

Agricultural Committee of the European Parliament
Hearing on Health-Check
27 November 2007

CAP Reform and role of market instruments in liberalised world markets

Klaus Schumacher
Toepfer International, Hamburg

The European grain, oilseeds and feedstuffs trade welcomes the opportunity to comment on the Commission Communication for the Health Check. The proposed changes in traditional market instruments and the further move to decoupled support are seen by the trade as necessary and timely steps to allow farmers and agribusiness to participate in the growing markets for food and feed (both domestically and on the world market) as well as renewable energy.

The demand for food and feed is expected to double during the next 20 years. In addition, an increasing amount of grain, oilseeds and vegetable oil will be used as feedstock for the production of bioenergy. Because of this, farmers worldwide and in the EU will have to increase crop production significantly to match the expected demand. Full decoupling will contribute to simplification and a more timely reaction to market signals. At the same time, operators in the food and feed chain continue to be plagued by a high administrative burden (quotas, import and export regulations, highly diversified legislation on maximum residue limits, no real harmonization of existing legislation among member states, etc), significantly reducing flexibility and increasing unnecessarily administrative and transaction costs). Simplification should not aim at farmers only.

In light of the expected increase in demand and the current low level of stocks, the European grain trade fully supports the proposed abolition of the mandatory set-aside program. The end to set-aside will allow EU farmers to plant an additional 2 to 2.3 mln ha with arable crops, first of all with grains and oilseeds. The additional production from this acreage could result into an increase in the EU's grain production by 8 to 10 mln tons. Such an additional amount would allow the EU to increase production of bioethanol significantly, while continuing to be able to serve EU food and feed markets and export grain to the growing world market.

Intervention of grains played a major role in the EU grain market over the last decades. In times of overproduction and limited export opportunities, intervention might have been justifiable as a safety net for farmers and grain merchants. Times have changed, and intervention stocks of grain are nearly gone. With the expected growth in demand for food and feed on the world market and the anticipated growth in demand for grains as feedstock for bioethanol production, surpluses will in all likelihood emerge again only during a period of several years of record grain production. As a consequence, domestic grain prices can be expected to stay above the intervention price level in the years to come. Accordingly, intervention is no longer needed as a safety need.

Furthermore, experiences gained over the last decades clearly show that the sale of intervention grain to the world market and/or the EU's domestic market lead frequently to even stronger market disruptions. Sales out of intervention often occurred at the wrong time and put additional pressure on domestic grain prices. Therefore, the EU grain trade strongly supports the abolition of intervention for barley and maize. Keeping milling wheat intervention for a transitional period could be helpful in adjusting price relations between the different grains according to their nutritional value in feeding (milling wheat having a higher protein content than for example maize or feed barley). However, midterm also intervention of wheat should be abolished to allow market incentives to decide on the best mix of grain plantings.

As mentioned earlier, export subsidies for grain are not needed for the time being. The positive outlook for the world grain markets will allow the EU to abandon the use of export refunds for grains in the years to come. This is good news for developing countries, as world market prices will no longer be distorted by export subsidies given by the EU. In fact, the higher prices are clearly needed to give sufficient incentives to farmers around the world to produce more agricultural products to meet the growing demand for grain for food, feed and renewable energies.

With the anticipated end to intervention alternative methods to manage risks will gain importance. The trade agrees with the suggestion of the EU Commission to consider the implementation of crop insurance and revenue insurance programs. The trade favours revenue insurance programs instead of programs for specific crops.

Experience gained with crop insurance programs in the USA demonstrates that crop specific insurance programs tend to distort planting decision of farmers and that farmers start to ignore market signals again. Also, with the expected move towards more and more decoupled support, crop specific insurance programs seem inappropriate.

Furthermore, the trade questions the suggestion of the EU Commission to fund risk management measures with budgetary savings achieved via modulation. Lost revenue is very closely related to market disruptions caused by for example adverse weather conditions or diseases and should not be mixed with rural developments programs and goals.

The expected doubling of demand for agricultural commodities for food, feed and renewable energy over the next 20 to 25 years will be accompanied by increased price volatility. Adequate management of this volatility will be a challenge for all operators in the food and feed chain in the EU and new ways to manage risks resulting from volatility have to be elaborated. At the same time, access to farmers' products will become more important for traders and processors of agricultural commodities. Contract farming could become an important risk management tool to deal with increased volatility of production and prices.

The trade strongly supports the opinion of the EU Commission that food and feed production needs to continue to be given priority both in the EU and worldwide. However, there is a growing risk that too high support for biofuels and other forms of renewable energy could lead to increased food insecurity and, in the case of the EU, to a considerable growth in imports of food. Therefore, the trade supports the suggestion of the EU Commission to strengthen research on the 2nd generation of biofuels. However, the trade fears that significant volumes of 2nd generation biofuels will not be available to the market before 2020. Therefore, the trade believes it also to be necessary to start a discussion on mandatory blending obligations: are they really the best way forward?

There is another risk to food security and the competitiveness of the EU's food production – both on the domestic market and in export markets. That is the lack of

timely approvals for new GM events. If these delays continue, it is highly likely that the EU will lose a major part of its supply of soybeans, soybean meal, soybean oil and soy lecithin. As there are no alternative products available – neither in the EU nor on the world market – the EU's degree of self sufficiency in food could decrease substantially and consumers would have to rely more and more on imported food. Such a development can only be avoided if the approval process for GMO are done in a more timely and less politically way and if practical thresholds for the low level presence of events not yet approved in the EU but in other OECD countries are implemented.