

# MAP

## Monitoring Agri-trade Policy

Directorate-General for Agriculture and Rural Development



European Commission

## The 2008 Outlook for World Agricultural Commodity Markets

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### Introduction

A year ago, when we last examined the outlook for world agricultural markets, who could have foretold that 2008 would bring even further soaring prices and increased volatility, especially in the grains, oilseeds and rice markets?

This MAP highlights the changes that agricultural markets have undergone this year, with a particular focus on prices and identifies the main trends for the outlook up to 2017, as projected earlier this year by the main forecasting institutions; OECD-FAO and FAPRI. It should be noted that these projections were made before prices reached their peaks in 2008 and before the subsequent sharp decline in prices over recent months.

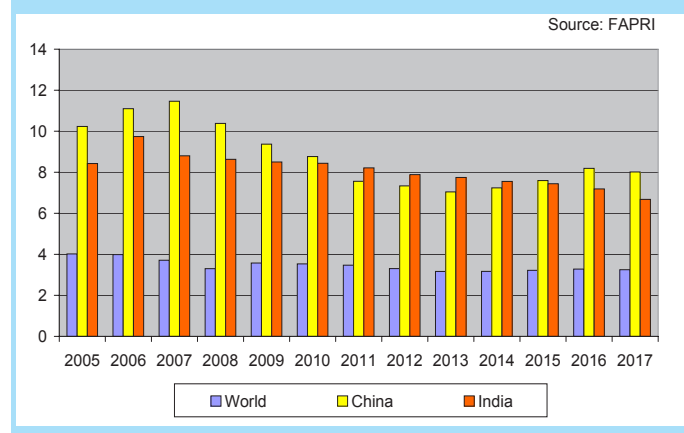
As always, the projections are subject to many uncertainties, but this year that list seems longer than ever. They rely on assumptions about a whole host of variables, ranging from macroeconomic factors such as population and income growth, exchange rates and crude oil prices, to normal weather and stable policies. Any change in these basic assumptions, could lead to different projected outcomes.

Many analysts have tried to disentangle the factors behind the surge in prices. Poor harvests, sustained demand, export bans, trade restrictions, increased activity on commodity markets, soaring oil prices causing fuel and fertiliser costs to rise, a weak dollar ...we could go on. As prices fall from these earlier peaks, the key question is how high they will stay over the medium term. In today's environment of turbulence in the global financial markets and uncertainty over the economic outlook, the forecaster's job has never been more challenging.

## Macroeconomic Setting

Changes in the macroeconomic environment have an important bearing on the outlook for world agricultural markets, especially in the longer term. Today's economic climate is less buoyant than a year ago. FAPRI's<sup>1</sup> forecast is for average world growth of 3.3% over the coming decade. The Asian economic giants are still expected to show steady growth; around 8% for China and nearly 7% for India (graph 1). OECD-FAO's outlook<sup>2</sup> for Indian growth has slowed to around 5%. These growth forecasts may be scaled back, especially in light of the recent upheaval in financial markets.

Graph 1: GDP Annual % Growth Projections



Population growth is expected to slow down to an average of 1.1% for the projection period, with the highest growth in Africa and the lowest in Europe, according to OECD-FAO.

Both Outlooks were prepared before crude oil prices rocketed in July 2008. FAPRI projects a decline in oil prices from \$82 per barrel in 2008 to \$67 by 2017, while OECD-FAO expects prices to rise from \$90 to \$104. By June the OECD-FAO's short term Economic Outlook assumed that oil would reach \$120 per barrel in 2009, i.e.

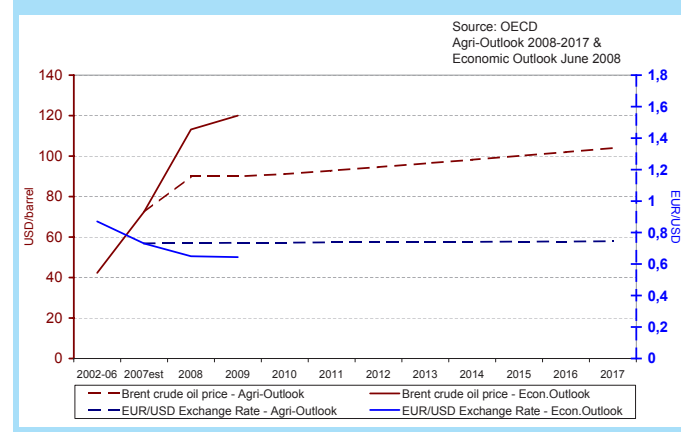
1 FAPRI 2008 World Agricultural Outlook, March 2008.

2 OECD-FAO Agricultural Outlook 2008-2017, May 2008.

\$30 higher than projected in its Agricultural Outlook. The impact of higher oil prices on commodities is complex as it not only raises production costs but also pushes up demand for biofuels. Graph 2 shows how OECD-FAO's oil price and also exchange rate projections have evolved.

Exchange rates, especially the depreciation of the US\$, have contributed to the upward pressure on commodity prices, with many commodities traded in dollars. FAPRI assumes that the US\$ will continue to depreciate against most major currencies. OECD-FAO had anticipated an appreciation of the dollar but appears to have revised its forecast for 2009 downwards (to €1=\$1.55) in the short term Economic Outlook of June 2008.

Graph 2: Revision of Oil Price and Exchange Rate Forecasts



## Prices

World prices for most commodities covered rose to record levels and later declined, since both outlooks were prepared. Many studies have attempted to disentangle the factors behind the surge in agricultural prices. They include production problems, changes in the macroeconomic environment (including exchange rates, oil prices, financial markets) and energy policy.



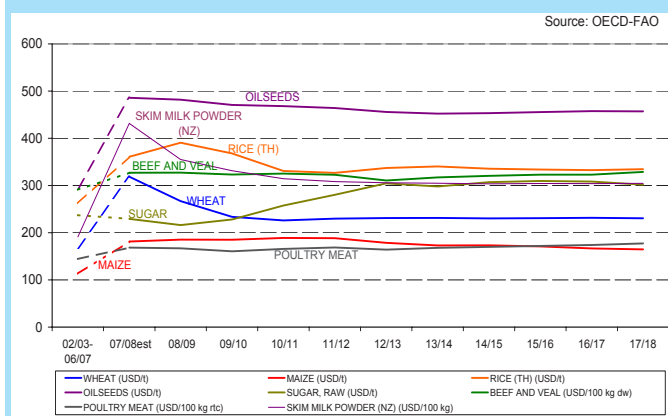
In the case of wheat, high prices were largely the result of supply shortfalls, while increased demand drove up maize and oilseeds prices. The finger of blame has been pointed at biofuels, with a recent World Bank study<sup>3</sup> even claiming that US and EU biofuels policy have contributed to around 70% of the current hike in world prices. But this claim appears exaggerated in light of other analysis, including that of OECD-FAO, which concludes that if biofuel production is kept constant at 2007 levels, projected 2017 world prices of coarse grains and vegetable oils would drop by 12-15% respectively.

In addition, trade restrictions were imposed by a number of countries, further restricting supplies. The mismatch between supply and demand was compounded by the lack of stocks to bridge the gap, which further accentuated the rise in prices.

The picture has now changed somewhat given that the prices of most agricultural commodities, especially grains, oilseeds and rice have eased in recent months, to levels considerably below the peaks of 2008, in anticipation of good harvests. Rice prices, which saw the most dramatic surge, were still 130% over last year in September 2008 (having fallen back by 21% since the May peak). Wheat prices, however, were 9% below last year's level.

For the medium term, both FAPRI and OECD-FAO have revised their price projections upwards across the board since last year. OECD-FAO expects prices to fall from the peaks seen this year, but nevertheless to stay above the average of the past. Projections vary by commodity (see graph 3). Wheat, oilseeds, vegetable oils and dairy prices are expected to ease back but remain higher than in the past. Meanwhile meat prices did not rise so sharply and should be relatively stable. However prices may be more volatile than previously, as stock levels stay tight, particularly in the context of thin markets (e.g. rice) and possibly increased financial activity.

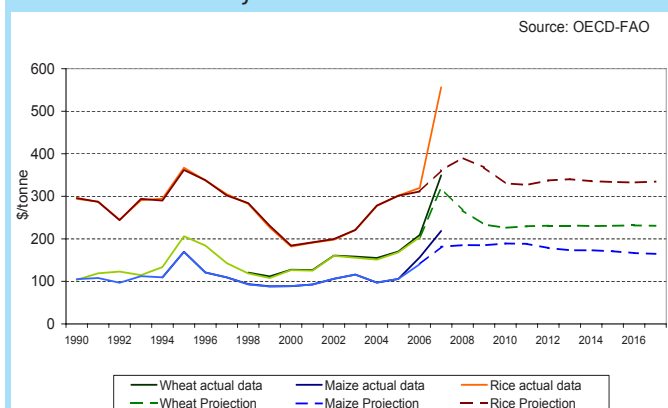
Graph 3: Outlook for World Agricultural Commodity Prices



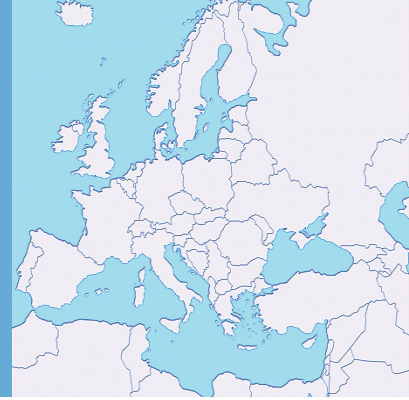
However these projections were made before the price surges of 2008. Graph 4 updates the historical market prices (using OECD-FAO data). The actual 2007/08 rice price was over 50% greater than the price assumed by OECD-FAO (\$360), when its forecasts were made. The increase is less dramatic for maize and wheat and the forecasts were broadly correct for meat and dairy products. Given that the record prices seen for some commodities will raise the average price for 2007/08, we are likely to see higher projections in the upcoming 2009 Outlook.

Graph 4:

World Market & Projected Prices for Selected Commodities



3 World Bank Policy Research working paper 4682 entitled "A note on rising food prices", July 2008.



## Cereals

### Wheat

Among the major cereals, excluding rice, wheat prices have made the biggest leap since 2006, reaching over \$480/tonne in March 2008. However, by September, prices had fallen by 35% to 9% below one year earlier.

Production has been below consumption for the past 6 years due to production shortfalls in the major suppliers (Australia and the EU). Stocks were at a record low in 2007/08 and the increase in prices was further aggravated by export restrictions imposed by several key exporters (including Argentina, China, Russia and Ukraine).

Both FAPRI and OECD-FAO agree on the future development of the world wheat market with average production, consumption and trade projections for the outlook period, roughly 10-13% above the previous decade. The area should increase (according to FAPRI) in the EU, Australia and the US, while consumption grows in line with population growth. OECD-FAO notes that developing countries, especially in South and East Asia, as well as Nigeria and Egypt will continue to fuel global wheat demand.

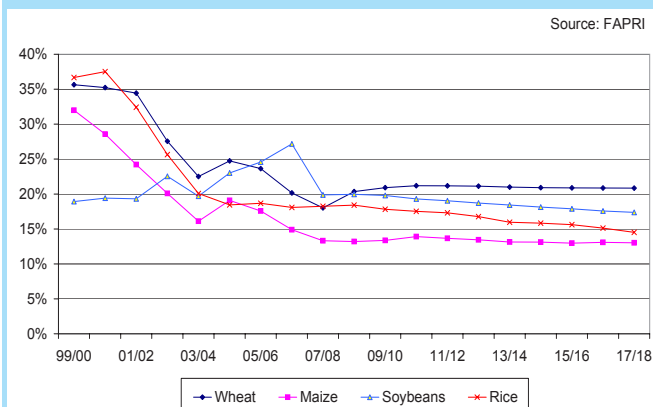
The stocks to use ratio was a record low level of 18% in 2007/8 (graph 5) and should recover to over 21% in 2010/11. However FAPRI expects stocks to decline again by 2017.

The outlook for wheat prices remains bullish. Prices are expected to fall from the recent peaks (in 2008/09 says FAPRI, while OECD-FAO forecasts a decline over the next 3 years) but still remain high (graph 6). The projection is that prices for the outlook period will be 43-56% higher than the past decade<sup>4</sup>.

The traditional top 5 exporters (US, Canada, EU, Australia and Argentina) still account for 80% of world trade, which is projected to grow at over 2% per annum from 2009/10. The US remains the biggest exporter, though its export share falls from 29% to 24%. Expectations about the EU diverge. FAPRI projects sharp growth in net exports to over 13 million tonnes by 2017/18, while OECD-FAO predicts a short term recovery to 11 million tonnes in 2008/09, falling back to 6 million tonnes. Russia's exportable surplus rises to 12 billion tonnes by 2017, so that its export share grows from 4% to 11%.

Turning to imports, China is a still swing player with FAPRI once again expecting it to turn into a net importer from 2011/12. India became a net importer in 2006/07 with net imports of around 2 million tonnes expected by the end of the outlook. African and Middle East countries also see an increase in imports, with Egypt's net import demand rising from 7 million tonnes in 2007/08 to nearly 10 million tonnes by 2017.

Graph 5: World Stocks/Use Ratio for Selected Commodities

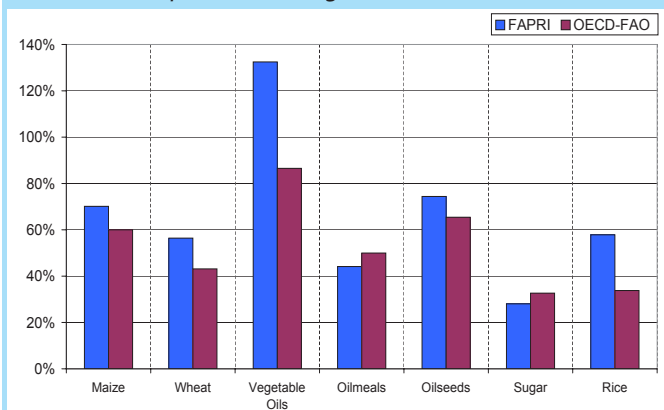


4 Graphs 6, 10 and 13 compare average price projections for the Outlook period (2008-2017), with the average of the previous decade (1998-2007).





*Graph 6: Crop Price Projections  
compared to Average of Previous Decade*



### Coarse Grains

The growth in global maize consumption since 2003 has been driven mainly by imports from developing countries (notably China and Mexico) and more recently by ethanol production in the US. By 2017 OECD-FAO predicts that 40% of the US maize crop could be destined for ethanol (up from 25% in 2007). FAPRI projects a 29% growth in consumption over the coming decade.

The recent strength in prices has prompted an increase in maize area. Combined with yield growth, FAPRI predicts that production will expand by almost one third (especially in the US and Latin America), in the projection period, compared to the average of the past decade. OECD-FAO's forecasts (for coarse grains overall) are for growth of nearly one quarter in production.

The world stocks to use ratio fell to 13% in 2007/08 and is likely to stay low (graph 5). Expectations concerning price differ somewhat, within the range of 60-70% above the past decade (graph 6). Over the medium term FAPRI believes prices will stay high at around \$195/t, while OECD-FAO forecasts a drop in prices from 2010 to \$165 by 2017, as supplies increase.

Over the next 10 years, FAPRI expects the maize trade to grow by 30% to meet demand growth in Asia and Latin America. The US is predicted to recapture markets and its export share recovers from 63% in 2008/09 to 72% by 2017/18. Production also increases in Argentina which accounts for 20% of the market. Brazil's market share could fall as domestic consumption exceeds growth.

Asia sees the biggest growth in imports, driven mainly by increased feed demand, according to OECD-FAO. China accounts for nearly one quarter of world feed demand (some 70% of its consumption). Overall Chinese demand is up by 30% with FAPRI predicting that it will become a net importer of maize from 2009/10, importing 2.6 million tonnes by 2017.

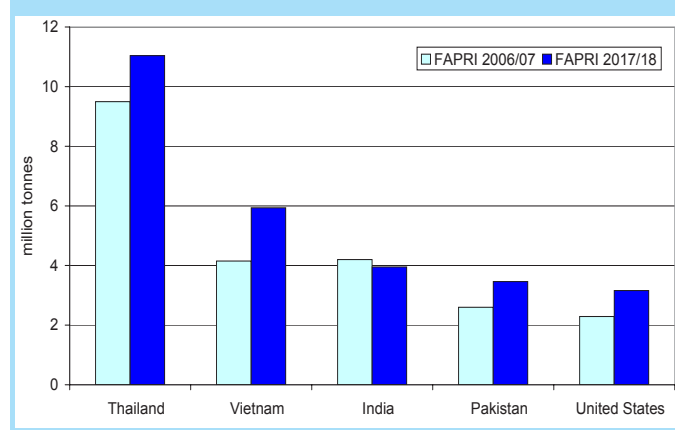
### Rice

The biggest surge in prices in 2008 has been in the rice sector. In recent years, weather damaged crops in South East Asia have reduced stocks dramatically, especially in China and India (both the leading producers and consumers, together accounting for over 50% of the market). This was the case for 3 consecutive years (from 2001/02 to 2004/05) and again in 2006/07. Market volatility is exacerbated by the fact that world trade only accounts of 7% of production, so markets are thin.

In the coming decade FAPRI forecasts that demand will continue to surpass production. This masks different trends in per capita consumption around the world, declining in Asia as incomes rise, but growing in Africa. The global stocks to use ratio fell below 19% in 2004/05 (graph 5) and FAPRI foresees even further decline to just 14.5% by 2017. As a result, it projects a 58% increase in prices over the coming decade. OECD-FAO expects an increase of just 34%, anticipating some rebuilding of stocks, in line with its expectation that production keeps pace with demand (see graph 6).

The top 5 exporters account for 90% of trade over the projection period (graph 7). Thailand is expected to consolidate its position as the leading rice exporter, with 36% of global exports (but only 5% of world production). Vietnam remains in second place. India and the US both lose market share (down to 14% and 9% respectively) and Pakistan overtakes the US as the 4th biggest exporter from 2009/10 onwards, with 11% of the market. China is both an importer and an exporter depending on its domestic balance but is generally a net exporter.

*Graph 7: Top 5 Net Exporters of Rice*



## Oilseeds

The oilseeds crush is driven mainly by demand for vegetable oils, led by population and income growth as well as animal feed and biofuels. OECD-FAO anticipates an expansion in global oilseeds production of 28% by 2017 compared to 2005/07, mostly concentrated in Brazil, the EU and Argentina, and 40% growth in oilseeds consumption (FAPRI projects 47% for soybeans). China is the world's leading oilseeds consumer with one fifth of global demand. Its crushing industry slows down to 3.5% growth per annum compared to 8.5 % over the past decade.

World oilseeds prices reached record levels in 2007/8 due to strong demand and lower production, with global

soybean supplies down by 6%. The world soybean price rose by 48% in 2007/8. A year ago stocks appeared to be at record levels, but have now fallen back to less than 20% of usage and are unlikely to recover (graph 5).

While price projections are not directly comparable, both FAPRI and OECD-FAO see prices remaining at historically high levels (graph 6). For oilseeds OECD-FAO projects an increase of 65%, while FAPRI forecasts an increase of 74% for soybeans for the coming decade. Driven by high prices, the soybean area increases by nearly 19% from 2008 to 2017/18 (FAPRI), of which 40% is in South America. By 2016/17 Brazil becomes the world's leading soybean producer (31%), overtaking the US (30%), with Argentina in third place (20%).

Brazil and China account for over half the world's soybean trade by 2010/11. Brazil, the top exporter of soybeans, sees exports grow from 30 to 54 million tonnes by 2017 and its share of exports rises to 59%, while the US share drops to just 25%. China remains the leading soybean importer (52 million tonnes in 2017), with 57% of world net imports. The EU is still the second biggest importer, though its imports are in decline.

## Meals

Increasing livestock production continues to drive oilmeals consumption according to OECD-FAO. Comparing 2017 with 2005-07, growth in developing countries is up by nearly 50%, half of which is in China. Global production grows faster than livestock demand however, so both FAPRI and OECD-FAO expect meal prices to decline. Nevertheless they remain high, in the range of 44-50% over the past decade (graph 6).

Argentina, the largest soybean meal exporter, continues to gain export share and accounts for 45% of global exports over the outlook period. The EU remains the world's biggest net soybean meal importer, with one third of imports, says FAPRI, while OECD-FAO expects EU import dependency to fall.

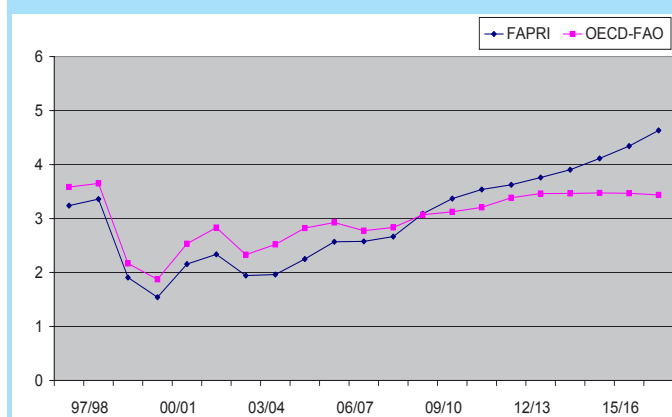


## Oils

Vegetable oil is still the fastest growing sector covered by the Outlook. Consumption forecasts remain optimistic, with growth of 56-62% expected over the projection period, compared to a decade earlier. This is driven mainly by food demand, with the biggest growth in developing countries. Biodiesel demand accounts for around one third of the growth.

Prices are projected to increase sharply by 87-132% over the projection period (graph 6). FAPRI still anticipates a dramatic upward shift in the value of oils compared to meals, reaching a factor of 4.5 by 2017, slightly below last year's forecast (graph 8). Meanwhile OECD-FAO foresees a more moderate increase, more in line with the ratio of the last decade.

Graph 8: Vegetable Oil/Oilmeals Price Ratio



Argentina consolidates its position as the leading exporter of soybean oil with 30% of net exports, at the expense of Brazil and the US, says FAPRI. Palm oil is still the world's most widely consumed vegetable oil. Both Indonesia and Malaysia increase their exports by over one third (around 5 million tonnes each) from 2008 to 2017, says OECD-FAO. This is linked to continued strong growth in EU oils consumption. The EU overtakes China as the leading world consumer and importer of oils.

By 2017 OECD-FAO expects the EU to almost double its imports, from around 9 to 15 million tonnes, mainly palm oil for biodiesel production.

## Sugar

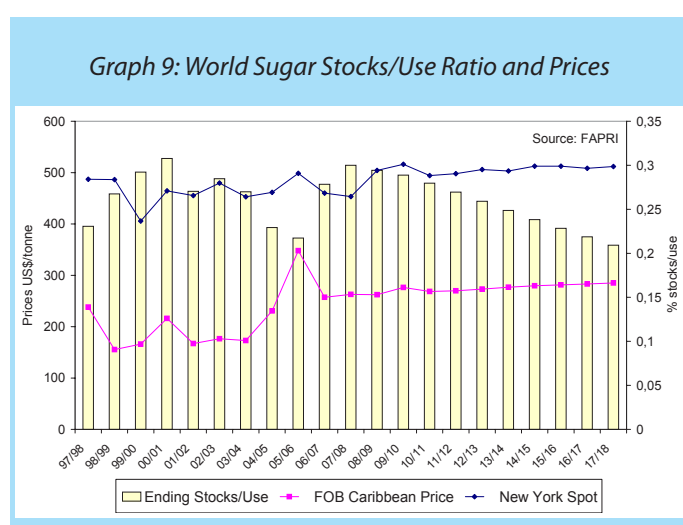
Unlike other commodities, sugar prices fell for the past 2 years from the peak of 2005/06, as production grew faster than consumption. The reverse is projected for the outlook period, with both institutions expecting production to grow by just one quarter while consumption rises by around 30% (mainly in China and India). FAPRI projects that trade will grow even faster. Stocks are expected to decline from 30% in 2007/08 to 21% by the end of the outlook (graph 9). Projections for prices are in the range of 28-33% higher than the last decade (graph 6).

The EU and Brazil are the key players. The reform of the EU's sugar regime led to a drop in production, which looks set to stabilise below 12 million tonnes from 2012 onwards, a 15% drop from pre-reform years (OECD-FAO). The EU became a net importer in 2006/07 and is the world's biggest importer by 2017, with a deficit of nearly 5 million tonnes. Imports also grow sharply in China and the US, leaving Russia (today's biggest importer) in 4th place by 2017 (OECD-FAO).

Meanwhile Brazil, the world's leading producer and exporter, just carries on growing. Although the share of sugarcane used for ethanol rises, sugar production should still grow by 50% and exports by 65% in the coming decade, to reach 40 million tonnes and over 25 million tonnes respectively. FAPRI is even more bullish, expecting also Brazil to have 60% of world market by 2017.

FAPRI projects that Thailand will overtake Australia as the second biggest net exporter, with a share of 12 % by 2017 compared to Australia's 10% share. Since 2006, India is the second largest sugar producer (overtaking

the EU) and the biggest consumer in the world. Views on India's trade differ. FAPRI predicts that it may shortly become a leading net exporter, rising to nearly 6 million tonnes in 2010/11, though falling back to 3 million in 2017. By contrast OECD-FAO sees it as a net importer from 2015.



## Biofuels

Global biofuels production has expanded rapidly in recent years, playing an increasingly important role in the cereals, oils and sugar markets and appears set to continue on this growth path. The market is dominated by ethanol, which grew threefold from 2000 to 2007, mainly in the US (world leader with production of 30 billion litres) and Brazil (19 billion litres).

OECD-FAO and FAPRI's projections are based on different assumptions. Only FAPRI takes account of the 2007 US Energy Act, and it assumes lower EU biofuels usage than OECD-FAO. The latter expects global ethanol production to almost double in the coming decade and FAPRI is even more bullish. In Brazil two thirds of the sugarcane crop will be used for ethanol by 2017/18, up from half in 2007/08, according to OECD-FAO. They are more optimistic about EU production than FAPRI, projecting

growth in output from some 5 billion to 12 billion litres, compared to FAPRI's forecast of less than 8 billion litres by 2017.

International trade in ethanol is expected to grow rapidly. Brazil is the key exporter and FAPRI projects that its exports will grow fourfold to over 13 billion litres. The US consolidates its position as the leading importer, with imports rising from 1.5 billion litres in 2007 to 8 billion litres in 2017. EU imports rise tenfold to more than 1 billion litres. Views differ on the outlook for prices, with OECD-FAO projecting an increase of 24% from 2007 to 2017, while FAPRI expects prices to drop by around 17% until 2012 and later recover to 2007 levels.

Global production of biodiesel grew even faster than ethanol, from just 1 billion litres in 2000 to 11 billion litres by 2007. OECD-FAO believes that it will become a long term driver of the global oilseeds complex with production set to double over the outlook period. Biodiesel use accounts for one third of the growth in global oils consumption.

The EU was the dominant producer in 2007 with 60% of global production (mainly rape oil). Since its consumption is forecast to exceed production, imports grow from under 500 million litres in 2007 to 1.6 billion litres in 2017. The US is currently the second largest producer, but should be overtaken by Brazil. Argentina becomes the leading exporter. The price projections for biodiesel are the reverse of those for ethanol, with OECD-FAO projecting a small increase of around 12 % compared to FAPRI's forecast of nearly 70%.

## Dairy

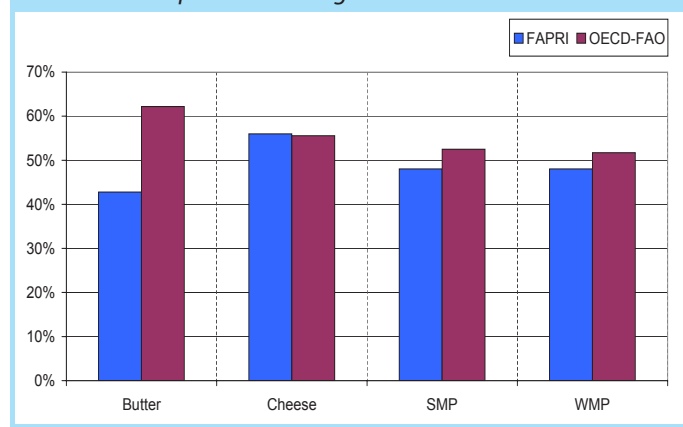
Dairy markets saw a surge in prices earlier than most other markets, reaching a peak in the second half of 2007. At the end of 2007 stocks of dairy products were half of that of 5 years earlier. Prices have eased since then, with September 2008 levels 19-39% below the





peaks. Nevertheless both institutions are forecasting that dairy prices will remain 50-60% higher than in the past decade, though FAPRI is less bullish about butter prices (graph 10).

*Graph 10: Dairy Price Projections compared to Average of Previous Decade*



### Butter

Global consumption and production are projected to grow by 2.2-3% per annum over the next decade. India accounts for three quarters of that growth, even becoming a small net exporter. Exports are still dominated by developed countries. Together New Zealand, EU and Australia account for 90% of exports by 2017. FAPRI expects EU net exports to decline by 7%, roughly in line with production, so its export share falls to just 22% (graph 11). OECD-FAO predicts that the EU even becomes a net importer by 2013. Meanwhile New Zealand's and Australia's production grows, so their share of exports expands. Russia remains the key importer, with 20% of trade.

### Cheese

World cheese production and consumption should grow by around 1.5% per annum, according to OECD-FAO, with even faster growth in trade. The EU and the US are the world's biggest cheese producers, accounting for

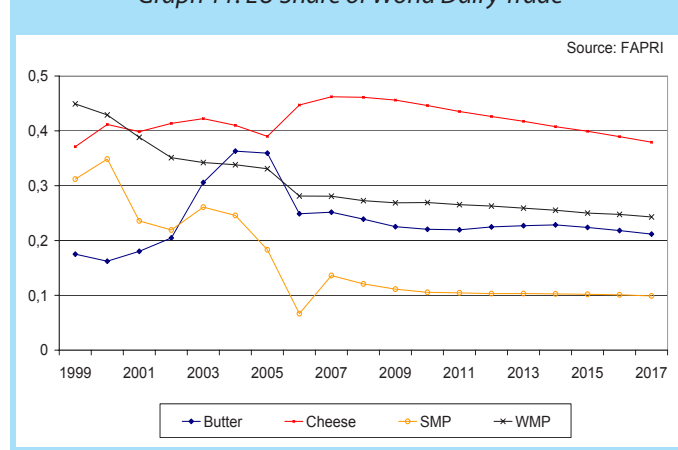
almost 70% of production. FAPRI predicts that EU cheese production will grow by 16% by 2017.

Both institutions foresee strong growth in trade over the coming decade, in the range of 25-36%. Unlike other dairy products, the EU has improved its export share for cheese from around 40% in 1999 to 46% in 2007. However it falls back to below 40% by 2017. Meanwhile Australia's and New Zealand's shares grow and together they account for 43% of the market by 2017. Russia and Japan are the top importers, together absorbing over 40% of imports.

### Skim Milk Powder

FAPRI takes a more bullish view of the prospects for SMP, forecasting annual growth of 2% compared to OECD-FAO's projection of 1.5%. The latter is more optimistic about trade which should grow by about 3% annually. This growth is concentrated in Asia, which accounts for 60% of global SMP imports by the end of the outlook.

*Graph 11: EU Share of World Dairy Trade*



According to FAPRI, the US overtakes the EU as the world's biggest SMP producer by 2014/15 and also overtakes New Zealand as the leading SMP exporter by 2010. The US, New Zealand and Australia capture over

60% of exports. Views diverge about the prospects for EU exports. FAPRI believes they will remain stable while OECD-FAO expects them to fall to negligible levels by 2017. Mexico, Indonesia and the Philippines remain the top importers.

### Whole Milk Powder

World WMP production and consumption are expected to grow by around 20% over the baseline period, with China accounting for almost half of this growth. Views differ on the country's trade status. OECD-FAO projects that China's demand will continue to exceed supply so it becomes the leading net importer by 2017 (overtaking Saudi Arabia). FAPRI however expects it to remain a small net exporter.

Trade accounts for a relatively large share of global production, growing by 3-3.5% per year. The biggest growth is in Asia, whose import share rises to 58%. Argentina's export prospects look optimistic, with FAPRI projecting 50% growth, while OECD-FAO predicts that exports could even double. FAPRI also forecasts an expansion in exports from Australia and New Zealand, of 37% and 10% respectively. Meanwhile FAPRI expects continued decline in EU production and exports of 19% and 4% respectively over the baseline.

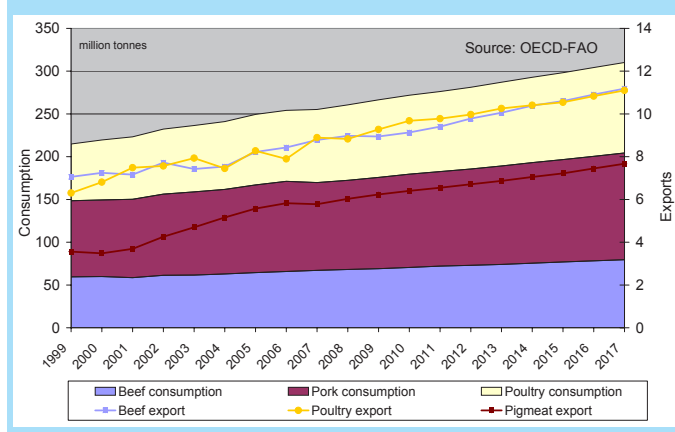
## Meats

Over the past decade, meat consumption has expanded across all sectors, driven mainly by population growth and rising incomes in developing countries. The most dynamic sector has been poultry, whose share in total meat consumption rose from 29% in 1999 to 31% in 2006, while pork remained stable at 39% and beef declined from 26% to 25%.

Global meat production and consumption continue to grow over the Outlook (graph 12), says OECD-FAO,

with growth of just 0.5% anticipated for OECD countries compared to 2.5% in developing countries. China, with annual consumption growth of almost 3%, accounts for 42% of global growth in the coming decade, though this is satisfied mainly by domestic production.

Graph 12: World Meat Balance Sheet by sector



Trade should expand by 2.5% per year. Brazil is likely to grab over half the export growth, with 30% of global meat exports by the end of the projection period. The US too gains market share. Russia remains the largest net importer in the OECD-FAO, followed by Japan.

In general, the meat markets have not been as tight as the grains or dairy markets. Only poultry showed a significant rise in prices of around 20% in 2007. Over the coming decade, prices are projected to grow moderately, ranging from 18–20 % for beef and poultry and 19-24 % for pigmeat, compared to the past ten years.

### Beef

The world beef sector continues to grow at a slightly faster rate over the coming decade (1.7% per annum, according to OECD-FAO) than over the past ten years. China is set to become the second biggest consumer after the US, with FAPRI expecting growth of 55% in consumption. Demand will be satisfied mainly by



expanding domestic production. OECD-FAO anticipates that the country will remain a net exporter while FAPRI predicts that it will become a small net importer.

The main producers are Brazil, China and the US. FAPRI believes Brazil's production will grow by 46% over the next decade. Global trade is expected to grow faster than consumption. The Mercosur countries consolidate their positions as leading beef exporters at the expense of Oceania, which loses export market share. Brazil remains the leading exporter, with 47% share of world exports. Opinions differ concerning Australia, with FAPRI more optimistic than OECD-FAO about its exports prospects. Meanwhile, the EU's net imports continue to grow.

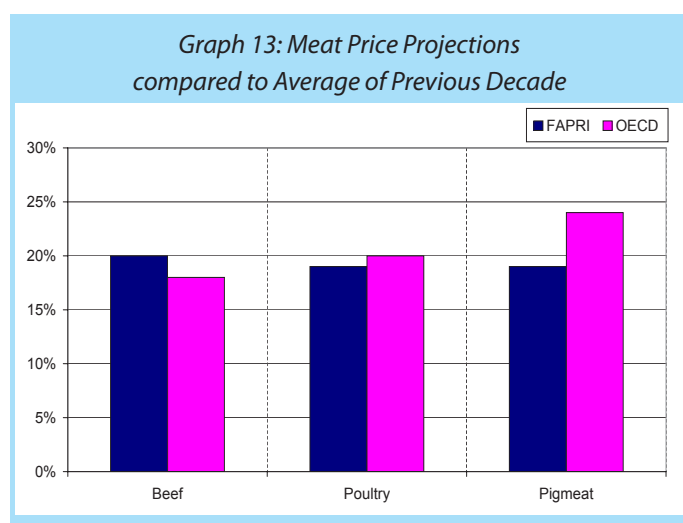
Overall, the world pigmeat trade grows faster than production at 2.7% per year, slightly down over recent years. Both FAPRI and OCED are optimistic about the prospects for the US pigmeat sector, with production expected to expand quicker than consumption, increasing the US exportable surplus. FAPRI foresees more than a threefold increase in US exports, so it overtakes the EU as the biggest net exporter, with an export share of 28%. Brazil's exports more than double so it too gains export share. Meanwhile the EU share falls to 26%. A solid recovery in prices is expected from 2009-11, followed by a decline later. Over the entire outlook, prices are predicted to be on average 19-24% above those of the past decade (graph 13).

### Pigmeat

The global pigmeat sector should continue its long term growth at 2% over the coming decade, slightly lower than the past 10 years. China is by far the biggest pigmeat producer and consumer in the world, accounting for more than half of the market. Although consumption slows down, FAPRI still expects growth of 19% over the coming decade, which will be satisfied mainly by an expansion in domestic production.

### Poultry

The poultry sector was the most dynamic meat sector of the past decade. Between 1999 and 2006 consumption grew by 3.2% per year, with even faster growth in trade. It was the only sector to expand in developed as well as developing countries. China is the second largest producer and consumer after the US. But the most impressive growth in production was achieved by Brazil with over 7% growth per year, enabling it to capture the export opportunities generated by expanding world demand, bringing export growth of nearly 19% per year.



The sector will continue to expand in the outlook period, albeit at a slower pace of 2 % per year. Brazil is the only country where production is expected to grow significantly faster than consumption so it should consolidate its position as the leading poultry meat exporter, ahead of the US. From 2008-2017, FAPRI expects its exports to double compared to the past decade so it accounts for almost half of world exports. Although the US loses export share, nevertheless its poultry meat exports rise by 30% over the same period. Prices are predicted to be around 20% above those of the last decade.



## Conclusions

A year ago we wondered whether the surge in prices was the start of a new boom era or just an upturn in the cycle. There is now a consensus between FAPRI and OECD-FAO, that prices will fall from the peaks seen earlier this year and this has already happened as the prices of most agricultural commodities have declined considerably in recent months. The key question now is how high they will stay over the medium term. FAPRI and OECD-FAO are projecting that they will be higher than the average levels we have seen over the past decade. After two decades of falling prices, OECD-FAO believes that structural factors like the growth in global food and feed demand combined with the expansion of biofuels, “the largest source of new demand in decades”, should keep prices high.

As always the projections are subject to many uncertainties including future macro-economic variables, development of agriculture and trade policies and weather related factors among others and therefore the results of the analysis are sensitive to changes in any of these underlying assumptions. This year the list of uncertainties seems longer than ever and is compounded by nervousness about the economic outlook and general turbulence in the global financial system.

If prices do remain higher than recent trends, then this is good for some, but has important repercussions for others, especially net importer developing countries. In particular Africa’s growing dependence on rice is a challenge for vulnerable importers, facing rising import bills, notably Nigeria which is likely to become the world biggest importer, with a 50% increase in imports over the coming decade. The Philippines, Bangladesh and Indonesia will also have to confront growing dependency on rice imports.

New EU initiatives this past year intended to mitigate the effects of the hike in prices include the disposal of intervention stocks, the abolition of set-aside and the suspension of import duties for cereals. The challenge posed by high prices, particularly for the most vulnerable groups, has triggered an international response, by the EU and at the level of international organisations. A new move to put agriculture at the heart of development policy once again may be a positive side effect of the current challenge.

Meanwhile many of the trends for the key players, identified in the Outlook MAP of 2007, are continuing. The EU is expected to lose ground in coarse grains, sugar, dairy and meats, with lower exports and declining export share. The exception is wheat, where exports are expected to grow. Accelerating demand means EU imports are projected to continue to grow fast, especially in the oilseeds complex. The US remains the leading world exporter of wheat, maize and soybeans and its meat exports grow steadily. Brazil’s status as an export giant remains unchallenged, given its consolidation as the world’s top oilseeds, sugar, ethanol, beef and poultry exporter. Meanwhile China’s growth and imports is projected to continue.

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