



Prospects for EU agricultural markets and income 2015-2025

Executive Summary

This report presents the medium-term outlook for the major EU agricultural commodity markets and agricultural income to 2025, based on a set of coherent macroeconomic assumptions. It assumes a continuation of current agricultural and trade policies, normal agronomic and climatic conditions and no market disruption. These assumptions imply relatively smooth market developments because they correspond to the average trend agricultural markets are expected to follow if policies would remain unchanged; in reality markets tend to be much more volatile.

The medium-term outlook reflects current agricultural and trade policies, including future changes already agreed upon. Account was taken of common agricultural policy (CAP) implementation options, but the level of aggregation of the model doesn't allow for all details to be modelled.

Only ratified free-trade agreements are taken into account (i.e. not that with Canada). The import ban on agricultural products and foodstuffs imposed by the Russian Federation until August 2016 (so far) is accounted for and assumed to have been lifted by the end of 2016.

Macroeconomic assumptions include a low oil price level, albeit with an increase over the outlook period to reach USD 107 per barrel by 2025 (this remains one of the most sensitive and uncertain assumptions). After two years of a weakening euro, the exchange rate is assumed to appreciate and reach USD 1.37/EUR in 2025. Economic growth in the EU is expected to recover, but to remain below 2 % a year.

In summary, in a general context of lower energy and commodity prices, EU cereals prices are expected to range on average between EUR 150/t and EUR 190/t. Steady growing world demand in a context of affordable feed prices should favour the livestock sector. Therefore, despite the difficulties faced currently on the milk market, the EU dairy sector could grasp these opportunities to further expand, driven also by growing EU domestic demand. After a strong recovery which took place in 2014 and 2015, EU per capita meat consumption is expected to decline slightly except for poultry meat gaining minor market shares over the other meats. Pigmeat small production increase will be driven by export demand, while beef production is expected to decline.



Arable crops

The global market for arable crops has been marked by several consecutive years of record supply, which have led to stock replenishment and a strong drop in prices from the 2012 peak. However, in 2015 cereal prices remained between EUR 150/t and EUR 180/t on the back of solid world demand, which is expected to remain steady in the medium term. In the EU, domestic demand for cereals and oilseeds is driven mainly by feed use. The EU's cereals export potential will be constrained by a reduction in arable land.

EU cereals production is expected to grow further, to around 320 million t by 2025. Demand is driven by feed demand and good export prospects, in particular for wheat and barley. Growth is constrained by a steady reduction in arable land and slow yield growth in the EU as compared with other regions. It is assumed that maize stocks will recover from their current low level and wheat and barley stocks remain significantly above the 2012 level over the outlook period, albeit below historic levels. Prices are expected to be relatively low, recovering towards the end of the outlook period to close to EUR 190/t for common wheat. Upward price spikes are likely for periods following a production shortfall in a major producer.

In the next decade, developments in the oilseed complex should be driven mainly by the expansion in the livestock sector and the consequent increase in demand for oilseed meals. This should trigger a shift towards more imports of soybeans and especially meals, while domestic rapeseed and sunflower seed production is expected to stabilise at 28 million t in 2025. The proportion of vegetable oils in the biofuels complex is projected to decrease in favour of waste oils and residues. Total food use is expected to decline marginally, bringing total use of vegetable oils down to 22 million t in 2025.

Protein crop production is expected to increase by more than 40 % over the outlook period, given a favourable policy environment (with voluntary coupled support and the ecological focus area obligation) and strong protein demand from more intensive livestock production. It will continue to account for a limited proportion of total area however.

The expiry of sugar and isoglucose quotas in 2017 will have a profound impact on the EU sweetener market. The EU sugar price is expected to approach the world market price, forcing the sector to become more competitive and reducing the incentive for trade partners to export to the EU. Despite lower prices, production of white sugar is expected to increase to close to 18 million t in 2025, i.e. around 5% more than in the years preceding quota expiry. On the domestic market, EU sugar will have to compete with isoglucose, which is expected to become an important sweetener in regions with a sugar production deficit. By the end of the outlook period, the EU should become a net exporter of white sugar, mainly to nearby high-value markets.

Increased biofuels production is expected to drive additional demand only for domestic maize because most of it should stem from non-agricultural feedstock and imports. It is assumed that biofuels will represent only 6.5 % of liquid transport fuels by 2020 (as counted under the Renewable Energy Directive (RED)). Trends in



recent years combined with policy uncertainty and a general declining trend in transport fuel use seem to limit the further expansion of biofuels. Production is set to increase by around 15 % by 2020.

Milk and dairy products

The current low prices for dairy commodities and milk are mainly the result of a surge in world and EU supply at a time when China has started to reduce its purchases and Russia has introduced an import ban. However, import demand from other regions of the world has risen significantly and is expected to grow steadily over the outlook period, driven by population growth and a change in diets in favour of dairy products. In addition, Chinese imports should resume growth.

Though lower than in the last decade, the expected 2 % annual increase in world imports and rising EU domestic demand for dairy products are expected to support an increase in deliveries of close to 1 % per year to 164 million t in 2025. The EU's share of world exports should grow slightly, thanks to its considerable potential to increase production (unlike its main competitor, New Zealand, which is more constrained by the availability of natural resources). We also analyse the dairy outlook for the EU from the point of view of its impact on nitrates and green-house gas (GHG) emissions.

Milk prices are expected to recover to moderate levels in the short term, before increasing further to an average of EUR 360/t in the last five years of the outlook period, in line with expectations for world dairy-commodity prices. The world market should remain thin with only 7.5 % of dairy world production traded in 2025, so that the risk will remain high of short-term market imbalances.

In the next 10 years, around half of the additional milk produced in the EU could be used for powder (mainly SMP) and more than 30 % for cheese. While most of the extra powder should be exported, the main driver for cheese remains domestic consumption.

Meat

Population and economic growth in developing countries are expected to support higher meat demand and contribute to higher EU meat exports. World meat consumption is expected to increase by 15 % between 2015 and 2025, less than in the previous decade, but still equivalent to a year's total meat production in the EU.

Thanks to economic recovery and slightly lower prices, overall per capita meat consumption in the EU recovered by a staggering 1.8 kg in 2014. The rise is expected to pick up to 2016, to 67.6 kg (retail weight), before resumption of the previous downward trend. By the end of the outlook period, per capita consumption is expected to fall back to 66.7 kg, close to the 2008 level, with poultry meat taking small market shares from the other meat categories.

EU beef production continues to be driven mainly by dairy herd developments. After the increase in 2014 and 2015, it is expected to fall back into decline albeit at a slower rate, to 7.6 million t in 2025. After



decreasing over several years, sheep and goat meat production and consumption are expected to stabilise at the current level thanks to improved profitability and demand remaining steady despite higher prices.

Following a strong recovery in 2014 and 2015, pigmeat production is expected to expand by less than 2 % by 2025 as compared with 2015. In a context of slowly falling internal consumption, pigmeat exports are expected to grow steadily, supported by sustained world demand and slightly improving prices.

EU poultry meat production is expected to expand over the outlook period by close to 4 %, while consumption could increase only marginally. Driven by promising growth in world import demand, EU exports are expected to reach 1.6 million t by 2025 (+15 %) but prices will be under pressure as a result of increased competition from Brazil and the USA.

Agricultural income

Agricultural income per annual working unit (AWU) in the EU-28 is expected to increase substantially by around 15 % in real terms over the 2015-2025 outlook period, as a combined effect of a strong increase in income in the EU-N13 by close to 40 % and a much smaller one in the EU-15 by 2 %. As a result, EU-15/EU-N13 income gap will continue to narrow, but still remain substantial.

The income per AWU figure is a function of the underlying trends for sector income and labour input. Total agricultural income is expected to decline because the more than 10 % increase in total value of production by 2025 does not cover the close to 15 % rise in costs. Therefore, the expected increase in real income per AWU is due to a strong outflow of labour as a result of structural change. Given the large number of small farms and the age of farmers throughout the EU, structural change should continue over the outlook period, but at a slightly slower pace than in the pre-crisis period. The total EU agricultural labour force is expected to fall from 9.9 million AWU in 2014 to 7.3 million in 2025.

Uncertainty analysis and caveats

This outlook for EU agricultural markets and income is based on a specific set of assumptions regarding the future economic, market and policy environment. Also, the baseline assumes normal weather conditions, steady yield trends and no market disruptions (e.g. from animal disease outbreaks, food safety issues, etc.).

An uncertainty analysis accompanying the baseline quantifies some of the upside and downside risks and provides background on possible variation in the results. In particular this takes account of the macroeconomic environment yield variability for the main crops, and selected scenarios: the impact of lower oil prices, greater depreciation of the euro against the US dollar and the possibility of China reducing its livestock production in view of environmental constraints.

DISCLAIMER: While all efforts are made to reach robust market and income prospects, uncertainties remain. This publication does not necessarily reflect the official opinion of the European Commission.