INTERNATIONAL MILLING DIRECTORY 2006

EUROPEAN UNION - cereal feed use bounces back

EU cereal production hit a record 287m tonnes in 2004/05, recovering sharply from the previous season's frost and drought-reduced low of just 230m. The rise was partly due to an increase in the area planted by 1.3m ha or about 2.6% after the set-aside rate was halved from the normal 10% for one year, to get production back on track. Most of this increase was in wheat, area for which went up by almost 6%. In the event, weather made even more of an impact, boosting yields to near record levels and raising the total cereal crop by about 25%. Increases were seen across the board with wheat up by 30m tonnes, maize by 13m and barley by 7m tonnes.

During the previous year, tighter cereal supplies had resulted in a steep cut in feed usage of cereals, from 161.2m to 152.7m tonnes, the first setback after a decade of rarely interrupted growth. As cereal supplies improved and prices eased in 2004/05, feed demand leapt back to narrowly set a new record of 162.8m tonnes (wheat plus 5.7m, coarse grains plus 4.4m).

Wheat exports also revived from 2003/04's unusually low level of 10.9m to 13.5m tonnes while barley increased to 4m from 2.6m tonnes. However, under stiffer competition from recovering crops in east Europe and FSU and large Argentine supplies, the EU was forced to reintroduce export subsidies for the first time in two years to match lower world prices. Although the full season's figures were not available for country breakdown as we went to press, there were some notable gains in sales evident for North African destinations - usually the EU's biggest wheat markets. Among these exports more than doubled to Algeria and rose almost nine-fold to Egypt. The EU also managed to make windfall sales to China although exports to eastern Europe declined as that region's own crops also recovered from poor 2003/04 performance.

Despite the increased demand, the EU market remained in huge surplus through the past season and stocks were estimated to have risen from 10.6m to 26m tonnes for wheat and from 12.6m to 22.4m for coarse grains (including about 6m more maize and 3m more barley).

Pressure on internal EU prices soon began to draw large volumes of grain into intervention, so much so that in the final months of the season, some technical shortages had begun to develop, resulting in artificially higher prices and a further reduction in EU competitiveness on world markets. The surplus of grain in intervention was particularly marked in central Europe, especially Hungary where without affordable access to seaports traders faced no alternative.

Top EU wheat customers

(000 tonnes)	2002/3 Jul/Apr	2003/4 Jul/Apr	2004/5
Algeria	2,056	1,186	
Morocco		1,053	611
Libya	783	520	
Rumania	2	483	
Tunisia	522	338	

Cuba	538	276	
Turkey	138	273	
Yemen	312	210	
Egypt	2,221	175	
FSU	18	186	
Cameroon	205	142	
Switzerland	82	136	
Norway		106	117
Jordan	8	101	
Sri Lanka	246	63	
S Africa		327	32
Indonesia	149	31	

regional markets

N Africa		6,635	2,830
Sub Sah Africa	2,890	2,004	
Non-EU Europe		336	1,138
South America		163	113
N/Central Am.		791	313
Near East	590	680	
Far East Asia	554	133	
FSU	18	186	

TOTAL		7,727	11,376

*Source IGC

Iberian weather hits 2005/6 crop

The worst drought in at least four decades across the Iberian Peninsular took a heavy toll on EU cereal production in 2005. Spain's wheat crop alone more than halved to a mere 3.2m tonnes, its coarse grains harvest by about 44% to 9m tonnes while Portugal also took heavy losses. At this stage, import requirements by these two countries (from other EU member states) are seen rising from 10m to 17m tonnes.

Total EU area was also down by about 2.5% after the set-aside rate was returned to its normal 10%.

Despite the smaller crop - and plans to move large volumes of grain from Central/east Europe intervention stores to Spain and Portuguese feed users, the EU remains in hefty structural surplus this season and is likely to finish with still high carryover stocks of some 24m tonnes. Much of the problem stems from central Europe's restricted access to export facilities and to its limited capacity to expand feed grain use.

EU traders have been expressing concern about disposal of large quantities of feed-grade wheat expected to be available in the wake of wet combining weather in France, Germany, Hungary and the Czech Republic. While plenty of good quality wheat has been brought in during windows of fine weather across much of western

Europe, there is uncertainty over the destination of large volumes of wheat that may not meet milling or intervention standards.

Storage also remains an issue after the new season started with an estimated total EU cereal stock of over 48m tonnes compared with 23m last season. Despite this year's lower cereal crop, competition for store space between old and new crops of wheat and maize has been generating talk of more aggressive selling - again, for feed wheat especially.

EU wheat surplus stocks especially are expected to remain high through the season with exports unlikely to rise much more than 1m or 2m tonnes from last year's 13.5m. Some analysts question even that, given a slow start to the export season and rising competitive pressure from cheap east European/FSU wheat out of Black Sea ports.

Traders have been calling for higher export subsidies in regular EU free market tenders to gain more sales in heavily contested markets like North Africa. However, the Commission could find itself running foul of the spirit, if not the letter of its WTO pledges by allowing subsidies to expand to the level some traders claim are necessary to enable EU wheat to compete with Russian grain of like grade. Traders are hoping the EU can defend its export profile in principal Mediterranean markets but are not so sure if China - which needs less grain this season, will need to operate an MOU with France for up to 500,000 tonnes of wheat purchases.

EU flour exports also continue under pressure due to increasing milling in importing countries. While flour exports increased last season from the poor level of 2003/04 (when wheat in the EU was expensive relative to world market) they have not begun to match levels seen in 2002/03.

Due to the quality uncertainties, some analysts are pencilling in a higher EU wheat import requirement for 2005/06 - 7.2m v last season's 5.9m tonnes. Most imports are, as usual, seen focused on high quality wheat from North America as well as some feed quality wheat and barley under tariff rate quotas from the Black Sea region - plus the usual corn imports guaranteed under the abatement quota into Spain and Portugal.

Large supplies of feedwheat should, however, give another lift to feed demand for this grain which some observers are currently forecasting 4m tonnes higher at a new record 60.5m tonnes. However, some of this will be displacing corn and barley as coarse grain use in feeds declines from 106m to 101m tonnes, leaving total EU cereal offtake in feeds slightly lower than last year's record.

Recent reports note that since July 2004, the Dutch and Belgian compound feed industries have been using grains at a maximum inclusion level of up to 60% in both pig and poultry feed, taking advantage of good supply and price. German feed use of wheat in the past year also rose by about 600,000 tonnes, replacing corn gluten feed, pulses, oilmeals, molasses and beet pulp with a notable increase in on-farm feeding of cereals. In the Czech Republic, where surplus grain is bottled up by limited infrastructure for export, large quantities of grain were expected to be burned in power plants in the past season by the energy company, CEZ.

EU barley production is estimated to have dropped by about 9m tonnes this season, spread mainly over Spain (6m alone) France and Germany. Barley feed use is expected to decline, mainly in Spain, but stocks will still be tightened from this season's large starting level of 10.4m tonnes to about 7.5m.

EU maize production is also seen about 5m tonnes down this season due to smaller crops in Spain, Italy and France. Feed use is also expected to decline, mainly in France amid more competitive feed wheat supplies - a contrast to the past season when a large crop, encouraged use livestock usage, mainly in poultry, at a high level. Maize is an important component of the buildup in intervention stocks in Eastern Europe although some of this could be included in transfers of grain to drought-hit Iberian feed users.

Following the low price of German rye in 2nd-half 2004 (around EUR 65-70/tonnes), area planted for 05/06 fell by 10%. Low prices also encouraged feed use which rose in Germany, as well as exports for feed use in the Netherlands. Polish rye prices also eased, to around EUR 58-74, encouraging limited exports to other EU markets. However in 2005/06, German exports of rye to the EU internal market are expected to fall due to declining supplies and more domestic demand for feedstock in bio-ethanol production. (In 05/06, around 800,000 tonnes of rye is expected to go to this outlet which will grow further in futures years.

Swedish and Finnish oat production is expected to drop in 2005/06 to a combined 1.84m tonnes from 1.93m in 04/05. Total EU oats output is also expected to fall, by 1m to 7.7m. Oat prices have declined by between 5% to 7% in Scandinavia, reducing farmers' profits from the crop, along with uncertainty over the effect of CAP reforms on plantings of all spring crops there. Resultant lower availability for oats is likely to reduce EU exports to third countries by about 25% to some 336,000 tonnes.

In the Benelux countries, use of soybean meal has been at a lower level in the past season, about 5% for pig and cattle feed, and 10& for poultry. Some recovery might be seen in 2005/06, depending on availability from South America. So far, soya meal has been partly replaced by lysine, peas and rapeseed meal, the latter increasingly available as a by-product of growing crushing of rapeseed for biodiesel. However, while rapeseed meal has been competitive in the past season, its price could increase if demand remains strong, in which case there could be some switching to corn gluten feed. EU consumption of tapioca has dropped sharply and is now used only in pig feed at about 5% inclusion. No recovery is seen in tapioca demand as Thai production is limited in demand from China.

Feed Developments in New Member States

Polish feed grain consumption in 2005/06 is forecast to increase about 7% due to increased poultry production and an expected rise in pig numbers and pork production, encouraged by higher pork prices and improved producer profits flowing from cheaper grains. Pork exports to other EU member states have been increasing. Both pig and broiler output are seen rising by 7% with Turkey output up 4% too. Some farmers were reported to be store grain to benefit from expected higher pig and poultry prices.

Total Polish commercial feed production rose 2% in 2004 to 5.5m tonnes and is forecast to increase another 5% in 2005. Compound feed production was estimated at 4.9m and while concentrated protein feed (mainly used in on farm-mixed for pig production) was seen fairly steady at 545,000 tons.

For Hungary only a moderate rise in feed use is expected in 2005/06 despite the good availability of feed grains. Poultry production is seen stable with further declines in pig output possible. Output from Hungarian feed mills could drop as low as 3.8m in 2005 from 4.8 in 2003 although that could be offset by increased substitution on farm of proteins by grains. Intervention is likely to keep feed grain prices or price expectations high.

The Czech Republic appears to offer scant potential for more grain use in feeds as livestock numbers have been falling with lower meat consumption and higher milk production efficiency.