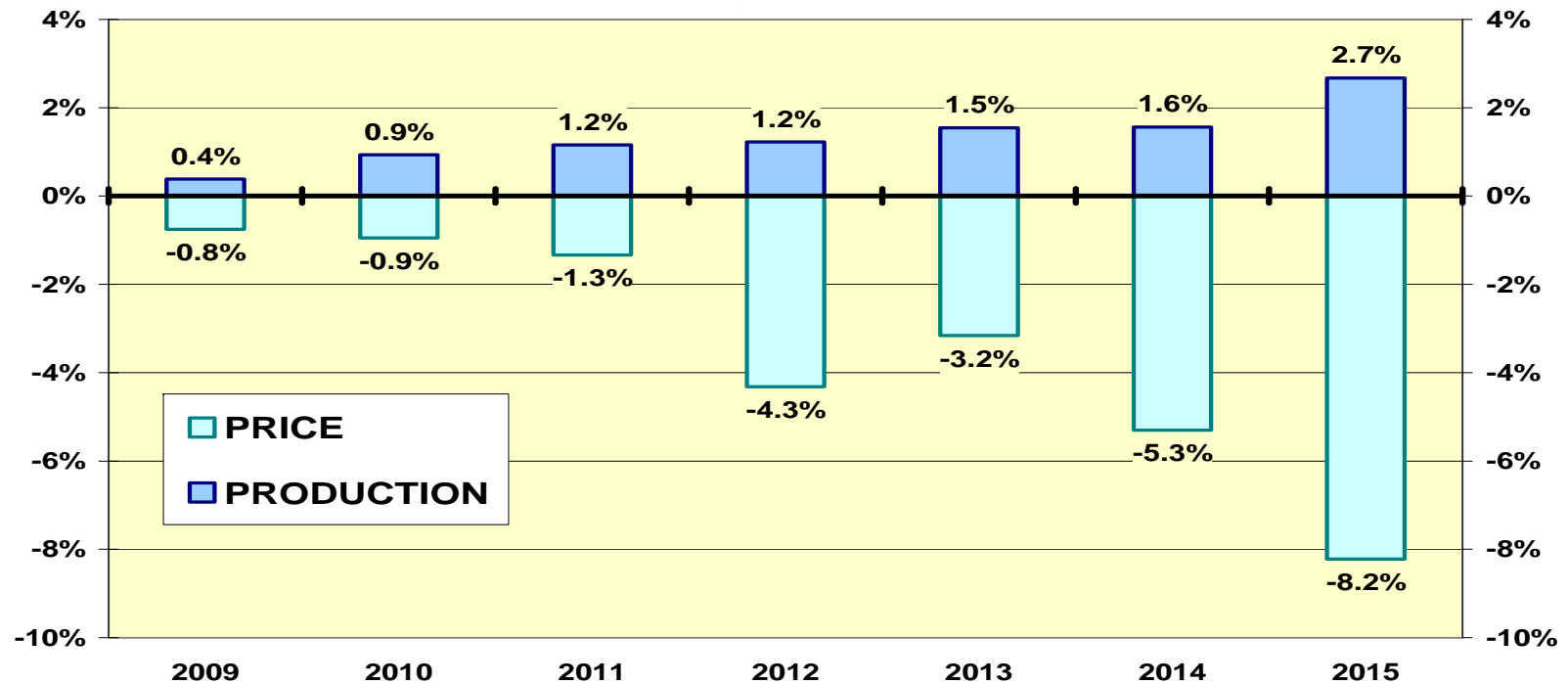


Health Check decisions on dairy

- Milk quotas increase by an annual 1% over five quota years (2009/10 to 2013/14)
 - Italy receives the aggregate 5% increase in the first quota year (2009/10)
- Milk quotas remain unchanged in 2014/15
- Milk quotas abolished from April 2015
- Fat adjustment is reduced by half

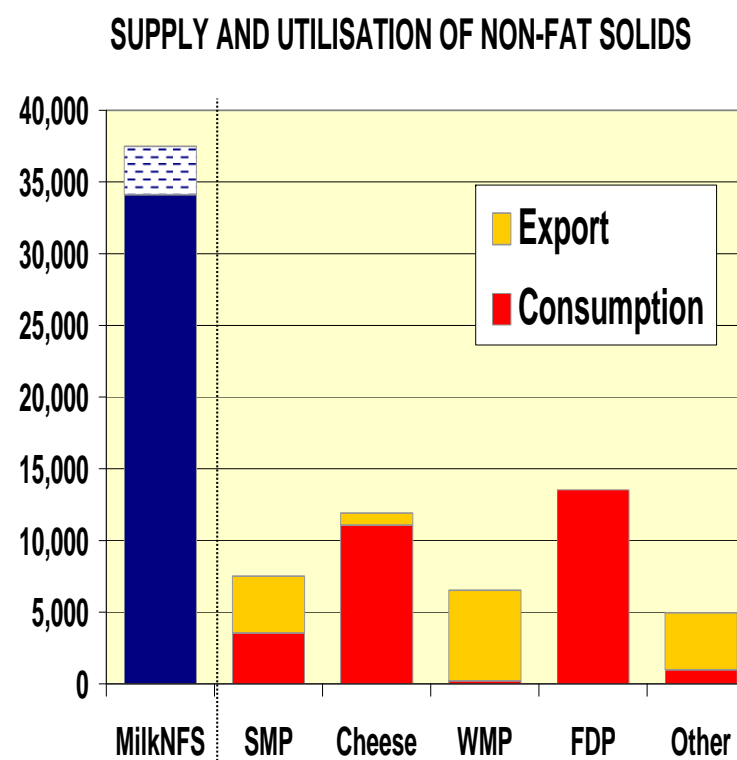
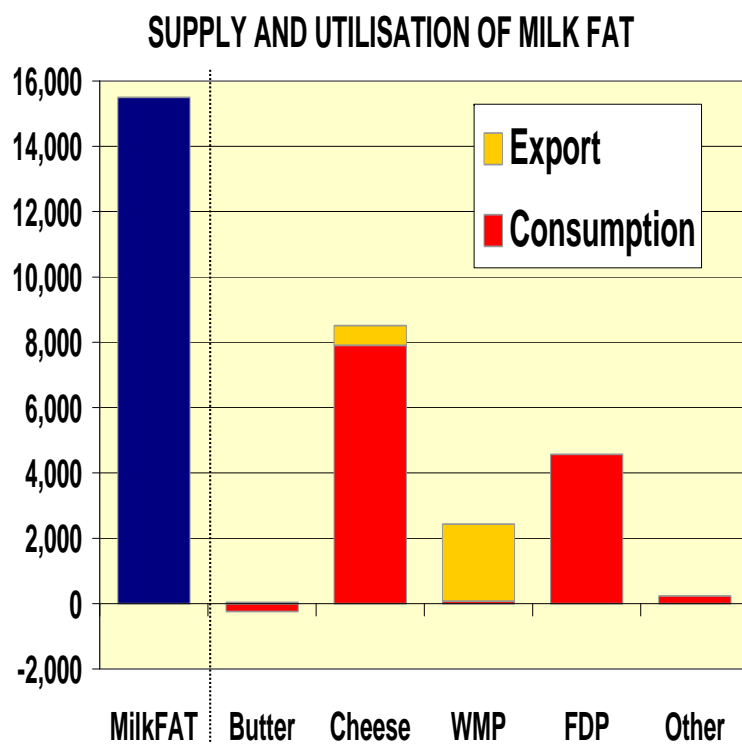


Impact on milk production and price (as % deviation from the 'no Health Check' scenario)





Impact on milk fat and non-fat solids in 2015 (in tons, versus the 'no Health Check' scenario)





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Agricultural income



Favourable medium-term perspectives for farm income, most notably in the EU-12

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Factor income in nominal terms										
EU-27	93.2	100.0	96.8	99	105.5	101.1	95.4	96.2	100.8	103.3
EU-15	93.3	100.0	95.5	96.4	100.9	95.7	90.0	90.3	93.9	95.1
EU-12	92.4	100.0	104.7	115.0	132.3	132.9	126.5	130.3	141.6	151.3
Labour input										
EU-27	105.3	100.0	97.9	95.0	92.2	89.6	87.0	84.4	82.0	79.6
EU-15	103.2	100.0	97.8	95.6	93.4	91.2	89.1	87.1	85.1	83.1
EU-12	107.3	100.0	97.9	94.5	91.2	88.0	84.9	81.9	79.1	76.3
Agricultural income in real terms per labour unit										
EU-27	90.6	100.0	95.4	98.4	105.5	101.9	97.0	98.6	104.2	107.5
EU-15	92.4	100.0	95.0	96.2	101.0	96.2	90.9	91.5	95.5	97.1
EU-12	89.1	100.0	97.4	108.3	125.8	127.3	122.2	126.9	139.0	149.8



Uncertainties

- Economic outlook
 - Length and breadth of recession
 - Exchange rate developments
 - Crude oil price
- Agricultural and trade policies
 - Renewable energies
 - DDA negotiations
- Technological change
- Climatic conditions
- Animal diseases