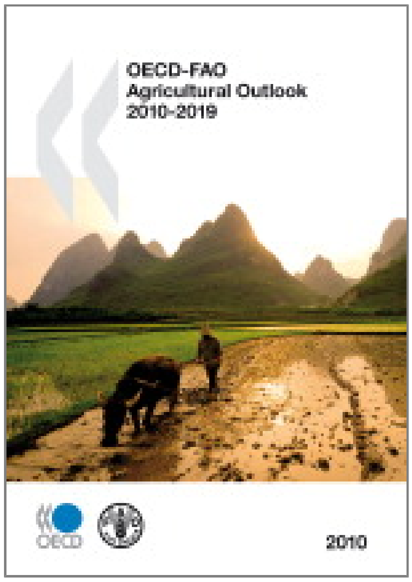
OECD *Multilingual Summaries*

OECD-FAO Agricultural Outlook 2010

Summary in English



Outlook in Brief

Agriculture has experienced a number of severe shocks in recent years with record high oil prices, commodity price spikes, food security fears and resultant trade restrictions, not to mention the most serious global economic recession since the 1930s. The greatest impact has been on the poor, especially in developing countries, with the world's hungry now estimated at over 1 billion people. Agriculture has shown remarkable resilience, particularly in the OECD area, with strong supply response to high prices and with continuing, albeit dampened, demand growth during the crisis. In 2010, a degree of normalcy has returned to many markets, with production closer to historical levels and demand recovering. Still, many governments remain concerned about the potential for a repetition of significant shocks to such key factors as energy prices, exchange rates, and/or the macroeconomic performance of key countries and regions, and about the consequences that such shocks have on market volatility.

The macroeconomic environment underlying the commodity projections is more positive than in the 2009 Outlook. It reflects the start of global economic recovery in late 2009 and a slow transition towards higher sustainable and non inflationary growth beyond the near term. A two-speed recovery appears to be underway characterised by weak and hesitant growth with high unemployment in many OECD countries and by stronger growth and faster recovery in the large developing countries which is slowly spreading to the rest of the developing world and helping to fuel world income growth. High energy prices have returned and are assumed to remain a feature of the period covered by this Outlook. A further increase in oil prices could be expected to increase input and production costs, having an impact on crop supplies, prices and trade flows, and reinforce feedstock demand for biofuels.

Underpinning agricultural prices is increasingly a higher cost structure particularly in regions where energy inputs are used intensively. Global agricultural production is anticipated to grow more slowly in the next decade than in the past one, but in the absence of unexpected shocks, growth remains on track with estimated longer term requirements of a 70% increase in global food production by 2050. On a per capita basis, production growth in least developed countries is struggling to keep up with rapid population growth. Global sectoral growth will be led by the regions of Latin America and Eastern Europe and, to a lesser extent, by certain countries in Asia.

Average crop prices over the next 10 years for the commodities covered in this Outlook are projected to be above the levels of the decade prior to the 2007/08 peaks, in both nominal and real terms (adjusted for inflation). Average wheat and coarse grain prices are projected to be nearly 15-40% higher in real terms relative to 1997-2006, while for vegetable oils, real prices are expected to be more than 40% higher. World sugar prices to 2019 will also be above the average of the previous decade, but well below the 29-year highs experienced at the end of 2009.

For livestock products, average meat prices in real terms, other than for pigmeat, are expected to surpass the 1997-2006 average over the coming decade initially due to lower supplies, higher feed costs and rising demand. Pigmeat real prices should stay relatively subdued due to an anticipated increase in supply from Brazil and China. Economic recovery will strengthen consumption of meats relative to cereals, particularly in developing countries, with

OECD-FAO Agricultural Outlook 2010 - ISBN 978-92-64-083752 © OECD 2010

most growth favouring cheaper meat – poultry and pigmeat – relative to beef. Average dairy prices in real terms are expected to be 16-45% higher in 2010-19 relative to 1997-2006, with butter prices showing most gains, supported by higher energy and vegetable oil prices.

Biofuel markets depend heavily on government incentives and mandates, but prospects remain uncertain, due to unpredictable factors such as the future trend in crude oil prices, changes in policy interventions and developments in second-generation technologies. Continued expansion of biofuel production to meet mandated use will create additional demand for wheat, coarse grains, vegetable oils and sugar used as feedstocks.

Developing countries will provide the main source of growth for world agricultural production, consumption and trade. Demand from developing countries is driven by rising per capita incomes and urbanisation, reinforced by population growth, which remains nearly twice that of the OECD area. As incomes rise, diets are expected to slowly diversify away from staple foods towards increased meats and processed foods that will favour livestock and dairy products. Also, with increasing affluence and an expanding middle class, food consumption in these countries should become less responsive to price and income changes, as is currently the case in OECD countries. This implies that larger changes in price and incomes will be required for consumption to adjust to any unforeseen shocks.

For virtually all commodities, the projected growth in imports and exports of developing countries exceeds that of the OECD area. Only exports of processed protein meals increase faster in the OECD area by 2019. The higher share of developing countries in trade is reflected in expanding South-South trade in addition to North-South trade. Nevertheless, OECD countries will continue to dominate exports in 2019 (shares in brackets) of wheat (52%), coarse grains (59%), pigmeat (80%), butter (80%), cheese (63%), whole milk powder (66%) and skim milk powder (74%). Developing countries will hold dominate shares in 2019 for: rice (88% share), oilseeds (56%), protein meals (80%), vegetable oils (91%), sugar (90%), beef (57%) and poultry (63%).

Food prices remained high or “sticky” in many countries for an extended period after world primary commodity prices fell following the price surge of 2007/08. In 2009, the contribution of food price increases to inflation fell considerably from 2008, particularly in OECD countries, but still remains significant in some developing and emerging countries.

Since the price spike of 2006-08, short term price volatility has increased considerably. However, the evidence is inconclusive as to whether and how price volatility has changed over the long term. For the major food crops examined in this Outlook. What is clear is that the extent to which world prices are transmitted to domestic markets varies markedly by country and depends on the level of market integration. The transmission of international prices to domestic markets can be impeded by border measures, domestic price supports and infrastructure weaknesses.

The Outlook’s relatively stable price projections result from the assumption of “normal” conditions. Uncertainties around weather, macroeconomic factors, policy interventions, and especially energy prices suggest that commodity prices will remain unpredictable. Many governments are concerned about price volatility even in the very short term, because it threatens both farm viability (low prices) and food security (high prices). High uncertainty also affects investment decisions. There are a number of policy options to consider at both the domestic and international levels.

Governments can underpin farmers’ risk management strategies by focusing on those unpredictable and unavoidable risks that may be rare, but have large consequences, and which farmers cannot manage themselves. Governments can also empower farmers to manage their own business risk and can provide good risk governance, including by creating effective markets and by not creating incentives for rent seeking in the form of ad hoc support and assistance.

National and local emergency stockholding of key food security commodities, for food emergencies, particularly for low-income food importing countries, may increase confidence in the access to food in times of crisis and help stabilise local markets. Increased research, capacity building, and sharing of best practices to improve the functioning of emergency stock schemes are required. Whatever actions governments consider taking, it is always important to keep in mind the full set of policy measures, risks and possible responses for the targeted population.

Market price support for agricultural commodities is a policy option that has clearly shown in many countries and over several decades to be inefficient and its use has declined. Price support masks market signals to producers, destabilises world markets and act as a regressive tax on the poor by raising prices to consumers. Price support also skews support towards large producers and encourages intensification with potentially adverse effects on the environment, and much of the benefit is either capitalized into fixed asset values (such as land or quotas), thereby raising production costs over time, or is transferred outside the farm. Such measures should be assessed against other less distorting alternatives, such as targeted direct income supports, investments in productivity enhancements, etc.

At the international level, the unco-ordinated policy actions of governments during the 2006-08 price spikes exacerbated volatility and impeded access to markets. There is a need for greater assurance of unimpeded access to global supplies and improve confidence in market functioning. While experience with international efforts to manage stocks has not been positive, options to reduce the unpredictability of food import bills should be explored.

Organised commodity exchanges are useful and time-tested price discovery and hedging institutions, if they are regulated properly and attract sufficient volume to avoid monopolistic practices. They have facilitated commodity marketing in many developed countries and their expansion in developing countries is a welcome institutional development and a sign of market deepening.