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Oilseeds and Products

Outlook for EU Oilseeds and Biofuels

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Report Highlights:

While improving productivity will continue to boost EU oilseed production, strong demand for biofuels could curb growth in EU oilseed export

Mid-term projections recently published by the European Commission (EC) assume that EU biodiesel and bioethanol production capacity will remain more or less constant at current levels over the next six years. This assumption appears to be partly driven by the forecasted availability of EU rapeseed (canola), which is the main source of EU biodiesel. However, with increasing oil fuel costs, more competitive oilseed import prices could propel biofuel demand beyond current expectations. Biodiesel production capacity has already increased by an estimated 35 percent since 2002, reaching close to 2.2 million tons a year. Germany, France and Italy are the main EU producers of biodiesel.

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

Introduction

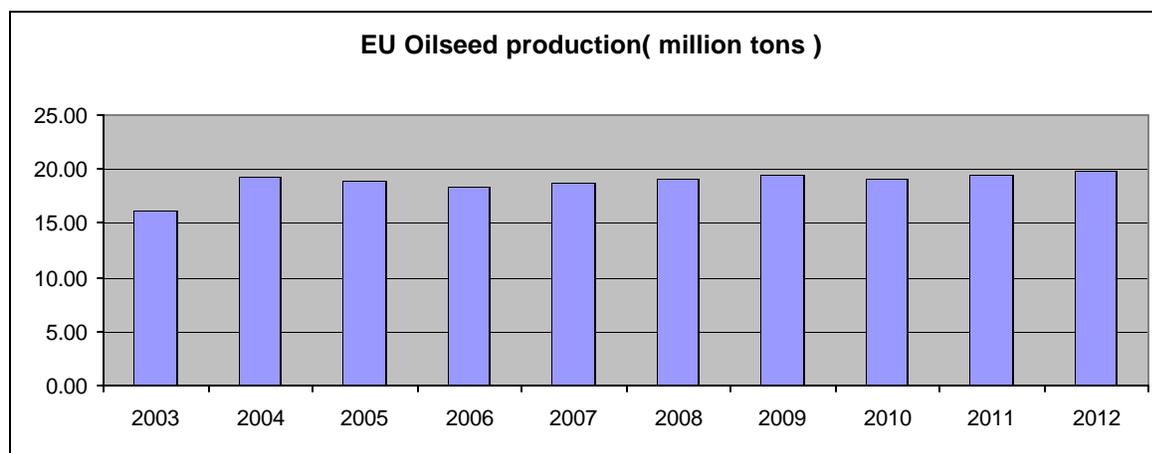
The European Commission has published a report on "[Prospects for agricultural markets and income 2005-2012](#)". This report contains market and income prospects within the EU. According to the report the medium term perspectives for the EU cereals, meat and dairy markets appear to be relatively favorable.

The Commission report concludes that in the medium term prospects the EU oilseed market is expected to be supported by productivity increases. The reports also says these perspectives would nevertheless remain conditional on the US\$/€ exchange. It is likely that the EU will remain a large net importer of oilseeds and that exports will continue to decline. The EU's vegetable oil industry federation (Fediol) projects that the EU's biodiesel production capacity may exceed 4 million tonnes by mid-2006 as a result of the bloc's efforts to promote cleaner fuels.

The Commission takes into account the limitation in production caused by the Blair House Agreement for non-food oilseed on set-aside land, but there are no limitations on oilseed production on non-set-aside mentioned. If the NMS area would be the average area planted for the three years prior to entry into the EU, given the lack of growth in the NMS area, it points to the probability that an EU25 MGA, if it existed, would likely not be exceeded.

Production

Over the medium term, total rapeseed area and production would expand by 0.3 million ha and about 1 million tons, to stand at 4.7 million ha and 14.8 million tons in 2012 respectively. Rapeseed is the most important oilseed in the EU and represents 75 percent of the production, followed by sunflowerseed with 20 percent of the share and by soybeans. Sunflowerseed and soybeans would display a relative stagnation in their area, whereas their low yield growth potential would limit the increase in production.



Source: European Commission. See tables at the end of this report.

Total food oilseed area of rapeseed, sunflower seed and soybean bottomed out in 2002 at 5.8 million ha before increasing to 6.3 million ha in 2004. It is foreseen to decrease to 5.9 million ha in 2005 owing to the higher set-aside obligations. The set aside obligation was 5 percent in 2004 and is back to 10 percent in 2005. The favorable medium term perspectives on the oilseed markets should lead to a steady increase in harvested area to 6.4 million ha by 2012. A further 0.8 million ha of non-food oilseed production would also take place on set-aside land.

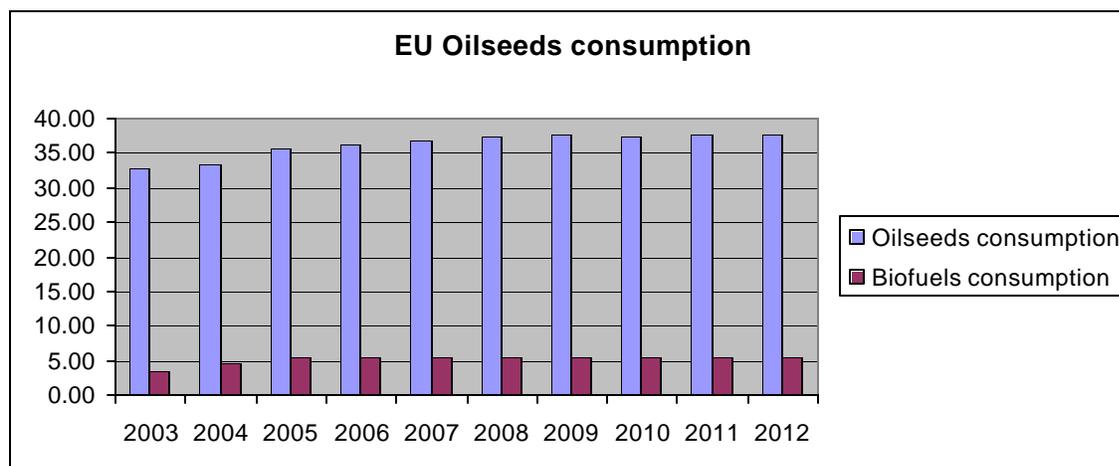
Total food oilseed production stood at 17.4 million t in 2004 and is estimated to decline to 16.7 million t in 2005 in line with lower area and yields. It is forecast to display a slight increase over the medium term to 17.5 million t in 2012 thanks to the projected growth in area and yield (in particular for rapeseed). Non-food oilseed production on set-aside land would also expand slightly from 2.2 million t in 2005 to 2.4 million t in 2012 as further increases are constrained by the limitations of the Blair House agreement.

In the FAS annual oilseed report the FAS analysts in the EU forecast a higher area planted with oilseeds in MY 2005 compared to MY 2004. See [GAIN E35118](#). The expected growth in the biofuels market is anticipated to continue to increase the demand for oilseed. This increased demand is also likely to strengthen the price of the oil, also the oil used in food. This is already happening in the EU where the food industry is complaining about the enhanced prices on the rapeseed oil.

Consumption

The Commission expects the continuous favorable global and domestic perspectives for vegetable oil demand would lead to positive conditions for the EU oilseed sector. Domestic demand is foreseen to expand by a further 2 million t to stand at 37.8 million t in 2012 (mainly for soybeans, followed by rapeseed). The crushing demand for biodiesel production has been assumed to remain constant at the current level.

Domestic use in the EU exhibits a different pattern than domestic production, with 44 percent allocated to soybeans, 41 percent to rapeseed, and 15 percent to sunflower seed. Contrary to production these shares would remain relatively unchanged over the medium term, as vegetable oil and oil meal prices would not show major shifts in price relations.



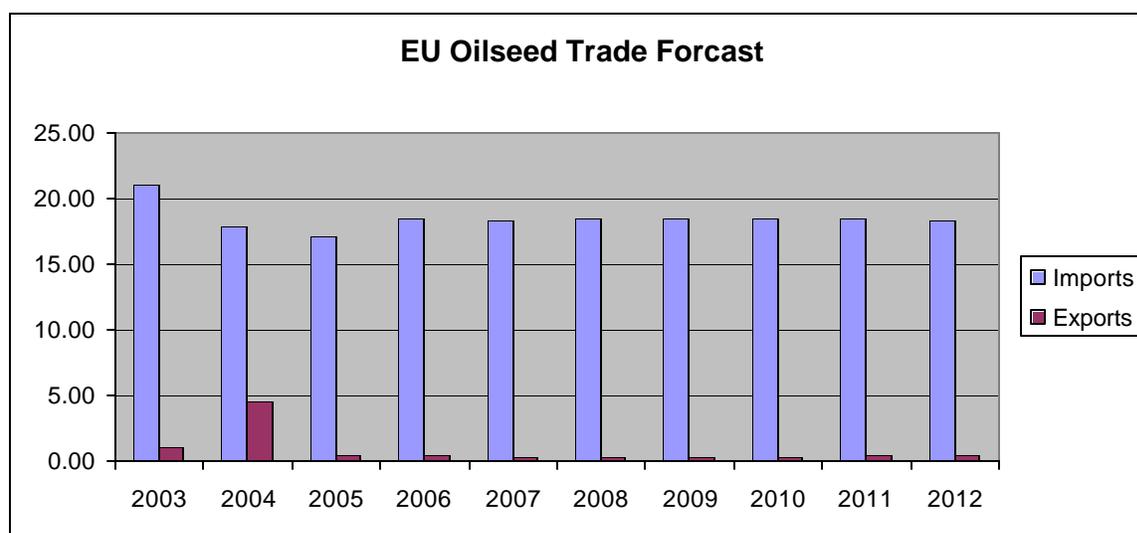
Source: European Commission. See tables at the end of this report.

The Commission assumes in the report that the demand for biodiesel production is to remain constant at the current level. However, given the high prices on petroleum, the Commission goals for renewable energy sources and the incentives to reach these goals the oilseed consumption is likely to increase during the medium term period. Also the oil use in food is expected to increase. However the Commission says the numbers for biofuels only reflects the biofuel production from rapeseed grown within the EU. For more on this see the biofuels section later in the report.

Trade

Despite the projected moderate increase in oilseed production, the Commission says the EU will continue to remain a large net importer of oilseeds (notably of soybeans and sunflower seed) with total imports increasing from 17 million t in 2005 to 18.4 million t in 2012. Exports on the other hand would continue to decline to reach 0.5 million t in 2012.

It is likely that the EU will remain a large net importer of oilseeds and that exports will continue to decline. The EU's vegetable oil industry federation (Fediol) projects that the EU's biodiesel production capacity may exceed 4 million tonnes by mid-2006 as a result of the bloc's efforts to promote cleaner fuels. See [GAIN E35085](#). Even if this forecast is not reached it shows how the trend in the EU biofuels is expected to develop.



Source: European Commission. See tables at the end of this report.

Blair House Agreement

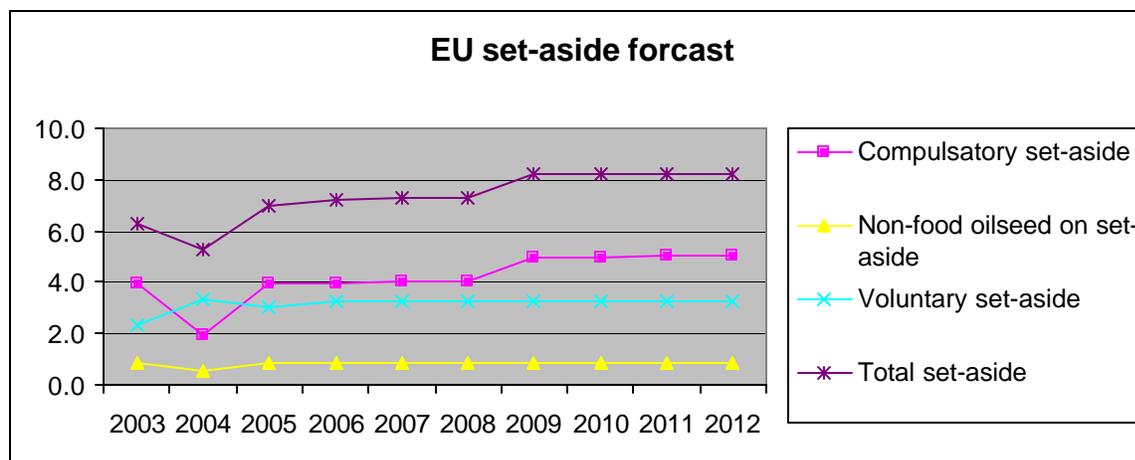
Under the Blair House Agreement (BHA), EU oilseed plantings for food purposes are limited to an adjusted Maximum Guaranteed Area (MGA) for producers benefiting from crop specific oilseeds payments. This limits the EU oilseeds production area and penalizes overproduction. BHA also limits the production of industrial/non-food use oilseeds on set-aside area.

Output from oilseeds planted on set-aside land for industrial purposes is limited to 1 MMT soybean meal equivalent annually. In the forecast report the European Commission says that the non-food oilseed production on set-aside land would expand slightly from 2.2 million tons in 2005 to 2.4 million tons in 2012 as further increases are constrained by the limitations of the Blair House Agreement.

Starting with the 02/03 marketing year, the European Commission has maintained that the EU is no longer bound by the Blair House commitments on acreage limits on non-set aside land. According to the European Commission, the equalization of compensatory payments for both cereals and oilseeds do away with the crop-specificity of oilseeds payments and Blair House. Consequently, the BHA was no longer valid after 2002/03. The U.S. position remains that, as the BHA on oilseeds was incorporated into the EU's WTO schedule, it is a multilateral commitment, and the EU will continue to be bound by the provisions of the BHA. In addition, Blair House limits have not been adjusted to account for the recent enlargement of the EU to 25 MS.

If the NMS area would be the average area planted for the three years prior to entry into the EU, given the lack of growth in the NMS area, it points to the probability that an EU25 MGA, if it existed, would likely not be exceeded.

The BHA limits the EU15 oilseeds area to 5.482 million ha, minus a percentage for the set-aside obligations, which have been 5 or 10 percent the last years. With a 10 percent set-aside obligation the oilseed area in the EU15 would be restricted to 4.933 million hectares. The Commission reports that in 2004, 6.3 million ha was planted in the EU, 4.5 million ha in EU15 and 1.8 million ha in the NMS.



Source: European Commission. See tables at the end of this report.

Development of the Biofuel use

The European Commission has in their analysis taken the approach that the biofuels processing capacity within the union will not increase between now and 2012. However the Commission says that these numbers only reflect the production of biofuels produced from oilseeds grown in the EU, and that, depending on the world market price on oilseeds, it is likely that the imports of oilseed will grow in the medium-term future, given that there are no high import taxes. The Commission assumption that there would be no important growth in biofuel production on oilseeds produced in the EU was mainly based on the theory that there is not a lot of land left where it would be feasible to produce rapeseed. However Bulgaria and Romania could be big exporters of oilseeds in the future. Romania currently has an as high production as Poland.

The Commission analysis of the biofuel situation in the EU shows that the production potential of biofuels in the EU is relatively large and that the additional demand could lead to significant price increases for agricultural raw materials, cereals and oilseeds. The Commission says reaching the 5.75 percent target should turn biofuel use into a major component of the EU domestic demand for cereal and vegetable oil. Considerable technical progress in the biofuel sector has contributed to decreasing production costs, which have favored its competitiveness against mineral fuels.

On the supply side incentives the Commission assumes the decoupling of agricultural support as well as the energy-crop premium and the provision that non-food commodities can be produced on set-aside land should favor biofuel production. Also, biofuels extracted from wood might become an important source in the medium term.

Since 2002 the biofuels capacities has increased by about 35 percent in the EU and experts estimate that around 2.2 million tons of biodiesel are produced. The share of biodiesel use, in total usable rapeseed production, increased from 23 percent in 2002 to an estimated 40 percent in 2005. As a consequence price differences between non-food and food rapeseed has almost disappeared. The crushing of rapeseed in the EU can be estimated to 2.7 million tons in 2002, 4.6 million tons in 2004 and an estimated 5.2 million tons in 2005. The annual production of non-food rapeseed on set-aside area contributes to around 2.0 million tons of rapeseed. An estimated 0.8 - 1.0 million tons of cereals was used for ethanol production in 2004, which might increase to 2.2 – 3.0 million tons in 2005.

Reaching the target in 2010 would imply the replacement of 19 million tons of fossil fuels. The Commission says this target can be satisfied with biodiesel and bioethanol. Biodiesel has a similar energy content to fossil fuel while the energy content in bioethanol is lower.

The report says that meeting the biofuel target should have major impact on the price developments on the EU cereal and oilseeds markets through its effect on domestic production, and that expected higher prices should stimulate a significant expansion in cereal areas. The potential impact on oilseed is expected to be significantly lower owing to less important price increases, the BHA and rotational and climatic constraints.

It is not likely that the production of biofuels would stagnate given the development of the biofuels market in the EU the last years. Expected increases in petroleum prices, demand growth from China, India and elsewhere on fuels, as well as the Commission goal of 5,75 percent biofuels together with the incentives to promote biofuel production, is likely to have an important impact and increase the biofuel production within the European Union.

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Report Number	Title	Date Released
E35118	Oilseeds Annual	06/20/05
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E35085	Strong Growth anticipated for EU Biodiesel Production	05/03/05
E35058	Biofuels situation in the European Union	03/23/05
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Total oilseed market balance in the European Union, 2003-2012 (mio t)										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Usable production	16.15	19.22	18.94	18.42	18.80	19.18	19.45	19.14	19.50	19.87
EU15	12.73	14.89	15.49	14.87	15.19	15.51	15.84	16.17	16.52	16.85
NMS	3.42	4.33	3.45	3.55	3.61	3.67	3.61	2.97	2.97	3.02
of which non-food	2.32	1.81	2.18	2.22	2.25	2.29	2.32	2.36	2.39	2.43
Consumption	32.84	33.30	35.72	36.36	36.89	37.34	37.63	37.38	37.58	37.76
of which bioenergy	3.59	4.63	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60
EU15	30.94	30.87	33.21	33.81	34.30	34.72	34.98	35.32	35.54	35.69
EU-N10	1.90	2.42	2.51	2.55	2.59	2.62	2.65	2.06	2.05	2.07
Imports	21.12	17.92	17.08	18.41	18.32	18.46	18.43	18.55	18.50	18.39
Exports	1.04	4.59	0.42	0.52	0.26	0.33	0.26	0.33	0.41	0.49
Beginning stocks	7.59	9.84	4.13	4.41	4.49	4.56	4.61	4.64	4.62	4.64
Ending stocks	9.84	4.13	4.41	4.49	4.56	4.61	4.64	4.62	4.64	4.65

Area under arable crops and set aside in the EU, 2003-2012 (mio ha)										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Oilseeds (1)	5.95	6.3	5.92	6.25	6.3	6.35	6.29	6.32	6.36	6.38
EU15	4.24	4.5	4.29	4.56	4.59	4.61	4.64	4.66	4.69	4.71
NMS	1.71	1.8	1.63	1.7	1.72	1.73	1.65	1.66	1.67	1.67
Rapeseed	3.45	3.95	3.62	3.86	3.89	3.92	3.89	3.91	3.94	3.95
Sunflower seed	2.2	2.08	2.02	2.09	2.11	2.12	2.09	2.1	2.11	2.11
Soybean	0.3	0.27	0.28	0.3	0.31	0.31	0.31	0.31	0.31	0.32
Total arable crops	63.7	64.8	62.5	62.5	62.4	62.3	61.8	61.8	61.8	61.8
Compulsatory set-aside	3.98	1.94	3.96	3.98	4.01	4.03	5	5	5	5.01
EU15	3.98	1.94	3.96	3.99	3.98	3.98	3.98	3.98	3.98	3.98
NMS	0	0	0	0	0	0	1.02	1.02	1.02	1.03
Non-food oilseed	0.86	0.54	0.88	0.83	0.83	0.83	0.83	0.83	0.83	0.83
Voluntary set-aside	2.31	3.34	3.03	3.23	3.24	3.25	3.25	3.25	3.25	3.25
Total set aside	6.3	5.28	6.99	7.22	7.25	7.28	8.25	8.24	8.25	8.25
Total COP	70	70	69.5	69.7	69.6	69.6	70	70	70	70.1
(1) on non-set aside										

COP- Cereals, Oilseeds and Protein crops