

Executive Summary

The *Agricultural Outlook 2017-26* is a collaborative effort of the OECD and FAO prepared with input from the experts of their member governments and from specialist commodity organisations. It provides a consensus assessment of the medium term (ten year) prospects for agricultural and fish commodity markets at national, regional and global levels. This year's edition contains a special focus on the agriculture and fish sectors of Southeast Asia.

The context for this year's *Outlook* is record production and abundant stocks of most commodities in 2016, keeping prices well below the peaks experienced in the last decade. Average prices of cereals, meats and dairy products continued to decline, while prices of oilseeds, vegetable oils, and sugar saw a slight rebound in 2016.

Over the outlook period, demand growth is projected to slow considerably. The primary sources of growth in the last decade were first the People's Republic of China, where rising meat and fish demand caused the consumption of feed to grow by almost 6% per year, and second the global biofuel sector, where the use of feedstock inputs grew by almost 8% per year. The replenishment of cereal stocks by 230 Mt over the last decade also augmented demand. These recent drivers are not anticipated to support markets in the same way over the medium term, and no other sources to replace them are foreseen.

Growth in food demand for virtually all commodities in the *Outlook* is anticipated to be less than in the previous decade. Globally, per capita food demand for cereals is anticipated to be largely flat, with growth only expected in least developed countries. Meat consumption prospects are seen as limited on the basis of recent trends in many countries, where dietary preferences, low incomes and supply-side constraints curb consumption growth. Additional calories and protein are expected to come mainly from vegetable oil, sugar and dairy products. Overall, "convergence" towards western diets appears limited.

By 2026, calorie availability is projected to reach 2 450 kcal per day on average in least developed countries and exceed 3 000 kcal per day in other developing countries. Still, food insecurity will remain a critical global concern, and the co-existence of malnutrition in all its forms poses new challenges in many countries.

The demand growth for ethanol and biodiesel has weakened due to lower fossil fuel prices and fewer incentives from government policies. Even though energy prices are projected to increase, the derived demand for biofuel feedstocks, especially maize and sugarcane for ethanol and vegetable oil for biodiesel, will grow slowly, except in key developing countries where demand increases are driven by more pro-active domestic policies.

Future growth in crop production will be attained mostly by increasing yields. Yield growth is projected to decrease slightly, but output could be raised by closing large yield gaps that continue to persist, especially in Sub-Saharan Africa. The global cereal area will

only increase marginally, while a further expansion of soybean area is projected to satisfy the demand for animal feed and vegetable oil.

Growth in meat and dairy production will be achieved from both larger herds and higher output per animal, with large differences in the intensity of production continuing to persist. Growth in poultry production accounts for almost half of total meat production expansion over the decade. Milk production growth is expected to accelerate compared to the previous decade, most notably in India and Pakistan.

Aquaculture dominates growth in the fish sector, as capture fish production is determined by the current level of stocks and governed by policies to limit over-fishing. China will maintain a share above 60% of global fish production. Farmed fish production is the fastest growing protein source among the commodities in the *Outlook*.

The growth in agriculture and fish trade is projected to slow to about half the previous decade's growth rate. However, trade will represent a broadly constant share of the sector's output over the coming decade. Generally, agricultural trade has proven to be more resilient to macroeconomic fluctuations than trade in other goods. Given relatively high protection in the farm sector, agricultural trade growth could be boosted by further market liberalisation.

Food imports are becoming increasingly important for food security, particularly in Sub-Saharan Africa, North Africa, and the Middle East. While for some countries this may reflect greater demand but insufficient natural resources for growing food domestically, in other cases it may indicate agricultural development problems which need attention.

Net exports are projected to increase from the Americas, Eastern Europe and Central Asia, while net imports are expected to increase across other Asian and African countries. Exports remain concentrated in a few supplying countries contrasting with widely dispersed imports. This may imply a greater susceptibility of world markets to supply shocks, stemming from natural and policy factors, rather than demand shocks.

Under the *Outlook's* expected fundamental supply and demand conditions, real prices of most agricultural and fish commodities are anticipated to follow a slightly declining trend, keeping them below previous peaks over the next ten years. Prices of agricultural commodities are subject to considerable volatility and may show large deviations from their long-term trends for an extended period of time.

Southeast Asia

The special chapter of the *Outlook* focusses on the countries of Southeast Asia, where economic growth has been strong and the agriculture and fish sectors have developed rapidly. Broad based growth has enabled the region to significantly reduce undernourishment in recent years.

However, the growth of agriculture and fisheries in the region has led to rising pressure on natural resources, affecting the export-oriented fish and palm oil sectors in particular. The *Outlook* projects palm oil production growth to slow considerably as the main producer countries focus on sustainable development.

Improved resource management and increased R&D will be needed to achieve sustainable productivity growth. Policies in support of rice production could also be reoriented to facilitate the diversification of agriculture. Given the region's sensitivity to climate change, investments to facilitate adaption are required.