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Agricultural Situation

Grain and Feed Annual Report

1999

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Report Highlights:

Production of wheat and barley should decline sharply in 1999/2000 because of the increase in set-aside and the poor weather conditions during planting. Over the last 12 months, the UK has been importing a significant amount of North American milling sheat because of low quality European milling wheat and the preference many mills have for North American wheat. If Agenda 2000 is approved and there is a 20 percent reduction in the intervention price, US wheat will be even more attractive in the UK as the import duty is based on the intervention price.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
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TABLE OF CONTENTS

EXECUTIVE SUMMARY	Page 1 of 18
Production	Page 2 of 18
Wheat	Page 2 of 18
Barley	Page 2 of 18
Oats	Page 2 of 18
Consumption	Page 2 of 18
Feed Use	Page 2 of 18
Wheat	Page 4 of 18
Barley	Page 4 of 18
Oats	Page 4 of 18
Trade	Page 5 of 18
Wheat	Page 5 of 18
Barley	Page 5 of 18
Oats	Page 5 of 18
Corn	Page 6 of 18
Rice	Page 6 of 18
Policy	Page 6 of 18
Agenda 2000	Page 6 of 18
Assured Combined Crops Scheme (ACCS)	Page 6 of 18
Genetically Modified Organisms	Page 7 of 19
SECTION II. STATISTICAL TABLES	Page 8 of 18
Wheat	Page 8 of 18
Wheat Export Trade Table	Page 9 of 18
Wheat Import Trade Table	Page 10 of 18
Barley	Page 11 of 18
Export Trade Matrix Table	Page 12 of 18
Import Trade Matrix Table	Page 13 of 18
Oats	Page 14 of 18
Corn	Page 15 of 18
Import Trade Matrix Table	Page 16 of 18
Rice	Page 17 of 18
Import Trade Matrix Table	Page 18 of 18

EXECUTIVE SUMMARY

Total grain production (wheat, barley and oats) for 1998/99 in the UK is estimated at 23.032 MMT, down slightly from 1997/98. Total grain production for 1999/00 is forecast to fall over six percent to 21.525 MMT. Production is expected to fall because of the increase in set-aside and wet weather conditions during planting.

In 1998 farmers faced one of the worst years in more than half a century. Low grain prices and reduced subsidy payments because of the strong British pound have resulted in drastically reduced farm incomes. According to the National Farmers' Union, as a consequence of the crisis, incomes for farmers dropped over 50 percent in 1998. However, it should be pointed out that the early 1990s were exceptionally good years for grain farmers.

The UK should import around 1 MMT of wheat in 1998/99. The UK could also import as much as 140,000 MT in 1998/99 of US wheat to mix with UK wheat to make high quality bread products. According to trade sources, the quality of German wheat was poor, making Canadian and US wheat more attractive in the UK market.

Three to five year outlook: We are forecasting that grain production could increase slightly over the next five years. Farmers continue to plant higher value and better yielding varieties. However, this increase depends on what will be the outcome of Agenda 2000.

SECTION I. SITUATION AND OUTLOOK

Production

Wheat

We are estimating that UK wheat production for 1998/99 will be 15.7 MMT, which is an increase of over four percent over 1997/98. The yields in northern England and Scotland were not as good as previously expected earlier in the season. Production is forecast to decline to around 15 MMT in 1999/00 because of the increase in set-aside to 10 percent and poor planting conditions.

Bread quality wheat increased significantly for 1998/99, from around 17 percent of the crop in 1997/98 to around 30 percent of the crop in 1998/99. There has been an increase in the use of new varieties, which gives farmers a premium without lowering yields. For example, grades 1 and 2, varieties that make up milling quality wheat, increased 26 percent over last year.

The price of feed wheat has declined significantly over the last few years, and thus wheat has increased in feed formulations. For example, the price of feed wheat in the UK declined from BPS 121.7/MT in January 1996 to BPS 74.4/MT in January 1999, a decline of almost 40 percent in three years. This decline in price is attributed to the strong British pound, robust production, and sluggish export sales.

Barley

Production in 1998/99 is expected to be around 6.8 MMT, a decline of around 13 percent from 1997/98. Production is forecast to again fall to around 6 MMT in 1999/00 because of the increase in set-aside, the poor planting conditions for winter barley, and the shift out of barley and into rapeseed by some farmers.

Oats

The oats market is relatively small compared to the wheat and barley markets. Production of oats is estimated to be 532,000 MT in 1998/99 and fall slightly to around 525,000 MT in 1999/00 because of the increase in set-aside and generally poor planting conditions.

Consumption

Feed Use

The decline in cattle feed production slowed in 1998. Total cattle and calf feed was around 5 percent lower in 1998, compared to a decline of 12 percent in 1997. This leveling off of the decline is a reflection of the recovery of the livestock industry after the BSE crisis. However, industry contacts have stated that there will be a steady, gradual decline in cattle compound feed production as dairy farmers become more efficient with forage use at the expense of compound feed use.

Pig compound feed production increased over 4 percent in 1998. However, because of the high slaughter rate caused by declining pig prices, pig compound feed production declined 1.6 percent over the last quarter of 1998. This decline in pig compound feed should continue into 1999 as the crisis in the pig industry continues. The

poultry industry has grown at between 2 and 3 percent per year over the last several years. MAFF figures, however, show a decline for poultry feed production. Nonetheless, industry contacts believe that MAFF will increase the 1998 estimate later in the year.

In the UK, grains generally account for between 30-50 percent of the raw materials used in animal feed. Incorporation of wheat in compound feed continued its upward trend in 1998 at the expense of barley because of the favorable price relationship for wheat.

UK Compound Feed Production (1,000 MT)

	1998	1997	% change
Cattle and Calf	3,440.5	3,616.9	4.9
Pig	2,585.5	2,482.0	4.2
Poultry	3,611.6	3,632.0	-0.6
Other	1,106.4	1,112.2	-0.5
Total	10,744.0	10,843.1	-0.6

Source: The Ministry of Agriculture, Fisheries and Food (MAFF)

Feed Ingredient Usage in the UK (1,000 MT)

	1998	1997	% change
Wheat	3,350.2	3,300.4	+1.5
Barley	732.0	735.3	-0.4
Maize gluten	426.6	444.8	-4.1
Cereal by-products	1,218.5	1,107.8	+10.0
Soy meal	1,194.5	1,176.7	+1.5
Sunflower meal	450.3	539.8	-16.6
Other oilmeal	453.3	443.3	+2.3
Other materials	2,918.3	3,095.0	-5.7
Total	10,744.0	10,843.1	-0.6

Source: MAFF

Wheat

Total wheat consumption for 1998/99 is estimated at 13.0 MMT, up slightly from the previous year. This increase is generally attributed to an increase in feed use. Wheat usage continues to increase, reflecting the lower price of wheat, the improvement in its competitiveness against other ingredients, and the increase in poultry numbers, rations for which wheat has a higher content. In addition, barley is being offered into intervention while feed wheat does not meet the intervention quality criteria, so it has to price itself into feed rations and other markets.

According to the Home-Grown Cereals Authority (HGCA), around 1,500 MT of Class II milling wheat is in intervention, nearly 5,000 MT was offered into intervention during the last week of February, and 20,000 MT of wheat is currently under test for intervention. Sales of wheat into intervention will support the milling quality wheat market. However, it is unlikely these sales will prevent feed wheat prices from falling further in the absence of international demand. UK feed wheat prices have tended to follow prices in the French market.

Domestic consumption should increase slightly in 1999/00 as wheat for feed continues to increase. The poultry industry remains a growth industry, growing between two and three percent per year, and accounting for a significant amount of total wheat usage in the livestock sector. However, even with the increase in the poultry industry, the pig industry, another major user of feed wheat, should hold down a large increase in feed use for 1999/00. The pig industry is a cyclical industry and pig numbers have actually dropped slightly at the end of 1998 as the price of pig meat declined.

Barley

Total domestic consumption is expected to decline slightly in 1998/99 to 5.44 MMT. Feed barley usage has been depressed over the last few years as feed compounders use more wheat in their rations due to attractive wheat prices and the increased demand for poultry feed, which has a higher wheat content than cattle feed. In fact, barley usage in poultry compound feed declined 30 percent from 1991/92 to 1997/98. We are estimating that human consumption will also decline in 1998/99 and 1999/00. There has been a historical downward trend in human consumption because of efficiency gains; it now takes less barley to make the same amount of malt. Total domestic consumption should fall slightly in 1999/00 to 5.39 MMT.

Oats

Oats are usually fairly evenly split between human consumption and animal feed. Similar to the other grains, the price of feed oats has fallen significantly over the last three years, from BPS 106.6/MT in January 1996 to BPS 69.2/MT in January 1999, a drop of 35 percent.

Feed use demand generally stays relatively stable from year to year. Feed domestic consumption is estimated at 185,000 MT for both 1998/99 and 1999/00. Human use domestic consumption, however, has tended upward over the last several years as there has been increased demand for breakfast cereals and oat flour.

Trade

Wheat

We are increasing our import estimate for 1998/99 to 1 MMT. According to the trade, UK millers have imported a significant amount of high quality North American wheat thus far in 1998/99. Millers are mixing Canadian and US wheat with English wheat to make high quality bread products. For example, from July through November period, imports from the United States have increased from 47,000 MT for 1997/98 to over 61,000 MT for 1998/99. The lower quality European crop, the gradual lowering of import tariffs, and the preference some mills have for North American wheat are the reasons behind this increase. Imports are forecast in 1999/00 to remain at this year's level of 1 MMT. If Agenda 2000 is approved and there is a 20 percent cut in the intervention, US wheat could be even more attractive as the import duty is based on the intervention price.

We are reducing exports for 1998/99 to 3 MMT. According to government figures, exports were around 1.6 MMT until the end of 1998. However, there has been weak export demand since November. UK wheat exports are unable to compete with French wheat, the price of which has recently fallen significantly because of a large crop and weak demand. We increased stock levels to correspond to this decrease in exports. Exports are forecast to remain at around 3.0 MMT in 1999/00 because of stagnant world demand.

Barley

Imports for 1998/99 and 1999/00 should remain at 150,000 MT. Likewise, exports should be around 1.6 MMT in 1998/99 and remain at this level for 1999/00. The main markets should continue to be Spain, Portugal and Italy in the EU and Algeria, Norway and Saudi Arabia outside the EU. Feed barley currently has a premium over feed wheat. As of February 25, for example, the ex-farm price for feed wheat was BPS 71.3/MT while the ex-farm price for feed barley was BPS 76.5/MT. This unusual situation has been caused by strong export demand and the fact that feed barley qualifies for intervention while feed wheat doesn't qualify for intervention. As of end of February, around 525,000 MT of barley have been exported out of UK intervention. Exports should continue to be robust into 1999 as world demand remains strong.

Oats

Exports are expected to be around 60,000 MT in 1998/99 and fall to around 50,000 MT in 1999/00. Oat exports are determined by the competitiveness of UK supplies against other EU sources, particularly Scandinavia. Spain accounts for the largest export market for the UK. We increased exports for 1997/98 to 80,000 MT to reflect official government data.

Corn

Imports of corn during 1998/99 are expected to be around 1.4 MMT for 1998/99 and 1999/00. Imported corn is used mostly by the starch industry. France is the dominant supplier of corn to the UK, having overtaken the United States as a result of the import levy that disadvantaged US product.

Rice

1998/99 rice imports in the UK are estimated at about 335,000 MT. Rice of EU origin accounts for between 15 and 20 percent of imports, mostly from Italy and Spain. US rice sales to the UK in 1998 were 82,513 MT. Intra-EU data indicate that there have been significant quantities of US rice transshipped from the Netherlands, Belgium, and Luxemburg into the UK. However, it is difficult to determine exact quantities.

US rice increased almost 50 percent for 1998. According to the trade, this increase was caused by the increase in the EU tariff rate quota, a change in shipping patterns away from Rotterdam and directly to UK ports, and the preference UK consumers have for US rice. According to the trade, the end of the cumulative recovery system and the new reference price system should also make US rice more competitive in the EU since the new system will be based on quality considerations.

Policy

Agenda 2000

The UK agricultural industry is in broad agreement with the Government over Agenda 2000 proposals, particularly the 20 percent cut in grain support payments. Analysts at MAFF believe that the reduction in grain intervention prices should be sufficient to allow EU to trade at world prices for wheat, although barley prices may remain above world prices.

Assured Combined Crops Scheme (ACCS)

The National Farmers' Union (NFU), which represents around 70 percent of farmers in England and Wales, is promoting an Assured Combinable Crops Scheme. The scheme combines an agreed production standard with independent verification. The purpose of the scheme, which is voluntary, is to demonstrate to purchasers and consumers that grains, oilseeds and protein crops are grown safely and responsibly. The scheme's protocol was launched in June of 1997 and verification began for the 1998/99 crop season.

ACCS membership has increased rapidly over the last several months as many millers, malsters and compounders have publically stated their intention to only accept grain from the assured market by harvest 2000. The scheme has around 6,300 members, which is expected to grow to around 10,000 members by this year's harvest.

Consumer awareness of food safety concerns has increased after recent food scares related to BSE and E. Coli. The NFU believes that the scheme is necessary to safeguard consumer confidence and allow producers to demonstrate due diligence under the Food Safety Act.

Genetically Modified Organisms

During the month of February, there has been a furor in the UK over genetically modified organisms (GMOs), initiated by environmental special interest groups and the print media. The UK Government, however, has continued to reject calls for a moratorium and has taken a more active role in countering anti-GMO rhetoric, including an opinion piece in a UK newspaper by Tony Blair.

The UK Government has repeatedly rejected calls to impose a moratorium on the planting of GM crops in the UK. In general, HMG is supportive of biotechnology. Nonetheless, HMG wants to proceed with caution and provide assurances through surveillance and monitoring. The Government is working with the industry group SCIMAC (The Supply Chain Initiative on Modified Agricultural Crops) on a controlled introduction into the UK of GM crops. Given that all other regulatory measures are met, the commercial release of spring rapeseed is scheduled for 2000.

The SCIMAC measures include: (1) an industry wide code of practice establishing the monitoring and control at each stage of the supply chain; (2) formal agreements to ensure compliance with the code of practice, from the initial seed supply through to the harvested end product; (3) detailed on-farm management guidelines to ensure best practice in the production of GM crops; (4) a formalized program of inspection to ensure compliance; (5) random independent audit and review. Penalties for non-compliance will range from improvement notices through to withdrawal of access to technology.

In addition, further agreement has been reached between HMG and SCIMAC for programs of ecological monitoring and research. For example, the Government recently announced a joint study with the industry that will look at the environmental implications of GM crops. GM rapeseed, fodder beet, and fodder maize will be grown along with standard rapeseed, fodder beet, and fodder maize over a four year period. Large scale plots will be sown this spring and initial findings will be available by the end of 1999.

SECTION II. STATISTICAL TABLES

Wheat

PSD Table						
Country	United Kingdom					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		07/1997		07/1998		07/1999
Area Harvested	2036	2036	2100	2100	0	2050
Beginning Stocks	1952	1952	1378	1405	1528	2105
Production	15050	15050	15700	15700	0	15000
TOTAL Mkt. Yr. Imports	1272	1299	900	1000	0	1000
Jul-Jun Imports	1272	1299	900	1000	0	1000
Jul-Jun Import U.S.	127	127	140	140	0	140
TOTAL SUPPLY	18274	18301	17978	18105	1528	18105
TOTAL Mkt. Yr. Exports	3996	3996	3500	3000	0	3000
Jul-Jun Exports	3996	3996	3500	3000	0	3000
Feed Dom. Consumption	6039	6039	6050	6100	0	6150
TOTAL Dom. Consumption	12900	12900	12950	13000	0	13050
Ending Stocks	1378	1405	1528	2105	0	2055
TOTAL DISTRIBUTION	18274	18301	17978	18105	0	18105

Wheat Export Trade Table

Export Trade Matrix			
Country	United Kingdom		
Commodity	Wheat	Units: MT	
Time period	1997/98		1998/99 (to Nov)
Exports for:			
U.S.		U.S.	
Others		Others	
Ireland	210216	Ireland	130000
France	281987	France	118000
Germany	265259	Germany	99000
Italy	445449	Greece	71000
Netherlands	147212	Italy	360000
Portugal	350624	Netherlands	81000
Spain	1578057	Portugal	104000
Bangladesh	151129	Spain	528000
Ethiopia	133806	Bangladesh	172000
Norway	168446	Ethiopia	50000
Total for Others	3732185		1642000
Others not Listed	295449		158000
Grand Total	4027634		1800000

Wheat Import Trade Table

Import Trade Matrix			
Country	United Kingdom		
Commodity	Wheat	Unit: MT	
Time period	1997/98		1998/99 (to Nov)
Imports for:			
U.S.	127193	U.S.	40421
Others		Others	
Belgium	20193	Belgium	3192
Denmark	15254	Denmark	9376
Ireland	103806	Ireland	14775
France	270511	France	113302
Germany	392888	Germany	144923
Netherlands	6845	Netherlands	4498
Spain	30410	Spain	3217
Sweden	14633	Italy	197
Argentina	6536	Canada	190437
Canada	308138		
Total for Others	1169214		483917
Others not Listed	2143		
Grand Total	1298550		524338

Barley

PSD Table						
Country	United Kingdom					
Commodity	Barley				(1000 HA)(1000 MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		07/1997		07/1998		07/1999
Area Harvested	1328	1328	1270	1270	0	1120
Beginning Stocks	1032	1032	2168	2178	2078	2088
Production	7850	7850	6800	6800	0	6000
TOTAL Mkt. Yr. Imports	161	162	150	150	0	150
Oct-Sep Imports	161	162	150	150	0	150
Oct-Sep Import U.S.	34	34	34	34	0	34
TOTAL SUPPLY	9043	9044	9118	9128	2078	8238
TOTAL Mkt. Yr. Exports	1300	1291	1600	1600	0	1600
Oct-Sep Exports	1300	1291	1600	1600	0	1600
Feed Dom. Consumption	3318	3318	3190	3190	0	3150
TOTAL Dom. Consumption	5575	5575	5440	5440	0	5390
Ending Stocks	2168	2178	2078	2088	0	1248
TOTAL DISTRIBUTION	9043	9044	9118	9128	0	8238

Export Trade Matrix Table

Export Trade Matrix	Units: MT		
Time period July-June	1997/98		1998/99 (as of Nov)
U.S.		U.S.	4
Others		Others	
Bel-Lux	60743	Bel-Lux	20875
France	78526	France	74351
Greece	86326	Greece	39913
Italy	105360	Italy	48831
Netherlands	44240	Netherlands	34316
Portugal	122797	Portugal	57270
Spain	312575	Spain	72039
Algeria	97954	Algeria	71355
Saudi Arabia	161263	Saudi Arabia	246904
South Korea	57033	China	150125
Total for Others	1126817	Total for Others	767148
Others not Listed	163960	Others not listed	273392
Grand Total	1290777		1040544

Import Trade Matrix Table

Import Trade Matrix	Units: MT		
Time period July-June	1997/98		1998/99 (as of Nov)
Imports for:			
U.S.	17767	U.S.	14867
Others		Others	
Denmark	30266	Denmark	18860
Ireland	69621	Ireland	5286
France	18004	France	10521
Germany	16600	Germany	19190
Sweden	8980	Netherlands	1388
Bel-Lux	18		
Netherlands	25		
Canada	1027		
New Zealand	22		
Total for Others	144563		55245
Others not Listed		Others not listed	14
Grand Total	162330		70126

Oats

PSD Table						
Country	United Kingdom					
Commodity	Oats				(1000 HA)(1000 MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		07/1997		07/1998		07/1999
Area Harvested	105	105	96	96	0	92
Beginning Stocks	42	42	45	32	30	20
Production	540	540	532	532	0	525
TOTAL Mkt. Yr. Imports	15	15	8	8	0	10
Oct-Sep Imports	15	15	8	8	0	10
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	597	597	585	572	30	555
TOTAL Mkt. Yr. Exports	62	80	60	60	0	50
Oct-Sep Exports	62	80	60	60	0	50
Feed Dom. Consumption	185	185	185	185	0	185
TOTAL Dom. Consumption	490	485	495	492	0	494
Ending Stocks	45	32	30	20	0	11
TOTAL DISTRIBUTION	597	597	585	572	0	555

Corn

PSD Table						
Country	United Kingdom					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		07/1997		07/1998		07/1999
Area Harvested	0	0	0	0	0	0
Beginning Stocks	68	68	17	17	17	7
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	1401	1370	1550	1400	0	1400
Oct-Sep Imports	1401	1370	1550	1400	0	1400
Oct-Sep Import U.S.	12	12	10	7	0	7
TOTAL SUPPLY	1469	1438	1567	1417	17	1407
TOTAL Mkt. Yr. Exports	17	13	13	10	0	10
Oct-Sep Exports	0	13	13	10	0	10
Feed Dom. Consumption	126	126	110	100	0	110
TOTAL Dom. Consumption	1435	1408	1537	1400	0	1390
Ending Stocks	17	17	17	7	0	7
TOTAL DISTRIBUTION	1469	1438	1567	1417	0	1407

Import Trade Matrix Table

Import Trade Matrix	Units: MT		
Time period July-June	1997/98		1998/99 (as of Nov)
Imports for:			
U.S.	7347	U.S.	3767
Others		Others	
Bel-Lux	24917	Bel-Lux	13342
Ireland	9600	Ireland	3385
France	1032027	France	452376
Germany	654	Germany	25
Greece	17329	Hungary	2022
Italy	5481	Italy	43
Netherlands	2586	Netherlands	375
Spain	4053	Spain	33183
Argentina	251266	Argentina	151100
Canada	10768	Canada	278
Total for Others	1358681		656129
Others not Listed	3526	Others not listed	316
Grand Total	1369554		660212

Rice

PSD Table						
Country	United Kingdom					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		09/1997		09/1998		09/1999
Area Harvested	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Milled Production	0	0	0	0	0	0
Rough Production	0	0	0	0	0	0
MILLING RATE (.9999)	0	0	0	0	0	0
TOTAL Imports	300	335	0	335	0	340
Jan-Dec Imports	285	335	0	335	0	340
Jan-Dec Import U.S.	0	64	0	90	0	90
TOTAL SUPPLY	300	335	0	335	0	340
TOTAL Exports	20	10	0	10	0	10
Jan-Dec Exports	15	10	0	10	0	10
TOTAL Dom. Consumption	280	325	0	325	0	330
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	300	335	0	335	0	340

Import Trade Matrix Table

Import Trade Matrix			
Country	United Kingdom		
Commodity	Rice, Milled	Units: MT	
Time period	1997		1998*
Imports for:			
U.S.	55168	U.S.	82513
Others		Others	
India	42660	India	68837
Italy	66020	Italy	40743
Netherlands	60465	Netherlands	31903
Bel-Lux	24841	Bel-Lux	13517
Comm countries	13218	Australia	20363
Australia	18645	Spain	13225
Spain	14910	Thailand	6945
Thailand	6126	France	7509
France	9861	Pakistan	17182
Portugal	2152	Portugal	3751
Total for Others	258898		223975
Others not Listed	21501	Others not listed	17986
Grand Total	335567		324474

* For intra-EU, the data is up to September. For extra-EU, the data is up to December.