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## **European Union**

## **Grain and Feed**

## **Annual report 1999**

# **1999**

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### **Report Highlights:**

**Following record grain production in 1998, another 200-MMT EU grain crop is already in the making. 1999/2000 will be the last marketing year before Agenda 2000 reforms will start to be implemented. Negotiations about CAP reform are, however, not yet complete.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
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## Executive Summary

Following record grain production in 1998, another 200 MMT-grain harvest is already in the making for 1999. Common wheat production may decrease by 6 MMT, the result of both lower yields and acreage compared to the previous year. Prospects of a slightly reduced 1999 crop may, however, offer little relief to farmers and traders which, during the current marketing year, are having to cope with very low prices and fastly-growing stocks.

Marketing year 1998/99 will also turn out to be a year of large EU expenditures, both with regard to export policy, and in financing grain intervention stocks. Between now and the end of the intervention period in May, several million tons of grain, especially wheat, are expected to be offered into intervention. Export subsidy levels during 1998/99 have on average been twice the levels fixed during 1997/98, the European Commission closing the gap between domestic market prices in the EU and decreasing world prices. Weak international demand has caused EU exporters to struggle to maintain their market share. Moreover, some destination markets such as Algeria for wheat flour, may definitively be lost as traditionally important buyers. Other markets, such as Asia and South America for malt and malting barley, have cut back on purchases from the EU due to economic crises in these areas. Partly offsetting these negative developments during 1998/99 have been the increased EU feed barley exports to third countries and the strong feed grain demand by the compound feed industry in the EU.

Marketing year 1999/2000 will be the last year before the reform proposed as "Agenda 2000" becomes effective. There is real determination and political pressure to complete the reform package by March. Final agreement on the package may be deferred to the March 24-25 European Council in Berlin. Despite changes in the proposal which may result from negotiation among Member States, it is anticipated that intervention prices for grains will decrease and, in turn, import duties will follow.

**Total grains: Supply-Demand table**

Figures in 1,000 MT, except area: 1,000 HA

Beg. month of MY:	7/97		7/98		7/99	
	Revised 1997		Preliminary 1998		Forecast 1999	
	old	new	old	new	old	new
Area harvested	37705	37705	37645	37100	0	36560
Beginning stocks	25998	25998	35638	38887	0	50857
Production	201570	201570	209270	206800	0	200630
Total MY imports	38630	40449	38280	39600	0	41470
Intl. Yr. imports	38630	42673	38280	40720	0	41470
Intl. Yr. imports U.S.	1495	1648	1095	1805	0	1665
Intl. Yr third cntrs.	5095	5976	4745	5700	0	5710
<b>TOTAL SUPPLY</b>	266198	268017	283188	285287	0	292957
Total MY exports	52260	51230	54480	55830	0	56870
Intl. Yr. Exports	52280	54041	54480	57230	0	56870
Intl. Yr. Exp. Third cntrs.	18750	17351	20800	22175	0	21100
Feed domestic cons.	109650	109500	114050	110200	0	110500
non-feed domestic cons.	68650	68400	69250	68400	0	68200
Total domestic cons.	178300	177900	183300	178600	0	178700
Ending stocks	35638	38887	45408	50857	0	57387
<b>TOTAL DISTRIBUTION</b>	266198	268017	283188	285287	0	292957

**Production****Production - General**

Both total area and total grain output may decrease in the current crop year, i.e. marketing year 1999/2000. Based on preliminary indications about winter grain plantings, most analysts agree that the biggest area

reduction from last year will be in wheat (down 600,000 HA) although the largest percentage cut will be in rye plantings (-14 percent). Both barley and corn plantings will not change from the previous crop year. Durum wheat plantings in Southern Europe will go up concurrent with favourable changes in the common market organization for this wheat variety. Also see production policy.

The net effect for grains in total will be a small (1.5 percent) decrease in cultivated area. Given the doubling in obligatory set-aside from 5 to 10 percent, most farmers will simply switch arable land from voluntary to obligatory set-aside.

See Tables 1 and 2 for a split-up by EU member state of the forecast production and harvested area for MY 1999/00.

### Production - Yields

While corn yields during 1998/99 remained much below trend yields, 1999/2000 is expected to show improved corn yields per hectare. Although it is still very early in the growing season, all other grain yields will decrease from the better than average results in 1998/99. At planting time, weather circumstances were far from ideal in many EU countries. In some countries, plantings were postponed because of delayed harvesting of corn, potatoes and other crops. Without improvement in the weather, the unusually wet and cold winter will further reduce expected output. In countries such as Germany, the U.K., and Denmark, part of the reduced winter grain plantings will be offset by an increase in spring grain plantings, such as spring barley and spring rapeseed. Spain, which generated a good barley and wheat crop in 1998/99, is expected to see its grain output going down in 1999/2000. The cold dry weather in December resulted in large planting delays, and even in partial replanting. Water reserves in the Northern parts of Spain have been replenished. However, the drought in the South seems to persist and threatens to cause severe damage to the grain crop.

Table 1: EU-15 Cereals Estimated Harvested Area for 1999/2000

Million Hectares

Crop	Austria	Belg./Lux	Denmark	Finland	France
Wheat total	0.26	0.20	0.67	0.12	5.17
Soft wheat	0.25	0.20	0.67	0.12	4.85
Durum wheat	0.01	0.00	0.00	0.00	0.32
Barley	0.27	0.06	0.72	0.60	1.61
Corn	0.17	0.02	0.00	0.00	1.70
Rye	0.06	0.00	0.07	0.04	0.05
Oats	0.05	0.01	0.02	0.37	0.13
Sorghum	0.00	0.00	0.00	0.00	0.06
Millet	0.00	0.00	0.00	0.00	0.01

Mixed gr.	0.02	0.01	0.02	0.01	0.26
Grand total	0.83	0.30	1.50	1.14	8.99
Crop	Germany	Greece	Ireland	Italy	Netherl.
Wheat total	2.63	0.70	0.08	2.44	0.11
Soft wheat	2.62	0.20	0.08	0.65	0.11
Durum wheat	0.01	0.50	0.00	1.79	0.00
Barley	2.12	0.15	0.19	0.31	0.03
Corn	0.33	0.18	0.00	1.00	0.02
Rye	0.72	0.02	0.00	0.01	0.01
Oats	0.26	0.05	0.02	0.13	0.00
Sorghum	0.00	0.02	0.00	0.06	0.00
Millet	0.00	0.00	0.00	0.00	0.00
Mixed gr.	0.48	0.00	0.00	0.00	0.01
Grand total	6.54	1.12	0.29	3.95	0.18
Crop	Portugal	Spain	Sweden	U.K.	Tot. EU-15
Wheat total	0.21	2.13	0.29	1.89	16.90
Soft wheat	0.17	1.30	0.29	1.89	13.40
Durum wheat	0.04	0.83	0.00	0.00	3.50
Barley	0.05	3.58	0.48	1.23	11.40
Corn	0.18	0.40	0.00	0.00	4.00
Rye	0.05	0.14	0.02	0.01	1.20
Oats	0.08	0.40	0.28	0.10	1.90
Sorghum	0.00	0.03	0.00	0.00	0.15
Millet	0.00	0.00	0.00	0.00	0.01
Mixed gr.	0.05	0.03	0.10	0.01	1.00
Grand total	0.62	6.71	1.17	3.24	36.56

Source: FAS Reports, Press Reports, various other sources.

Note: Not official USDA data. Totals may not match PS&D tables due to rounding. Table 2: EU-15 Cereals  
 Estimated Production 1999/2000  
 Million Metric Tons

Crop	Austria	Belg./Lux	Denmark	Finland	France
Wheat total	1.31	1.50	4.90	0.50	37.55
Soft wheat	1.26	1.50	4.90	0.50	36.20
Durum wheat	0.05	0.00	0.00	0.00	1.35
Barley	1.20	0.44	3.84	1.80	10.20
Corn	1.75	0.25	0.00	0.00	15.00
Rye	0.25	0.01	0.45	0.07	0.19
Oats	0.19	0.05	0.15	1.05	0.56
Sorghum	0.00	0.00	0.00	0.00	0.32
Millet	0.00	0.00	0.00	0.00	0.02
Mixed gr.	0.10	0.07	0.07	0.03	1.00
Grand total	4.80	2.32	9.41	3.45	64.84
Crop	Germany	Greece	Ireland	Italy	Netherl.
Wheat total	18.85	1.95	0.65	7.72	1.10
Soft wheat	18.80	0.60	0.65	3.24	1.10
Durum wheat	0.05	1.35	0.00	4.48	0.00
Barley	12.40	0.33	1.30	1.30	0.23
Corn	3.00	1.65	0.00	9.80	0.15
Rye	3.95	0.03	0.00	0.02	0.03
Oats	1.40	0.07	0.11	0.36	0.01
Sorghum	0.00	0.00	0.00	0.17	0.00
Millet	0.00	0.00	0.00	0.00	0.00
Mixed gr.	2.45	0.02	0.02	0.06	0.03
Grand total	42.05	4.05	2.08	19.43	1.55

Crop	Portugal	Spain	Sweden	U.K.	Tot. EU-15
Wheat total	0.30	5.17	1.85	14.50	97.85
Soft wheat	0.28	3.62	1.85	14.50	89.00
Durum wheat	0.02	1.55	0.00	0.00	8.85
Barley	0.06	8.60	2.00	6.50	50.20
Corn	0.90	3.70	0.00	0.00	36.20
Rye	0.04	0.17	0.14	0.05	5.40
Oats	0.06	0.47	1.15	0.50	6.13
Sorghum	0.00	0.04	0.00	0.00	0.53
Millet	0.00	0.00	0.00	0.00	0.02
Mixed gr.	0.03	0.08	0.30	0.04	4.30
Grand total	1.39	18.23	5.44	21.59	200.63

Source: FAS Reports, Press Reports, European Commission.

Note: Not official USDA data. Totals may not match PS&D tables due to rounding.

## Consumption

### Consumption - animal feed

In 1998/99 the total cereal incorporation rate in compound feed is expected to remain stable at above 50 percent. In terms of volume, the increase in compound feed production during 1998/99 was mainly beneficial to suppliers of soybeanmeal and tapioca, which more than compensated for the lower supplies of citrus pulp, beet pulp and other non-grain feed ingredients. The domestic price relation between wheat and corn has mainly been to the advantage of wheat, resulting in an increase in the incorporation rate of wheat in compound feed. The increased use of wheat for animal feed has gone hand in hand with a decline in corn use, while barley for feed use increased only marginally.

Given their price attractiveness, soybeanmeal and tapioca are expected to grow in importance as raw materials in compound feed. In 1999 particularly, EU imports of tapioca from Thailand are forecast to increase by as much as 15 percent.

Demand for feed grains is expected to also remain strong in 1999/2000 owing to a relatively stable compound feed output. Preliminary forecasts show that EU poultry numbers will continue to increase, while hog and cattle numbers may be slightly reduced. The strong preference for wheat as a feed grain, seen during 1998/99, may, however, diminish again in 1999/2000 when wheat supplies may decrease to a larger extent than barley. Moreover, in 1999/2000 the price premium paid for EU barley during the current marketing year is expected to disappear, which will lead feed compounders to again increase the barley incorporation rate. A higher corn output in 1999/2000 will also lead to increased corn for feed use. Furthermore, demand for feed may increase

due to the recent EU ban on certain anti-biotics. The inability to use growth promotants in feed will result in additional demand for feed.

### **Consumption - other uses than feed**

Total non-feed consumption of grains in 1998/99 is also expected to remain constant with 1997/98 levels. However, demand of non-feed demand in the sub-sectors may vary.

Soft wheat use for domestic flour consumption will remain stagnant, and purchases of soft wheat for export flour will fall considerably due to diminishing export prospects for EU flour during 1998/99. On the other hand, durum wheat use for the EU pasta industry will continue its gradual increase observed over recent years.

Demand for malting barley in 1998/99 has fallen due to lower demand from the malting and brewing sector. Economic crises in Asia and South America, both major export destinations for EU malt and beer, have contributed to this situation. In the southern part of Germany, the resulting decrease in the market price for malting barley has led to a smaller number of producers willing to commit to growing malting barley.

The EU starch industry continues its gradual shift towards the use of wheat rather than corn as a raw material. This trend is most visible in Germany and France.

Since these market developments in the non-feed grain sectors are expected to continue over the next several years, grain consumption in 1999/2000 will develop along the same trends as in 1998/99.

## **Trade**

### **Trade - Imports**

EU grain imports normally exceed the quantities of grains which can be imported under market access agreements or tariff rate quotas (see under Import Policy). For wheat, additional imports are necessary to complement the primarily soft wheat varieties grown in the EU. For example, EU common wheat imports from the U.S. consist exclusively of Hard Red Spring wheat (0.8 MMT in 1997/98). In the case of durum wheat and corn, additional imports from third countries remain necessary to meet the requirements of industrial customers in EU member states where these grains are not or insufficiently grown. Generally, the level of the "normal" import duty (i.e., the duty applicable on imports outside TRQs or special trade agreements) has been high enough to prevent third countries from supplying more than the minimum necessities (2.5 MMT-3.5 MMT) required by EU importing member states. As grain intervention prices are scheduled to go down in the implementation of Agenda 2000 reforms, grain import duties will decrease accordingly, a development which may result in an increased market share of third country grain suppliers of the EU grain market. See also Import Policy.

The number of import licenses issued by the European Commission through February 16, 1999 are listed in Table 3. For comparison, until February 11, 1999, U.S. export sales to the EU in MY 1998/99 amount to 0.85 MMT of common wheat, 0.26 MMT of durum wheat, 25kMT of barley, 137kMT of corn and 144kMT of sorghum.



Table 3: EU import licenses for grain issued during 1998/99, through February 16, 1999

Product	Licenses issued during 1998/99, in MT (through February 9)	1997/98 (same period)
Durum wheat	254,108	998,722
Common wheat	1,744,779	1,151,753
Corn	1,072,708	619,156
Sorghum	218,620	202,789
Millet	64,430	68,708

Source: European Commission

### Trade - Exports

Export licenses for soft wheat grain issued between July 1, 1998 and February 18, 1999 have exceeded last year's quantity by about 1 MMT. Low prices on the international wheat market, mainly owing to weak demand, have resulted in wheat export subsidies varying between EUR 25/MT (\$28) and EUR 35/MT (\$40) so far this marketing year. On average these subsidies are more than double the subsidies paid out during 1997/98. Although the European Commission's more generous subsidies have allowed EU wheat exporters to obtain a fair share of weak international demand, uncertainty remains with regard to sales between March and June of 1999. Prospects for wheat price improvement during the remainder of the marketing year are gloomy. Abundant crops, including the bigger than expected wheat production in Argentina will continue to put downward pressure on prices. Consequently, taking into account that EU wheat exporters are currently holding a long position in export licenses, it is estimated that actual exports of soft wheat grain during 1998/99 will not exceed the 8 MMT-level.

Throughout the current marketing year, the EU flour export subsidy has consistently amounted to about 1.37 times the wheat grain subsidy. However, the number of flour export licenses issued so far has considerably lagged behind the level reported during last season (2.78 MMT of grain equivalent, versus 5.24 MMT last year). The lack of demand is attributed to changes in purchasing habits in several flour destination markets. Yemen will remain the EU's largest destination market, but Algeria is expected to trade in its 1997/98 second position for a much lower ranking. Heavy taxes recently set by the Algerian government on flour imports from third countries are aiming at developing a strong flour milling industry in Algeria. Even when import taxes are removed in the future, demand from Algeria will never resume to levels seen before 1998. The reduced export forecasts in the attached wheat supply & demand table reflects this assumption.

Contrary to 1997/98, when barley exports to third countries remained below 3MMT, 1998/99 is a much better year for EU barley exporters. Backed by a more aggressive export policy from the European Commission (in terms of export subsidies) and reduced competition in the international market, 1998/99 barley exports are forecast to raise to 7.5 MMT. Saudi Arabia accounts for nearly half of this amount, the remainder consisting of Morocco, Algeria, Libya, China, Iran, Cyprus, and others.

## Stocks

With intervention stocks reaching 13.75 MMT of grain at the beginning of MY 1998/99 (a rise of 11.5 MMT compared to the previous season), expenditures on public stock management weigh heavily on the EU grain budget. The bumper crop of 1998, combined with weak international demand has driven internal prices down to levels far below intervention prices and large intervention offers are still expected through to May 1999. During 1997/98, a large part of offers into intervention was made early in the intervention period, particularly for barley. Given minimal exports of EU barley in 1997/98, intervention stocks remained largely unsold until the start of MY 1998/99. This season, however, the European Commission has followed a far more aggressive barley export strategy, selling 3.4 MMT (as of February 18, 1999) of barley out of intervention stores while accepting only 2.7 MMT into intervention by February 10, 1999. The result so far is that barley makes up less than half of total grain intervention stocks. Because of a considerable quantity of wheat still expected to be offered into intervention, the share of barley may end up even lower by the end of the intervention period (May).

In France, grain storage capacity is very tight, having resulted recently in French authorities requesting approval for storing French intervention grain in Belgium and the Netherlands. Reportedly, delays in finishing the building of additional private storage capacity are cause for serious concern in France. The problem will aggravate in the summer when the new crop will come onto the market. The storage problem has resulted in extreme pressure on the European Commission to increase exports. Also see Export Policy.

As per February 10, 1999, EU intervention stocks stand at 15.36 MMT (net balance). See Table 4 for details.

Table 4: EU intervention stock situation on February 10, 1999 (1,000 MT)

Product	Opening stocks, July 1, 1998	Balance 1/ (A)	Open for sale (B)	Under offer (C)	Net balance on Feb. 10 (A-B+C)
Wheat	2,465	2,396	496	2,498	4,398
Barley	7,801	7,048	1,592	1,355	6,811
Rye	2,707	3,236	232	343	3,346
Corn	713	712	6	41	746
Sorghum	71	20	0	38	58
TOTAL	13,757	13,411	2,325	4,274	15,360

Source: European Commission

1/ equals opening stocks + volumes accepted into intervention minus sales on both the domestic market and the exports market.

## Policy

### Policy - Production Policy

Since MY 1999/2000 will be the last marketing year before the Agenda 2000 reforms are expected to be put in place, the draft agricultural price package for 1999/2000 does not foresee any changes to the 1998/1999 support prices and compensatory payments. The currently applicable price package for cereals is listed in Table 5.

For the 1999/2000 marketing year, the EU Council of Agriculture Ministers decided to double the basic percentage of set-aside for the 1999 crop from 5 to 10 percent. A large 1998 EU grain harvest, and the size of EU intervention stocks by the end of 1997/98 have been important factors attributing to this decision. In the Agenda 2000 proposals of the European Commission, the basic compulsory set-aside rate was set at zero. It would, however, remain at the Commission's discretion to set an actual set-aside rate at a different level should the market situation require this. While discussions on a final Agenda 2000 package continue in the Agricultural Council meeting of February 22-26, 1999, an intermediary "compromise" package already sets compulsory set-aside at 10 percent for both marketing years 2000/2001 and 2001/2002. After that, set-aside would be cut to zero percent.

MY 1999/2000 will already see the consequence of a change in regulations with regard to special subsidies payable to durum wheat producers in the EU. Council Regulation 2309/97 of November 17, 1997, introduces maximum guaranteed areas of durum wheat eligible for the supplement to the regular grain compensatory payments as follows: Greece 617,000 HA, Spain 594,000 HA, France 208,000 HA, Italy 1,646,000 HA, Austria 7,000 HA, and Portugal 59,000 HA. These subsidies are only payable in pre-defined traditional production zones. Furthermore, maximum guaranteed areas are listed for regions outside traditional zones, eligible for "special aid": Germany 10,000 HA, Spain 4,000 HA, France 50,000 HA, Italy 4,000 HA and U.K. 5,000 HA.

Table 5: 1999/2000 EU Agricultural Price Package for cereals

	1998/99 EUR/MT	1999/2000 proposal EUR/MT	Percent change
Intervention Price	119.19	119.19	-
Compensatory payment	54.34	54.34	-
Monthly storage increment	1.00	1.00	-
Set-aside payment 1/	68.83	68.83	-
Voluntary set-aside payment 1/	48.30	48.30	-
Durum area payment 2/	358.63	358.63	-
Durum supplementary area payment 3/	138.86	138.86	-

1/ EUR per hectare. The area payment for set-aside, mandatory or voluntary, upto a limit of 50 percent of a farmer's arable land amounts to EUR 68.83/MT. For additional, voluntary set-aside beyond the 50-percent-limit, the lower area payment of EUR 48.30/MT applies.

2/ EUR per hectare. This area payment is supplementary to the general compensatory payment for cereals, and is payable for durum wheat area in certain economically disadvantaged regions of Italy, Spain, France, Greece, Austria and Portugal.

3/ EUR per hectare. This aid is supplementary to the general compensatory payment for cereals, and is payable to certain durum wheat areas, outside traditional production zones, in Northern France (limited to 50,000 HA), Germany (maximally 10,000 HA) and the U.K.(maximally 5,000 HA).

## **Policy - Import Policy**

The EU operates several tariff rate quotas (TRQs) for cereals, rice and grain products. These were initiated as settlements for past EU enlargements. The most recent TRQs were negotiated for the accession of Austria, Sweden and Finland on January 1, 1995. Products covered by TRQs include corn and sorghum to Spain and Portugal, high quality wheat, oats, worked oats, millet, brown rice, milled rice, broken rice, and cereal bran and sharps.

Like in marketing year 1997/98, 1998/99 corn imports into Spain and Portugal under the Accession Agreements so far have originated mainly from East Europe and Argentina, rather than from the U.S. The 1998 U.S. corn harvest contains GMO corn varieties for which U.S. marketing companies have not yet received commercialization approval from the competent EU authorities. Consequently, U.S. corn shipments to the EU will again be severely limited in 1998/99 and possibly 1999/2000.

To resolve a WTO dispute on the EU's margin of preference for grains, a 50,000 MT TRQ for malting barley was established in April 1997. Barley is imported under the generalized MOP scheme at the standard rate less 8 ECU/MT. If the barley is malted within six months and made into beer that is aged in beechwood casks, an additional 50 percent duty rebate is paid to the importer. After repeated delays a 1998 quota was opened for 50,000 MT. Currently, the 1999 and 2000 TRQ's, totaling 100,000 metric tons of malting barley, are expected to be operational in April 1999.

As part of the association agreements with Central and East European countries, the EU has granted reduced tariff access to its markets for some countries. The products involved are durum wheat, common wheat, millet, rye, corn, malting barley, wheat flour, and malt. Limited quantities of imports from these countries benefit from up to an 80-percent reduction in import duties. For some products (for example, a quota of 1,100 MT of malting barley from Hungary) import duties were reduced to zero, while for others reduced duties apply (for example ECU 65/MT duty on imports of maximally 9,500 MT of millet from Hungary). The development of reduced tariff access quota over the period 1997/98-1999/2000 is repeated in Table 6.

Beginning July 1, 1995, the EU's system of variable import levies for grains was replaced with the "Margin of Preference (MOP)", whereby the CIF import price duty paid cannot exceed 155% of the applicable grain intervention price. In practice, grain import duties are calculated on a regular basis by the European Commission as the difference between 155% of the intervention price and representative world market prices for each of the grain varieties concerned. As grain intervention prices are scheduled to go down as a result of Agenda 2000 reforms, grain import duties will decrease accordingly. This development may result in an increased market share of third country grain suppliers of the EU grain market.

The European Commission amended the rules of application for the calculation of import duties in the cereals sector. As of November 25, 1998, EU durum wheat import duties distinguish between "high quality" and "medium quality" durum wheat.

Table 6: Concessions in the form of Community tariff quotas for cereals and cereal products, 1997/98-1999/2000

Country	Product	Applicable duty (% of mfn)	1997/98 (MT)	1998/99 (MT)	1999/2000 (MT)
Hungary	Durum wheat/common wheat	20%	256,960	268,640	280,320
Hungary	Rye	EUR 123/MT	3,600	3,600	3,600
Hungary	Malting barley	free	1,100	1,150	1,200
Hungary	Millet	EUR 65/MT	9,500	9,500	9,500
Slovakia	Malting barley	20%	14,960	15,640	16,320
Slovakia	Wheat flour	20%	14,850	15,525	16,200
Slovakia	Malt (other than wheat malt)	20%	15,950	16,675	17,400
Czech Rep.	Malting barley	20%	30,140	31,510	32,880
Czech Rep.	Wheat flour	20%	14,850	15,525	16,200
Czech Rep.	Malt (other than wheat malt)	20%	39,820	41,630	43,440
Romania	Common wheat	20%	22,000	23,000	24,000
Bulgaria	Common wheat	20%	2,420	2,530	2,640
Bulgaria	Millet	20%	1,540	1,610	1,680

Source: EU Council Reg. (EC) 1595/97 of 24 July 1997, OJ L216, p.1

### Policy - Export Policy

Traditionally, the European Commission has set EU export subsidies so French subsidized wheat export prices are pegged to U.S. Soft Red Winter wheat (SRW) prices. As of January 21, 1999, however, a widening price gap between the two wheat origins of upto \$9/MT has been reported in the media. Higher EU wheat export subsidies and resulting decreases in French export prices have been rationalized by arguments such as domestic oversupply, poor quality and weak foreign demand. At the same time, the European Commission claims that the price spread reported in the media does not represent any U.S. SRW price undercutting whatsoever, but merely reflect a quality difference between wheat actually exported from the French port of Rouen and U.S. SRW.

## Policy - Agenda 2000 reform proposals

During the February 22-26, 1999 Agricultural Council, EU agriculture ministers are trying to reach an agreement on the European Commission's Agenda 2000 proposals for reform. If successful, final agreement could then be obtained at the EU summit, scheduled for March 24-25, 1999.

Between the original proposals of July 1997 and now, reform proposals for the cereals sector have basically remained unchanged. The envisaged reform consists of a movement away from price support towards direct income compensation to the farmer. The cereal intervention price, currently at EUR 119.19/MT, will be reduced by 20 percent to ECU 95.35/MT for the 7-year period from 2000 to 2006. Concurrently, compensatory payments, intended as a safety net to farmers, will increase from the current level of EUR 54.34/MT to EUR 66/MT. On a EUR/MT basis, the suggested increase in compensatory payments covers only half of the proposed drop in intervention prices. Furthermore, the ECU 66/MT direct-income payment will also apply to oilseeds and set-aside acreage.

While Agenda 2000 proposals were being discussed in great detail over the last weeks, the EU General Affairs Ministers have concluded that Common Agricultural Policy (CAP) spending resulting from the reforms should be cut in order not to bring the EU budget out of balance. In order to accomplish this, the European Commission has put out concrete proposals for gradually scaling down direct aid payments to farmers, at an annual rate of 3 percent. In the case of cereals, this principle of "degressivity" would already be applied in 2002. Furthermore, the degressivity principle would only apply to producers whose total direct payments exceed EUR 5,000. Therefore, according to European Commission proposals, between 4.9 and 5.3 million (small) farmers would not be subject to degressivity. In practice, this means that between 67 and 73 percent of total EU farms would be exempt. Part of the savings resulting from reducing CAP direct payments would be invested in a rural development program.

Based on the argument that intervention will play a less and less important role, the European Commission suggests to do away with the monthly increments to the intervention price (currently EUR 1/MT per month). The period of the year during which grains can be offered into intervention would, however, be left unchanged. The differentiation system with regard to intervention grain quality would be abrogated, and replaced by a certain minimum quality requirement.

The mandatory set-aside rate, i.e., the proportion of the arable area to be left in set-aside in order to be eligible for compensatory payments, will be set at zero percent. Changes in market conditions may, however, result in a different set-aside rate being fixed at higher rates. Small producers will continue to be exempt from obligatory set-aside should this be set a level different from zero. Voluntary set-aside will still be allowed, but the European Commission aims at improving its effectiveness and positive impact on the environment.

The instrument of export levies would also be retained in order to stabilize markets when necessary.

In the original reform proposals, the European Commission proposed to introduce a system of "progressive modulation" in order to cap the financial support which individual farmers are entitled to. Under this system, entitlements per farmer above ECU 100,000, but below ECU 200,000 would be reduced by 20 percent. Entitlements above ECU 200,000 would be diminished by 25 percent. In case the degressivity principle is approved during this week's Council of Agricultural Ministers, the system of progressive modulation may become redundant.

In broad terms, these reforms in the grain sector are intended to lower grain prices on the internal market. This will have two market effects: export subsidies for grain and grain products could be lower and internal feed consumption of grains could expand, as was the case with the 1992 reforms. Commission sources indicate that the Common Agricultural Policy after this reform will likely be a good basis for negotiation with Central and East European countries and their accession to the EU.

The impact of Agenda 2000 reform on EU grain production is difficult to assess at this time, especially since negotiations are not complete. Given that grains are an alternative arable crop for oilseeds, it can be expected that a proposed decrease in oilseeds compensatory payments to the same level as for grains will encourage farmers to shift part of the oilseed area into grains. Wheat being the crop most adapted to EU climatology, rather than corn and barley would be expected to get most of the additional acreage. However, at this stage, we can already sum up at least 3 factors which may lead to a different scenario. The switch away from oilseeds may be prevented due to attractive price relations between oilseeds and grains. The decrease in oilseeds compensatory payments may be spread over several years. Also, the intermediary Agenda 2000 package is setting compulsory set-aside at 10 percent for marketing years 2000/2001 and 2001/2002, different from the originally intended zero level.



## Supply & Demand tables for individual grain products

### Total wheat

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	17360	17360	17490	17100	0	16900
Beginning stocks	11020	11020	11970	13863	0	23363
Production	93700	93700	102700	102800	0	97850
Total MY imports	21900	23571	21300	23100	0	23150
July-June imports	21900	23571	21300	23100	0	23150
July-June imports U.S.	1300	1238	900	1350	0	1250
Jul-Jun imp 3rd cntrs	3100	3697	2200	3200	0	3150
<b>TOTAL SUPPLY</b>	<b>126620</b>	<b>128291</b>	<b>135970</b>	<b>139763</b>	<b>0</b>	<b>144363</b>
Total MY exports	33050	32728	33850	32500	0	32500
July-June exports	33050	32728	33850	32500	0	32500
Jul-Jun exp 3rd cntrs	14250	12854	14750	12575	0	12500
Feed domestic cons.	36500	36700	39300	38700	0	37950
non-feed dom. cons.	45100	45000	45700	45200	0	45200
Total dom. consumption	81600	81700	85000	83900	0	83150
Ending stocks	11970	13863	17120	23363	0	28713
<b>TOTAL DISTRIBUTION</b>	<b>126620</b>	<b>128291</b>	<b>135970</b>	<b>139763</b>	<b>0</b>	<b>144363</b>

Note: Total wheat includes common wheat + durum wheat. Trade includes wheat flour.



**Total coarse grains**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	20345	20345	20155	20000	0	19660
Beginning stocks	14978	14978	23668	25024	0	27494
Production	107870	107870	106570	104000	0	102780
Total MY imports	16730	16878	16980	16500	0	18320
Oct-Sep imports	16730	19102	16980	17620	0	18320
Oct-Sep imports U.S.	195	410	195	455	0	415
Oct-Sep imp 3rd cntrs	1995	2279	2545	2500	0	2560
<b>TOTAL SUPPLY</b>	<b>139578</b>	<b>139726</b>	<b>147218</b>	<b>145524</b>	<b>0</b>	<b>148594</b>
Total MY exports	19210	18502	20630	23330	0	24370
Oct-Sep exports	19230	21313	20630	24730	0	24370
Oct-Sep exp 3rd cntrs	4500	4497	6050	9600	0	8600
Feed domestic cons.	73150	72800	74750	71500	0	72550
non-feed dom. cons.	23550	23400	23550	23200	0	23000
Total dom. consumption	96700	96200	98300	94700	0	95550
Ending stocks	23668	25024	28288	27494	0	28674
<b>TOTAL DISTRIBUTION</b>	<b>139578</b>	<b>139726</b>	<b>147218</b>	<b>145524</b>	<b>0</b>	<b>148594</b>

**Common wheat**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	14130	14130	14240	14000	0	13400
Beginning stocks	9648	9648	11298	12748	0	22248
Production	87500	87500	94630	94900	0	89000
Total MY imports	19150	20417	19000	21100	0	21000
July-June imports	19150	20417	19000	21100	0	21000
July-June imports U.S.	750	741	500	1000	0	1000
Jul-Jun imp 3rd cntrs	1650	1970	1200	2600	0	2700
<b>TOTAL SUPPLY</b>	<b>116298</b>	<b>117565</b>	<b>124928</b>	<b>128748</b>	<b>0</b>	<b>132248</b>
Total MY exports	31500	31217	32300	31000	0	30650
July-June exports	31500	31217	32300	31000	0	30650
Jul-Jun exp 3rd cntrs	14000	12770	14500	12500	0	12350
Feed domestic cons.	36000	36200	38300	38000	0	37250
non-feed dom. cons.	37500	37400	38000	37500	0	37400
Total dom. consumption	73500	73600	76300	75500	0	74650
Ending stocks	11298	12748	16328	22248	0	26948
<b>TOTAL DISTRIBUTION</b>	<b>116298</b>	<b>117565</b>	<b>124928</b>	<b>128748</b>	<b>0</b>	<b>132248</b>

**Durum wheat**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	3230	3230	3250	3100	0	3500
Beginning stocks	1372	1372	672	1115	0	1115
Production	6200	6200	8070	7900	0	8850
Total MY imports	2750	3154	2300	2000	0	2150
July-June imports	2750	3154	2300	2000	0	2150
July-June imports U.S.	550	497	400	350	0	250
Jul-Jun imp 3rd cntrs	1450	1727	1000	600	0	450
<b>TOTAL SUPPLY</b>	<b>10322</b>	<b>10726</b>	<b>11042</b>	<b>11015</b>	<b>0</b>	<b>12115</b>
Total MY exports	1550	1511	1550	1500	0	1850
July-June exports	1550	1511	1550	1500	0	1850
Jul-Jun exp 3rd cntrs	250	84	250	75	0	150
Feed domestic cons.	500	500	1000	700	0	700
non-feed dom. cons.	7600	7600	7700	7700	0	7800
Total dom. consumption	8100	8100	8700	8400	0	8500
Ending stocks	672	1115	792	1115	0	1765
<b>TOTAL DISTRIBUTION</b>	<b>10322</b>	<b>10726</b>	<b>11042</b>	<b>11015</b>	<b>0</b>	<b>12115</b>

**Barley**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	11720	11720	11510	11400	0	11400
Beginning stocks	6801	6801	11301	13853	0	15453
Production	52000	52000	52980	51400	0	50200
Total MY imports	5400	4868	5500	4850	0	5350
Oct-Sep imports	5400	5954	5500	5500	0	5350
Oct-Sep imports U.S.	30	32	30	40	0	45
Oct-Sep imp 3rd cntrs	40	47	40	50	0	60
<b>TOTAL SUPPLY</b>	<b>64201</b>	<b>63669</b>	<b>69781</b>	<b>70103</b>	<b>0</b>	<b>71003</b>
Total MY exports	8400	7366	10000	12000	0	11790
Oct-Sep exports	8400	8762	10000	12950	0	11790
Oct-Sep exp 3rd cntrs	2900	2860	4500	7500	0	6500
Feed domestic cons.	33000	31000	33800	31300	0	31650
non-feed dom. cons.	11500	11450	11500	11350	0	11250
Total dom. consumption	44500	42450	45300	42650	0	42900
Ending stocks	11301	13853	14481	15453	0	16313
<b>TOTAL DISTRIBUTION</b>	<b>64201</b>	<b>63669</b>	<b>69781</b>	<b>70103</b>	<b>0</b>	<b>71003</b>

**Corn**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	4170	4170	4060	4000	0	4000
Beginning stocks	4760	4760	7210	5953	0	5403
Production	37600	37600	34660	34300	0	36200
Total MY imports	9800	10508	10000	10000	0	11500
Oct-Sep imports	9800	11465	10000	10500	0	11500
Oct-Sep imports U.S.	0	149	0	100	0	0
Oct-Sep imp 3rd cntrs	1600	1890	2200	2000	0	2000
<b>TOTAL SUPPLY</b>	<b>52160</b>	<b>52868</b>	<b>51870</b>	<b>50253</b>	<b>0</b>	<b>53103</b>
Total MY exports	8350	8915	8100	8500	0	9850
Oct-Sep exports	8350	9973	8100	8700	0	9850
Oct-Sep exp 3rd cntrs	350	398	250	200	0	350
Feed domestic cons.	28000	29500	28750	28000	0	28850
non-feed dom. cons.	8600	8500	8600	8350	0	8250
Total dom. consumption	36600	38000	37350	36350	0	37100
Ending stocks	7210	5953	6420	5403	0	6153
<b>TOTAL DISTRIBUTION</b>	<b>52160</b>	<b>52868</b>	<b>51870</b>	<b>50253</b>	<b>0</b>	<b>53103</b>

**Oats**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	1950	1950	1910	1950	0	1900
Beginning stocks	1336	1336	1086	1214	0	1014
Production	6750	6750	6630	6500	0	6130
Total MY imports	400	384	400	400	0	300
Oct-Sep imports	400	545	400	400	0	300
Oct-Sep imports U.S.	0	0	0	0	0	0
Oct-Sep imp 3rd cntrs	10	2	10	5	0	5
<b>TOTAL SUPPLY</b>	<b>8486</b>	<b>8470</b>	<b>8116</b>	<b>8114</b>	<b>0</b>	<b>7444</b>
Total MY exports	1150	956	1000	1000	0	900
Oct-Sep exports	1150	1274	1000	1200	0	900
Oct-Sep exp 3rd cntrs	750	733	600	800	0	600
Feed domestic cons.	4850	4900	4700	4700	0	4600
non-feed dom. cons.	1400	1400	1400	1400	0	1400
Total dom. consumption	6250	6300	6100	6100	0	6000
Ending stocks	1086	1214	1016	1014	0	544
<b>TOTAL DISTRIBUTION</b>	<b>8486</b>	<b>8470</b>	<b>8116</b>	<b>8114</b>	<b>0</b>	<b>7444</b>

**Rye**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	1350	1350	1460	1400	0	1200
Beginning stocks	1902	1902	3602	3615	0	5265
Production	6100	6100	6590	6400	0	5400
Total MY imports	500	250	500	400	0	250
Oct-Sep imports	500	262	500	300	0	250
Oct-Sep imports U.S.	0	1	0	0	0	0
Oct-Sep imp 3rd cntrs	0	2	0	0	0	0
<b>TOTAL SUPPLY</b>	<b>8502</b>	<b>8252</b>	<b>10692</b>	<b>10415</b>	<b>0</b>	<b>10915</b>
Total MY exports	1000	737	1200	1300	0	1350
Oct-Sep exports	1000	761	1200	1300	0	1350
Oct-Sep exp 3rd cntrs	500	501	700	1000	0	1100
Feed domestic cons.	2150	2150	2000	2050	0	2300
non-feed dom. cons.	1750	1750	1750	1800	0	1800
Total dom. consumption	3900	3900	3750	3850	0	4100
Ending stocks	3602	3615	5742	5265	0	5465
<b>TOTAL DISTRIBUTION</b>	<b>8502</b>	<b>8252</b>	<b>10692</b>	<b>10415</b>	<b>0</b>	<b>10915</b>

**Sorghum**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	120	120	130	160	0	150
Beginning stocks	43	43	93	90	0	50
Production	700	700	700	630	0	530
Total MY imports	450	527	400	530	0	600
Oct-Sep imports	450	544	400	600	0	600
Oct-Sep imports U.S.	150	207	150	300	0	350
Oct-Sep imp 3rd cntrs	250	247	200	350	0	400
<b>TOTAL SUPPLY</b>	<b>1193</b>	<b>1270</b>	<b>1193</b>	<b>1250</b>	<b>0</b>	<b>1180</b>
Total MY exports	200	280	200	300	0	250
Oct-Sep exports	200	301	200	350	0	250
Oct-Sep exp 3rd cntrs	0	4	0	100	0	50
Feed domestic cons.	750	750	800	750	0	750
non-feed dom. cons.	150	150	150	150	0	150
Total dom. consumption	900	900	950	900	0	900
Ending stocks	93	90	43	50	0	30
<b>TOTAL DISTRIBUTION</b>	<b>1193</b>	<b>1270</b>	<b>1193</b>	<b>1250</b>	<b>0</b>	<b>1180</b>



**Millet**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	5	5	5	10	0	10
Beginning stocks	88	88	78	96	0	106
Production	20	20	20	20	0	20
Total MY imports	100	112	100	120	0	120
Oct-Sep imports	100	111	100	120	0	120
Oct-Sep imports U.S.	15	19	15	15	0	20
Oct-Sep imp 3rd cntrs	90	86	90	90	0	90
<b>TOTAL SUPPLY</b>	<b>208</b>	<b>220</b>	<b>198</b>	<b>236</b>	<b>0</b>	<b>246</b>
Total MY exports	30	24	30	30	0	30
Oct-Sep exports	30	25	30	30	0	30
Oct-Sep exp 3rd cntrs	0	1	0	0	0	0
Feed domestic cons.	100	100	100	100	0	100
non-feed dom. cons.	0	0	0	0	0	0
Total dom. consumption	100	100	100	100	0	100
Ending stocks	78	96	68	106	0	116
<b>TOTAL DISTRIBUTION</b>	<b>208</b>	<b>220</b>	<b>198</b>	<b>236</b>	<b>0</b>	<b>246</b>

**Mixed grains**

Production, supply, demand

Beg. Month of MY	7/97		7/98		7/99	
	Revised		Prelimin.		Forecast	
	1997		1998		1999	
	old	new	old	new	old	new
Area harvested	1030	1030	1080	1080	0	1000
Beginning stocks	48	48	298	203	0	203
Production	4700	4700	4990	4750	0	4300
Total MY imports	80	229	80	200	0	200
Oct-Sep imports	80	221	80	200	0	200
Oct-Sep imports U.S.	0	2	0	0	0	0
Oct-Sep imp 3rd cntrs	5	5	5	5	0	5
<b>TOTAL SUPPLY</b>	<b>4828</b>	<b>4977</b>	<b>5368</b>	<b>5153</b>	<b>0</b>	<b>4703</b>
Total MY exports	80	224	100	200	0	200
Oct-Sep exports	100	217	100	200	0	200
Oct-Sep exp 3rd cntrs	0	0	0	0	0	0
Feed domestic cons.	4300	4400	4600	4600	0	4300
non-feed dom. cons.	150	150	150	150	0	150
Total dom. consumption	4450	4550	4750	4750	0	4450
Ending stocks	298	203	518	203	0	53
<b>TOTAL DISTRIBUTION</b>	<b>4828</b>	<b>4977</b>	<b>5368</b>	<b>5153</b>	<b>0</b>	<b>4703</b>