

European Commission
Directorate-General for Agriculture and Rural Development

PROSPECTS FOR
AGRICULTURAL MARKETS
AND INCOME
IN THE EUROPEAN UNION

2008 – 2015

March 2009

EXECUTIVE SUMMARY

Introduction

The outlook for agricultural commodities (cereals, oilseeds, meat and dairy products) in the EU-27 over the 2008-2015 period has been elaborated on the basis of specific **assumptions** on agricultural and trade policies, and the macro-economic environment. They do not consider 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 2008-2015. The report is based on the information available at the end of **January 2009**.

The **macroeconomic environment** is projected to be shaped over the **short term** by the consequences of the financial and economic crisis, which is expected to put severe pressure on the real economy. The world economy has entered into the deepest crisis for more than 60 years. The economic growth in the EU is estimated to fall from 1.0% in 2008 to -1.8% in 2009, with a modest recovery of 0.5% in 2010. At global level, world GDP is projected to decline by 0.5% in 2009 but rebound by 2.6% in 2010. The **medium-term** perspectives for the EU economy would exhibit a slow and modest recovery (estimated at around 2% p.a.). Yet, the breadth and depth of the crisis are still difficult to assess, and the economic outlook remains subject to important uncertainties with significant (mainly downside) risks that could significantly alter commodity market projections.

Outlook for EU agricultural markets and income

While the agricultural sector is generally **more resilient** to economic crises than other sectors, it is expected to face great challenges, especially in **demand growth** and **farm income**, which may continue to exert strong pressure on **agricultural prices** and trigger significant structural adjustment. Whereas food demand will be directly negatively affected in the higher value-added sectors (especially in the **livestock** and **dairy sectors**), the economic crisis should also be felt indirectly in other parts of the agricultural economy: in the arable crop sector through feed demand, in the energy crop sector in the wake of lower oil prices, as well as in the upstream and downstream industries.

Whereas the downturn in the global economy is estimated to have amplified the fall in the prices of many commodities during the second half of 2008, it is expected to continue to **weigh heavily over the short-term perspectives** of most agricultural sectors in the EU and at global level. Agricultural commodity markets are projected to recover over the medium term supported by structural factors like the growth in global food demand, the development of the biofuel sector and the long-term decline in food crop productivity growth.

Arable crops

The markets for **cereals** have shown exceptional developments in 2007/2008, with prices at record levels until spring 2008, followed by a rapid decline resulting in prices coming

back to levels similar to or even below those before the price spikes. Initially the price decline came about as the effect of certain short-term drivers which amplified the price increase in the second half of 2007 diminished due to more favourable weather conditions, declining energy prices and lifting of export restrictions. Moreover, global supply responded strongly to higher prices, supported in the EU by a relaxation of production constraints in the CAP, notably the suspension of mandatory set-aside in 2008. In the EU the 2008 cereals harvest reached around 312 mio t in comparison with 258 mio t in 2007/2008, thanks to both a significant increase of the cultivated area and higher yields due to favourable natural conditions.

The price decline recently gained pace in the wake of the general turbulence in the global financial system and the deterioration of the economic environment. Over the **short term** limited growth in cereal demand is foreseen (especially through lower meat consumption), contributing to keep grain prices under renewed pressure.

The **medium-term** projections for the period until 2015 depict a more positive outlook for the EU cereal markets thanks to the impact of the CAP reform, the moderate prospects for yield growth, the emerging bioethanol market, the continued gradual integration of the new Member States into the single market and favourable price conditions on world markets. The domestic use of cereals in the EU is notably projected to increase thanks to the growth in the emerging bioethanol and biomass industry in the wake of the initiatives taken by Member States in the framework of the biofuel directive, the biomass action plan and the recently adopted renewable energy directive. These developments on the internal and external markets should all result in **relatively balanced cereals markets** over the medium term in the EU.

World and EU cereal prices are projected to recover over the medium term somewhat at higher levels than seen in the last decade, though at much lower levels than those observed early 2008 and those previously foreseen before the start of the economic crisis. Moreover, cereal prices are expected to exhibit greater fluctuations than observed over the past. The continuously high and increasing maize demand in the US should lead to a lasting change of relative prices in favour of coarse grains.

Medium-term market perspectives for the EU **oilseed** sector are foreseen to be supported by the increasing demand for biodiesel in the EU and the perspectives projected for world markets (driven by the rising demand for oilseed meal and vegetable oil). With rather stable oilseed production projected over the next 7 years, the EU will continue to remain a large net importer of oilseeds over the medium term.

Meat

In 2008 total meat consumption fell considerably to 85.1 kg/capita (-2.2% from 2007) as a likely consequence of high prices and low availabilities. A further, albeit slight, decline could take place in the **short term** as a consequence of economic recession. However the medium-term prospects for the EU meat sector appear moderately positive with increased production and consumption of poultry and pig meat, while production of beef and sheep/goat meat are projected to decline further. As demand growth would outpace the increase in total meat production, that is to expand by 2.1% over the projection period, the net exporting position of the EU would show continued weakening.

The medium-term projections for the period until 2015 for **pig meat** production and consumption depict an increase, though at a slower pace than in the past decade, due to

the competition from poultry meat and firm feed prices. The remarkable export situation of 2008 that enabled a 29% increase in EU shipments would end in 2009 as a consequence of economic recession, increasingly restrictive Russian meat import policy and strong competition from low-cost producing countries. EU exports are projected to decline slowly but steadily over the medium term. The market outlook for **poultry meat** should remain supported by the competitive prices with respect to other meats and strong consumer preference should play in favour of poultry production. Following a slight decrease in 2008, imports would grow moderately over the medium term. On the contrary, EU exports are projected to exhibit a continued decline, after the increase in 2008, returning the EU to its net importer status observed in 2007 following trade agreements with Brazil and Thailand.

Beef production is projected to decline by some 4.8% over the next seven years following the structural reduction of the dairy herd and the impact of decoupling. Consumption would exhibit a more modest decrease (-0.8%) leading to increased imports (+60%) that are foreseen to return to previous growth trends following the large drop in 2008 due to non-compliance with EU traceability regulations in Brazil and government interventions in Argentina. **Sheep and goat meat** production fell considerably in 2008 as a likely outcome of the Blue Tongue disease in major producing regions and is projected to decline further over the medium term. Imports are expected to remain stable in order to meet domestic demand that is projected to decline at a slightly lower rate than production.

Milk and dairy products

The **short-term perspectives** in the dairy sector should remain dominated by the consequences of the economic crisis, notably on disposal income. The pronounced decline in the prices of dairy products during the most recent months is expected to induce a substantial fall in the producer price of milk in 2009. Milk prices would remain at depressed levels over the first part of the projection period. This should lead to a slight contraction in EU milk production over the short term. **EU milk production** grew only marginally in 2008 despite the 2% quota increase decided for the 2008/09 quota year and the relatively favourable milk price paid to producers over the calendar year. As a consequence, the 2008/09 quota year (ending in March 2009) could finish with a record level of net undershoot for EU deliveries quota. The aggregate EU milk quota underutilisation should increase even further in the 2009/10 quota year.

EU milk production would recover over the **medium term** displaying a gradual growth over the milk quotas phasing-out period, while constantly remaining below the quota level. As a result the abolition of milk quotas in 2015/16 is not projected to have a significant impact on milk production and milk price (+1.1% and -0.1% against 2014/15 respectively). Milk production is projected to exceed the 2008 level by 1.8% in 2015 at 151.4 mio t, but EU-12 supply is foreseen to decline to 27 mio t (-4.2%) driven by a steady decrease in subsistence production. On the other hand, the proportion of milk delivered to dairies is foreseen to expand over the medium term, particularly in the EU-12, leading to a 4% increase in milk available for processing at 138.2 mio t by 2015.

The short-term prospects for **cheese** and value-added fresh dairy product markets should be determined by constrained EU and world demand, although the medium-term demand prospects are anticipated to remain favourable allowing EU cheese production to return to a stable growth from 2011 onwards to reach 9.9 mio t by 2015 (exceeding the 2008 level by 10%). This growth would be driven by continued strong consumption and

production increase in the EU-12. Exports are foreseen to expand slightly following the short term decline, but the growth in domestic consumption would absorb most of the increase in cheese production, leading to a steady drop in exports in the last years of the projection period.

Driven by a contracting EU and world demand, **butter and skimmed milk powder (SMP)** prices declined to EU intervention buying-in levels by the end of 2008, leading to the accumulation of private stocks for both products. EU and world demand is expected to remain weak, which may make intervention an attractive outlet for these bulk products over the short term. The re-activation of export refunds should support EU exports, but low demand and strong competition from lower-priced exporters are foreseen to affect EU export potential for butter and SMP over the near and medium term.

The medium-term developments for bulk commodity output depict a steady decline due to the increasing production of higher value added dairy commodities and depressed price levels throughout the 'intervention de-stocking period'. EU butter production is foreseen to decline to 1.9 mio t by 2015, while consumption is projected to decrease at a lower rate enabling a complete de-stocking of intervention storage by 2012 and leading to declining butter exports over the medium term. SMP production is forecast to decline by 8% from 2008 to reach 787 thousand t by 2015, but intervention stocks would not be emptied over the projection period as EU demand is foreseen to remain limited and strong competition from lower cost exporters would render EU exports less attractive.

Agricultural income

Despite the significant short-term setback in the wake of the economic recession, the medium-term prospects for **EU agricultural income** remain positive with the aggregate income in real terms and per labour unit exceeding the very favourable 2007 year by 7.5% in 2015. This overall gain would however mask marked differences between EU-15 and the EU-12. Whereas agricultural income in the EU-15 would show a very moderate development and remain in 2015 below the 2007 level by 2.9%, it is foreseen to display a more pronounced picture in the EU-12 rising above the 2007 level by 49.8% in 2015. The continuous increase in the subsidies granted to agricultural producers in the EU-12 should remain a key driver of income growth in this group of Member States.

Uncertainties

The overall outlook for EU agricultural markets remains subject to some **important uncertainties**, most of which on the downside. The latter relate mainly to future economic, market and policy developments. They concern in particular the extent of the ongoing financial and economic crisis with its impacts on exchange rates, disposable income, labour market, asset values, access to credit and energy prices. Other factors such as future changes in agricultural and trade policies as well as the outcome of the current Doha Development Round of trade negotiations, the policies on renewable energy, the path of technological change and future climatic conditions could also have far reaching implications for the future pattern of EU agricultural markets.