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OECD-FAO Agricultural Outlook 2012

Summary in English



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- This is the 18th edition of the Agricultural Outlook and the eighth prepared jointly with the Food and Agriculture Organization of the United Nations (FAO).
- It brings together the commodity, policy and country expertise of both organisations, and input from collaborating member countries. The report provides world market trends for biofuels, cereals, oilseeds, sugar, meats, fish and dairy products over the 2012-2021 period and contains an evaluation of recent developments, and key issues and uncertainties in those commodity markets.
- A jointly-developed modelling system, based on the OECD's AGLINK and on the FAO's COSIMO models, facilitates consistency in the projections. This edition includes a special feature on the challenge of increasing agricultural productivity growth in a sustainable manner.

Outlook in Brief

Prices have come off recent peaks, but food price inflation remains a concern in developing countries

Recent OECD-FAO Agriculture Outlook reports have focused on high and volatile agricultural commodity prices, stressing that prices would come down as markets respond but would remain on a higher plateau underpinned by continuing strong demand and rising costs for some inputs. As anticipated, prices have started to ease but remain at relatively high levels. Food price inflation at the retail level has fallen significantly from its peak in 2008 and its contribution to overall inflation has moderated. Nevertheless, food price inflation remains high in many developing countries and is still outpacing overall inflation in the majority of countries examined.

Sustainable productivity improvements are key to meeting rising demand

Price volatility remains a concern, with weather-related yield variability the main threat as long as stocks remain low. With a rebound in crop production, stocks have improved somewhat and markets in 2012 appear less turbulent. The key issue facing global agriculture is how to increase productivity in a more sustainable way to meet the rising demand for food, feed, fuel and fibre.

The higher price plateau expected to continue

Nominal prices of the commodities covered in this Outlook are expected to trend upwards over the next ten years. Prices in real terms (adjusted for inflation) will remain flat or decline from current levels, but are projected to average 10%-30% above those of the previous decade.

Increasing energy prices a key underlying assumption

Global agriculture is increasingly linked to energy markets. Oil price projections contained in the macroeconomic assumptions are on average about USD 25 above those used last year (ranging from USD 110 to USD 140 per barrel over the outlook period). These higher oil prices are a fundamental factor behind the higher agricultural commodity price projections, affecting not only oil-related costs of production but also increasing the demand for biofuels and the agricultural feedstocks used in their production.

Resource constraints and high costs limit production growth, despite upward trending prices

Despite strong prices, slower production growth is anticipated. Growth in global agricultural production has been above 2% p.a. over the past several decades, but is projected to slow to 1.7% p.a. over the next decade. Growing resource constraints, environmental pressures, and higher costs for some inputs are anticipated to inhibit supply response in virtually all regions. In this context, this Outlook suggests that more attention be paid to increasing sustainable agricultural productivity growth.

Developing countries continue to dominate market developments

Based on their greater potential to increase land devoted to agriculture and to improve productivity, developing countries will provide the main source of global production growth to 2021. Annual production growth in developing countries is projected to average 1.9% p.a. compared to 1.2% in developed countries. An additional 680 million people are expected to inhabit the planet by 2021 with the fastest growth rates in Africa and India. Rising incomes and

urbanisation will lead to changes in diets that shift consumption to more processed foods, fats and animal protein. This will favour higher value meats and dairy products, and drive the indirect demand for coarse grains and oilseeds for livestock feed.

Emerging economies will capture an increasing share of the expanding world trade in agriculture

Emerging economies will capture an increasing share of the expanding world trade in agriculture. Most prominent are countries like Brazil, Indonesia, Thailand, the Russian Federation and the Ukraine that have made significant investments to boost agricultural production capacity. By 2021, developing countries will account for the majority of exports of rice, oilseeds, vegetable and palm oil, protein meals, sugar, beef, poultry meat, fish and fish products.

Commodity highlights

Biofuel production and trade to expand

Global production of bio-ethanol and bio-diesel is projected to almost double by 2021, heavily concentrated in Brazil, the United States, and the European Union. Biofuel is based mainly on agricultural feedstocks and is expected to consume a growing share of the global production of sugarcane (34%), vegetable oil (16%), and coarse grains (14%) by 2021.

Bilateral ethanol trade flows between the United States and Brazil are expected to increase

In response to government mandates, biofuel trade between the United States and Brazil is expected to increase. This Outlook anticipates the United States would import sugarcane-based ethanol mainly from Brazil to help meet domestic demand created by its mandate for advanced biofuels, while Brazil would import lower priced maize-based ethanol principally from the United States to satisfy the demand from its large fleet of flex-fuel vehicles. US low-blend ethanol demand is expected to be constrained by the blend-wall from 2016 onwards.

The Black Sea region to play larger role

Cereal stock-to-use ratios will remain below historical averages, posing the risk of future price volatility. The Russian Federation, Ukraine and Kazakhstan are expected to become much more important sources of wheat exports by 2021, but high production variability in this region may have implications for global trade and world price volatility. Larger exports of rice are projected from Least Developed Countries in Asia, while rice imports are to increase in Africa.

China the major oilseed importer

Oilseeds production and exports continue to be dominated by the traditional players, but emerging exporters like the Ukraine and Paraguay are expected to increasingly contribute to global export growth. China, the dominant importer, will account for more than half of total world imports. Brazil's oilseed production growth is expected to slow from 4.9% to less than 2% p.a. over the outlook period.

Brazil dominates the world sugar market

Food and ethanol demand for sugar crops will be sustained over the medium term, maintaining high sugar prices. Production cycles will continue to characterise sugar markets in Asia, leading to occasional large trade fluctuations and price volatility. Because of Brazil's dominant position in the sugar market, the allocation of its sugarcane crop between ethanol and sugar production remains a key market driver.

Meat consumption expands in developing countries

Increased demand for meats will mostly stem from large economies in Asia, crude oil exporting countries and Latin America, where income gains are expected to be significant. Poultry meat will lead this anticipated growth as the cheapest and most accessible source of meat protein, overtaking pigmeat as the largest meat sector by the end of the outlook period.

Aquaculture to surpass capture fisheries

Fish production is one of the fastest growing sources of animal protein. World fisheries and aquaculture production are expected to grow by 15% over the projection period. However, with a 33% growth in aquaculture production, it will surpass capture fisheries as the primary source of fish for human consumption by 2018.

Developing countries to become most important milk producers

A modest increase in consumption of dairy products is expected in developed countries with the exception of cheese and fresh dairy products, while in developing regions consumption of all products is expected to increase about 30% by 2021. Developing countries are projected to overtake developed countries in milk production by 2013, with large increases in China and India.

A time for change - longer term perspectives

Production needs to increase 60% by 2050

Agricultural production needs to increase by 60% over the next 40 years to meet the rising demand for food. This translates into an additional 1 Bnt of cereals and 200 Mt of meat a year by 2050 compared with 2005/07 levels. Additional production will also be necessary to provide feedstock for expanding biofuel production.

Higher output needs to come from increased productivity

Globally, the scope for area expansion is limited. Total arable land is projected to increase by only 69 Mha (less than 5%) by 2050. Additional production will need to come from increased productivity in the same way as it has for the past 50 years. Increasing productivity will be central to containing food prices in a context of rising resource constraints and will be a key factor in reducing global food insecurity. Productivity gains in the medium-term may come primarily from reducing the productivity gap in developing countries, but a stylised scenario suggests that a significant share of the increased output of crops used as feedstocks could be expected to go into biofuel production.

Improved sustainability is critical

At the same time, there is a growing need to improve the sustainable use of available land, water, marine ecosystems, fish stocks, forests, and biodiversity. Some 25% of all agricultural land is highly degraded. Critical water scarcity in agriculture is a fact for many countries. Many fish stocks are over-exploited, or in risk of being over-exploited. There is growing consensus that climate change and extreme weather events will increase.

Governments need to assure an enabling environment

Encouraging better agronomic practices, creating the right commercial, technical and regulatory environment, and strengthening agricultural innovation systems (e.g. research, education, extension, infrastructure), including measures addressing the specific needs of smallholders, are essential policy challenges identified in this report. Measures to reduce food loss and waste are also key to meeting rising demand and improving productivity in the supply chain.

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OECD/FAO (2012), *OECD-FAO Agricultural Outlook 2012*, OECD Publishing.

doi: 10.1787/agr_outlook-2012-en