

Chapter 6

Oilseeds and Oilseed Products*

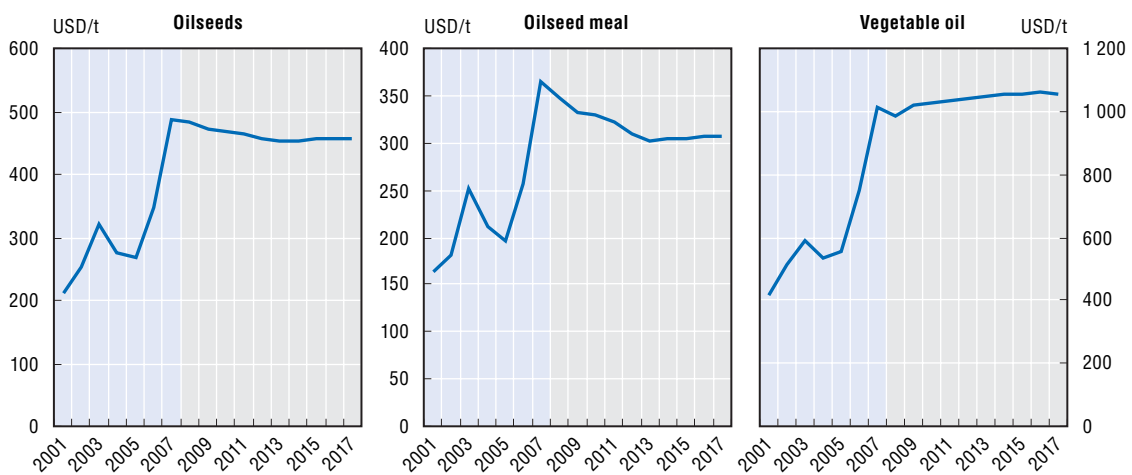
* All data are expressed on a marketing year basis (as defined in the glossary) unless stated otherwise. It is important to note that this discussion focuses on the following aggregates: oilseeds are rapeseed, soyabean and sunflower; oilseed meals are rapeseed meal, soyabean meal and sunflower meal; and vegetable oils are rapeseed oil, soyabean oil, sunflower oil and palm oil.


World market trends and prospects

Key market drivers

In 2007, the rise in oilseed, oil and meal prices that started in 2005 and intensified in 2006 continued with unabated vigour. During 2006, prices in the oilseed complex started to come under the influence of external factors: prices rose even though supplies were ample relative to demand and in spite of high levels of global stocks, both in absolute terms and compared to total consumption. The rise in prices was driven by the tightness in the related world feedgrain market: the unprecedented rise in maize prices provided incentives to shift land out of oilseeds, driving up oilseed and oilmeal prices. The price development was reinforced by the fact that both oilseeds and vegetable oils were also in demand for biodiesel production, particularly in the EU and some south-east Asian countries. Finally, the surge in ocean freight rates has also played a role. In 2007, prices moved at record levels as spillover effects from the related grain markets continued. Direct competition for land by maize and soybeans – both in demand by the feed as well as energy sector – resulted in shifts in land allocation to crops that led to an unprecedented fall in global meal availability. As to vegetable oil, utilisation as biofuel feedstock expanded steadily as well as demand for food uses, while global vegetable oil supplies tightened. Growing tightness of supplies called for steep reductions in inventories. Consequently, stock-to-use ratios fell to critical levels for both oils and meals, exacerbating the upward swing in prices.

Figure 6.1. **Vegetable oil prices and oilseed prices to remain strong over the projection period**



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Source: OECD and FAO Secretariats.

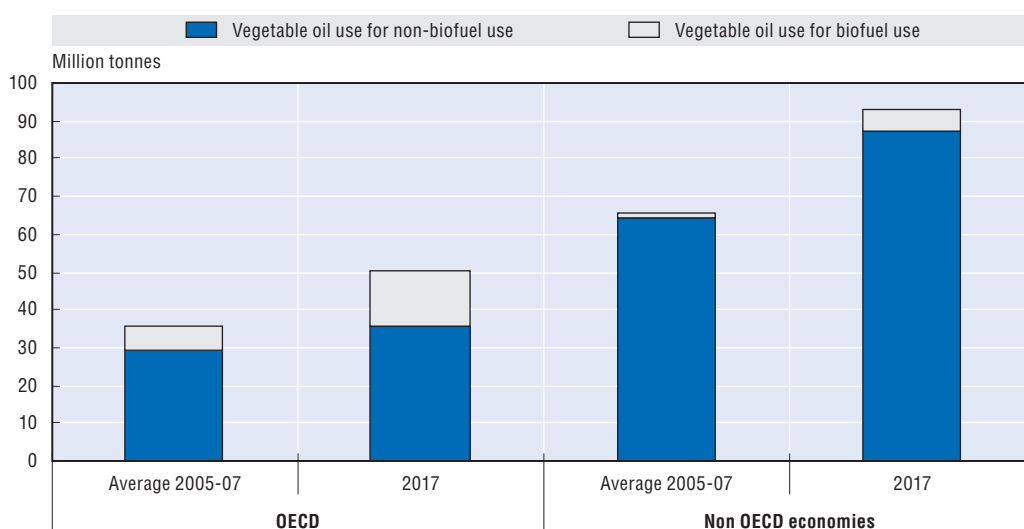
Assumptions of average weather, unchanged policies and a stable macroeconomic environment are behind a rather smooth evolution of oilseeds and oilseed product markets over the Outlook period. Oilseeds, vegetable oil and to a lesser extent oilseed meal markets will continue to expand, mainly because of strong demand for food and feed as income and population grow. In addition, growing vegetable oil use for biodiesel production is expected to drive expanding markets. In the course of the next decade, stock to use ratios for oilseeds and oilseed products are expected to remain low. The combination of these elements is supporting the projections for firm prices expressed in nominal terms (Figure 6.1). Increasing oilseed meal and dried distiller grains availability and some decline in other feedgrain prices later during the Outlook period mean decreasing meal prices over time. Over the projection period, prices of oilseeds, oilseed meal and vegetable oil, once corrected for inflation, are expected to decrease in real terms but to stay considerably above long term levels.

Main market developments

Sustained demand for vegetable oils

In 2007, supply stagnation and high prices led to reduced growth in global oils and fats consumption. Edible uses in countries in Asia and the EU have been most affected, whereas utilisation of vegetable oils for biofuel production grew further, driven by policy targets in some countries. Global vegetable oil demand is expected to rise by more than 40% in 2017, compared to the average level of 2005-07. Growth in global population and rising incomes continue to play an important role in vegetable oil markets. In developing countries, a 3.1% annual demand growth is expected for 80% driven by food use (Figure 6.2). Per-capita oil consumption is projected to grow by more than 1.9% and 0.8% annually in China and India, respectively. Combined with population growth this leads to a 8.7 million (m) tonne increase in vegetable oil use over the Outlook period, one fifth of the global increase. The divergence in average per capita consumption levels between developed countries and developing countries (in particular least developed nations) remains significant during the projection period.

Figure 6.2. Demand for vegetable oil is growing



StatLink <http://dx.doi.org/10.1787/382351238202>

Source: OECD and FAO Secretariats.

Stimulated by bioenergy mandates, vegetable oil use for biodiesel production should increase by 14 million tonnes over the Outlook period when compared to the level of 2005-07. The EU is expected to remain the dominant player with its use of vegetable oil for biodiesel production reaching almost 12.5 m tonnes, i.e. 9% of worldwide and 42% of domestic vegetable oil consumption, in 2017. Biodiesel industries are expected to develop in several countries worldwide. However, the EU is projected to account for more than half of global vegetable oil demand for biodiesel production over the projection period.

Within the OECD, vegetable oil consumption used for biodiesel production is expected to develop in Canada and Australia. After a strong increase between 2005 and 2007, vegetable oil use for biodiesel production in the US is projected to slightly decrease over the projection period because of lower margins in the biodiesel industry towards the end of the Outlook period. Outside the OECD, the emerging biodiesel production will increase the consumption of domestically produced palm oil in Indonesia and Malaysia and soyabean oil in Brazil. This new use of vegetable oil should reach almost 6 m tonnes by 2017.

Expansion in oilseed meal use to slow down in both developed and developing countries

In 2007, global meal consumption continued to expand, notwithstanding the on-going rise in prices. Constant demand growth was driven by continuously rising consumption of livestock products in Asia as well as by the exceptional worldwide shortage of feedgrains that induced feed industries to use more oilmeals. During the Outlook period, annual growth in meal consumption is projected at 3.4% and 0.9% in the developing and developed countries respectively. Global demand for protein meals is projected to be weaker than vegetable oil demand. Because meal and oil are produced in fixed proportions, this leads to a situation where the meal market is expected to be oversupplied in the short term. The OECD share in global oilseed meal consumption is projected to fall below 50%. Due to a slow-down of meat production growth in the European Union, China should become the dominant protein meal consumer in 2015. Indeed, the intensification of the Chinese livestock sector is responsible for 35% of the global increase in meal consumption. In 2017, dried distillers grains, a by-product of the rising ethanol production, are expected to replace almost 7% of oilseed meal consumption in the US compared to 2% on average over the period 2005-07. India's domestic demand for protein meals is continuously increasing over the projection period to more than 8 m tonnes in 2017 on account of the expanding dairy, livestock and poultry sectors.

When domestic meal consumption is expressed in meal use per tonne of non-ruminant meat production, the average projected consumption levels in developing and least developed countries remain significantly below those in developed countries. Because of this low feed intensity, developing countries continue to use only slightly more than 50% of the global protein meal consumption, despite their population share of over 80%. Feed intensity is projected to gradually increase in developing countries. Coupled with growing meat production, this is expected to slowly increase the share of protein meal consumed in these countries. Despite gradual improvements, least developed countries account for only about 1% of global non-ruminant meat production. This level of output requires just 0.5% of total protein meal used in the world.

The potential for oilseed and vegetable oil production increase is limited

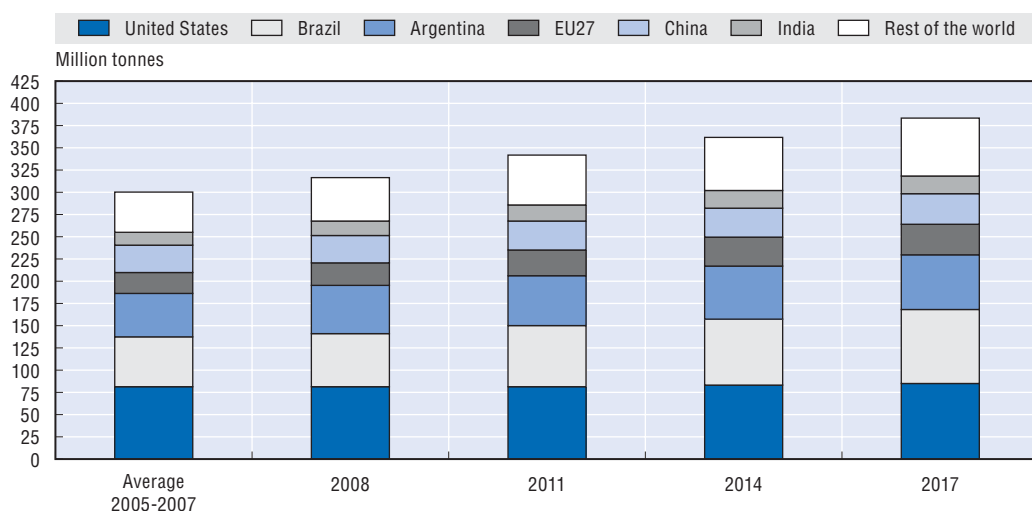
While oilseed production continued to expand in 2006, an unprecedented decline in output occurred in 2007. This was largely on account of soybeans, the production of which dropped 6% (after expanding steadily in the preceding years), following the diversion of land from soybeans to maize in the US. Oilseeds lost out to grains also in China and CIS. Furthermore, the reductions in area were accompanied by yield declines due to unfavourable weather in several key growing regions. Prompt and substantial area and production increases in South America could only partly offset these falls. By the end of 2006, stocks had accumulated to record levels of about 12% of global consumption. Some 14 m tonnes of oilseeds were released from stocks in 2007 to compensate the production decline in a context of increasing crush demand. World oilseeds acreage and production are expected to recover in 2008 from their low 2007 levels because of relatively stronger oilseeds prices.


The projections show global oilseeds production rising by more than 25% in 2017 relative to the 2005-07 average, with Brazil alone providing 30% of the increase (Figure 6.3). The expansion of oilseeds production is limited to few regions, mainly South America and the EU. Brazil and Argentina are expected to confirm their leading role in global oilseeds supply with a combined share of global oilseed production of almost 38% in 2017. Brazil is expected to expand its production at a rate of almost 3.5% per annum. Area expansion – driven by high oilseeds and vegetable oil prices – should be the main contributor to production growth. Argentinean oilseeds area expansion should be relatively modest at 0.6% per annum. This, combined with slightly increasing yields, should imply an annual production growth of about 1.6%.

Despite a relatively stable OECD oilseed area at 50 m hectares throughout the projection period, some changes are expected in the geographical distribution of production mainly under the influence of biofuel development. Due to high oilseed prices (relative to competing arable crops), oilseeds acreage in the US should first recover from the low level recorded in 2007 but then decrease by 0.5% annually between 2009 and 2017. Oilseeds production in the European Union should increase by almost 3% per annum over the projection period. This expansion in oilseeds production is to a certain extent driven by the development of biodiesel, derived mainly from rapeseed oil. The rapeseed area is expected to increase in the former EU15. The new EU member countries are expected to contribute about 35% to the overall increase in EU oilseeds production because of yield improvements.

In China, production increases should continue to be driven by yield improvements rather than area expansion. Gains in yields are expected to lead to a growth in domestic production by an average rate of 1.6% per annum. China is expected to favour domestic production of coarse grains and imports of oilseeds to capture the value added from processing oilseeds into protein meals and vegetable oils domestically. The Chinese crushing capacity is expected to continue to grow at a rate of 3.5% per annum. India's oilseeds area is projected to continue to expand. Production is projected to grow to 20 m tonnes in 2017, based on moderate area expansion and yield improvements from the application of modern production technologies. India's oilseeds import tariffs continue to be prohibitive, barring any significant imports. The country's import requirements are satisfied by vegetable oil purchases.

Figure 6.3. Growing world oilseed production



StatLink  <http://dx.doi.org/10.1787/382353382872>

Source: OECD and FAO Secretariats.

As in the past, palm oil production will be clearly dominated by two countries, Malaysia and Indonesia. The share of palm oil produced in these two countries currently accounts for about one third of global vegetable oil output and is expected to grow further. In recent years, palm oil has surpassed soyabean oil as the leading vegetable oil in terms of quantities produced and consumed. Over the course of the baseline, the combined production of Malaysia and Indonesia is expected to expand by 18 m tonnes. Growth rates are expected to be lower in the future compared to recent years mainly because environmental constraints will restrict area expansion.

Brazil to become the leading oilseeds exporter

In 2007, trade growth in oilseeds and oilseed products was mostly driven by crop shortfalls in some major importing countries and by steadily rising demand in developing countries in Asia, in particular China, whose share in global imports of oilseeds and derived products reached about 25%. Due to the drop in US crop output, the importance of South America as a supplier of soybeans and derived products to the world market increased markedly in 2007. World oilseeds exports are expected to grow by almost 21 m tonnes over the Outlook period, compared to the period 2005-07. Brazil's share of global exports is expected to grow from 31% on average during the period 2005-07 to more than 40% in 2017. In 2009, Brazil should become the leading oilseeds exporter surpassing the United States, even though export growth is tempered by strong domestic demand for vegetable oil because of the development of the biodiesel sector.

In Argentina, the differential export tax system for oilseeds and oilseed products should continue to encourage domestic crush of seeds and exports of oilseed products. Domestic crushing is expected to increase by almost 25% over the projection period. This will not be enough to process all the domestic production and, as a result, oilseeds exports are anticipated to continue to represent 20% of production in 2017. US domestic demand for crushing is expected to grow at a rate of 1.3% per annum over the Outlook period. This, combined with an only slightly increasing oilseeds production over the projection period, is anticipated to lead to a contraction of the United States' share of global exports from 37%

on average over the period 2005-07 to around 22% in 2017. Canada should remain a strong oilseeds exporter.

Chinese oilseeds imports are expected to increase by almost 18 m tonnes accounting for 84% of the global increase in imports over the projection period, when compared to the 2005-07 period. This Outlook assumes that China will continue to expand its domestic oilseeds production and will keep expanding its crushing facilities to meet an increasing demand for oilseed meal and vegetable oil. In 2017, over 58% of Chinese oilseeds consumption should be met by imports.

The European Union should remain an important – but decreasing – importer of oilseeds, reflecting the impressive development of domestic rapeseed production. The European Union is assumed to increase domestic crush of oilseeds to meet the rising demand for oilseeds generated by a growing bio-diesel industry as well as by sustained demand for vegetable oils for food and for oilseed meal in animal rations.

Vegetable oil trade is influenced by the development of biodiesel

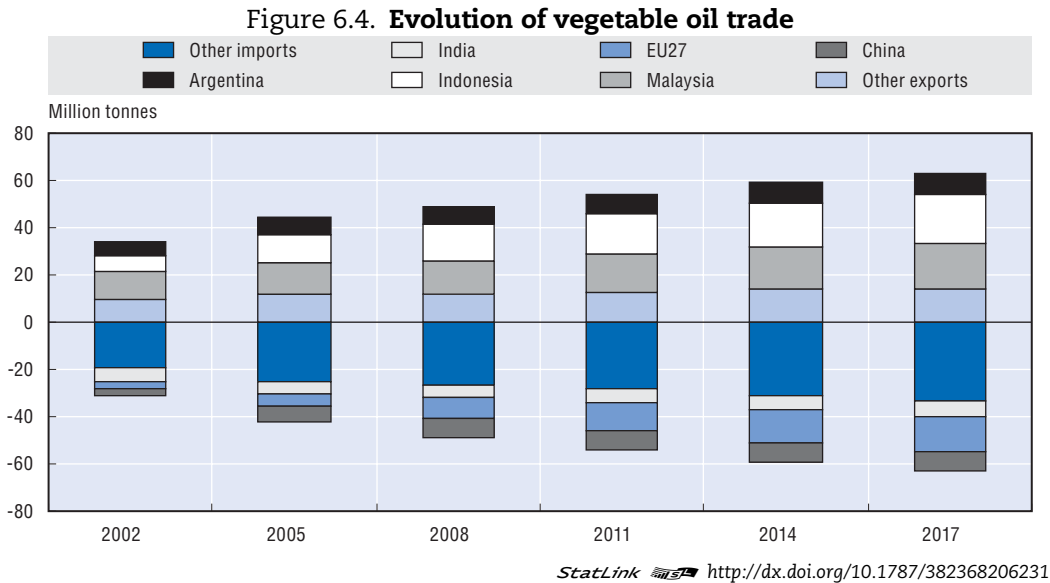
In terms of vegetable oil trade, palm oil and soybean oil continue to be the growth leaders. Trade in oilseed based biofuels or oils destined for the biofuel industry became more important in 2007 and this is expected to grow further. Argentina should continue to be the main exporter of oilseed oil with exports increasing at a rate of almost 2% per annum. The differential tax system in Argentina continues to favour the exports of soyabean oil in comparison to soybean seeds. However, the fiscal system is even more favourable for exporting biodiesel and significant investments in biodiesel producing capacities in Argentina could change the market picture for export supplies.

The use of vegetable oil for biodiesel production is also expected to develop in Malaysia, Indonesia and Brazil. The Indonesian Government is determined to counteract rising world market prices to control domestic cooking oil prices through variable export taxes. Despite the increasing export tax, shipments expanded in 2007 and are projected to reach 20 m tonnes in 2017 (Figure 6.4). Exports as a share of domestic production are expected to fall slightly because of the emerging biodiesel production. Palm oil in Malaysia has traditionally been used as raw material input in its oleo-chemical industry. Combined with the developing biodiesel sector, about 19% of Malaysia's palm oil production will be used by the domestic processing industry by 2017, up from 16% on average over the period 2005-07. In Brazil, oilseed oil shipments are expected to decrease as the use of domestically produced oil for biofuel production rises.

The expansion of EU oilseeds production and crush capacity is expected to lead to an increase in vegetable oil production of 20% over the Outlook period when compared to the average level of 2005-07. However to meet both industrial demand as well as traditional vegetable oil demand for food purposes, the EU is expected to more than double its imports over the course of the projection period. China is expected to continue to develop its domestic crushing industry. As a result Chinese vegetable oil imports should only increase by 0.7% per annum and the EU is expected to bypass China as the dominant vegetable oil importer in 2008.

More than half of India's additional vegetable oil needs should be supplied by domestic sources. Imports are projected to reach more than 6 m tonnes in 2017, solidifying India's position as the third largest vegetable oil importer in the world. Inflationary pressure from high food prices led the Government to initiate several differential duty reductions as a price control measure. The duty differential between palm and soyabean oils was

narrowed by these reductions. India is expected to continue its variable tariff policy to control domestic oil prices and imports. In Pakistan, the oil produced from domestically produced and imported oilseeds will still only cover a small percentage of the domestic vegetable oil demand and vegetable oil imports are increasing as a consequence.



Source: OECD and FAO Secretariats.

Argentina and Brazil are the leading oilseed meal exporters

With regard to oilseed meals, almost the entire rise in global trade was on account of soybeans in 2007. EU imports increased as a result of surge in feedgrain prices. In 2007, the EU was the world's main buyer of oilseed meals and it is forecast to keep this position over the projection period. However, by 2017 the development of domestic rapeseed meal production should slightly reduce the dependency of the EU on imported protein meals. In China, meal demand will be satisfied by domestically produced oilseed meal (a considerable amount of which is derived from imported oilseeds) as well as through a sizeable expansion in meal imports.

Argentina and Brazil are the leading exporting countries, they should account for almost 70% of global exports throughout the projection period. Argentina is expected to remain by far the largest oilseed meal exporter. Indeed, a combination of factors such as investment in processing facilities, a differential export tax system and the small size of the domestic market are expected to lead to an increase in exports by almost 20% over the projection period. In 2007, India strengthened her role as a provider of oilseed meals within Asia, reflecting ample domestic crops and the recent rise in ocean freight rates that favoured nearby supply sources. India's domestic production is projected to expand over the projection period, but at a slower rate than consumption, resulting in a small reduction in exports by about 4% in the coming decade. Target markets for exports remain those Asian countries with growing livestock sectors such as the Philippines, Malaysia, Saudi Arabia and Egypt where Indian oilseed meals enjoy the competitive advantage of high protein content and biotech free status plus low freight costs.

Key issues and uncertainties

Development of biofuel market contingent on future policy measures

The Outlook starts in a period of soaring raw commodity prices. The strong increase in prices that commenced in the course of 2006 has been caused by the concomitant appearance of unusual weather conditions, strong demand growth and specific policy changes. In particular, global biofuel demand and production have grown significantly, stimulated by government support policies. This growth contributes increasingly to the surge in world prices of coarse grains and vegetable oils and, as a result, also of oilseeds and meals. Assumptions on biofuel developments in the Outlook are based on the continuation of the current policy set. During 2007, biofuel use targets and other measures to promote consumption have been established in numerous countries. In exporting countries in South America and South East Asia, where the private sector has invested in the production of biodiesel for exportation, the sector's viability is largely conditioned by the development of feedstock prices and how these compare to crude oil prices. Other countries, including China and India, are moving more cautiously as they have put food security as their first objective and thus restrict the use of edible crops for fuel production.

In a near future, the implementation of binding bioenergy directives in key supplying or consuming countries can be expected to increasingly affect the global market picture for oilseeds and other agricultural commodities. National bioenergy policies may be subject to changes over the coming years as governments take stock of the significant effects such measures have on domestic and international markets and on their economies and consumers. For instance, countries could face limitations regarding biofuel production from domestically grown food crops and international trade in biofuels or their feedstock is likely to grow. In addition, internationally recognised biofuel specifications and trade rules still need to be developed and policy makers will have to respond to consumer requests for environmentally and socially sustainable production of any feedstock used. Finally, if second generation biofuels and alternative forms of renewable energy would become more important over the Outlook period, the role of oilseeds and other basic food crops as biofuel feedstock would be reduced. Overall, the future course of technological innovations, the development of national bioenergy policies, the behaviour of private investors, together with the future evolution of crude oil prices, represent significant sources of uncertainty in projections for the global oilseed market.

Policy response to high food prices can affect the market

Sustained high international commodity prices can lead to lower levels of food consumption and cause price inflation. This is especially the case in developing economies where a high portion of household income is still spent on food. In particular food importing developing countries are concerned about the social consequences of rising prices for basic food staples. To mitigate the adverse effects of high prices, governments in several countries decided in the course of 2007 to introduce corrective policy measures. In numerous cases, governments lowered tariffs and introduced other measures to stimulate imports of oilseeds and vegetable oils. Direct support to consumers, release of government stocks and other consumption policies were also introduced, sometimes coupled with increased efforts to stimulate domestic oilseed production. Conversely, some exporting countries decided to introduce or raise export tariffs on domestically produced oilseeds and derived products or to otherwise restrict exportation. Indonesia has raised palm oil

export tariffs and Argentina has further increased export taxes on oilseeds and oilseed products in an attempt to help contain or limit feed price rises to stimulate livestock production and to provide support to producers of key livestock foodstuffs so as to fight inflation on basic consumer foods. The immediate effect of most of these measures on domestic markets seems to have been limited, while prices have further strengthened in international markets. The longer term nature of these government interventions and the related market impacts remains an uncertainty in the Outlook.

With only few players dominating global supply, market instability can be expected to increase

The potential for further increases in the production of oilseeds and of palm oil is clearly concentrated in a few regions. The global market will depend heavily on South America (Brazil and Argentina) and Southeast Asia (Malaysia and Indonesia) for supplies. But the potential for further expansion of production in these areas could be increasingly constrained by resource and environmental limitations. In the case of Malaysia, future growth in palm oil output needs to be achieved almost entirely through yield improvements because of limited land availability. However, past productivity improvements have been modest and the reversal of this trend will largely depend on the development and adoption of genetically improved planting material and new varieties. Key environmental concerns facing oilseed production in the all these regions include the risk of soil degradation, water scarcity, loss of biodiversity and deforestation. With consumers becoming more concerned about these issues, oilseed and palm oil production and trade is likely to be confronted with new requirements in the future. First, voluntary attempts to certify sustainable practices of palm oil production are being made and similar initiatives are likely to follow with soyabean production. When and how such voluntary or mandatory schemes will impact production methods remains to be seen. Furthermore, given the size of production and exports in the countries in question, any weather anomalies, important shocks to their economies, or radical policy decisions could have huge consequences on markets and world prices for oilseeds and oilseed products. Also on the demand side, the trend towards concentration of consumption growth in relatively few countries, especially China and India, might lead to increased market instability, as any unexpected development in these countries would greatly affect the global market for oilseeds and oilseed products.

Genetic modification of crops can change the production context and consumption patterns

Another uncertainty comes from future developments of genetically modified (GM) crops. Past experience has shown that GM crops have the potential to modify productivity and production costs, thereby affecting competition between crops and, consequently, the overall composition of markets and pattern of trade. In years to come, more widespread use of genetic modification appears likely to modify crop traits according to particular product uses and consumer needs. However, in many countries the adoption of GM crops depends on policy decisions that are still evolving in response to the differing concerns of producers, processors, consumers and the wider society. Future decisions about introducing GM crops, as well as further research advances in this area, will remain of strategic importance for the sector in many developed and developing countries.

THE OUTLOOK IN BRIEF

- World reference prices in nominal terms for almost all agricultural commodities covered in this report are at or above previous record levels (see Fig. 2.1). This will not last and prices will gradually come down because of the transitory nature of some of the factors that are behind the recent hikes. But there is strong reason to believe that there are now also permanent factors underpinning prices that will work to keep them both at higher average levels than in the past and reduce the long-term decline in real terms. Whether transitory or permanent, appropriate policy action for agricultural development and for addressing the needs of the hungry and the poor needs to take account of both these characteristics.
- The dramatic increase in prices since 2005/06 is partly the result of adverse weather conditions in major grain-producing regions in the world, with spill-over effects on crops and livestock that compete for the same land. In a context of low global stocks, these developments alone would have triggered strong price reactions. These conditions are not new; they have happened in the past and prices have come down once more normal conditions prevail and supply responds over time. The Outlook sees no reason to believe that this will not recur over the next few years.
- Once they have fallen from their current peaks, however, prices will remain at higher average levels over the medium term than in the past decade. But the underlying forces that drive agricultural product supply (by and large productivity gains) will eventually outweigh the forces that determine stronger demand, both for food and feed as well as for industrial demand, most notably for biofuel production. Consequently, prices will resume their decline in real terms, though possibly not by quite as much as in the past (see Figures 1.1, 1.4 and 1.5 in the Overview section).
- On the supply side, the Outlook expects continued yield growth for crops to be more important than new areas brought into cultivation in determining crop supply. Slowly increasing dairy and livestock yields also support the increase in milk and meat production. A key assumption in the Outlook is some strengthening of the US dollar against most currencies. In the countries affected by this change, this will reinforce domestic price incentives to increase production. These factors combine to sustain the growth of global agricultural production, although some of that impetus is abated by the supply-reducing effect of high oil prices that raise production costs.
- On the demand side, changing diets, urbanisation, economic growth and expanding populations are driving food and feed demand in developing countries. Globally, and in absolute terms, food and feed remain the largest sources of demand growth in agriculture. But stacked on top of this is now the fast-growing demand for feedstock to fuel a growing bioenergy sector. While smaller than the increase in food and feed use, biofuel demand is the largest source of new demand in decades and a strong factor underpinning the upward shift in agricultural commodity prices.
- As a result of these dynamics in supply and demand, the Outlook suggests that commodity prices – in nominal terms – over the medium term will average substantially above the levels that prevailed in the past 10 years. When the average for 2008 to 2017 is compared with that over 1998 to 2007, beef and pork prices may be some 20% higher; raw and white sugar around 30%; wheat, maize and skim milk powder 40 to 60%; butter and oilseeds more than 60% and vegetable oils over 80%. Over the Outlook period, prices will resume their decline in real terms, albeit at a slower rate. However, the impact of various supply and demand factors on prices will differ across commodities.
- In addition, prices may also be more volatile than in the past: stock levels are not expected to be replenished substantially over the Outlook; demand is becoming less sensitive to price changes at the farm level as the commodity share in the final food bill falls and as industrial demand grows; weather conditions and agricultural product supply may become more variable with climate change; and speculative non-commercial investment funds enter or leave agricultural futures markets as profit opportunities dictate.

- Within this overall context, the epicentre of global agriculture will further shift from the OECD towards developing countries. Both consumption and production are growing faster in developing countries for all products except wheat. By 2017, these countries are expected to dominate production and consumption of most commodities, with the exception of coarse grains, cheese, and skim-milk powder.
- Corresponding shifts are also occurring in global trade patterns. Imports are growing most in developing countries, and an increasing share of this growth is captured by larger exports from other emerging and developing countries. Export growth in developing countries is greater, and sometimes very much so for almost all products. However, while the share of OECD countries in world exports falls, these countries continue to dominate export trade for wheat, coarse grains, pork and all dairy products.
- High prices are good for some and bad for others. They are beneficial for many commercial producers in both developed and developing countries. However, many farmers in developing countries are not linked to markets and will draw little or no benefit from currently higher prices. But the poor, and in particular the urban poor in net food importing developing countries, will suffer more. In many low-income countries, food expenditures average over 50% of income and the higher prices contained in this Outlook will push more people into undernourishment.
- For the Least Developed Countries, especially the food-deficit group, the projections thus show greatly increased vulnerability and uncertain food supplies during an era of high commodity prices and high price volatility. This underscores the importance of developing their domestic supply capacity by improving the overall environment in which agriculture operates through enhancing governance and administrative systems and investing in education, training and extension services, research and development and physical infrastructure. While these are longer-term remedies, it is important in the short term that commodity trade functions efficiently to facilitate the allocation of available commodity supplies.
- This Outlook assumes unchanged agricultural and trade policies. The actual evolution of agricultural commodity and food prices, however, hinges importantly on future policy developments. In this context, increased humanitarian aid is needed to reduce the negative impact of high prices on the very poor, and this could be done without any major impact on markets.
- Such effects would result, however, from trade-restricting policies such as export taxes and embargos. These may in the short term provide some relief to domestic consumers but in fact impose a burden on domestic producers and limit their supply response, as well as contribute to global commodity market uncertainty. Similarly, measures to protect domestic producers of agricultural commodities through border measures imposes a burden on domestic consumers; it would also restrict growth opportunities for producers abroad.
- Policy support, as well as oil-price developments, will strongly influence the evolution of future demand from biofuel for agricultural commodity feedstocks. In this context, neither the US Energy Independence and Security Act (EISA) nor proposals for a new EU bioenergy directive are taken into account. Changes in either, or new technological developments would also have a strong impact on projected world prices for agricultural commodities and for the availability for food and feed use. In this report, second generation biofuels are not expected to be produced on a commercial basis over the Outlook period.
- Finally, over the longer term, agricultural supply is facing increased uncertainties and limitations to the amount of new land that can be taken into cultivation. Public and private investments in innovation and increasing agricultural productivity, particularly in developing countries, would greatly improve supply prospects by helping to broaden the production base and lessen the chance of recurring commodity price spikes.
- This year's Outlook has been prepared in an environment characterised by increased instability in financial markets, higher food price inflation, signs of weakening global economic growth and food-security concerns. Although projections for agricultural commodity markets have always been subject to a number of uncertainties, these have taken on more importance in this year's edition.

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Acronyms and Abbreviations

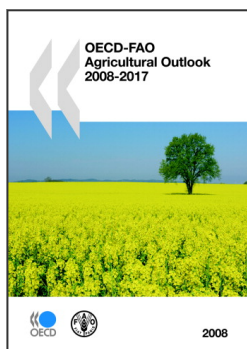
ACP	African, Caribbean and Pacific countries
AMAD	Agricultural Market Access Database
AUSFTA	Australia and United States Free Trade Agreement
AI	Avian Influenza
BNGY	Billion gallons per year
BNLY	Billion litres per year
BSE	Bovine Spongiform Encephalopathy
Bt	Billion tonnes
BTL	Biomass to liquid
CAFTA	Central American Free Trade Agreement
CAP	Common Agricultural Policy (EU)
CCC	Commodity Credit Corporation
CET	Common External Tariff
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CRP	Conservation Reserve Program of the United States
CMO	Common Market Organisation for sugar (EU)
Cts/lb	Cents per pound
cwe	Carcass weight equivalent
DBES	Date-based Export Scheme
DDA	Doha Development Agenda
DDG	Dried Distiller's Grains
dw	Dressed weight
EBA	Everything-But-Arms Initiative (EU)
ECOWAP	West Africa Regional Agricultural Policy
ECOWAS	Economic Community of West African States
EISA Act	Energy Independence and Security Act of 2007 (US)
EPAs	Economic Partnership Agreements (between EU and ACP countries)
ERS	Economic Research Service of the US Department for Agriculture
est	Estimate
E85	Blends of biofuel in transport fuel that represent 85 percent of the fuel volume
EU	European Union
EU-15	Fifteen member states of the European Union
EU-10	Ten new member states of the European Union from May 2004
EU-27	Twenty seven member states of the European Union (including Bulgaria and Romania from 2007)
FAO	Food and Agriculture Organization of the United Nations

FMD	Foot and Mouth Disease
FOB	Free on board (export price)
FR	Federal Reserve (US central bank)
FSRI ACT	Farm Security and Rural Investment Act (US) of 2002
FTA	Free Trade Agreement
GDP	Gross Domestic Product
G-10	Group of 10 countries (see Glossary)
G-20	Group of 20 developing countries (see Glossary)
GDPD	Gross Domestic Product Deflator
GHG	Green House Gases
GMO	Genetically modified organism
HFCS	High Fructose Corn Syrup
HS	Harmonised Commodity Description and Coding System
IEA	International Energy Agency
kt	Thousand tonnes
LAC	Latin America and the Caribbean
La Niña	Climatic condition associated with temperature of major sea currents
LDC's	Least Developed Countries
LICONSA	Leche Industrializada
lw	Live weight
MERCOSUR	Common Market of the South
MFN	Most Favoured Nation
Mha	Million hectares
MPS	Market Price Support
Mt	Million tonnes
MTBE	Methyl Tertiary Butyl Ether
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
OIE	World Organisation for Animal Health
PCE	Private Consumption Expenditure
PIK	Payment in kind programme (US)
PROCAMPO	Mexican Farmers Direct Support Programme
PPP	Purchasing Power Parity
PRRS	Porcine Reproductive and Respiratory Syndrome
PSE	Producer Support Estimate
pw	Product weight
R&D	Research and Development
rse	Raw sugar equivalent
rtc	Ready to cook
RFS	Renewable Fuels Standard in the US, which is part of the Energy Policy Act of 2005
rtw	Retail weight
SEAC	Spongiform Encephalopathy Advisory Committee
SFP	Single Farm Payment scheme (EU)
SMP	Skim milk powder
SPS	Sanitary and Phytosanitary measures
STRV	Short Tons Raw Value

t	Tonnes
t/ha	Tonnes/hectare
TRQ	Tariff rate quota
UK	United Kingdom
UN	The United Nations
URAA	Uruguay Round Agreement on Agriculture
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
USDA	United States Department of Agriculture
VAT	Value added tax
v-CJD	New Creutzfeld-Jakob-Disease
WAEMU	West African Economic and Monetary Union
WMP	Whole milk powder
WTO	World Trade Organisation

Symbols

AUD	Dollars (Australia)	KRW	Korean won
ARS	Pesos (Argentina)	lb	Pound
Bn	Billion	Mn	Million
BRL	Real (Brazil)	MXN	Mexican pesos
CAD	Dollars (Canada)	NZD	Dollars (New Zealand)
CNY	Yuan (China)	p.a	Per annum
EUR	Euro (Europe)	RUR	Ruble (Russia)
gal	Gallons	THB	Thai baht
Ha	Hectare	USD	Dollars (United States)
hl	Hectolitre	ZAR	South African rand
INR	Indian rupees		



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