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EU Commission launches tender for 5 MMT grain export subsidies for MY 05/06

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Report Highlights:

The European Commission's Cereals Management Committee (ManCom) has launched tenders for the export of over 5 MMT of grains for the 2005/06 Marketing Year, as well tenders to subsidize the shipment of over 0.5 MMT from central Europe to drought hit Spain. There are in addition plans to release nearly 0.8 MMT of corn from EU intervention stores onto EU markets. The export tenders will be eligible for export subsidies, though it is not yet clear whether the Commission will need to use export subsidies.

At the June Agriculture Council, several key grain producing countries in the EU requested that the Commission be more active in using the market management tools from the start of the 2005/06 marketing year on July 1. In the last couple of years, the Commission has delayed introducing market measures until much later in the Fall.

Includes PSD Changes: No
Includes Trade Matrix: No
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[E3]

Commission announces 5 MMT of grain export tenders for MY 05/06

The European Commission's Cereals Management Committee (ManCom) has launched tenders for the export of over 5 MMT of grains for the 2005/06 Marketing Year, which starts on July 1. There are also tenders to ship over 0.5 MMT grain from central Europe to drought hit Spain and Portugal and the release of nearly 0.8 MMT of corn from EU intervention stores. The export tenders will be eligible for export subsidies, though it is not yet clear how aggressive the European Commission will be in its use of export subsidies. The tenders for export of 2 MMT wheat and 1 MMT of barley should be viewed as starting quantities, as each tender is used up, the quantities can be expanded during the forthcoming marketing year.

At the June Agriculture Council, several key grain producing countries in the EU requested that the Commission be more active in using the market management tools from the start of the 2005/06 marketing year on July 1¹. In the last couple of years, the Commission has delayed introducing market measures until much later in the fall. The Spanish and Portuguese are looking for relief from the drought conditions that have substantially reduced domestic grain availability and increased feed grain import requirements.

In central Europe, there are still problems with storing the large MY 04/05 crop, with intervention stores, especially in Hungary, full. In France, there is keen awareness that without aggressive export subsidies from the start of the MY 05/06 campaign market opportunities could be lost by failing to act quickly, particularly to the North African market where demand is reported to be strong.

Wheat import pace picks up towards the end of MY 04/05

The French grains organization ONIC notes an increase in the pace of wheat imports into the EU-25 since April 2005. ONIC states that from the end of April to mid-June, that the EU imported almost 1 MMT of soft wheat. They highlight that the low and medium quality wheat Tariff Rate Quota (TRQ), used primarily by Russia and the Ukraine to export feed wheat, has been filled for the first six months of the year. The quota is split into three-month blocks of 592,900 MT, with unused quantities rolled over to the next period (but not from one calendar year to the next). For the first quarter of 2005, 489,482 MT of feed wheat was imported by the EU-25 under this quota, leaving 696,318 MT available for the second quarter from April to June. This was filled by early June.

With one week left of MY 04/05, ONIC state that high quality (including durum) wheat import certificates now stand at 2.5 MMT. Over the past six or seven years, the EU typically imports between 2 to 2.5 MMT of high quality wheat. In May, 400,000 high quality wheat import licenses were drawn, the highest monthly figure for MY 04/05. Typically the high quality wheat imports come from the U.S. and Canada and are shipped to mainly Italy, Spain, the UK, Greece and Portugal.

¹ Submission to the June Agriculture Council from Austria, France, Poland, Hungary, Slovakia, the Czech Republic and Spain:

"The strained situation on the European cereals market is increasingly aggravating. In view of the high harvest expectations regarding the harvest 2005 the situation is becoming always more dramatic. The measures taken by the Commission in the course of the present business year have proved to be insufficient to solve the problems on the cereals market. This has led to raised stocks and to extraordinarily high intervention stocks, which stress the balances of the coming business year. Taking into account the high harvest expectations for 2005, the situation will therefore further aggravate in the coming business year".

"It is vital that these measures are adopted and implemented without delay in order to relieve the pressure on the cereals market, and thus start right upon the beginning of the new business year".

EU grain tenders announced for MY 05/06

Metric Tons	Origin	Quantity
Exports from the free market		
Wheat	All EU	2,000,000
Barley	All EU	1,000,000
Period: Valid for all of MY 05/06		
Exports from intervention stocks		
Wheat	Hungary	500,000
	Poland	250,000
	Czech R.	180,000
	Lithuania	150,000
	Austria	80,000
	Slovakia	51,000
Barley	Germany	300,000
Rye	Germany	500,000
Period: Valid for all of MY 05/06		
Sale onto EU markets from intervention		
Corn	Hungary	500,000
	Austria	113,000
	Poland	99,000
	France	54,000
	Germany	10,000
Period: Bids from end July to end October		
Transfer to Spain from intervention		
Wheat	Hungary	200,000
Corn	Hungary	100,000
	Slovakia	100,000
Barley	Germany	100,000
Period: Bids mid-July to mid-Sept, grain to arrive by end-Sept		

Notes: Export tenders are valid for all destinations, except the Balkans, and for barley, tenders are not valid for exports to the US and Canada.

MY 04/05 Ending with Substantial EU Intervention Grain Stocks

The tenders for the release of up to 3.2 MMT of grain from intervention stocks (including exports, to Iberia and onto all EU markets) is only a small part of the grain offered into intervention during MY 04/05. This suggests that if market conditions are suitable, the European Commission has access to a lot more grain to release. With drought conditions in Iberia and North Africa, the European Commission may be able to release more intervention grain into firm demand. A good harvest in 2005, particularly in central Europe, responsible for nearly half of the grain offered intervention during MY 04/05 and where over stocking issues are reported to be most severe, may encourage the Commission to try and aggressively reduce intervention stocks, though these stocks will certainly weigh on market sentiment.

While intervention stocks had been depleted in MY 03/04, by a drought and heat wave reduced EU harvest, the MY 04/05 banner crop more than made up for the decline, particularly in central Europe (in particular Hungary, the Czech Republic and Slovakia). These land-locked countries have no easy access to sea ports for exporting surpluses,

making intervention (and hence the minimum guaranteed prices it provides) an attractive proposition.

In the medium term, this will put the EU's grain intervention system under the spotlight. This pressure could help lead to an eventual change in the intervention system. While the Commission have previously tried to reform the intervention system in 2003 by lowering minimum guaranteed grain prices, they were unsuccessful, lacking political support from the Member States.

At a recent International Grains Council meeting in London, Russell Mildon, Director for grain markets in the Commission's Agriculture Directorate General explained that future changes to the intervention system "cannot be ruled out", though cautioned that "Our analysis of the situation will take at least a year to complete". It is therefore unlikely that any changes to the intervention system will impact during MY 05/06.

Quantities of grain offered into EU intervention during 2004/05

MT	EU 25	EU-15	NMS-10
Total	15,892,770	8,567,316	7,325,454
Wheat	10,249,442	6,309,758	3,939,684
Durum Wheat	658	0	658
Barley	2,418,036	2,057,606	360,430
Corn	3,220,677	199,952	3,020,725
Sorghum	3,957	0	3,957

Intervention Stocks MY 04/05, on June 19 2005

	Total	Common Wheat	Durum Wheat	Barley	Rye	Maize	Sorghum
1. Beginning Stocks	3,637,077	193,687	0	110,919	3,332,471	0	0
2. Quantities accepted	10,573,331	6,289,363	0	1,932,829	0	2,349,640	1,499
3. Quantities sold	2,833,780	839,987	0	967,969	1,025,824	0	0
A. Internal Market	72,803	22,519	0	6,985	43,299	0	0
B. Export	2,435,125	773,941	0	932,434	728,750	0	0
C. Food Aid	0	0	0	0	0	0	0
D. Free Distribution	317,417	43,176	0	26,751	247,490	0	0
E. Losses	8,435	351	0	1,799	6,285	0	0
4. Gross Balance (1+2-3)	11,376,628	5,643,063	0	1,075,779	2,306,647	2,349,640	1,499
5. Quantities Committed	1,008,722	356,788	0	373,712	278,222	0	0
A. Internal Market	5,090	0	0	5,090	0	0	0
B. Export	996,660	356,788	0	368,622	271,250	0	0
C. Food Aid	0	0	0	0	0	0	0
D. Free Distribution	6,972	0	0	0	6,972	0	0
6. Net Balance (4-5)	10,367,906	5,286,275	0	702,067	2,028,425	2,349,640	1,499
7. Quantities under Offer	5,319,439	3,960,079	658	485,207	-	871,036	2,458

Notes: The above table shows the position of grain intervention stocks at the start of MY 04/05 at 3.6 MMT. 10.6 MMT grains were accepted into intervention during MY 04/05. During the year, 2.8 MMT were released, mostly for export (2.4 MMT). A further 1.0 MMT has been committed for release, but is still in intervention stores, again mostly for export. The net balance is the sum of beginning stocks plus new quantities minus grain either released or committed for release. 'Quantities under offer' is grain offered into intervention

but not yet accepted (the Commission can wait several months before accepting grain), there is also no guarantee that the grain offered into intervention will be accepted. However, a working assumption that all of the grain offered will be accepted means that the ending balance of intervention stocks for MY 04/05 would be 15.7 MMT (row 6 plus row 7, net balance plus quantities under offer).

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