

Executive summary

Prices for crops and livestock products showed diverse trends in 2014. Among crops, two years of strong harvests put further pressure on prices of cereals and oilseeds. Tighter supplies due to factors including herd rebuilding and disease outbreaks supported high meat prices, while the prices of dairy products dropped steeply from historic highs. Further adjustments to short-term factors are expected in 2015, before the medium-term drivers of supply and demand take hold.

In real terms, prices for all agricultural products are expected to decrease over the next ten years, as production growth, helped by on-trend productivity growth and lower input prices, outpaces slowing demand increases. While this is consistent with the tendency for long-term secular decline, prices are projected to remain at a higher level than in the years preceding the 2007-08 price spike. Demand will be subdued by per capita consumption of staple commodities approaching saturation in many emerging economies and by a generally sluggish recovery of the global economy.

The major changes in demand are in developing countries, where continued but slowing population growth, rising per capita incomes and urbanisation all increase the demand for food. Rising incomes prompt consumers to diversify their diets by increasing their consumption of animal protein relative to starches. For this reason, the prices of meat and dairy products are expected to be high relative to the prices of crops; while among crops the prices of coarse grains and oilseeds used for feed should rise relative to the prices of food staples. These structural tendencies are in some cases offset by specific factors, such as a flat demand for maize-based ethanol.

Lower oil prices are a source of downward pressure on prices, principally through their impact on energy and fertiliser costs. Moreover, under the projected lower oil prices, the production of first generation biofuels is generally not profitable without mandates or other incentives. Policies are not expected to lead to significantly higher biofuel production in either the United States or the European Union. On the other hand, a rise in the production of sugar-based ethanol in Brazil is expected to flow from the increase in the mandatory blending ratio in gasoline and the provision of tax incentives, while biodiesel production is being actively promoted in Indonesia.

In Asia, Europe and North America additional agricultural production will be driven almost exclusively by yield improvements, whereas in South America yield improvements and additional agricultural area are projected. Modest production growth is expected in Africa, although further investments could raise yields and production significantly.

Exports of agricultural commodities are projected to become concentrated in fewer countries, while imports become more dispersed over a large number of countries. The importance of relatively few countries in supplying global markets for some key

commodities increases market risks, including those associated with natural disasters or the adoption of disruptive trade measures. Overall, trade is expected to increase more slowly than in the previous decade, but maintaining a stable share relative to global production and consumption.

The current baseline reflects fundamental supply and demand conditions on world agricultural markets. However, the *Outlook* is subject to a variety of uncertainties, some of which are explored by stochastic analysis. If historical variations in yields, oil prices and economic growth are projected into the future, then there is a high probability of at least one severe shock to international markets within the next ten years.

Commodity highlights

- Cereals: High stocks and decreasing production costs are driving nominal cereal prices further down in the short term, while sustained demand and rising production costs should increase nominal prices again in the medium term.
- Oilseeds: Strong demand for protein meal will drive further expansion of oilseed production. This will result in a high contribution of the meal component to the overall oilseed return and further favour expansion of soybean production especially in Brazil.
- Sugar: Higher sugar demand in developing countries should help prices recover from low levels, leading to further investment in the sector. The market will depend on the profitability of sugar versus ethanol in Brazil, the leading producer, and will remain volatile as a result of the sugar production cycle in some key Asian sugar-producing countries.
- Meat: Output is expected to respond to an improvement in margins, with lower feed grain prices set to restore profitability to a sector that has been operating in an environment of particularly high and volatile feed costs for most of the past decade.
- Fisheries: Worldwide fisheries production is projected to expand by almost 20% by 2024. Aquaculture is expected to surpass total capture fisheries in 2023.
- Dairy: Exports of dairy products are projected to further concentrate in the four prime origins: New Zealand, the European Union, the United States and Australia, where opportunities for domestic demand growth are limited.
- Cotton: Prices will be suppressed in the short term by the drawdown of large stocks in the People's Republic of China (hereafter 'China'), but will recover and stay relatively stable for the remainder of the outlook period. By 2024, both real and nominal prices are expected to remain below the levels reached in 2012-14.
- Biofuels: Ethanol and biodiesel use is expected to grow at a slower pace over the next decade. The level of production is projected to be dependent on policies in major producing countries. At lower oil prices, trade of biofuels should remain small when expressed as a share of global production.

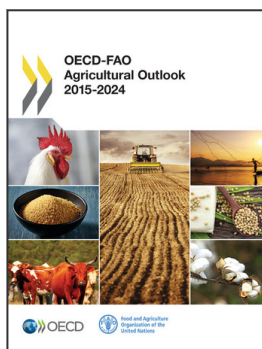
Brazil

This year's *Outlook* contains a special focus on Brazil. This country ranks among the world's ten largest economies and is the second largest global supplier of food and agricultural products. Brazil is poised to become the foremost supplier in meeting additional global demand, mostly originating from Asia.

Supply growth is projected to be driven by continued improvements in productivity, with higher crop yields, some conversion of pasture to cropland and more intensive livestock production. Structural reforms and a reorientation of support towards productivity enhancing investments, for example in infrastructure, could foster these opportunities, as could trade agreements that improve access to foreign markets.

Brazil has made outstanding progress in eliminating hunger and reducing poverty. Prospects for further reductions in poverty through agricultural development are widening, in some food crops as well as in higher value products such as coffee, horticulture and tropical fruits. The realisation of these opportunities calls for further targeting of rural development policies.

Brazil's agricultural growth can be achieved sustainably. While additional supply will continue to come more from productivity gains than area increases, the pressure on natural resources is expected to be alleviated by environmental and conservation initiatives, including support for sustainable cultivation practices, the conversion of natural and degraded cropland to pasture, and the integration of crop and livestock systems.



From:
OECD-FAO Agricultural Outlook 2015

Access the complete publication at:
https://doi.org/10.1787/agr_outlook-2015-en

Please cite this chapter as:

OECD/Food and Agriculture Organization of the United Nations (2015), "Executive summary", in *OECD-FAO Agricultural Outlook 2015*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/agr_outlook-2015-3-en

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