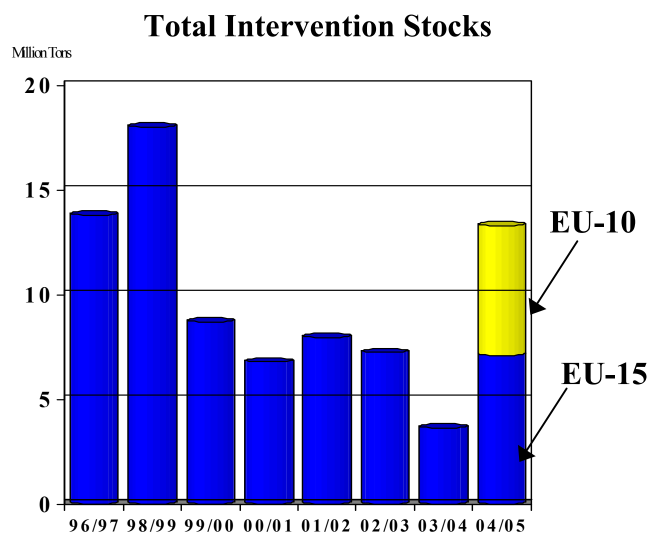
INTERNATIONAL MARKET ANALYSIS

EU Weighs Ways to Solve Intervention Problems in New Member States

Record grain crops and assimilating 10 new countries have created unique market stabilization problems for the EU Commission. They have also crystallized the differences in market infrastructures between the old (France and Germany) and new members (Hungary and the Czech Republic).



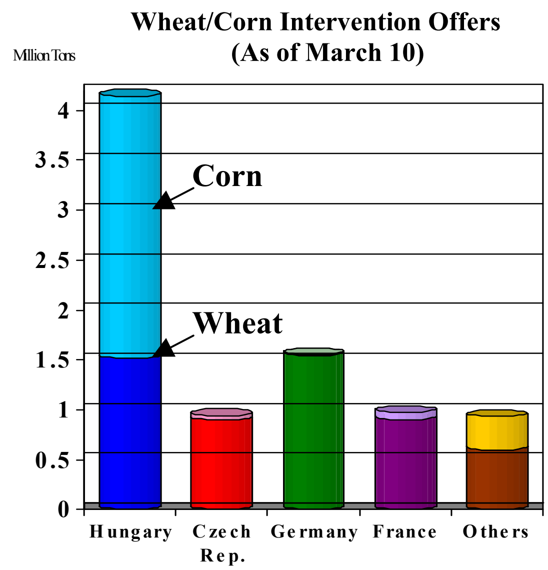
04/05 Includes Beginning Stocks and Offers and Acceptances as of Mar 10

French and German producers have an effective market infrastructure that keeps market prices above the intervention support price (101 euros) based on strong domestic demand, a large private storage system, and an efficient transportation system to export facilities/positions. With more attractive marketing options, relatively little grain is normally offered for sale to government intervention storage facilities until the end of the season. These EU-15 facilities have held as much as 33 million tons of grain in the past.

Conversely, producers in landlocked Hungary and the Czech Republic face falling prices because of weak, inelastic demand, inadequate private storage facilities and an inefficient and costly transportation system to export markets. Government intervention has, therefore, become a primary marketing option in these countries with nearly 5 million tons of wheat and corn already offered [see chart]. Because the intervention system is presently unable to cope with such large quantities, the Commission and member state governments have implemented, or are considering, three main ways of addressing the growing intervention stocks problem.

In order to stem the tide of new intervention offers, the Commission resumed free market wheat restitution export tenders for 2 million tons. The approved restitutions (subsidies) have climbed from 4 euros per ton initially to 6, 8, and 10 euros in subsequent weeks and now cover about 1.2 million tons. This move, however, is likely to do little to reduce intervention offers in new member states because Hungarian and Czech wheat cannot compete with French and German exports (subsidized or unsubsidized) because of high transportation costs. As a result, France and Germany continue to be the main beneficiaries of export subsidies.

To help reduce intervention stocks held by new member states, the Commission has opened intervention export tenders for nearly 800,000 tons of wheat, most of which are designated to come from Hungarian and Czech facilities. Unlike free market export subsidies, which apply equally to all member states, this move focuses on the areas where the stock problem is most acute. The Commission has already made regulatory provision for paying the transportation cost to the nearest seaport, likely to be Constanza in Romania or Koper in Slovenia.



The Commission is also reportedly reviewing member state proposals to transport grain to intervention facilities in nearby countries. The Hungarian Agriculture Ministry recently invited offers from facilities in Belgium and Germany to take intervention grains. Czech officials are also reportedly in talks to transport grain to Germany, where intervention storage space is much greater. It is still unclear whether the Commission would pay the transportation subsidy for such an action. Even if the stocks were transferred, however, it would still leave the grain in intervention and so would not solve the problem of rising stocks in the EU-25 as a whole.

Ocean Freight Rebounds From Lunar New Year Break

Rates for Panamax size ships on the U.S. Gulf to Japan benchmark route dropped almost $5 a ton at the beginning of February on decreased Asian demand due to the Lunar New Year. However, rates climbed back near $60/MT towards the middle of the month and are expected to remain rather strong on continuing robust demand for coal, iron ore, and grain by China and other Pacific Rim countries.