

The 2016 EU Agricultural Outlook Conference

EU agricultural markets: overview of main drivers and outlook

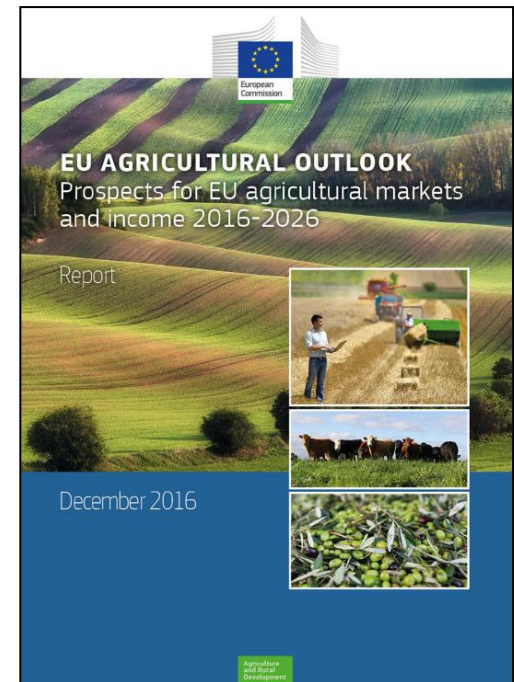


Outline

- 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

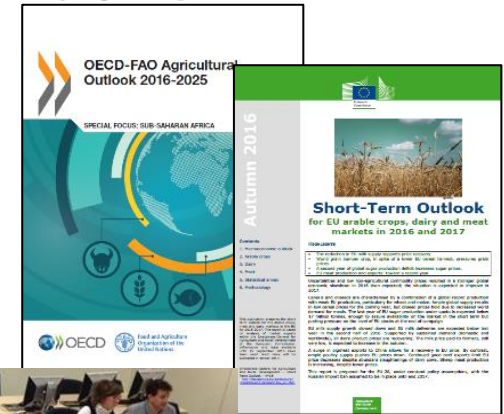
New model
developments

Baseline week

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

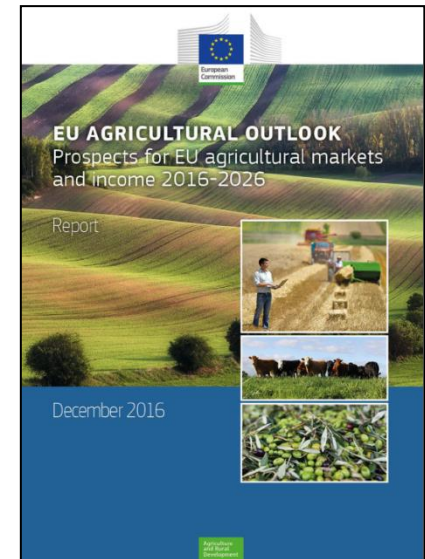
Preliminary Outlook & uncertainty assessment
presented and discussed at
JRC/DG AGRI Outlook workshop

**Final EU Agricultural Outlook
Publication & DG AGRI Outlook Conference**

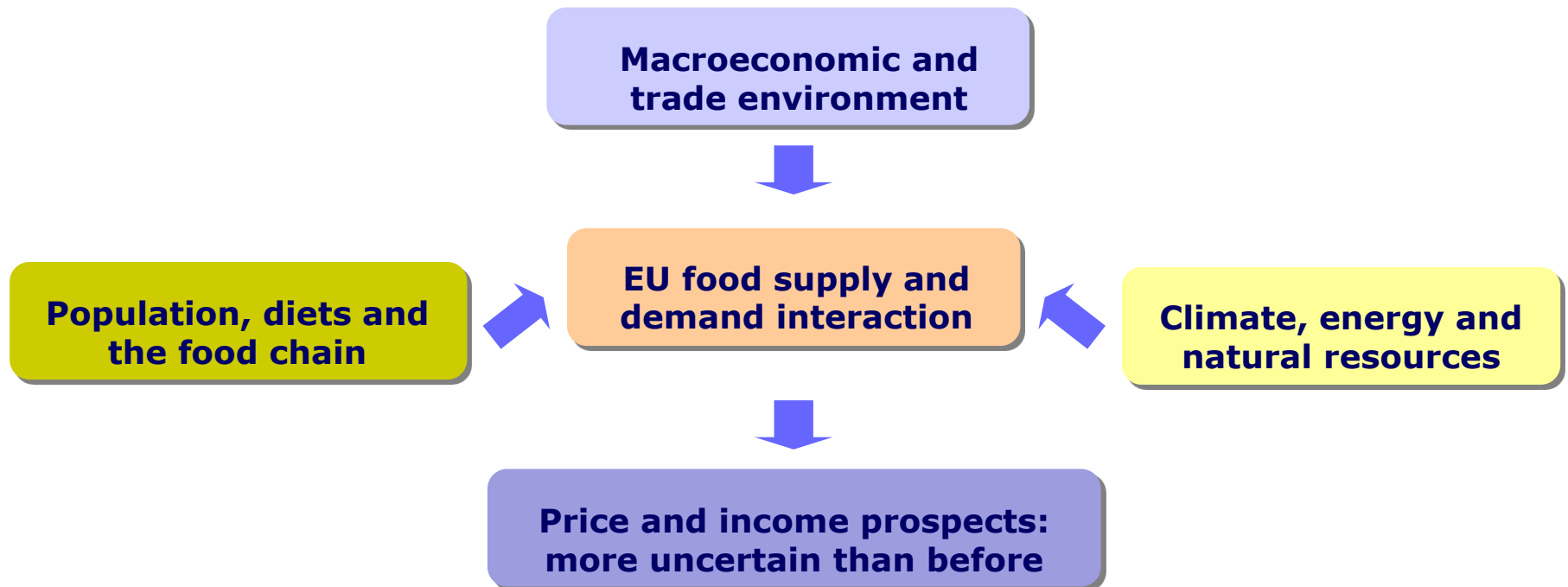


Why doing an **EU Agricultural Outlook**?

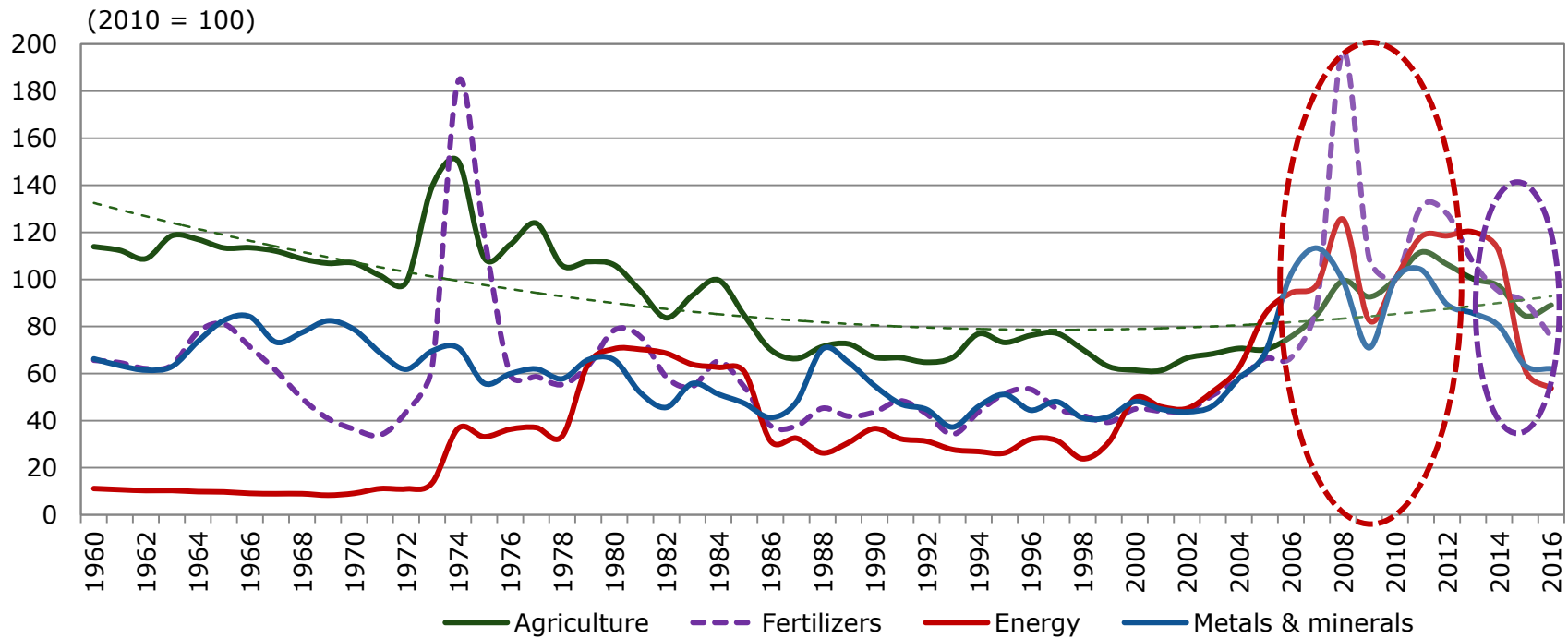
- To better understand markets and their dynamics
- To identify key issues for market and policy developments
- To have a benchmark for assessing the medium-term impact of future market and policy issues



Main drivers of the agricultural outlook



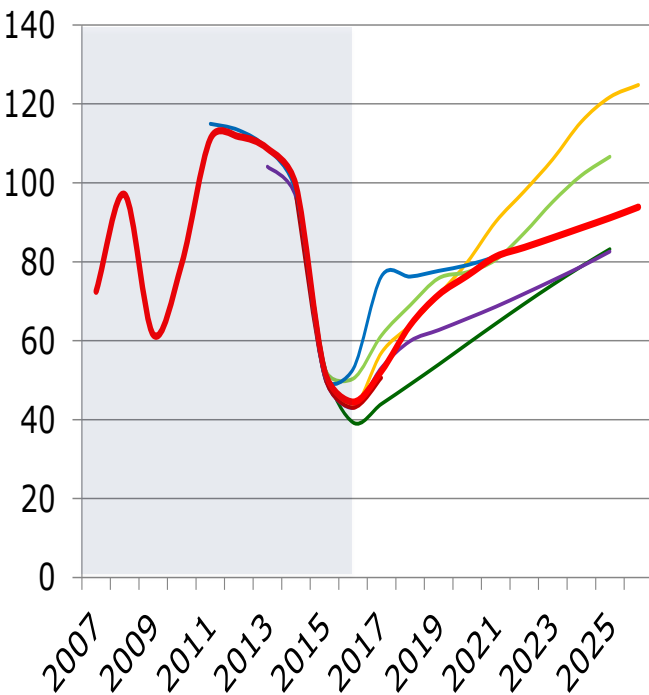
Trends in real commodity prices - 2016



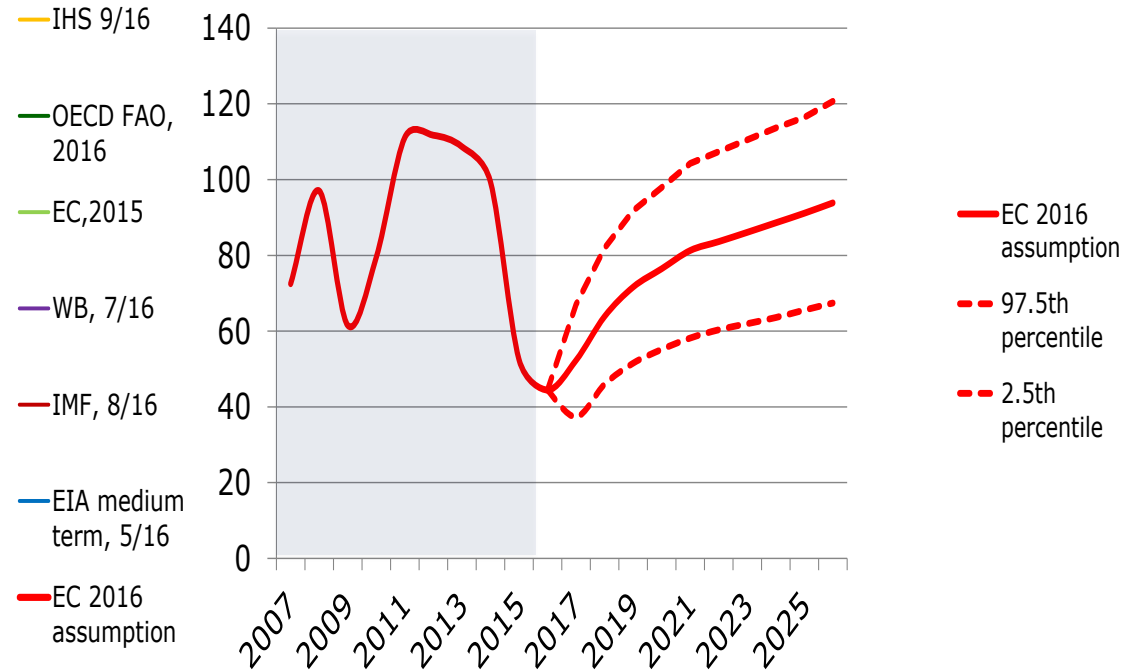
Source: World Bank. (2016 is average for first 11 months)

The uncertain world of crude oil prices

Diverging crude oil assumptions...

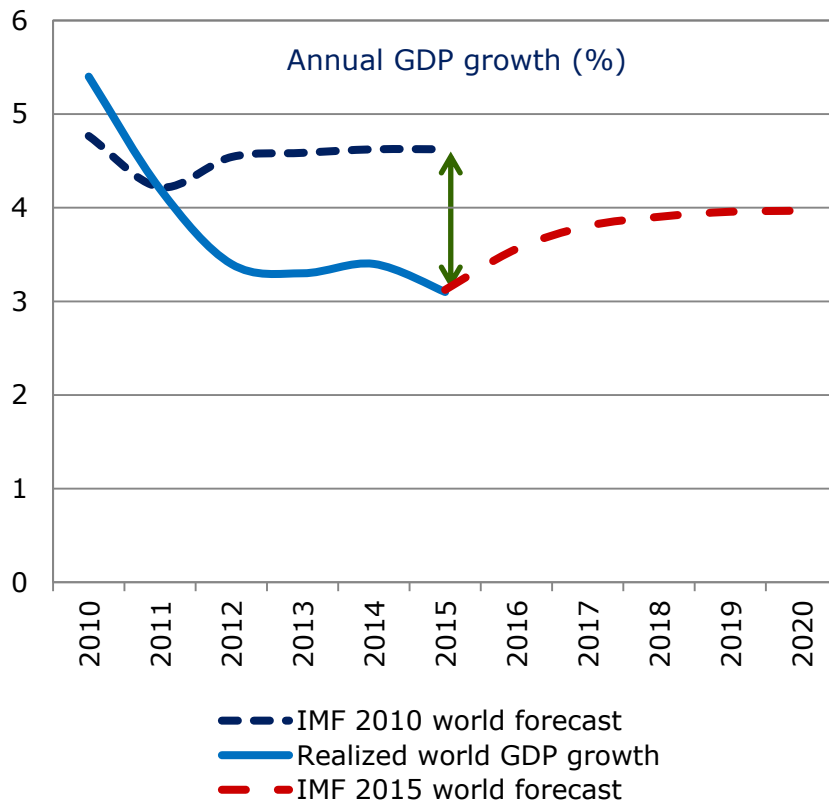


...and alternative scenarios

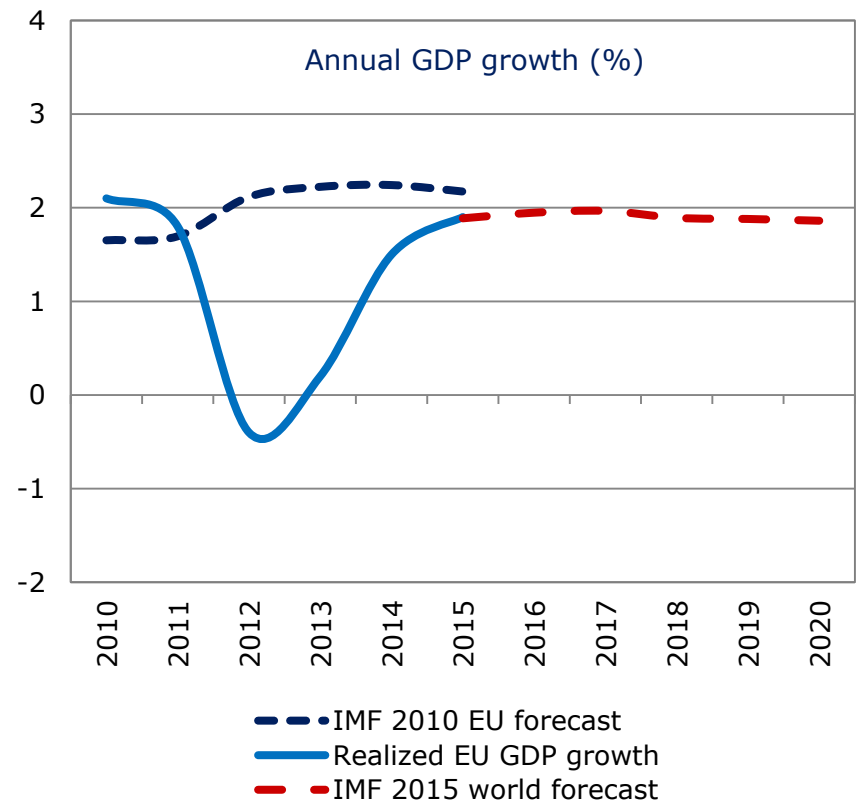


Macroeconomic realities lag behind expectations

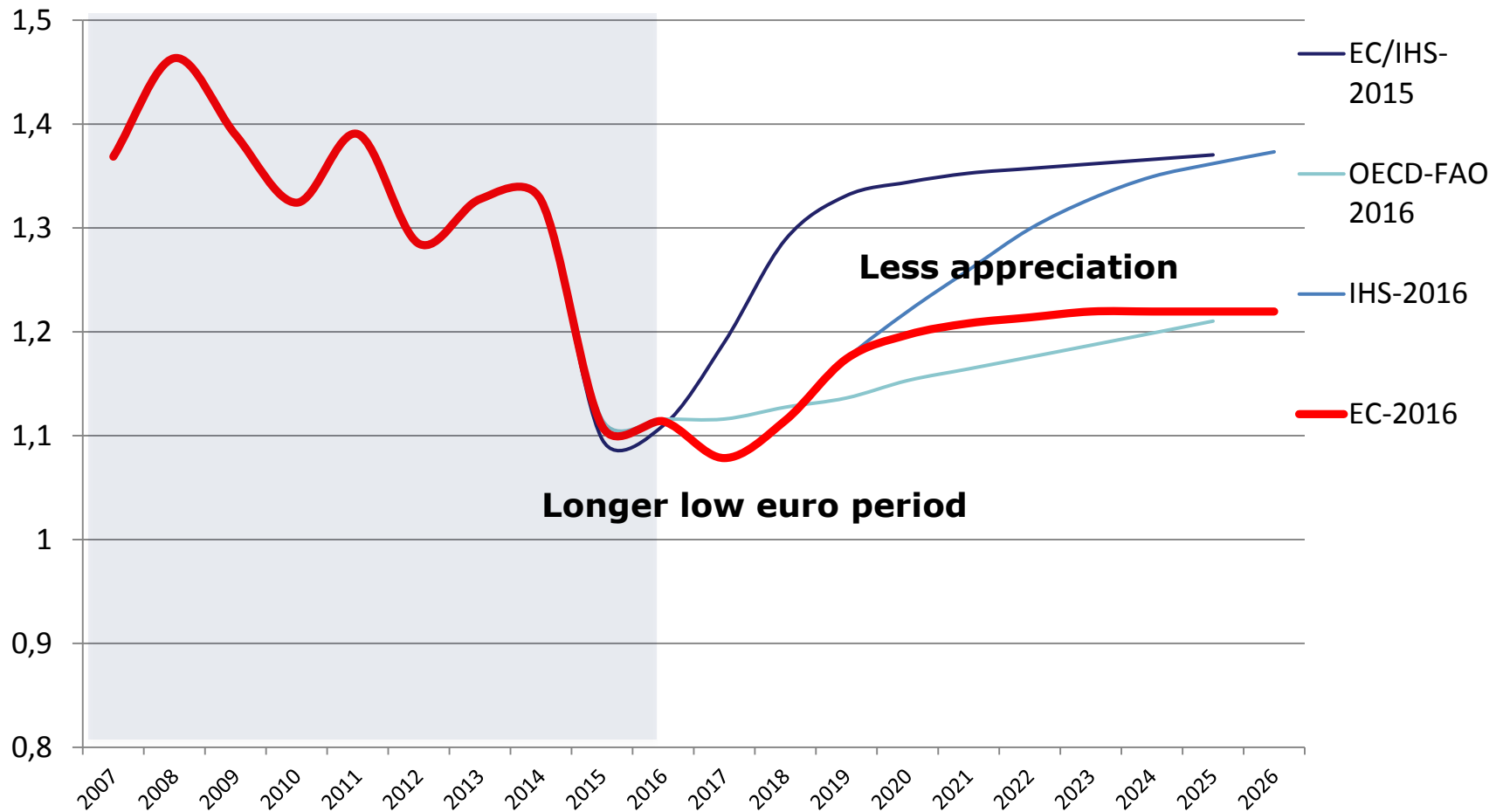
The world economic growth path



The EU economic growth path



Exchange rate assumption (USD per EUR)



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)

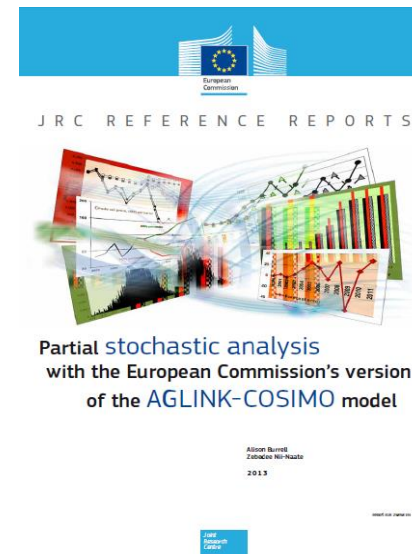
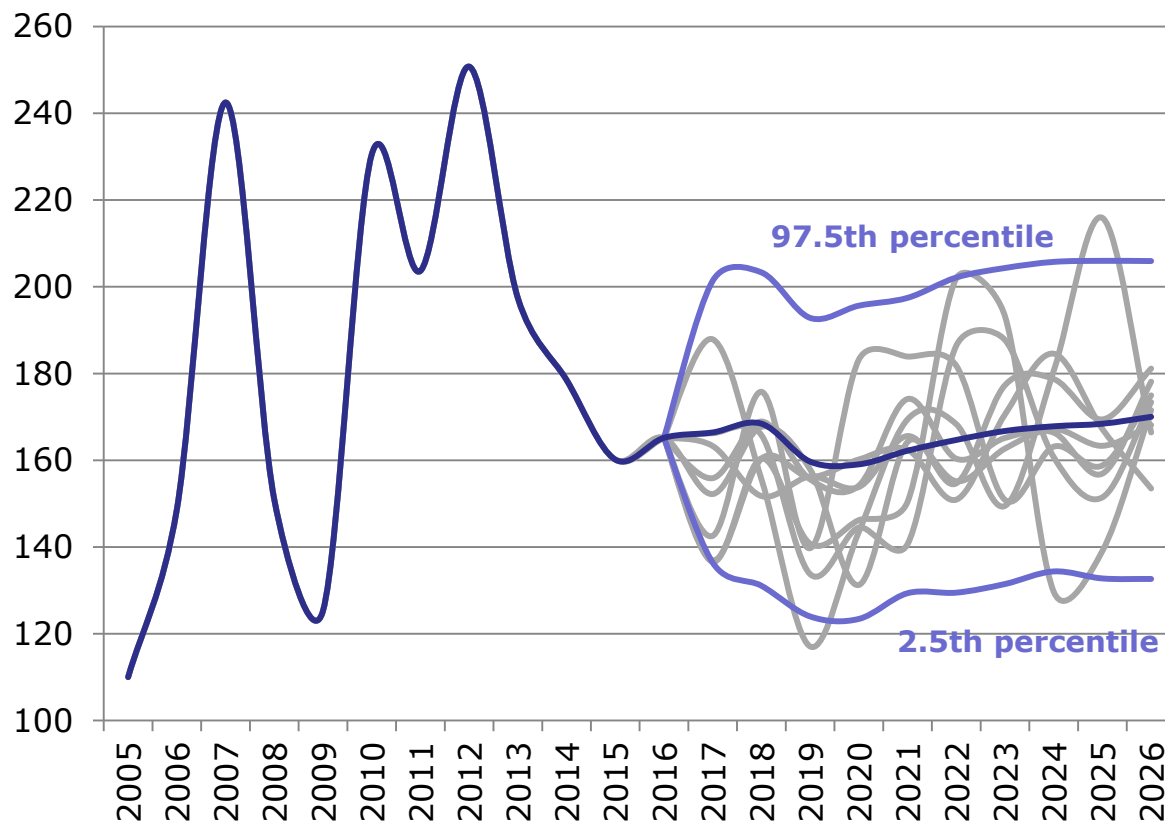
Trade assumptions

- 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

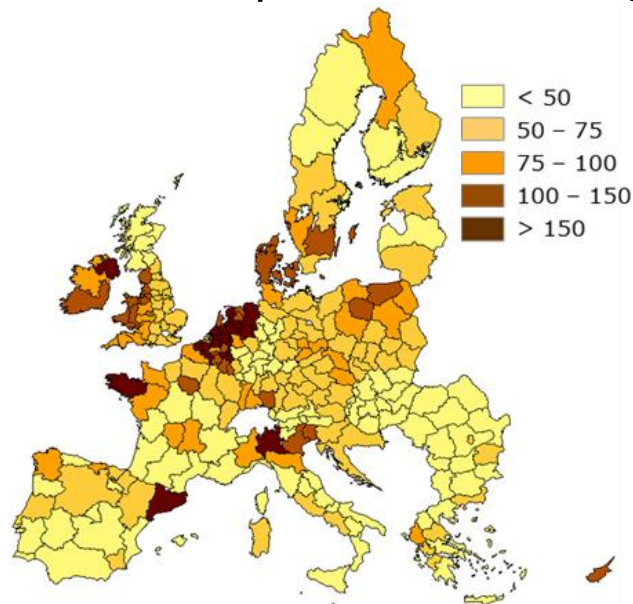
Environmental aspects

- For the first time try to translate market outlook into environmental indicators related to

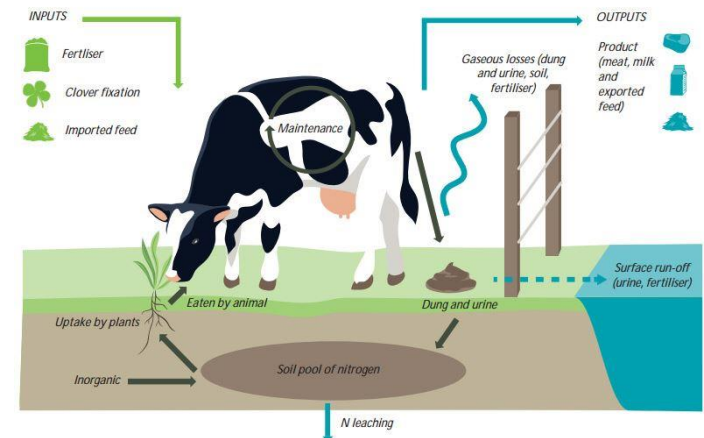
Emissions:

- greenhouse gas (-1% for GHG):
- and air pollutants (-7% for ammonia)

Nutrient surplus: Stability at EU level, but N surplus in some regions



Simplified nitrogen cycle



Reports and data available at:

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

http://ec.europa.eu/agriculture/markets-and-prices/index_en.htm

http://ec.europa.eu/agriculture/policy-perspectives/index_en.htm

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

Thank you for your attention!



European
Commission

Annex

Commodity price changes during specific

<i>Period</i>	Agriculture	Fertilisers	Energy	Metals & Minerals
2008/1997	29%	336%	298%	107%
2009/2008	-7%	-45%	-34%	-29%
2011/2009	21%	20%	43%	47%
2015/2011	-20%	-42%	-54%	-40%
2016/2008	-10%	-62%	-57%	-38%
2016/1997	15%	97%	182%	85%

Source: AGRI calculations based on World Bank data.