



Bi-weekly Bulletin

June 18, 2004 Volume 17 Number 10

FRANCE

France is the largest producer of soft wheat and second largest producer of durum wheat in the European Union (EU). France's food processing sector is also the largest in the EU and second to that of the United States (U.S.). The agriculture and agri-food sector rates as the most important in France's economy, well ahead of the automobile sector, and the electronics and electrical industries. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for France's agriculture and agri-food sector.

BACKGROUND

France is a major player in world grain production, and the major crops are wheat, durum, barley and corn. The agricultural sector provides employment for about 2 million people but the number of people directly involved in farming has been in steady decline in recent decades.

France has about 30 million hectares (Mha) of agricultural land suitable for growing field crops and forages, and raising livestock. Agricultural production is concentrated in the northern and western regions which have the largest and most productive farms. Except for certain oilseeds and protein meals, France is essentially self-sufficient in cereals and oilseeds.

France's average farm size is 42 ha, which is more than twice the size of average farm holdings in the EU. About 10% of France's farms are more than 100 ha and account for over 40% of France's total farm holdings.

In France, the amount of land seeded to cereal crops has increased marginally over the past couple of decades and now averages 9 Mha. Seeded area for oilseeds and other protein crops, on the other hand, has increased tenfold during the same period and is now estimated at 2.5 Mha.

The value of annual agricultural production in France is estimated at €63 billion (G), accounting for 2.3% of its Gross Domestic Product (GDP). During the past couple of decades, there has been a steady decline in agriculture's share of GDP as farm prices failed to keep pace with prices in general.

Flour Milling

France grows primarily soft winter wheat, of which about 20% is used for milling. The wheat milling industry accounts for about 4%, or €5G, of France's €130G food processing sector. The single largest market for French export flour is other EU countries, accounting for 250,000 t, or about 20%, of total exports. The other major export markets for French flour are Cuba, Sudan, and Mauritania, accounting for about 11% of total exports.

A concern for the milling industry is the recent slump in flour exports. Some of the traditional importers such as Egypt and Yemen have built milling facilities and now import grain instead of flour. In response to reduced exports, the domestic milling industry has reduced capacity by about 1.5 million tonnes (Mt) since 2001.

Feed Processing

The animal feed processing sector has grown steadily since the Common Agricultural Policy (CAP) reform of 1992. As a result of lower grain prices, in part due to CAP reform, the feed processing sector is now valued at about €10G annually. The Syndicat national des Industriels de la nutrition Animale (SNIA) reports that there are about 350 feed enterprises in France, producing about 21.0 Mt of animal feed annually. Of the cereals used in animal feed rations, wheat is the main ingredient at 28%, followed by corn at 16%. SNIA further reports that 42% of the feed produced is used for poultry, 30% for hogs, and 19% for cattle.

EU Common Agricultural Policy

France's agricultural sector has been strongly influenced by the CAP which has been in place since the 1960s. Among EU members, France continues to maintain its uniqueness on several fronts, including the following: (a) the sheer amount of land available for farming; (b) the diversity of agricultural production made possible by the range of climate and soil types; and, (c) the tropical products available from its various overseas holdings and territories.

Despite its vast land holdings, France had not been able to meet its domestic food needs prior to joining the European common market. Up to that point, the productivity of its agricultural sector lagged that of the U.S., which motivated a younger generation of French farmers to pressure government to institute policies that would modernize farming. An important component of that modernization strategy was encouraging older farmers to retire earlier than planned and then managing the distribution of the land that became available with those retirements.

The changes that followed with the creation of a European common market, otherwise referred to as the EU, were substantive. The EU's CAP provided for the protection of France's domestic market, and the market intervention mechanisms effectively regulated prices for its agricultural commodities. The result was higher prices, and with that came increased investment in farms. Earlier concerns that the creation of the common market would increase competition between EU members were muted by significant expansion in domestic

markets, followed by steady expansion into international markets.

During the 1980s, the situation changed considerably for EU member countries such as France. The market for agricultural commodities became more saturated and the EU's CAP faced serious budgetary constraints. Farm incomes fell significantly and the crises that affected intensive crop and livestock sectors revealed the financial vulnerability of many farms. This prompted reforms to the CAP and some price supports were replaced with fixed aid as a stop-gap measure. The EU, however, continues to look for longer-term solutions to low commodity prices.

The CAP faces the growing pressures of globalization as the EU engages in various multilateral and bilateral trade negotiations. The EU is also forced to deal with the concerns of domestic consumers who are now focussed on quality and environmental aspects of food production more than on the difficulties associated with fluctuating food supplies and prices that had provided the original impetus for the establishment of a common market for European countries.

As a full member of the EU, France conforms to, and benefits from, the CAP. It is the area set-asides, price supports, intervention stocks, and export controls that have helped shape French agriculture over the past few decades. The existence of the CAP, however, does not preclude the French lobby groups from influencing decisions with respect to the CAP, or any other policy affecting the agricultural sector. These groups continue to actively lobby the Ministry of Agriculture, which is responsible for domestic policy, and the EU to ensure their interests are considered in policy decisions affecting their sector.

CAP Reform

Over the years the EU moved progressively away from direct commodity support to area payments for cereals (i.e. in the 1990's) and reduced support (intervention prices) to levels generally below world levels. The 2003 CAP Reform Agreement takes this a step further by saying that as of 2005 or 2006, depending on the country, payments will now be largely "whole farm" (commodity neutral) payments. What farmers choose to produce should be somewhat more responsive to market signals. Total farm support is capped through to 2011. France has chosen to base its single farm payment on an individual farmer's experience in the base period, rather than adopting an area average approach as some countries have

done. The situation for durum will be quite complex because CAP reform reserves the right of durum producers in the southern areas to get an extra "quality premium." It's not clear yet how that particular direct aid will relate to the single farm payment.

Germany, the UK, Sweden and the Netherlands pressed the EU to reduce spending before the recent entry of 10 new countries into the EU. France, which is the main beneficiary of the CAP (capturing nearly one-quarter of the EU's €40.5G budget in 2001), has resisted proposed changes to the CAP which would see the link between money paid to farmers and production severed. Under the proposals, direct payments would be capped at €300,000 per farm and farmers would be given incentives to improve quality and to protect the environment. As well, direct aid payments would be reduced by 3% per year for a total reduction of 20% by 2010-2011. Opponents of these proposals, including France and Ireland, argue that the changes would make them uncompetitive in world markets, especially in relation to the U.S. which has increased subsidies considerably in its latest farm bill.

The Doha Round and the French Economy

A 2003 study commissioned by the Groupe d'Economie Mondiale de Sciences Politiques looked at the effects of agricultural liberalization on the French economy. The study specifically looked at liberalization in the context of the Doha Round of World Trade Organization (WTO) negotiations. The study took into account China's accession to the WTO, Agenda 2000 reforms to the CAP, EU

enlargement, and recent EU trade agreements. With those considerations in mind, researchers concluded that trade liberalization would increase France's national income by about €\$18G annually.

In assessing the effect of trade liberalization on the agricultural sector, the study focussed on two scenarios. The first was a partial liberalization scenario whereby primary agricultural tariffs and export

FRANCE: WHEAT SUPPLY AND DISPOSITION				
<i>July-June crop year</i>	2001 -2002	2002 -2003	2003 -2004	2004 -2005f
Harvested Area (kha)	4.46	4.90	4.56	4.90
Yield (t/ha)	6.77	7.62	6.37	7.67
.....million tonnes.....				
Carry-in Stocks	3.39	3.07	4.02	2.29
Production	30.23	37.32	29.06	37.60
Imports	<u>0.32</u>	<u>0.29</u>	<u>0.20</u>	<u>0.20</u>
Total Supply	33.94	40.68	33.28	40.09
Human Food & Indus. Use	7.27	7.37	7.37	7.40
Seed	0.42	0.42	0.42	0.42
Sales (Intra-EU) ^{1/}	7.54	7.27	8.59	7.50
Exports ^{2/}				
<i>Grain</i>	3.99	8.85	3.29	8.80
<i>Product</i>	<u>0.69</u>	<u>0.78</u>	<u>0.70</u>	<u>0.70</u>
Total Exports	4.68	9.63	3.99	9.50
Feed, Waste, Dockage ^{3/}	<u>10.97</u>	<u>11.97</u>	<u>10.62</u>	<u>11.27</u>
Total Use	30.87	36.66	30.99	36.09
Carry-out Stocks	3.07	4.02	2.29	4.00
FRANCE: DURUM SUPPLY AND DISPOSITION				
<i>July-June crop year</i>	2001 -2002	2002 -2003	2003 -2004	2004 -2005f
Harvested Area (kha)	0.31	0.34	0.35	0.37
Yield (t/ha)	4.38	4.80	3.95	5.14
.....million tonnes.....				
Carry-in Stocks	0.105	0.106	0.135	0.096
Production	1.343	1.557	1.388	1.900
Imports	<u>0.223</u>	<u>0.076</u>	<u>0.175</u>	<u>0.100</u>
Total Supply	1.671	1.739	1.698	2.000
Human Use	0.552	0.480	0.480	0.480
Seed	0.050	0.055	0.055	0.055
Sales (Intra-EU)	0.781	0.763	0.700	0.900
Exports ^{2/}				
<i>Grain</i>	<u>0.014</u>	<u>0.092</u>	<u>0.150</u>	<u>0.150</u>
<i>Product</i>	<u>0.070</u>	<u>0.112</u>	<u>0.110</u>	<u>0.110</u>
Total Exports	0.084	0.204	0.260	0.260
Feed, Waste, Dockage ^{4/}	<u>0.098</u>	<u>0.102</u>	<u>0.107</u>	<u>0.155</u>
Total Use	1.565	1.604	1.602	1.850
Carry-out Stocks	0.106	0.135	0.096	0.150
^{1/} includes product				
^{2/} includes food aid and other deliveries				
^{3/} includes grain used on-farm and grain further processed into animal feed				
^{4/} includes grain used on-farm				
f: forecast, AAFC, IGC				
Source: Office National Interprofessionnel des Céréales (ONIC)				

subsidies, and OECD-defined domestic support for agriculture were reduced by 50%. The second was a full elimination of trade barriers related to agriculture. For both scenarios, the study concluded that protecting France's cereal and cattle producers was essentially accomplished at the expense of processed food, horticulture, and intensive livestock producers. France produces roughly twice as much in cereal grains as it consumes and trade liberalization is expected to result in a reduction in cereal production.

SITUATION 2003-2004

Wheat, durum, corn, barley, and rapeseed account for over 90% of France's total grains and oilseed production. Wheat alone accounts for about half of that production, followed by corn which accounts for about one-quarter of the total. The crop mix for France's major grains and oilseeds has remained fairly consistent over the past few years.

France, for the most part, does not compete with Canada in the world market for wheat because France does not generally export the higher quality wheats associated with pan type breadmaking. Most of the varieties grown in France are true winter types, and they are designated as red. The mean protein content of these wheats is about 12%, and it ranges from 10.5% to more than 14%. A large proportion of France's wheat is suitable for blending with other wheats to improve bread baking performance, but much of the wheat is used for hearth and flat breads, cakes, biscuits and other baked products.

France is one of the world's largest exporters of wheat flour, exporting on average 1.0 Mt per year, of which about 25% is sold within the EU. Most of France's flour sales outside the EU are to North Africa, and Egypt is its primary customer.

Wheat (excluding durum)

For 2003-2004, wheat **harvested area** is estimated at 4.6 Mha, down from 4.9 Mha in 2002-2003, due in part to an inordinate amount of winter kill. As well, extremely dry conditions during the growing season reduced **yields**, which are estimated at 6.4 tonnes per hectare (t/ha), down from 7.6 t/ha in 2002-2003. **Production** is estimated at 29.1 Mt, down from 37.3 Mt in 2002-2003. **Exports** (excluding EU intra-trade) are forecast at 4.0 Mt, down from 9.6 Mt, due to lower supplies. Feed use is expected to decrease due to competition from other feed ingredients, especially

barley. **Carry-out stocks** are projected at 2.3 Mt, down from 4.0 Mt, which would be the lowest level in recent years.

Durum

For 2003-2004, durum **harvested area**, estimated at 0.4 Mha, is virtually unchanged from 2002-2003. Drought conditions significantly reduced **yields**, which are estimated at 4.0 t/ha in 2003-2004. As a result, **production** is estimated 1.4 Mt, down from 1.6 Mt in 2002-2003, and **carry-out stocks** are forecast at 0.1 Mt.

Corn

For 2003-2004, corn **harvested area** is estimated at 1.6 Mha, down from 1.8 Mha in 2002-2003, due to a shift out of corn area into barley area. Corn **yields** for 2003-2004, estimated at 7.2 t/ha, decreased about 20% due to extremely dry growing conditions.

Production is estimated at 11.7 Mt, down from 16.1 Mt in 2002-2003. **Exports** are estimated at 0.8 Mt, down from 1.0 Mt, and feed use is expected to decrease due to lower available supplies.

Carry-out stocks are estimated at 1.9 Mt, down from 2.5 Mt in 2002-2003, and are at the lowest level in recent years.

Barley

For 2003-2004, barley **harvested area** is estimated at 1.8 Mha, up from 1.6 Mha in 2002-2003. Barley **yields**, estimated at 5.7 t/ha for 2003-2004, were reduced by about 15% due to poor growing conditions. Lower yields more than offset increased area, resulting in a 9% decrease in **production**, estimated at 10.0 Mt. Due to the smaller crop, **exports** are estimated at 2.2 Mt, down from 2.9 Mt in

2002-2003. **Feed use** is expected to increase because of the improved price competitiveness of barley which is replacing wheat in the formulation of poultry feed.

Carry-out stocks are estimated at 1.2 Mt, down from 1.8 Mt in 2002-2003.

Rapeseed

For 2003-2004, rapeseed **harvested area** increased marginally to 1.1 Mha. However, drought conditions affected **yields**, more than offsetting the small increase in

FRANCE: CORN SUPPLY AND DISPOSITION

July-June crop year	2001 -2002	2002 -2003	2003 -2004	2004 -2005f
Harvested Area (kha)	1.91	1.79	1.64	1.75
Yield (t/ha)	8.61	8.98	7.16	9.14
.....million tonnes.....				
Carry-in Stocks	2.49	2.43	2.49	1.90
Production	16.48	16.10	11.70	16.00
Imports	<u>0.29</u>	<u>0.19</u>	<u>0.20</u>	<u>0.20</u>
Total Supply	19.26	18.71	14.39	18.10
Human Food & Indus. Use	0.75	0.72	0.76	0.75
Seed	0.11	0.11	0.11	0.11
Sales (Intra-EU) ^{1/}	8.63	8.41	6.04	8.50
Exports ^{2/}				
Grain	0.16	0.26	0.12	0.20
Product	<u>0.77</u>	<u>0.75</u>	<u>0.72</u>	<u>0.80</u>
Total Exports	0.93	1.01	0.84	1.00
Feed, Waste, Dockage ^{3/}	<u>6.41</u>	<u>5.99</u>	<u>4.74</u>	<u>4.99</u>
Total Use	16.83	16.23	12.49	15.35
Carry-out Stocks	2.43	2.49	1.90	2.75

FRANCE: BARLEY SUPPLY AND DISPOSITION

July-June crop year	2001 -2002	2002 -2003	2003 -2004	2004 -2005f
Harvested Area (kha)	1.71	1.64	1.75	1.60
Yield (t/ha)	5.75	6.69	5.69	6.25
.....million tonnes.....				
Carry-in Stocks	1.67	1.57	1.80	1.21
Production	9.81	10.99	9.95	11.00
Imports	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>
Total Supply	11.50	12.59	11.78	12.24
Domestic Use	0.19	0.24	0.24	0.24
Seed	0.18	0.18	0.18	0.18
Sales (Intra-EU) ^{1/}	3.73	3.59	3.56	3.70
Exports ^{2/}				
Grain	1.19	2.05	1.37	1.97
Product	<u>0.86</u>	<u>0.83</u>	<u>0.83</u>	<u>0.83</u>
Total Exports	2.05	2.88	2.20	2.80
Feed, Waste, Dockage ^{3/}	<u>3.78</u>	<u>3.90</u>	<u>4.39</u>	<u>3.62</u>
Total Use	9.93	10.78	10.57	10.54
Carry-out Stocks	1.57	1.80	1.21	1.70

^{1/} includes product

^{2/} includes food aid and other deliveries

^{3/} includes grain used on-farm and grain further processed into animal feed

f: forecast, AAFC, IGC

Source: Office National Interprofessionnel des Céréales (ONIC)

harvested area. As a result, **production** is estimated at 3.3 Mt, down from 3.4 Mt in 2002-2003. Despite the smaller crop, **carry-out stocks** are virtually unchanged at an estimated 0.05 Mt.

Prices for 2003-2004

European agricultural commodity prices strengthened considerably in 2003-2004 due largely to the drought and winter kill which affected yields of the major grains and oilseeds. For example, the average price for soft wheat to-date is €174.15/t (fob France), up from €113.08/t in 2002-2003. Similarly, the average price for rapeseed to-date is €311/t (CIF Hamburg), up from €274/t for the 2002-2003 crop year.

OUTLOOK 2004-2005

Crop prospects for 2004-2005 have improved considerably for French farmers following a year of reduced yields due to poor growing conditions and significant winter kill. Production of the major grains and oilseeds is expected to increase by about 20% due to a combination of higher harvested area and improved yields.

It is not clear yet what effect, if any, EU Enlargement will have on Canadian exports. Eastern European countries such as Poland have a relatively large land base that they can use to increase agricultural production, and they have the potential to make inroads into established markets for grains and oilseeds. The greatest potential, naturally, is for increased sales to member EU countries. In the short term, EU

enlargement is expected to have a minimal effect on Canadian exports of grains and oilseeds, particularly wheat which is globally recognized as a premium product.

Wheat (excluding durum)

For 2004-2005, wheat **harvested area** is expected to return to near normal levels due to reduced winter kill and improved moisture conditions relative to 2003-2004. Harvested area is forecast at 4.9 Mha, up from 4.6 Mha in 2003-2004. With near-trend **yields** expected for 2004-2005, **production** is forecast by the International Grains Council (IGC) at 37.6 Mt, up about 30% from 2003-2004, and the highest level since 1998-99. **Carry-out stocks** are forecast at 4.0 Mt, up from 2.3 Mt in 2003-2004, but below the 5-year average of 4.4 Mt.

Durum

For 2004-2005, durum **harvested area** is forecast at 0.37 Mha, up marginally from 2003-2004. Higher yields are expected and **production** is forecast by IGC to increase by 37%, to 1.9 Mt. **Carry-out stocks** are forecast at 0.15 Mt.

Corn

For 2004-2005, corn **harvested area** is forecast at 1.8 Mha, up from 1.6 Mha in 2003-2004. Assuming near-trend yields, **production** is forecast by IGC at 16.0 Mt, up significantly from 11.7 Mt in 2003-2004 when serious drought conditions affected the size of France's corn crop. **Carry-out stocks** are forecast at 2.75 Mt, versus 1.9 Mt in 2003-2004 and the 5-year average of 2.4 Mt.

Barley

For 2004-2005, barley **harvested area** is forecast at 1.6 Mha, down from 1.8 Mha, due largely to a shift to corn and wheat production. However, with a return to more favourable growing conditions, increased yields are expected to more than offset the effects of lower barley area. As a result, **production** is forecast by IGC at 11.0 Mt, up by 11% from 2003-2004. **Carry-out stocks** are forecast at 1.7 Mt, versus 1.2 Mt in 2003-2004 and the 5-year average of 1.5 Mt.

Rapeseed

For 2004-2005, rapeseed **harvested area** is forecast at 1.1 Mha, unchanged from the previous year. However, with increased yields due to better growing conditions, **production** is forecast at 3.4 Mt, up from 3.3 Mt in 2003-2004. **Carry-out stocks** are expected to remain unchanged at 0.05 Mt.

Prices for 2004-2005

With production of major grains and oilseeds forecast to return to near-normal levels, French prices are expected to be pressured in 2004-2005. Some of the factors that are likely to influence commodity prices during the next crop year are exchange rates, production in the major wheat exporting countries of the world, U.S. corn and South American soybean production, and the activities of major importing countries such as China, Japan, and India.

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Electronic version available at
www.agr.gc.ca/mad-dam/

ISSN 1207-621X
AAFC No. 2081/E

Bi-weekly Bulletin is published by the:
Market Analysis Division,
Marketing Policy Directorate
Strategic Policy Branch
Agriculture and Agri-Food Canada.
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To receive a free e-mail subscription to
Bi-weekly Bulletin, please send your request to
bulletin@agr.gc.ca.

Issued also in French under title:
Le Bulletin bimensuel
ISSN 1207-6228
AAFC No. 2081/F

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FRANCE: RAPESEED SUPPLY AND DISPOSITION

July-June crop year	2001 -2002	2002 -2003	2003 -2004	2004 -2005f
Harvested Area (kha)	1.08	1.03	1.08	1.08
Yield (t/ha)	2.65	3.30	3.08	3.15
.....million tonnes.....				
Carry-in Stocks	0.05	0.03	0.05	0.05
Production	<u>2.87</u>	<u>3.41</u>	<u>3.32</u>	<u>3.40</u>
Total Supply	2.92	3.44	3.37	3.45
Crush	1.27	1.57	1.52	1.61
Feed, Seed & Waste	0.77	0.65	0.78	0.82
Exports	<u>0.85</u>	<u>1.17</u>	<u>1.01</u>	<u>0.98</u>
Total Use	2.89	3.39	3.32	3.40
Carry-out Stocks	0.03	0.05	0.05	0.05

f: forecast, AAFC

Source: Office National Interprofessionnel des Céréales (ONIC)

While the Market Analysis Division assumes responsibility for all information contained in this bulletin, we wish to gratefully acknowledge input from the following:
Canadian Wheat Board, Market and Industry Services Branch (AAFC)