



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 1/6/2003

GAIN Report #E23001

European Union

Grain and Feed

Semi-Annual

2003

Approved by:

Christine Strossman

U.S. Mission to the European Union, Brussels

Prepared by:

Christine Strossman

Report Highlights:

While EU grain production has re-bounded in 2002/2003, imports of low-priced feed wheat have continued to flow in. In response, the EU has instituted new import arrangements starting January 1, 2003. EU exports face strong competition from Black Sea Region suppliers, but opportunities are available in some non-traditional markets.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2], E2

Executive Summary	1
Wheat	1
Overview	1
New Import Arrangements	2
Exports	3
Consumption	4
Mid-term review	4
Barley	5
Overview	5
Import arrangements	6
Corn	6
Overview	7
Other Grains	7
Rye	7
Oats	8
Sorghum	9

Note: This is a consolidated EU-15 report prepared with input from the following FAS analysts:

Bob Flach from FAS The Hague
Xavier Audran from FAS Paris
Steve Knight from FAS London
Diego Pazos from Fas Madrid
Sandro Perini from FAS Rome
Dietmar Achilles from FAS Bonn

Executive Summary

Improved grain production in 2002/2003 in the EU has not prevented a repeat of the influx of imports experienced in 2001/2002 - import licenses have been granted for nearly eight million MT of wheat for the period from July to December 2002. The EU faces competition with low-priced Black Sea region origin wheat and barley both internally and on world markets. In response to the import situation, the EU passed new import rules setting limits on imports of barley medium and low quality wheat starting January 1, 2003. While these limits will affect imports during the second half of the marketing year and even more so in subsequent marketing years, they only intensify competition for EU wheat on world markets. However, due to drastically reduced supplies from the traditional producers (US, Canada and Australia) some outlets remain for EU wheat, including the US and Australian markets. While tight world conditions prevail for barley also, the EU does not have additional supplies to respond to the increased demand for malting barley, although additional feed barley sales are expected.

Wheat

PSD Table						
Country	European Union					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	17816	17934	16523	16576	17808	17734
Beginning Stocks	12649	12649	13384	13655	11182	12079
Production	104784	104784	91725	90943	103700	103700
TOTAL Mkt. Yr. Imports	3159	3301	9822	9940	8000	9500
Jul-Jun Imports	3159	3301	9822	9940	8000	9500
Jul-Jun Import U.S.	166	1380	0	2103	0	1100
TOTAL SUPPLY	120592	120734	114931	114538	122882	125279
TOTAL Mkt. Yr. Exports	15225	15279	11494	11508	15500	15000
Jul-Jun Exports	15225	15279	11494	11508	15500	15000
Feed Dom. Consumption	46822	42300	47497	40885	52280	45500
TOTAL Dom. Consumption	91983	91800	92255	90951	97197	95829
Ending Stocks	13384	13655	11182	12079	10185	14450
TOTAL DISTRIBUTION	120592	120734	114931	114538	122882	125279

Overview

Improved wheat production in 2002/2003 has not prevented a repeat of the influx of imports experienced in 2001/2002. The Black Sea region (Russia and the Ukraine) has had a good harvest and is increasingly able to move

large quantities into export channels. Imports into the EU have been facilitated by zero duties under the margin of preference system. This system sets duties based on the difference between reference prices (taken from US commodity exchanges) and the EU intervention price. Due to poor crop results in the three main traditional exporters, the US, Canada and Australia, prices on US commodity exchanges have been high, leading to low or zero duties. As a result of the low duties and competitive prices of Black Sea region (BSR) origin grains, import licenses so far this marketing year out-pace even last year's record levels. Ironically, part of the reason for the large volumes imported since July was market speculation that imports would be cut off by a new tariff rate quota (TRQ) system proposed by the EU to start on January 1, 2003. The EU originally proposed to impose restrictive TRQs on imports of all grains, leading importers to scramble to make sure their needs were covered, even under the worst-case scenario. While the ultimate outcome of the negotiations was less-restrictive (see next section), feed wheat imports will be restricted after January 1, 2003. For these reasons, we have only moderately increased our import estimate, with the expectation that only 1.5 MMT of wheat and products will be imported in the second half of the 2002/2003 marketing year, in addition to the estimated 8 MMT already licensed for import during the first half.

New Import Arrangements

The United States and the European Commission announced a compromise on new import arrangements for grain on November 12th. The EU agreed to maintain the current margin of preference system for durum wheat, high-quality common wheat, corn, rye, and sorghum, while setting up tariff rate quotas (TRQs) for medium and low quality wheat and barley. Starting on January 1, 2003, the EU will allow global imports of up to 2,981,600 metric tons of medium and low quality wheat per year at a duty of 12 Euros per metric ton. Of this amount, the United States will receive a country allocation of 572,000 metric tons, and Canada will receive 38,000 metric tons. The agreement was approved by the EU Agriculture Council on December 17th allowing formal signature of the exchange of letters between the US (and Canada) and the EU to take place before the end of 2002.

Implementing legislation was agreed at the Cereals Management Committee on December 19 and was published in the Official Journal on January 31, 2002. The full texts of the regulations are available for a limited period at the following website: http://europa.eu.int/eur-lex/en/oj/2002/l_35820021231en.htm. The quota for medium and low quality common wheat will be split into four equal tranches of 592,900 MT on a calendar year basis with each tranche allocated on a first-come, first-served basis during each quarter. If more requests for import licenses are requested than the available amount in a given quarter, the licenses will be subject to a reduction coefficient. The EU may open the tranches early if market conditions warrant it and will carry over unused amounts to the next quarter automatically (except for after the last quarter). The allocations for the US and Canada will not be split into tranches. If the allocations for the US and Canada are under-used, they may be re-allocated for global use with prior approval from the US and Canadian governments. Import license requests for quantities under the quotas must be accompanied by a 30 Euro/ton security which must be forfeited if the license is not used.

High quality soft wheat and durum are not subject to a quota, but must meet quality criteria in order to benefit from the existing Margin of Preference arrangements. The criteria for classifying the different qualities of wheat are set out in EU legislation (Regulation 1249/96, as amended). Soft wheat which does not meet the established quality standards would be subject to the prohibitive bound rate of 95 Euro/ton, or would have to be brought in under the TRQ if quantities

were still available. For this reason, traders are required to provide a 95 Euro/ton security in case their wheat does not meet the standards for high quality soft wheat and is subject to the full duty. However, Canadian and US wheat will be exempt from this requirement if it is accompanied by an official quality certificate recognized by the EU. In that case, only a 5 Euro/ton security will be required.

For durum wheat, a security equal to the difference between the duty for the stated quality and the highest duty will be required. For example, if the duty on high quality durum is 10 Euros/MT and the duty on low quality durum is 50 Euros/ton, a 40 Euro/ton security would be required. Again, Canadian and US durum will be exempt from this requirement if accompanied by an official quality certificate and will be subject only to the 5 Euro/ton security.

Discussions about the new import arrangements are still under way between the EU and Russia and Ukraine. While Russia and Ukraine are not WTO members and therefore have no formal rights to negotiate with the EU, they have expressed strong opposition to the TRQs which will severely restrict their exports to the EU compared to levels obtained in the past two years. While Russia and Ukraine will have access to the global portion of the TRQs for low and medium quality soft wheat and barley, they have pushed for quantities in addition to the 2,371,600 and 300,000 tons available under those TRQs. While the EU Commission is reportedly considering making specific allocations for Russia and Ukraine within the TRQs, it is not expected that any additional amounts will be made available. Press reports indicate that recent Russian plans to create TRQs on meat imports are partly in retaliation for the EU's refusal to allow additional quantities for Russian wheat. While several EU Member States which export meat to Russia expressed concern about this risk, it did not prevent the Agriculture Council approving the TRQs.

Exports

Due to the rebound in production, there is a large exportable surplus of wheat in the UK and France. However, the potential for this to be exported is limited by competition from cheaper wheat originating in the BSR. The main question is not whether, but rather where EU wheat will face competition from the cheaper BSR origins. Phytosanitary issues also play a role as French and UK wheat may meet standards in some markets that are closed to BSR origin wheat. The competition has been taking place in the EU's own internal market, particularly in the grain deficit countries (Spain, Italy) as well as in traditional EU export markets such as North Africa. As the imposition of TRQs reduces access for BSR origin wheat to the EU, the supplies will shift to other destinations, further deteriorating the EU's export competitiveness. For this reason, we estimate a buildup in ending stocks.

The new TRQ allows for 1,185,800 MT of medium and low quality wheat from non-US/Canadian sources to be imported on a first-come, first-served basis during the first six months of 2003. If the EU remains an attractive destination even once the 12 Euro tariff is taken into account, the full amount available could flow into the EU market this marketing year. Price comparisons between the EU and BSR origins indicate that sellers will be able to discount their BSR origin wheat by the amount of the tariff and remain competitive on the EU market. As long as the price differential between BSR origin and EU origin wheat is large enough, imports will continue to flow in. However, the tariff will make other markets relatively more attractive for BSR origin grain, leading to increased competition for EU wheat on those markets. At the same time, competition from the US, Canada and Australia has been reduced, creating

some opportunities for non-traditional EU exports, such as French or Spanish durum into North Africa and UK wheat into Australia.

Some EU wheat has also been exported to the US for the first time in recent memory. All shipments have so far been unsubsidized. A 30,000 MT shipment of French milling wheat has already been exported and it is possible that more shipments could follow. Thus far, three shipments of UK feed wheat, two in late September and the third in early November, totaling almost 85,000 MT have been recorded. UK feed wheat has also been shipped to Australia with 50,000 tons shipped so far and another 100,000 tons possibly to follow.

This highly unusual situation has arisen out of the ongoing price differential between the U.S. and Australia, where low quality wheat is in tight supply and prices are high, and the EU, where supplies of feed wheat are abundant - largely a reflection of the downgrading of much of Germany's usual crop of milling wheat to feed. Market sources indicate this trade will likely continue as long as the price differential remains with top end estimates suggesting that as much as 300,000 MT of UK feed wheat could find a home in the U.S. before the season is out.

Unlike BSR countries and a number of other EU Member States, the UK and France do not face any substantial phytosanitary barriers in exporting wheat to the U.S. That said, traders are unable to monopolize on this situation by importing BSR origin wheat into the UK and exporting UK origin wheat on to markets such as the U.S. because most grain purchasers in the UK demand levels of product assurance unobtainable on BSR grain. As such, this does limit the volume likely to be traded.

Consumption

Due to the increase in production and imports, wheat has become relatively cheaper and more attractive for feed use. This is also due to reduced availability of other sources of protein for feed use, due to the ban on the use of meat and bone meal and relatively higher soybean prices. This, combined with an overall recovery in the meat sector, has led to much higher demand for feed wheat. In Spain and France particularly, there has been a large increase in the use of wheat for feed, replacing corn and feed peas in rations. The improved price competitiveness of wheat is also expected to boost industrial use as well, particularly for starch and gluten production.

Mid-term review

Reports indicate that the European Commission intends to publish proposals in January 2003 based upon the Mid-term review concept paper for Common Agricultural Reform published in July 2002. As was already suggested in the concept paper, the Commission is expected to propose a five percent reduction in the intervention price for grains (from 101.31 Euro/MT to 95.35 Euro/MT), accompanied by a 3 Euro/MT increase in direct aids to producers. They will also propose to abolish the monthly increment system as well as production refunds for starch. The payment for durum wheat grown in traditional production zones will be reduced from 344.5 Euro/Hectare to 250 Euro/Hectare. Durum wheat grown in traditional zones and meeting certain quality requirements would also be eligible for a quality premium of 40 Euro/Hectare. The payment for durum wheat grown in well-established zones will be phased out. The changes for durum wheat are to be implemented over a three year period starting in 2004.

Barley

PSD Table						
Country	European Union					
Commodity	Barley				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	10804	10798	10783	10788	10620	10593
Beginning Stocks	10471	8534	8310	8310	9319	9210
Production	51659	51659	48156	48189	48100	47960
TOTAL Mkt. Yr. Imports	164	50	982	1059	500	550
Oct-Sep Imports	212	109	1000	1120	300	550
Oct-Sep Import U.S.	74	67	47	20	0	35
TOTAL SUPPLY	62294	60243	57448	57558	57919	57720
TOTAL Mkt. Yr. Exports	7895	7560	3648	3648	4000	5000
Oct-Sep Exports	6148	6148	3400	3450	4000	5000
Feed Dom. Consumption	33875	32540	32300	32300	29230	31600
TOTAL Dom. Consumption	46089	44373	44481	44700	42100	43845
Ending Stocks	8310	8310	9319	9210	11819	8875
TOTAL DISTRIBUTION	62294	60243	57448	57558	57919	57720

Overview

France has had an excellent barley crop for 2002/2003, while results have been less impressive in the UK and Germany. Production has rebounded in Spain, although somewhat less than predicted in our June report. As a result, we now expect higher imports of barley into Spain than previously forecast. Overall EU production is expected to be slightly lower than last year, but exports are expected to increase. This is the result of the situation on the world market for both feed and malting barley and the dynamics of competition from BSR origin feed grains. Internal EU exports from barley surplus Member States like France to barley deficit Member States like Spain are expected to suffer from a combination of three effects: the rebound in Spanish local production, competition from cheaper BSR origin barley (entering at zero duty) and competition from cheaper BSR origin feed wheat which is replacing barley in feed rations. Overall imports of barley, even from the BSR are expected to reach only around half of last year's record levels.

At the same time, dramatically reduced crops in the traditional exporting countries (North America and Australia) have created opportunities on the world market for both BSR origin and EU origin barley. BSR origin supplies are not expected to cover all of the additional demand, creating an opportunity for EU feed barley. This is expected to lead to an additional one to two million tons of mainly feed barley exports compared to last year, mainly from France to Middle Eastern destinations. As a result, we have raised our export estimate and lowered ending stocks compared to our previous forecast.

This is also due to more than previously expected use of barley in French feed rations. While the short crops in Canada and Australia have also created opportunities for malting barley, the EU does not have the additional exportable surplus this year needed to meet the demand. We estimate that the EU will export a maximum of 1.5 million MT of malting barley this year, mainly from France and Denmark, approximately the same amount as last year. Some of these exports will end up in the US, with 150,000 MT of French malting barley having already been sold to North American maltsters.

Import arrangements

Under the US - EU agreement described in the previous section, the EU will allow imports of up to 50,000 metric tons per year of malting barley at a duty of 8 Euros per metric ton. For varieties of barley other than malting barley, the EU will allow imports of up to 300,000 metric tons per year at a duty of 16 Euros per metric ton. Imports in excess of these quotas will be subject to the full bound rate of duty of 93 Euros/MT. As in the case of medium and low quality wheat, import license requests for quantities under the 300,000 MT feed barley quota must be accompanied by a 30 Euro/ton security which must be forfeited if the license is not used. Importers must provide a security of 85 Euros/MT to use the 50,000 MT malting barley quota, unless the shipment is accompanied by a quality certificate recognized by the EU. In this case, the security is only 10 Euros/MT. US Federal Grain Inspection Service certificates with specific comments regarding EU quality criteria have been recognized as meeting this requirement. Importers must also comply with specific end-use requirements. The detailed implementing regulations for both barley quotas are available for a limited time at the following website: http://europa.eu.int/eur-lex/en/oj/2002/l_35820021231en.html

Corn

PSD Table						
Country	European Union					
Commodity	Corn					
					(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Harvested	4197	4151	4455	4419	4321	4247
Beginning Stocks	3629	3190	3380	2896	3290	2955
Production	37460	38308	38810	40432	39300	39252
TOTAL Mkt. Yr. Imports	2857	2737	2750	2275	2500	2500
Oct-Sep Imports	2857	2737	2750	2275	2500	2500
Oct-Sep Import U.S.	0	51	0	60	0	60
TOTAL SUPPLY	43946	44235	44940	45603	45090	44707
TOTAL Mkt. Yr. Exports	266	267	50	152	50	195
Oct-Sep Exports	266	267	50	152	50	195
Feed Dom. Consumption	31300	30791	32600	32480	32700	30773
TOTAL Dom. Consumption	40300	41072	41600	42496	41700	41105
Ending Stocks	3380	2896	3290	2955	3340	3407

TOTAL DISTRIBUTION	43946	44235	44940	45603	45090	44707
--------------------	-------	-------	-------	-------	-------	-------

Overview

Stocks are expected to increase as corn continues to be crowded out of rations by cheap feed wheat and other feed grains, as was also the case last year. The most dramatic decline in feed use of corn is expected in Spain and France. Non-feed consumption of corn is expected to increase slightly in accordance with the long-term trend. While the world market price is relatively high for corn, it is not high enough to lead to a dramatic increase in EU corn exports as the EU internal price remains higher than the world price. US corn (other than small amounts of specialty corn) continues to be excluded from the EU market due to the EU's moratorium on approvals of new biotech varieties.

Other Grains

Rye

PSD Table						
Country	European Union					
Commodity	Rye				(1000 HA)	(1000 MT)
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	1245	1244	1246	1226	1093	1094
Beginning Stocks	4621	4151	4440	4713	5955	5962
Production	5411	5365	6276	6288	4760	4782
TOTAL Mkt. Yr. Imports	0	3	294	291	100	180
Oct-Sep Imports	1	3	300	300	100	180
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	10032	9519	11010	11292	10815	10924
TOTAL Mkt. Yr. Exports	1272	1272	705	705	975	1200
Oct-Sep Exports	940	940	800	760	975	1200
Feed Dom. Consumption	2420	1786	2450	2490	2750	2680
TOTAL Dom. Consumption	4320	3534	4350	4625	4650	4478
Ending Stocks	4440	4713	5955	5962	5190	5246
TOTAL DISTRIBUTION	10032	9519	11010	11292	10815	10924

Rye production has decreased mainly due to an early summer drought in Germany which led to reduced yields. Exports are expected to increase due to a tighter situation on the world market for feed grains and an expected increase in intra-EU sales as feed compounders and farmers take advantage of low-priced feed rye which does not meet intervention standards. Only an estimated 1.7 MMT of German rye is expected to meet intervention criteria. Due to lower production and increased use and export potential, ending stocks are expected to be lower.

Oats

PSD Table						
Country	European Union					
Commodity	Oats				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	1943	1943	1936	1967	2104	2103
Beginning Stocks	758	758	709	709	799	799
Production	6847	6847	6298	6296	7140	7208
TOTAL Mkt. Yr. Imports	2	2	4	1	10	5
Oct-Sep Imports	25	2	5	3	10	5
Oct-Sep Import U.S.	1	0	1	0	0	0
TOTAL SUPPLY	7607	7607	7011	7006	7949	8012
TOTAL Mkt. Yr. Exports	609	609	561	561	1300	900
Oct-Sep Exports	740	740	600	562	1200	900
Feed Dom. Consumption	5136	5136	4426	4427	4440	5150
TOTAL Dom. Consumption	6289	6289	5651	5646	5789	6252
Ending Stocks	709	709	799	799	860	860
TOTAL DISTRIBUTION	7607	7607	7011	7006	7949	8012

Sorghum

PSD Table						
Country	European Union					
Commodity	Sorghum				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	102	107	109	109	109	111
Beginning Stocks	40	39	39	35	25	22
Production	640	664	640	642	640	682
TOTAL Mkt. Yr. Imports	11	12	42	41	10	10
Oct-Sep Imports	9	10	50	41	10	10
Oct-Sep Import U.S.	0	1	9	0	0	0
TOTAL SUPPLY	691	715	721	718	675	714
TOTAL Mkt. Yr. Exports	12	12	3	3	5	15
Oct-Sep Exports	12	12	5	3	5	15
Feed Dom. Consumption	638	665	690	690	652	682
TOTAL Dom. Consumption	640	668	693	693	655	685
Ending Stocks	39	35	25	22	15	14
TOTAL DISTRIBUTION	691	715	721	718	675	714

Visit our website: our website www.useu.be/agri/usda.html provides a broad range of useful information on EU import rules and food laws and allows easy access to USEU reports, trade information and other practical information.