

Developments in world agricultural markets

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I welcome the opportunity to present to you today the conclusions of a series of analysis from the Agricultural trade Policy Analysis Unit of DG Agriculture, which I represent here today. The relevance of such analysis in the context of the present Round of negotiations in Geneva cannot be underestimated, as the absence of the co-author of this presentation clearly demonstrates. And while he had to spend all week in Geneva, and away from his home country, I will share with you today the main points of these conclusions and refer at the end to our website. There, you can find further details, including of our most recent Newsletter that focuses exactly on these developments.

Starting with the overall picture, total world trade in agricultural products, including food products, as measured by exports, approached a record 370 billion dollars in 2004, an 85% increase since the 1996 level of 200 billion dollars. From this world total of agricultural exports, 70% is accounted for by 9 WTO players, divided in two groups.

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The first group includes major traders, countries or regions that are not only major exporters, but also major importers, such as the EU, the US, Canada, China and India. The second group includes the traditional main exporters, such as Brazil, Australia, Argentina and New Zealand, which run significant and growing surpluses in their agricultural trade balance.

Since the implementation of the URAA, agricultural exports expanded in all 9 players, while significant increases in imports took place in most, with the exception of Brazil and Argentina. As a result, the latter two exhibit an impressive improvement in their agricultural trade balance (**Slide 1**). On the other hand, the US and China faced a marked deterioration in their agricultural trade balance, and China turned into a net importer in 2004.

The EU tops the list of agricultural exporters, with the total value of its agricultural exports reaching 79 billion dollars, up almost 50% since 2000 (**Slide 2**). The US lost its previous lead, and now ranks second with 66 billion dollars of agricultural exports. However, most of this growth is due to the appreciation of the euro; expressed in terms of the latter, EU exports increased by 8 % in the last five years, from 58 billion to 63 billion €

Form the group of traders, the EU is also the largest importer of agricultural products, absorbing 20% of the

world total and running a consistent, albeit decreasing, trade deficit (**Slide 3**). The US has increased its agricultural imports dramatically (even during the years of the depreciation of the dollar), and is approaching a situation where it could soon become a net importer. Canada has been overtaken by Brazil as the third exporter and is also a big importer of agricultural products, but still runs a rather stable trade surplus in agriculture. China has increased both exports and imports, turning into a net importer, while India is ranking last in this group of main traders.

Brazil, Australia, Argentina and New Zealand, continue to be traditional agricultural exporters. The first three have been close together in terms of the value of their agricultural exports until 2001, but Brazil, driven by strong growth in its domestic production and the devaluation of its currency, has clearly outpaced both Australia and Argentina. Despite its small size, New Zealand is also a major exporter, but this is to a large extent limited to products of the dairy/beef/sheep complex.

The above developments are in aggregate value terms, and mask important changes with respect to specific agricultural markets. I would like to draw your attention to such developments now, shifting from a focus on the

value of trade flows to an emphasis on the volume of trade commodities.

This is, after all, the focus of most of our policies to date, and the conclusions that one draws on the expected outlook for world agricultural markets over the next decade should have some bearing on how these policies may evolve in the future.

Slide 4a summarises changes in net exports, in volume, in some major world commodity markets, and brings a picture which is rather close to home - the EU has clearly lost market share in almost every sector. This is not new; it is the result of a reform process that has led to lower surpluses in cereals and beef, to quotas that have kept production stable in dairy and sugar, and to increased internal uses as a result of the cereal reform (pork and poultry).

This trend is not expected to change in the future; on the contrary, it will be accelerated as a result of new reforms (decoupling of aids, dairy and sugar reforms), the expected move away of the EU from bulk commodity markets and the increase in its value added exports. I am sure that we will have opportunities to come back on this during this seminar.

The picture from the U.S is more mixed. While it has retained significant presence in bulk commodities, it has lost some of its market share in wheat and soybeans, but continues to dominate in maize and its market share has increased significantly in cotton.

In the rest of the developed world, Australia has been increasing its exports in most commodities, be it crops or livestock. New Zealand has experienced even more rapid growth but in a more limited range of products (essentially dairy and sheep meat). Finally, Canada has remained either stable or has slightly increased its export share.

However, most of the big changes are occurring in the developing world, and especially in its three agricultural giants. **Slide 4b** gives of flare of such changes by focusing on two markets where the most dramatic changes have taken place, soybeans and beef. The scale of the graph indicates the magnitude of the changes; but it also indicates the clear winner in agricultural market developments , Brazil.

Although clearly smaller both in population and GDP than China and India, Brazil's impact on world markets is nevertheless significant and growing. The pace of growth in soybeans, beef, pork, poultry, sugar, and even cotton in recent years is simply staggering, which raises the

questions: Can it maintain this pace and at what cost will it come for world market prices?

China on the other hand, as a major importer, falls on the opposite side of the developing world equation. It has seen significant increases in its imports in almost every single commodity where Brazil has increased its exports. It prompts questions along the lines of those for Brazil in so far as one wonders how long this import growth will continue for and what impact will it have on world prices if it slows down?

Finally, India continues to be the big unknown. India is a major producer of many crops and milk, yet almost absent from world agricultural markets especially because of its present tariff structure. But growth in India's GDP has been so strong that the additional wealth it has generated translates into food demand that is gradually becoming difficult to be satisfied by its internal market. In addition, export possibilities also exist for some of its commodities. The way India develops adds an additional uncertainty to the future of world agricultural markets, simply because of its size.

We can only get a glimpse on how these questions could be answered in the future by looking at the following slides. **Slide 5** indicates the limited growth of most cereal markets. Wheat demand has kept up with population

growth, and as a result area had to decline in the face of growing yields. On the other hand, as **Slide 6** demonstrates, some of the most interesting developments are taking place in soybean markets, where the traditional US-EU trade flow is being overtaken by a Brazilian-Chinese one, expected to grow even faster in the near future.

The above development is not just linked to the growing appetite of China for vegetable oils, but to the growing world demand for meats. **Slide 7** shows evidence of where this growth takes place – it is mainly in poultry and pork, at the expense of beef, whose per capita consumption is lagging beyond population growth.

Trade in dairy products (**Slide 8**) is also growing, but more important here is the dramatic shift of market share in favour of New Zealand and Australia, and at the expense of the EU.

Finally, **Slide 9** highlights developments in market of recent focus in the EU, sugar. The recently adopted reform of this regime was unthinkable even a few years ago. Here developments are dominated by just one player, Brazil, whose expansion had a downward effect on world prices. Of course, this is a market where recent developments have been shadowed by the evolution of oil

prices, and their potential impact on ethanol, but I will not expand on this here.

Clearly further analysis is necessary, and I have only touched here on some of the broad issues of shifting world consumption and production patterns. I am confident that these issues will be dealt with during this conference. On our side, we will focus in more detail on the growing importance of the Chinese, Brazilian and Indian agricultural sectors in a series of forthcoming newsletters, and continue to monitor developments, especially as they may be influenced by a new WTO agreement. But for the moment, I thank you for your attention, which I would like to draw it for one last time to my **last slide**, indicating the site where you may find much more detail.

http://ec.europa.eu/agriculture/publi/map/index_en.htm