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The new common agricultural policy CAP. Prices of raw materials and manufacturing*

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SUMMARY - The author explains why and how the CAP has been reformed, specially in the cereal area. He presents as a first objective the promotion of the consumption of cereals produced in the Community. He explains the tendencies of the evolution in the prices and production of cereals for the 1996-97 period.

Key words: CAP, cereal, forecast, market, trends.

RESUME - "La nouvelle politique agricole commune PAC. Prix des matières premières et fabrication". L'auteur explique pourquoi et comment la PAC a fait l'objet de réforme, spécialement en ce qui concerne le volet céréalier. Il présente comme premier objectif la promotion de la consommation de céréales produites dans la Communauté. Il explique les tendances de l'évolution des prix et la production de céréales pour la période 1996-97.

Mots-clés : PAC, céréales, prévision, marché, tendances.

My paper will centre on two subjects: why and how the Common Agricultural Policy has been modified, and an attempt to make some forecasts, particularly those made by the services of the Commission for the coming crop year, which were completed yesterday. The first objective of the Commission's proposal to modify the policy is to increase consumption of cereals within the European Union, because we were leaving the door open to expensive substitute products, which was very expensive for our own market, which was closed yet left the door ajar to outside products. Consumption, which needs to increase, has in fact already in fact done so. Cereal consumption up to 1996 has grown. Most important is that wheat is the most rapidly growing consumer market. This is known to all, and the trend is increasing and one which shows no sign of declining. Corn varies, barley is fairly steady, within Europe, of course. The second objective, related to the first of increasing consumption, is to reduce internal prices, and we have done this through an institutional policy and a management policy. Institutionally, we presented a programme for reducing prices over four years. The current price is 19.7 pesetas, which is greatly different from the present market price, but our final aim is for cereal prices to be around this intervention price, slightly higher but not much. At the same time as we reduce the price of cereals, we have tried repeatedly to get the Council of Ministers to decrease the amount of monthly intervention, which forms part of the system. This year we offered 0.3 ECU to 0.4 ECU per month. We hope the proposal will be accepted by the minister, but we are not sure.

But prices are not at that level, as you know, but why? For three reasons, I believe. The first was a poor cereals harvest in certain areas of the European Union, which prompted an important increase. Secondly, the compensation received by farmers for these institutional reductions give them a comfortable reduction over the whole year, and there is a retention of cereals at farms or cooperatives. To avoid a reduction in product, we have devised a different type of mechanism, essentially management systems. How to control prices when farmers retain their products? The Community can sell from its intervention stocks, and our sales over the last two campaigns were 4.6 million tonnes over the last campaign, slightly less in 1995-96, mostly on the Spanish market. I know that although sales have been important, they are still considered timid. I can say in reply that this was the most important special sale in the history of the Common Market. You might think it is not enough, but it is the biggest effort ever made by the Community for a special sale. The problem is that

*Transcribed from tape

our intervention stocks are already fairly limited. We would be unable to carry on this type of sales next year, because the quantities now present are less than 3 million tonnes. There were sixty million tonnes in 1993, but we only have 3 million now, very little wheat, less than half a million tonnes, and the rest is half rye and half barley. But practically the entire stock - 94% - is in Germany, which makes management of stock sales fairly difficult, when stocks are mainly in a single country.

Another policy the Community is able to carry out at present is to be a bit hard in terms of exports. The Council of Ministers recently decided to give priority to the Internal Market over exports. Exports have not been suppressed, but suspended. We gave priority to our own market, our internal market. In order to comply with the objectives of the Common Agricultural Policy, decreases in exports of semolina, malt, are proportionately less than for grain products. We have been less with processed products, and even less so with secondary processed products such as corn starch. So, as far as possible, the Community has given priority to the Internal Market, we have been criticised for doing so, accused of denying cereals a world market, but, I repeat, that is the objective of the CAP, what we have been trying to achieve over the last months. Another important objective of the Common Agricultural Policy is to maintain farmers' revenue, independently of production. Of course, these retentions have disadvantages, but the advantage is that the farmer feels closer to the CAP than under the previous system, which was based on very high internal prices and important restrictions on exports. The aid Spain received for all its agriculture in 1986 was 37 million pesetas, compared to 821 million in 1995. Spain is the third country after France and Germany in terms of aid received. A large part of this aid comes in the form of subsidies by hectare, so it is only for cereals. The amount, then, is important. We can say, then, that the Spanish farmer has been able to go through these years of drought in what we can call a dignified manner. Without this aid, there would have been huge sales of farms, a rural exodus, large changes, which I believe have not occurred during these difficult years, in spite of this terrible drought.

Another important component of the CAP reforms refers to production management, with set aside levels fixed yearly. Today, the decision on the level of the set aside for a given campaign is a political decision of utmost importance regarding agriculture taken by the Council of Ministers in Brussels. That is the key question, even more important than decisions about agricultural prices. You will all ask what that level of set aside will be next year. I cannot answer this question, as it has not yet been decided, but I can tell you two things. Firstly, at the meeting of ministers last week it was decided that they would be announced as soon as possible, before July if may be, and I think this is achievable. The other thing I can tell you is that the level of set aside will be lower than that in force last year. Whatever, we only have two months to find out. It is not my aim to praise the CAP reform, only to give you my own conclusions. This path was started three years ago within the Common Agricultural Policy and its objectives have, I think, been fulfilled in a very rational way. There are of course still a few distortions, there is definitely room for improvement, but nowadays the agricultural sectors do not protest, quite a different situation from that within the livestock industry, of course.

The second part of my paper refers to price levels, and I have taken the liberty of bringing you the latest forecasts we have for next year's campaign and for stocks for various organisations. It is absolutely clear that price levels for cereals in the world nowadays mostly depend on the level of stocks from one campaign to the next, which are very low. In 1992 we had a huge stock, and this year we will have a much smaller one, of 83 tonnes. For wheat, the situation is the same, from 134 million tonnes in 1992-93 down to 93 million in the present year. And these are downward trends. Last year, the 93 harvest was quoted at 143 dollars. It starts with 226 dollars this year. I do not take into account what happened yesterday on the US dollar market. We now have an end of campaign price of 143 dollars. We cut it down from 143 and we are now at 273, and you can imagine where we can get. For corn there is a lot of tension as well, although we can hope that with the excellent harvest forecast for the US, tensions may lower slightly for corn.

The carry-over for wheat plays an important role in the American market. What is particularly serious is the lowest-ever carry-over stock for corn - 9 million tonnes. And we hope that the Farm Bill, which has helped corn planting a little will result in a better harvest with a corresponding improvement in prices. But this is only a hope.

For soy, an important product for you too, the situation cannot be described as much better. Forecasts for 96-97 is 17 tonnes, so again we find a decreasing trend. In conclusion, I can say that for all commodities there will be tension on the markets next year, and we hope that the European

market, with its open mechanisms and systems, will be able to keep its head up at a reasonable level compared to the rest of the world. This is, I believe, something completely new, that is the Community's forecasts for the harvests next year, 1996-97, the first forecast shown. The most significant figures show that we have improved for all cereals, but carry-over stocks, what remains at the end of the harvest this year and next, decrease, for practically all cereals with the exception of corn. We have intervention stocks in the Community, so next year's stocks will not be very high. Figures now. The total amount of cereals today, 9 May 1996, considered by the European Commission are 186,672 million tonnes of cereals. I believe this enables us to say that, if our export policy is correct, and it has to be increasingly restrictive with a to GATT, we will make it possible for the Community market to be slightly less tense than it was last year. Finally, we are in Spain, so here are the Community's forecasts for Spain: 2.5 to 2.9 million tonnes for Durham wheat, 5 to nearly 8 million for barley, corn from 2.5 to 3.2, and for the others it is not so important. I am sure some people here will consider these figures are too conservative for cereals, that there may be higher figures. I make no comment on this. There may be undercover intentions to export cereals from Spain, maybe, we will have to wait a little longer to see. Thank you very much.