

PROSPECTS FOR AGRICULTURAL MARKETS

AND INCOME

IN THE EUROPEAN UNION

1. PROSPECTS FOR AGRICULTURAL MARKETS AND INCOME IN THE EU

1.1. Introduction

This chapter summarises the main results and underlying assumptions of medium-term projections for the markets of some key agricultural products and for sector income in the European Union for the period 2004 - 2011. The results presented are based on data and other information available at the end of October 2004 and constitute an update of the medium-term projections published in July 2004¹. In particular the projections take into account the short-term developments foreseen for 2004 and 2005 on domestic and world markets.

These projections are established under a specific set of assumptions. The most important assumptions cover agricultural and trade policies, as well as the outlook for the macro-economic environment and for world agricultural commodity markets. These working hypotheses have been defined on the basis of the information available, which at the time of the analysis were judged the most plausible:

- (1) The implementation of the **single farm payment** scheme as part of the Common Agricultural Policy (CAP) reform decisions² allows Member States to choose among different options, which will influence the degree of “decoupling” of the payments. By August 2004 a large majority of Member States communicated their preferred option³. Based on this information it has been estimated that in 2011 approximately 90 % of the budgetary transfers in the form of direct payments (including national envelopes and top-ups) for the arable crops, milk, beef and sheep sectors will be part of the single farm payment for the EU-25 as a whole. The rate would be higher for the milk (100 %) and arable crops (93 %) sectors than for beef and sheep sectors (78 % and 73 % respectively).
- (2) All transitional measures of the CAP in the **new Member States**, i.e. the phasing-in of direct payments as well as the top-up possibilities and the production quotas, are expected to operate under the rules agreed upon in the 2002 Copenhagen summit. Eight out of the ten new Member States adopt the single area payment scheme, while Slovenia and Malta implement the current EU legislation on direct payments. From 2009 onwards the eight new Member States are assumed to adopt the regionalised system. Slovenia and Malta would implement the regionalised system from 2007 onwards.
- (3) After a reduction to 5 % for 2004/05 marketing year, the mandatory **set-aside rate** returns to the regulatory 10% in 2005/06. The set-aside area is assumed to remain

¹ European Commission, Directorate-General for Agriculture *Prospects for Agricultural Markets 2004 – 2011 – Update for the EU-25*. July 2004. Brussels.

² It should be mentioned that the decisions to extend the scope of currently available instruments for rural development to promote food quality, meet higher standards and foster animal welfare and those relative to some specific sectors such as the nuts, dried fodder, starch potato, tobacco, olive oil and cotton sectors have not been incorporated in these market analyses.

³ A certain degree of uncertainty remains on the detailed implementation rules, especially for the Member States which will introduce the single farm payment in 2006.

fixed at that level for the rest of the period. For those new Member States which opted for the single area payment scheme, the set-aside obligations would only apply from 2009 onwards.

- (4) It is also assumed that all commitments taken within the **Uruguay Round Agreement on Agriculture (URAA)**, regarding in particular market access and subsidised exports, will be fully respected. Thus, subsidised exports are expected not to exceed the annual URAA limits, whereas imports under current and minimum access are fully incorporated. In addition, the URAA commitments are assumed to remain unchanged over the 2004-2011 period as the framework agreement for establishing modalities reached at the WTO in July 2004 does not contain sufficient details to take it into account in this projection exercise.

The trade agreements that have been concluded by the EU prior to the end of October 2004, notably with the Least Developed Countries, have been included into the projections.

- (5) The **macro-economic environment** in the EU is expected to display a moderate growth in economic activity in the short term as accommodative macroeconomic policy conditions, continuous low inflation, progress in structural reforms, and buoyancy in global growth and trade have increased the confidence of economic agents.

According to the short-term economic forecasts from the Commission released in October 2004⁴, after a mere 0.9 % in 2003, EU-15 average real growth rates would rebound to 2.3 % in 2004, stabilising to around 2.2 % in 2005. Despite the economic downturn observed in the old Member States over the last few years, economic growth has remained strong in the new Member States. Expanding domestic consumption and improving economic conditions in the rest of Europe should further accelerate growth in the new Member States to 4.3 % in 2005. Overall EU-25 real GDP growth would reach 2.5 % in 2004 and 2.3 % in 2005, as the sharp rise in oil prices takes its toll before showing a subsequent rebound in 2006 (2.4 %) as the latter effect tapers off. The international environment should also be supportive as, after an estimated GDP growth of 3.5 % in 2004, the world economy is expected to accelerate and grow by 5 % in 2005, the fastest pace since the seventies.

Table 1.1 Assumptions on macro-economic variables in the European Union, 2001 – 2011

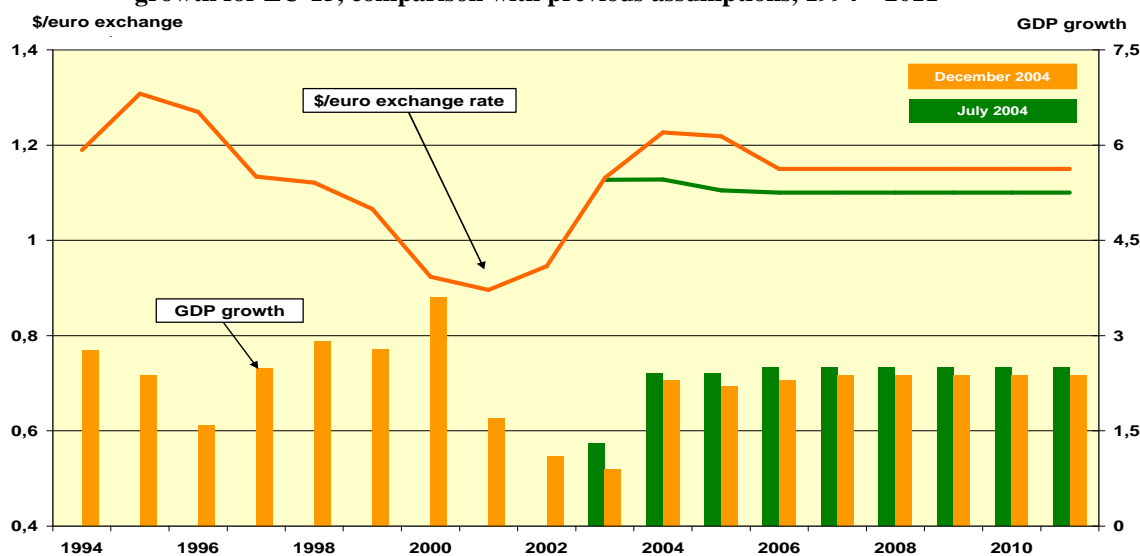
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population growth (in%)											
EU25	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
of which EU15	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%
of which EUN10	-0.3%	-0.1%	0.0%	-0.9%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
GDP growth (in%)											
EU25	1.8%	1.1%	1.0%	2.5%	2.3%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%
of which EU15	1.7%	1.1%	0.9%	2.3%	2.2%	2.3%	2.4%	2.4%	2.4%	2.4%	2.4%
of which EUN10	4.2%	2.5%	3.6%	4.0%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Inflation (in%)											
EU25	2.5%	2.1%	1.9%	2.2%	2.1%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Exchange rate											
US\$/€	0.90	0.95	1.13	1.23	1.22	1.15	1.15	1.15	1.15	1.15	1.15

⁴ European Commission, Directorate-General for Economic and Financial Affairs. Economic Forecasts, Autumn 2004. *European Economy* No.5/2004.

The medium-term prospects for economic growth in the EU should rely on a relatively strong domestic demand. They should also benefit from the sharp growth projected for many emerging economies. In this respect, economic growth would remain rather stable over the medium term at 2.5 %, with growth rates in the new Member States exceeding 4 % per year on average while those in the old Member States would stagnate at 2.4 % over the projection period. Inflation is also assumed to remain stable over the medium-term at around 1.9 %.

Since the beginning of 2004, the **\$/€exchange rate** dropped to approximately 1.3. The euro is assumed to gradually stabilise over the medium term around 1.15 against the US dollar, as the impact of the short-term factors contributing to the recent weakening of the US dollar (including the swiftly growing current-account and budget deficits in the US) may be expected to give way to more fundamental structural factors.

Graph 1.1 Medium-term development in the \$/€exchange rate (1 €= ... \$) and real GDP growth for EU-15, comparison with previous assumptions, 1994 – 2011



- (6) Short-term developments on **world agricultural markets** have recently been marked by sharp price increases. Whereas cereal and oilseed markets were affected by unfavourable climatic conditions which led to severe production drops in various parts of the world, meat markets were disrupted by a series of sanitary crises (e.g. mad cow disease in North America and Avian flu in Asia).

A rather abundant 2004 harvest in the northern hemisphere caused a significant fall in grain prices, providing incentives to livestock producers which were also benefiting of relatively high meat prices throughout the year 2004. World dairy markets experienced extremely high prices lately, following firm demand from developing countries and limited supply in most producing and exporting countries.

The medium-term outlook for world agricultural markets is foreseen to remain essentially supported by rising food demand driven by an improved macro-economic environment (with more broadly-based and sustainable growth), higher population, urbanisation and changes in dietary patterns, particularly in many emerging economies. World trade in agricultural commodities is expected to demonstrate sustained growth, as demand for food products should outpace

production in many developing countries, while commodity prices are projected to display only moderate increases over the medium term.

World cereal prices are projected to remain at relatively high level over the medium term as supply adjusts to global demand growth, with wheat and maize prices reaching up to 150 \$/t and 115 \$/t respectively by 2011/12. Oilseed prices are foreseen to display a certain stability over the forecast period, with soybean prices projected at 240 \$/t in 2011/12.

Meat markets are expected to show some stabilisation over the medium term, with world beef prices declining slightly after a short-term price surge due to trade disruptions related to sanitary crises. World dairy prices are expected to ease down somewhat after the strong increase of 2004, in line with projected rapid expansion of milk production in low-cost producing regions (such as Oceania)⁵.

1.2. Arable crops

1.2.1. Key factors influencing the medium-term prospects for EU arable crop markets

The medium-term prospects for the EU crop markets are projected to be shaped by a series of factors. The most important can be described as follows:

- *The implementation of the 2003 CAP reform:* the introduction of the single farm payment and the reduction in the level of support in the cereal sector are expected to lead to a slight decline in cereal area (mainly affecting rye and durum wheat) and to a rise in voluntary set-aside as land with low profitability would move out of production;
- *The mandatory set-aside:* after a record 2004 harvest characterised by favourable weather conditions and a reduction from 10 % to 5 % in the mandatory rate of set-aside, the return to a mandatory set-aside level equivalent to the regulatory level of 10 % over the medium-term is projected to significantly reduce the EU production potential and improve the cereal market balance, notably in the first half of the projection period;
- *Lower prospects for yield growth:* the significant slow down in cereal yield growth observed in the EU over the last few years is expected to persist over the projection period;
- *Modest growth in the animal sector:* contrary to the past decade which was characterised by a steady development of the white meat sector (and the subsequent gains in cereal feed use), the next seven years are projected to exhibit a marked slow down in the production growth of the pig meat, poultry meat and egg sectors. This should then translate into more moderate feed demand prospects;
- *Supportive world markets:* world market conditions for cereals and oilseeds are forecast by most international organisations to be moderately favourable, with notably an expanding world (import) demand (South East Asia);

⁵ For more details, c.f. chapter III.

- *The US\$/€ exchange rate:* the transmission of these favourable world market conditions to EU markets under the current policy conditions does crucially depend on the value of the euro relative to the US\$. The current level of 1.3 US\$/€ constrains the competitiveness of EU cereal production on both world markets and EU feed markets (where imported cereal substitute products such as oilseeds benefit from lower prices when converted in euro). As a result, domestic producer prices for cereals are projected to face intense short-term pressure. The medium-term perspectives should in turn be positively influenced by the assumed weakening of the Euro to an exchange rate of 1.15 US\$/€ from 2006 onwards. The resulting improvement in the competitiveness of the crop sector would enable the EU to benefit from the moderately expanding world demand for cereals⁶;
- *The impact of EU enlargement:*
 - *Importance of the new Member States:* in 2004 EU cereal and oilseed production increased by about 28 % and 20 % respectively. The record 2004 harvest in the new Member States impressively demonstrates the production potential for arable crops in these countries;
 - *Integration of the new Member States into the single market:* the 2004/05 marketing year is showing that the price pressure currently experienced in a number of new Member States due to high transport costs and the lack of important storing facilities is a significant limiting factor in the development of the competitiveness of these countries and their access to EU domestic and/or world markets. This situation currently results in a marked geographical separation of cereal (and to a lesser extent oilseed) markets in the EU. Increased investment in transport and storage infrastructure becomes a crucial factor for the competitiveness of the crop sector in the new Member States. Because these investments will take time to effectively influence production and trade patterns, the economic perspectives for crop production as expressed in levels and volatility of producer prices might only gradually improve over the medium to long term. This leads to less positive medium-term perspectives for the new Member States than earlier analyses suggested.
 - *Currency appreciation in the new Member States:* the strengthening against the euro of several currencies of the new Member States is assumed to persist over the medium term as the new Member States grow at a much faster pace than the economies of the Eurozone. Furthermore the continuous inflow of foreign direct investments at significant levels of GDP as well as the transfer of EU funds should also contribute to the further appreciation of currencies in the New Member States. As a result, lower agricultural prices and payments when expressed in domestic currencies might reduce the incentives to use and expand the production potential. Since prices of tradable inputs such as fuel, fertiliser and machinery would equally fall when denominated in domestic currencies, the competitive situation of crop production vis-à-vis that in the Eurozone should not

⁶ The profitability of cereal, oilseed and protein production is lower than under more favourable exchange rate conditions as observed from 2000 to 2002, when the euro exchange rates were closer to parity with the USD. Nevertheless, some offsetting effects of high exchange rates positively influence their profitability. In particular the current increase in world market prices for energy, fertiliser and pesticides is less felt with an overvalued Euro than it would be with lower levels of exchange rates.

be significantly affected. However, like prior to membership and despite the positive impact of the CAP on producer income, pressure for structural adjustment will arise from the declining competitiveness of the agricultural sector vis-à-vis other sectors of the economies.

- *The biofuel policy*: the medium-term perspectives for oilseeds should become increasingly influenced by the biofuel policies of the Member States. This analysis takes the current biofuel policies of Member States as unchanged for the future. The isolated supply effect of the carbon credit instrument for renewable energy should be rather limited since markets are mainly determined by the tax policy and regulations of Member States and their impact on the industry. Therefore, the medium-term perspectives for non-food oilseeds appear rather stable in the EU⁷.

1.2.2. *Development in area allocation*

The overall EU-25 area allocated to arable crops, silage and set-aside is estimated to increase slightly in 2004 to 71.2 mio ha after the decline observed in 2003 linked to difficult climatic conditions. In 2004 total area in arable crop production would represent some 66.2 mio ha, whereas set-aside land would fall to 5 mio ha in line with the reduction in the rate of mandatory set-aside adopted in response to the sharp fall in cereal production in 2003 and the consequent drastic drop in stock level.

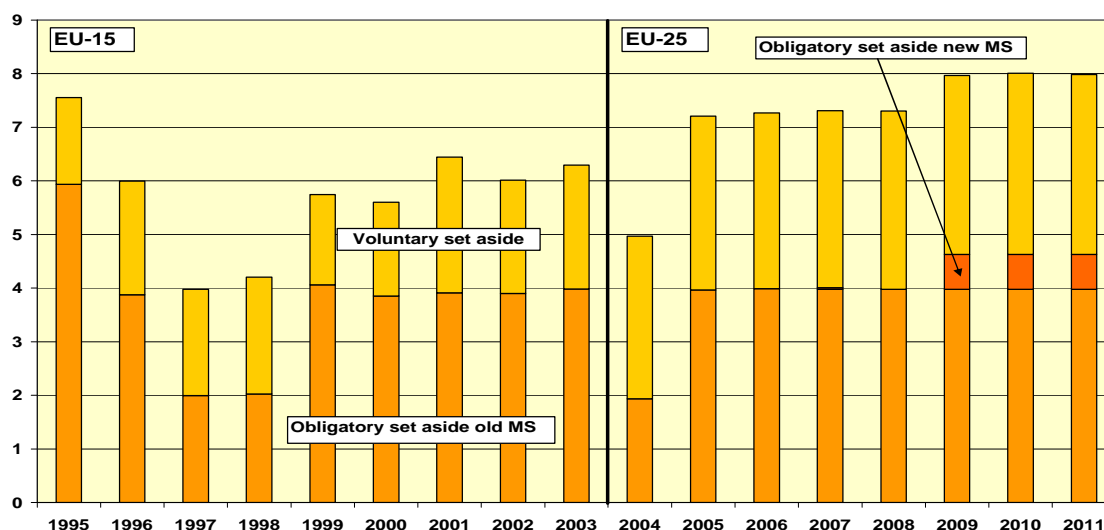
From 2005 onwards, mandatory set-aside is assumed to remain fixed at its historical level equivalent to the 10 % regulatory level. This represents some 4 mio ha in the old Member States, and will only expand marginally in those Member States which introduce decoupling at a later stage. From 2009 onwards 0.65 mio ha of mandatory set-aside would be added by the new Member States. The biggest contributors to mandatory set-aside in the new Member States should be Hungary, the Czech Republic and Slovakia. In the other new Member States, set-aside obligations would have little impact due to the exemption for small-scale farms.

Voluntary set aside is estimated to have increased from 2.3 mio ha in 2003 to 3 mio ha in 2004. From 2005 onwards, it would expand further to reach 3.4 mio ha in 2011 owing to the introduction of decoupling from 2005 and the declining profitability of arable crop production in real terms. This development would take place at the expense of rye, durum wheat and barley areas, the profitability of which would drop sharply in some regions. It is still however unclear how much additional area would be set-aside in the new Member States, given the relatively large proportion of unused arable land in some of these countries.

As a result, total set-aside area would gradually increase from 5.0 mio ha in 2004 to 7.2 mio ha in 2005 and to 8 mio ha in EU-25 by 2011. The 3 mio ha increase against 2004 would significantly contribute to the balance of cereal markets, especially for those with lower competitiveness.

⁷ An important factor influencing the medium-term prospects for oilseed production is the implementation of the biofuel directive. Especially relevant is the question if and how Member States will substantiate the directive and how many additional resources will be allocated to this sector. A complete picture could not be drawn at this time.

Graph 1.2 Development of set-aside in the European Union (mio ha)



Given the increase in set-aside land, total arable crop area (cereal, oilseed and protein crops) would decline over the medium-term from 61.1 mio ha in 2004 to 58.8 mio ha (with 50.9 mio ha of cereals, 6.5 mio ha of oilseeds and 1.4 mio ha of protein crops). This fall would be linked to the increase in mandatory set-aside, the introduction of the single farm payment and the modest development projected for the profitability of cereals, oilseed and protein crop production over the medium term.

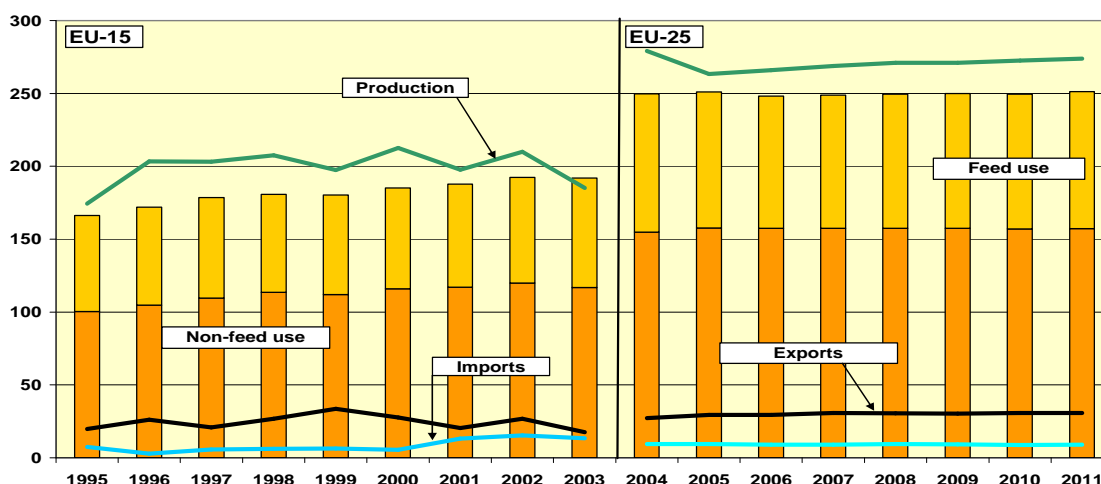
After an initial sharp drop in 2005 to 51.8 mio ha, cereal area would slowly decline to reach 50.9 mio ha in 2011 (i.e. a further 0.9 mio ha fall). Oilseed area would remain stable at 6.6 mio ha in 2005 and then slightly decrease by 0.2 mio ha to stand at 6.5 mio ha in 2011. Non-food oilseed production on set-aside land would increase from 0.5 mio ha in 2004 to 0.7 mio ha in 2005 in line with the increase in mandatory set-aside. It would then remain relatively stable over the medium term. Protein crop area in the EU-25 is projected to stabilise at around 1.4 mio ha, of which 0.2 mio ha would come from the new Member States.

1.2.3. Prospects for cereal markets

In 2003 EU-25 cereal production dropped to 230 mio t from 263 mio t in 2002 owing to exceptional weather conditions. Lower mandatory set-aside combined with more favourable climatic conditions led to sharp rebound in 2004 as total cereal harvest is estimated to have reached 279 mio t, with about 61 mio t produced in the new Member States as compared to 218 mio t in the old Member States.

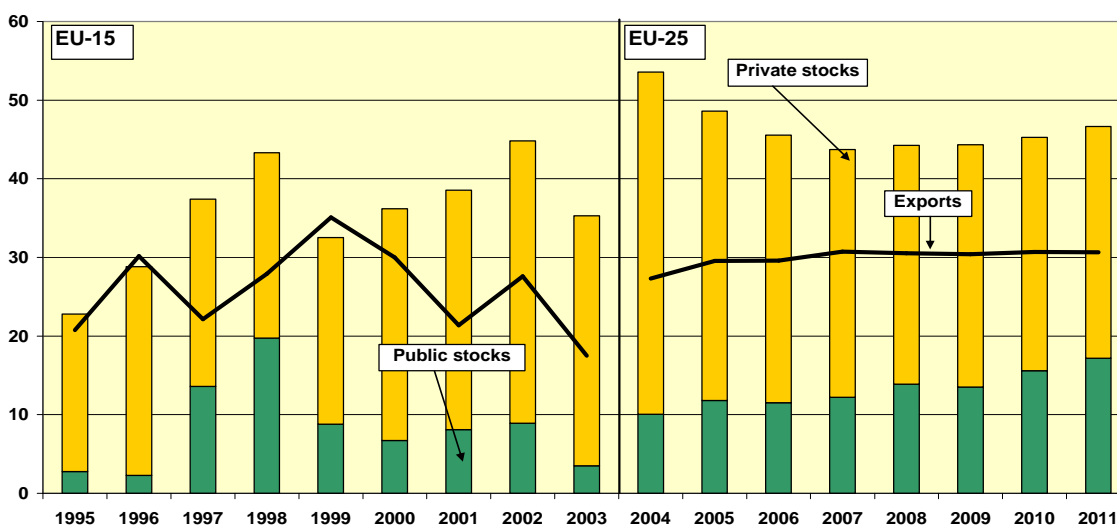
Domestic use would reach 246 mio t in 2004, which represents an expansion of 6 mio t from 2003, but only of 3 mio t against 2002. In spite of the marked decline in pig meat production, most of this expansion would materialise in feed use thanks to the significantly lower price levels than in the previous year. This would take place to the detriment of cereal substitute products (mainly manioc and corn gluten feed). In 2004 exports are foreseen to return to more normal levels, reaching 27 mio t (compared to 20 mio t in 2003 and 30 mio t in 2002).

Graph 1.3 Development in cereal markets in the EU (mio t), 1995-2011



The important harvest would enable to replenish total cereal stocks which would grow by more than 16 mio t to stand at 54 mio t, a level comparable to the 2002 situation. Though most of this stock increase would be found in private stocks, public stocks could reach approximately 10 mio t at the end of the 2004/05 marketing year, i.e. an increase of 6.5 mio t against 2003. Most of these stocks would concern barley (4.8 mio t), rye (2.3 mio t) and soft wheat (2.9 mio t).

Graph 1.4 Development in cereal stocks and exports in the EU (mio t), 1995-2011



The medium-term projections depict an outlook for the EU cereal markets that would continue to appear moderately positive for most EU cereals, with the noticeable exception of barley. However, the functioning of cereal markets in some producing regions could remain constrained by marketing inefficiencies. The latter could affect in particular the marketing of soft wheat and maize from central European countries.

The medium-term prospects for yield growth in the EU would show a more modest pattern than earlier projections suggested, with an average annual growth estimated at approximately 0.9%. In the past years, yield growth slowed down considerably and future increases in the intensive cereal production basins of the old Member States now appear more limited. However, maize yields should continue to increase substantially

throughout the EU. Some scope for further yield increase are also expected in the new Member States, which are on average at roughly half of the yield levels of the old Member States.

Box 1 The impact of different \$/€ exchange rates on the cereal sector

The euro has continued to appreciate against the US \$ for a number of months despite basic economic fundamentals that would suggest an overvaluation of the euro. Agriculture is affected by this appreciation since the costs of production rely more on domestic factors such as labour and land than in other sectors of the economy. The costs of these factors would only adjust with a significant time lag, e.g. when a new land lease contract is negotiated. In other economic sectors which are more dependent on tradable inputs, such as energy, the effects of the variability of exchange rates would not be felt as early as in agriculture as the major cost components would vary similarly as the prices of output. A high share of tradable inputs in the cost structure would tend therefore to offset parts of the negative impact of appreciation for output prices.

Since the costs of production tend to remain relatively stable in agriculture as compared to other sectors of the economy, appreciating currencies would affect competitiveness (and depreciating currencies would positively influence competitiveness) more than in other sectors of the economy. This holds in particular for land and labour based production, e.g. crops, cattle and sheep, while pork, poultry and egg production would be less influenced because a larger part of the costs stem from tradable inputs such as feed.

Another factor influencing the ability to compete on world markets are the EU price levels which are denominated in euro. The latter could vary significantly in relation to exchange rate movements when they are put in relation to world market prices. Finally, the sectors with a high share of exports or imports relative to production would be relatively more affected than those with a largely domestic base.

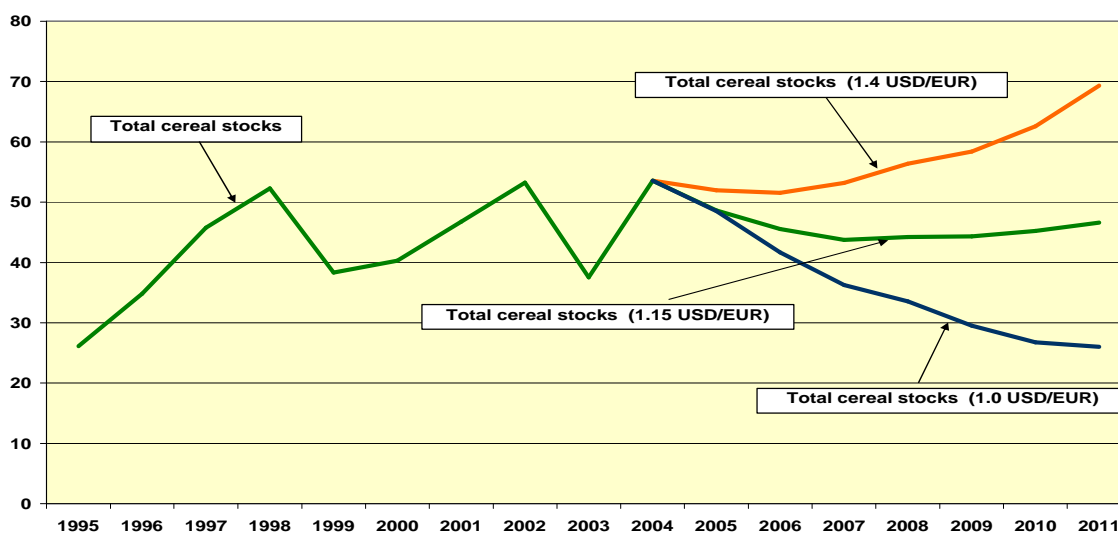
This text box aims at illustrating the sensitivity of the market projections to different assumptions on the exchange rate developments over the medium term. Therefore, in comparison to the central assumption of a medium-term exchange rate of 1.15 US\$/€ from 2006 onwards, two alternative scenarios are calculated: (1) a medium term exchange rate of parity with the US\$ and (2) a medium term exchange rate of 1.4 US\$/€

The sensitivity of cereal production to exchange rates is relatively limited when comparing the different scenarios. As compared to the baseline, the assumed parity with the US \$ would result in an increase of cereal production of around 0.5 % to 1 %. Oilseeds would benefit even more with a production increase of 6 % to 7 %. World market prices would be attractive when denominated in euro. Cereal consumption would grow by some 0.2 % to 0.3 % thanks mainly to higher feed use linked to a slight expansion of livestock production. Moreover, the overall profitability of crop production would be higher and would reduce voluntary set-aside by 0.2 mio ha.

Likewise the ability to export at competitive conditions would be improved under the parity exchange rate. In 2006 the EU would be able to increase its cereal export by 4.8 mio t against the baseline scenario. Over the medium term, the expansion in the oilseed production sector would limit somewhat the availability of cereals for the export market and total cereal exports would decline by 1 mio t as compared to baseline level.

Public stocks would be significantly reduced and would disappear also in regions with high transport costs. Stock levels in the EU would fall significantly to 25 mio t in 2011, leading to high domestic prices.

Graph 1.5 Development in total cereal stocks under different exchange rate assumptions (mio t)



Under the exchange rate conditions of 1.4 US \$/€ over the medium term, markets conditions would deteriorate as compared to the baseline and the parity assumption. Production of cereals would be -0.6 % to -0.8 % lower than in the baseline, whereas the relative decline in consumption would stand around -0.4 %. This would indicate that feed consumption and cereal-intensive livestock production would not change significantly. Oilseed production on the other hand would react more sensitively and decrease by 10 %, because cereal prices would become more attractive and imports of oilseeds would tend to substitute to domestic oilseed production. The overall crop profitability would decline and voluntary set aside would increase by 0.3 mio ha in the EU to reach 3.6 mio ha (as compared to 3.3-3.4 mio ha in the baseline).

The ability to sell on world markets at competitive conditions would however decrease and export levels would drop by 4 to 5 mio t against the baseline indicating a higher use of export refunds as compared to baseline. Public and private stocks would accumulate to stand at 70 mio t in 2011 (against a relative stabilisation of total stocks at about 45 mio t in the baseline). Public stocks would be significantly higher and could reach 35 mio t in 2011 as compared to 17 mio t in the baseline.

The projected rise in cereal yields would more than offset the decline in cereal area and entail a gradual expansion in cereal production over the medium term. After a pronounced short-term fall in 2005 at 263 mio t due to the increase in mandatory set-aside, EU-25 cereal production would resume expanding to reach 274 mio t in 2011.

Domestic consumption of cereals would exhibit a modest 5 mio t increase over the projection horizon to stand around 251 mio t in 2011. Contrary to the previous decade when it displayed a robust and sustained growth, cereal feed demand would stagnate over the next seven years at about 157 mio t. By contrast, industrial and human consumption would demonstrate a slight increase.

Several factors would contribute to the stagnation in cereal feed use:

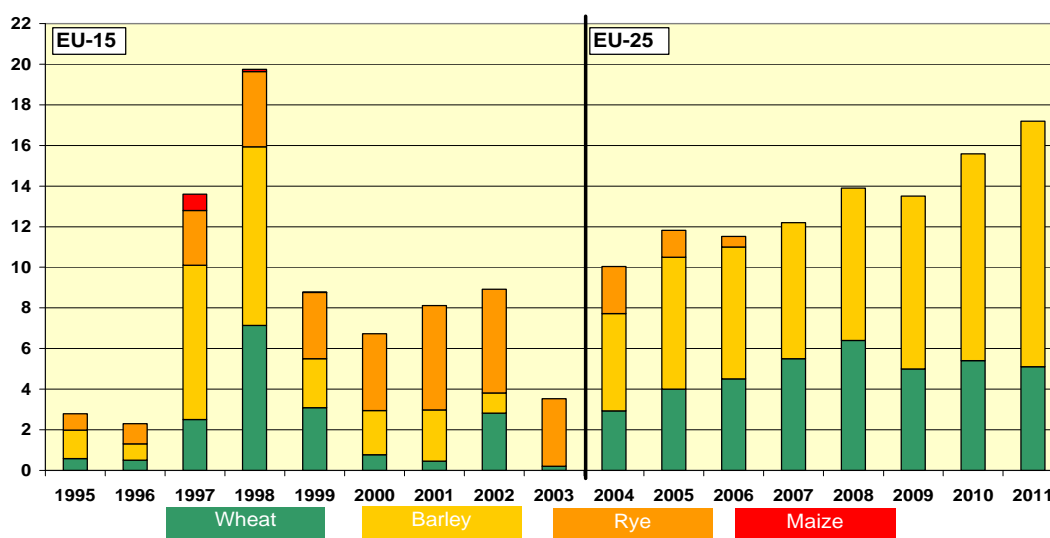
- (1) The increase in feeding efficiency will continue, in particular in the new Member States, resulting in lower feed use per ton of meat and livestock products than seen in the past;
- (2) The overall increase in white meat and egg production in the EU is projected to be lower than in the last decade. This is mainly due to increasing constraints on production in the traditional production areas of the EU and a slow down in the growth of domestic consumption. The new Member States are foreseen to significantly expand production in the medium term due to favourable production and investment conditions. This expansion however would have only a limited impact on additional cereal feed use;
- (3) Feed cereals gained competitiveness in the 1992 and 1999 reforms and largely replaced cereal substitutes. Future additional gains in cereal consumption in this respect appear more limited.

Changing price relations over the medium term would result in a significant change in the composition of cereal feed use in the medium term.

During the first half of the projection period, the impact of higher mandatory set-aside and the implementation of decoupling would combine to limit production growth and generate a gradual fall in stock levels. However total stocks would resume increasing slightly towards the end of the decade as the modest yield growth would still outpace the absorption capacity of the domestic market and the limited export opportunities. Total cereal ending stocks would then stand at 47 mio t in 2011, some 7 mio t lower than in 2004.

The gradual reallocation of stocks between private and public stocks would however provide for slightly increasing public stocks which are expected to rise over the medium term from 10.0 mio t in 2004 to 17.2 mio t in 2011. Most of these stocks would be made of barley which would suffer from significant loss of competitiveness, and of soft wheat. The appearance of maize public stocks would most probably only constitutes a temporary phenomenon, whereas rye public stocks would vanish over the medium term.

Graph 1.6 Composition of public stocks in the EU (mio t), 1995-2011



In summary, the medium-term prospects for cereal markets for the EU-25 should remain moderately positive thanks to the impact of the CAP reform and the return to higher set-aside level which, combined with more favourable conditions on world markets, should contribute to the improvement of the balance of cereal markets. Despite a worsening of the exchange rate environment in the short-term, the assumed return to a slightly weaker euro over the medium term should also help to restore a moderate level of competitiveness for cereals. Specific difficulties could only arise for coarse grains, in particular for barley, and on a regional scope for soft wheat and maize. Cereal stocks would only moderately build up leaving domestic prices under less pressure than in the short-term.

1.2.4. The perspectives for individual cereal markets

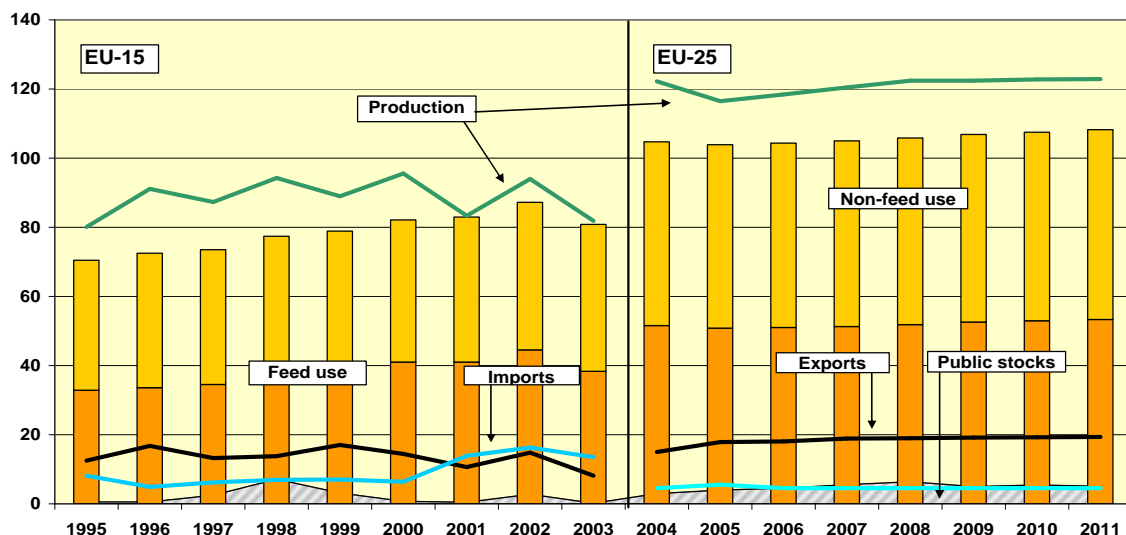
The prospects for EU wheat markets should remain relatively favourable over the medium term. After a marked fall projected for 2005, linked to the introduction of decoupling and higher set-aside, common wheat production would resume growing over the medium term to stand at 122.9 mio t in 2011 (a similar level to that of 2004) as common wheat area would benefit from the declining profitability of barley. Its competitive prices would further stimulate its domestic use, not only for feed demand, but also for industrial use. From 2007 onwards, common wheat market would benefit from supportive world markets and more than 19 mio t of common wheat could be exported⁸. With imports limited on average at 4.5 mio t, stocks would slowly increase to levels around 25 mio t, of which some 5 to 6 mio t in public stocks.

The prospects for the durum wheat sector are expected to be characterised by a decline in harvested area due the introduction of the single farm payment and the specific reduction in the level of support of the sector. As a consequence, durum wheat area would fall by approximately 6 % against 2004 to stabilise at levels close to 3.7 mio ha. Domestic consumption of durum wheat should further increase to 10.4 mio t, whereas feed use would fall to 1 mio t (against 1.4 mio t in 2003 and 1.8 mio t in 2004). The EU-25 would remain an overall net importer of durum wheat for about 0.7 to 0.9 mio t annually.

Prospects for maize markets would also remain positive over the medium term. EU-25 production would stabilise around 51 mio t, of which some 10.5 mio t would be produced in the new Member States. Marketing difficulties (high transport costs) are projected to largely separate maize deficit regions in the Western parts of the EU from the maize surplus regions in the Eastern parts of the EU. They would also constrain export possibilities so that price expectations in the Eastern surplus regions would be lower than previously anticipated. As a consequence, the projected production surplus in the new Member States would gradually decline as production would stagnate at 10.4 mio t while feed use increases. The EU-25 would export some 2.7 mio t of maize on world markets whereas 3 mio t would still be imported in the Western and Northern parts of the EU.

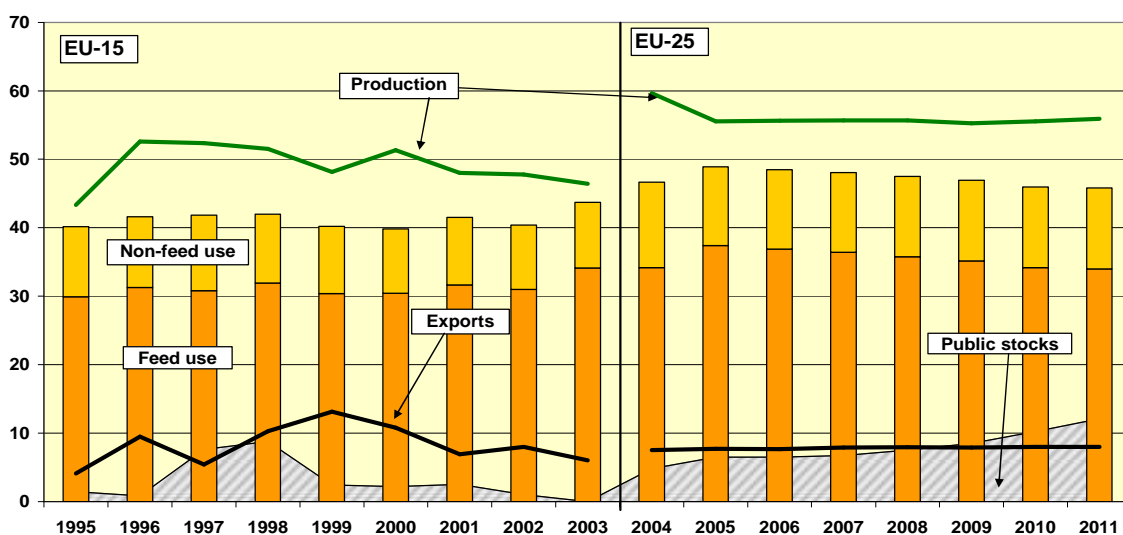
⁸ The projections for cereal exports remain conditional upon the assumption of the full use of the URAA limits.

Graph 1.7 Development of soft wheat markets in the EU (mio t), 1995-2011



The market prospects for barley are projected to be more difficult as the adjustment potential of the EU market should remain largely constrained by the relatively high support price of this cereal. Over the medium term, production would stagnate around 55-56 mio t owing to the limited profitability prospects of this cereal. Barley would also lose competitiveness on the feed market against feed wheat and maize so that total fed use of barley would fall by more than 3 mio t to 34 mio t in 2011. A stagnating production combined with a declining domestic demand and constrained export opportunities of about 7-8 mio t would generate an accumulation of stocks, with public stocks reaching 12 mio t in 2011.

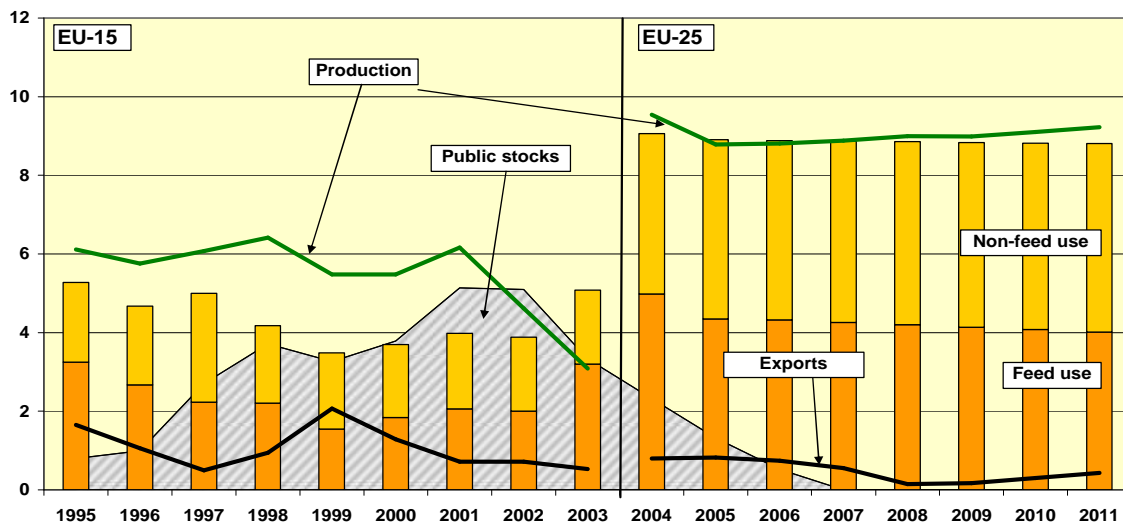
Graph 1.8 Development of barley markets in the EU (mio t), 1995-2011



Limited adjustments are expected over the medium term in the rye sector as producers largely anticipated the implementation of the CAP reform decisions with a drastic reduction in rye area over the most recent years. However, the high level of rye intervention stocks that would still exist at the end of the 2004/05 marketing year (2.3 mio t) would weigh heavily on the short-term prospects for the rye market. As these public stocks are assumed to be gradually released on the domestic and external markets over the next three years, producer prices would remain under substantial pressure over

the short-term. As a result, rye area would fall further from 2.8 mio ha in 2004 to 2.7 mio ha in 2006. Over the longer run, the export market will increasingly clear a domestic market characterised by a stagnant domestic use (linked to declining feed use) and a slightly increasing production fuelled by yield growth.

Graph 1.9 Development of rye markets in the EU (mio t), 1995-2011



1.2.5. Oilseeds

The medium-term prospects for EU oilseed market are expected to be supported by productivity increases and the favourable developments projected for the world markets (fuelled by continuous positive trends for global demand of vegetable oil). These perspectives would nevertheless remain conditional on the US\$/€ exchange rate as the recent strengthening of the euro is constraining the profitability of oilseed production in the EU.

Total food oilseed area, which bottomed out in 2002 at 6.3 mio ha, and increased to 6.9 mio ha in 2004 is foreseen to stagnate at around 6.6 mio ha over the medium term. About 1.9 mio ha of oilseeds would be grown in the new Member States. The set-aside obligation in the new Member States would further reduce oilseed area by 0.2 mio ha from 2009 onwards. The transmission of supportive world market conditions to EU domestic markets would trigger a slight expansion in oilseed area from 2009 onwards. On the basis of the assumption that the current energy and tax policies in Member States remain unchanged over the medium term, total non-food (energy) oilseed area would stagnate at around 0.7 mio ha on set-aside land.

After a short-term fall in 2005, total food oilseed production in the EU-25 would display a slight increase over the medium term to reach 19.1 mio t in 2011. Non-food oilseed production on set-aside land is projected to expand from 2.2 to 2.4 mio t over the medium term.

Despite the projected moderate increase in oilseed production, the EU will continue to remain a large net importer of oilseeds (notably of soybeans and sunflower seed) in order to meet a total domestic demand of around 39 mio t.

1.3. Meat and livestock

1.3.1. Beef and veal

In recent years the EU beef and veal market has been strongly influenced by the BSE scares and by the measures that were taken in response to these crises. It is estimated that in the period between 1996 and 2004 more than 8 mio animals were withdrawn in the framework of the slaughter schemes and around 6 mio calves were subject to emergency supply-side schemes⁹, in an effort to keep supply as close as possible to falling consumption.

The impact of these measures reinforced the structural reduction of the EU cattle herd due to the constant reduction of the dairy herd linked to the joint effect of constant milk quotas and increasing milk yields¹⁰. Suckler cow herd, which strongly developed during the nineties, has been slightly declining since the year 2000, as the Agenda 2000 CAP reform introduced more stringent stocking density constraints. Since then the number of suckler cows has decreased by around 0.5 mio heads which, cumulated with the structural decline of the dairy herd, has brought the total cow herd down by more than 2 mio animals in 4 years. All these factors had a profound impact on beef production which decreased by nearly 10 % between 1999 and 2003.

After an expected further reduction in 2004, beef production is projected to increase somewhat in the short term, following the assumed phasing out of the Over Thirty Months Scheme (OTMS) in the UK from the beginning of 2006¹¹ and given a limited de-stocking of breeding animals linked to the introduction of decoupling of beef direct payments in 2005. In this respect, the introduction of the decoupled single farm payment is expected to have a significant impact on the beef sector. Combined with a relative slight increase in cereal feed prices, it is projected to reduce the incentives toward intensive beef production system and reduce production from unprofitable production systems, generating an overall reduction in EU beef production¹². Over the medium term beef production is therefore expected to decrease to around 7.8 mio t by 2011, a reduction of more than 360 000 tons from the peak expected for 2006.

EU beef consumption almost fully recovered after the second BSE scare and in 2003 consumption was higher than production for the first time in more than 20 years. This market development, which is expected to persist over the whole 2004-2011 period, allowed for the clearing out of intervention stocks during 2004.

⁹ Furthermore the culling linked to the outbreaks of Foot and Mouth disease (FMD) in the UK and to a much lesser extent in the Netherlands, France and Ireland in 2001 concerned around 850 000 cattle, essentially in the UK.

¹⁰ It is estimated that between 1990 and 2004 the EU dairy cow herd decreased by nearly 30%.

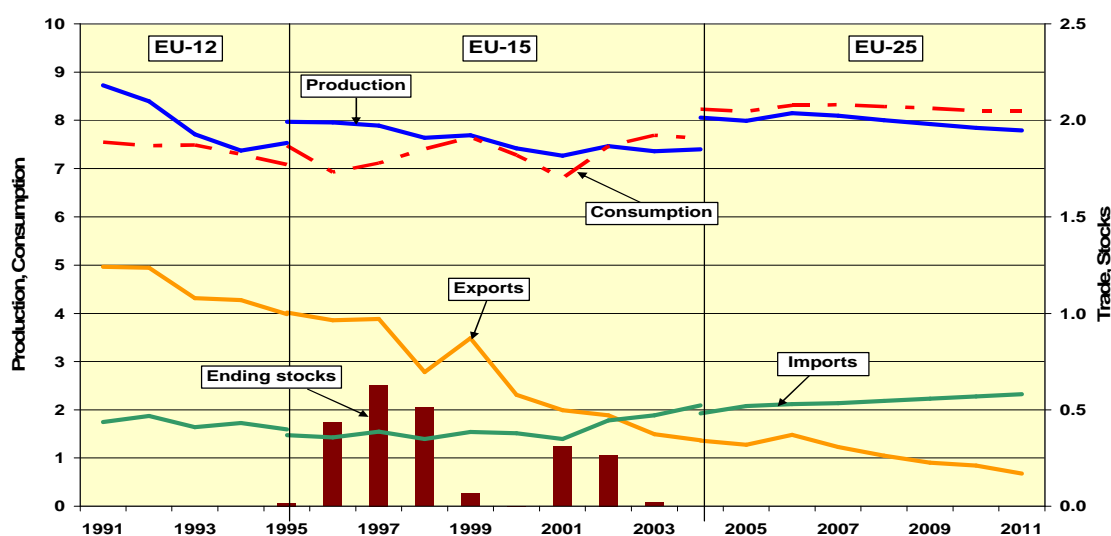
¹¹ On the 1st of December 2004 the UK Government announced the start of a managed transition towards the lifting of the OTM rule for animals born after the reinforced feed ban in August 1996 and its replacement with a system of testing of cattle for BSE. Any changes in the domestic OTM rule are unlikely to come into effect until the latter half of 2005, meaning that beef from over-thirty months' animals would possibly enter the food chain only in 2006.

¹² For more information on the impact of the CAP reform on beef production see European Commission, Directorate General for Agriculture, *CAP reform - medium-term prospects for agricultural markets and income in the European Union 2003-2010*, December 2003, Brussels

The enlargement of the EU is not projected to influence to a great extent these projections as the new Member States only contribute for around 8 % to the EU-25 beef and veal production and 7 % of EU-25 consumption. Beef production in the new Member States originates almost completely from the dairy herd. Even if a limited growth in suckler cow numbers was observed in the past few years, this is expected to remain a limited share of total beef herd (below 5 %) throughout the projection period.

Beef and veal consumption in the new Member States is projected to remain rather stable at low level¹³ over the medium term as the potential increase fuelled by rising income level would be broadly offset by the sustained price increase¹⁴ for beef linked to enlargement and the low consumer preference for beef.

Graph 1.10 Outlook for the EU beef market (mio t), 1991-2011



A tight domestic supply and a steady demand are projected to keep prices at a relatively high level, attracting more imports entering at full duty, notably from South America. Total beef imports are expected to reach 0.6 mio t by the end of the projection period. Extra-EU25 exports will be more and more constrained by low domestic availability and lower competitiveness¹⁵ and are projected to continue their declining trend, down to 170 000 tons by 2011.

1.3.2. Pig meat

After the increase of 2003, EU-25 pig meat production is expected to decrease in 2004 due to the strong contraction of the pig herd in the new Member States¹⁶. Over the

¹³ During the last ten years beef consumption fell dramatically in the new Member States (up to 50 %) in line with the strong reduction in beef production.

¹⁴ Beef market prices have increased substantially in the new Member States upon enlargement, with increases ranging between 10 and 50 %. It is expected that the tight market within the EU could result in firm prices throughout the projection period.

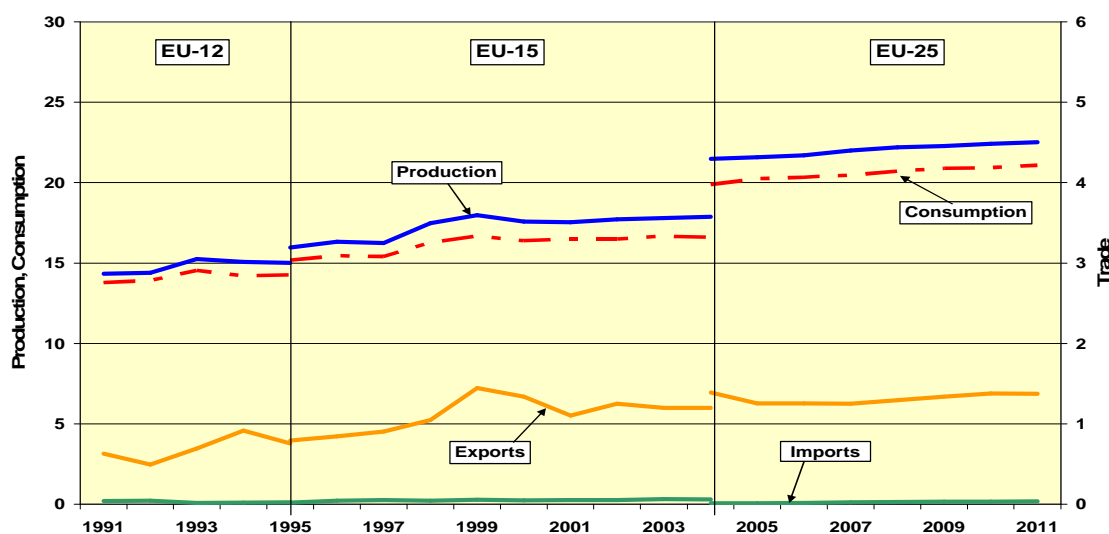
¹⁵ High domestic prices and a strong euro are expected to weaken further the competitiveness of EU beef exports.

¹⁶ Pig farmers in the new Member States were strongly affected by the low prices of 2002 and 2003 and their herd decreased by more than 10% in 2 years (with breeding sows down by more than 15%).

medium term pig meat production, which is assumed to be driven mostly by demand (internal and external), is expected to increase but at a slower rate than in the nineties, due to the competition of poultry meat which is foreseen to capture most of the increase in overall meat consumption. EU25 pig meat production is projected to reach around 22.4 mio t by 2011.

The medium and long-term outlook for pig meat consumption is, in general, positive since pig meat is likely to continue to be favoured by consumers, although clearly less than poultry. Per capita pork consumption is projected to increase from 44.5 kg/year in 2003 to 45.5 kg/year by 2011, with a marked increase in the new Member States (supported by sustained economic growth).

Graph 1.11 Outlook for the EU pig meat market (mio t), 1991-2011



The contribution of the new Member States is more relevant for pig meat, which represents slightly less than 20 % of EU-25 pig meat production and consumption. Since the enlargement producer prices have been steadily growing in the new Member States and are currently above the EU-25 average.

The strong increase in pig meat exports of 2004¹⁷ is expected to be followed by a return to more normal exports levels in 2005. Over the medium term there is a scope for a slight increase in extra-EU25 exports, while the intra community trade is projected to show strong developments.

1.3.3. Poultry

Poultry production has been gradually recovering after the outbreak of avian flu in the Netherlands during spring 2003, which reduced EU production in 2003 by more than 2 %.

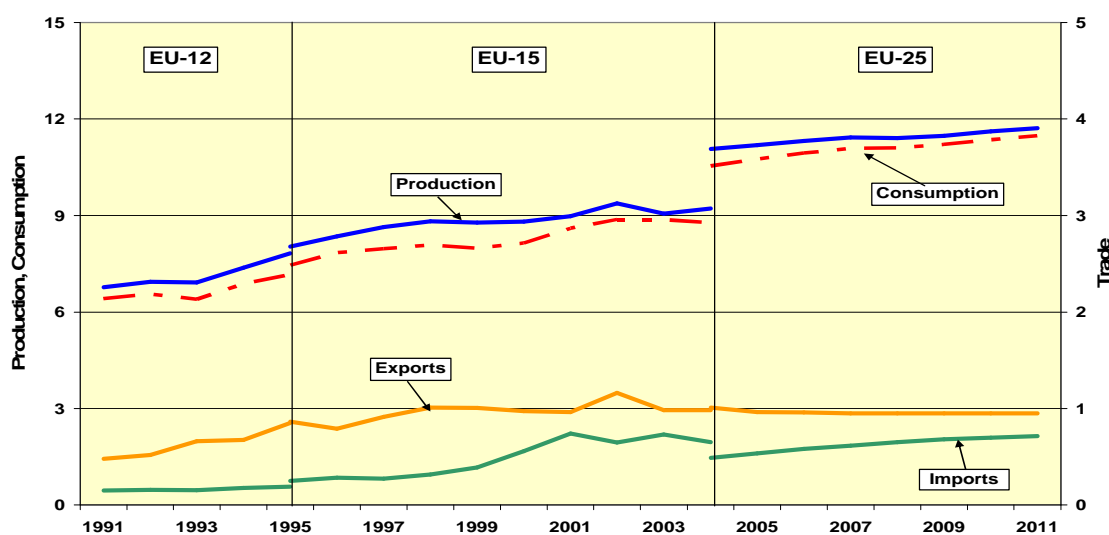
The medium-term outlook for poultry production is relatively positive as competitive prices with respect to other meats, strong consumer preference and increased use in food

¹⁷ Japan introduced a ban on US beef after the appearance of BSE in December 2003. As a consequence, Japanese pig meat consumption and imports strongly increased, with a beneficial effect for EU exports (pig meat exports from the EU-15 increased by more than 10% in 2004).

preparations should continue to play in favour of poultry. Per capita consumption is projected to increase from around 23 kg/year in 2003 to about 24.8 kg/year by 2011, with a steeper growth in the new Member States.

The growth rate for both production and consumption are expected to be lower than in the nineties, in line with the slow down observed in most recent years (1999-2004), when production only grew on average by 1.9 % per year as compared to average growth rates of 2.3 % per year over the period 1995-1998.

Graph 1.12 Outlook for the EU poultry meat market (mio t), 1991-2011



Poultry imports, which have strongly increased between 1997 and 2001, are projected to decrease sharply in 2004 following the impact of avian flu on South East Asian poultry exporters (e.g. Thailand, which is the second largest poultry exporter to the EU) and of improved custom controls on salted meat. Imports are however expected to resume growing over the longer term, with increased imports of frozen fillets and mainly cooked and processed poultry meat, which are gradually replacing the imports of salted poultry meat.

Extra EU-25 poultry exports are projected to stagnate in line with strong competition on the world markets by low cost producers and unfavourable US\$/€ and Brazilian Real/€ exchange rates¹⁸. The slow down in extra-EU-25 poultry imports observed since 2002, which has been partially replaced by an increase in intra-EU25 imports, notably from the new to the old Member States, has led to a substantial revision of our previous projections, which envisaged the possibility for the EU to become net importer of poultry meat.

1.3.4. Consumption eggs

In recent years egg production has seen increasing investments in some regions of the EU. Production of consumption eggs peaked in 2001 at 6.35 mio t and then slowly declined during the three following years. Production is expected to resume growing from 2005 onwards to reach 6.2 mio t in 2011. Whereas production growth would be

¹⁸ It has been assumed that, after the sharp devaluation of the last few years, the Brazilian Real would gradually depreciate by a further 30 % between 2004 and 2011.

constrained in some old Member States by higher production costs and lower margins, it is expected to gather pace in the new Member States thanks to relatively favourable production conditions related to a good environment for investment, proximity to important consumer markets –currently supplied by a high production cost sector- and a strong domestic market.

Egg consumption would increase over the medium term due to higher income and changes of dietary patterns in some regions of the EU. Consumption would stand around 6.2 mio t in 2011. Imports would remain relatively constant at 30 000 t, while exports would gradually decline to 90 000 t in 2011.

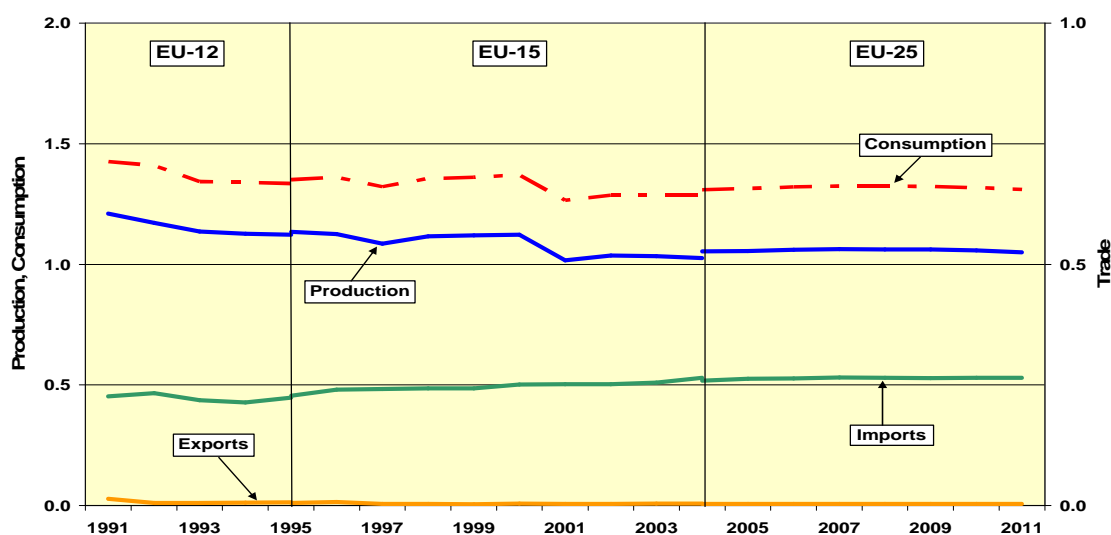
1.3.5. Sheep and goat meat

The weak recovery in sheep/goat production after the Foot and Mouth Disease epidemic of 2001 was halted by the draught of 2003 and its severe impact on pasture availability.

A slight downward trend both for production and per capita consumption is expected over the medium term, in line with past long-term trends and taking into account the potential impact of decoupling of ewe premiums in major producing countries (UK¹⁹, with 30% of EU production, and Ireland have chosen to fully decouple ewe premiums while other key players like Spain, with 25% of EU production, and France are expected to keep a part of these payments coupled to animal numbers²⁰).

Production and consumption of sheep and goat meat in the new Member States are very small and not projected to develop over the medium term. Sheep and goat meat imports are foreseen to increase slightly in response to a somewhat better use of market access commitments granted to some third countries.

Graph 1.13 Outlook for the EU sheep and goat meat market (mio t), 1991-2011



¹⁹ According to the Meat and Livestock Commission (UK) the ewe premia represents on average 30 % of gross margins of sheep farms.

²⁰ Within defined national ceiling.

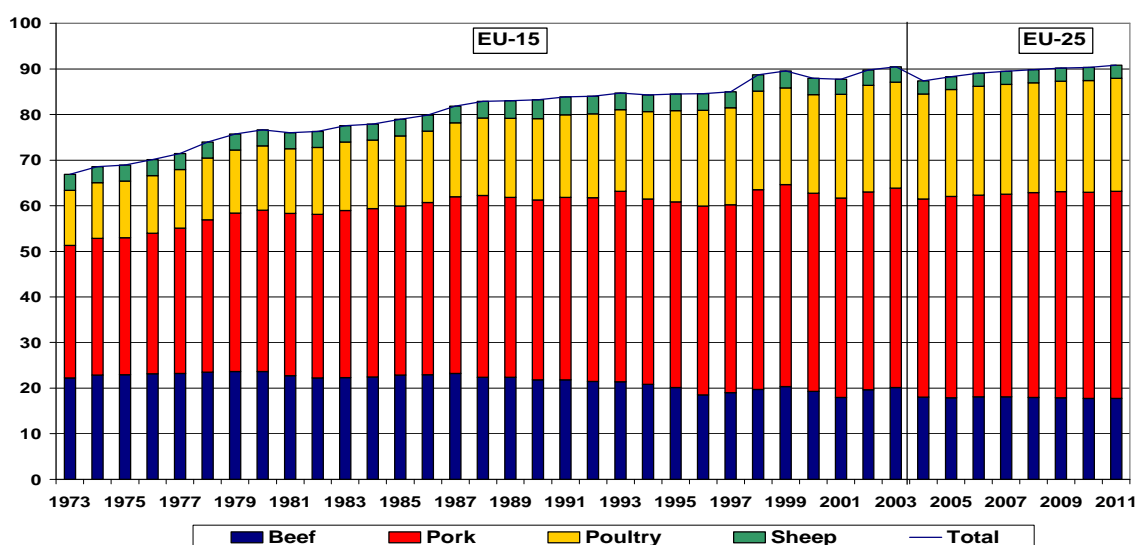
1.3.6. Overall meat consumption

Compared to the 1996 crisis which led to a short-term stability in total meat consumption, the 2000/2001 BSE scare caused a much more marked reduction in EU beef consumption (-12 %), resulting in an overall reduction in meat consumption of 2 %. Both pig and poultry were in a low production phase and were not ready to fully benefit from the drop in beef consumption.

In terms of overall per capita meat consumption the 2004 enlargement to 10 new Member States results in a reduction of the total EU-25 meat per capita consumption. Much less beef is consumed in the new Member States (8 kg/head compared to nearly 20 kg/head in the EU15 in 2004). Beef and veal consumption in the new Member States is projected to remain rather stable at low level as the possible increase due to the rising income level would be broadly offset by the strong price increase linked to the enlargement and the low consumer preference for beef. Pork and poultry consumption levels in the new Member States are comparable to those of the old Member States. Pig meat is by far the preferred meat in the new Member States, where it represents on average nearly 60 % of total meat consumption. On the contrary sheep and goat consumption remains at extremely low levels with less than 300 grams per head per year²¹.

The following graph shows the evolution of per capita meat consumption in the EU over the period 1973-2003²² and presents the medium-term projections for the years up to 2011.

Graph 1.14 Meat per capita consumption in the EU, 1973 – 2011 (kg/head)



As it can be seen from this graph, there is a long-term trend towards higher per capita consumption of meat that slowed down at the beginning of the 1990s. The large increases in meat consumption in 1998 and 1999 and in 2002/2003 appear to be in contradiction with the view that meat consumption, in general, is saturated.

²¹ Sheep and goat consumption is higher in the islands of Malta and Cyprus.

²² All figures before 2004 are referring to EU 15. In order to allow a graphical long-term view, the EU 15 figures for the years before 1995 have been recalculated as weighted average of figures available for EC9, EC12 and the individual country figures for Austria, Sweden and Finland.

The forecasts for overall EU meat consumption that are presented in this document have been established without imposing any overall constraints and reflect the projected evolution for the individual types of meat as presented above. According to these projections by individual sectors, total meat consumption in the EU-25 is set to increase from 87.4 kg/head in 2004 to around 91 kg by the year 2011.

Pig meat, with a share of about 50 % is by far the most preferred meat by EU consumers, followed by poultry, with a share of around 26 %, which has overtaken beef/veal since 1996. The projections up to the year 2011 imply a further consolidation of poultry consumption with corresponding decline for the other types of meat.

1.4. Milk and dairy products

1.4.1. Milk

Milk production in the EU broadly follows the milk reference quantities, first introduced in 1984 to limit excess milk production. The increasing milk yields linked to improved genetics and feeding together with fixed production levels (limited by quotas) allowed for a dramatic reduction of the dairy herd, which shrunk by around 40 % in 20 years.

Fat content increased as well for all Member States and has reinforced the trend towards lower number of dairy cows, as the increase in fat content reduces the margin for milk deliveries to dairies if the historical reference fat content is exceeded. A stabilisation in fat content (and even a slight decrease in some Member States) has been observed in the past few years, as producers responded to the price signals sent by the dairy processors, who required less fat and more proteins²³. Technical progress concerning protein content in milk has been less remarkable, with protein content growing slightly and reaching 3.35 % in 2003.

According to the provisional estimates for the milk quota year April 2003/March 2004, milk deliveries exceeded by 0.5 mio t the total EU reference quantities for deliveries (representing a 0.45 % overshoot). The lower overshoots observed in 2000-2003 compared to the previous years is partly attributed to the fact that milk reference quantities for certain Member States were increased in the years 2000 and 2001 as part of the Agenda 2000 CAP reform decisions.

Over the projection period, milk production in the EU-25 is expected to broadly follow the evolution of the milk reference quantities, with total production close to 145 mio t by 2011. Milk deliveries are assumed to fully respect the milk reference quantities, in line with increasing quotas as from 2006, as well as ongoing enhanced enforcement in Member States responsible for most of past overshoots and the underlying micro-economic rationale which makes it unprofitable to produce an extra litre of milk when the *superlevy* (associated fine) is higher than the price of milk²⁴.

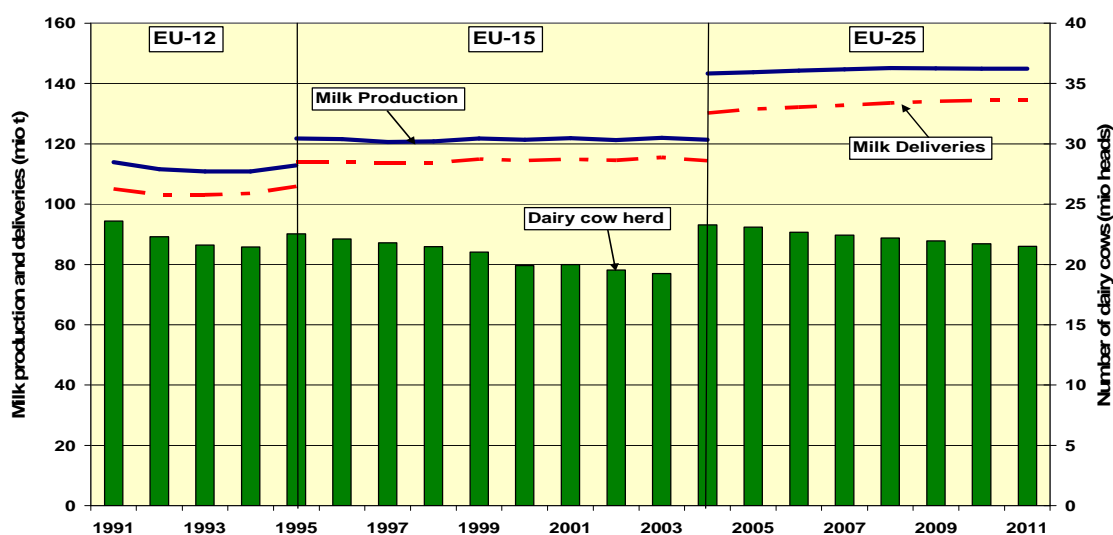
²³ However, preliminary statistics for the calendar year 2004 have shown a marked resumption in the growth rate in fat content, as quantities of milk delivered to dairies remain below quota level in many Member States and the margin for delivering more fat content increases.

²⁴ To have an order of magnitude of the impact of a possible overshoot in milk deliveries, please refer to the box 2 (*Milk quota overshoots: sensitivity analysis*)

In the old Member States production remains closely linked to milk quotas, as on farm consumption (which is not governed by quotas) only plays a minor role. The quota increases decided within the 2003 CAP reform are likely to slow down somewhat the long-term decline of the dairy herd. Assuming a further increase in milk yields of around 1.5 % per year on average over the forecast period, the number of dairy cows in the old Member States is projected to decline from 19.3 mio animals recorded in 2003 (December survey) to around 17.5 mio animals by the year 2011.

On-farm use of milk and direct sales are still very important in the new Member States, accounting for more than 20 % of total production. Over the projection period, subsistence production is expected to gradually decline due primarily to the projected positive development of rural economies and social security systems after enlargement, which should provide viable economic alternatives to subsistence farmers. These developments are expected to offset the foreseen milk quota increases in the new Member States. For the 10 new Member States total milk production, i.e. subsistence and market production, would remain relatively stable at approximately 22 mio t. Market production in the new Member States however would increase according to the quota increases agreed upon in the accession Treaty.

Graph 1.15 Outlook for the EU milk production, deliveries and dairy herd, 1991-2011



Average milk yield in the enlarged European Union is expected to reach 6.7 t/year in 2011 compared to the 5.9 t/year in 2003 (with yields more than 30 % lower in the new Member States, though projected to grow at a faster pace than in old Member States).

Box 2 Milk quota overshoots: sensitivity analysis

Since their first publication in 1996, these medium term perspectives were based on the assumption that future milk deliveries would respect quota level throughout the whole projection period. This assumption contrasted with historical data which showed a more or less regular overshoot in milk deliveries (cf. table 1.2).

Table 1.2 Summary of quota overruns on milk deliveries, 1995-2004 ('000 t)

	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	Average 1995-2004
Deliveries overrun	1218	1226	1240	1147	1058	819	775	853	1078	1046
Compensated overrun*	866	863	1045	932	943	-17	469	482	532	679

* When subtracting sub-uses.

On the other hand the projected future respect of quota level can also be explained by the impact of the 2003 CAP reform (with an increase in quota foreseen for the period 2006-2009 and the cut in support price for butter and SMP which will decrease the production incentives), the ongoing enhanced enforcement of the milk quota system in Member States responsible for most of past overshoots and the underlying micro-economic rationale which makes it unprofitable to produce an extra litre of milk when the *superlevy* (associated fine) is higher than the price of milk. For all these reasons the medium term prospects published in this report will continue to assume a perfect respect of quotas over the whole projection period.

However, in order to better evaluate the potential impact of a possible overshoot of reference quantities, a simulation has been carried out assuming a yearly overrun of 0.8 mio t of milk reference quantities over the period 2005-2011 (i.e. greater than the average overshoot of the last decade). All others assumptions and parameters were left unchanged and results compared to the medium term projections presented in this section (c.f. Table 1.3).

The additional 0.8 mio t of milk (i.e. around 0.6 % of total EU milk production) are expected to result in an increase in production of the main dairy products ranging from a mere 0.1% increase for WMP to up to 3.2% for SMP. In relative terms, bulk products like butter (+0.8 %) and SMP (+3.8 %) would increase more than higher value-added products like cheese (+0.5 %), in line with their role as residual, directly supported products. However the biggest part of the additional milk availability would be absorbed for the production of cheese (around 30 % of milk) and butter (nearly 40 % of additional deliveries).

Table 1.3 Summary impact of an annual quota overshoot of 0.8 mio t (deviation from baseline in 2011 in %)

	Cheese	Butter	SMP	Milk
Production	0.5%	0.8%	3.2%	0.6%
Consumption	0.1%	0.1%	1.7%	-
Exports	5.9%	6.1%	10.2%	-
Price	-0.8%	-0.9%	-1.5%	-1.5%

Increasing production of dairy products is expected to exert pressure on prices, with SMP prices 1.5 % lower than in the baseline in 2011 and butter and cheese prices projected to decrease by 0.9 % and 0.8 % respectively.

Lower prices would have a positive impact on consumption, which is foreseen to increase by around 1.7 % in the case of SMP, whereas butter and cheese consumption show a more modest increase.

Increased availability of cheaper dairy products would allow for more exports than those projected in the baseline (butter and SMP exports were projected to decrease in the baseline in line with the contraction in their production). SMP exports are expected to be on average 9 % higher than in the baseline, while butter and cheese exports would rise by 4 % and 5 % respectively against the baseline on average over the whole 2005-2011 period.

Butter intervention stocks may not clear out completely as projected in the baseline, and stabilise at around 40 000 t over the forecast period.

The above mentioned changes are expected to have a negative overall impact on the price paid to milk producers, which is projected to be 1.5% lower than in the baseline, but still well above the level previously known as “target price”.

1.4.2. Cheese

Over the last 20 years, the EU cheese sector has been characterised by a strong and steady growth, both for production and consumption. Between 1990 and 2003 cheese production increased by nearly 30 %, with per capita consumption growing at a rate of 1.5 % per year on average. Cheese production is concentrated in 4 Member States (Germany, France, Italy and the Netherlands, which represent more than 75 % of EU cheese production) and absorbs more than 40 % of EU milk deliveries²⁵. Intra-EU cheese trade also increased by more than 30 % between 1990 and 2002.

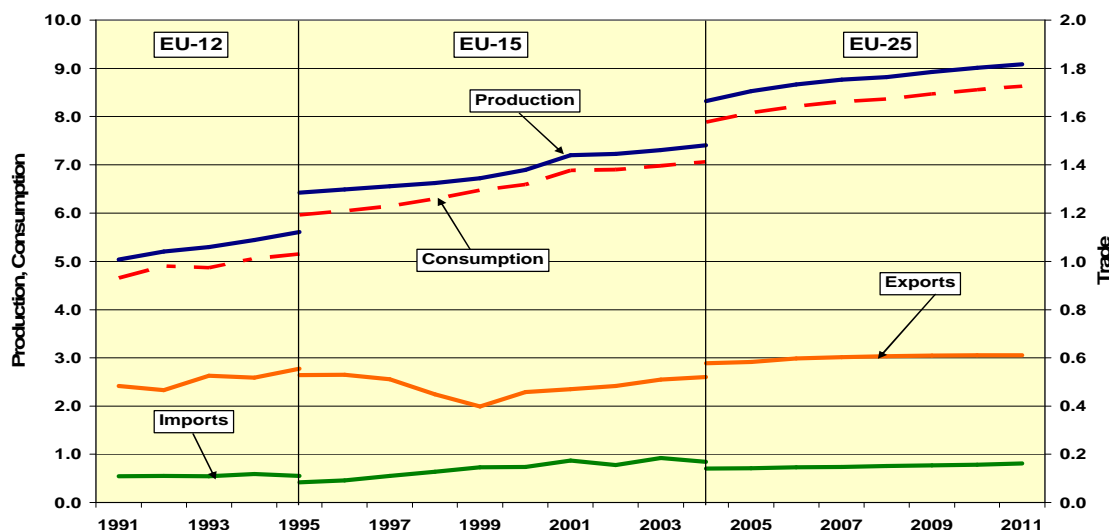
Record increases in cheese production in 2000 and 2001 (more than 6% in 2 years) were followed by a slow down²⁶ in 2002 and 2003, which was reflected in more milk being channelled into bulk products like butter and SMP. Available statistics for 2004 show a marked increase in cheese production, confirming a recovery in cheese consumption and exports, in line with the expected rebound in the EU and world economic growth.

The medium and long-term outlook for the EU-25 cheese consumption is in general positive, although the rate of increase is expected to be lower than in past years, notably for the old Member States, with per capita consumption in the EU-25 rising from 17 kg in 2003 to about 18.6 kg by 2011. This increase will be faster in the new Member States where cheese consumption is projected to grow by more than 30 % over the projection period, in line with increasing disposable income and expected changes in dietary patterns towards branded dairy products and processed food products (where cheese is an important ingredient).

²⁵ The French organisation *Institut de l'élevage* estimates that cheese production in 2002 absorbed 42 % of protein and 35 % of fat content of EU deliveries.

²⁶ A clear correspondence between the increase in cheese consumption in 2000-2001 and the dramatic decrease in beef consumption due to the BSE scare has not been proved. However, even if the recovery in beef consumption corresponded also to a slow down or even a stabilisation in cheese consumption, other factors like a less favourable economic environment may have played a role in the slow down in cheese consumption growth.

Graph 1.16 Outlook for the EU cheese market (mio t), 1991-2011



The steady growth in domestic consumption is expected to absorb most of the increase in cheese production, limiting somewhat the growth in cheese exports, which are projected to stabilise above 600 000 t. The majority of cheese exports are expected to be exported without export refunds in view of the increased competitiveness of EU cheese due to the projected price decrease following the implementation of the CAP reform as well as thanks to increased world demand towards high value-added, branded, European cheeses.

1.4.3. Butter

The slow down in cheese production growth of 2002 and 2003 resulted in more milk being channelled into butter production (creating a situation of weak prices and relatively high intervention stocks). Available statistics for 2004 show a contraction in butter production as more milk is being used for the production of cheese and other high value-added dairy products, responding to a strong increase in consumption for these products. This is also due to slightly lower milk deliveries compared to previous years and to the first step of the reduction in butter intervention price decided under the 2003 CAP reform that reduces the attractiveness of intervention purchases of bulk dairy products. Upon enlargement it has been observed that, contrary to what many expected, only a slight increase in butter production took place, and up to the end of October 2004 no quantities were offered into butter intervention. Additional milk production in the new member States was principally directed towards products like cream, which were in strong demand in the old Member States, notably Germany. Butter prices in the new Member States increased by around 10 % on average in the first four months after enlargement.

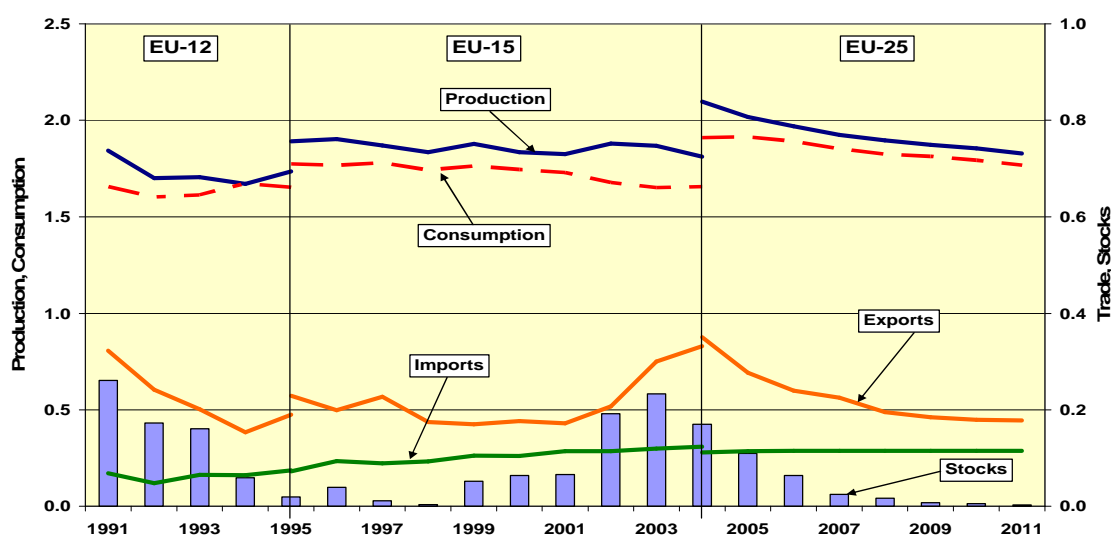
Butter production is projected to continue to decrease over the medium term in response to lower market and intervention prices. The quota increases decided for the period 2006/07-2008/09 are not expected to change this downward trend as the production of other dairy products is projected to absorb most of the additional deliveries.

Butter consumption still tends to decline despite some signs of stabilisation which were observed in recent years. A growing share of butter benefits from aid to consumption (e.g. butter destined to the pastry industry), rising from 20 % in the beginning of the nineties to nearly 30 % nowadays. Projections for per capita consumption are set at around 3.8 kg by 2011, compared to the current level of about 4.2 kg (3.3 kg in the new Member States), i.e. -1.1 % per year on average, in line with the expected reduction of the

aid to butter consumption in the framework of the implementation of the 2003 CAP reform.

EU-25 butter exports increased in 2003 and during most of 2004 in response to increasing world butter demand and lower product availabilities in other major exporting countries. Butter exports, which are expected to continue to rely on export subsidies, are however projected to decrease over the medium term, in line with decreasing EU butter production, to the benefit of other exporters like New Zealand and Australia. Imports, most of which fall within the New Zealand import quota (76 700 t), are projected to grow slightly over the medium-term, in line with increased market access in the framework of preferential trade agreements.

Graph 1.17 Outlook for the EU butter market (mio t), 1991-2011

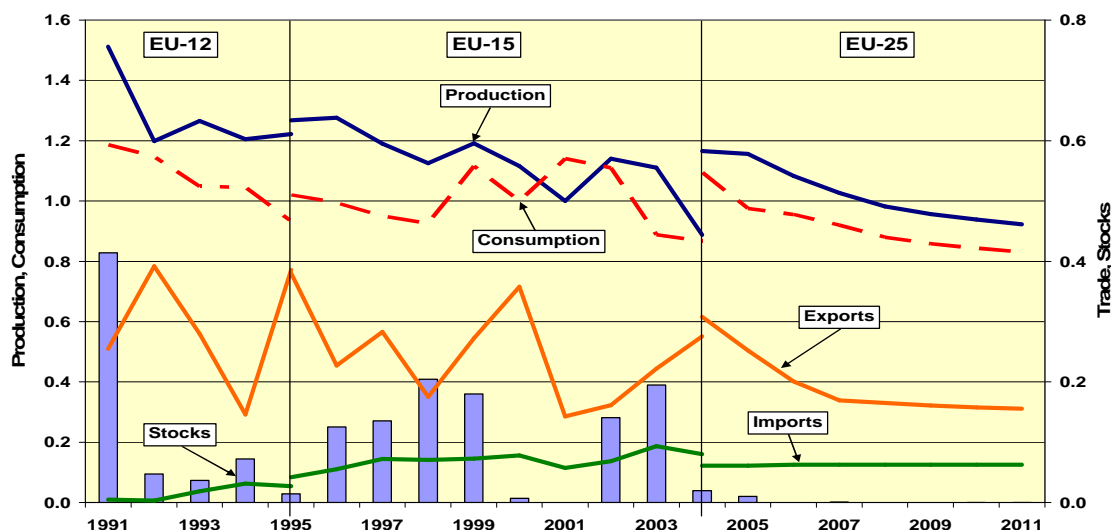


The projected balance sheet for butter shows that decreasing production resulting from the lower attractiveness of butter should ease somewhat the pressure on intervention stocks, which are expected to continue to decrease in the next few years. Domestic prices are projected to decrease substantially following the introduction of the support price cut of the 2003 CAP reform and to stabilise at a level above support level as supply decreases at a faster rate than consumption. The gap between domestic price and world market prices is therefore projected to remain substantial and will not allow for exports to take place without export refunds.

1.4.4. Skimmed milk powder

The long-term downward trend in SMP production was interrupted in 2002 and 2003, in response to lower cheese production. Available statistics for 2004 show a dramatic fall in SMP production, as more milk proteins are being channelled to the production of cheese and other high value-added dairy products. The lower milk deliveries of 2004, the impact of the first step of the reduction in SMP intervention price decided under the 2003 CAP reform and the decrease in SMP production as by-product of a decreasing butter production may explain this contraction. Germany and France produce more than 55 % of total EU SMP production.

Graph 1.18 Outlook for the EU SMP market (mio t), 1991-2011



Over the medium term the downward trend for both production and consumption of SMP should continue as growing production of higher value-added dairy products will absorb an increasing share of EU milk. SMP aided consumption²⁷, which still represents nearly 50 % of total consumption (from nearly 70 % in the beginning of the nineties), is also projected to decrease as the 2003 CAP reform price cuts gradually reduce the ground for such aid.

The projections suggest a strong reduction in SMP production from an expected 1.2 mio t in 2003 to around 0.9 mio t by 2011. Production in the new Member States, which currently contributes to less than 20 % of the total EU production, is forecast to increase slightly over the short term to reach 290 000 tons in 2005, before declining gradually as cheese production expands.

EU-25 SMP exports increased in 2003 and during most of 2004 in response to increasing world SMP demand, notably from oil exporting countries which experienced a dramatic increase in cash receipts due to high oil price, and to lower product availabilities in other major exporting countries. SMP exports are however expected to decrease over the medium term, in line with decreasing production. Australia and New Zealand are the main producing countries which are expected to benefit from the gradual withdrawal of the EU from the world SMP markets.

The fall in production recorded in 2004 combined with sustained exports is expected to nearly clear intervention stocks already in 2004. Over the medium term the reduction in production would outpace the slow decrease in consumption (that would benefit from lower prices following the implementation of the CAP reform price cuts), thus constraining exports and leaving intervention stocks empty. Domestic prices are projected to decrease in line with CAP reform price cuts but to stabilise from 2009 onwards, remaining above intervention price levels, as SMP supply decreases at a faster rate than consumption. Under the assumption of a US\$/€ exchange rates of 1.15 over the medium term, the gap between domestic price and world market prices is projected to remain substantial and should not enable the EU to export without export refunds.

²⁷ For the use in calves feed.

1.5. Agricultural income

The medium-term perspectives for the income of the agricultural sector has been compiled on the basis of the medium-term projections for the main agricultural markets and on the economic accounts for agriculture, which constitute the statistical basis of the income measure²⁸.

Whereas the medium-term changes in the price and volume components of the arable crop and most animal sectors have been established in line with the market projections, those of the other agricultural sectors –mainly fruit, vegetables, wine and olive oil- have been assumed to follow historical trends.

The subsidy component of agricultural income has been established on the basis of:

- the estimated direct payments for the period 2005-2013 (single payments scheme and other direct payments as provided for in Reg. 1782/2003 as amended after the enlargement and the second reform package);
- the rural development component covers the EAGGF (Guidance and Orientation) as given for the 2000-2006 period for the old Member States, for the 2004-2006 period for the new Member States and in the financial perspectives as proposed by the Commission for the 2007-2011 period for the EU-25. Only the current transfers to agricultural producers as other subsidies in production has been accounted for in the income calculation (thus excluding all the capital grants and investment aids as well as the support to operators outside agriculture. Member States have been assumed to fully use the rural development funds available to them (including the co-financing component of rural development funds);
- The main provisions of the Act of Accession regarding direct payments for the new Member States (progressive introduction, SAPS and the complementary national direct payments (CNDPs or “top-ups”) have been accounted for). As regards the CNDPs, it has been assumed that Member States will maintain their CNDP option adopted in 2004 and announced for 2005 over the whole projection horizon (2004-2011) provided that they respect the conditions attached to their granting, notably the upper limit on the financial envelopes. In this respect the possibility for financing the CNDP from the national budget or from co-financing with rural development EU funds has been taken into account where relevant.

On the basis of these hypotheses, the medium-term projections for income display a rather favourable outlook as EU-25 agricultural income would grow by 14.2 % between 2003 and 2011 in real terms and per labour unit. However, this overall gain would mask marked differences between EU-15 and the new Member States.

Agricultural income in the EU-15 would show a more moderate development with a 5 % growth over the 2004-2011 period. After a short-term increase until 2005, agricultural income would stagnate and even fall in 2008 before resuming growing from 2009 onwards. The less favourable developments between 2006 and 2008 would mainly correspond to the implementation of the reduction in price support in the milk sector (as

²⁸ Agricultural income is defined as the factor income of the agricultural sector (formerly the net value added at factor cost), expressed in real terms and per annual work unit.

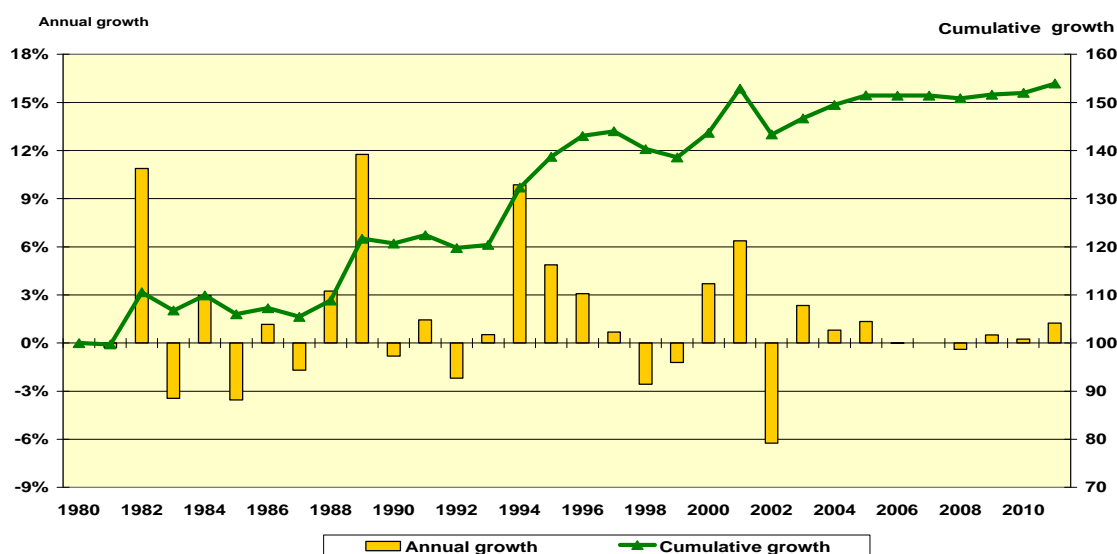
part of the 2003 CAP reform), whereas the income recovery towards the end of the period would be mainly supported by the small increase in milk prices.

Table 1.4 Outlook for agricultural income for EU-25, 2003 - 2011

	2003	2005	2006	2007	2008	2009	2010	2011
Factor income in nominal terms								
EU-25	100	106,7	106,6	106,1	105,6	105,9	106,1	106,9
EU-15	100	103,1	102,5	101,9	101,0	100,9	100,7	101,4
EU-N10	100	179,7	187,2	189,2	198,0	205,1	215,0	216,0
Labour input								
EU-25	100	95,6	92,8	90,1	87,5	84,9	82,5	80,1
EU-15	100	96,0	93,8	91,7	89,6	87,5	85,5	83,5
EU-N10	100	94,8	91,0	87,4	83,9	80,5	77,3	74,2
Agricultural income in real terms per labour unit								
EU-25	100	107,0	108,0	108,7	109,4	110,9	112,3	114,2
EU-15	100	103,2	103,2	103,2	102,8	103,3	103,6	104,9
EU-N10	100	173,6	183,2	187,3	198,9	209,1	222,7	226,4

Over the medium term, the rise in the value of cereals (supported by productivity growth), beef and pork (fuelled mainly by price increases) would slightly outweigh the decline in the value of milk production triggered by the fall in milk prices. The resulting modest growth in gross value added of the whole EU-15 agricultural sector (which would also benefit from the projected increase in the value of fruit and vegetables) would translate into a slightly more marked increase in agricultural income in nominal terms thanks to the introduction of the single farm payment, notably the granting of the dairy premium.

Graph 1.19 Outlook for agricultural income for EU-15 (in % and with 1980 = 100)



The reduction in total agricultural labour input for EU-15 is assumed to stabilise at the historical trend of around 2.3 % per year on average over the projection period owing to the slow down recorded over the last few years. Consequently, agricultural income, when

expressed in real terms and per labour unit (i.e. full-time equivalent), is projected to increase by 4.9 % between 2003 and 2011 for the EU-15.

Agricultural income in the new Member States is foreseen to display a more pronounced picture with agricultural income steadily rising to exhibit a 126.4 % increase by 2011. Although the value agricultural production is expected to rise by 14 % over the projection horizon (with almost all sectors benefiting) thanks to the implementation of the CAP and the access to and integration into the single market, this significant rise in income will be triggered to a very large extent by the sharp rise in the funds granted to agricultural producers in the new Member States.

The latter will be directed to the agricultural sector in the form of direct payments (around 55-60 %), national CNDPs and rural development funds (around 25 %, including the co-financing element) as far as they are transferred to agricultural producers as current payments, without little compensatory elements and do not correspond to capital transfers such as investment grants²⁹. The large increase in public support in the new Member States, which is largely decoupled, would aim at facilitating and promoting the restructuring and modernisation of the agricultural sector and the rural areas³⁰.

The agricultural labour input in the EU-N10 countries is assumed to fall by 4 % on annual average over the next decade in line with the restructuring of the agricultural sector. This rapid fall in labour force would boost the rise in agricultural income: whereas farm income in real terms would increase by 68 % from 2003 to 2011, it would expand by 126 % between 2003 and 2011 when expressed per labour unit.

The contribution of the EU-N10 countries to the overall EU-25 farm income would nevertheless remain rather limited at around 7 % in 2004 and 10 % in 2011 in line with the low productivity level in the new Member States. By contrast, the projected increase in agricultural income in these countries would be remarkable when assessed against the prospects for the rest of the economy in these countries and average wages outside agriculture.

²⁹ These projections assume that the funds available for rural development under the financial perspectives will be fully used by the new Member States.

³⁰ In this framework it should be mentioned that these projections do not fully take into account the multiplier effect of the funds granted as capital transfers on the future growth of the rural and agricultural economies.

Table A.1 Total cereals market projections for the European Union, 2002-2011 (mio t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Usable production	263.3	230.1	279.2	263.4	265.9	268.9	271.0	271.2	272.6	273.8
of which EU-15	210.0	185.1	218.4	206.6	208.8	211.1	213.4	214.7	215.7	216.5
EU-N10	53.3	45.0	60.8	56.8	57.1	57.8	57.6	56.4	56.9	57.4
Consumption	242.8	240.2	245.7	248.3	248.4	248.9	249.5	249.9	249.9	250.8
of which EU-15	192.4	192.1	194.2	194.7	194.5	194.6	194.9	195.2	194.9	195.6
EU-N10	50.4	48.1	51.5	53.6	53.9	54.3	54.6	54.8	55.0	55.2
Imports	16.4	14.2	9.4	9.6	9.0	9.0	9.5	9.2	8.9	9.0
Exports	30.4	19.8	27.3	29.5	29.6	30.7	30.5	30.4	30.7	30.7
Beginning stocks	47.1	53.7	38.0	53.6	48.6	45.5	43.7	44.2	44.3	45.2
Ending stocks	53.7	38.0	53.6	48.6	45.5	43.7	44.2	44.3	45.2	46.6
of which intervention	8.9	3.5	10.0	11.8	11.5	12.2	13.9	13.5	15.6	17.2

EU-N10: Ten new Member States

Table A.2 Total wheat market projections for the European Union, 2002-2011 (mio t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Usable production	124.3	106.8	133.7	126.1	128.1	130.1	132.1	132.1	132.7	132.8
of which EU-15	103.5	90.6	110.0	104.2	105.9	107.5	109.2	109.7	109.8	109.5
EU-N10	20.8	16.1	23.7	21.9	22.2	22.6	23.0	22.4	22.8	23.3
Consumption	115.1	109.0	115.4	116.3	116.7	117.3	118.0	118.9	119.5	120.2
of which EU-15	96.5	91.9	96.2	95.8	96.2	96.7	97.2	98.1	98.6	99.1
EU-N10	18.7	17.1	19.2	20.4	20.5	20.6	20.7	20.8	21.0	21.1
Imports	12.2	5.9	5.2	6.0	5.2	5.4	5.4	5.4	5.3	5.3
Exports	17.8	10.3	15.8	18.1	18.3	19.2	19.3	19.4	19.5	19.6
Beginning stocks	16.9	20.5	14.6	21.9	21.8	22.2	23.3	25.4	26.3	26.9
Ending stocks	20.5	14.6	21.9	21.8	22.2	23.3	25.4	26.3	26.9	26.7
of which intervention	2.8	0.2	2.9	4.0	4.5	5.5	6.4	5.0	5.4	5.1

EU-N10: Ten new Member States

Table A.3 Total coarse grain projections for the European Union, 2002-2011 (mio t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Usable production	139.0	123.4	145.5	137.3	137.8	138.7	138.8	139.0	139.9	141.0
of which EU-15	106.5	94.5	108.4	102.4	102.9	103.6	104.2	105.0	105.9	106.9
EU-N10	32.5	28.9	37.1	34.8	34.9	35.2	34.6	34.0	34.1	34.1
Consumption	127.7	131.2	130.4	131.9	131.7	131.6	131.5	131.0	130.4	130.6
of which EU-15	96.0	100.2	98.0	98.9	98.3	97.9	97.6	97.1	96.3	96.5
EU-N10	31.7	31.0	32.3	33.1	33.4	33.7	33.9	33.9	34.0	34.1
Imports	4.3	8.3	4.2	3.5	3.8	3.6	4.1	3.9	3.6	3.8
Exports	12.5	9.5	11.5	11.4	11.3	11.6	11.2	11.0	11.1	11.0
Beginning stocks	30.2	33.2	24.2	32.1	29.6	28.2	27.4	27.6	28.5	30.5
Ending stocks	33.2	24.2	32.1	29.6	28.2	27.4	27.6	28.5	30.5	33.6
of which intervention	6.1	3.3	7.1	7.8	7.0	6.7	7.5	8.5	10.2	12.1

EU-N10: Ten new Member States

Table A.4 Soft wheat market projections for the European Union, 2002-2011 (mio t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Usable production	114.7	97.9	122.2	116.5	118.4	120.4	122.4	122.4	122.8	122.9
of which EU-15	94.0	81.9	98.6	94.6	96.3	97.9	99.5	100.1	100.0	99.7
EU-N10	20.7	16.0	23.6	21.8	22.2	22.5	22.9	22.3	22.8	23.2
Consumption	105.8	98.1	104.7	103.9	104.4	105.0	105.8	106.9	107.5	108.2
of which EU-15	87.3	80.9	85.7	85.7	86.1	86.5	87.1	87.9	88.3	88.8
EU-N10	18.5	17.3	19.1	18.2	18.3	18.5	18.8	19.0	19.2	19.4
Imports	11.4	3.8	4.5	5.5	4.5	4.5	4.5	4.5	4.5	4.5
Exports	16.5	9.4	15.0	17.8	18.0	18.9	19.0	19.1	19.2	19.3
Beginning stocks	15.5	19.2	13.4	20.3	20.6	21.2	22.3	24.4	25.3	25.8
Ending stocks	19.2	13.4	20.3	20.6	21.2	22.3	24.4	25.3	25.8	25.7
of which intervention	2.8	0.2	2.9	4.0	4.5	5.5	6.4	5.0	5.4	5.1

EU-N10: Ten new Member States

Table A.5 Barley market projections for the European Union, 2002-2011 (mio t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Usable production	56.1	54.5	59.7	55.5	55.6	55.7	55.7	55.3	55.6	55.9
of which EU-15	47.8	46.4	50.4	46.9	47.1	47.2	47.3	47.2	47.5	48.0
EU-N10	8.3	8.0	9.3	8.6	8.5	8.5	8.4	8.1	8.0	7.9
Consumption	48.8	52.1	46.7	48.9	48.5	48.1	47.5	46.9	46.0	45.8
of which EU-15	40.4	43.7	38.1	39.6	39.0	38.5	38.0	37.5	36.7	36.6
EU-N10	8.4	8.4	8.6	9.3	9.4	9.6	9.5	9.4	9.3	9.2
Imports	0.8	0.9	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Exports	8.0	6.5	7.5	7.7	7.7	7.9	7.9	7.9	8.0	8.0
Beginning stocks	12.5	12.6	9.4	15.4	14.8	14.7	14.9	15.6	16.5	18.5
Ending stocks	12.6	9.4	15.4	14.8	14.7	14.9	15.6	16.5	18.5	21.0
of which intervention	1.0	0.0	4.8	6.5	6.5	6.7	7.5	8.5	10.2	12.1

EU-N10: Ten new Member States

Table A.6 Maize market projections for the European Union, 2002-2011 (mio t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Usable production	49.9	40.0	51.4	50.1	50.3	50.8	50.4	51.2	51.4	51.8
of which EU-15	40.1	32.3	39.2	39.5	39.6	39.9	40.2	40.8	41.0	41.4
EU-N10	9.8	7.7	12.1	10.6	10.6	10.9	10.3	10.4	10.4	10.4
Consumption	47.7	45.5	51.8	51.2	51.3	51.5	51.9	51.9	52.1	52.3
of which EU-15	39.5	37.6	42.6	41.9	41.9	42.1	42.3	42.1	42.1	42.2
EU-N10	8.2	7.9	9.2	9.3	9.3	9.5	9.6	9.8	9.9	10.1
Imports	2.8	5.6	3.0	2.9	3.2	3.0	3.5	3.2	3.0	3.1
Exports	2.4	2.0	2.7	2.7	2.7	2.7	2.5	2.5	2.3	2.1
Beginning stocks	9.0	11.7	9.8	9.6	8.7	8.2	7.7	7.3	7.3	7.3
Ending stocks	11.7	9.8	9.6	8.7	8.2	7.7	7.3	7.3	7.3	7.8
of which intervention	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

EU-N10: Ten new Member States

Table A.7 Total oilseed market projections for the European Union, 2002-2011 (mio t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Usable production	17.6	17.1	20.3	18.3	18.5	18.2	18.4	18.4	18.7	19.1
of which EU-15	14.2	14.1	16.7	14.3	14.5	14.2	14.3	14.5	14.7	15.0
EU-N10	3.5	3.0	3.6	4.0	4.0	4.1	4.1	3.9	4.0	4.0
of which non-food	2.4	2.3	1.8	2.2	2.2	2.3	2.3	2.3	2.4	2.4
Consumption	37.6	37.9	38.4	38.4	38.5	38.5	38.6	38.6	38.7	38.7
of which EU-15	35.1	35.1	36.1	36.2	36.2	36.3	36.3	36.3	36.4	36.4
EU-N10	2.6	2.8	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3
Imports	19.0	21.1	21.2	21.4	21.3	21.3	21.3	21.2	21.1	20.9
Exports	1.0	0.1	2.3	0.5	0.6	0.3	0.4	0.3	0.4	0.4
Beginning stocks	8.9	7.0	7.2	8.0	8.7	9.5	10.2	11.0	11.8	12.5
Ending stocks	7.0	7.2	8.0	8.7	9.5	10.2	11.0	11.8	12.5	13.3

EU-N10: Ten new Member States

Table A.8 Area under arable crops and set aside in the EU, 2002-2011 (mio ha)

Table A.8: Area under arable crops and set aside in the EU, 2002-2011 (mio ha)										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Cereals	52.8	51.4	52.7	51.8	51.8	51.8	51.7	51.1	51.0	50.9
of which EU-15	37.4	36.4	37.1	36.0	36.2	36.2	36.1	36.0	36.0	36.1
EU-N10	15.4	15.0	15.6	15.4	15.4	15.4	15.4	14.8	14.8	14.8
Oilseeds (1)	6.3	6.6	6.9	6.6	6.6	6.6	6.6	6.4	6.4	6.5
of which EU-15	4.6	4.8	5.1	4.7	4.7	4.7	4.7	4.6	4.6	4.7
EU-N10	1.7	1.7	1.8	1.9	1.9	1.9	1.9	1.8	1.8	1.8
Protein crops	1.4	1.6	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Flax and Hemp	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Silage (2)	5.0	5.0	4.9	4.9	4.8	4.9	4.9	4.9	4.8	4.8
Total arable crops	65.6	64.7	66.2	64.9	64.9	64.9	64.8	64.0	63.9	63.9
Compulsory set-aside	3.9	4.0	1.9	4.0	4.0	4.0	4.0	4.6	4.6	4.6
of which EU-15	3.9	4.0	1.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0
EU-N10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.6	0.6
of which non-food oilseeds	0.8	0.9	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Voluntary set-aside	2.1	2.3	3.0	3.2	3.3	3.3	3.3	3.3	3.4	3.4
Total set aside	6.0	6.3	5.0	7.2	7.3	7.3	7.4	8.0	8.0	8.0
Total COP	71.6	71.0	71.2	72.1	72.2	72.2	72.1	72.0	71.9	71.8

(1) on non-set aside area including linseed and other minor oilseeds

(2) excluding grass silage

EU-N10: Ten new Member States

Table A.9 Beef/veal market projections for the EU-25, 2002 – 2011 ('000 t cwe)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Indigenous Production	8 173	8 094	8 141	8 075	8 238	8 181	8 088	8 008	7 929	7 875
Live Imports	5	7	4	4	4	4	4	4	4	4
Live Exports	112	93	91	91	91	91	91	91	91	91
Net Production	8 065	8 008	8 053	7 988	8 150	8 093	8 001	7 920	7 841	7 788
EU 15	7 466	7 359	7 400	7 364	7 541	7 489	7 404	7 329	7 255	7 208
EU N10*	599	650	653	624	610	604	596	591	586	581
Import	424	440	481	520	530	536	546	557	568	581
Exports	522	391	340	320	371	308	262	226	211	170
Stocks changes	- 43	- 232	- 34	0	0	0	0	0	0	0
Consumption	7 990	8 289	8 228	8 187	8 309	8 321	8 285	8 251	8 199	8 200
Per Capita Consumption	17.6	18.2	18.0	17.9	18.1	18.1	18.0	17.9	17.7	17.7
EU 15	19.6	20.1	19.9	19.8	20.0	19.9	19.8	19.6	19.5	19.4
EU N10*	7.1	8.0	8.1	7.9	8.3	8.4	8.4	8.4	8.5	8.5
Ending stocks (Intervention)	266	20	0	0	0	0	0	0	0	0

Table A.10 Pig meat market projections for the EU-25, 2002 – 2011 ('000 t cwe)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Indigenous Production	21 195	21 475	21 192	21 499	21 589	21 711	22 005	22 212	22 294	22 441
Live Imports	0	0	0	0	0	0	0	0	0	0
Live Exports	26	17	20	20	20	20	20	20	20	20
Net Production	21 170	21 458	21 172	21 479	21 570	21 691	21 986	22 192	22 274	22 421
EU 15	17 730	17 793	17 886	18 027	18 013	18 056	18 229	18 354	18 358	18 452
EU N10*	3 440	3 666	3 286	3 452	3 557	3 635	3 756	3 838	3 916	3 969
Import	22	33	13	14	19	24	28	32	35	38
Exports	1 223	1 323	1 393	1 256	1 253	1 250	1 293	1 339	1 380	1 375
Stocks changes	25	- 135	- 90	0	0	0	0	0	0	0
Consumption	19 943	20 304	19 883	20 237	20 335	20 466	20 720	20 885	20 929	21 084
Per Capita Consumption	43.8	44.5	43.5	44.1	44.3	44.5	44.9	45.2	45.2	45.5
EU 15	43.4	43.7	43.3	44.0	44.0	44.1	44.4	44.6	44.6	44.8
EU N10*	46.0	48.5	44.2	45.1	45.8	46.5	47.6	48.2	48.3	48.9

Table A.11 Poultry meat market projections for the EU-25, 2002 – 2011 ('000 t cwe)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Indigenous Production	11 116	10 886	11 068	11 189	11 327	11 426	11 410	11 484	11 616	11 721
Live Imports	0	0	0	0	0	0	0	0	0	0
Live Exports	7	5	6	6	6	6	6	6	6	6
Net Production	11 109	10 880	11 063	11 184	11 321	11 420	11 404	11 478	11 610	11 716
EU 15	9 376	9 062	9 217	9 264	9 280	9 296	9 288	9 296	9 319	9 339
EU N10*	1 733	1 818	1 846	1 920	2 041	2 124	2 117	2 182	2 291	2 377
Import	547	650	489	534	581	616	651	679	696	715
Exports	1 133	969	1 008	963	960	950	950	950	950	950
Consumption	10 522	10 562	10 543	10 755	10 942	11 086	11 106	11 207	11 357	11 480
Per Capita Consumption	23.1	23.1	23.1	23.5	23.8	24.1	24.1	24.3	24.5	24.8
EU 15	23.3	23.2	22.9	23.4	23.7	23.8	23.8	23.9	24.1	24.1
EU N10*	22.0	22.7	23.8	23.8	24.5	25.6	25.7	26.1	27.1	28.1

Table A.12 Sheep/Goat meat market projections for the EU-25, 2002–2011 ('000 t cwe)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Production	1 054	1 044	1 054	1 055	1 060	1 063	1 063	1 061	1 057	1 050
EU 15	1 035	1 024	1 034	1 035	1 040	1 042	1 043	1 042	1 038	1 031
EU N10*	19	19	20	20	20	20	19	19	19	18
Import	253	256	259	263	264	265	265	265	265	265
Exports	3	4	3	3	3	3	3	3	3	3
Consumption	1 304	1 296	1 310	1 315	1 321	1 325	1 324	1 323	1 318	1 311
Per Capita Consumption	2.9	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.8
EU 15	3.4	3.3	3.4	3.4	3.4	3.4	3.4	3.3	3.3	3.3
EU N10*	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3

* EU N10: Ten new Member States

Table A.13 Meat per capita consumption projections in the EU, 2002 – 2011 (kg/head)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EU-25										
Beef and Veal	17.6	18.2	18.0	17.9	18.1	18.1	18.0	17.9	17.7	17.7
Pork	43.8	44.5	43.5	44.1	44.3	44.5	44.9	45.2	45.2	45.5
Poultry	23.1	23.1	23.1	23.5	23.8	24.1	24.1	24.3	24.5	24.8
Sheep Goat	2.9	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.8
Total EU-25	87.4	88.6	87.4	88.3	89.0	89.5	89.8	90.2	90.3	90.8
of which EU-15										
Beef and Veal	19.6	20.1	19.9	19.8	20.0	19.9	19.8	19.6	19.5	19.4
Pork	43.4	43.7	43.3	44.0	44.0	44.1	44.4	44.6	44.6	44.8
Poultry	23.3	23.2	22.9	23.4	23.7	23.8	23.8	23.9	24.1	24.1
Sheep Goat	3.4	3.3	3.4	3.4	3.4	3.4	3.4	3.3	3.3	3.3
Total EU-15	89.8	90.4	89.5	90.5	91.0	91.2	91.3	91.5	91.5	91.7
of which EU-N10*										
Beef and Veal	7.1	8.0	8.1	7.9	8.3	8.4	8.4	8.4	8.5	8.5
Pork	46.0	48.5	44.2	45.1	45.8	46.5	47.6	48.2	48.3	48.9
Poultry	22.0	22.7	23.8	23.8	24.5	25.6	25.7	26.1	27.1	28.1
Sheep Goat	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total EU-N10*	75.3	79.4	76.4	77.1	78.9	80.7	82.0	83.0	84.1	85.8

Table A.14 Consumption egg market projections for the EU-25, 2002 – 2011 (mio t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Usable production	6.3	6.2	6.2	6.2	6.2	6.2	6.2	6.3	6.3	6.3
of which EU-15	5.3	5.2	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
EU-N10	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2
Consumption	6.2	6.1	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.2
Imports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports	0.2	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Per capita consumption	13.6	13.4	13.1	13.4	13.3	13.3	13.3	13.3	13.3	13.3
EU-15	13.5	13.4	13.0	13.0	13.0	13.0	12.9	12.9	12.9	12.9
EU-N10	14.2	13.2	13.7	14.1	14.4	14.7	15.0	15.3	15.6	15.9

EU-N10: Ten new Member States

Table A.15 Milk production, deliveries and dairy herd in the EU-25, 2002 – 2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total production (mio t)	143,2	143,7	143,4	143,8	144,3	144,7	145,1	145,0	144,9	144,9
EU 15	121,2	122,0	121,4	121,8	122,2	122,6	123,0	122,9	122,9	122,9
EU N10*	22,0	21,7	22,0	22,0	22,1	22,1	22,1	22,1	22,0	22,0
Deliveries (mio t)	130,0	130,9	130,2	131,5	132,1	132,8	133,5	134,1	134,4	134,7
Delivery ratio (in %)	90,8	91,1	90,9	91,5	91,6	91,8	92,0	92,5	92,7	92,9
Fat content (in %)	4,06	4,06	4,06	4,07	4,07	4,08	4,08	4,08	4,08	4,09
Protein content (in %)	3,35	3,35	3,35	3,36	3,36	3,36	3,36	3,36	3,37	3,37
Milk yield (kg/dairy cow)	5798	5940	6073	6199	6304	6420	6504	6567	6636	6707
EU 15	6131	6287	6388	6505	6612	6742	6818	6866	6921	6977
EU N10*	4461	4536	4773	4922	5013	5076	5179	5285	5397	5514
Number of dairy cows (mio heads)	24,4	23,9	23,3	23,1	22,7	22,4	22,2	22,0	21,7	21,5
EU 15	19,5	19,3	18,7	18,7	18,3	18,1	18,0	17,8	17,7	17,5
EU N10*	4,9	4,7	4,5	4,4	4,4	4,3	4,2	4,1	4,0	3,9

Note: Dairy cow numbers refer to the end of the year (historical figures from the December cattle survey)

Table A.16 Cheese market projections for the EU-25, 2002 – 2011 ('000 t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total production ⁽¹⁾	8 143	8 203	8 322	8 522	8 662	8 766	8 816	8 922	9 010	9 081
EU 15	7 228	7 306	7 408	7 603	7 736	7 827	7 844	7 928	7 992	8 038
EU N10	915	897	913	920	926	939	971	994	1 018	1 043
Imports	128	138	141	143	146	149	152	155	158	162
Exports	543	573	578	584	598	602	606	609	611	611
Consumption	7 728	7 769	7 885	8 082	8 211	8 312	8 361	8 467	8 556	8 632
Per capita consumption (kg)	17,0	17,0	17,2	17,6	17,9	18,1	18,1	18,3	18,5	18,6
EU 15	18,1	18,3	18,4	18,9	19,1	19,3	19,2	19,3	19,4	19,4
EU N10	11,1	10,7	11,1	11,1	11,3	11,6	12,2	12,9	13,7	14,6

(1) Including cheese used for processed cheese. Excluding farm cheese

Table A.17 Butter market projections for the EU-25, 2002 – 2011 ('000 t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total production	2 168	2 149	2 096	2 016	1 969	1 923	1 897	1 873	1 854	1 828
EU 15	1 880	1 867	1 811	1 728	1 685	1 648	1 632	1 615	1 597	1 571
EU N10*	288	281	285	288	285	276	264	258	257	256
Imports	93	93	112	114	115	115	115	115	115	115
Exports	232	322	351	277	240	225	195	185	179	178
Total consumption	1 927	1 901	1 910	1 914	1 891	1 853	1 825	1 813	1 793	1 767
per capita consumption (kg)	4.24	4.16	4.18	4.18	4.12	4.02	3.96	3.92	3.87	3.81
EU 15	4.41	4.33	4.32	4.32	4.25	4.14	4.07	4.03	3.97	3.91
EU N10*	3.33	3.34	3.43	3.44	3.40	3.41	3.37	3.34	3.34	3.32
Intervention Stocks										
Ending stocks	192	223	170	110	64	25	17	8	5	3
Stock changes	139	31	-53	-61	-46	-39	-8	-9	-3	-2

Note: The figures on imports and exports are referring to total trade, i.e. including inward processing.

Table A.18 SMP market projections for the EU-25, 2002 – 2011 ('000 t)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total production	1 376	1 375	1 166	1 157	1 083	1 027	982	956	939	923
EU 15	1 140	1 110	888	868	801	750	709	689	678	674
EU N10*	236	265	278	289	282	277	273	267	261	249
Imports	41	58	61	61	63	63	63	63	63	63
Exports	264	342	308	252	201	170	165	161	158	156
Total consumption	1 049	1 036	1 094	975	955	920	880	858	844	830
EU 15	945	935	984	867	850	815	780	760	750	738
EU N10*	104	101	111	108	106	104	101	98	94	92
Stock changes	104	55	-175	-10	-10	0	0	0	0	0
Intervention Stocks										
Ending stocks	141	195	20	10	0	0	0	0	0	0
Stock changes	141	54	-175	-10	-10	0	0	0	0	0

Note: The figures on imports and exports are referring to total trade, i.e. including inward processing.

* EU N10: ten new Member States