



Agricultural Markets and Prices: Towards 2025

Highlights

- Recent years have been marked by price spikes and considerable volatility; currently, some agricultural markets are experiencing sharp falls in prices.
- Food and agricultural prices are expected to decline modestly in real terms in the next decade, but should generally remain higher than they were in the early 2000s.
- The use of crops for biofuels has been largely policy-driven. A phasing-out of government support would contribute to lower and more stable food prices.



What's the issue?

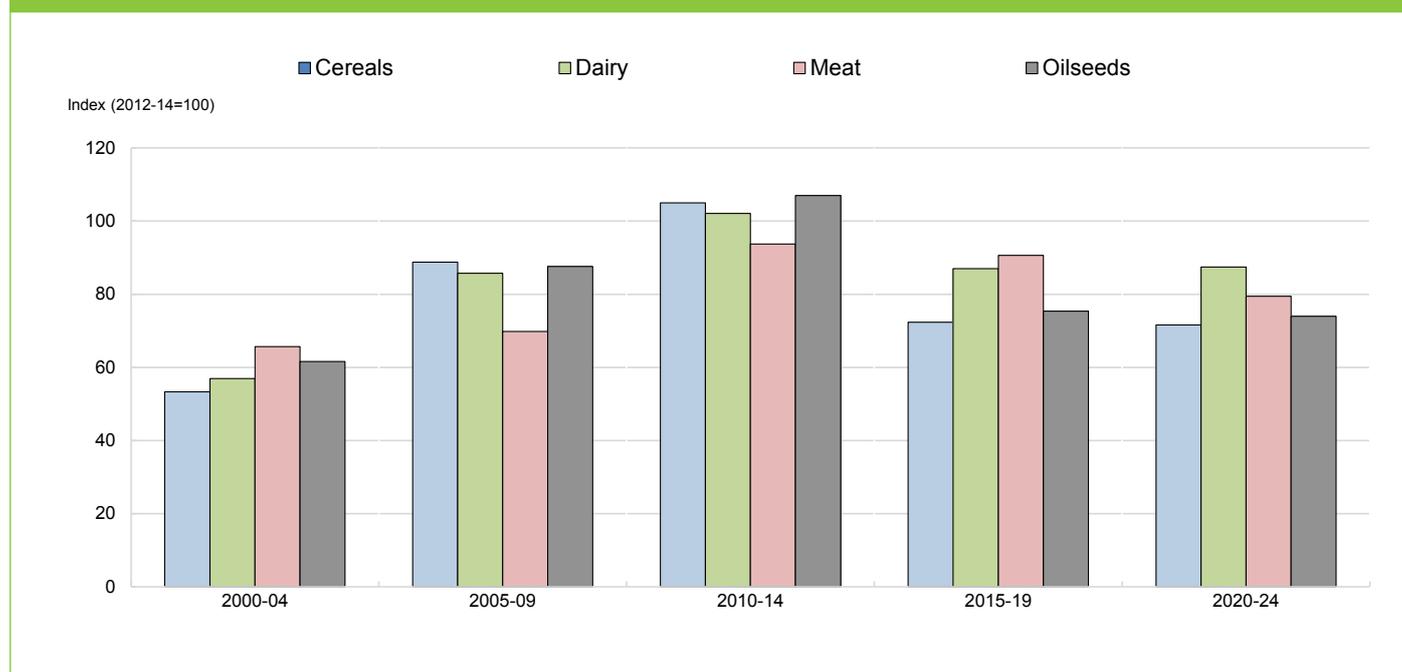
The situation of world agricultural markets is currently very different from when agriculture ministers last met in 2010. International prices of crop and livestock products have fallen back from exceptionally high levels: crop prices started to fall in the second half of 2012 and the prices of livestock products – which had been firmer – came down sharply in 2015.

Demand remains subdued by the underperformance of the world economy and the fact that consumption of many products – in particular food staples – is close to saturation point in parts of the world. Lower oil prices have also helped bring down costs, and have reduced the market incentive to grow crops for first-generation biofuel production.

Over the next ten years, the biggest market changes will occur in developing countries. On the demand side, continued but slowing population growth, rising per capita incomes and urbanisation will increase the demand for food and prompt consumers to diversify their diets by increasing consumption of animal protein relative to starches.

For this reason, the prices of meat and dairy products are expected to increase relative to the prices of crops. Among crops, the prices of coarse grains and oilseeds, used for animal feed, should rise relative to the prices of food staples.

REAL AGRICULTURAL COMMODITY PRICES TO REMAIN HIGHER THAN BEFORE THE 2007-8 PRICE SPIKE IN THE MEDIUM-TERM



Note: Index calculated by a constant weighting of commodities within each aggregate. The weight is calculated by the average 2012-14 production value.
Source: OECD/FAO (2015), *OECD-FAO Agricultural Outlook*, OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-outl-data-en>

On the supply side, increases in crop production will come mostly from yield improvements. In Asia, Europe and North America, there is little scope to increase agricultural area sustainably. However, in South America and parts of Africa, there is some scope to complement yield gains with increases in cultivated cropland.

The overall expectation is that real prices for all agricultural products will decline modestly over the next ten years, as on-trend productivity growth – helped by lower input prices – outpaces decelerating demand growth. While this is consistent with the tendency for long-term decline, prices are nevertheless projected to remain at a higher level than in the years preceding the 2007-08 price spike (See figure overleaf). In short, global food supplies will keep pace with population and income growth.

The broadly benign market outlook is no reason for complacency, however. The *OECD-FAO Agricultural Outlook 2015-2024* notes that there is a high probability of a major price swing within the next ten years, due to uncertainty over global macroeconomic drivers – such as global exchange rates, real Gross Domestic Product (GDP) and world crude oil price – and agricultural yields. Climate change is likely to add further to market uncertainties.

Nevertheless, a significant price shock should not itself constitute a crisis. A crisis is more likely to erupt when there are aggravating policy factors, as in 2007-08, when price increases were accentuated by the use of export restrictions, as well as the use of mandates and support for biofuel production. The Agricultural Market Information System (AMIS) was founded by G20 countries in response to the food price crisis, with a view to encouraging policy co-ordination in response to market uncertainty.

While the observed trend to date has been the dispersion of exports of agricultural commodities across a greater number of exporting countries, the current *OECD-FAO Outlook* suggests that exports of several key commodities will remain concentrated in fewer countries. In contrast, the numbers of importing countries are expected to grow. These trends mean it is imperative to ensure the smooth functioning of international markets.



What should policy makers do?

Farmers have demonstrated that they can and do respond to market incentives. Nevertheless, government actions in a number of areas can improve the functioning of those markets and thereby support farmers' efforts:

- **Transparent and open markets can allow food to be produced where it is economically efficient** to do so. Multilateral and regional trade agreements are crucial in this respect.
- **Greater policy focus on innovation and sustainable improvements in agricultural productivity** will increase food availability and benefit consumers.

- **Investments to lower post-harvest losses in developing countries**, and to reduce consumer waste and over-consumption more broadly – by means of improved storage and transport infrastructure and consumer information campaigns, for example – would improve food security through their effects on international markets.
- **A phasing-out of mandates and other support for biofuels** would result in demand being market- and not policy-driven, and would lower food prices.
- **Targeted risk management strategies can protect both producers and consumers from price volatility.** In contrast, price support policies and associated trade barriers cannot help producers without harming consumers, and also impede the functioning of international markets.



Further reading

This document is based on the evidence and analysis found in a number of OECD reports and papers published in recent years:

- **OECD-FAO Agricultural Outlook 2015**
- **Agricultural Market Information System (AMIS)**
- **Alternative Futures for Global Food and Agriculture**
- **Price Volatility in Food and Agricultural Markets: Policy Responses**

A complete list of relevant books and papers can be found at <http://oe.cd/taking-stock> or on the Agriculture Ministerial website at www.oecd.org/agriculture/ministerial.

