

THE QUESTIONABLE NECESSITY OF CHANGING MAIZE INTERVENTION

JANCSOK ZS¹, KATÓ N.², NÓGRÁDI J.³, CSEKE Z.³

¹ HUNGÁRIA Warehousing Ltd., H- 1124 Budapest, Apor Vilmos tér 25-26., Hungary

² Budapest Bank Ltd., H- 1138, Budapest, Váci út 188, Hungary

³ Agricultural and Rural Development Agency, H- 1095 Budapest, Soroksári út 24., Hungary

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ABSTRACT

The EU took clear steps to suppress and abandon the intervention of maize in 2006. Originally the measure should have been revised in the course of the “Health Check”. But the European Commission (EC) rendered the minimal quality requirement for maize stricter in the intervention period starting 1 November 2006. Later the EC proposed to finish the intervention of maize. According to that decision the intervention of maize exists in the marketing year of 2007/08 and 2008/09 with a quantity limitation but it finishes in the marketing year of 2009/10. The EC argues for the abandonment of maize intervention, because, intervention stocks of cereals have increased significantly after the accession of the 10 new member states (EU-10), and the balance of the maize market is at risk. This measure is aimed to get back the intervention to its original purpose, as a safety net.

We prove in this study that the intervention stock of cereal has not significantly increased after the enlargement in 2004 and it is not a reason for finishing maize intervention. The intervention stock of maize has increased since 2004 but not so significantly that it could be a reason for the abandonment of maize intervention.

INTRODUCTION

The enlargement of the EU in 2004 changed the expectation regarding the future of the cereal Common Market Organisation (CMO). First of all, the very high level of the Hungarian intervention stocks made the reform urgent. What is more the EC had expected that the states accessed in 2007 would have the same attitude to the cereal intervention as Hungary. The EU abandoned the rye intervention in 2003, so the market of rye became more dynamic and its price has risen. Based on this experience **the EU expected that the market of maize would stabilize after the reform.**

The intervention of maize should have been revised only in the course of the so called “Health Check” in 2008 originally. The EC urged the changes. The EC rendered the minimal quality requirement for maize stricter and ordered the obligatory DON-toxin examination for the common wheat in the intervention period starting 1st November 2006.

There was a debate held on the future of maize intervention in the first half of 2007. Only the future of maize is questionable, thus only the maize intervention is in the scope of this study.

We outline the conception of the reform of maize intervention, and answer the next questions: Have the intervention stocks of cereals risen significantly since the enlargement in 2004? **Is this expansion enough reason for the abandonment of maize intervention?**

MATERIALS AND METHODS

In order to answer the above questions we examined the cereal market of the EU from 1990 until now. We collected data about the total production, the quantity taken over by the intervention agencies and intervention stocks of cereals and maize. We systematized and analyzed the data via Microsoft Excel. We created tables and figures to demonstrate the processes and trends.

RESULTS

The reform of the cereal CMO

The quality requirements for maize and sorghum in intervention were changed in September 2006 first. Three parameters became stricter and a new one was introduced.

Table 1.: The change of quality requirements for maize and sorghum in intervention from the marketing year 2006/07

Quality parameter	Before 2006/07	From 2006/07
Maximum moisture content (%)	14,5	13,5
Grains overheated during drying (%)	3	0,50
Broken grains (%)	10	5
Minimum specific weight (kg/hl)	-	71 (only for maize)

(Sources: Commission Regulation (EC) No 1572/2006, ARDA, 2005, 2006)

The modification arouses indignation in Hungary. The main element of experts' criticism was that **the change was introduced not before the marketing year but dur-**

ing it, so it was not possible to prepare. Furthermore there is a contradiction in the modification: the maximum moisture content was reduced meanwhile the grains overheated during drying and the broken grains were reduced as well. (Fehér, 2006)

The EC thought a few months later that **this modification is not enough** to reduce the intervention stocks of maize. In 2007 so the EC proposed to finish the intervention of maize.

There were more proposals on the reform of maize intervention. In the end the member states decided for the one which offered **gradual abandonment**. The quantity of maize taken over in the marketing year of 2007/08 and 2008/09 is limited (1.5 million tons and 0,7 million tons respectively), and the intervention finishes in 2009/10. (Gabonaszövetség, 2007a)

The quotas of maize would not be divided to member states. Deposit should be paid at the time of offering, so ruling out the immature offers. Modification or cancellation of offers is forbidden. Furthermore agencies must not take over cereal in the depot of the cereal owner (former taking over in-situ). (Gabonaszövetség, 2007c) The tender period is comprised of two stages. The first period lasts from 1 November until 31 December. The EC determines the ratio of reduction if the quantity offered is over the limit. Agencies take over cereal from 1 February until 30 April on the base of this ratio. The second period of tender lasts from 1 February until 31 May, but it can be finished earlier if the limit is exceeded. The tenders are summarized every week. The EC determines the ratio of reduction if the quantity offered in a week is over the limit. The cereal owners are to deliver the cereal within 3 months after the application for the tender. (Gabonaszövetség, 2007b).

The future of the maize intervention is decided. The recent events – very high cereal prices, high demand for cereals and intervention stocks, quick reduction of intervention stocks – raise the question: **Is the intervention system really inadequate and is it really necessary to abandon the maize intervention?**

The reasonableness of maize intervention

We have examined, whether the cereal stocks have increased considerably since 2004 and if it is justified abandonment of maize intervention.

We analyzed data about cereals taken over by intervention agencies and total intervention stocks in the EU from 1990 until now. We compared those figures to the total cereal and maize production.

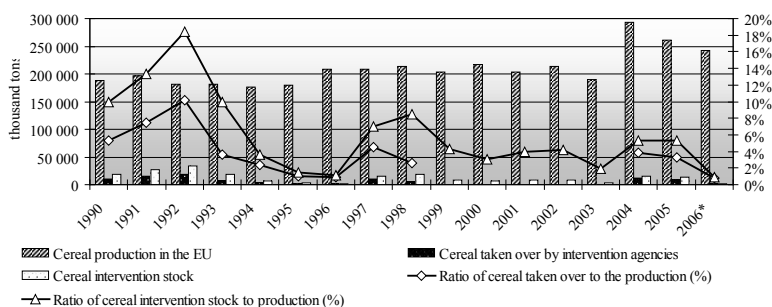
Table 2.: The Ratio of Cereal Taken Over by Intervention Agencies to the Cereal Production and The Ratio of Intervention Stock to the Cereal Production in the EU from 1990 until Now

Categories		Average of 1990-2007	Average of 1990-2003	Average of 2004-2007	2004-2007 /1990-2003
Cereal	Ratio of cereal taken over to the production	3,82%	4,21%	2,64%	62,72%
	Ratio of intervention stocks to the production	6,02%	6,48%	3,85%	59,48%
Maize	Ratio of maize taken over to the production	2,44%	1,41%	5,54%	393,84%
	Ratio of intervention stocks to the production	2,37%	1,37%	7,03%	511,52%

Estimated data for the marketing year 2006/07

(Sources: data collected and completed by the authors, for the marketing years of 1990/91-1997/98 from LACZKÓ and SZÓKE [2000], other data from Gabonaszövetség, MVH, http://ec.europa.eu/agriculture/publi/index_en.htm)

Nearly **4.0% of the cereal production was taken over** by the intervention agencies in the EU on average. The **intervention stocks amounted to 6.0% of the cereal production** on average. The greatest amount of cereal compared to the production was taken over in the marketing year of 1992/93, the intervention stock was at its highest level in the same year. The cereal taken over was more than 10.0% of the production; meanwhile the intervention stock was more than 18.0% of the production that year. The least amount of cereal was taken over in the marketing year of 1996/97. The cereal taken over was less than 0.9% of production and the stock was a little above 1.0% of production in 1996/97.



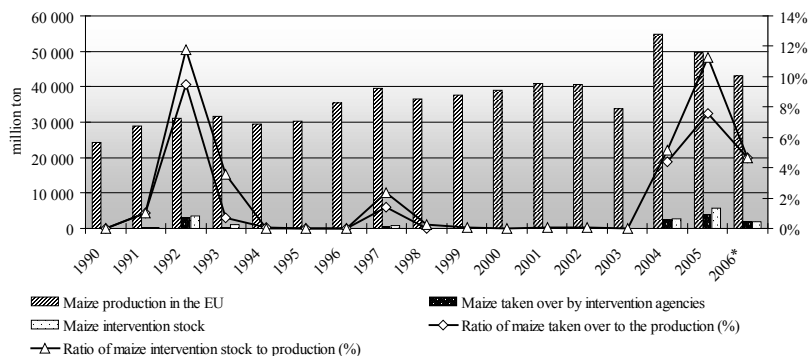
*: estimated data

Figure 1.: Taking Over of Cereal by Intervention Agencies and Cereal Intervention Stock in the EU from 1990 until Now

(Sources: data collected and completed by the authors, for the marketing years of 1990/91-1997/98 from LACZKÓ and SZÓKE [2000], other data from Gabonaszövetség, MVH, http://ec.europa.eu/agriculture/publi/index_en.htm)

Neither the quantity of cereal taken over by the intervention agencies nor the intervention stock has increased since 2004 compared to the cereal production. The average quantity of cereal taken over was 4.2% before 2004 and 2.6% after the Eastern enlargement. The ratio of intervention stocks to the production decreased by 41%, from 6.5% to 3.8% during this period. If we take the marketing year of 2004/05, after which the EC started to deal with the abolishment of maize intervention, we can see that the ratio of cereal taken over to the production was 3.8%, which is below the average of the years before 2004. Moreover the ratio of intervention stocks to the production (5.3%) was also below the average of that period.

Examining maize it is apparent, that intervention agencies took over only a little amount of maize in the EU before 2004. The ratio of maize taken over to the total maize production was 9.5% in the marketing year of 1992/93, but that was below 2% in the other marketing years and there were many marketing years when maize was not taken over at all. The quantity of maize taken over after 2004 did not increase considerably. Intervention agencies took over on average 5.5% of the total production of maize in the EU after 2004. The ratio of maize intervention stock to the maize production was 7%, which is really higher than the average 1.4% before the enlargement. But this expansion is not drastic because the average value of the ratio of cereal intervention stock to the cereal production in the years before the enlargement was 6.5%. The maize contribution to the cereal intervention increased after the enlargement as well. But this does not mean that maize endangers cereal intervention and there is no maize sale-fewer. **The fact is, that maize settled in its place in the cereal intervention.**



*: estimated data

Figure 2.: Taking Over of Maize by Intervention Agencies and Maize Intervention Stock in the EU from 1990 until Now

(Sources: data collected and completed by the authors, for the marketing years of 1990/91-1997/98 from LACZKÓ A.- SZŐKE GY. [2000], other data from Gabonaszövevény, MVH, http://ec.europa.eu/agriculture/publi/index_en.htm)

We examined the **location of intervention stocks and the composition of cereal taken over and that of intervention stocks**, and their changes since the Eastern enlargement.

First of all we examined the location of cereal stocks. We analyzed **the contribution of the EU-15 and the EU-10 to the cereal production and the cereal intervention stocks** in the marketing years of 2004/05 and 2005/06.

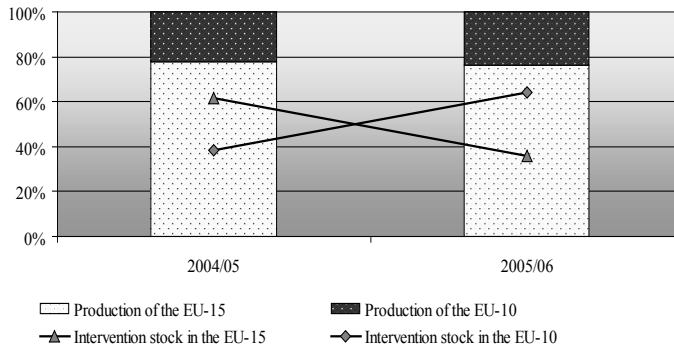
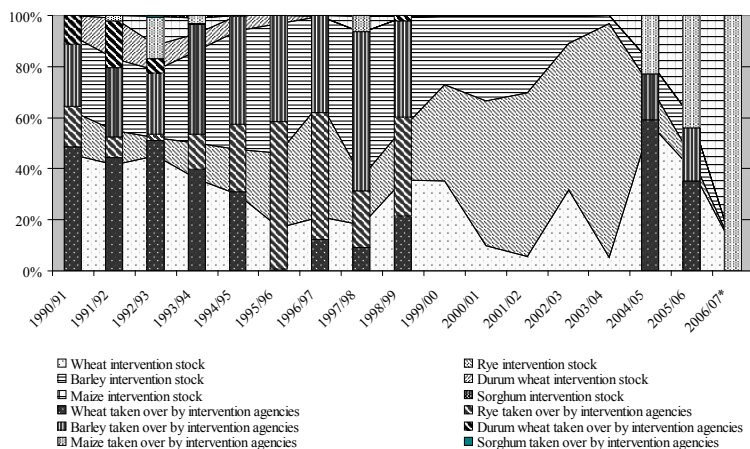


Figure 3.: The Contribution of the EU-15 and the EU-10 to the Cereal Production and the Cereal Intervention Stocks in the Marketing Years of 2004/05 and 2005/06

(Source: data.hgca.com/archive/bulletin/MIBTAB08.htm - 98k -)

The contribution of the EU-15 to the total cereal production of the EU-25 was 77% in both marketing years. Their contribution to the cereal stock at the end of the marketing year of 2004/05 was 62% but 36% at the end of 2005/06. The 10 new member states' contribution to the EU's production was 23%, but 38% of the intervention stock in 2004/05, and 64% in 2005/06 was located in these countries. Thus **the share of the 10 new member states in the intervention stock is higher than the expectable share on the base of their production.**

We examined the impacts of Eastern enlargement **on the composition of the taken over cereals and cereal stocks** as well. The columns show the percental division of cereals taken over and the area diagram shows the structure of the cereal intervention stocks. Wheat, barley and rye outnumbered other cereals in the 1990s and in the first three years after 2000. The share of maize was getting bigger and bigger after 2004. In percentile terms: the contribution of wheat, barley and rye to the total cereal taken over and cereal stocks was 87% and 90% respectively on average, that ratio decreased to 60% and 67% respectively on average after 2004. At the same time the lot of the maize in the intervention was insignificant (5% in the cereal taken over and 3% in the stocks) before 2004. But the contribution of maize to the intervention increased considerably (38% to the cereals taken over and 33% to the stocks respectively) after the enlargement.



*: estimated data

No data about the taking over of cereals from 1999/00 to 2003/04

Estimated data for the taking over of wheat and barley in the marketing year of 2005/06

Figure 4.: The Structure of cereals take over by the intervention agencies and of intervention stocks in the EU from 1990 until now

(Sources: data collected and completed by the authors, for the marketing years of 1990/91-1997/98 from LACZKÓ and SZÓKE [2000], other data from Gabonaszövevény, MVH, http://ec.europa.eu/agriculture/publi/index_en.htm)

Table 3.: The structure of cereals taken over by the intervention agencies and intervention stocks in the EU before and after the Eastern enlargement

	1990-2003		2004-2007		Change	
	Taken over	Stock	Taken over	Stock	Taken over	Stock
Wheat	37.28%	34.02%	42.79%	46.14%	114.76%	135.64%
Rye	15.73%	23.63%	0.00%	9.30%	0.00%	39.36%
Barley	34.25%	32.50%	17.15%	11.54%	50.07%	35.50%
Durum wheat	6.90%	6.06%	0.00%	0.00%	0.00%	0.00%
Maize	5.59%	3.53%	37.75%	33.00%	674.63%	935.96%
Sorghum	0.23%	0.26%	0.02%	0.01%	8.93%	3.66%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

estimated data for 2006/07

No data about the taking over of cereals from 1999/00 to 2003/04

Estimated data for the taking over of wheat and barley in the marketing year of 2005/06

(Sources: data collected and completed by the authors, for the marketing years of 1990/91-1997/98 from LACZKÓ and SZÓKE [2000], other data from Gabonaszövevény, MVH, http://ec.europa.eu/agriculture/publi/index_en.htm)

The EU forecast is 18.9 million tons of total cereal and 15.3 million tons of maize stock in 2013 if the intervention system does not change. These are enormous quantities, but they are unbearably high compared to the production. It is 7% of the total production of the EU, which is only slightly above that ratio before the Eastern enlargement. The estimated maize intervention stock mounts up to 28% of the maize production, which is at least questionable.

DISCUSSION

The sowing area and the production of the EU increased significantly after the Eastern enlargement. Due to these facts the quantity of cereals offered for intervention is obviously higher than before. **The ratio of cereals taken over by the intervention agencies to the production has not increased in the EU.** But the position of maize differs from that of other cereals. Intervention agencies took over more maize after the enlargement than before, but this expansion is not crucial for the EU and does not give reasons for the abolition of maize intervention. The composition of cereals taken over and that of the intervention stocks really changed and the role of maize is increasing. Moreover stocks in the new member states are bigger than it would be expected on the base of their production. **But these facts do not give enough reason for the reform of the cereal intervention at present.** The forecast for the intervention stocks is frightening but it is based upon assumptions. This forecast expects that the intervention in Hungary in 2004/05 and 2005/06 is maintained for years, and the countries accessed in 2007 are going to have the same attitude to the intervention. This forecast did not and could not take into consideration the events of the marketing year 2006/07 and 2007/08, when intervention stocks started to decrease. Intervention agencies sell cereal stocks at present. The stocks can be sold out shortly in Hungary and in the EU as well.

The EC should have taken into account more marketing years and it should not have decided hastily about the future of the intervention system. The outstanding production is not permanent. Medium or low production may come after the years with high production. Thus owners do not offer cereals for intervention every year. The recent events prove that maize intervention fulfils its original aim, it stabilizes the market. Maize is available for users from the intervention stores in the years with low production. It is not disadvantageous for the EU if one or more member states produce cereal over demand, and the surplus is put in intervention stores.

The increase of intervention stocks does not give reason for the rigorous intervention system or for the abolition of the maize intervention. We state that the abolition of maize intervention itself can put the balance of the maize market at risk.

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