The 2016 EU Agricultural Outlook Conference

EU agricultural markets: overview of main drivers and outlook

Brussels, 6-7 December
Outline

1. The EU Agricultural Outlook: what, how, why?

2. Main drivers and assumptions

3. Main market results and implications for income and the environment
What is the EU Agricultural Outlook?

- 10-year projections of agricultural markets and income, with focus on the EU

- 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 making the projections were judged plausible

- Main commodities covered (grains, meats, dairy, biofuels, sugar)

- Results in terms of supply balance sheets (production, consumption, imports, exports, stocks) and prices
How is the EU Agricultural Outlook done?

Starting point: OECD-FAO Outlook
(model, baseline 2016-2025)

Incorporation of Short-Term Outlook

Update of macroeconomic & policy assumptions

New model development

Baseline week

Discussions between AGRI / JRC modellers and AGRI market experts and hierarchy; iterative process to obtain a preliminary outlook

Preliminary Outlook & uncertainty assessment presented and discussed at JRC/DG AGRI Outlook workshop

Final EU Agricultural Outlook
Publication & DG AGRI Outlook Conference
Why doing an EU Agricultural Outlook?

• To better understand markets and their dynamics

• To identify key issues for market and policy developments

• To have a benchmark for assessing the medium-term impact of future market and policy issues
Main drivers of the agricultural outlook

- Population, diets and the food chain
- EU food supply and demand interaction
- Climate, energy and natural resources
- Price and income prospects: more uncertain than before

Macroeconomic and trade environment
Trends in real commodity prices - 2016

Source: World Bank. (2016 is average for first 11 months)
The uncertain world of crude oil prices

Diverging crude oil assumptions... ...and alternative scenarios

- IHS 9/16
- OECD FAO, 2016
- EC, 2015
- WB, 7/16
- IMF, 8/16
- EIA medium term, 5/16
- EC 2016 assumption

97.5th percentile
2.5th percentile
Macroeconomic realities lag behind expectations

The world economic growth path

The EU economic growth path

IMF 2010 world forecast
- Realized world GDP growth
- IMF 2015 world forecast

IMF 2010 EU forecast
- Realized EU GDP growth
- IMF 2015 world forecast
Exchange rate assumption (USD per EUR)

Longer low euro period

Less appreciation
Policy assumptions

- Assumes current CAP throughout the projection period

- Voluntary coupled support (VCS) included

- Greening:
  - Crop diversification: impact at farm level but no major change in area allocation at EU aggregated level
  - Permanent grassland share in arable land decreases less than without greening measures:
    - Now stable at 33% from 2016 to 2026
  - EFA: over 7% of arable crop area in 2026 mainly thanks to:
    - Catch crops
    - An increase in protein crops and soybeans area (also in link to VCS for such crops)
    - Less fallow land (6.7% in 2015 down to 6.0% in 2026)
Trade assumptions

• Existing WTO commitments

• Only ratified Free Trade Agreements (FTA)
  • included:
    - SADC (Southern African Development Community)
    - Canada
    - Ukraine

• Agreed development of tariff quotas for all FTAs

• Russian import ban:
  • until end 2017 (inc. pork sanitary ban) then partial recovery
  • longer term development, depends on change in Russian import needs (lower consumption, higher domestic production)

• Outlook for EU28, including the UK until 2026
How to address uncertainty in agricultural commodity markets outlook?

- **Partial Stochastic Analysis**: yield and macroeconomic uncertainties taken into account → implemented by JRC, DG AGRI, OECD, FAO

Possible price paths for soft wheat in the EU (€/t)
Main market results

Main cereals more dominant in area, but yield growth low
Increase of production and use of main cereals mainly driven by feed use
Meals more important in oilseed complex

World dairy demand to expand, especially in Africa and Asia
The EU to become first world exporter, just in front of NZ
A moderate production increase in the EU

Stable meat consumption in EU but growing world demand by 2026
EU meat production to grow moderately
88-95% of EU meat production goes to domestic consumer
Main market results

World sugar market deficit resulting in higher prices
EU to increase production after quota expiry in 2017
Competition from isoglucose and lower biofuels use

Most of EU biofuels demand remains policy driven
EU still a biodiesel market but ethanol shows some increase
Recent policy proposal for after 2020 compatible with outlook

Wine, olive oil, fruit and vegetables: important sectors but diversity of situations
Relative stagnation/decline of domestic consumption but exports keep growing. Adding value is key.
Impact on agricultural income

- Real income per farmer to maintain or slightly increase
- The expected increase in production costs offset by increasing value of production
- Income rose faster in the EU-N13 than in the EU-15.

- Real income for the overall sector to decline
- Income not projected to follow a steady pattern
- Prospects for EU-N13 less positive and income gap with EU-15 remains substantial
Environmental aspects

For the first time try to translate market outlook into environmental indicators related to emissions:
- greenhouse gas (-1% for GHG):
- and air pollutants (-7% for ammonia)

Nutrient surplus: Stability at EU level, but N surplus in some regions
Reports and data available at:

http://ec.europa.eu/agriculture/index_en.htm


http://ec.europa.eu/agriculture/trade-analysis/index_en.htm

Thank you for your attention!
Annex
## Commodity price changes during specific periods

<table>
<thead>
<tr>
<th>Period</th>
<th>Agriculture</th>
<th>Fertilisers</th>
<th>Energy</th>
<th>Metals &amp; Minerals</th>
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<tbody>
<tr>
<td>2008/1997</td>
<td>29%</td>
<td>336%</td>
<td>298%</td>
<td>107%</td>
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<tr>
<td>2009/2008</td>
<td>-7%</td>
<td>-45%</td>
<td>-34%</td>
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<tr>
<td>2011/2009</td>
<td>21%</td>
<td>20%</td>
<td>43%</td>
<td>47%</td>
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<tr>
<td>2015/2011</td>
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<tr>
<td>2016/2008</td>
<td>-10%</td>
<td>-62%</td>
<td>-57%</td>
<td>-38%</td>
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<tr>
<td>2016/1997</td>
<td>15%</td>
<td>97%</td>
<td>182%</td>
<td>85%</td>
</tr>
</tbody>
</table>

Source: AGRI calculations based on World Bank data.