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RESEARCH IN ECONOMICS AND RURAL SOCIOLOGY

Prospects for agricultural markets and incomes in the European Union: 2010-2020

The stakes of the Common Agricultural Policy (CAP) after 2013 are closely linked with the situation which will prevail on the Community and international agricultural markets in the next decade. Here we propose a summary and discussion on the existing information regarding the markets for agricultural products after 2010, relying on three projections proposed by international bodies, by 2020 or 2025: i) “prospects for agricultural markets and incomes in the European Union” centred on the projections (2010-2020) of the Community markets for major agricultural products and followed by an analysis of the development induced from agricultural incomes, produced by the European Commission (EC); ii) the 2010-2020 projections of the world agricultural markets achieved by the OECD and the FAO with the model AGLINK/COSIMO; and iii) the projections 2011-2025 provided by the American Institute FAPRI with the eponymous model.

The main results indicate a moderate increase in agricultural prices with a greater risk of variability, growth in plant productions supported by the demand for biofuels, and a high exposure to competition in animal productions of the community. These results are weakened by the uncertain economic environment and are mainly sensitive to assumptions concerning productivity reserves and demand performances.

A sluggish macroeconomic environment

The three main projections of the agricultural markets, by the European Commission, OECD-FAO and FAPRI (see: frame), agree on a slow economic recovery in Europe further to the 2009 crisis in order to reach a growth rate of about 2% a year around 2018, an annual inflation rate also around 2% and, from 2016, an oil price stabilized at a little less than 100 US dollars the barrel. Following the example of the FAPRI, the EC predicts an appreciation of the euro against the dollar to reach 1.47 USD/€. Conversely, the OECD/FAO is banking on a stable euro at 1.38 USD/€ over the period. This exchange rate plays a major role in the projections obtained since it affects the competitiveness of community products with regard to those of EU competitors. If the variations between the projection periods remain limited in this respect, the changes in exchange rates, difficult to predict, remain a major source of uncertainty as to future changes in prices.

Agricultural prices on international markets rising slightly but volatile

According to the three projection periods, on average, the international prices of farm produce and food-processing will be higher over 2010-2020 than those observed during the previous decade. In this respect, the three periods underline the key role of demand from the intermediate countries and the demand for biofuels. Price volatility is not taken into account in these periods of projection. However, it is given additional analyses which most often conclude that the volatility of prices on the international markets will remain high because of the more frequent weather accidents linked to the effects of climate change, with the levels of stocks remaining relatively low, the possible trade restrictions imposed by some of the countries accentuating volatility, and intense speculative activity on the future markets amplifying short-term movements.

Main assumptions and results of the EU projections for 2010-2020

	2010-2020 Projections for the EU (according to EC projections)	International context according to OECD/FAO and FAPRI
Trade agreements	Maintenance of the Uruguay Round rules	
CAP	Health-check rules	
Population	+ 0.1% / year (EU)	+0.2 %/ year (EU acc. OECD/FAO) +1.05 % / year (world)
GDP	+ 2 % / year (EU)	+3.3 % / (world)
Oil	~100 USD/barrel	
Exchange Rate	Euro appreciation around 1.47 USD/€	Stable at 1.38 % USD/€ acc.OECD/FAO
Prices	Higher than the previous years on average	Idem EC, with volatility risk
Arable crops	Moderate yields +0.5 % / year Sustained demand for biofuels Imports of vegetable oils	Growing power of Russia, Ukrainian for Wheat
Meats	Beef meat production -7% Poultry and Pig meat +7%	Growing power of Brazil for production, consumption driven by emerging and developing countries
Milk, Dairy products	Milk production +5% between 2010 and 2020 Demand for fresh dairy products +8% and cheese +10% Difficulties in skimmed milk	Australian and New Zealand Competitiveness on skimmed milk FAPRI less optimistic on UE cheese exports

From Community markets to contrasting changes according to products

For arable crops, with a rhythm of 0.5% a year the growth in yields should remain very moderate in Europe, compared with certain emerging countries which benefit from higher productivity margins. Community demand remains stable, in particular driven by growth in the production of biofuels boosted by the 2008 European Renewable Energy Directive (RED). So demand for cereals for bioethanol should triple in 10 years to reach 8% of total demand. Demand for vegetable oil should increase by more than 30% to reach about 66 % of total EU demand.

The production of meat is more sensitive to the effects of the economic crisis. Community production of ruminant meat should decrease by 7% for beef and veal meat and 11% for sheep and goat meat between 2010 and 2020. Conversely, the production of white meat should increase by 7%, both pork and poultry. The EU's trade balance on the international meat markets should decline between 2010 and 2020, with an increase in imports from South America and a reduction in exports. In 2020, the EU should only remain a net exporter of pork.

The production of milk and dairy products, severely affected by the economic crisis, should

benefit from more favourable conditions over the period 2010-2020, in connection with the macroeconomic hypotheses which point towards a resumption of Community and World demand. Slow growth of about 5% in Community dairy production should be registered before 2020 because of a weak reaction to the release of the quota regime planned in 2015. It is the demand for dairy products with high added value which should drive global community demand, with a near 8% increase in demand for fresh dairy products (consumption milk, creams, yoghurts, etc.) and about a 10% increase in the consumption of cheeses, the latter also increasing sharply in the emerging countries (China and Brazil). On the skimmed-milk powder market, large intervention stocks should be sold in the short term, whereas the outlook for exports is not very favourable in the long-term because of a strong euro and large export supply among EU competitors (New Zealand, United States).

Frame: the agricultural market projections by some International Institutions

The agricultural market projections by the EC, the OECD/FAO and the FAPRI correspond to the scenario results simulated by means of market models. These projections strictly depend on the specification of the models and on supply and demand elasticities. Unlike the OECD / FAO and the FAPRI studies, the European Commission does not give access to this information which in particular highlights the extent of the supply and demand reaction to price variations.

The agricultural market projections by the three institutions are also very dependent on the hypotheses made on the evolution of the exogenous variables of the models in the simulated scenarios. For the three periods considered, the hypotheses of the CAP development (application of the 2008 Health-check of the CAP) and the hypotheses relating to the various trade agreements (no agreement within the framework of the Doha cycle, respect for the rules from the Uruguay round, no new preferential agreement) are almost the same. There is no big difference concerning the projections of annual population growth on the various continents. With regard to the macroeconomic hypotheses, we note that they are largely dependent on the current economic context when the results are published. In the highly disrupted current context, the macroeconomic hypotheses are revisited in depth every year. As the publications of the three periods are separated by only four months, the variations noted between the periods are rather weak.

Agricultural income projections in the EU

The projection period achieved by the European Commission only gives projections of agricultural incomes up to 2020. After the significant reduction in incomes registered in 2009 (expressed in real terms per working unit), agricultural incomes should be re-oriented upward at a very modest pace. The EC predicts that, on average, the agricultural incomes of 2020 should be 20% higher than those observed over that time. This increase in the real income per working unit is made possible only by the continuity in the decline of agricultural work. It also emphasises a great disparity between the former EU-15 countries where incomes should only increase by 10%, and the new incoming countries where incomes should converge towards the European average, which would represent a 45% increase.

Uncertainties linked to the dynamism of the emerging countries and biofuel policies

The main uncertainties which emerge from the comparison of the three projection periods as to supply, concern the evolution of yields, surface areas and livestock in the main emerging

countries, where the margins of progress are potentially high. Considering the size of these countries, this could have major repercussions. As for demand, they concern the evolution of demand from the intermediate countries in which incomes are growing at a sustained but uncertain pace and where the concomitant changes in food diets are potentially important. Biofuel policies at the origin of additional demand which is not usually very sensitive to price (because of the mandates of incorporation and the technical limits of processing) may also play a leading role in the changes to come.

Fabrice Levert (corresponding author) INRA UMR1302 SMART, - 35000 Rennes, France

Fabrice.Levert@rennes.inra.fr

Chantal Le Mouël INRA UMR1302 SMART, - 35000 Rennes, France

Chantal.Lemouel@rennes.inra.fr

Sébastien Jean INRA UMR210 Economie Publique, - 78850 Thiverval-Grignon, France

Sebastien.Jean@grignon.inra.fr

For further information

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