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Stakeholder Consultation

GAM, representing the European flour milling industry welcomes the opportunity to answer the Commission Consultation document on the CAP Health Check. Having gathered joint reflections with the other grain chain sectors, we will focus on the market instruments and notably the intervention for bread-making wheat together with the bioenergy policy, which we think are directly relevant to our sector.

Market signals and/or market distortions

The demand for food (and feed) is bound to double during the next 20 years. In addition, an increasing amount of grain will be used as feedstock for the production of bioenergy. European farmers will have to increase cereals production significantly to match the expected demand. In those new market conditions, we therefore support Commission's initiative to eliminate set-aside. We also welcome full decoupling which is expected to contribute to a more timely response to market signals. But maintaining at the same time an intervention system for bread-making wheat only is contradictory with the above and would only lead to market distortions: not only for flour millers for whom it is the basic raw material but also for wheat growers who are not all able to grow the required wheat.

Intervention in a context of growing demand

In times of overproduction and limited export opportunities, intervention might have been justifiable as a safety net for farmers. But times have changed. With the expected growth in demand for food (and feed) on the world market and the anticipated growth in demand for wheat as feedstock for bioethanol production, surpluses will in all likelihood emerge again only during a period of several years of record grain production. As a consequence, domestic grain prices can be expected to stay above the intervention price level in the years to come. Accordingly, intervention is no longer needed as a safety tool.

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No rules for the sale of intervention grain

Furthermore, experiences gained over the last decades clearly show that the sale of intervention grain to the world market and/or the EU's domestic market lead frequently to more significant market disruptions. Sales out of intervention stocks often occurred at the wrong time and put additional pressure on domestic grain market prices. If no rule is found for the intervention sale of bread-making wheat, the same situation will remain. GAM therefore strongly also supports the abolition of intervention for bread-making wheat.

“Natural prices” and artificial prices

The Commission anticipates that maintaining bread-making wheat intervention (for a transitional period?) will be helpful in allowing other cereals to find their “natural price level”. This has not been always the case in the past however (...). GAM's view is that intervention of wheat should also be abolished to allow market incentives to decide on the best mix of grain plantings.

Fluidity and Tariff Rate Quotas, volatility and Futures' market

Any redesigned market instrument(s) should improve market fluidity for all grain and oilseeds. This is welcome as a constant and regular supply of agricultural raw materials both in volume and quality is essential. The expected doubling of demand for agricultural commodities for food, feed and renewable energy over the next 20 to 25 years will be accompanied by increased price volatility. Adequate management of this volatility will be a challenge for all food (and feed) processors in the EU. The elimination of TRQs for cereals is necessary to improve market fluidity. New ways to manage risks resulting from volatility have also to be elaborated. However, we strongly believe that maintaining the intervention system for wheat only will undermine alternative market mechanisms, such as the developing futures' market.

More pertinent risk management tools for farmers

With the anticipated end to intervention for all grain and oilseeds, alternative methods to manage risks will gain importance. GAM agrees with the suggestion of the Commission to consider the implementation of crop insurance and revenue insurance programs. We favour revenue insurance programs instead of programs for specific crops. Experience gained with crop insurance programs in the USA demonstrates that crop specific insurance programs tend to distort planting decision of farmers and that farmers start to ignore market signals again. Moreover, crop specific insurance programs seem inappropriate with the expected move towards more and more decoupled support.

Food or fuel

GAM strongly supports the opinion of the Commission that food (and feed) production needs to continue to be given full priority both in the EU. However, there is a growing risk that too high support for non-food purposes could lead to

increased food insecurity and, in the case of the EU, to a considerable growth in imports of food. Therefore, we support the suggestion of the Commission to abolish the present support scheme for energy crops and strengthen research on the 2nd generation of biofuels. However, it is expected that significant volumes of 2nd generation biofuels will not be available to the market before 2020. Therefore, we believe it is necessary to start a discussion on mandatory blending obligations and whether they are really the best way forward.

With our very best wishes,

Sincerely,

A handwritten signature in blue ink that reads "Rolf Brack". The signature is written in a cursive style with a large, stylized initial 'R'.

Rolf Brack
President