

Executive summary

This report presents the medium-term outlook of major EU agricultural commodity markets and agricultural income to 2023, based on a set of coherent macroeconomic and policy assumptions deemed most plausible at the time of the analysis. Under these assumptions agricultural commodity prices are expected to stay firm over the medium term, supported by factors such as the growth in global food demand, the development of the biofuel sector and a low productivity growth. Prospects for agricultural income grow at EU level during the outlook period, resulting from ongoing restructuring rather than from income increases at sector level.

Policy and macroeconomic assumptions

The medium-term outlook reflects current agricultural and trade policies, as altered by future changes that have been agreed upon. The agreement on the reform of the common agricultural policy (CAP) towards 2020 provides Member States with implementation options which need to be decided by August 2014. Therefore, the baseline will reflect the CAP reform only in part. The baseline uses historical data for the current 28 EU Member States (including Croatia, which joined in July 2013). Trade policy is assumed to respect the Uruguay Round Agreement on Agriculture. The free-trade agreements with Columbia, Peru and Central America are taken into account.

Macroeconomic assumptions include zero EU GDP growth in 2013, followed by a moderate growth in 2014 and between 1.8% and 2.0% for the remainder of the outlook period. The exchange rate is assumed to appreciate slightly, with an expected exchange rate of 1.36 USD/EUR in 2014 and 1.41 USD/EUR in 2023.

Arable crops

The medium-term outlook for arable crops is relatively positive thanks to solid world demand and firm prices. In the EU, feed and food demand are expected to increase only marginally, with the biofuel market remaining the most dynamic demand factor. On the supply side, growth depends on better yields, as arable area is expected to decline slightly (in line with the long-term trend). Overall, the projected growth in domestic consumption of cereals, oilseeds and sugar is largely dependent on the assumptions for bioenergy use. It is assumed that progress towards meeting the Renewable Energy Directive (RED) target of 10% of renewables in energy share will continue and as of 2020 biofuels will contribute to 8.5% of liquid transport fuels; the remainder will be met from other renewable energy sources, e.g. electric cars.

The medium-term prospects for the EU cereals markets are characterised by relatively tight market conditions, low stocks and prices which are expected to remain above their historical averages. These developments are driven by moderate supply growth reaching 316 million tonnes by 2023, mainly the result of low annual yield growth rates (0.6% on average) and an increase in the domestic use of cereals in the EU, most notably due to growing demand for ethanol in the framework of the RED. Some reallocation between crops in the context of a stable overall cereal area is expected, with maize and common wheat further increasing their share (up to 18% and 41% respectively) at the expense of other cereals. The

growing demand for rice will be satisfied by increasing imports, reducing the EU self-sufficiency slightly to 64%.

Similar drivers impact upon the medium-term prospects for the EU oilseed markets. Supply growth is driven by moderate yield growth and to a lesser extent by a slightly expanding oilseed area. The expected increase in domestic use of oilseeds in the EU would also be driven by additional demand for vegetable oil as biodiesel feedstock, while food consumption of vegetable oil stays constant at best.

The medium-term outlook for sugar beet and sugar is mixed. Driven by expectations on world prices, growing demand for ethanol and the abolition of the quota scheme in 2017, EU sugar beet production is projected to expand in the coming decade; additional volumes will be used mainly to produce sugar rather than ethanol. With no more quotas, out-of-quota and in-quota prices will progressively merge and the production of ethanol from sugar beet will be less competitive. In addition, isoglucose is expected to increasingly replace sugar in selected food consumption uses, following the expiry of isoglucose production quotas in 2017.

Meat

The EU meat sector is expected to be supported by strong demand on the world market, driven by improved economic conditions. In Europe, prospects of recovery in economic growth should leave consumers with more disposable income, allowing for a higher consumption of meat products. EU *per capita* meat consumption, which reached its lowest level for the past 11 years (64.7 kg retail weight) in 2013, is expected to recover from 2014 as more meat comes onto the market. In 2023, *per capita* consumption is expected to reach 66.1 kg, similar to the 2011 level. Over the projection period, it is expected that poultry meat will remain the most dynamic product (thanks to its cheaper price, convenience and healthy image) and pork will remain Europe's favourite meat, while the consumption of beef and sheep meat is projected to drop both in absolute and relative terms.

Mainly due to developments in the dairy herd (which represents around 2/3 of beef production), beef production is projected to decline by around 7% from the 2010-12 average to a low 7.6 million tonnes in 2023. Following two years of decline due to the implementation of new animal welfare rules, pig meat production is expected to increase as of 2014, to 23.4 million tonnes in 2023. This increase (+2.8% against the 2010-12 average) is moderate because of environmental constraints in some of the main producing countries (e.g. the Netherlands and some parts of France). Poultry meat will expand the fastest at a rate of 0.8% per year in 2012-23, with production expected to reach 13.6 million tonnes by 2023. The decline in sheep production will slow down in comparison to the past decade because prices are expected to stay firm.

Milk and dairy products

The medium-term prospects for milk and dairy commodities are favourable on both the world and domestic markets. World demand remains dynamic (especially in the emerging economies). Despite the end of the quota system after 2014/15, the EU milk production expansion is projected to remain limited mainly because environmental constraints will play an increasing role in certain Member States. Deliveries, which could reach 150 million tonnes in 2023, will also adapt to the pace of consumption growth in both the EU and on the world market. The projected

production increase will come from further yield improvements to 8 500 kg/cow in the EU-15 in 2023 and 6 050 kg/cow in the EU-N13.

It is expected that the cheese sector will be boosted by a dynamic world market and steady growth in domestic demand. Cheese production is therefore expected to absorb most of the additional milk delivered to dairies. 2023 production is projected to reach 10.7 million tonnes, with exports close to 1 million tonnes. By 2023, the production of fresh dairy products is expected to have increased by 3% compared to 2012 and reach 48.3 million tonnes. Butter production is expected to stabilise from 2015 onwards, at 2.3 million tonnes, as operators prefer to use dairy fat for cheese. Skimmed milk powder (SMP) production could reach 1.25 million tonnes by 2023 driven mainly by export demand – from 2016, half of the production will be exported. Increased milk availabilities should mean that whole milk powder (WMP) production declines more slowly than in the past decade, down to 604 000 tonnes by 2023.

After a small decrease between 2013 and 2016, the EU milk farm gate price (in real fat content) is expected to stay firm, driven by robust world prices for cheese and SMP.

Agricultural income

The medium-term trend for agricultural income is expected to be positive. Real agricultural income per labour unit is projected to increase by 1.8% per year from 2013 to 2023 as the result of a continuous decrease in the workforce employed in agriculture, which more than compensates the expected deterioration of total agricultural factor income in real terms.

In the EU-15, real agricultural income per working unit is expected to be 17.5% higher by 2023, whereas in the EU-N13 it could more than double. Given the difference in income development, the gap between the absolute levels of agricultural income per worker between the EU-15 and EU-N13 will narrow but will still remain substantial.

Uncertainty analysis and caveats

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

The projections are not intended as a forecast of future outcomes, but instead as a description of what may happen given a specific set of assumptions and circumstances deemed plausible at the time of the analysis. As such, they serve as a reference for policy simulations. The assumptions imply relatively smooth market developments; in reality, as we have seen (particularly in recent years), markets tend to be more volatile.

An uncertainty analysis accompanies the presented baseline to quantify some of the upside and downside risks and to provide background on variation of the results. This concerns in particular the macroeconomic environment and the variability of yield for the main crops, as well as selected scenarios relating among others to the impact of changes in feed costs or changes in productivity trends in Africa.