



International Agricultural Trade Report

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EU Moves Toward Exports Without Subsidies

Summary

A confluence of market dynamics has narrowed the spread between higher EU and lower world prices for wheat and barley. Further declines in EU prices expected under the Agenda 2000 reforms have the potential to close the spread altogether, eliminating the need for export subsidies and helping them comply with WTO constraints on subsidized exports.

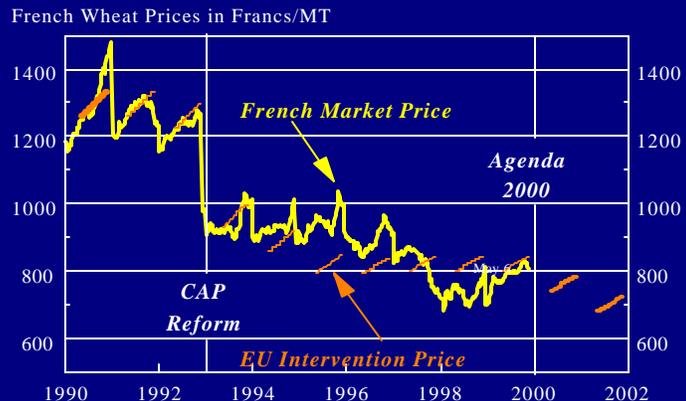
EU Program Changes and Market Developments Pressure Domestic Prices

EU grain prices have fallen sharply in the past decade as reforms cut the intervention (support) price. Further decline is expected as new reforms (Agenda 2000) mandate another 15% cut in the intervention price over the next 2 years, which given past experience should also pressure market prices. These policies represent a conscious attempt by Brussels to rein in burgeoning EU grain surpluses through lower prices intended to stimulate greater domestic use while limiting production gains.

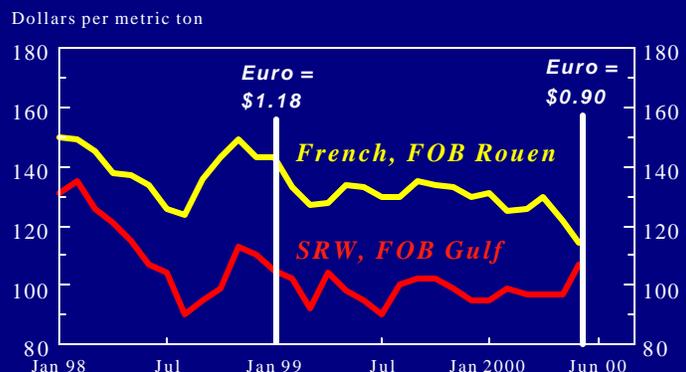
What the EU could not anticipate, however, was the unexpected plunge in their currency, the Euro, which has lost a quarter of its value since introduction in early 1999. That has reduced the dollar value of EU wheat and barley prices by a further \$20-30/MT over the past year and a half.

Reforms Help Lower French Wheat Prices

- Agenda 2000 Declines Will Add To 33% Drop in the 1990s



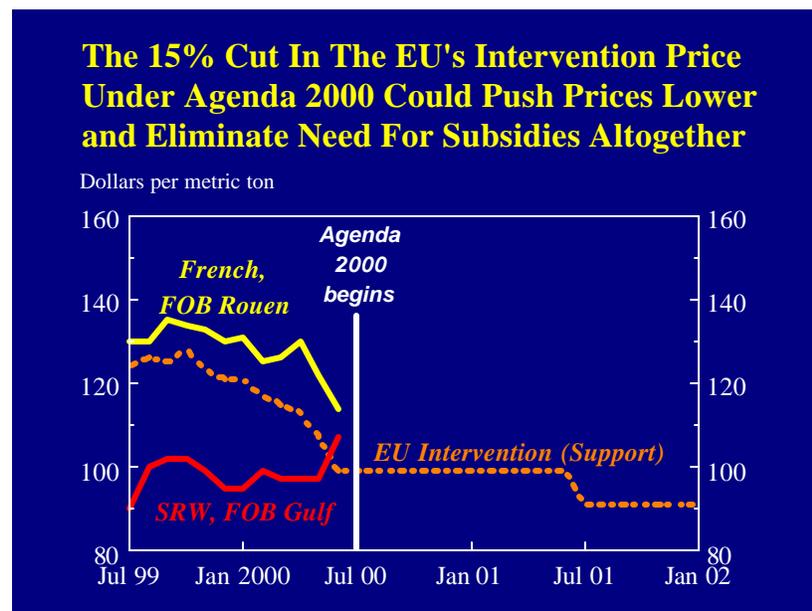
French Wheat Prices Are Down The Equivalent Of \$30/MT Since Jan 1999 On A Weak Currency -That Puts Them Just \$10 Above SRW



As Global Market Dynamics Boost World Prices

At the same time, world grain prices have begun to rebound from near-decade lows on firming import demand following a second year of drought in North Africa and Iran. Global wheat imports are forecast to reach their highest level in 8 years, while barley imports are forecast at a record high. That strong demand is expected to cut global stocks, though in the case of wheat upward price momentum is mitigated by continued large stocks among major exporters, including the United States.

Which Could Eliminate Their Need For Export Subsidies



Lower EU prices coupled with firming world prices have cut the amount of subsidy needed to make EU wheat and barley exports competitive on world markets to less than \$10/MT from more than \$30 a year ago.

Given further EU price declines expected under Agenda 2000 and continued firming world prices, Europe's wheat and barley may shortly be the cheaper, eliminating the need for subsidies altogether.

And Help Them Comply With WTO Subsidy Constraints

Elimination of subsidies would help the EU avoid the forthcoming more restrictive, lower WTO limits on subsidized exports for wheat and coarse grains. That may become important in the coming year, with the wheat crop currently projected to be a record high and barley production also expected to exceed last year's crop.

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