

MAP

Monitoring Agri-trade Policy

Directorate-General for Agriculture and Rural Development



European Commission

The 2007 Outlook for World Agricultural Commodity Markets

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Introduction

The first MAP of 2007 examines the outlook for world agricultural markets as we enter into a boom era for commodity prices. In December 2005 we talked of the “relatively positive outlook” for future trade and prices. Since then prices have soared. So what has changed?

On the supply side, drought in some parts of the world, notably Australia, sharply reduced grain crops and exports. The drought is also a major factor behind the recent surge in dairy prices. At the same time world grain stocks reached historically low levels. But the big surprise has been the level of unprecedented fuel demand. A year ago few would have predicted the pace and magnitude of the growth of biofuels, particularly the ethanol boom in the US. The impact is potentially huge, not just for the grains and oilseeds complex but also for the costs of livestock production.

This summary is based on the latest 10-year projections published by the main forecasting institutions, focusing on the competing demands for food, feed and fuels which are the key drivers of the main commodity markets. As always, the projections are subject to many uncertainties, including future policy developments, macro-economic variables and weather related factors among others.

This MAP highlights the changes agricultural markets have undergone since last year and identifies the main uncertainties for the outlook up to 2016, as published by FAPRI and USDA earlier this year. The OECD-FAO 2007 baseline has not yet been published, so we used their 2006 baseline as a benchmark for comparing the shift in expectations. Once the new OECD-FAO 2007 baseline is published, a more detailed report, available on our website, will examine the differences in outlook for world agricultural markets in depth.

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

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1. The macroeconomic setting

The macroeconomic climate is currently looking favourable. Global economic growth is predicted to be the strongest in decades. FAPRI predicts average annual real world GDP growth at 3.3% (see graph 1 below), despite crude oil prices remaining well above 50\$/barrel.

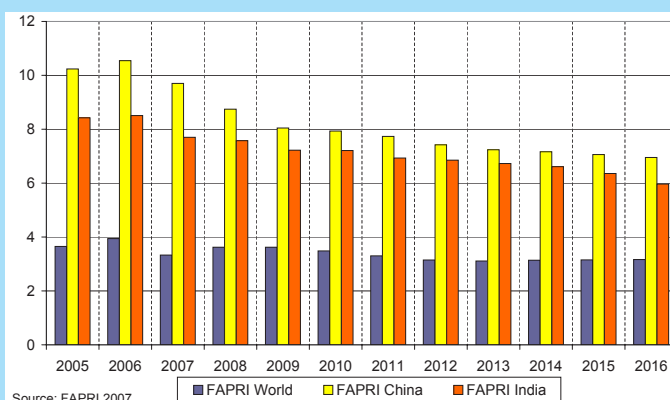
The large emerging BRIC economies (Brazil, Russia, India and China) are the key drivers of economic growth. India and China in particular should see real income growth in the order of 8-7% respectively. Population growth is expected to slow down over the coming decade, growing on average 1.1% annually, with the highest growth in Africa, according to OECD.

In terms of currency exchange rates, FAPRI expects the US dollar to continue to depreciate against the currencies of the EU, Australia, New Zealand, Japan, China and also Argentina. By contrast FAPRI expects the US dollar to appreciate against the currencies of most other Latin American countries including Brazil.

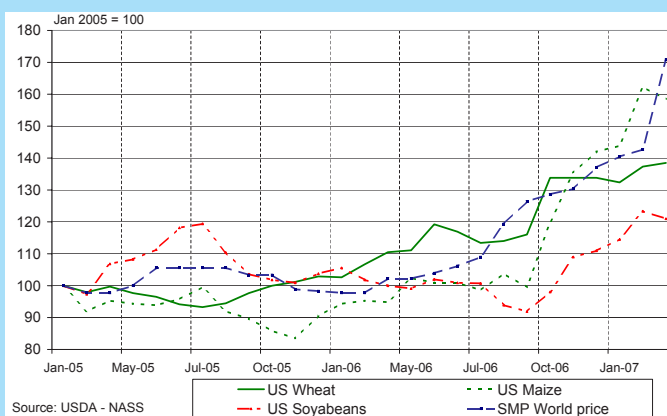
2. Biofuels Bonanza

In the light of the surge in commodity prices in recent months (see graph 2 below), it seems reasonable to ask if biofuels have somehow changed the fundamentals of world agricultural markets. (Though clearly there are other factors at work too, as dairy prices have also increased). The overall outlook is for continued high prices, as anticipated by both FAPRI and OECD-FAO already last year. FAPRI expects maize and vegetable oils to be up by some 50%, wheat and dairy products up 40%, oilseeds and sugar by 20-26% and meat prices by 12-14% compared to the average of the past decade. The poor relation is oilmeals which is forecast to be down by 4% (see graphs 4, 8 & 10).

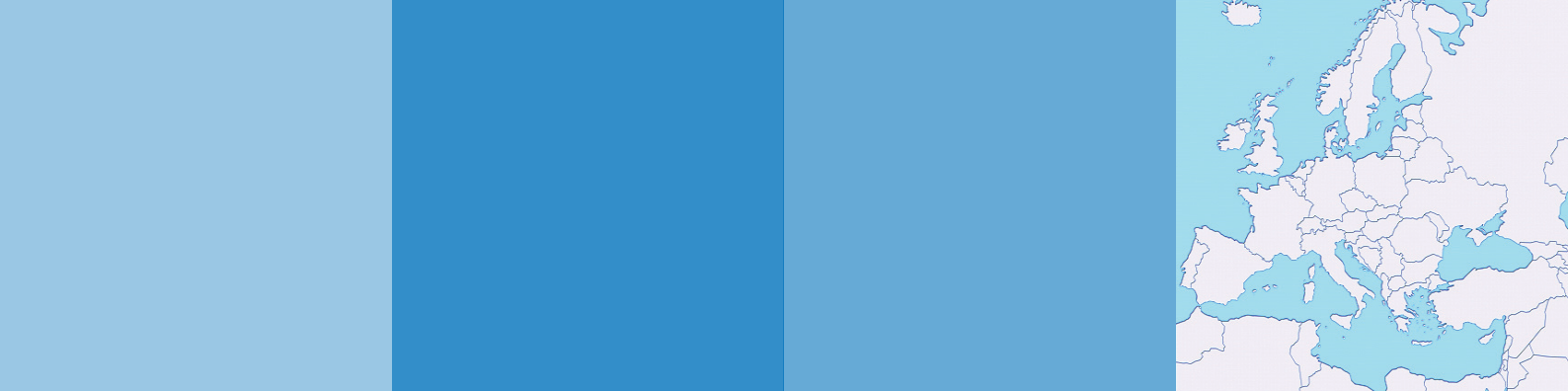
Graph 1: GDP growth projections - World, China, India



Graph 2: Evolution of prices for selected commodities



Over the next few years, USDA predicts that a rapid increase in global production of biofuels will change the traditional price relationship among some of the major commodities. Increased demand for maize for ethanol in the US has pushed up maize prices relative to other grains and soybeans. But the latter prices will also rise if the area of soybeans falls and there is increased feed demand for alternatives to maize.



Meanwhile the Brazilian drive to expand cane-based ethanol production continues unabated. It plans to more than double its ethanol production and exports.

The biodiesel industry is also expanding rapidly and is pushing up vegetable oil prices relative to oilseeds and protein meal. As a consequence more of the crush value of oilseeds is derived from the oil. The price of meals is likely to fall both in absolute terms, as supplies increase with biodiesel expansion and with plentiful supplies of cheap by-products (distillers' grains) of ethanol production, and relative to other feedstuffs used mainly for energy.

Not everyone will benefit from this biofuels bonanza. There who stand to lose most from the current surge in prices are consumers in developing countries, who will face higher food bills. Energy rich crops and vegetable oils are precisely the sectors that are likely to be most affected by demand from biofuels.

Livestock production is also affected as feed prices rise. The impact is felt most strongly in those sectors that depend most on maize in the feed rations i.e. pigs and poultry. The effect on cattle production (at least in the US) may be mitigated by the inclusion of distillers' grains in cattle rations.

Biofuels Box

In the US the Renewable Fuels Act of 2005 set a target of 7.5 billion gals of renewable fuel use in gasoline by 2012. According to USDA, high oil prices, blender tax credits (51 c/gal of ethanol and \$1/gal of biodiesel) and import tariffs have provided an economic incentive for an expansion beyond that target. An import tariff of 54 c/gal is imposed on imports of ethanol, apart from imports from designated Central American and Caribbean exporters. The tax credit and import tariff is assumed to be extended over the forecast period. The recent proposals to step up biofuel use even further (35 bio gallons in 2017) are not incorporated in the projections.

The EU has recently taken its commitment to biofuels one step further. On top of the reference target of 5.75% for biofuels in petrol by 2010, it has agreed a legally binding target of 20% of energy consumption to come from renewable sources and 10% of petrol and diesel to be replaced by biofuels by 2020. In the EU total biofuels production in 2005 was just under 4 mio mt of which 80% is biodiesel. Rapeseed is the main feedstock today though small quantities of imported soya and palm oil are also used. To help meet the 2020 target, imports of biofuels and feedstocks are expected to supply 30% of demand. The EU has also set targets on the use of renewable energy in heating and cooling.

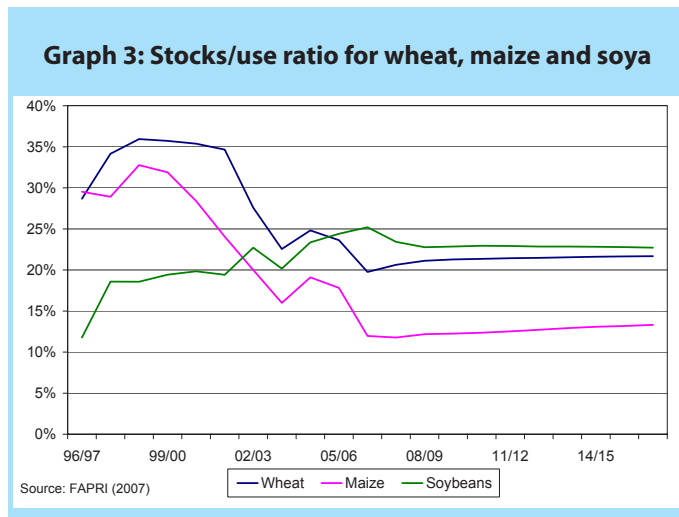
Brazil, seen as the pioneer in biofuels, already derives 29% of energy from biomass compared to 11% globally. In 2006/07, around 50% of sugar cane was devoted to ethanol production. Brazil is expecting to more than double its ethanol production and exports over the coming decade as well as expanding its biodiesel production.

Asian governments are also promoting biofuels through obligatory targets. In 2002 the Chinese government introduced a compulsory 10% ethanol blend in gasoline in several provinces (80% of which is maize-based). Malaysia - the second largest palm oil producer after Indonesia and the world's largest exporter in 2006/07- will shortly introduce legislation on the use of B5 diesel (5% blend palm oil and 95% diesel). By 2010 Malaysia hopes to export 300-350,000 of biodiesel to the EU, which could mean a 50% expansion of palm oil area by about 2 mio hectares. Environmentalists claim that palm oil is responsible for 90% of deforestation in Malaysia.

3. Cereals

Grain prices have surged over the past year with US wheat and maize export prices up by 30% and two thirds respectively in 2006. This is attributed to three key factors; extreme weather patterns, biofuels and low stocks. In Australia drought cut grain crops by more than half (a drop of over 20 mio mt). Smaller crops were also recorded in EU, US, Canada and Ukraine.

This puts the impact of biofuels into perspective. Last year OECD-FAO may have underestimated maize usage in ethanol by 9 mio mt. The result is that global maize (and wheat) stocks are at historically low levels and should remain low over the projection period according to FAPRI (see graph 3 below).

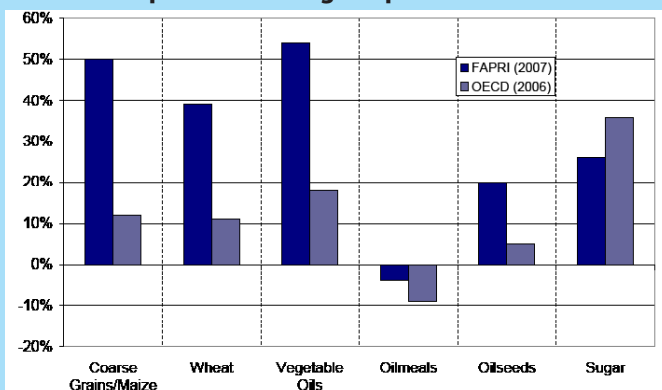


Coarse Grains

After a lacklustre two years during which production lagged behind consumption, causing a draw-down of global coarse grain stocks, production is expected to increase considerably in 2007/08 in response to current high prices. This comes from an increase in acreage and a return to normal yields. FAPRI, OECD-FAO and USDA

are expecting continued annual growth in production and consumption of 1.2-1.4%, driven by feed demand and increasing industrial use. The global stocks to use ratio of maize was just 12% in 2006/07 and is expected to remain low.

Graph 4: Shifting expectations - crops price projections compared to average of previous decade



(ten year price averages; OECD-FAO: 2006-2015 vs 1996-2005, FAPRI: 2007-2016 vs 1997-2006)

Trade in coarse grains is expected to grow even faster than consumption and if the projections materialise, world trade could rise by 15-24 mio mt. The outlook for prices is bullish. FAPRI is projecting that world coarse grain prices will stay at 150-160 \$/mt until 2016/17, 50% above the average of the past decade (see graph 4 above).

In the context of low stocks and relatively inelastic fuel demand, many analysts are predicting increased price variability, as markets may be more sensitive to reduced supplies or any additional demand.

Turning to the key players, the US is by far the most important producer and consumer of coarse grains. According to USDA, total maize acreage is likely to rise



to 36 million hectares by 2010 (the highest in over 60 years), with the shift coming primarily from soybeans.

By 2009/10 fuel is expected to consume more than 30% of the maize crop. Higher prices point to a 10-percentage point drop in feed use, to 40-50% of the crop. In the short term, pigmeat and poultry meat production are likely to be affected and maize exports are predicted to fall, reducing the US share of global trade to 55-60% (typically the US accounts for 60-70% of world maize exports).

Coarse grain demand is still mainly driven by feed demand in developing countries. China is the second biggest consumer in the world. Both OECD-FAO and FAPRI project stronger growth in consumption than production, turning China from a small net-exporter into a net-importer of around 4 - 5 mio mt.

EU net exports could fall marginally as consumption is growing faster than production, stabilising at around 5-7 mio mt by 2015/16 according to OECD-FAO and the European Commission. Ukraine and Russia combined will have a higher net-export capacity than the EU. Both OECD-FAO and FAPRI are optimistic about Argentina's export potential, up from 12 to 17 -18 mio mt, which FAPRI thinks will happen fast, by 2008/09.

Wheat

The picture for wheat is slightly less dynamic. Production and consumption are expected to grow slowly with expectations for annual growth ranging from 0.7% (FAPRI) - 1.2% (OECD-FAO). About four fifths of total wheat use is for human consumption, and per-capita consumption is falling. Trade is likely to expand faster than production and consumption although not as fast as coarse grains.

FAPRI and USDA are projecting that wheat prices will remain high, above 200 \$/mt, 40% over the average of

the past decade (see graph 4). It is surprising therefore that no increase in area is expected, especially in the major producers like the EU and Argentina.

The EU is by far the largest wheat producer and consumer in the world. Net exports are expected to rise to 10 – 14 mio mt per year by the end of the projection period, as production grows faster than consumption (with the EU's own forecast being the most optimistic, assuming that the Euro weakens against the US Dollar).

Projections for China, the world's second largest producer, have changed over the past year as demand has slowed down. Last year OECD-FAO and FAPRI thought that China, a net-exporter from 2000/01-2002/03, would become an important net-importer. FAPRI now thinks that it will be roughly self-sufficient.

The outlook for India has also changed. Having been a small net-exporter for the last six years, FAPRI now expects net imports of 3-4 mio mt over the next ten years. OECD-FAO had already predicted the change last year.

Slow growth in wheat production and consumption is expected in the US, which should remain the world number one wheat exporter, with around 25 % market share. Due to expanding production, Australia should see its exportable wheat surplus grow to around 20 mio mt by 2015/16. Export prospects are positive for Canada and Argentina, expected to be in the range of 15-17 mio mt and 11-12 mio mt respectively, with production boosted by high prices.

There are differences in expectations concerning Russia. OECD-FAO expects net-exports of 5-6 mio mt (below the export peak of 9 mio mt in 2005/06), based on robust domestic demand, while FAPRI thinks the surplus could be double this amount. Ukraine's exports are expected to stabilise at 6 mio mt per year.

4. Oilseeds

The biofuels boom has also affected the oilseeds markets, though to a lesser extent than grains. In particular rapeseed and rape oil prices increased by nearly one fifth during 2006, thanks to increased demand for rapeseed oil for biodiesel. However oilseeds and vegetable oils are in plentiful supply. Unlike grains, world stocks of soybeans are at record levels (see graph 3) and with a large South American crop this year, to quote one analyst "the world is swimming in soybeans". But things could change rapidly. Lower plantings of soybeans in the US this year could cut US stocks in half.

World oilseed production and consumption have grown strongly in the last quarter of a century and, although it could slow down, growth at around 2.3% per year is still expected (double that of cereals). As the increase in yields will not be sufficient to meet growing demand, oilseed acreage is projected to increase by about 1% per year.

Trade will continue to grow faster than consumption, and could increase by 20 mio mt. The outlook is for continued high prices. FAPRI now expects prices 20% above those of the past ten years (see graph 4).

Turning to the key players, US net exports are expected to fall from almost 30 mio mt in 2006/07 to 23-26 mio mt. Indeed the US could be overtaken by Brazil as the world's biggest oilseed exporter, reaching almost 30 mio mt in 2007/08. FAPRI and USDA think Brazil's exports may even double in ten year's time, to reach nearly 50% of world exports. OECD-FAO takes a more conservative outlook predicting 38 mio mt. Expectations for Argentina's exports range from 6-13 mio mt.

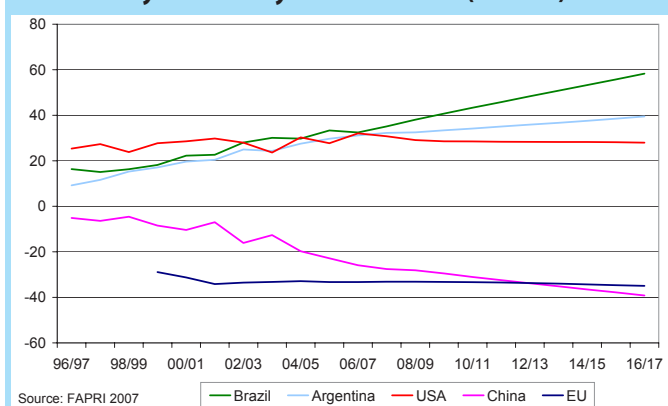
China, already the largest net-importer of oilseeds, could double its imports to about 50 mio mt, absorbing half the oilseeds traded in 2015/16.

The EU will continue to be the second major importer.

However there are big differences in the predictions of FAPRI/OECD-FAO/USDA, which anticipate net-imports of 13-18 mio mt and the EC's own projection of 35 mio mt by 2013/14. This is based on the assumption that the EU will respond to growing biofuel demand by increasing crush capacity rather than importing vegetable oils.

Trade patterns are changing fast as identified in the MAP of December 2005. The main US-EU trade axis which prevailed only ten years ago, is fast being replaced by trade between South America and China. In ten years' time Brazil is expected to account for half the world's exports and China half the imports.

Graph 5: The changing face of global soya trade - Soybean & Soymeal net trade (mio mt)*



*expressed in meal equivalent

Oilmeals

Growth forecasts for production and consumption of oilmeals are in the range of 2.3-2.7%. The share of oilmeals traded seems to have levelled off as crushing capacity expands in the main consumers.

Bucking the general trend, oilmeal prices are expected

to weaken during the projection period by 5-10% compared to the average of the past decade.

The trade outlook for the two big exporters is positive. By 2016/17, Argentina, the largest oilmeal exporter, is expected to increase net-exports from 27 mio mt to 35 mio mt. Brazil's exports could reach 18-20 mio mt. Together they would account for three quarters of global exports in 2016. The EU, already by far the biggest importer, is likely to increase its net imports by 2-4 mio mt to reach 25- 30 mio mt.

Vegetable Oils

Vegetable oils will continue to be the fastest growing sector within the oilseeds complex with growth especially strong in developing countries, boosted by rising population and income growth. FAPRI is more optimistic than OECD-FAO about the growth in consumption (particularly of palm oil) and trade, which is expected to grow by between 2-4% per annum.

With strong demand, prices should strengthen over the next ten years. FAPRI now expects a steep increase of over 50% during the forecast period compared to the average over the past decade. Last year OECD-FAO anticipated an increase in prices of about 20%.

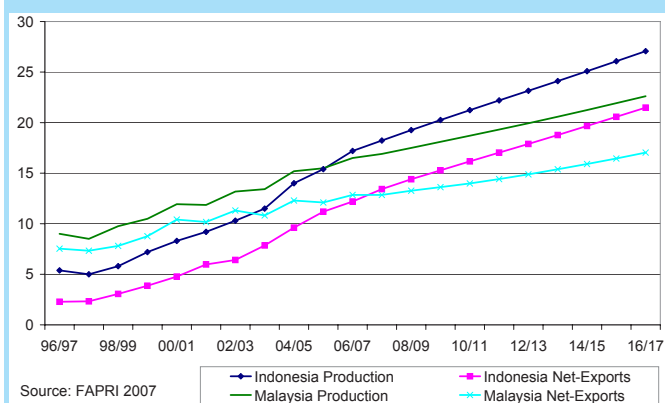
By 2016/17, FAPRI predicts that two thirds of all vegetable oil exports will come from Malaysia and Indonesia, with combined palm oil exports up from 25 mio mt in 2006/07 to 39 mio mt in 2016/17. By 2007/08 Indonesia is expected to overtake Malaysia as the world's biggest palm oil exporter, with two thirds growth in exports predicted over the coming decade (see graph 6 below). However concerns about the potential impact on the environment could put a brake on expansion of palm oil.

Argentina's exports are forecast to grow from 7 mio mt to 8-9 mio mt. And Brazil's exports could also increase from 2 mio mt to around 3.5 mio mt.

China is now the world's largest importer of vegetable oils, accounting for nearly a fifth of global consumption. While OECD-FAO foresees little change in imports at 7 mio mt, FAPRI expects an increase to 8-13 mio mt. India is also expected to increase imports from 5.5 mio mt to 7-8 mio mt.

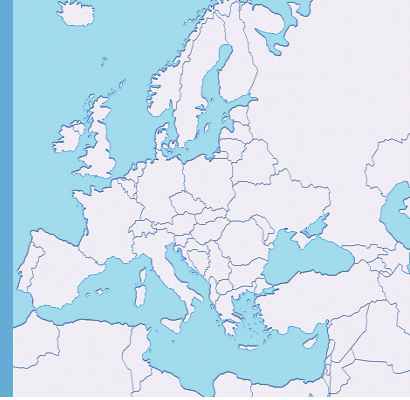
Although the EU as a net-importer will continue to rank behind China and India, its trade deficit in vegetable oils increases, mainly in palm oil. Malaysian palm oil exports to the EU have already more than tripled in the last 5 years. High rapeseed oil prices have increased demand for lower priced soya oil (mainly from Brazil). Already in 2006 the EU switched from being a net exporter of soya oil to a net importer.

Graph 6: Indonesia & Malaysia palm oil (mio mt)



5. Sugar

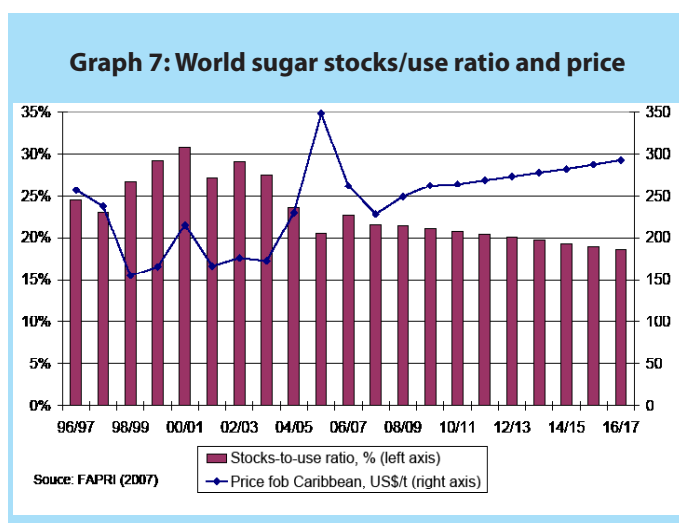
Sugar was one of the few commodities which saw prices collapse last year (by 25%) as shown in graph 7. The market had been expecting a global sugar deficit for 2005/06, which never materialised, despite the cut in EU production. In fact the gap left by the EU was more than offset by expansion in Brazil, India and elsewhere.



In Brazil not only was there a slowdown in consumption, but the government reduced the mandatory blend of ethanol into gasoline from 25% to 20% early in 2006. As ethanol production became less profitable more of the crop was diverted to sugar, creating additional exports of between 0.5-1 mio mt in 2006/07.

With moderate growth in demand, FAPRI has revised its growth forecasts for global production and trade down to around 1.4% per year. While the beet area is likely to stagnate, the area of cane could grow by 2 mio ha.

The projections for the world market price for sugar, in the range of 250-300 US\$/mt, are 26-35% higher than the average of the last decade (see graph 4).



Brazil, by far the world's biggest sugar producer and exporter, is expected to get even bigger. Last year OECD-FAO expected production to grow by over 3% annually, which could boost the exportable surplus by 10 mio mt up to 28 mio mt by 2015. FAPRI takes a more conservative view and expects the exportable surplus to reach 22 mio mt. Many of the new sugar cane mills are "ethanol only", which reduces the possibility to switch back to sugar if sugar becomes more competitive. This

could lead to greater price volatility in both the sugar and ethanol markets.

In any case Brazil will be the main beneficiary of the gap left by the EU. Both OECD-FAO and FAPRI confirm the EU's own estimate that EU production is likely to drop by 6 mio mt to 15 mio mt and that sugar exports could virtually disappear. Back in 2003-05 the EU was the second world exporter. By 2006-07 it became a major net-importer alongside Russia and China. FAPRI now predicts net imports of around 3 mio mt by 2016/17.

There is some disagreement over whether Thailand will benefit from the EU's withdrawal from the export market. OECD-FAO thinks not, given growth in domestic demand, while FAPRI predicts an increase in exports to over 5 mio mt. Australian production is expected to grow and exports to expand from 4 to 5 mio mt. India could also become a net-exporter of around 2 mio mt.

Turning to the importers, Russia will still be the leading sugar importer until 2015. Views on China differ. OECD-FAO expected China's imports to grow dramatically in line with consumption of 2.4 % per annum, importing about a quarter of its demand by 2015. FAPRI however forecasts faster production growth and only a small increase in net imports.

6. Dairy Products

Globally the sector is expected to grow moderately over the next ten years. Both institutions base their optimism essentially on growing demand in Asia, where half the world's dairy products are consumed. Average prices should be substantially higher during the coming decade than in the last one. (Of course the projections did not take account of the price surges of 2007). FAPRI is now projecting an increase of roughly 40%, double the level predicted last year.. The EU's dairy exports continue to contract, as a result of fixed production quotas and increasing internal consumption.

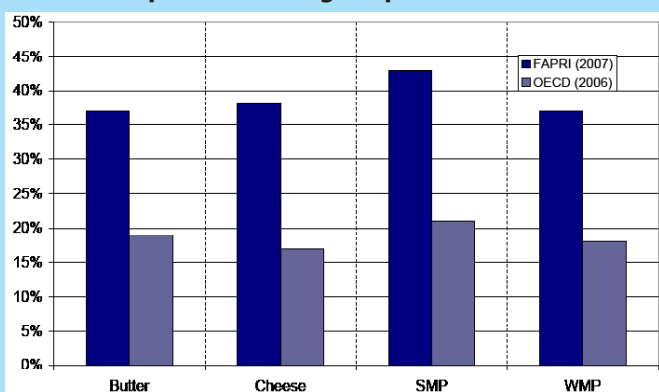


Butter

Global butter consumption and production is expected to grow steadily by around 1.5-2 % over the next decade, although the share of butter traded is expected to remain low. After a small dip in 2006, FAPRI expects prices to continue growing, by 37% compared to the average of the past decade (see graph 8).

Oceania should remain the world's largest butter exporting region, with about 50% world market share. There are differences in outlook however. For New Zealand FAPRI is predicting massive export growth to 420 000 mt, while OECD thinks exports will be stagnant. FAPRI is also projecting increased Australian exports while OECD-FAO thinks exports will decline as milk is channelled into other dairy products, notably cheese.

Graph 8: Shifting expectations - dairy price projections compared to average of previous decade



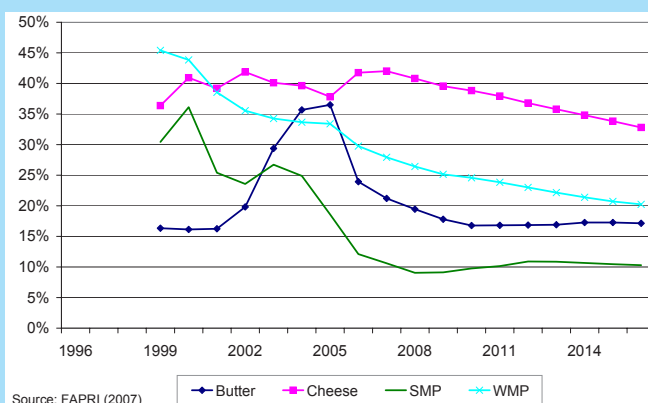
(ten year price averages; OECD-FAO: 2006-2015 vs 1996-2005, FAPRI: 2007-2016 vs 1997-2006)

Both institutions agree that the EU will lose further market share, falling from around 38% in 2003-05 to 22% in 2015 (OECD-FAO), as EU production declines even faster than consumption. This trend is reflected across the four main dairy products traded; butter, cheese, Skim

Milk Powder (SMP) and Whole Milk Powder (WMP) as shown in graph 9 below.

India, by far the biggest butter consuming and producing country in the world, will see very high growth rates in both consumption and production, maintaining its self-sufficiency. Russia is projected to remain the biggest butter importer.

Graph 9: EU share of world dairy trade



Source: FAPRI (2007)

Cheese

The cheese sector is expected to continue to grow at around 1.5-1.8 % due to growing demand worldwide with trade growing even faster and prices 38% over the average of the past decade (see graph 8).

In spite of relatively low production, Oceania should remain the world's largest cheese exporting region even increasing market share. Argentina is also expected to gain market share, doubling its cheese exports over the decade. The EU is expected to lose market share with almost stagnant exports. At the same time more

milk is switched into cheese production in the EU to meet growing domestic demand. Japan and Russia are projected to remain the greatest cheese importers, with Mexico also showing substantial growth.

Skimmed Milk Powder (SMP)

There is some divergence of views on the prospects for the world SMP sector. While FAPRI forecasts growth of around 1.7% in SMP's annual consumption and production, mainly in Oceania and developing countries, OECD-FAO expects continued decline. And while FAPRI projects substantial growth of 3% in world trade annually, OECD-FAO thinks trade could shrink. Prices are expected to remain high, at 40% over the average of the past decade.

Oceania is expected to remain the world's largest SMP exporting region and could increase its market to nearly 50%. Views on the US, the number one exporter since 2005, differ. FAPRI thinks it will gain market share, while OECD-FAO expects a decline. Both agree that the EU will lose market share from around 25% in 2004 to 15% in 2014. South-East Asian countries, notably Indonesia and the Philippines, are still the main SMP importers.

Whole Milk Powder (WMP)

Production and consumption are projected to continue growing strongly by more than 2% annually. Demand growth is concentrated in the developing world. Like SMP, world trade in WMP accounts for a relatively large share of global production. OECD-FAO expects continued growth in the share of production that is traded, while FAPRI is less optimistic. Prices are anticipated to be 37% higher than over the past ten years.

Oceania is likely to remain the world's largest WMP exporting region and FAPRI thinks it could increase its world market share to 57%. FAPRI is more optimistic

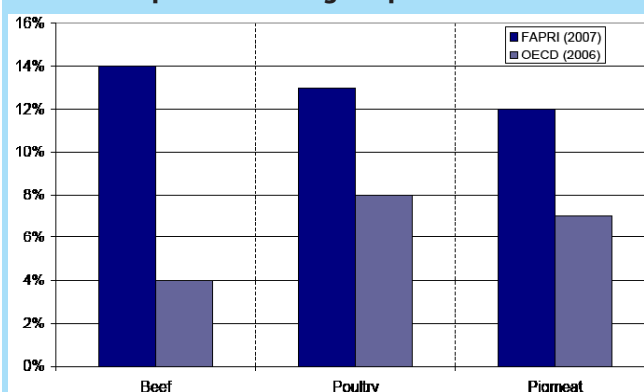
than OECD-FAO about Australia's export growth.

The future for Argentina's exports looks optimistic over the medium term, with the country expected to reach 16-22% world market share. Whether this materialises depends on their export policy. The EU's exports will continue to decline. Import growth is expected to be strongest in Africa, followed by Asia and Latin America.

7. Meats

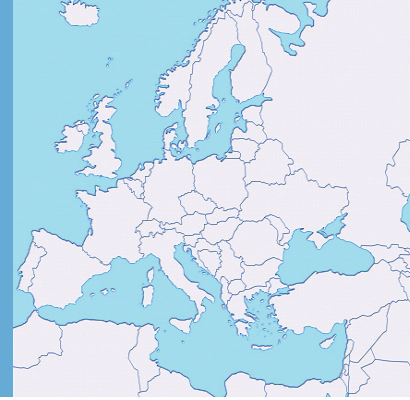
The picture in the meats sector was mixed in 2006. Pigmeat prices fell by around 10% in 2006, due largely to oversupply in the market. Poultry prices also fell by nearly 10%, due to avian flu. Trade was also affected with a significant drop in imports into the EU and Russia. As a result, prices fell sharply in the US and Brazil, the top exporters.

Graph 10: Shifting expectations - meat price projections compared to average of previous decade



(ten year price averages; OECD-FAO: 2006-2015 vs 1996-2005, FAPRI: 2007-2016 vs 1997-2006)

Meanwhile world beef prices held steady last year. US and Brazilian exports were still hampered by animal disease problems, while Argentina imposed a partial ban on exports as an inflation control measure.



According to FAPRI, world trade in meat fell by 2% in 2006. Last year OECD-FAO was more optimistic about growth in the meat sector than FAPRI now is, as the latter projections reflect some adjustments to higher feed costs, particularly in the pig and poultry sectors. Poultry is still the fastest growing sector. Prices are expected to rise, with FAPRI projecting meat prices up by 12-14% compared to the average over the last decade (see graph 10).

Beef

Beef and veal consumption and production is expected to grow steadily, with forecasts of 1.4-1.9% per year, largely because of growing demand in Asia. Exports could grow sharply by 15-30% by the end of the projection period. FAPRI expects beef prices to stay at their current relatively high level, 14% above the average of the past decade (as shown in graph 10).

Brazil is the world's largest beef exporter and is expected to gain world market share, with exports increasing from 1.8 mio mt to 2.4-2.8 mio mt as it recovers from the Foot and Mouth Disease outbreak of October 2005.

Opinions differ concerning Australia and Argentina. FAPRI takes a more optimistic view of Australia's growth potential than OECD-FAO. On the other hand, OECD-FAO expects Argentina to step up its exports while FAPRI and USDA see little change.

The EU is expected to continue to be a net importer of around 0.3-0.5 mio mt. The EU's own forecast is for an increase in net imports to 0.7 mio mt. The US, currently facing export problems due to BSE, is forecast to resume beef exports to Asian markets, reducing net imports from 1.3 mio mt to 0.5 mio mt.

By 2015, China is expected to come close to the USA or Brazil in terms of beef production. Both consumption and production are projected to grow by 5% annually.

FAPRI expects China to become a major importer with imports of 0.5 mio mt by 2015. The other main beef importers, Japan, South Korea, Mexico and Russia should also increase their import demand.

Pigmeat

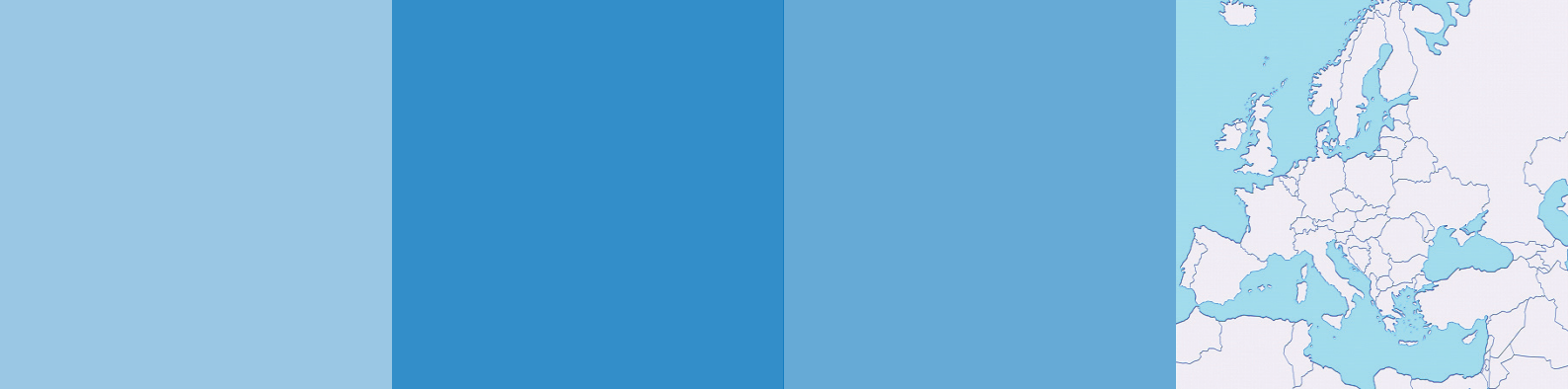
Growth in the world pigmeat sector is forecast to slow down to about 1.5% per annum as demand growth slows in developing countries (mainly China) and is stagnant elsewhere. In the short run, FAPRI expects prices to drop slightly further from the high level observed in 2004, when consumers switched to pigmeat following the avian flu scare and the discovery of BSE in North America. Over the whole projection period, however, pigmeat prices are expected to follow the moderate upward trend of other meats (see graph 10 above).

The US saw dynamic growth in pigmeat net-exports in recent years, from 0.2 mio mt in 2003 to 0.9 mio mt in 2006 and could expand to 1.1-1.4 mio mt. Brazil's net exports could grow to 0.8-1.1 mio mt depending on domestic demand.

Both FAPRI and OECD-FAO expect expansion in China to slow down, given the high per capita consumption already attained. Views on China's future trade diverge, with FAPRI projecting that it will become a marginal net-importer while OECD-FAO and USDA expect it to continue to be a net-exporter.

The EU's net exports are expected by all the institutions to stabilise at around 1.5 mio mt. However the EC's own most recent estimate (for the EU-27) is for lower net-exports of 1.2 mio mt by 2013.

By contrast the institutions take very different views on Canada's potential. Robust growth of production and slow growth of consumption could boost its pigmeat net-exports from around 1.0 to 1.2 mio mt (FAPRI), or even up to 2 mio mt in 2015 (OECD-FAO). USDA,



meanwhile, sees no growth in production and a decline in net-exports.

Imports into Japan, one quarter of global pigmeat imports, are likely to remain static. Meanwhile Russia's pigmeat sector has been growing since the late nineties. OECD-FAO and FAPRI expect little change to its current net-import position of around 0.5 mio mt but USDA thinks imports could climb to 1.1 mio mt.

Poultry meat

The poultry sector will still be the fastest growing part of the global meat industry but growth will slow down over the coming decade. Last year, OECD-FAO expected annual growth in poultry consumption and production of 2.3%, which is less than half the rate observed over the past two decades.

Trade is likely to grow faster, resulting in a higher share of production traded. Prices are likely to remain at the relatively high level of 2003-2005 after the dip in 2006. FAPRI is predicting that prices in the coming decade could be 12% higher than during the last ten years.

US net exports are expected to grow strongly to 3.1- 3.4 mio mt in 2015, up from around 2.6 mio mt in 2006, as production outstrips consumption. OECD-FAO expected Brazil's dynamic growth of consumption and production to slow down drastically to 2-3% compared to 7% over the last two decades. Furthermore Brazil's growing internal demand will prevent it from increasing exports at the rate seen in the recent past.

Thailand's exports could gain pace as production recovers after the avian flu crisis, though this view is not shared by USDA which sees Thai exports stagnating. The EU is expected to maintain its trade status, as a small net-exporter. However the EU Commission thinks that by 2013, the EU will have lost its net export status. Forecasters agree that the strong growth of China's poultry sector, which currently accounts for about half of the Asian industry, will slow down considerably, though net imports could increase.

Relatively small in comparison to China, India's poultry sector is expected to be one of the fastest growing in the world (OECD-FAO), though it is not likely to participate in world trade in the medium term. Russia is likely to remain the number one importer.

Which outlook?

When the Commission develops its own projections for EU agricultural markets (), it assesses the outlook of world markets on the basis of a set of forecasts and projections made by different international organisations, experts and foreign institutions. From this set, two medium-term projections are mainly used because of the detail of information and extent of regional and product coverage. The first is the medium-term outlook of the Organisation for Economic Cooperation and Development (OECD), and the Food and Agriculture Organisation (FAO). The second is the World Markets Outlook of the Food and Agricultural Policy Research Institution (FAPRI), which provides analysis and economic forecasts to the US Congress. In some cases reference is made to the USDA baseline, produced by the US Department of Agriculture.*

(*) http://ec.europa.eu/agriculture/publi/caprep/prospects2007/index_en.htm



Conclusions

Whether the present surge in prices is really the start of a new boom era, only time will tell. But for now it looks like the only way is up with all the institutions predicting significantly higher prices for the next 10 years than over the past decade. The projections are subject to many uncertainties including assumptions about productivity growth, risks of sanitary and phyto-sanitary crises, climate change and of course the weather. For grains, two better than average years would be enough to close the stocks gap which opened in 2006/07.

Turning to the key players, many of the trends we identified in the MAP of December 2005 are continuing. Developed countries are facing greater competition, as south-south trade continues to grow. Although the EU is losing ground across many commodity sectors, with lower exports and declining market share in coarse grains, sugar, dairy and meats (wheat is the exception), exports of higher value added intermediate and final goods are growing. EU imports are growing fast, especially in the oilseeds complex. The US can expect mixed fortunes, with steady growth in meat exports, whereas it may be overtaken by Brazil as the world's biggest oilseeds exporter. Meanwhile China's growth and imports continue unabated.

But will the high prices last? The food versus fuel debate has brought to the fore the problem of higher food prices, of particular concern to net food importing developing countries. Massive investment in ethanol means that fuel demand for maize is relatively inelastic. But maize prices are unlikely to stay high forever as acreage increases around the world and new technology becomes available. The development of second generation biofuels, including cellulosic ethanol based on wood and grass, is already in the pipeline. If the ethanol bubble eventually bursts, linking investments in maize to the price of oil may be a dangerous route for farmers and policy makers alike. The price to pay is likely to be higher volatility and uncertainty.

Developments in Brazil with the new sugar cane mills dedicated to ethanol will increase the dominance of ethanol in the cane sector. This could lead to sugar becoming secondary and could increase volatility in both the ethanol and sugar markets.

The vegetable oils market could also be subject to uncertainties. High prices could provide an incentive for expansion in palm oil beyond what is expected, potentially depressing prices when the new area comes into production. On the other hand, it is also possible that growing environmental awareness may slow down growth of palm oil.

Finally, future changes in agricultural policies in many regions and the outcome of the current round of trade negotiations could have an important impact on markets. The potential impact of the 2007 US Farm Bill is significant. Almost 40% of US commodity support is concentrated on maize, together with indirect support in the form of tax credits and mandatory blending of ethanol, so any changes to current policy will have an impact on global cereals markets. Last but not least, whether a trade deal can be reached and the potential impact of further liberalisation, is one of the big unknowns.
