

Executive Summary

The *FAPRI 2006 U.S. and World Agricultural Outlook* presents projections of world agricultural production, consumption, and trade under average weather patterns, existing farm policy, and policy commitments under current trade agreements and custom unions. Despite continued high energy prices, world economic growth is expected to remain strong in the coming decade, above 3% per annum. Other major drivers of the 2006 baseline include new bio-energy policies in several large countries, EU sugar policy reform, sanitary and phytosanitary (SPS) shocks in livestock and poultry markets, and movements in the exchange rate.

The depreciation of the U.S. dollar against currencies in industrialized countries continues and then tapers in the second half of the outlook. This gain in U.S. competitiveness is offset somewhat when Australia, Canada, and the EU—strong competitors in crop markets—recover from weather shocks. The U.S. dollar appreciates in nominal terms against most Latin American currencies, decreasing U.S. competitiveness in the short term relative to these countries. The effects are especially acute in meat markets, since the Latin America region has benefited from the bovine spongiform encephalopathy (BSE) crisis in North America.

New policy developments and high fossil energy costs are expected to boost ethanol and biodiesel markets in Brazil, the U.S., the EU, and Asia. Industry thus expands its use of oilseeds, grains, and sugarcane, sustaining those commodities' prices. Ethanol trade is projected to double in the next decade, increasing from 0.65 to 1.20 billion gallons. The world ethanol price increases by 1.8%, reaching \$1.32 per gallon in 2015.

SPS issues continue to affect production, consumption, and trade of meat products in the short run. Major meat export destinations were lost after a U.S. case of BSE was confirmed in 2004. The U.S. share of total meat trade fell by 7 percentage points. Recent developments in meat trade include opening of the Canadian border, new BSE cases in Canada and Japan, new disruptions in the Japanese market for U.S. beef, cases of foot-and-mouth disease in South America, and the threat of worldwide spread of avian influenza. With continuing strong growth in pork and poultry exports,

coupled with the reopening of the Japanese beef market, the United States is expected to regain 4 percentage points in its share of meat trade by 2010.

World pork production benefits from SPS trade shocks in beef and broiler markets. World pork production reaches 113.1 million metric tons, and trade reaches 6.51 million metric tons by 2015/16. The EU loses market share, while all other major competing exporters, including Canada, the U.S., and Brazil, gain market share.

Grain prices remain high, given strong import demand on world markets. Wheat prices remain above \$150 per metric ton. World rice reaches \$334 per metric ton in 2015. Corn, sorghum, and barley prices steadily increase, from the \$90-\$94 range to the \$117-\$134 range per metric ton. The U.S. and Argentina benefit from these strong world market conditions. The U.S. corn market share increases 10 percentage points by 2015/16.

Concentration in soybean production is deepening, with Argentina, Brazil, and the U.S. increasing their combined production share from 82% to 84% of world production. World soybean production reaches 277 million metric tons by 2015/16, a 24% increase from 2005/06. Brazil overtakes the United States as the largest soybean producer and exporter in the world, in 2012/13 holding a 34% share of world production and a 51% share of world trade by 2015/16. China, the world's largest importer of soybeans, expands its imports from 41% to 52% of total world imports by 2015/16.

In the dairy sector, growth in the use of milk powder in Asia allows the U.S. to expand its net exports by 88%. Australia, New Zealand, and the EU-15 account for 68% of total cheese exports, and this proportion remains stable throughout the outlook. Argentina and Ukraine become increasingly important players in international cheese markets, accounting for 15.5% of total exports by 2015. Strong demand drives the world cheese trade to increase by 30%. Stable growth occurs in per capita cheese consumption worldwide. Cheese consumption increases most in countries with substantial domestic production, such as the EU, Australia, New Zealand, and Argentina.