THE HISTORY OF THE EUROPEAN GRAIN MARKET

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1. The beginnings of the E.E.C. agricultural market

One of the dates most fitting as the birthday of the E.E.C. Common Cereals Common Market Organisation is 15th December 1964. This was the day when, following a turbulent marathon session, the agriculture ministers of the six E.E.C. countries, together with the ministers of economics, reached agreement on a harmonised price scale for grain. Two and a half years later, on 1st July 1967, it came into force.

The bargaining result of that 15th December 1964 was celebrated by the German Minister of Economics M. Schmücker as a “breakthrough for Europe”. This perception underlines the importance that grain prices have, not only as the base-plate for the whole agricultural price scale, but also politically – an attribute that even today still lingers on. The turbulent political events that went hand in hand with price adjustments will be dealt with later.

In May 1958, a long time before that memorable “breakthrough for Europe”, COCERAL had been established – the „Comité Européen du Commerce des Céréales et des Aliments du Bétail" (The European trade association for grain and animal feed). Its founding fathers were such perspicacious and brave grain traders as Belgium’s Fernand Belpaire, Italy’s Riccardo Rusconi, France’s Roger Joffet or Germany’s Alfred Toepfer. They were all enthusiastic and committed Europeans, who took the 25th March 1957 E.E.C. Treaty with its ambitious goals seriously and gave their 100% backing to making it a success.

Obviously, their efforts were directed first and foremost towards the agricultural market. In the first 20 – 30 years this market was without doubt the motor behind European integration. The practical measures adopted here were instrumental in promoting cooperation in other industrial areas.

How the Common Agricultural Market became the driving force behind European integration is still, even in retrospect, an astonishing and fascinating process. This is all the more so, given that only 10 articles (Articles 38 – 47) of the 248 articles and numerous appendices of the March 1957 E.E.C. Treaty actually referred to agriculture. It had certainly not been the intention of the Treaty’s fathers that 70 – 80% of all E.E.C. regulations and more than 50% of the Community’s budget in the 70’s and 80’s would concern the agricultural sector. This was to be attributed to the growing influence of the initial six and present 27 Member States on agricultural policy decisions.

The basic concept for the agricultural sector, as enshrined in the E.E.C. Treaty, was liberal and transparent. The credit for this is owed especially to the then Dutch agriculture minister Sicco L. Mansholt, who became vice-president of the first E.E.C. Commission (as from 1st January 1958) under Walter Hallstein and its first agriculture commissioner.

The main objectives of the Common Agricultural Policy, whose beginnings can be traced back to 1st January 1958, can be summarised as follows (E.E.C. Treaty, Article 39):

- raising agricultural productivity;
- increasing earnings;
- stabilising markets;
guaranteeing regular supplies;
ensuring reasonable prices for consumers.

Back in those days, productivity in plant and livestock production was relatively low. France, with an average production of approx. 19 million tonnes (1955 – 1957) was the E.E.C.’s main grain producer with an average wheat yield of 22 quintals per hectare. Germany’s grain production reached 13 million tonnes with a wheat yield of 30 quintals per hectare.

Self-sufficiency was already being attained in certain products (meat, sugar, dairy products and potatoes). The situation in grain was somewhat different: domestic production of bread grain (i.e. grain of bread-making quality) was covering 90% of demand, whereas that of feed grain (including rye) only reached 75%. 9 million tonnes of grain were being imported, mainly by the Benelux countries and Germany. France was already producing over its needs, exporting between 0,5 and 2 million tonnes, depending on harvest results.

It should not be concealed that, even at the start of the 60’s, there were voices warning of increasing surpluses on the E.E.C.’s agriculture markets. These included agrarian economists (a report by a group of German professors in 1962) and Agriculture Commissioner Mansholt himself (the 1966 Mansholt Plan). But such criticism was hardly heeded in the (agro-) political circles of the Member States.

There is another prominent date that must be mentioned in the run-up to the Cereals Common Market Organisation. In the early hours of 14th January 1962, following a 200-hour marathon debate, the Agriculture Council (consisting of the agriculture ministers of the six Member States) passed a packet of 12 agricultural regulations, one of which was the renowned Regulation No. 19/62, initiating the “step-by-step Introduction of a Common Market Organisation for Cereals”.

This served as a model for other market organizations for such products as pork, eggs and poultry, fruit and vegetables, wine, milk, beef and sugar, and led to almost 90% of agricultural production being more or less withdrawn from the free play of the markets.

These 14th January resolutions transformed the results of the Stresa Conference on Agriculture (3rd – 12th July 1959) into policy, creating market organizations for plant and animal products aimed at achieving the objectives set out in Article 39 of the E.E.C. Treaty. It was also the start of a process integrating six very disparate national markets, which would prove to be irreversible in spite of the many crises.

Besides the already mentioned Agriculture Commissioner Mansholt, two further players must be named in this connection: Hans-Broder Krohn, his general director, and Berend Heringa, the Director responsible for agricultural markets. These three men played a decisive role in paving the way for the Commission’s Common Agricultural Policy. Their original basic concept was for a liberal market with such elements as a cautious policy on prices, interventions just for animal feed grain and only at the end of a marketing year. This concept was wrecked by the massive resistance of certain Member States and could only later be salvaged by an enormous administrative effort for such measures as denaturing and set-aside areas and vast amounts of money for support measures and export subsidies.

To be in a position to judge the historic importance of the first Cereals Common Market Organisation as set out in the April 1962 Regulation No. 19/62, it is a good idea to take a look at the totally disparate market regulation systems in effect in the individual E.E.C. Member States beforehand. Germany and France are used as examples:
French Grain Policy:

French grain policy was governed by 3-year economic plans. So-called “campaign prices” – fixed prices for producers – had to be set by 31st July of each year (the marketing year began on 1st August). These prices were of course only for good-quality products. The actual prices paid to the producers were often much lower than the “campaign prices”, due to a number of state taxes and other levies. The only non-regulated product was oats, but even here an intervention price was in force, albeit at a very low level.

To encourage maize production, an additional premium was paid on each ton delivered. To help producers store their products, bi-monthly increments on top of the campaign price were paid between August and May.

As wheat was already being produced in surplus, it was subjected to stricter regulation. The campaign price was only paid for a certain amount, which did not even correspond to the „collecte“ – the total amount sold by all farmers. In the 3-year period 1958-1961, this maximum amount was set at 7.2 million tonnes.

The annual wheat exports of 1 – 2 million tonnes were sold at a deficit on the world market with its lower price levels. Two-thirds of the deficit was covered by the French state, the rest by the farmers. In an attempt to reduce soft wheat production and promote feed grain production, higher deliveries by farmers were subject to rising levies, such as the cotisation de résorption. Farmers who agreed to reduce their soft wheat acreage by 20% were freed from the cotisation de résorption.

Administration and monitoring of the French grain market was in the hands of the ONIC (Office National Interprofessionnel des Céréales).

German Grain Policy:

Until Regulation No. 19/62 came into effect, the grain market in the Federal Republic of Germany was even more state-regulated than in France. Ever since 1952/53 grain prices – and with them the whole price level for agricultural products – had been way above world market prices. An elaborate system of minimum and maximum prices, import quotas and levies, obligatory blending of cereals and state interventions in the market was constructed in an attempt to guarantee supplies to a market ridden by shortages and stable prices for producers.

The responsibility for administering this market was in the hands of the state-run Einfuhr- und Vorratsstelle (EVSt) – the import and supply agency. One major instrument for regulating the market was the allocation of import quotas, which were worked out on the basis of the annual “import and supply plan”. The difference between the lower world market prices and the much higher national level was compensated by levies – a procedure resembling the later common procedure for imports.

Import quotas and levies were supplemented by obligatory blending for domestic wheat. Mills were obliged to at least 75% domestic wheat for grinding.

To guarantee producer prices, grains other than oats and maize were bought up by the EVSt at preset minimum prices and stored. This “intervention system” was also to figure in the later Cereals Common Market Organisation.

Before Regulation No. 19/62 came into effect, minimum and maximum prices were reset each year, though in the timeframe from 1952/53 – 1966/67 they remained virtually unchanged. For wheat and rye there was a regional differentiation. The Federal Republic was divided up into 4 regions: Price Zone IV (around Duisburg) was the main...
deficit area and consequently had the highest prices. Bavaria with its high surpluses was the region with the lowest prices (Price Zone I). It will come as no surprise to find out that this model of regionally differentiated prices – also used in Italy – should crop up again in a more refined manner in the later grain price regionalisation.

The price differential of some 8 DM per tonne between the regions was however not high enough to get surpluses moving from Bavaria to the Lower Rhineland. This led to the EVSt paying freight subsidies, thereby underpinning producer prices in surplus regions far away from the markets.

This short presentation of the regulated markets in France and Germany should serve to point out the difficulties with which the founding fathers of the first Cereals Common Market Organisation were confronted. The German philosophy of high producer prices for farmers just had to collide with the intentions of countries like the Netherlands, which were interested in low raw material prices for their swiftly expanding livestock sector. In such discussions, France tended to keep to the middle of the road.

In summary it must be stated that the Federal Republic of Germany was the country trying hardest to protect its market from world market pressures. The lowest level of price protection was to be found in Belgium and the Netherlands, where prices for animal feed grain were on a world market level and where there were no import restrictions.

Italy also had a relatively liberal market regulation for feed grain and actively encouraged maize imports. The wheat market enjoyed special state attention with its high, regionally differentiated prices. Even so, price support only applied to a certain quantity, corresponding to some 20 – 30% of the total harvest. Imports were restricted to minor quantities of durum wheat.
2. The painstaking path to a Common Cereal Market

The Base Regulation No. 19/62 governing the step-by-step introduction of a Common Market Organization for Cereals was published in the E.E.C. Official Journal on 4th April 1962. It was set to come into force on 1st July 1962. It was also stipulated that the first step towards harmonising the different grain price levels should be agreed upon during the 1963/64 marketing year and should come into effect on 1st July 1964.

Both deadlines could not be met. At short notice, the July 1 deadline was postponed until 30th July. The experts from the Commission and the Member States, together with the linguists, needed much more time to harmonise the content of the numerous regulatory texts in the E.E.C.’s four official languages.

Neither did the step-by-step harmonisation of grain prices take place. For a long time, Germany was bitterly opposed to any reduction in its grain prices. It wasn’t until 10th/11th May 1966 that the Council of Agriculture Ministers reached agreement on harmonising prices in one single step on 1st July 1967. The 15th December 1964 resolution („breakthrough for Europe“) had finally been put into effect!

This Cereals Common Market Organisation turned out to be a lot more protectionist than had originally been intended by the Commission. A number of elements, emanating mainly from the strict German Market Regulation Law („Marktordnungsgesetz“), reappeared within the European framework: the year-round intervention obligation, sluice-gate prices and levies, and regionalisation.

Even if a number of national regulations remained in force until the end of the transition period (originally set at seven years but phased out on 1st July 1967 after only five years), this Market Organisation was the first time a common binding framework covering all six countries had been established.

Examples of common principles were:

- abolition of all direct state interventions;
- prices reflecting local conditions;
- protection at external frontiers via levies, in domestic markets via obligatory intervention;
- gradual reduction of intra-community levies;
- inclusion of all cereal-based processed products, as well as products in direct competition such as tapioca and bran

Another example points to the way national agriculture markets were growing together and how national competencies were being transferred to supranational (i.e. E.E.C.) bodies: the first meeting of the Cereals Management Committee (Comité de gestion des Céréales) on Thursday, 9th March 1962, chaired by director Berend Heringa. Such management committees were also installed for all other products and product groups subject to market organisation. These bodies have become the regular meeting places for representatives from the E.E.C. Commission’s specialist departments and the responsible experts from the individual Member States. Their
objective is to effectively “manage” agriculture markets. There is hardly another body that has been so closely connected and had so much influence on market development as these „Comités de gestion“.

With respect to the major importance of the grain market, its management committee met nearly every Thursday afternoon right up to the beginning of the 2007/2008 marketing year (it now only meets once every two weeks). The first meeting took place on 9th March 1962, the 1000th on 29th August 1985 and the 2050th at the beginning of January 2008.

But back to Regulation No. 19/62 and a summary of its main points. The organization of the internal market was the central issue:

Starting with the 1962/63 marketing year, the system of minimum and maximum prices used by a number of countries was replaced by a system of base target prices and base intervention prices. These were initially set at different levels for individual countries. They applied to wheat and barley, in Germany to rye as well and in France and Italy also to maize.

These base prices were applicable for the main deficit region. In Germany this was the Duisburg region with its important grain milling and compound feed industries. In France, the port of Rouen was declared the main deficit area. The so-called regionalisation in the major countries involved using these base prices to derive a number of marketing centres. In Germany for example there were 202 marketing centres for wheat, rye and barley. A complicated process of determining the lowest freight costs from Duisburg to each marketing centre was used to set the derived target prices. Price differentials between derived intervention prices for Duisburg and areas further away turned out to be much lower.

Target prices played only a minor role in the market regulation system, for example when selling grain bought at intervention prices. The intervention price on the other hand was a guarantee for all market players. The agencies responsible for intervening – the EVSt in Germany and the ONIC in France – were committed to buy produce (wheat, rye, barley and – in Italy – durum wheat) offered to them at each marketing centre (intervention agency stores) at the applicable intervention price. Obligatory Intervention applied from September to May, although the E.E.C. Commission’s original intention had been to only have such a state purchase commitment at the end of each marketing year. When malting barley was offered for intervention – which rarely happened – a 40 DM per tonne premium was given on top of the barley intervention price.

The produce had of course to meet certain quality criteria: specific weight (kg/hl), moisture content, impurity levels and non-sprouting. Minimum purchase amounts were also fixed, varying by country and type of cereal from 25 tonnes (Luxembourg) to 500 tonnes (wheat in France).

In 1962/63 and 1963/64, the first two years of the Cereals Common Market Organisation, there was relatively little intervention. But in 1964/65 it rose sharply, with 470,000 tonnes of wheat and 400,000 tonnes of rye in Germany alone. In the following years and decades, Germany had the dubious honour of being the top interventionist.

Intervention, target and threshold prices were topped up by monthly increments. These were intended to cover interest payments, drying costs, administrative costs and natural losses. In the 1962/63 marketing year, starting in September, ten increments on wheat and barley were granted amounting to a total of 45 DM per tonne, as well as 25 DM per tonne on animal feed grain.

The first revision of the regulation on monthly increments occurred directly in the following 1963/64 marketing year. The total amount was reduced by 10% for all types of grain and, in addition, subjected to a diminishing scale. Monthly increments were to become one of the market organisation elements most often amended by the Council of Ministers.
Regulating external trade proved to be a lot more complicated than regulating the internal market. The price differentials between the six Member States were a major factor. As already mentioned, complete price harmonisation for cereals was not achieved until 1st July 1967.

<table>
<thead>
<tr>
<th>E.E.C. grain prices in 1962/1963 (in DM per tonne)</th>
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<tbody>
<tr>
<td>Intervention price¹:</td>
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<tr>
<td>Soft wheat</td>
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<tr>
<td>Durum wheat</td>
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<td>Rye</td>
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<td>Barley</td>
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<tr>
<td>Threshold price:</td>
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<td>Soft wheat</td>
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<td>Durum wheat</td>
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<td>Rye</td>
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<td>Barley</td>
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<td>Oats</td>
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<tr>
<td>Maize</td>
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<td>Sorghum</td>
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</table>

¹ [in the main deficit area, at the begin of the marketing year]

This table illustrates again the major differences between Germany with its high prices and the Netherlands, which was looking for affordable raw materials. It also shows that rye was considered as animal feed in all countries except Germany.

The threshold prices⁴ were intended to be set at such a level that the wholesale prices would be achieved in the main deficit area (i.e. near the target price level).

For imports from third countries a levy reflecting the difference between the so-called world market price and the E.E.C. threshold price was calculated.

The c.i.f. import prices for the individual types of grain were used as the basis for defining the world market price. These were determined for imported grain by the E.E.C. Commission on a daily basis at the main entry ports (Rotterdam, Antwerp, Marseille, Genoa, Ravenna etc.). Relevant information was supplied by the Member States and taken from quotations from international commodity exchanges. The most favourable prices were used. The levels calculated in this manner (the difference between the threshold and c.i.f. import prices) were often subject to correction, with the coefficients of equivalence being the most frequent correction factor: on the one hand there was only a single threshold price for soft wheat – as for other types of cereals. On the other hand soft wheat varieties were traded on international markets at different prices depending on their quality. A balance was achieved by the use of the coefficients of equivalence, which were applied to the main grain varieties traded on international commodity markets. For soft wheat alone there were 28 different coefficients.

¹ The threshold price is a minimum price above which imports from third countries enjoy free access. For products for which a target price or guide price exists, the threshold price is determined in such a manner that the sales price of the imported product, allowance made for transport costs, is on a par with this price.
ranging from 1.25 USD per tonne for Swedish wheat to 12 USD per tonne for top-quality wheat varieties such as US-Dark Hard Winter I and II (guaranteed 14 % protein content) and 12.50 USD per tonne for the Canadian Manitoba I.

The better the quality, the higher the coefficient was. There were also negative coefficients for imported grain not meeting E.E.C. standards – such as some barley varieties from North America, North Africa, Syria, Iraq or Turkey. The positive coefficients were subtracted from the individual c.i.f. prices to reflect the potential advantage of purchasing such grain. The levy rose correspondingly. The system worked in the opposite way for negative coefficients. In this way, it was – at least in theory – guaranteed that the different qualities of imported grain were completely accounted for on the E.E.C. internal market.

The logic behind this system might seem to be convincing. However there was constant friction in its daily use between the Brussels management and traders, mainly centring on the choice of the “right” c.i.f. prices. The levy levels dependent on these were an important instrument for “managing” imports.

For example, the Commission would set c.i.f. prices on the basis of Rotterdam as entry port. These prices would be corrected to reflect another entry port. Imports to Germany were based on Emmerich in the Lower Rhineland as entry port. Freight and handling costs between Rotterdam and Emmerich were set at 4.40 DM per tonne. The Rotterdam c.i.f. price was increased by this amount, leading to a lower levy at the German border.

Levies were valid for 24 hours. They were changed if there was a difference of more than 1.80 DM per tonne compared with the previous day.

As import transactions usually involved forward contracts, the levy could be applied for in advance, reflecting the future delivery date (and the payment date of customs duty). The levy applicable on the date of application was however corrected if the actual transaction price turned out to be lower. This correction amount, also called the premium, compensated for the difference and prevented imports below the threshold price level.

In connection with the levy, the importer applied for an import licence from his national market organisation agency. This licence had to be granted without any restriction as to amount or origin. The licence could only be revoked or not granted if the domestic price level was seen to be endangered through exceptionally high imports (with reference to the safeguard clause in Article 22 of Regulation No. 19/62).

Import licences were valid for the current month and the following three months. Licence misuse was prevented by a very high guaranty being required, which would be forfeited if the import transaction did not actually take place within a maximum 4-month timeframe. The different levels of guarantees demanded by the six countries were one example of the competition distortions in effect at that time.

**Imports from E.E.C. Member States** were basically treated in the same way, with the exporting country’s “free-at-frontier” price being used instead of the c.i.f. price to calculate the levy. The starting point was the market price in the main deficit area (in France, the most important exporting country, this was the Paris basin; fob Chartres). On top of this came a predetermined sales margin of 4 DM per tonne and freight costs (for Germany, based on Emmerich). The difference between this “free-at-frontier” price and the threshold price was the intra-community levy.

To encourage trade within the internal market, this levy was subject to a general reduction of 4 DM per tonne for grain and 10 DM per tonne for processed cereal products (flour and semolina). This so-called „Préférence communautaire“, which also applied to trade in other agricultural products, was the source of major protest by a number of third countries, who interpreted it as a gross and unfair discrimination of their exports.
With market prices within the E.E.C. subject to much less fluctuation than world market prices, E.E.C. levies were not fixed on a daily but a weekly basis. The levies were also not subject to any corrections due to coefficients of equivalents, as most E.E.C. grain varieties basically corresponded to the European standard.

In contrast to imports, **E.E.C. grain exports to third countries** were subject to much less regulation. The Commission’s regulations provided for 3 export procedures:

1. export in conjunction with the levy-free re-import of the same type of grain;
2. refunding of the levy valid on the day of export for the same type of grain (including the possibility of fixing the size of the refund in advance);
3. putting the export refund up to tender.

The Commission made a wise decision in delegating the choice of the export procedure to the individual Member States. France, the only export country of significance, preferred the procedure of putting export refunds to tender. Germany initially only allowed refunds on exports to third countries in conjunction with the levy-free re-import of the same type of grain. The export of grain to other Member States was, with the exception of seed grain, prohibited.

The evaluation of the Cereals Common Market Organisation one year after its introduction differed according to interests. Most participants agreed in principle that the scheme had generally stood the test of time and that no major hiccups in the market had occurred. Germany, the country most sceptical to start with, voiced little criticism – maybe because even farmers had to admit that prices had risen slightly in comparison with the previous year.

There were no major amendments to Base Regulation No. 19/62 or its implementation regulations in the transition years prior to the introduction of harmonised prices for grain on 1st July 1967. Price levels remained virtually unchanged apart from a minor reduction in the threshold prices for maize and barley in Germany and a slight increase in prices in the Netherlands following the 15th December 1964 resolution on harmonising grain prices.

On the technical/administrative side a number of corrections were made, taking into account the practical experiences made with some implementation regulations. These included corrections of the coefficients of equivalence and quality standards in line with what was actually happening in the markets.

Greater significance must be given to a number of developments and occurrences that influenced the incipient E.E.C. agricultural market as a whole.

**First** of all, the **Kennedy Round** needs to be mentioned. This was the sixth round of GATT negotiations since World War II. Negotiations began in 1964 and ended in mid-May 1967.

**Three points were of importance for the grain market:**

1. the increase in grain shipments to developing countries within the framework of food aid from 3 to 5 million tonnes, with increased E.E.C. involvement (especially in flour shipments);
2. the growing pressure of certain GATT members to harmonise and reduce agricultural prices;
3. the reduction of the import duty rate on tapioca (customs tariff 07.06) to zero for the fixed part of the levy and to 18 kg of the levy on barley for the variable part. Tapioca was a cereal
subject to Cereals Market Organisation and this measure meant that imports of tapioca as a grain substitute would be greatly encouraged.

**Secondly**, the sharp attacks especially by the USA need to be mentioned. The E.E.C. was accused of blatant protectionism and aspiring to become self-sufficient in the agriculture sector. The 1963/64 „Hähnchen-Krieg“ *(chicken war)* is a sad reminder of these disputes. As a result of this particular dispute, all subsequent market regulations included the so-called **39/110 clause**, referring to Article 39 of the E.E.C. Treaty on the protection of the domestic agricultural sector, and to Article 110 governing trade relations.

**Finally**, the internal E.E.C. disputes, especially between France and the Brussels Commission, played an inauspicious role. At the instigation of President de Gaulle, France boycotted E.E.C. committees from early summer 1965 till the end of January 1966. Strangely enough, this *“policy of the empty chair”* did not apply to the weekly meetings of the Cereal Management Committee. Ostensibly, the reason for France’s abstention policy was its concern on how the Common Agricultural Policy should be financed. But deeper down, it was all about the E.E.C.’s political direction, the surrender of sovereignty, the co-determination rights of the European Parliament and the power of the Commission, which President de Gaulle saw as nothing more than a rubber-stamp agency.
3. The harmonisation of grain prices – a breakthrough for Europe

The massive pressure from certain third countries and the wildly varying interests of individual Member States were the difficult attendant circumstances, under which the discussions on the “right” price level for grain took place within the Community. The debate had got under way at the beginning of the 60’s and carried on right up to the legendary decision of 15th December 1964 on harmonised grain prices, when the agriculture and economics ministers of the E.E.C. Member States followed the proposal of Agriculture Commissioner Mansholt and agreed on a “middle-range” price level. A month earlier, President de Gaulle had threatened to take France out of the E.E.C. if no agreement was reached on a common price level by 15th December 1964.

This threat had been aimed primarily at Germany, which in those years had had its foot more on the brake than on the accelerator in all efforts directed at integration. The federal government seemed to hold the opinion that lower prices for farm produce and increased competition would not be digestible for German farmers. Reference was constantly being made to the higher production costs, to the major potential loss of income for German farmers if prices were reduced, to the lack of harmonisation in fiscal and financial policies, and to other issues.

On 10th - 11th May 1966 the E.E.C. Agricultural Council officially adopted the resolution to let common grain prices come into effect at the beginning of the 1967/68 marketing year, in accordance with the 15th December 1964 resolution. This meant that the transition period, proposed on 14th January 1962 for the establishment of a common grain market, had been reduced by two and a half years. In addition to the Cereals Common Market Organisation, the common markets for cereal-based products, pork, eggs and poultry and oilseeds were also established. This laid the foundation for the establishment, one year later on 1st July 1968, of the common agricultural market for the remaining products (eggs, beef and milk) as well as the Customs Union (one and a half years earlier than originally planned).

1st July 1967 was a significant date for other reasons as well. It was the day the merger of the E.E.C., the European Coal and Steel Community (ECSC) and Euratom came into effect, creating the European Communities. The E.E.C. became the E.C., the E.E.C. Commission became the E.C. Commission. 26 years later, the European Community became the European Union.

The new Base Regulation for the Common Cereal Market, Regulation No. 120/67, was not published in the E.C.’s official journal until 13th June 1967, two weeks after it had come into effect. Important implementation regulations followed at an even later date. The introduction of the common price level meant that there was no longer any need for intra-community levies and that, common rules governing exports and the management of the internal market could be applied. These were decisive preconditions for establishing a common market. But of course, harmonised policies in the areas of tax (VAT), transport (freight rates) and - last but not least - currency remained missing. Within just a few years, with currency parities adrift, compensatory mechanisms had to be introduced to counteract major currency fluctuations (monetary compensatory amounts).

The solution to such monetary problems was to fix prices in units of account (EUA – European Units of Account). This was an artificial common currency, corresponding to 0,88867088 gr. of fine gold and worth one USD. The parities of the national currencies to gold or USD were used
for converting EUA into Member State’s currencies (or vice-versa). This meant that one EUA was equivalent to 4 DM, 4.937 FF, 625 Lit, 362 NLG and 50 BEF/luxF.

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<th>Grain prices in 1967/1968 (in DM per tonne)</th>
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<td><strong>Grain</strong></td>
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<td>Soft wheat</td>
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<td>Barley</td>
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<tr>
<td>Oats</td>
</tr>
<tr>
<td>Sorghum</td>
</tr>
<tr>
<td>Buckwheat/ Millet</td>
</tr>
</tbody>
</table>

[1] These prices for 1966/67 only applied to the Federal Republic of Germany

The base target and intervention prices still applied to the main consumer regions. There was a special ruling for durum wheat, insofar as producers were guaranteed a minimum price of 580 DM per tonne, way above the official intervention and target price.

For maize, a relatively low intervention price of 308 DM per tonne was set for the whole E.C. It applied as long as farmers’ maize sales did not cover more than 45% of the Community’s requirements. This can be interpreted as a certain concession to the USA.

Intervention prices were no longer solely determined on the basis of a main deficit region and the freight costs necessary to service such a region - the so-called regionalisation. Other major deficit regions, entry and exit ports were also taken into account.

In the Federal Republic a total of 125 marketing centres (intervention centres), each with its individual intervention prices, were established. France, with 278 intervention centres, and Italy, with 271, had a great many more. Target prices were no longer subject to regionalisation.

National intervention agencies remained committed to buy up produce from farmers at the intervention price offered by one of three nearest marketing centres. The minimum quantity was set at 50 tonnes, with an exception being made for Luxembourg and Italy, where it was set at 10 tonnes. Germany retained its previous minimum quantity of 100 tonnes. For high-quality rye of bread-making quality, a premium of 10 DM per tonne could be paid on top of the intervention price.

In principle it would have been expected that any intervention could, in a common market, take place in a neighbouring E.E.C. country without respect for national frontiers. When however German wheat was offered to a French intervention agency, difficulties cropped up in connection with the French registration system with its organismes agréés and passage obligatoire.

In addition to this “normal” intervention procedure, the national intervention agencies were empowered to initiate special measures in support of local markets. This so-called “Intervention B” had previously been part of the French market organisation. In the E.E.C. it only played a minor role.

The quantities bought up by the intervention agencies had to be channelled back into the market. This generally occurred via tenders, with the bidder offering the highest price being...
awarded the contract. The selling price for deliveries to the internal market had to be at least 16 DM per tonne above the intervention price of the nearest marketing centre.

For produce being sold for export, minimum prices were set by the Commission, taking into account price levels on both the internal and the world market.

A new instrument for managing markets was denaturing. Wheat and rye were made unfit for human consumption, in order to relieve the market for cereals of bread-making quality and to reduce the deficit in animal feed grain. Denaturing was carried out by colouring the grain or adding fish oil. The denaturing premium for the whole E.E.C. was set at 54.20 DM per tonne for July and August. From September to May there were additional monthly increments, which however, at 0.80 DM / tonne, were a lot lower than for basic cereals. Rye denaturing was only permitted on the premises of intervention agencies.

The premium was reduced if the wheat was not denatured, but mixed – under supervision - with other components in a factory producing compound feed. The export of denatured wheat was also permitted, but the subsidies were set at barley levels.

**External trade regulation** followed the same lines as practised under the previous Regulation No. 19/62. Due to the abolition of intra-community levies and the introduction of a common threshold price (using Rotterdam as the base), the system became a lot easier.

The levy was fixed daily by the Commission, provided the difference to the previous day was more than 2.40 DM per tonne. The levy corresponded to the difference between world market prices and the Community’s threshold prices.

For a certain transition period, Italy was exempted from the principle of a single common levy. The country was granted a levy reduction of 30 DM per tonne on imports from third countries in order to support its nascent food processing industry. For grain imported from other E.E.C. countries, a subsidy was granted at the same rate, financed by the European Agricultural Guidance and Guarantee Fund (EAGGF). This special provision was initially limited till 1971/72, but was prolonged several times. 90% of all proceeds from levies went into the EAGGF. The remaining 10% were retained by Member States as an administrative fee.

Foreign trade was carried out on the basis of **Import and export licences**. Import licences were valid for the current and subsequent three months. If the import transaction did not take place within this timeframe, the guarantee of 20 DM per tonne on licences with a pre-fixed levy was forfeited.

The same deposit rules and timeframes also applied to export licences. For exports to state-trading countries, licence validity was extended to the current month plus five months (for flour, plus six months). Malt export licences were valid for eleven months.

A licence was also necessary for intra-community trade. The reason given was the need for improved market transparency.

A harmonised E.E.C. licence, to be issued independently of the applicant’s country of residence and useable at any border-crossing within the Community, did not come into existence until the 1969/70 marketing year, one year later than originally intended.

**Exports** were a difficult case, and remained so in the following decades. The gap between E.E.C. prices and the lower world market prices was bridged by refunds. The main criteria for calculating refunds were:

1. the prices at the Community’s exit ports;
2. the quotations on the international commodity exchanges (especially in the USA);
3. freight costs within the E.E.C. and on the world market.

Each Thursday, with the help of these and other market data, the Commission compiled the refund rates. These could however be changed in between, either via an application submitted by a Member State or on the initiative of the Commission.

For calculating refunds on cereal-based processed products, the quantity of raw materials necessary for production was used (the so-called “raw material incidence”).

Refund rates were set for the whole E.E.C. They could however be increased for more distant destinations, taking higher freight costs into account. Increased refunds were only paid out once the exporter had produced proof that the produce had actually reached its destination and been discharged.

Just as with levies, a pre-fixing of refunds was also possible. In contrast to levies, the correction factor could move up and down, to compensate for fluctuations in forward prices.

The safeguard clause already referred to in connection with Regulation No. 19/62 was naturally included in the subsequent Regulation No. 120/67. Article 20 stated that “in trade with third countries, suitable measures can be taken, should the market be subject to serious upheavals caused to imports or exports or be threatened by such”. Such measures – i.e. withholding licences – could be instigated by the Commission or upon application by a Member State. In the long history of the E.E.C. market organization for cereals, this instrument was only used twice.

The importance of foreign trade in those days can be illustrated by a few figures: in the 1967/68 marketing year with a total grain harvest of 67 million tonnes, the six E.E.C. members achieved an export surplus in wheat of 1.5 million tonnes; in the previous year, trade had been balanced. In contrast, there was a trade deficit of 10 million tonnes in animal feed grain (12 million tonnes in the previous year). In 1967/68 the Community achieved its first export surplus in barley: approx. 1 million tonnes. Maize exports reached 1 million tonnes, but 11 million tonnes were imported.

In autumn 1968 COCERAL drew up a balance of the first year of the Cereals Common Market Organisation, coming to the conclusion that the new regulation had stood the test in most aspects. The market was working a lot more smoothly than originally anticipated. The apprehension about difficulties in the transition to the new regulation had been unjustified.

COCERAL had two main points of criticism: one was the delay in publishing important regulation texts, which in some cases had come into effect retroactively. This was made worse by the fact that some texts had been so vaguely formulated that this had led to interpretation problems.

The second point concerned the large scope of discretion, which the Commission had granted itself for interventions in the workings of the market. Examples were the calculation of c.i.f. prices, the determination of export refunds, prefixation restrictions, changes in the coefficients of equivalence, or the use of intervention B.

Even today, some of these problems still dog COCERAL’s work. But a whole plethora of new problems have been added.

It is also interesting to draw a balance of the Common Grain Market’s first year from a statistical perspective. Attention is immediately drawn to the high intervention amounts, especially in Germany. Some 740,000 tonnes of wheat, with 300,000 tonnes coming from Bavaria alone, were bought up by the EVSt. In addition there were the 150,000 tonnes of rye...
and 80,000 tonnes of winter barley. In France, some 200,000 tonnes of wheat were taken out of the market and put into storage as an intervention B measure.

At 44,000 tonnes, wheat denaturing did not have the anticipated effect in Germany, mainly due to the high administrative hurdles. In comparison, the Netherlands reached a figure of 200,000 tonnes and France 600,000 tonnes.

The average export refund for wheat corresponded approximately to the average levy. The highest additional export subsidy (15 EUA per tonne) was paid for exports to the People’s Republic of China.

The basic structure of Cereals Common Market Organisation, as defined in Base Regulation 120/67, remained basically unchanged until its expiration at the end of October 1975 (it was superseded by Regulation No. 2727/75 which came into effect on 1st November 1975). For this reason, only major changes that took place in this period will be mentioned in the following chapters. Indeed, in the 70’s and 80’s, external factors had a much greater influence on the workings of the common market than regulatory decisions. Such external factors include the increasing upheavals in currency markets (leading to the monetary compensatory amounts), Community enlargements (leading to accession compensatory amounts) and the repercussions of GATT disputes.
4. The first enlargement of the Community

An important theme in this connection was the discussion on “deepening and enlarging”. This first appeared on the agenda of the Den Haag summit meeting at the beginning of December 1969. The enlargement of the Community was intended to go hand in hand with progress in deepening Community structures and policies. With this in mind, the Den Haag summit declaration gave the go-ahead for both an economic and monetary union and political unification.

Apart from the accession talks with Denmark, Great Britain, Ireland and Norway, which culminated in 1973 in the first enlargement of the 6-member Community, negotiations were being held with a number of neighbouring countries on various forms of economic collaboration. With the aid of these association, cooperation and free trade agreements, the E.E.C. was able to greatly expand its economic influence.

1st July 1968 was not just an important date for the Common Cereals Market Organisation. It was also the date the Customs Union came into effect. This meant the abolition of intra-community customs duties and the introduction of a common external tariff for trade with third countries. A large number of redundant customs officers moved to the market organisation agencies, as the regulatory fervour of the E.C. Commission – and the Councils of Ministers! – was creating new jobs. The customs union was important for the agricultural market: for all (as yet) non-regulated farm produce, the remaining customs duty was slashed from the average 15% to zero.

The 1968/69, 1969/70 und 1970/71 marketing years (beginning as from 1968/69 on 1st August instead of 1st July) saw only minor changes. In 1968/69 for example, prices for animal feed grain (including rye) were raised slightly and denaturing was facilitated (higher subsidies and less bureaucracy). This was caused by a sharp rise in interventions. More and more wheat was supposed to go into the feedstuff sector, which naturally had negative effects on imports of feed grain.

For 1970/71, the Agriculture Council decided – without the backing of the E.C. Commission – to raise grain prices by 2 – 5% depending on the type. Increments were increased by 8%. This decision came as a surprise for a number of market observers, as wheat surpluses had already reached threatening levels. This was especially true for low-quality “mass wheat”, for which there was virtually no international demand.

By the end of the 70’s, net grain imports to the E.E.C. had receded to some 7 million tonnes. This was way below the 10 – 11 million tonnes agreed upon in the Kennedy Round.

Apart from the wheat surplus, the overproduction of sugar and butter was increasingly becoming a headache.

European political discussions in the early 70’s were dominated by two themes of special relevance to the common agricultural market: one was the enlargement of the Community, the other the upheavals on the currency market.

In May 1967, Denmark, Great Britain, Ireland and Norway had renewed their applications for starting accession negotiations. They had first applied back in August 1961, but these exploratory talks had failed, mainly due to President de Gaulle’s resistance. It wasn’t until a year after his resignation in April 1969 that negotiations got under way again.
The most contentious points were:

1. Great Britain’s links with the Commonwealth (Mauritius sugar or New Zealand butter);
2. the share in financing the Common Agricultural Policy;
3. the length of the transition period.

On 1st January 1973, Denmark, Great Britain and Ireland joined the E.E.C. In a referendum in September 1972 in Norway, a majority of 53.5% of Norwegians had voted against accession. The common agriculture market organisations came into effect for the three countries a month later on 1st February 1973. Even this deadline had been in danger, with one of the main reasons being that the Luxembourg printing shop was hardly able to cope with the vast quantity of regulations that had to be published in the new languages. The Council of Ministers was clearly the guilty party, as a number of detailed issues had only been agreed upon at the last minute, following tortuous night-long sessions.

With the introduction of the E.E.C. market organisation system, the three countries committed themselves to bring their - in many cases much lower - price levels into line with E.E.C. price levels within five years (till 31st December 1977). Because threshold prices, levies and refunds were already applicable in full for the accession countries, compensatory amounts (price or accession compensatory amounts as opposed to monetary compensatory amounts) were needed to bridge the gaps. These amounts were reduced in line with the increase in price levels that took place in six steps up till 31st December 1977. The first one-sixth reduction became effective on 1st August 1973 at the beginning of the new marketing year.

Examples of accession compensatory amounts for wheat valid on 1st February 1973 were 44.32 EUA per tonne in Great Britain, 9.95 in Denmark and 7.25 in Ireland.

These amounts applied to trade both with third countries and with the old E.E.C. countries. Levies were applied at the same rate for all nine countries. This meant that imports of wheat from the USA to Great Britain were reduced by 44.31 EUA per tonne. By contrast, an exporter of French wheat to Great Britain received a subsidy of 44.31 EUA per tonne. This meant that products from third countries and E.E.C. countries were subject to the same competitive conditions.

Accession compensatory amounts were calculated for all types of grain (using wheat and barley as the base cereals in accordance with their nutritional values) and all processed products. For the latter, the amounts consisted of a fixed sum intended for protecting national processing industries (based on the old customs duty) and the so-called raw materials incidence.

As from 9th December 1973 “advance fixing” was introduced for accession compensatory amounts as well. Following payment of a 3 EUA guarantee, the fixing applied to the whole validity period of the import or export licence.

The compensatory amounts in trade between the three new members were derived from the difference in amounts that each country had vis-à-vis the 6-member Community.

The application of this logical and straightforward ruling was made redundant by the fact that between August 1973 and the end of 1974 and once again in autumn 1975 world market prices exceeded E.E.C. prices for the first time. This meant that import levies and accession compensatory amounts were reduced to zero.

Article 55 of the Act of Accession stipulated that accession compensatory amounts must not exceed levy rates. Within a margin of 4 EUA per tonne, the levy was coupled to the compensatory amount. A levy of 0.01 – 4 EUA led for example to a compensatory amount for Great Britain of 2 EUA; a levy of 4.01 – 8 EUA led to 6 EUA.
5. Monetary compensatory amounts and the Common Agricultural Market

The accession compensatory amounts were supplemented by monetary compensatory amounts to compensate for the currency disparities which had been increasing as from the late 60’s, as a direct consequence of nationally-based monetary and financial policies. Back in March 1957, the founding fathers of the E.E.C. Treaty had already been aware of this potential problem. The somewhat vague monetary provisions in the Treaty (Articles 103 and 107) were aimed at protecting the Common Market from disruptions. Member States were obliged to treat economic policy and “policy in the area of exchange rates as an issue of common importance”. Article 109 called upon governments to make sure that any national protective measures led to minimum disruption in the Common Market.

The E.E.C. Commission had issued a number of proposals in the mid and late 60’s regarding an improved coordination of economic and monetary policy, but the countries showed little interest, preferring to protect their sovereignty.

The Community was therefore caught unaware when the French franc was devalued by 11.1% on 11th August 1969 and the German mark revalued by 9.29% on 24th October 1969 (following its floatation on 29th September 1969).

Since 1st July 1967 standard grain prices set in EUA had been in effect in the E.E.C. These were converted into national currencies on the basis of the official exchange rates. This meant that any change in the exchange rate would lead to changes in prices as expressed in the national currency. A revaluation led to lower national price levels, a devaluation to higher ones.

From a financial point of view, such an automatic system made sense. However the national economic and political implications were not to be underestimated. Therefore the effects of cheaper or more expensive currencies on trade in cereals (and all other agricultural products) had first of all to be neutralised.

This was done via compensatory amounts at the French and German intra-community and external borders – the so-called monetary or border compensatory amounts.

With effect from 22nd August 1969 and just 11 days after devaluation, export levies and import subsidies were introduced in France. They were slowly phased out in the following two years, after prices for agricultural produce had been raised by 12.5% in FF terms within the same period.

Germany operated a similar system for a limited period until 31st December 1969 in the opposite way - with export subsidies and import levies. On 1st January 1970 the automatic system came into effect: agricultural prices tied to EUA were cut by 8.5% - in the middle of the marketing year! German farmers were compensated via payments per hectare and a rise in VAT.

The devaluation of the French franc and revaluation of the German mark in autumn 1969 turned out to be just a foretaste of what was to come. They were followed by a whole row of parity changes, affecting both E.E.C. currencies and the USD.

The effects on agricultural markets were in many ways chaotic. The Commission became very inventive in developing one temporary construction after another to prevent a complete
breakdown of the market organisation system – with a certain amount of success. The era of the monetary compensation amount specialists had arrived.....

There is unfortunately no room here to discuss the enormous workloads that weighed down the Commission’s agencies and other financial institutions.

The problem can however be illustrated by just a few key facts:

1. In May 1971, the exchange rates of the Dutch NLG and German DM were floated. Compensatory measures came into force at the two countries’ borders. Belgium and Luxembourg followed suit at the end of August, France and Italy at the end of December.

For regulating trade with third countries, average exchange rate movements between individual E.E.C. currencies and the USD were determined on a weekly basis. This revaluation factor was – in simple terms – multiplied by the c.i.f. price (for intra-community trade by the Duisburg-based intervention price) to fix the size of the compensatory amount.

2. The chaos reached its peak in spring 1973, following the devaluation of the dollar on 10th February 1973, and the accession of the three new members. The Commission stopped calculating monetary compensatory amounts on 26th February 1973. Base amounts, currency factors and levy coefficients were published, with which trading companies could calculate the valid amounts themselves. Some 500 agricultural products were involved.

3. Monetary compensatory amounts could also be fixed in advance, but only for trade with third countries.

4. The monetary compensatory amount valid in a weak currency importing country could be paid out by the strong currency exporting country.

5. The switch-over coefficient was one very inventive contribution to easing the administrative burden caused by the currency upheavals. Its use meant that revaluation effects could be transferred to countries with weak currencies, thereby avoiding price reductions in the country with the re-valued currency. The coefficient (1.207509) was used between 1st August 1984 and 1st February 1995.

6. There could be no talk of a “standard E.E.C.” price level from the early 70’s to the mid 90’s. In all countries exchange rates were constantly fluctuating. These were compensated either by adapting the monetary compensatory amounts or by adjusting prices for agricultural produce on a national level. The official EUA parities were replaced by the so-called “green” parities in the agricultural sector.

Prior to the introduction of the European Monetary System (EMS) and the European Currency Unit (ECU) on 13th March 1979, “green” parities were adjusted seven times in Germany and Great Britain, nine times in France and eleven times in Italy.
In retrospect, it seems incredible that the Common Agricultural Market did not collapse under the burden of these enormous monetary tensions. The inventiveness of the Commission staff in finding ways to prevent this knew no bounds.

Following the failure of the **Werner Plan** (named after Luxembourg’s Minister of Finance) for a better coordination and step-by-step introduction of an economic and monetary union in the early 70’s, a breakthrough was achieved in 1978. On 5th December the leaders of the nine member countries reached agreement on the establishment of a **European Monetary System (EMS)**. Its top priority was to achieve greater monetary stability through improved coordination of economic and monetary policies.

Due to French reservations the EMS did not start operating on 1st January 1979 as planned, but on 13th March 1979. With respect to the **Common Agricultural Market** it became operational in certain areas on 9th April, for other areas at the beginning of respective marketing years.

All E.E.C. countries **participated in the EMS**, although Great Britain did not apply the provisions on exchange rates until a later date.

The EMS keystone was the newly established **European Currency Unit (ECU)**.

The ECU represented the **contents of a basket (a basket currency)**, in which fixed amounts of the nine participating currencies were put. These amounts corresponded to each country’s share of the Community’s gross national product and intra-community trade.

The exchange rates fixed on 12nd March 1979 were declared the **guiding rates** and, for the purposes of the agricultural sector, “frozen”. This meant that they could only be changed following a change of parity or the reconstitution of the basket. As from 13th March, the first day of the EMS, the guiding rate for the DM was fixed at 2.51064, for the FF at 5.79831 and for the NLG at 2.72077.

On the adoption of the EMS on 5th December 1978 it had been agreed that the EMS / ECU introduction should not lead to any basic changes in the agricultural sector.

**This meant in particular:**
1. no change in the existing common price level (Great Britain was in favour of generally reducing prices within the E.E.C.);
2. no changes in the existing prices fixed in national currencies;
3. no changes in the monetary compensatory amounts (as demanded by France).

The **replacement of the EUA by the ECU** made it once again necessary to construct a whole series of often complicated temporary measures. These will not be detailed here. One EUA became 1.208953 ECU. This relation of just under 1.21 corresponded to the difference between the previous guiding rates of the “snake” currencies and the new rates (i.e. for the DM: 3.03524 : 2.51064 = 1.208953.

To put it simply, the new ECU amounts were reached by multiplying the old EUA amounts (for prices, subsidies, compensatory amounts, etc) by the new ECU parities (DM 1.208953).

An ECU parity was also set for the **USD**. This was needed to set levies on a daily basis. This USD: ECU relationship was termed the currency factor and was used to convert both c.i.f. prices and refunds into ECU. A weak dollar automatically leads – as is still the case – to higher levies, just as vice-versa a strong dollar results in lower levies.

Problems in this connection occurred however when, as was often the case in 1973/74 and 1974/75, the **international bullish market** caused the Community’s threshold prices to be
exceeded. Levies did not come into effect. There was no compensation for dollar fluctuations. The system’s logic, calling for import subsidies instead of import levies, was not applied.
6. Grain market policy reform

With the spotlight on the above-mentioned agro-monetary developments and resolutions, decisions relating to the grain market itself were somewhat out of focus.

The 4-day meeting of agriculture ministers in March 1976 was of special importance. Commission proposals for reforming grain market policy were adopted. The new concept, often represented as a silo or cathedral, was aimed at simplifying the system and improving the workings of the market. In the light of the experiences of the past ten years, a reorganization of the Common Grain Market was urgently required.

Reorganization was spear-headed by four measures:

1. increasing the difference between intervention and threshold prices (thereby increasing the preference for E.C. produce);
2. improving the price relationships between the individual types of grain;
3. abolition of regionalisation in the wheat market;
4. introduction of separate intervention prices for feed wheat and bread-making wheat.

**Bread-making wheat** accounted for some 85% of arable land in the nine countries. Its intervention price was 15 EUA or 13% higher than that of feed wheat, which respectively corresponded to the intervention price for barley.

Differentiation between bread-making and feed wheat was initially achieved by a dough test (“not sticky”). In later years, with more standardised test equipment available, it was carried out by a **baking test**.

At the beginning of the 1977/78 marketing year, a **reference price** for baking wheat (soft wheat of bread-making quality) was introduced. The state-purchase guarantee for such wheat was restricted and the intervention commitment limited to the months of August until October. Individual intervention measures (**Intervention C**) were to be applied for the following months (for example involving the payment of a storage premium).

Regionalisation, i.e. basing grain prices on freight cost differentials vis-à-vis a main deficit area, had been abolished in 1973/74 for rye, in 1974/75 for barley, and 1976/77 for wheat. The high number of marketing centres in the 9-country E.E.C. (656 for wheat and 417 for barley) was retained.

Fixing intervention prices according to nutritional values meant that **denaturing** was no longer necessary. The Commission’s authorisation for Member States to grant denaturing premiums (see page 25) was withdrawn as of 1st August 1976. It should be remembered that in the first half of the 70’s some 25 million tonnes of wheat had been denatured and channelled to the animal feed sector. The granting of a high denaturing premium in Great Britain following accession had been particularly absurd.

In the mid and late 70’s, changes in the external trade area were focussed on exports, which were gaining in importance due to the rising surpluses. **Export licence validity** was adjusted a number of times to reflect changing conditions on the world market. Licence validity for grain tenders in importing third countries was raised to a maximum of eight months. In special cases
and when major amounts (at least 75,000 tonnes) were involved, the validity could be extended even longer. This was aimed at facilitating exports, especially to state-trading countries.

The **setting of export refunds** was a subject of repeated criticism. They were set by tender every Thursday by the Commission. The vague criteria used in their calculation (prices within the Community and on the world market, avoidance of disruptions in the E.E.C. internal market, economic aspects of exports) left a lot to the Community’s **discretion**. The focus was often on fiscal and trade considerations, where interests of other exporting countries had to be taken into account.

To take account of freight costs to individual export markets, refunds could be set at different levels dependent on the destination. The international grain market with its most important importing countries (from North Africa, the Near East, via the USSR to the People’s Republic of China) was divided up into **seven zones**. For countries further away, a freight supplement could be granted on top of the basic refund, but this was only paid out after the produce had actually reached its destination. Proof of arrival or discharging in the destination port via suitable customs documents was a continual cause of dispute between the Commission and COCERAL.

**Export procedures** were continually being improved. One measure was the calculation of corrective amounts (premiums) on the **advanced fixing of refunds** (see also page 15). The corrective amount became more and more an instrument for steering exports. By using high corrective amounts for example, the Commission tried to put a stop to what they saw as speculative export transactions in the final months of an export licence period.

Grain exports also took place on the basis of a **refund tender**. The contract was awarded to the bidder offering the lowest refund. Most tenders were long-term, with bids being accepted on a weekly basis.

Attention has already been drawn to the fact that in the mid 70’s, world market prices were higher than E.E.C. levels (see page 22). This first occurred in August 1973 and led to the Commission publishing a so-called **shortage regulation**. This gave it a fitting instrument to prevent shortages on the E.E.C. internal market that might have arisen through increased exports.

**Measures included:**

1. export levies;
2. the complete or partial stop to granting export licences;
3. the complete or partial rejection of licences already applied for.

**Export levies** already came into effect when world market prices came near to the Community’s threshold price. They were fixed by the Commission or awarded by tender. During the different boom periods, exports on the basis of export levies hardly took place. The E.C. Commission was obviously focussing on ensuring supplies to the internal market. The epithet of a “caring family father” quickly made the rounds...
In the early 80's, there were three developments of importance to grain market policy:

I. the increasing surpluses;
II. the inclusion of fodder products in the Cereals Common Market Organisation;
III. the enlargement of the Community.

I - The increasing surpluses

In 1973/74 the E.E.C. had already become a net exporter. Some 2 million tonnes of soft wheat and about 1 million tonnes of barley were exported. Mainly due to high maize imports (some 14 million tonnes), there was still a trade gap of 16 million tonnes. The picture changed dramatically in the years up to 1980/81. The old Community with its high deficits had become, for some observers not unexpectedly, a surplus-producing region.

There were many factors contributing to this development, the main ones being:

- increasing imports of grain substitutes;
- enormous gains in farm productivity;
- continuing compulsory intervention;
- the overvaluation of rye.

The dispute over the right rye price had long become a political issue. All proposals put forward by the E.C. Commission for the necessary reduction of the rye price failed due to bitter resistance - mainly from Germany. It wasn’t until 1981/82 and 1982/83 that the intervention price for rye was reduced, in two steps, to the level of maize, barley and feed wheat. At long last, the price differentials between the different types of cereals reflected their nutritional values.

A new instrument came into being for preventing wheat and barley surpluses: the co-responsibility levy. In the 1981/82 marketing year, the Commission had already wanted to involve farmers in reducing surpluses. It had been proposed that intervention prices should be reduced by a certain percentage, should a pre-set harvest volume be exceeded. The ensuing reduction in market prices would lead to reductions in export refunds and increase the competitiveness of home-grown cereals vis-à-vis imported feedstuffs.

The co-responsibility levy, also in effect in a similar form for milk and sugar, came into effect in the 1983/84 marketing year after long discussions. With the collaboration of the ten agriculture ministers (Greece had since become a member), it had been adopted in a form much more complicated than that originally proposed by the Commission. If the grain harvest of the 10-member Community exceeded the production threshold of 119.5 million tonnes (the 1980 – 1982 average, excluding durum wheat and rice), then intervention prices (and the reference price for baking wheat) would be reduced by 1% for every 1 million tonne extra (up to a maximum of 5%) as from 1983/84. A separate production threshold was introduced for durum wheat in 1984/85. The E.C. Commission established an interesting correlation between cereal production and imports of feedstuffs. Should the latter exceed 15 million tonnes, the production threshold would be increased by the same amount for the following marketing year.

A reduction of intervention prices following a bumper harvest only occurred in 1985/86. In the following year this form of co-responsibility had already become subjected to major modifications:

As from 1st July 1986 (the start of the marketing year had been brought back to 1 July), a new co-responsibility levy (CRL) with direct effect was applied. It was set at 3% of the intervention price for milling wheat (the reference price for milling wheat had been abolished in the
meanwhile) or 5.38 ECU per tonne for a 5-year timeframe. The levy applied to E.E.C-grown cereals and was initially raised on processed products, exports and sales to intervention agencies.

In the preamble to the corresponding implementation regulation it was stated that the levy was “to make market reality clear to grain producers”. But there was already great doubt in those days whether the co-responsibility levy with its tortuous workings had really been necessary to achieve this.

Smallholders (farmers with max. acreage of 15 hectares and max. marketable grain production of 25 tonnes) were exempted from the levy, as well as farmers with a max. 20 tonne marketable production and a set-aside of at least 30% of arable land.

On top of the basic 5.38 ECU per tonne levy, an additional levy (also 5.38 ECU) was set for the case that the re-introduced guarantee or production threshold, now set at 160 million tonnes, should be exceeded. This guarantee threshold was valid for the following four marketing years.

In 1988/89 the levy system was once again changed: the CRL was now, as had initially been proposed by the E.C. Commission for 1986/87, imposed at the primary point of sale – i.e. to be carried by the producer. The primary buyer (the trader, processor, or even farmer) was legally responsible for the correct payment.

**II - The inclusion of feedstuffs in the Cereals Common Market Organisation**

At the time of the establishment of the Cereals Common Market Organisation in 1967, it had included certain kinds of animal feed, either grain by-products (such as bran) or commodities in direct competition with grain (such as tapioca).

The introduction of production thresholds for grain together with the co-responsibility levy also put the E.E.C.’s up-to-then – with a few exceptions – liberal import policy for feedstuffs under increasing pressure.

Beginning with the 1982/83 marketing year, the basic rules of the Cereals Market Organisation were extended to cover ten further feedstuffs over and above wheat bran and tapioca. These included maize-germ meals, corn gluten feed, citrus pellets, sliced sugar beet pallets and DDGs. This meant the use of import licences and the associated guarantees. Import duties remained unchanged at zero, with the exception of tapioca and bran (see page 13).

In the late 70’s tapioca imports had started increasing rapidly. After arduous discussions the E.C. Commission concluded a cooperation agreement with the two principal supplying countries, Thailand and Indonesia, with the main objective of curbing exports to the E.E.C.

Thailand, not a GATT member, signed a voluntary restraint agreement whereby it undertook to restrict exports. It was accorded the following supply rights at a maximum duty of 6% of the produce’s c.i.f. value:
For 1982: 5 million tonnes; for both 1983 and 1984: 5 million tonnes with the possibility of exceeding this by 10%; for both 1985 and 1986: 4.5 million tonnes with the same possibility. As was to be expected, this agreement was prolonged first till the end of 1990, then again to the end of 1994 and finally to 1998. For each 4-year period, a total export amount of 21 million tonnes was permitted. As production was decreasing and demand from Thailand itself, but also from China and Indonesia, increasing, by the mid 90’s the quotas were not being fulfilled and the agreement petered out.

As Indonesia was a member of GATT, a customs-tariff agreement was concluded. Here as well the maximum duty was set at 6%. The permissible quantity was a lot lower, rising from 588,235 tonnes in 1982 to 970,590 tonnes in 1986. 85% of this amount was reserved for Indonesia, the rest for other GATT member countries such as Brazil. This agreement was also renewed a number of times, the last time for the 3-year period 1996 – 1998.

To complete the picture, it should also be mentioned that the People’s Republic of China and Vietnam were granted an import quota (370,000 tonnes). This was not fulfilled in the first years. China was also given a duty-free import quota for 600,000 tonnes of sweet potatoes in 1990.

III - The accession of Greece

On 1st January 1981, two years after the conclusion of negotiations, Greece became the Community’s tenth member.

On accession, Greece’s feed grain prices were slightly higher than the Community’s. For soft and durum wheat as well as for rye, they were more or less a lot lower. The price differences were compensated, in a similar way to that exercised on the Community’s first enlargement, by so-called accession compensatory amounts. As E.E.C. price levels already applied for feedstuffs as from 1st January 1981, compensatory amounts were only fixed for wheat and rye. The transition period during which the compensatory amounts were gradually reduced and Greek prices brought up to E.C. levels lasted five years. As from 1st January 1986, the common E.C. prices applied to all types of cereals in Greece as well – insofar as they were not distorted by currency problems.

IV - The accession of Spain and Portugal

On 1st January 1986, the third enlargement of the European Community was completed. The Common Market Regulation mechanisms came into effect in the two countries two months later on 1st March – at least in theory. Portugal was granted the right of postponing the introduction of the E.C. system for cereals for five years (“stand-still” agreement).

Prices for basic cereals in Spain on 1st March 1986 were – apart from durum wheat – only marginally below E.C. levels. The transition period during which levies or compensatory amounts were needed could therefore be kept shorter than with other accession countries. Spain was already able to introduce E.C. price levels for soft wheat and maize in 1988/89 and for rye, barley and sorghum one year later.

For imports of some especially sensitive products from the 10-member Community to Spain, a 7-year transition period was foreseen (lasting until the establishment of the EU Internal Market on 1st January 1993), during which volume restrictions were in effect. As well as meat and
some dairy products, this applied to baking wheat. Imports were restricted in 1986 to 175,000 tonnes, rising by 15% per year until 1992.

The **import quotas for maize and sorghum** from third countries were much more contentious and important. Following exceedingly arduous negotiations, the E.C. and the USA reached an agreement that 2.3 million tonnes of maize and sorghum could be imported annually with a greatly reduced levy. The annual imported quantities of the three feedstuffs corn gluten feed, distillers dried grain (DDG) and citrus pellets were deducted from this amount. As these three feedstuffs accounted for some 0.5 million tonnes of imports, the amount available for import at reduced prices was around 1.8 million tonnes.

This agreement was implemented in three ways:

1. setting of the amount to be deducted (**“abatimento”**) by the Commission;
2. tendering the amount to be deducted;
3. direct purchases on the world market by the Spanish market organization agency SENPA (via trading companies).
7. Fundamental reform of the Cereals Market Organisation

Following the successful reform of the milk market with the introduction of production quotas in April 1984, discussions in the late 80’s focussed on eliminating the structural surpluses in the grain market. The Commission started out from an annual surplus of some 40-45 million tonnes that could not be sold – under normal conditions – on either the internal market or the world market. Certain Member States were forced to face up to the fact that a “cautious price policy” would not be enough to bring supply and demand into equilibrium.

Domestic consumption was sinking, and the international market was only able to absorb the increasing and very high-priced exports to a certain extent. By the late 80’s, the E.C. had already moved into second place in grain exports (behind the USA) with a volume of 33 – 35 million tonnes. Disputes with the USA and other grain exporting nations increased. The state’s unrestricted commitment to buy up produce saw intervention stocks rise to a record 33 million tonnes in 1992. Building storage warehouses was boom business, but the financial leeway for financing such a policy was getting tighter and tighter.

In May 1992, 25 years after the Cereals Common Market Organisation came into effect (1st July 1967), the agriculture ministers of the 12 Member States agreed on a totally new concept for the E.C. grain market.

The primary objective of this first fundamental reform was to reduce production. This was achieved by a mix of set-aside, extensification and price reductions. The reform packet was flanked by a number of measures in the social and environmental sectors.

The new and radically simplified Cereals Common Market Organisation was based on Regulation No. 1766/92. On 1st July 1993, this replaced Regulation 2727/75, which, over the course of the previous years, had been supplemented by no less than 39 amending regulations.

The first timid attempts to introduce set-aside had started some years earlier, during the 1988/89 marketing year for a 5-year period.

There were massive start-up problems in a number of countries and by the end of the first three years only a total of 1.7 million hectares (or 4.5%) of total arable land had been set aside, 600,000 hectares in the ex-GDR alone. Participants in the program were rewarded by having 5% of their co-responsibility levy (CRL) waived.

In 1991/92 a much more effective one-year set-aside program was introduced, that ended up remaining in effect until 2006/2007. Set-aside rates were changed annually. In 1991/92 the program specified for example that at least 15% of a farm’s previous year’s arable land (including land used for producing seed grain and silo maize, oilseeds and pulses) be set aside. It was forbidden for set-aside land to be used either agriculturally (for example for producing feedstuffs) or commercially (for example as a car-park).
Set-aside participants were initially rewarded by having the total CRL (5% or some 20 DM per tonne) refunded. In addition there was national compensation at different levels. In Germany these were on a sliding scale according to soil quality. On average they reached 720 DM / hectare in the first two years.

**Set-aside modalities** were modified a number of times. The annual set-aside rate ranged from 5 to 17.5% depending on the market situation. The set-aside premium was regionalised to take different soil quality into account. The calculation base was the average crop per hectare from 1986/87 to 1990/91, multiplied by a base amount set by the Commission.

A rough estimate put the average premium for the whole EU (the European Community had become the European Union in 1993) at **317 ECU / hectare**, based on an average 4.6 tonne crop yield per hectare. Set-aside in Germany, where the average yield was 5.56 tonnes / hectare, were compensated at an average of 383 ECU / hectare, with Schleswig-Holstein, the region with the highest productivity, averaging 469 ECU / hectare.

Set-aside land had to be **at least 0.3 hectares** big and 20 metres wide. The land had to be measured accurately, as the actual set-aside was only permitted to exceed the registered amount by 10% or a maximum of 1 hectare.

**Smallholders** were exempted from having to set land aside. These were farmers with a crop not exceeding 92 tonnes. Given the average yield of 4.6 tonnes per hectare, this meant that farms with less than 20 hectares of arable land were exempted.

It was a major effort monitoring the set-aside program. In addition to local inspections, photographic monitoring – by plane or satellite – was used for the first time to identify and measure set-aside land.

In addition to the set-aside program, the **reduction of cereal prices** was a key element of the reform concept. Within three years (1993/94 – 1995/96) prices were reduced by 30 – 35% and brought into line with world market prices. This step had already been carried out for oilseeds in the 1992/93 marketing year.

The major loss in farmers’ incomes was largely absorbed by **compensatory payments** per hectare.

The land used for cultivating the “grandes cultures” was eligible for compensatory payments. These included all types of cereals, oilseeds and pulses. The total land under such cultivation amounted to **48.6 million hectares** in 1989 – 91. This was divided up between the individual Member States und the producing regions nominated by them. Germany was allotted 9.821 million hectares eligible for subsidies, France 13.4 million and Great Britain 5.41 million.

The compensatory amount for a farmer consisted of a **basic amount** (1993/94: 25 ECU per tonne; 1994/95: 35 ECU and 1995/96, the final year of price reductions, 45 ECU) multiplied by the regionally differentiated yield per hectare. Following the example of the set-aside premium, the average crop of the years 1986/87 - 1990/91 was used: 4.6 tonnes / hectare. The average compensatory payment pro hectare over all E.C. countries was: 1993/94: 115 ECU; 1994/95: 161 and 1995/96 and all subsequent years 207 ECU. The conversion of these ECU amounts into national currencies took place on the basis of the current ECU exchange rate (the “green” parity) at the beginning of each marketing year (1st July).
The crop yield per hectare figures used to calculate the individual income losses of farms varied greatly from country to country. Therefore compensatory amounts were subject to a regional sliding scale, corresponding to a region’s average yield.

Denmark, Greece, Ireland, Italy (with the exception of maize), Luxembourg and the Netherlands used their national average yields as the basis. In Germany each federal state represented a region, with the exception of Lower Saxony, which was subdivided into nine regions due to its wide range of soil quality.

France developed its own, very complicated system to register different yields (i.e. income losses) as equitably as possible. For each of the 95 départements an individual crop per hectare level was determined. This was one-third based on the average yield of the whole country and two-thirds based on the département’s average.

The main political development influencing the E.C. (post-November 1993 = EU) grain market in the early 90’s was undoubtedly the convergence of the ex-COMECON countries with the EU. In mid-December 1991 the first Association Agreements were signed with the then CSFR, Poland and Hungary. Similar agreements followed a year later with Romania and Bulgaria. The long-term objective was the establishment of a free trade zone and the abolishment of customs duties and quotas between these six (following the split-up of the CSFR) countries and the EU.

In a 5-year transition period (lasting up to 1996/97) the EU introduced a system of gradually decreasing levies and duties to facilitate agricultural imports while at the same time raising the corresponding uptake quotas. Favourable treatment was focussed on imports of fruit and vegetables, meat and cereals.

The supply rights of these countries were comparatively modest to start with. In the final year of the first transition period (1996/97), Hungary had the right to ship 232,000 tonnes of soft wheat at an 80% reduced levy. Among other items, the Czech Republic was permitted to deliver 31,667 tonnes of malt and 27,333 tonnes of malting barley. Slovakia had to make do with 13,667 tonnes of malting barley and 15,833 tonnes of malt. Poland was given a quota of 4,350 tonnes of buckwheat. In 1997/97 the transition period was extended till 2000/2001, the expected year of accession. Import quotas were raised by 10 – 15% and levies remained discounted at 80%.

With demand in general higher than the available quantities, deliveries had to be allocated.
8. The Uruguay Round and the Common Grain Market

With the current Doha Round, COCERAL is experiencing its fifth round of GATT / WTO negotiations within its 50-year history. The most outstanding round was the **Uruguay Round**, which will be remembered not just because of its 7-year duration. Talks began in September 1986 in Uruguay's *Punta del Este* and were successfully completed in mid-December 1993 in Brussels. The official conclusion took place in mid-April 1994 in Marrakech, Morocco, in connection with the establishment of the World Trade Organization (WTO), GATT's enlarged successor.

The previous Dillon, Kennedy and Tokyo Rounds had earned accolades for pushing through a drastic reduction in the high customs protection for industrial goods. The Uruguay Round's decisive step forward was the inclusion of the agricultural sector. The two main contestants were the EU and the USA; the latter supported by the members of the Cairns Group consisting of the major agricultural exporting countries.

The two Blair House Agreements of November 1992 and December 1993 commemorate the major role played by Blair House, the US Government’s guesthouse in Washington, in these high-tension talks.

The result of this negotiation, which came into effect for cereals, feedstuffs and oilseeds on 1st July 1995, can be summarised for the cereal and feedstuff sectors as follows:

### 8.1. Reduction of exports

Subsidised EU grain exports were to be reduced over a six-year period (1995/96 – 2000/01) both by cutting financial incentives (export refunds) by 36% and by reducing the volume of exports by 21%. The reference period was set in principle to 1986 – 90. In a last-minute compromise the EU was able to obtain recognition for 1991 and 1992 as the reference period for wheat. In the latter period, EU wheat exports had averaged 20.3 million tonnes, in the former just 17 million.

There were no such restrictions for non-subsidised exports, for example due to higher world market prices or a stronger USD / ECU exchange rate. Food aid shipments were also exempted.

For the 12-member EU, the volume cutback of subsidised EU grain exports was as follows: In 1995/96, the first year of the transition period, exports of 31.3 million tonnes were permitted, 19.1 of which were to be wheat and 12.2 feed grains. This was to be reduced to just 23.4 million tonnes by 2000/01, with 13.4 million tonnes of wheat and 10 million tonnes of feed grains.

Export volumes not used in one year could not be carried over into the following year.
Complaints, often justified, of agricultural protectionism and the closing of its markets to third countries had accompanied E.E.C. history right from the start. It therefore came as no surprise that improved grain market access should play a significant role in the negotiations. Imports were to be raised from the current 3% of domestic consumption to 5% by the end of the transition period.

The main amounts of cereals to be annually imported (either calendar year or marketing year) were:

- 2.3 million tonnes of maize / sorghum to Spain
- 0.5 million tonnes of maize to Portugal
- 0.3 million tonnes of high-quality / durum wheat to the whole EU
- 0.475 million tonnes of bran to the whole EU.

The EU commitment was fulfilled with these 3.6 million tonnes. In general they corresponded to previous years’ imports. In addition, there were two smaller import quotas with a reduced “levy” (= customs duty) for oats, and – somewhat a curiosity – a quota for 30,000 tonnes of malting barley. This favoured amount was destined for an EU-based American brewery, whose beer was stored in beech barrels.

Improved market access also included an agreement on tarification. All measures restricting imports (including import levies) were to be converted into fixed customs duties. Furthermore, these were to be reduced by 36% within the 1995/96 – 2000/01 transition periods.

This involved all types of cereals not subject to intervention, such as oats, sorghum and triticale. Following the abolition of threshold prices and the introduction of the 55% regulation in 1995/96, new import tariffs were set for the remaining cereals.

In the 1993/94 marketing year, as part of the simplification of the Cereals Common Market Organisation, the wheat intervention price had been aligned with animal feed prices. This meant that there was a standard price level for all types of grain. Two years later, on 1st July 1995, import regulations were changed as part of the implementation of the GATT resolutions. The official abolition of threshold prices (and, as a consequence, of import levies) meant that target prices lost their significance. The threshold price was replaced by the 55% regulation created during the Blair House talks: “the import price inclusive of all duties must not exceed the intervention price by more than 155%”. The objective of this new regulation was to prevent any further reduction in the standard intervention price (at that time 98 ECU per tonne) from increasing the difference to the minimum import price (threshold price), thereby causing an additional rise in the price of third country grain. The so-called “Community preference” (see page 10) thereby acquired a ceiling.

Levies, which had been in operation since 1962, were now replaced by the imprecise term “import duties”, though they still remained flexible. The import duty for grain corresponded to the difference between the 55% higher intervention price and the world market price (on a c.i.f. Rotterdam basis).

The import duty is only published every two weeks be the EU Commission. It only has to be reset if a difference of more than 5 ECU per tonne is calculated. This regulation is currently in use in this form.

Another innovation with major consequences for the Cereals Market Organisation was the abolition of the almost 40 coefficients of equivalence for soft wheat. These had been used to
take the different wheat qualities traded on international commodity exchanges into account, and had been necessary for establishing a base for a single common c.i.f. price and the associated levy (see page 13).

They were replaced on 1st July 1995 by the still valid categorisation of soft wheat into three quality groups (low-, middle- and high-quality). For each group a single c.i.f. Rotterdam reference price was fixed.

The customs duty to be paid by importers corresponded to the difference between one of these three reference prices and the standardised minimum import price (155% of the intervention price).

The sharp reduction in cereal prices in the EU in the mid-90's (see page 28) greatly alleviated the problem of grain substitution through imported feedstuffs. In the 1990 – 92 timeframe the EU had on average imported some 41 million tonnes of feedstuffs annually. EU/USA consultations, as provided for in the already mentioned Blair House Agreement of December 1993 in the case of a further increase in imports, were no longer necessary.

On 1st January 1995, the fourth enlargement of the Community took place. With the accession of Finland, Austria and Sweden, the EU now had 15 members. A referendum in Norway had once again come out against accession, with a majority similar to 1972 (52.3%).

The three countries introduced EU price levels and the Cereals Market Organisation mechanisms straight away. This meant that accession compensatory amounts as known from previous accessions were not required. In the preceding years, Sweden had already reduced its prices to EU levels. The price reductions that were necessary in Finland and Austria were compensated by income supplements for farmers in 2-year and 5-year transition periods respectively.

The EU grain market as a whole was not much affected by this enlargement. The focus was on the oats market. With good harvests, Sweden and Finland both achieved surpluses of some 400,000 tonnes. This led to both countries being given the potential right to export refunds in the Act of Accession.
9. Reforms within the Framework of the AGENDA 2000

The major goal of the following reform of the Common Agricultural Policy of the EU and thus also of the Market Regulation for Grain within the framework of the Agenda 2000 had been to freeze real agricultural expenditure for the period from 2000 to 2006 at the 1999 level of 40.5 billion Euro. After difficult negotiations, this was achieved and concluded by the government heads of the EU in March 1999.

The resolutions adopted at the summit on arable crops which took place in Berlin under German Presidency deviated considerably from the proposals made by the EU Commission and from the agreement reached by the agriculture ministers one month before the summit.

The basis for the new amendment of the Market Regulation for Grain remained Regulation No. 1766/92, which, however, underwent substantial alterations due to the requirements of the Agenda 2000. The reform aimed again first and foremost at a better market balance and an improvement in the competitiveness of EU agriculture and, at the same time, at remaining within the budget ceiling for agricultural expenditure of 40.5 billion Euro.

Accordingly, the intervention price for grain was cut in two equal steps by a total of 15%. It fell from the 1998/99 and 1999/2000 level of 119.19 Euro/t to 110.25 €/t on July 1, 2000 and then to 101.31 €/t on July 1, 2001. Since then, this intervention price of 101.31 has been valid. The monthly increments (Reports) to the intervention price in the amount of 1 Euro were reduced to 0.92 €/t.

This reduction of the intervention price was compensated by an increase of the compensatory payments. As in the case of the intervention price reduction, this increase took place in two steps, but, contrary to the reform in 1992, the price cuts were not fully compensated. In the first step, on July 1, 2000, the compensatory payments were only increased to 58.67 €/t from the level of 54.34 €/t that was valid in 1998/99 and 1999/2000. The second increase followed on July 1, 2001 to 63 €/t.

Maintained was the rule, that the basic amount was to be multiplied with the regional yields. Thus, the acreage premium climbed by 20 Euro to nearly 270 €/ha on average in the EU (yield target 4.6 t/ha) in marketing year 2000/01. In the following marketing year 2001/02, in a second step, a further rise by 20 Euro to an average of 290 €/ha took place.

The basic rate of the obligatory set aside was fixed at 10% for the period 2000/01 to 2006/07. Not changed was the rule that the Agricultural Council may alter the set-aside rate when proposed by the Commission and in accordance with actual market and price developments. As is known, the Commission made use of this right and proposed a change for marketing year 2008/09 following the tight supply and demand situation. The instrument of voluntary set aside remained in place. The set-aside compensation was adjusted to the basic amount of the compensatory payments of 63 €/t. Thus, on average, it slumped in the EU from 317 €/ha (68.83 €/t multiplied by 4.6 t/ha) in marketing year 1999/2000 to 290 €/ha (63 €/t multiplied by 4.6 t/ha) on July 1, 2001 and further to 270 €/t (58.67 €/t multiplied by 4.6 t/ha) on July 1, 2001. In order to give farmers the possibility to better align their planting intentions with the
price signals coming from the market it was decided to adjust the compensatory payments for oilseeds in three steps to those fixed for grain (63 €/t).

The border protection for cereals was adapted to the level of the intervention price, i.e. the import threshold (155% of the intervention price) was reduced from 184.78 €/t on July 1, 1999 to 170.89 €/t on July 1, 2000 and to 157.03 €/t on July 1, 2001.

In the Agenda 2000 the EU already established the basis for the entry of the Central and Eastern European countries into the Community. The enlargement of the EU to 25 members was formally concluded by the European Council on December 13, 2002 in Copenhagen. Estonia, Latvia, Lithuania, Poland, the Slovak Republic, the Czech Republic, Slovenia, Hungary as well as Malta and Cyprus acceded to the EU on May 1, 2004. The accession countries committed themselves to take over the legal framework governing EU agriculture. Thus also the Market Regulation for Grain was to be applied as from May 1, 2004, but with two important exceptions. First, the countries were exempted from the obligatory set aside as heavy political and economic changes had led to sharp declines in the acreage after 1990 so that the production potential had obviously not been fully exploited. Second, the new member states were allowed to grant one and the same single compensatory payment to all farmers. A regionalization was no option due to bad or hardly existing and available historic data but also because of unsatisfactory control mechanisms. Nevertheless, from the day of their accession these countries were integrated into the internal market for grain and subject to all import and export regulations of the Market Regulation for Grain.

The accession of the Central and Eastern European countries in May 2004 involved no substantial increase in the EU budget. To the contrary, the budget ceiling of 40.5 billion Euro for the agricultural sector was maintained. Thus it became clear that a further substantial reform of the agricultural policy was inevitable.

Such fundamental reform had been agreed upon by the EU Agriculture Ministers already on June 26, 2003, almost one year before the accession took place. A key element of this reform was the almost total decoupling of most subsidies from the production volume. This aimed at giving the farmers the possibility of reacting more market oriented respectively adapting their planting intentions to the signals coming from the market. Only some limited coupled elements were maintained which can be granted under certain defined conditions by the member states to avoid abandonment of production. The new compensatory payments were renamed “single farm payments” and introduced in marketing year 2004/05. For the first time the granting of such payments was linked to the farmers’ compliance with certain standards, for example as regards the environment or food safety (“cross-compliance”). In addition, a general reduction in the direct payments was introduced (“modulation”) in order to finance the new rural development policy (Second Pillar of the Common Agricultural Policy).

Also the mechanisms for financial discipline were changed of course. This applies in particular to the milk sector but also to the Market Regulation for Grain. As Regulation No. 1766/92 already had undergone several changes over the years respectively had been adjusted to the resolutions of the AGENDA 2000, it was replaced by the new Regulation No. 1784/2003.

The EU Commission could not force through its demand for a further reduction of the intervention price. Thus the intervention price remained at 101.31 €/t as from July 1, 2004 - the date at which Regulation 1784/2003 began to apply. Also the minimum import price was not changed and remained at 157.03 €/t. The monthly increments, however, were cut by half to 0.46 Euro from 0.92 Euro per tonne and month previously, while no change was made to the increments to be paid for the period November to May.

The intervention for rye was abolished. The last quantities of rye were offered into intervention in marketing year 2003/04 and the member states accepted the proposal of the EU Commission to completely abolish rye intervention. This measure was taken in order to avoid that rye was mainly produced for offering it into intervention instead of offering it on the market, which had more and more been the case in the years prior to the abolishment. Contrary to general fears that the abolishment would lead to a dramatic price reduction followed by a sharp decline in the acreage, the rye market consolidated very quickly and a new price level developed that really reflected the actual demand.

The import and export regime was more or less not affected by the 2003 reform. A strong influence on the market, however, had the introduction of tariff quotas for medium and low quality wheat as from January 1, 2004. The introduction of such quotas was the reaction to the sharply rising wheat imports of the EU, mainly from Ukraine and Russia, and aimed at preventing the intervention stocks from rising again. Despite this, intervention stocks increased further due to significantly growing surpluses, mainly of maize in Hungary.
As a result of the slump in the livestock sector and the good EU-wide grain harvest in 2004, large quantities of maize and also of wheat were offered into intervention in Hungary, but also in other member states. Thus the intervention stocks increased dramatically and reached more than 14 mln tons by the end of marketing year 2005/06, a level that had not been achieved for many years. Therefore the EU Commission made the proposal to abolish the maize intervention which, however, did not meet with the approval of the Agricultural Council. Finally, a compromise was found according to which the quantity of maize that can be offered into intervention was to be reduced gradually down to zero. Thus, for marketing year 2006/07 a maximum limit of 1.5 million tons was set which was to fall to 700,000 t in 2007/08 and then to zero at the start of marketing year 2008/09. Due to the current market situation, however, these limits have so far actually not been reached.
11. Outlook - A Single Common Market Regulation, WTO Round and Health Check

The reform of the Market Regulation for Grain is not yet finished. Additional amendments in connection with the introduction of one single Common Market Regulation for all agricultural products, the current DOHA Round negotiations of the WTO and the Health Check discussions will lead to further changes.

The most important impact will in all probability have the WTO negotiations and the already concluded elimination of all export subsidies. This will make grain exports out of EU intervention much more difficult in future. The EU Commission has already taken account of this and has demanded within the framework of its propositions for the Health Check to phase out also the intervention for barley and sorghum to zero. Only the intervention for bread wheat should remain in place - with certain possible changes. It is planned to replace the procedure of grain being offered into intervention and then being accepted by the intervention agencies by a tender system. Thus the system that is already valid for all other market regulations within the EU will also become applicable to the grain intervention. However, this would mean that the principle of one uniform wheat intervention price for all member states must be given up as the tenders will be invited on a regional basis. Consequently, the EU Commission considers to replace the intervention price by a reference price although a further reduction of the current price level of 101.31 €/t is not required.

In light of the changed market conditions, the EU Commission also proposed the permanent abolition of the mandatory set-aside requirement.

The decision to cut the maize intervention quantity to zero until 2008/09 obliges the EU Commission at the same time to introduce a new Import system. How this system will look like, is not yet clear (at the beginning May 2008), but it seems likely that the up to now valid system of variable import duties that depend on the world market prices will be replaced by a combination of fixed import duties and tariff quotas (without any tariff burden). Such system may probably already be introduced at the beginning of marketing year 2009/10.

.../...
## APPENDIX 1A: EU Grain Production 1961 to 2007

### Wheat, Durum & Barley

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<tbody>
<tr>
<td><strong>Production, 1000 t</strong></td>
<td>9 043</td>
<td>9 852</td>
<td>10 516</td>
<td>11 389</td>
<td>11 294</td>
<td>13 706</td>
<td>13 781</td>
<td>13 411</td>
</tr>
<tr>
<td><strong>Area, 1,000 ha</strong></td>
<td>24.8</td>
<td>41.8</td>
<td>36.5</td>
<td>50.4</td>
<td>46.8</td>
<td>50.4</td>
<td>49.5</td>
<td>60.1</td>
</tr>
<tr>
<td><strong>Yield, 100 kg/ha</strong></td>
<td>22 457</td>
<td>41 161</td>
<td>36 483</td>
<td>52 835</td>
<td>58 601</td>
<td>69 133</td>
<td>68 173</td>
<td>80 600</td>
</tr>
<tr>
<td><strong>Area, 1,000 ha</strong></td>
<td>1 428</td>
<td>1 677</td>
<td>1 835</td>
<td>2 081</td>
<td>2 123</td>
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* Rye, Oats, Sorghum, Mixed Grains, Triticale

Source: Eurostat, FAO, Toepfer
## APPENDIX 1B: EU Grain Production 1961 to 2007

### Corn, Others & Total

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**Source:** Eurostat, FAO, Toepfer

*Rye, Oats, Sorghum, Mixed Grains, Triticale*
### APPENDIX 2A: EU Oilseeds Production 1961 to 2007

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Source: Eurostat, FAO, Toepfer
**APPENDIX 2B: EU Oilseeds Production 1961 to 2007**

**Soybeans & Total RS+SFS+SB**

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Area: 1,000 ha

Yield: 100 kg/ha

Production: 1,000 t

**Source:** Eurostat, FAO, Toepfer
### APPENDIX 3: EU Grain Trade from 1980 to 2007

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**Source:** Eurostat, Toepfer, ICG (World Wheat Council / Stats.)
### APPENDIX 4: EU Oilseed Trade from 1988 to 2006

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Source: World Oil Annual