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Perspectives for the agricultural markets in the enlarged European Union

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Structure of the presentation

- **Introduction**
 - Methodological approach and main assumptions
- **Perspectives :**
 - Perspectives for the markets of cereals, meat, milk and dairy products
 - Income projections for EU agriculture
 - Uncertainties



Policy assumptions

- **CAP in its current (post Health Check) form**
 - Phasing out milk quotas
 - Intervention mechanism reduced to wheat, butter and skimmed milk powder
 - Further decoupling until 2012
 - SAPS maintained until 2013 (inclusive)
 - Abolition of mandatory set-aside
 - Increased modulation
- **World trade remains in conformity with the Uruguay Round Agreement on Agriculture**

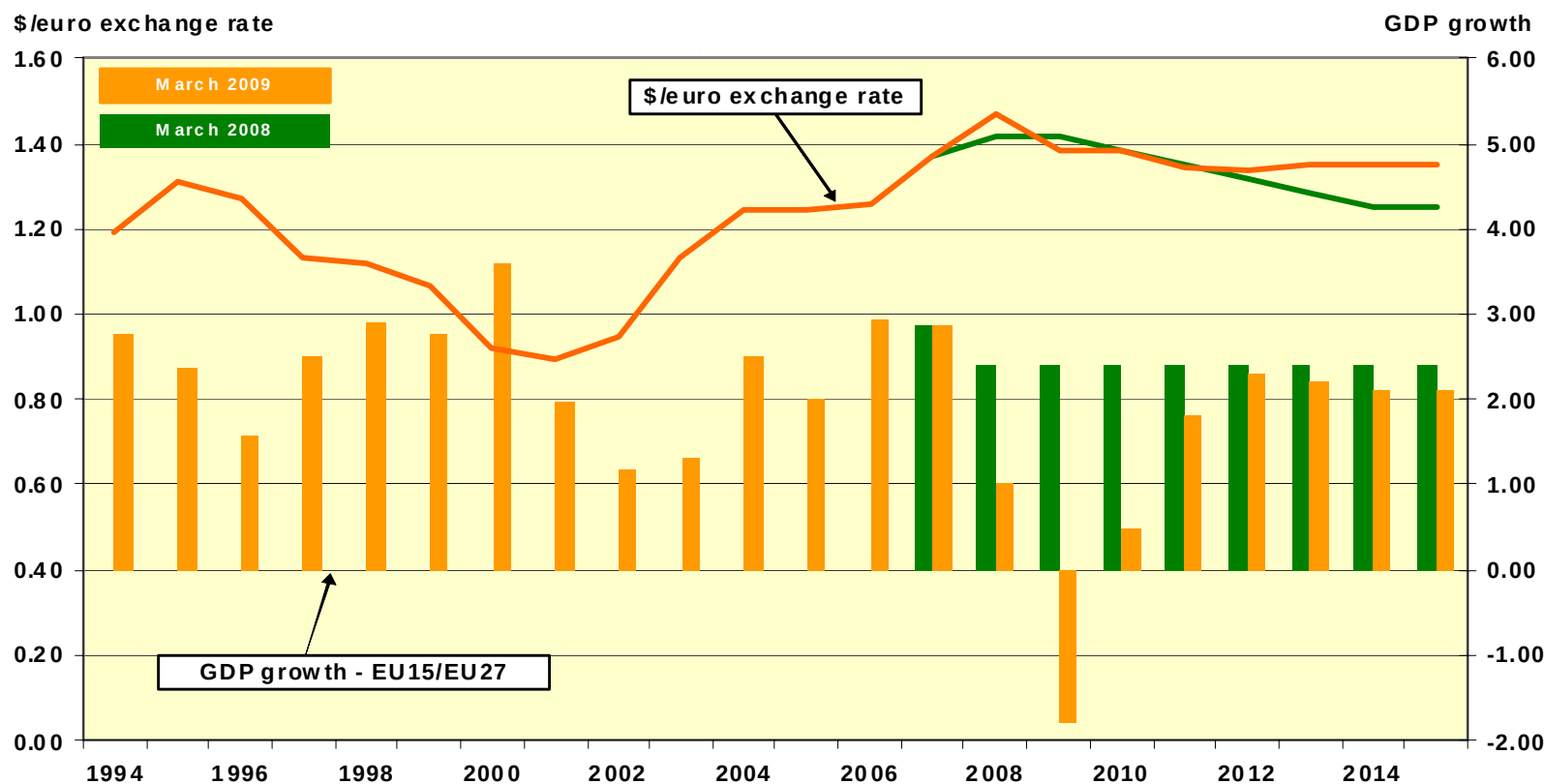


Macro-economic assumptions

- **Economic crisis clouds the short-term outlook**
- **Medium-term prospects remain favourable**
 - EU GDP growth around +2.1% per year
 - USD/EUR exchange rate to stabilise around 1.35
 - EU inflation around 1.9% per year
 - EU population growth would slow to 0.3% per year
 - Crude oil price fluctuates between 78-85 USD/barrel
 - World GDP growth above 3.6% per year
- **High degree of uncertainty as the economic outlook remains subject to a number of (mainly downside) risks**



Assumptions for USD/EUR exchange rate and GDP growth (compared to assumptions in March 2008)





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Perspectives for EU agricultural markets

Cereal and oilseed sectors



Overview

1. Over the short term cereal prices to remain reasonably firm despite ...

- Large 2008 production response (incl. EU removal of set aside)
- Lower demand linked to economic crisis (mainly through feed demand)

2. Prices are projected to strengthen over the medium term thanks to ...

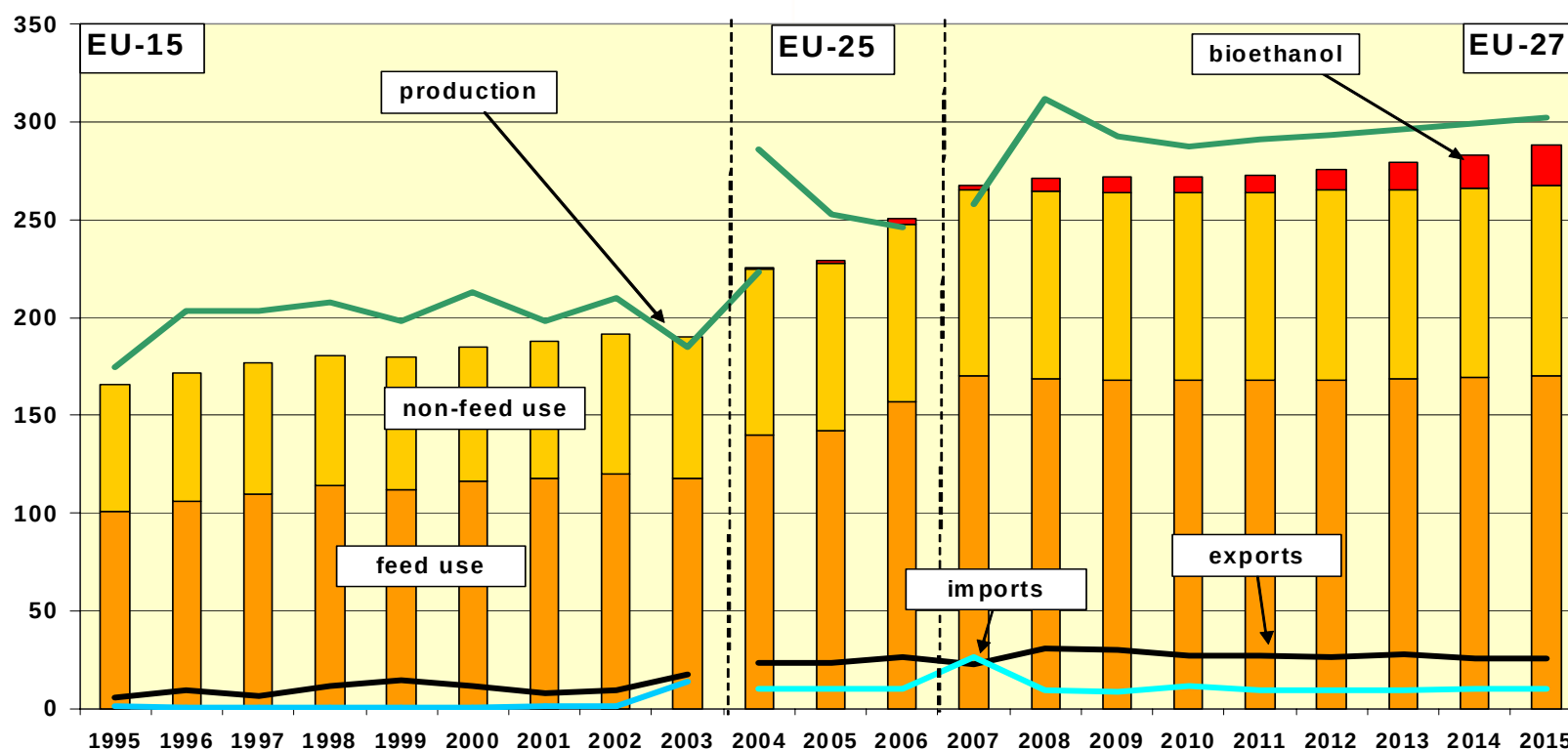
- expanding biofuel demand
- expansion of global food demand
- moderate yield growth and
- EU and world stocks at relatively low level

➔ Low risk of (regional) imbalance on EU cereal markets
➔ Changing price relations in favour of coarse grains (mainly maize)
... but some risk of price fluctuations



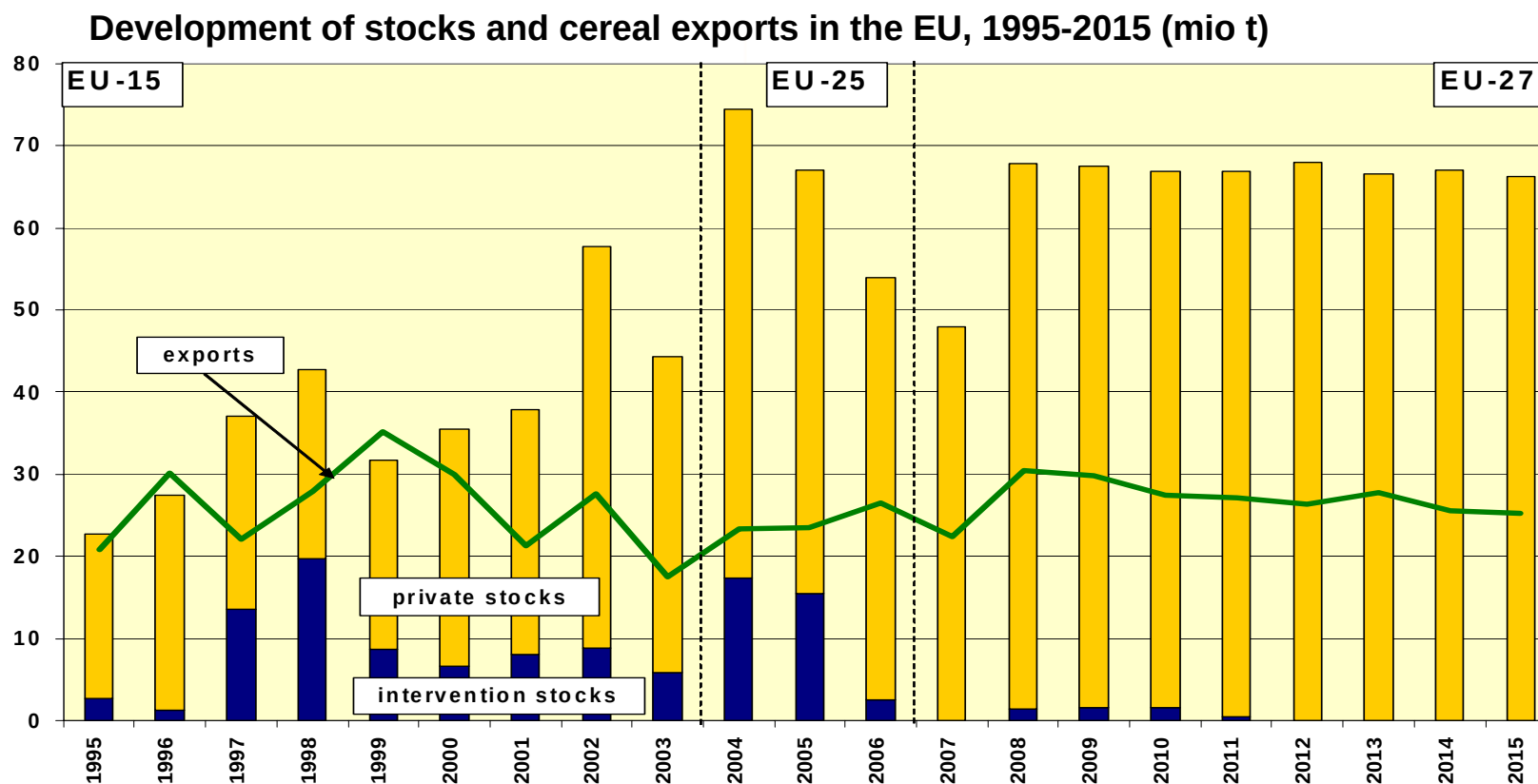
Slightly expanding cereal markets and emerging bioethanol markets....

Development of cereal markets in the EU, 1995-2015 (mio t)



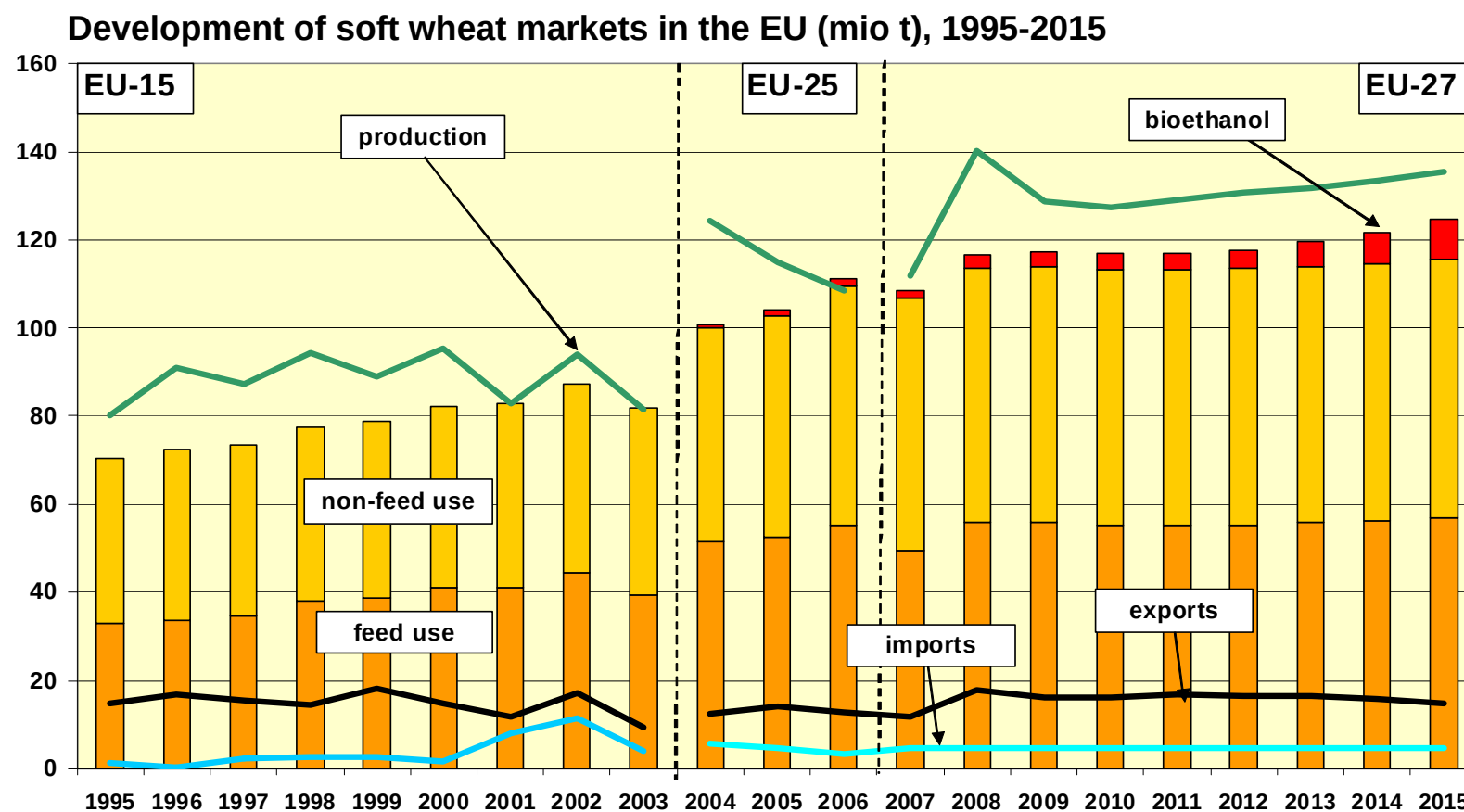


... lead to a return to modest levels of stocks on EU cereal markets





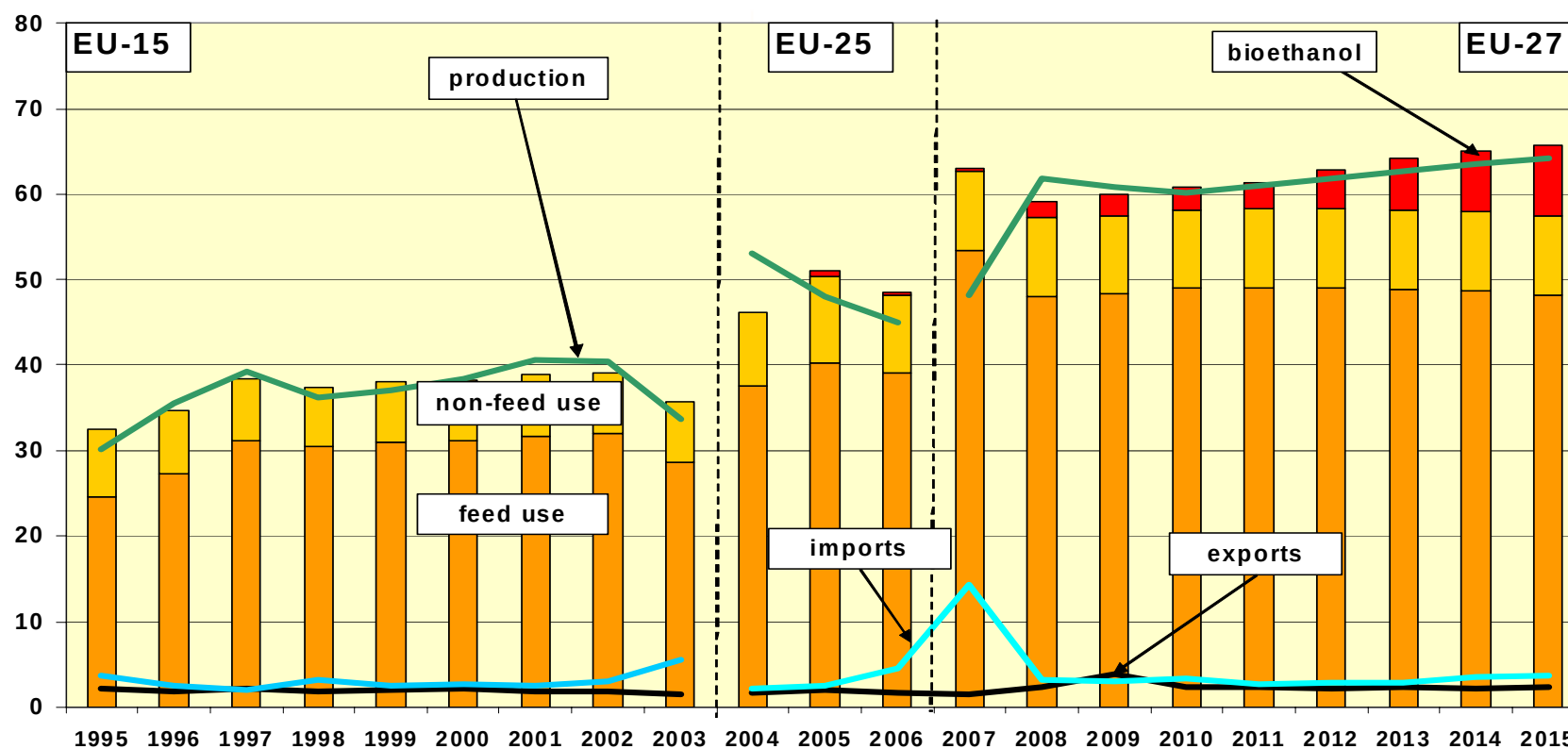
Medium-term perspectives for soft wheat





Medium-term perspectives for maize

Development of maize markets in the EU (mio t), 1995-2015





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Meat sector



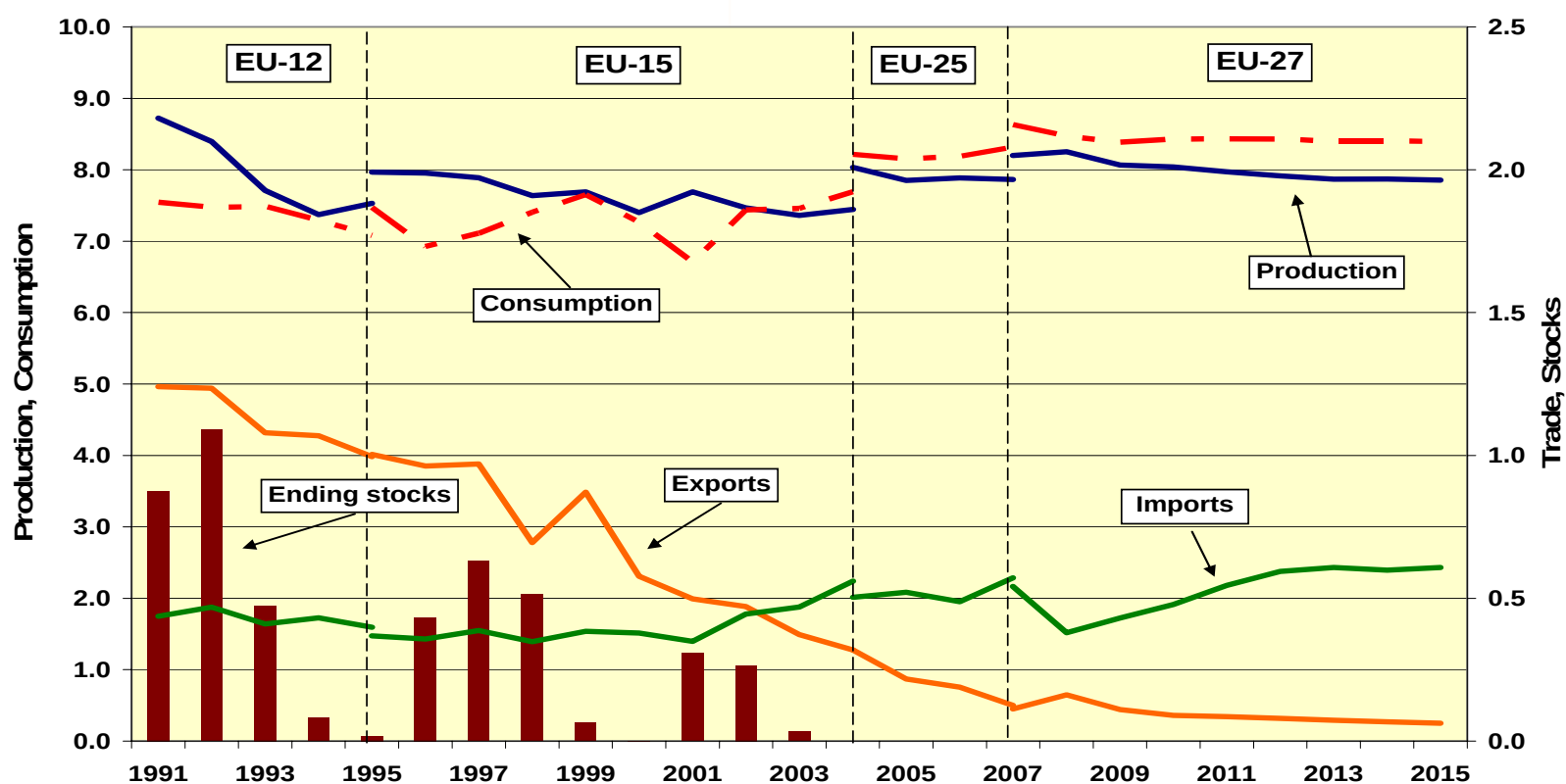
Overview

- **Economic crisis affects short-term prospects through**
 - Impact on disposable income
 - exchange rate developments and credit constraints
- **Medium-term prospects remain positive**
 - EU per capita consumption to reach 87.6kg in 2015 (+2.9%)
 - outpacing production growth
 - and therefore attracting increased imports
- **Poultry and pig meat production displays steady growth, but beef and sheep/goat production declines**
- **EU exports return to a broadly declining path in light of increased competition from lower cost exporters and unfavourable exchange rate developments**



Beef: net importing position to continue

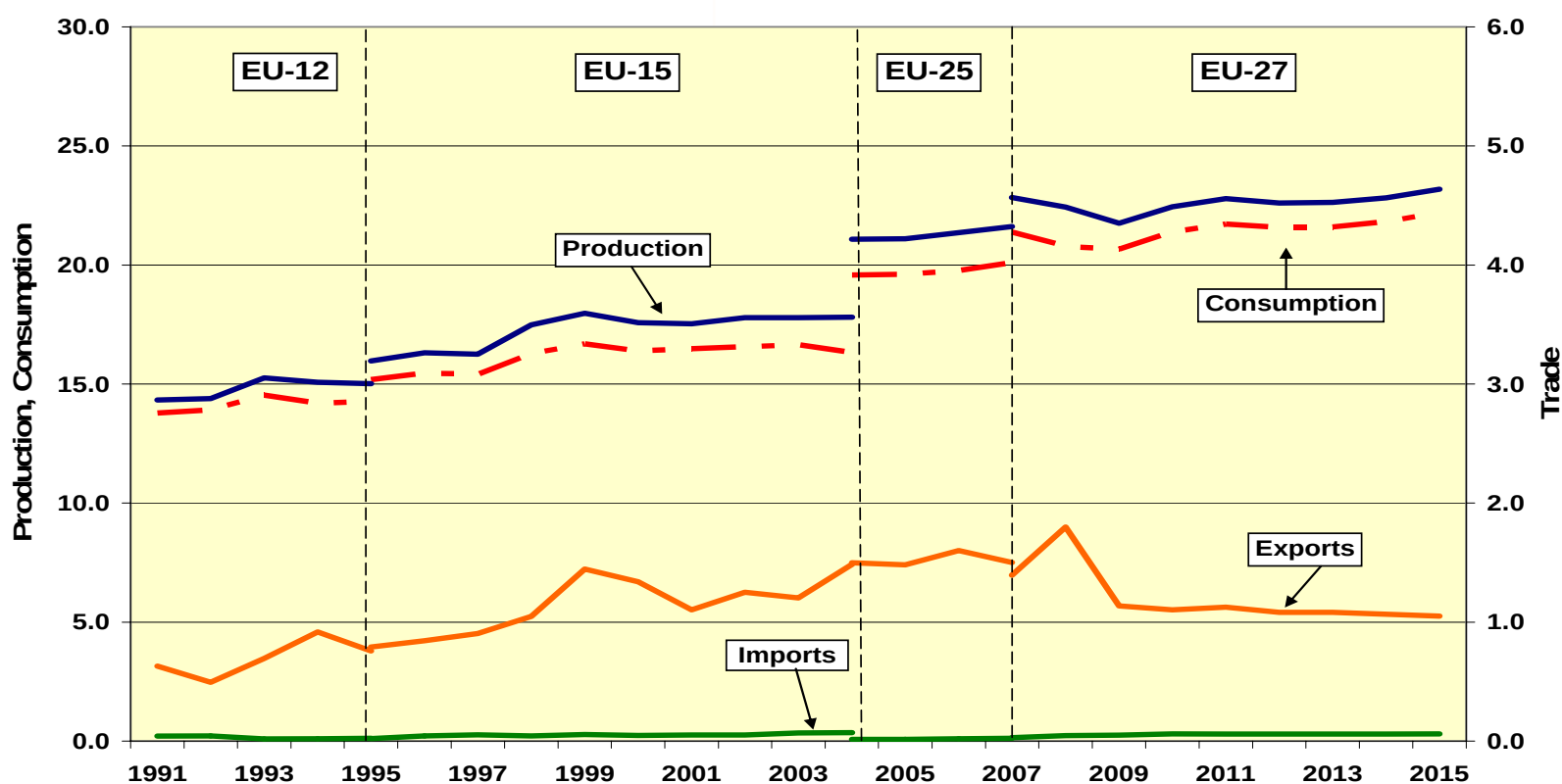
EU production, consumption, trade and intervention stocks (mio t c.w.e.)





Pig meat: steady growth in production and consumption, but exports steady

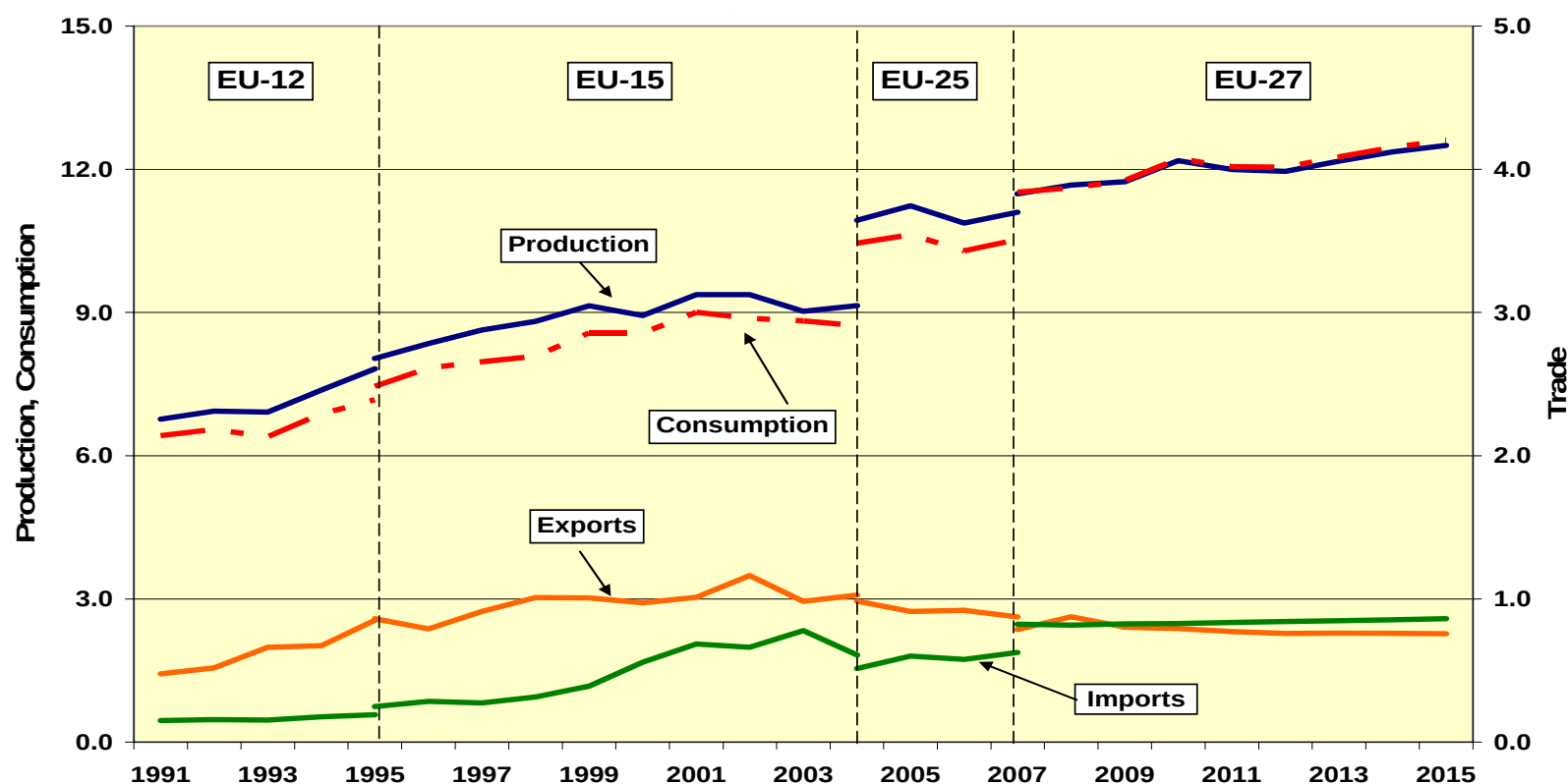
EU production, consumption and trade (mio t c.w.e.)





Poultry meat: strong consumer preference drives production growth, but imports outstrip EU exports

EU production, consumption and trade (mio t c.w.e.)

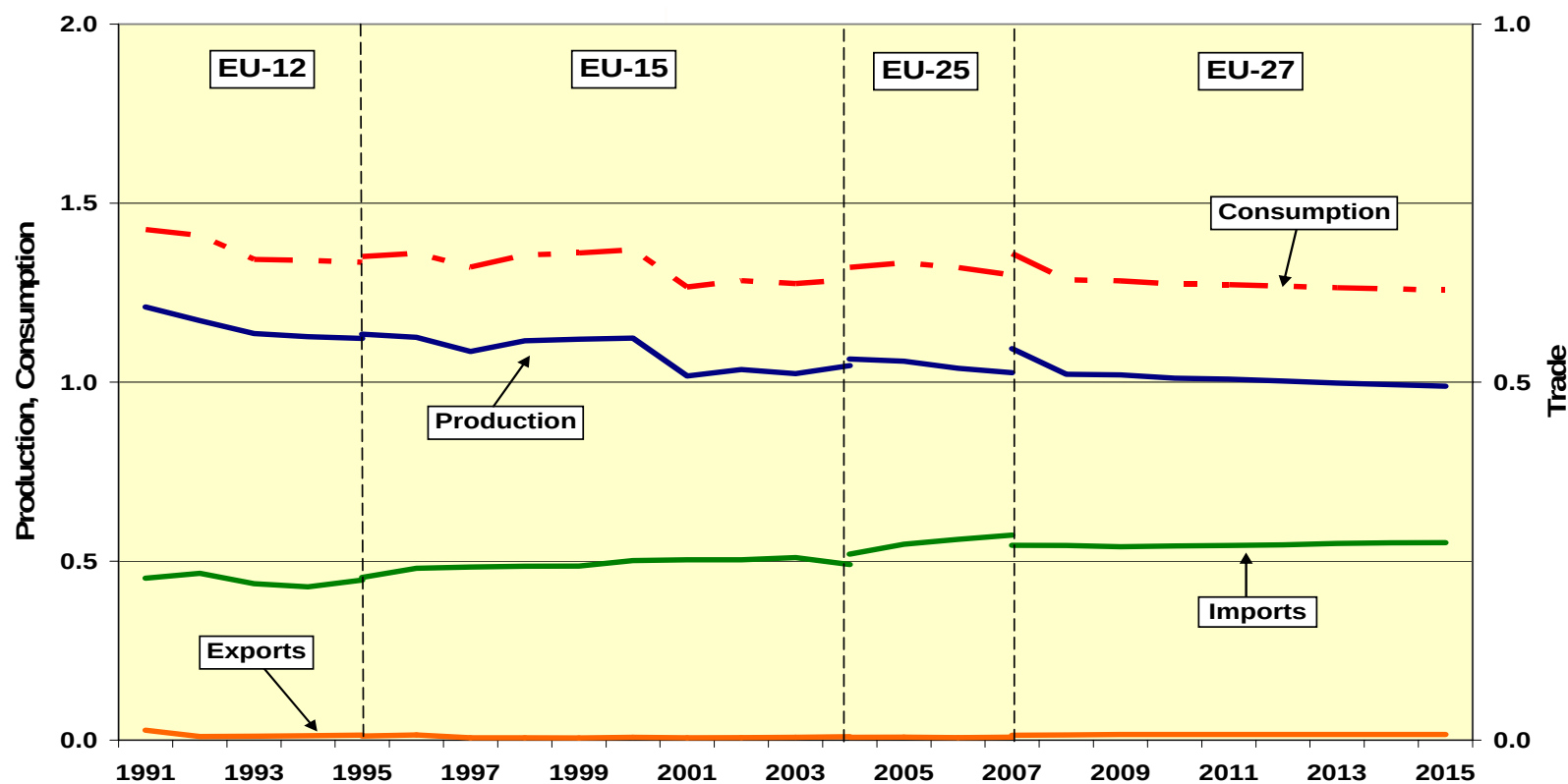




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Sheep and goat: continued decline in production

EU production, consumption and trade (mio t c.w.e.)





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Milk and dairy sector



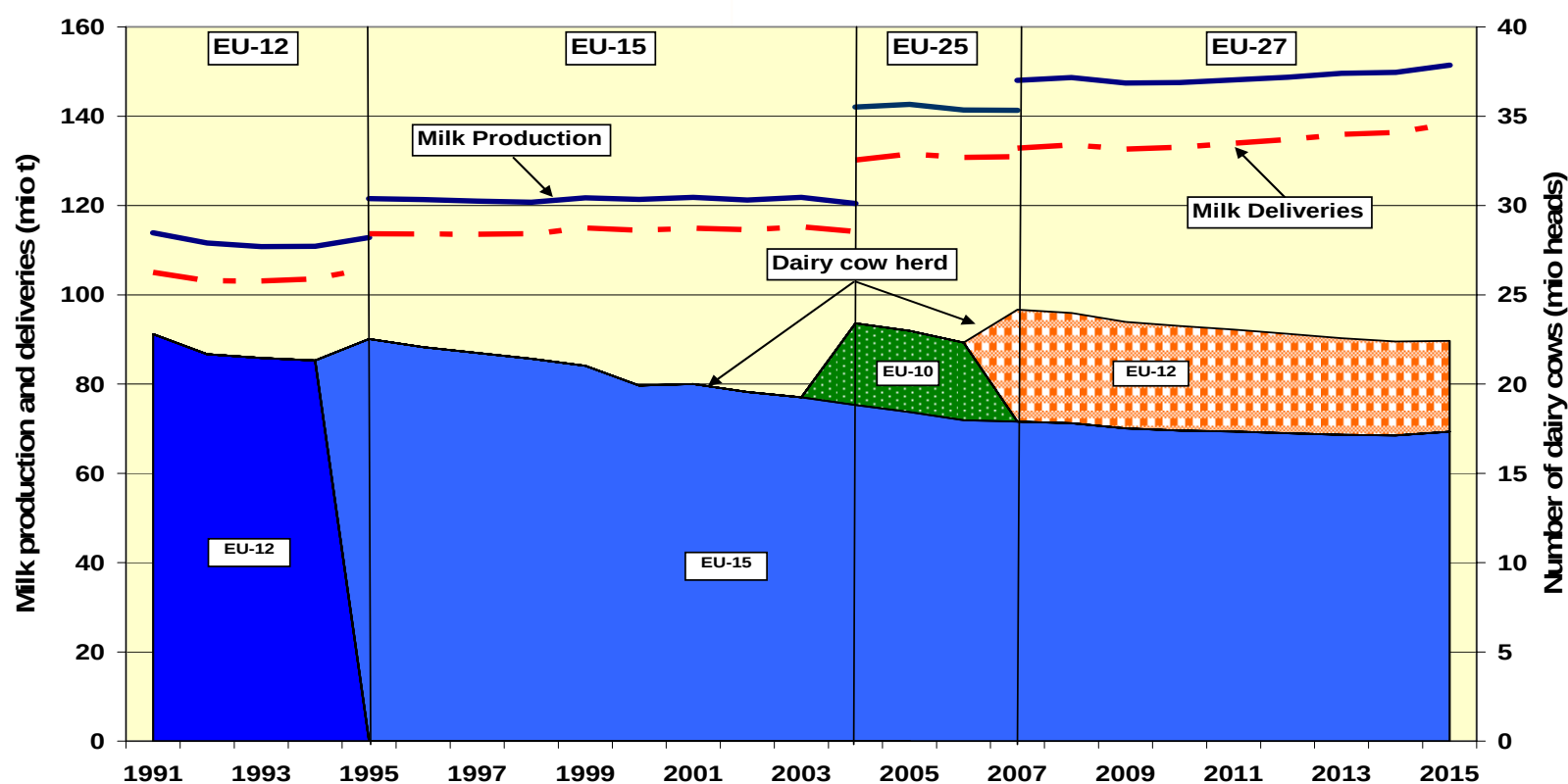
Overview

- **Difficult situation over the short-term**
 - Low commodity prices put pressure on the milk price paid to producers
 - Further underutilisation of available milk quotas
 - Market measures required to balance markets
- **Medium-term prospects remain favourable for high value-added commodities, but bulk commodity markets recover more slowly over a longer (de-stocking) period**
- **Milk price projected to remain under some pressure**



Milk supply: modest but steady growth

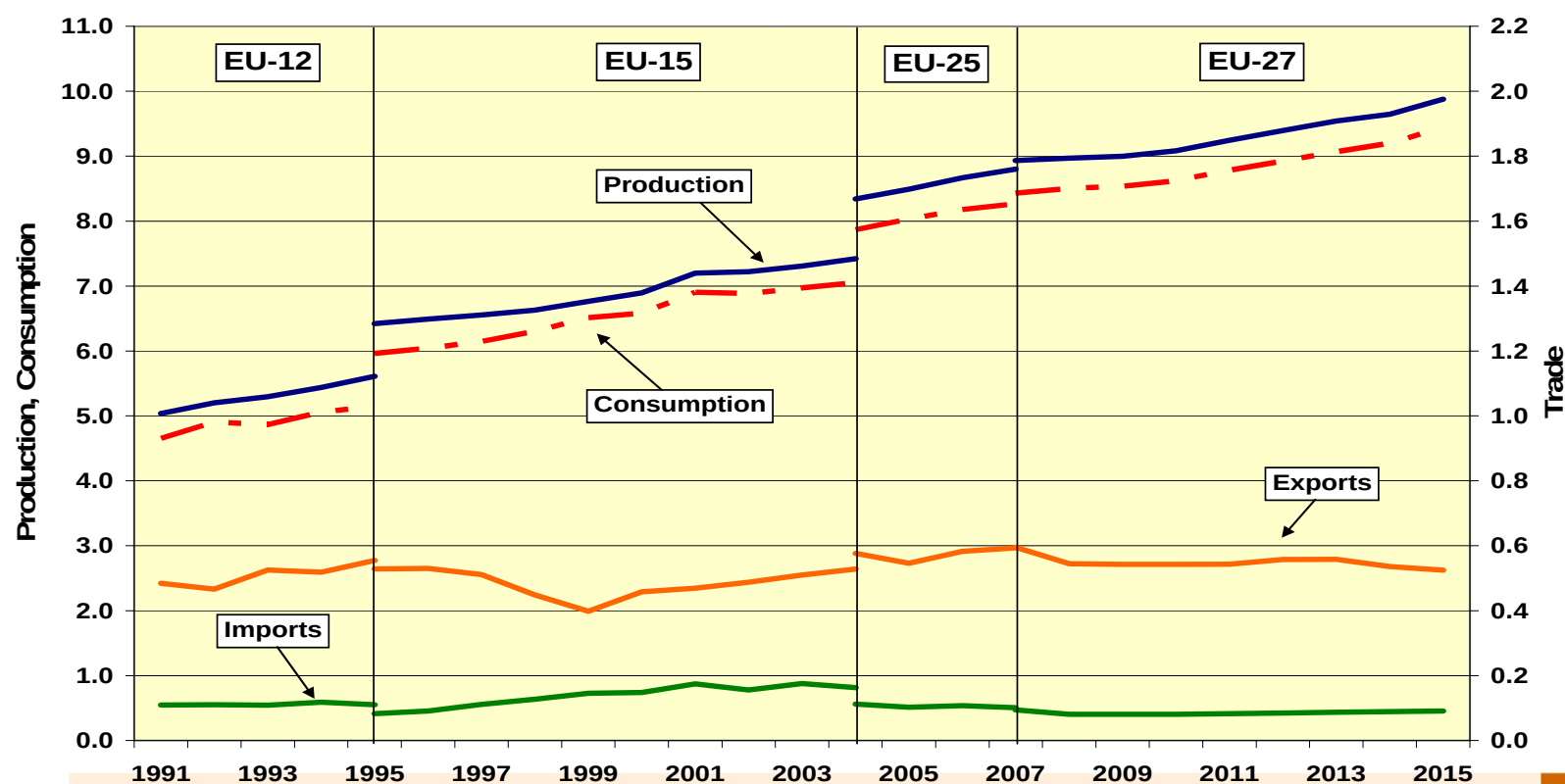
EU milk production, deliveries to dairies, dairy cows





Cheese: demand prospects remain favourable and drive production growth

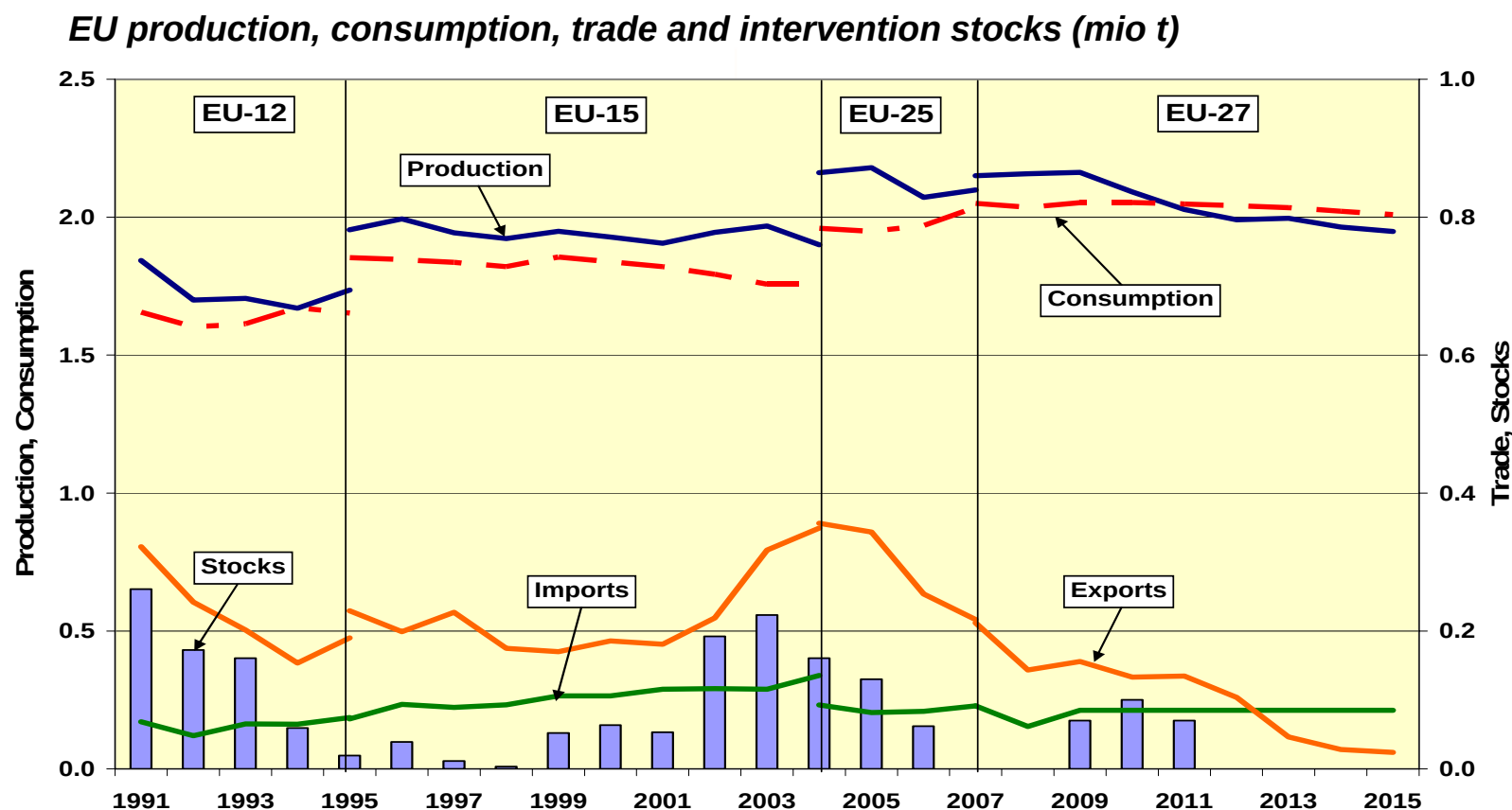
EU production, consumption and trade (mio t)



Perspectives for the agricultural markets in the enlarged EU, June 2009



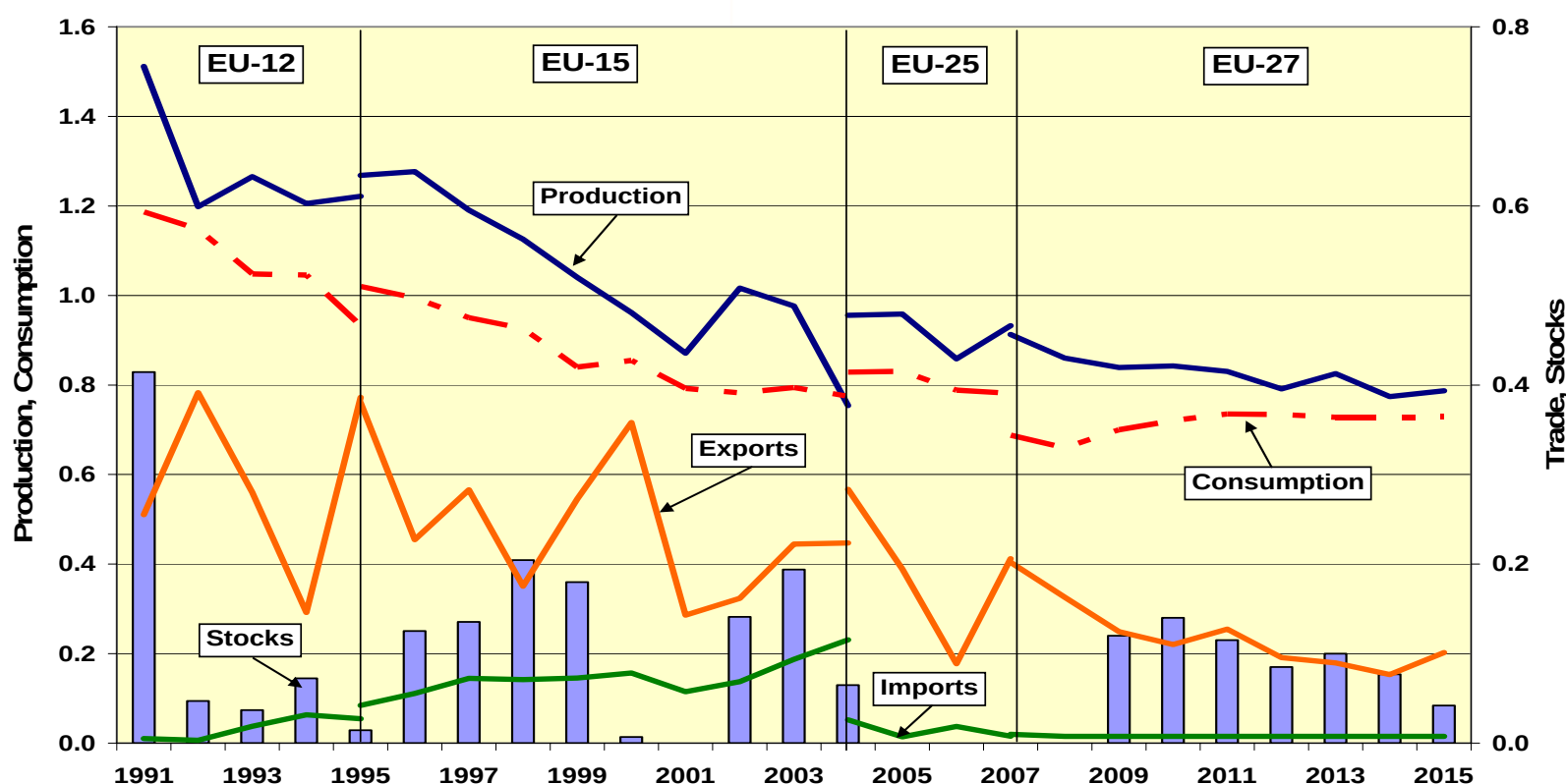
Butter: declining production leads to the disappearance of public stocks by 2012





SMP: lengthy de-stocking from intervention with little support from exports (facing strong competition)

EU production, consumption, trade and intervention stocks (mio t)





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Perspectives for EU agricultural markets

Agricultural income



Favourable medium-term perspectives for farm income, most notably in the EU-12

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Factor income in nominal terms										
EU-27	93.2	100.0	96.8	99	105.5	101.1	95.4	96.2	100.8	103.3
EU-15	93.3	100.0	95.5	96.4	100.9	95.7	90.0	90.3	93.9	95.1
EU-12	92.4	100.0	104.7	115.0	132.3	132.9	126.5	130.3	141.6	151.3
Labour input										
EU-27	105.3	100.0	97.9	95.0	92.2	89.6	87.0	84.4	82.0	79.6
EU-15	103.2	100.0	97.8	95.6	93.4	91.2	89.1	87.1	85.1	83.1
EU-12	107.3	100.0	97.9	94.5	91.2	88.0	84.9	81.9	79.1	76.3
Agricultural income in real terms per labour unit										
EU-27	90.6	100.0	95.4	98.4	105.5	101.9	97.0	98.6	104.2	107.5
EU-15	92.4	100.0	95.0	96.2	101.0	96.2	90.9	91.5	95.5	97.1
EU-12	89.1	100.0	97.4	108.3	125.8	127.3	122.2	126.9	139.0	149.8



Uncertainties

- Economic outlook
 - Length and breadth of recession and shape of recovery
 - Exchange rate developments
 - Crude oil price (and its impact on biofuel market)
- Developments on world agricultural markets
- Agricultural and trade policies (renewable energies, DDA negotiations)
- Production costs (water, fertilisers, land, energy)
- Technological change – innovation (production method, biomass, food chain)
- Climatic conditions
- Animal diseases



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Conclusions

- Moderately favourable perspectives for the EU agricultural markets and income ...
- ... but relatively fragile due to many uncertainties and challenges ...
- ... but with new opportunities