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AGRICULTURAL ECONOMICS

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**CEREAL MARKETING
IN FRANCE
— IMPLICATIONS FOR
THE U.K.**

G. S. TURNER and J. R. CRABTREE

August 1982

Economic Report No. 138

The North of Scotland College of Agriculture
Agricultural Economics Division

CEREAL MARKETING IN FRANCE - IMPLICATIONS FOR THE UK

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PREFACE

This is one of a series of reports on various studies relating to the marketing of Scottish products. The work was carried out in 1981/82 and finance was provided by the Department of Agriculture for Scotland. This report examines the organisation of the French cereal market - the main export competitor for UK grain. By evaluating the French system of grain marketing it places the UK grain market in a European context and draws implications for cereal policy and marketing in the UK.

The investigation would not have been possible without the assistance of numerous individuals and organisations. In the UK we would specifically wish to thank Dr C Mackel and Mr G Entwistle of this Division, staff of the Home Grown Cereals Authority, Dr Ian Sturgess (Cambridge University) and Mr I Reid (Wye College). In France we are most grateful for the assistance given by staff of ONIC, AGPB, UNCAC, Crédit Agricole and numerous co-operatives, traders, producers and representatives from other organisations associated with the French grain trade.

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INTRODUCTION

Cereal production in the EEC-9 has increased substantially over the past decade. During the 1973/76 period total output averaged 103.8 M tonnes whereas production in the last two harvests is expected to average around 118 M tonnes⁽¹⁾. Soft wheat has shown the most marked expansion of output with a 25 per cent increase from 38.1 M tonnes (1973/76) to 47.5 M tonnes (1980/82). This increase in cereal production has resulted in substantial exports of both soft wheat and barley. Two main explanations are usually proposed for these changes. The first is an agronomic one. There has been an increase in yields due to technical improvements such as the introduction of new varieties, the use of higher yielding autumn sown crops and the substitution of wheat and barley for lower yielding coarse grains. The second factor has been the secure and favourable cereal price support policy. In contrast to the weaker support given to livestock producers, cereal producers receive a very high degree of protection under the CAP⁽²⁾. This has provided a profitable and stable environment for investment in the cereal sector and for the adoption of new technology.

In terms of the individual Member States, France is the principal cereal producer and exporter in the Community. In 1980/81 French grain exports reached 18.6 M tonnes which placed France on a par with Canada as a world grain exporter. Of this total about half was exported outside the EEC. France has a long history as a cereal exporter, dating from the 1950's for wheat and 1960's for barley and has developed a market infrastructure which is now predominantly export orientated. Given the size of the domestic surplus of soft wheat and barley the export trade is clearly of great importance to French producers. The French Government has encouraged the development of grain storage and export facilities and in the Giscard era laid stress not only on the role of the cereal sector for farmer incomes but also as a major contributor to the French balance of payments (*du pétrole vert*).

By contrast the UK has only been an exporter of wheat and barley on any scale since 1977/78 although the quantity exported has increased rapidly to 3.4 M tonnes in 1980/81. More barley than wheat has been exported and 1981/82 is estimated to produce a record level for barley exports of 2.91 M tonnes. Wheat, however, has shown a marked increase in quantity exported rising to an estimated 1.10 M tonnes (1980/81) and 1.50 M tonnes (1981/82)⁽³⁾. Colman and Young⁽²⁾ forecast a continuing export trade for UK cereals although the balance is expected to change in favour of wheat as producers switch away from barley towards wheat production.

The aim of this study was to describe the key features of cereal production and marketing in France and to assess the extent to which different institutions, policies and procedures might be relevant to the UK market. Particular emphasis was given to the export marketing of French grain in view of the important export developments in the UK market. The availability and cost of grain storage and the difference between UK and French FOB prices have been investigated in order to assess the competitive export position of the two countries. In no sense

(1) Home Crown Cereals Authority, Cereal Statistics, various years.

(2) Colman D R and Young T (1981), A Forecasting System for UK Grain and Oilseed Imports, University of Manchester.

(3) MAFF Estimates at June 1982.

was the intention to parallel the detailed description of the UK cereal market given by Britton in 1969.⁽¹⁾ The study concentrated on soft wheat and barley, excluding hard wheat, maize and other grains because of their limited importance in the UK. Certain aspects of the market (in particular malting barley and French grain quality characteristics) were specialised topics in their own right and these could not be adequately covered.

Apart from a general picture of French production and exports based on statistical data the study concentrated on the operation of the grain market in two areas. The first was the Centre region which lies in the South of the Paris Basin and contains the six departments of: Eure et Loire, Loire et Cher, Loiret, Indre et Loire, Indre et Cher. This was chosen because of its dominant position as a wheat and barley producing region and as the major surplus region for supplying the deficit areas of France and for export. The second study point chosen was the port of Rouen and the surrounding Seine Maritime department. Rouen was selected as the major European cereal exporting port and the closest sea port to the intensive cereal producing regions of the Paris Basin. In addition, interviews were held with all the main organisations involved in the cereal market - the French Cereals Office⁽²⁾(ONIC), several co-operatives and co-operative unions (UNCAC, UGCAF), the producers' Union (AGPB), the Government finance house UNIGRAINS, Crédit Agricole, and domestic and international grain traders.

The report begins by covering the production of cereals in France and the extent to which the export markets for French surplus production have changed over time (Chapters 1 and 2). The role of the major institutions in the grain trade are then described and Chapter 4 deals with the marketing of grain from producers to licensed collectors. Chapter 5 describes the topical issue of grain storage capacity in France. Chapter 6 examines the market outlets for French grain and compares French and UK export prices. Finally, current policy issues are outlined in Chapter 7 and this is followed by a discussion.

(1) D K Britton (1969). Cereals in the United Kingdom, Pergamon Press.
This gives a brief account of cereal marketing in France up to 1969.

(2) These various organisations are described in Chapter 3.

1.

CEREAL PRODUCTION1.1 Introduction

France is the largest cereal producer in the EEC both in terms of area and total output. During each of the last ten years French production has accounted for almost half (45-48 per cent) of the soft wheat produced in the Community, 26-29 per cent of the barley and 52-60 per cent of the maize. Though total production has generally increased throughout the 1970's there has been only a slight expansion in the overall cereal area. The principal developments have been in the types of cereals grown and the increase in yields. Before explaining these developments it is helpful to describe the location and characteristics of the cereal producing regions of France.

1.1.1 Location of Cereal Production

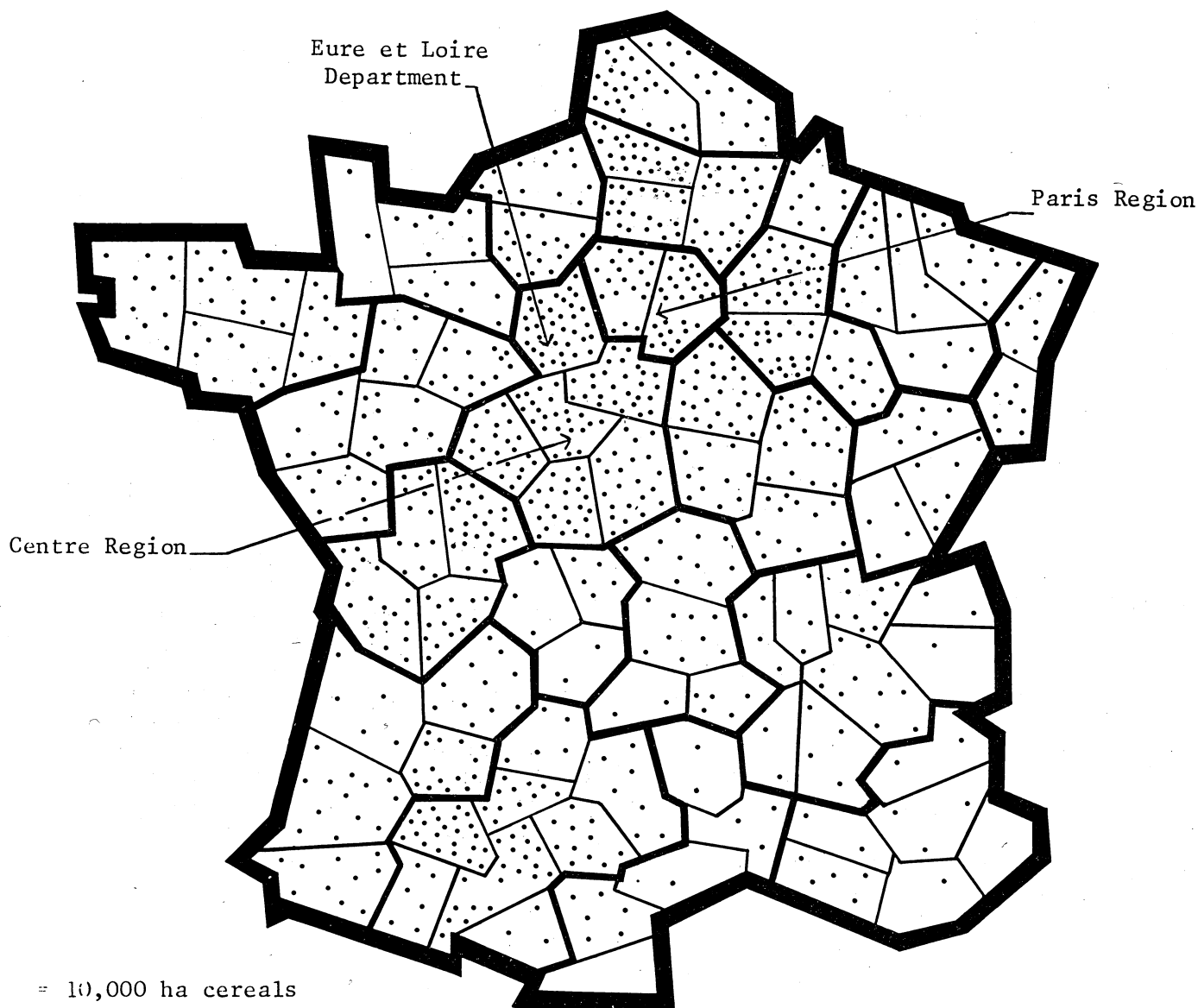
Although cereals are grown throughout France the major producing area is the Paris Basin (Figure 1.1). The basin has no clear boundaries but extends north into the Nord and Picardie regions, east to the departments of Aube and Marne, includes the Centre region and is limited by the River Eure to the west. It is characterised by gently undulating plains, medium rainfall (600-1,200 mm/annum) and permeable soils, favourable to cereal cultivation. The area is one of relatively large farms⁽¹⁾ with renting rather than owner occupation being predominant. Over the last decade there has been progressive cereal specialisation in the Paris Basin at the expense of forage crops and grassland. This reflects the relative profitability of cereal production and the economies of scale in the use of specialised machinery and on-farm storage.

Table 1.1 Cereal Areas ('000 hectares)

Cereals	1970	1979	Average Increase per Year (%)
Soft Wheat	3,492	4,056	+1.7
Hard Wheat	178	108	-5.4
Barley	2,854	2,763	-0.3
Maize	1,441	1,897	+3.3
Others	1,235	920	-3.2
Total Cereals	9,201	9,745	+0.6

Source: Recensement Général de l'Agriculture 1979-80
INSEE/SCEES.

(1) On average in the 35-49 ha category of Recensement général d'agriculture, 1979-80, SCEES/INSEE, (Service Central des Enquêtes et Études Statistiques/Institut National de la Statistique et des Études Economiques).

Figure 1.1 Distribution of Cereal Production (1981)

In France as a whole, total cereal output has increased by 56 per cent over the last decade whereas the cereal area has only grown by 6 per cent. This low rate of increase in the cereal area does however mask the greater movement that has occurred by cereal type and region. Table 1.1 shows the changes in area occupied by different cereals according to the census data of 1970 and 1979. The area of soft wheat and maize increased substantially over the period with barley showing a slight fall. It should be noted, however, that this comparison between 1970 and 1979 does not reveal the shorter term trends in production. This applies especially to maize, the area under cultivation having fallen since 1979/80 (See 1.2.3).

1.2 Development by Cereal Type

1.2.1 Soft Wheat

Table 1.2 Soft Wheat - Quantity Produced and Marketed (M tonnes)

	1973/76	1978/79	1979/80	1980/81	1981/82
Production	16.74	20.74	19.20	23.24	22.39
Marketed ¹	14.17	17.18	16.54	20.30	19.40
% Marketed	85	83	86	87	86

¹Defined as sales off-farm (*la collecte*).

Source: ONIC (1981/82 estimates).

This is the most important cereal in term of production, area and exportable surplus. Despite some poor harvests in the mid 1970's the general trend has been for wheat output to increase substantially over the last decade (Figure 1.2, Table 1.2). Since 1973/76 output has increased at an average rate of 4.2 per cent per year to an anticipated yield of 22.4 M tonnes in 1981/82. Of the soft wheat produced around 86 per cent is marketed off the farm. Both area and yield increases have contributed to the continued upward trend in production. The soft wheat area increased by 1.7 per cent per year on average, between 1970 and 1979 (Table 1.1), a result of varietal changes, specialisation by cereal farmers and a decline in the areas of coarse grains, oats and cereal mixtures. The ONIC⁽¹⁾ estimates (Table 1.3) show a continued increase in the soft wheat area in recent years.

Table 1.3 Cereal Areas ('000 hectares)

	1973/76	1978/79	1979/80	1980/81	1981/82
Soft Wheat	3,787	4,069	3,987	4,465	4,614
Barley	2,764	2,828	2,803	2,648	2,572
Maize	1,944	1,815	1,955	1,756	1,571
Total Cereals	8,495	8,712	9,796	9,874	9,710

Source: Eurostat/ONIC (1981/82 estimates).

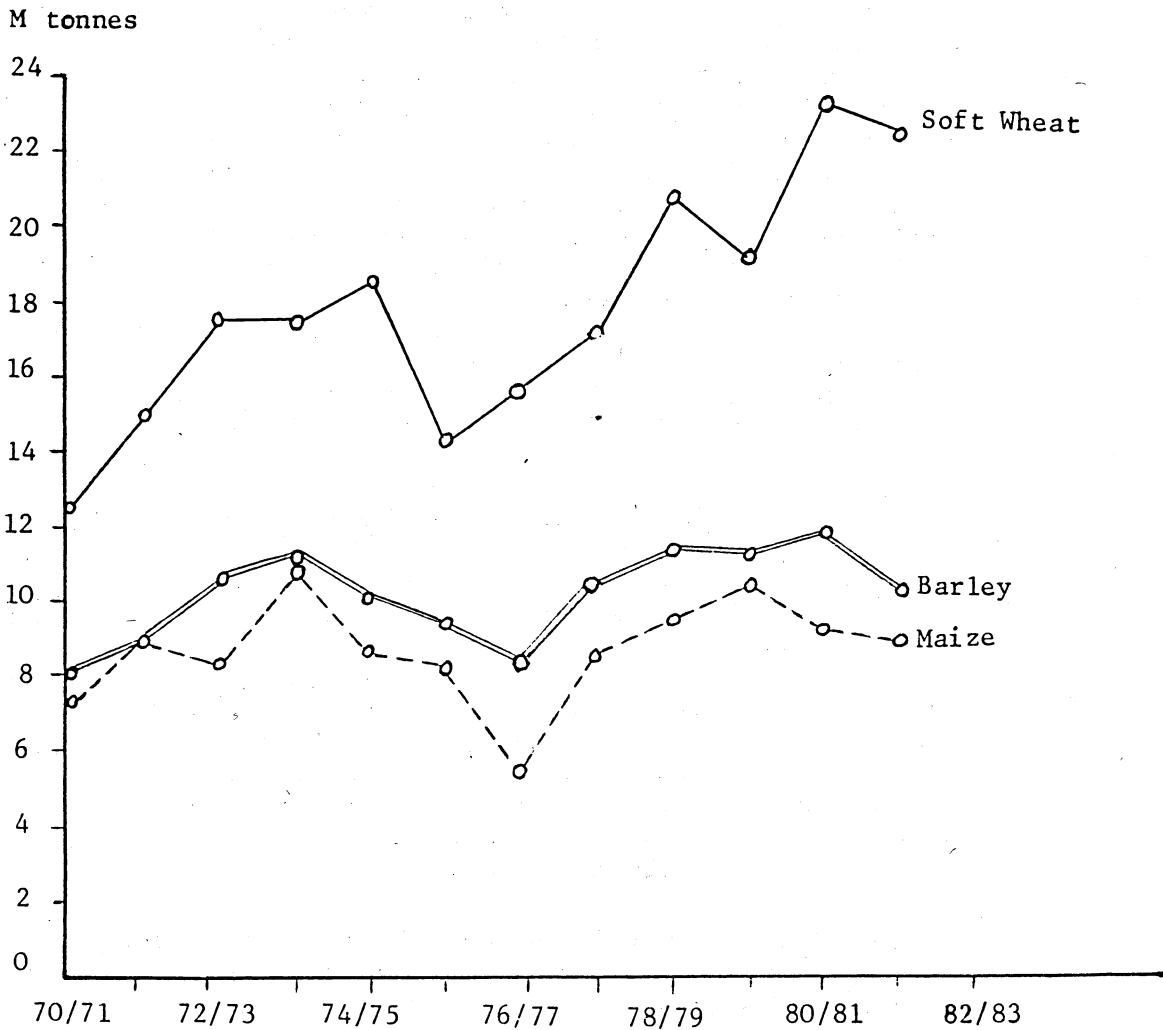
The introduction of high yielding feed varieties, popular in the mid-seventies (Maris Huntsman, Clement) encouraged soft wheat production in areas with a coastal climate and significant outlets for livestock (Brittany, Normandy, Pas de Calais). Even though these varieties are now in decline, farmers in these regions have continued to grow wheat at the expense of barley. In this case new varieties encouraged an expansion in area and at the same time boosted overall yields.⁽²⁾ The swing towards the use of higher yielding winter wheat varieties was made possible by plant breeders in the 1970s and has made a considerable impact on overall yields. Spring wheat production is now negligible. Even though wheat production has developed in new areas, greater specialisation in cereal production has occurred in the Paris Basin and this therefore still remains the major zone of wheat production.

The Centre Region, Picardie, Champagne and the region surrounding Paris are the major surplus regions for soft wheat - over 95 per cent of the production being marketed off the farm. It is in these regions that the concentration on wheat production has become most marked over the last ten years. For example between 1970 and 1979 the proportion of wheat produced (as per cent of total cereal output) increased from 42 per cent to 52 per cent in the Centre region and 44 per cent to 57 per cent in the Paris region. This increase was largely at the expense of barley.

(1) Office National Interprofessionnel des Céréales (see 3.2).

(2) Details of the regional distribution and quality of different varieties are given in 'Qualité des Blés' 1981, ITCF/ONIC.

Figure 1.2 Production of the Major Cereals 1970/71-1981/82 (M tonnes)



The importance of the Centre region as the major source of exportable wheat surplus is evident in Figure 1.3 which shows the 1979/80 regional wheat deficits and surpluses. The extent of deficit or surplus was calculated by deducting regional wheat consumption from wheat production. Wheat consumption included on-farm use, purchases by the grain-using industries and a correction factor for seed and losses. Figure 1.3 shows clearly the importance of the Centre Region as an area of surplus wheat production. Of the 3.25 M tonnes of wheat marketed in 1979/80, 82 per cent was surplus to regional requirements. Unlike the other important wheat producing regions in the Paris Basin, the Centre region possesses very few cereal-using industries.

1.2.2 Barley

The barley crop is second in importance after wheat both in terms of area and output. Barley is cultivated throughout France, although the intensive cereal zone of the Paris Basin produces over 50 per cent of the total crop. Its position relative to other cereals has remained stable over the last decade, representing, on average, 28 per cent of cereal area although as with wheat production there have been considerable fluctuations at regional level. The barley area reached a peak of 2.9 M ha in 1977/78 and has since been contracting (Table 1.3). Production

has tended to increase in the 1970s but somewhat erratically with the expected 1981/82 output of 10.2 M tonnes being slightly lower than that of 1973/74 (Figure 1.2, Table 1.4). Increases in output have largely been due to yield developments, particularly noticeable in the 1980 season, when higher yields overcame a 6 per cent fall in area and yet produced a harvest 5 per cent up on the previous season.

Figure 1.3 Surplus and Deficit Regions for Soft Wheat in France 1979/80 ('000 tonnes)

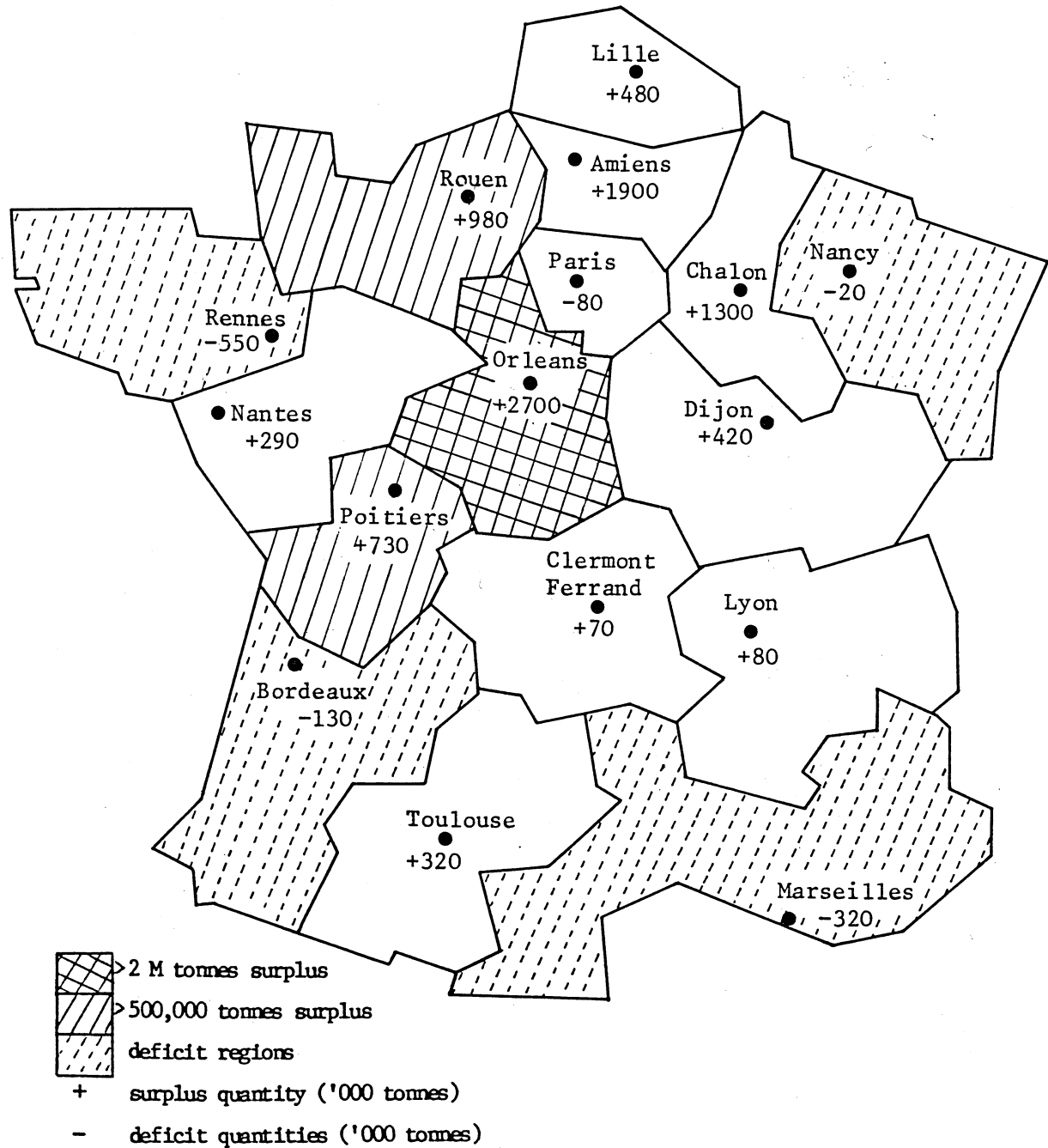


Table 1.4 Barley - Quantity Produced and Marketed (M tonnes)

	1973/76	1978/79	1979/80	1980/81	1981/82
Production	10.11	11.32	11.20	11.72	10.18
Marketed	6.02	6.94	7.00	7.27	6.30
% Marketed	59	61	63	63	62

Source: ONIC (1981/82 estimates).

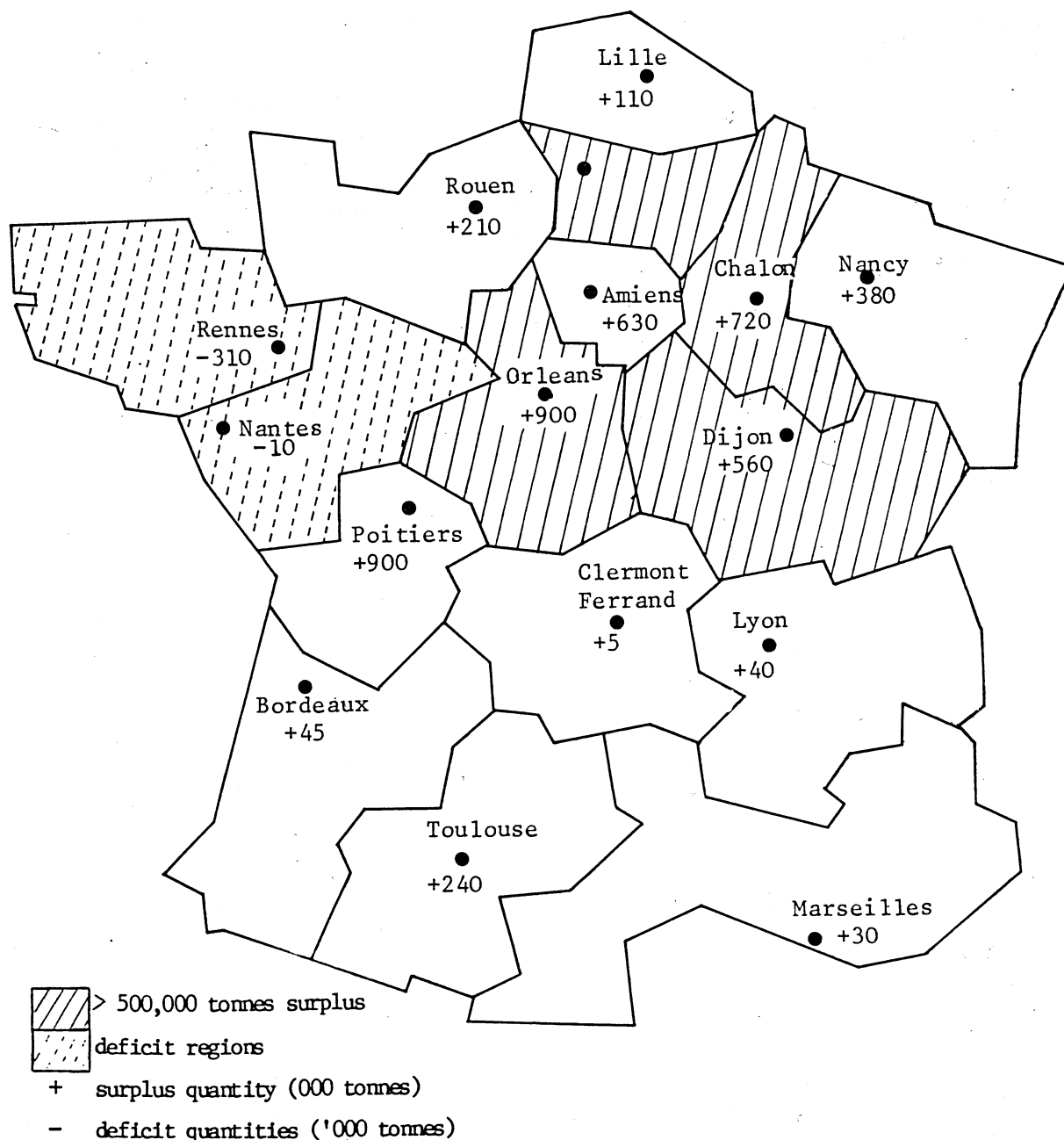
The switch from spring to winter barley varieties which occurred during the 1970s has been another contributory factor influencing yields and output. At the start of the 1970s, spring barley (mainly 2 row varieties) accounted for almost 90 per cent of the barley crop⁽¹⁾. Now, 55 per cent of the barley area is autumn sown, and produces 63 per cent of the total barley output. Although the higher yielding winter barley varieties did not at first satisfy the quality requirements of maltsters since they were predominantly feed barleys high in nitrogen, two-row winter barleys were developed (notably Sonja in 1976). These produced higher yields and were suitable for malting. The two-row winter barleys now predominate in the Centre region, Ile de France and the Champagne region, but they also are an important position in the other cereal departments. Only in the north east cereal regions of Lorraine and Alsace, Côte d'Or and the south west Poitou-Charentes region does spring barley predominate. The six-row varieties are important in the Nord region, Picardie and the department of Ardenne, since they are more resistant to frost.

In terms of barley surplus to regional utilisation, the Centre region is, as with wheat, of greatest importance (Figure 1.4). In the 1979/80 marketing year, 1.22 M tonnes was marketed in this region, of which 0.9 M tonnes was surplus to regional requirements. The other principal surplus regions are to the north and east of Paris, with Brittany a key deficit area.

Only just over 60 per cent of the barley crop has in recent years been marketed off-farm. This compares with 86-87 per cent for wheat and 80-82 per cent for maize. It reflects the suitability of barley for cattle feeding and its widespread production throughout France.

(1) Production Végétale, 1980 Results, SCEES.

Figure 1.4 Surplus and Deficit Regions for Barley in France 1979/80 ('000 tonnes)



1.2.3 Maize

Although France still remains the major producer of maize within the EEC, production has been relatively stagnant in the 1970s (Figure 1.2). Yields have not improved since 1978 and from 1979/80 the area grown has fallen substantially with a corresponding reduction in output (Tables 1.3, 1.5). The 1981/82 estimated output is only 8.95 M tonnes. This major decline in production contrasts with the considerable expansion of the maize area in the sixties, from 0.82 M ha in 1960/61 to 1.48 M ha in 1970/71. This expansion was made possible by the development of earlier maturing varieties which enabled the spread of maize production into the northern departments. The contraction of the maize area and output in recent years has been primarily due to the lack of yield improvements, considerable seasonal variability and the rapid increase in drying costs which account for about 20 per cent of direct production costs. The profitability of maize production has accordingly been reduced relative to other cereals.

Table 1.5 Maize - Quantity Produced and Marketed (M tonnes)

	1973/76	1978/79	1979/80	1980/81	1981/82
Production	9.20	9.53	10.41	9.36	8.95
Marketed	7.38	7.69	8.57	7.57	7.50
% Marketed	80	81	82	81	84

Source: ONIC (1981/82 estimates).

In the traditional maize growing regions of the south-west where the maize does not require artificial drying, the acreage has risen over recent years. In the Paris Basin and Northern France maize yields are more susceptible to climatic factors. Land taken out of maize production has most commonly been used for winter wheat and rape seed production, where yields are less volatile and drying costs are lower.

2.

THE EXPORTABLE SURPLUS AND TRADE2.1 Balance Sheet

The statistical link between production, domestic utilisation and exports is provided by the balance sheet. Table 2.1 shows the wheat and barley balances for 1979/80-1981/82 based on ONIC data. On the supply side the key figure is for marketed produce **collecte** which is the quantity sold off farms to registered cereal collectors, direct farm to farm sales not being permitted (see 3.2.2). Supply in this case is therefore net of on-farm use for animal feeding. Of the wheat **collecte** 36-40 per cent is used domestically leaving 60-64 per cent available for export. Of the soft wheat grain exported around 3.8 - 4.0 tonnes is exported to other EEC Member States and the rest (4.8 - 7.4 M tonnes) shipped to Third countries.

Table 2.1 French Cereal Balance Sheet 1979/80 - 1981/82 ('000 tonnes)
(1/8 until 31/7 of following year)

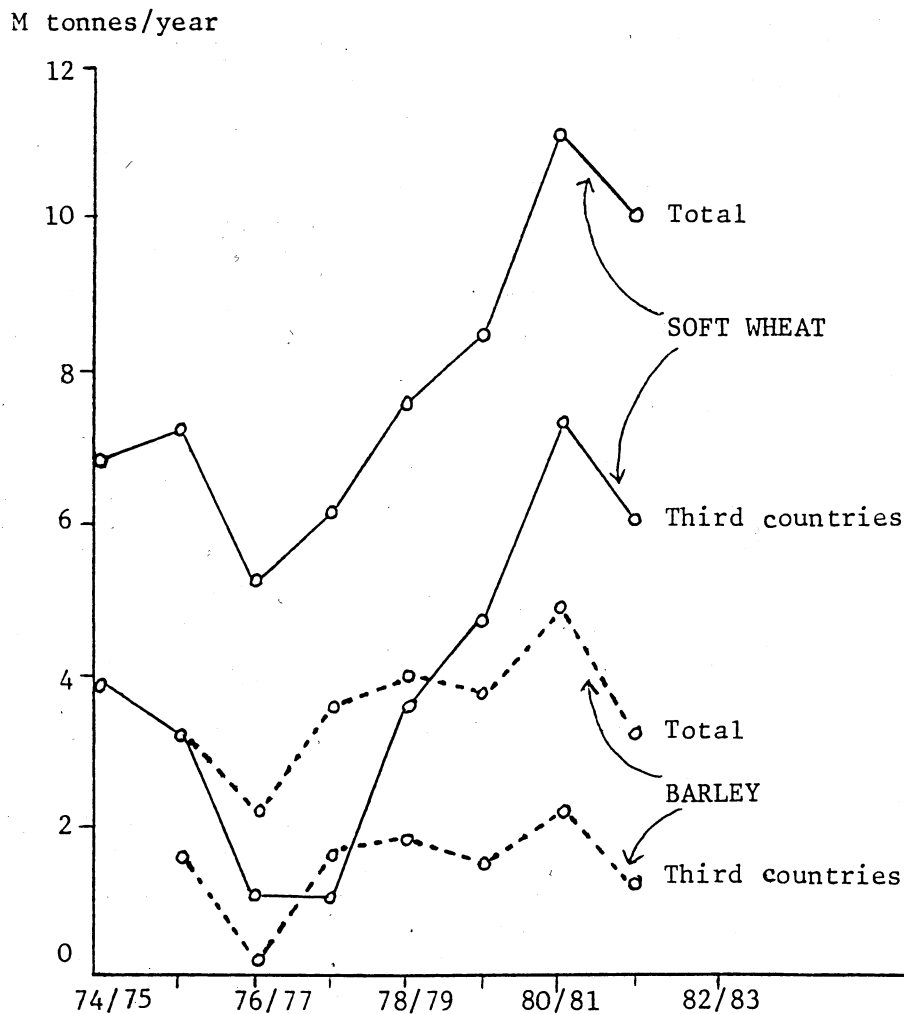
	1979/80	Soft Wheat 1980/81	1981/82 ¹	1979/80	Barley 1980/81	1981/82 ¹
<u>Supply</u>						
Opening Stocks	2,697	2,295	2,211	301	481	277
Marketed Produce(collecte)	16,544	20,279	19,400	6,996	7,273	6,300
Imports	253	385	390	42	47	53
Total	19,584	22,093	22,000	7,339	7,801	6,630
<u>Utilisation</u>						
Domestic	Human/industrial/seed	5,123	5,213	5,200	579	600
	Livestock	1,713	2,164	2,200	1,548	1,400
Total Domestic	6,836	7,377	7,400	2,127	1,980	2,000
<u>Exports</u>						
Grain	EEC	3,786	3,833	4,000	2,268	2,000
	Third Countries	4,756	7,387	6,100	1,484	1,200
Wheat Flour/Malt	1,949	2,086	2,100	979	1,082	1,100
Total Exports	10,491	13,306	12,200	4,731	5,544	4,300
Closing Stocks	2,295	2,211	2,400	481	277	330

Source: Marche des céréals 80/81, ONIC.

¹ ONIC end-February estimates 1981/82.

As might be expected the domestic uptake and volume of EEC trade are relatively stable between years, changes in production primarily affecting exports to Third countries (Figure 2.1). The small growth that has occurred in uptake on the French internal market has been for animal feed since requirements for milling have been static over a long period. 1981/82 will see the end of four years' growth in French wheat exports (Figure 2.1), a consequence of reduced production and a 4 per cent expected fall in the marketed output. When translated into its effect on exports to Third countries this leads to an estimated 18 per cent reduction at 6.1 M tonnes.

Figure 2.1 Exports of Soft Wheat and Barley Grain (M tonnes/year)



An interesting feature of the balance sheets is the increasing level of wheat imports (390,000 tonnes, 1981/82). The main influence here has been the increased UK exports for transshipment, although the lower quality of the 1981 French crop has led to enhanced imports of high protein wheat for blending.

The barley balance sheet shows the relatively low estimated 1981/82 production of 10.2 M tonnes (6.3 M tonnes as *collecte*) giving rise to Third country exports of 1.2 M tonnes, considerably less than the 2.2 M tonnes of 1980/81. In contrast to the wheat situation French barley exports have been at a relatively constant level (Figure 2.1) of around 3.5 M tonnes since 77/78 with only 1.5-2.0 M tonnes sold to Third countries. The expected reduction in Third country and total exports in 81/82 reflects a lower total output, a consequence of reduced area and poor yields.

Exports of wheat flour and malt have both shown steady growth through the 1970's to an estimated 2.2 and 1.1 M tonnes respectively in 81/82. Such cereal products are better able to compete on distant markets (eg. China, Japan) because the transport cost component in the value is reduced.

Faced with an increasing wheat surplus and a static or declining EEC market, French traders, institutions and Government have been actively pursuing a policy of enlarging Third country markets. Extensive port facilities are available primarily at Rouen. Emphasis is now being placed on the improvement of grain quality, the development of storage and loading facilities, markets for processed cereals and the provision of export credit guarantees to facilitate trade. For example in 81/82 the French Government signed a credit accord with Poland for exporting 1.2 M tonnes of grain. The financial risk to traders in this arrangement is small since the French export guarantee agency (COFACE) normally covers 90 per cent, UNIGRAINS (see 3.6) 1.5 per cent and commercial banks 2.5 per cent, leaving a trade risk of only 1 per cent if 5 per cent is paid cash. Details of export credit financing and insurance arrangements in France are given by OECD (1982)⁽¹⁾

2.2 Points of Export

Table 2.2 Principal Points of Export for Wheat and Barley

	Soft Wheat				Barley			
	1978/79		1979/80		1978/79		1979/80	
	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%
Rouen	2,654	34	3,406	40	926	24	701	19
Maulde Mortagne	931	12	753	9	645	16	601	18
La Pallice	514	7	690	8	394	10	339	9
Le Havre	487	6	474	6	214	5	284	8
Modane	480	6	458	5	196	5	203	5
Dunkerque	281	4	290	3	140	4	177	5

Source: Les exportations de ble, mais, orge 1978/79, 1979/80. ONIC.

(1) The Export Credit Financing System in OECD Member Countries, OECD, Paris (1982).

Of the very large number of ports and frontier points at which grain is exported, Rouen, Maulde Mortagne and La Pallice are most important. Table 2.2 shows the quantities leaving various export points for the 78/79 and 79/80 harvests with Rouen handling 34-40 per cent of the wheat and 19-24 per cent of the barley exported. Rouen is now principally important in trade with Third countries although smaller quantities are exported to Italy, UK and Ireland. La Pallice, on the Atlantic coast, and Le Havre are similarly involved in this trade although less significantly than Rouen. Exports to Germany occur mainly via Thionville, Maulde Mortagne, Strasbourg and Apach but in each case only around 2 per cent of the total French cereal exports leaves the country at that point. Maulde Mortagne on the Belgian border handles most of the exports to Belgium and the Netherlands (mainly by rail and canal) with Modane on the Italian border and Rouen the principal custom points for Italian exports.

2.3 Export Destinations

The destinations for French grain exports have varied considerably over time. This principally reflects changes in the exportable surplus for Third country trade, the changing requirements of importing countries in terms of quantity and quality and the development of new markets by international shippers. Table 2.3 gives the destinations for soft wheat and barley over 1978/79-1980/81. In some cases the data must be interpreted with care because the countries stated are points of initial destination. There is a considerable transshipment trade via Belgium to Third countries which does not appear in the statistics. In addition it is not possible to separate feed from malting barley in the trade statistics (except by value) and the extent of the large malting barley trade with Belgium and West Germany cannot be separately quantified.

Within the EEC the principal importer of French wheat is Italy although there are substantial sales to Belgium, Netherlands and West Germany. French exports of wheat to the UK have fallen dramatically from 1.58 M tonnes in 76/77 to only 0.12 M tonnes in 80/81. The explanation is to be found in the increasing UK self-sufficiency and the preference for North American imports which are more suitable than French wheat for blending with the poorer quality UK product. The traditionally important Third country markets for French wheat are Poland, North Africa and Switzerland. The large exportable surplus in 1980/81 encouraged the development of new markets in the Far East (China, Vietnam and North Korea), Iran and Eastern Europe.

Within the EEC Belgium, Italy and West Germany are the principal destinations for barley exports although the transshipment trade at Antwerp for Third country export accounts for a substantial part of the Belgium imports. Third country destinations for barley exports are relatively less numerous than for wheat with Switzerland, USSR, Poland and Saudi Arabia being predominant.

Table 2.3 French Grain Exports to Selected Destinations ('000 tonnes)

	Soft Wheat			Barley		
	1978/79	1979/80	1980/81	1978/79	1979/80	1980/81
Belgium	1,010	457	654	1,036	859	1,015
Netherlands	707	661	671	163	221	251
West Germany	524	566	640	330	476	449
Italy	1,513	1,736	1,685	571	698	456
UK	429	256	121	42	13	24
Ireland	72	110	60	3	-	14
Denmark	6	-	2	2	2	32
EEC TOTAL	4,261	3,786	3,833	2,147	2,268	2,245
Finland	10	12	83	5	13	-
Norway	11	4	76	12	9	9
Portugal	218	99	11	18	16	54
Spain	-	-	33	-	156	26
Switzerland	139	109	210	386	399	426
Bulgaria	-	-	-	191	-	-
East Germany	-	29	225	217	-	59
Poland	528	1,001	1,388	404	188	310
Rumania	-	10	294	52	10	-
USSR	5	518	-	213	127	303
Algeria	16	227	177	23	74	19
Egypt	512	799	541	-	-	-
Morocco	762	840	1,400	-	6	46
Tunisia	183	149	248	49	3	25
Ivory Coast	162	175	204	-	-	-
Senegal	84	98	103	-	-	-
Brazil	238	-	11	-	-	29
Cuba	-	-	177	-	-	-
Bangladesh	206	101	113	-	-	-
China	25	54	530	-	-	-
North Korea	-	-	281	-	-	-
Vietnam	-	-	177	-	-	-
Iran	-	52	332	-	75	112
Saudi Arabia	-	-	-	54	263	668
Others	519	478	773	190	145	132
NON-EEC Total	3,618	4,755	7,387	1,814	1,484	2,218
TOTAL EXPORTS	7,880	8,541	11,220	3,961	3,752	4,462

Source: Les exportations de blé, mais, orge, ONIC.

3. ORGANISATIONS IN THE CEREAL SECTOR

3.1 Introduction

A description of a number of key French institutions provides a necessary background to an appreciation of cereal marketing in France. These organisations are significant because they are either involved directly in trading, in the regulation of the market, in policy formulation or in the investment and financing of stocks and capital equipment. First in order of presentation and of paramount importance in the cereal market is the **Office National Interprofessionnel des Céréales (ONIC)**, a public body which has a market regulation function and is also the intervention buying agency and the primary source of statistical information. Secondly a description is given of the co-operative sector in the market together with its trading and exporting organisations. Thirdly there is a brief account of the activities of **Crédit Agricole** in its role as a source of subsidised investment finance. This is followed by a description of the French cereal producers' union **AGPB** because of its much more formidable role in policy making and market operations than the UK farmers' unions. Finally an account is given of the activities of the financial organisation **UNIGRAINS**.

3.2 Office National Interprofessionnel des Céréales (ONIC)

For nearly 50 years the French Government, through the intermediary of Marketing Boards, has played an important role in cereal marketing. Even though the degree of control over the market has become much less since France's entry into the Common Market, significant differences exist between France and the UK in the extent and nature of the regulation in their cereal markets.

The present French organisation can only be fully appreciated if preceded by a summary of major events, from the creation of the Wheat Board in 1936 to the present day.

3.2.1 1936 - The Creation of a Wheat Board

The **Office National Interprofessionnel du Blé (ONIB)** was set up in 1936, primarily to maintain a market price for wheat which would be satisfactory to both producers and consumers. Until the creation of ONIB, the Government, during the period 1926-1936, had tried to stabilise the domestic wheat market by restricting imports, stockpiling surplus production and setting minimum selling prices. These measures were not well co-ordinated and failed to maintain stable prices. The creation of ONIB, a public body governed by a Central Council at the national level composed of producers, grain buyers, processors, consumers and certain government departments, was directed at remedying the situation.

3.2.2 The Influence of ONIC on the Market

The Board had mandatory control over all aspects of the market enabling it to control and regulate supplies and price. The fundamental changes to the market were in the following areas:-

- (i) Price Fixing
An official price for wheat was established. This was set for the month of August, with additional monthly increments for storage. Detailed price scales were established which accounted for quality differences and since the official monthly price was both a minimum and maximum, the futures market in cereals closed down.⁽¹⁾
- (ii) Official Marketing Channels - Licensed Buyers
Since the Board wanted to maintain strict control over market prices a system of licenced buyers was established. Only traders approved by ONIB were allowed to buy wheat direct from producers. Trade between farmers was not allowed. These licenced buyers were essentially either co-operatives or private traders. Exceptionally, direct users of wheat were allowed to continue trading with farmers so long as they could prove it was a long standing practice.
- (iii) Balancing the Market
The control over the purchase of wheat from producers was the cornerstone of ONIB's control of prices. The licenced buyers had to provide the Board with statistics on their level of stocks, prices, and sales on to the market. Similarly, farmers had to report to the Board on the acreage they had sown and immediately after the harvest, the volume of their crop. This enabled the Board to assess the size of the crop and regulate flows onto the market accordingly.
- (iv) The Funding of Stocks
Part of the policy of ONIB was to ensure that farmers received payment for their wheat within a short period of delivery to the store. However the buyers commonly did not have the necessary liquidity to make rapid payments. A novel process was adopted by the Wheat Board which enabled the buyers to pay the farmers almost immediately. In return for the grain in storage, the co-operatives issued bills of exchange which, after being discounted by their banks, were endorsed by ONIB and subsequently re-discounted by the **Banque de France**. ONIB by acting as guarantor ensured the repayment of the bills and subsidised the rate of interest to be charged. The guaranteeing of grain stocks is still an important constituent of the present market structure (see 3.2.6).
- (v) External Trade
ONIB was granted monopoly control over imports and exports under the 1936 legislation, and was therefore responsible for issuing import and export licences.

3.2.3 Absorption of Surpluses

In 1938 new measures had to be brought in to cope with a record crop of almost 10 M tonnes which represented a surplus of 2.5 M tonnes in relation to domestic requirements. The contracts stipulated that the buyers should store the grain, and the Board

(1) There has not been a cereals futures market in France since this time.

would take delivery of the surplus wheat before the end of the season paying the official price in force at the time of delivery. These 'intervention' stocks were either stored, exported or denatured, the necessary funds for carrying out these measures being principally derived from a progressive tax (absorption levy) on producers.

3.2.4 The Creation of ONIC and its Present Structure

In 1940 the jurisdiction of ONIB was extended to cover all cereals and it became the **Office National Interprofessionnel des Céréales (ONIC)**. The basic principles of fixed official prices, control over sales off-farm, intervention purchases and control of international trade were extended to cover all cereals and ONIC controlled the cereal market until France's entry into the Common Market in 1962. The Community cereal regulations did not permit the extent of state control which existed under the French regulations and ONIC was therefore deprived of certain powers, namely, price fixing, control of sales onto the market and its monopoly control over foreign trade.

Even though the functional role of ONIC has changed over time, it has remained a public body representing all the relevant professional interests in the cereal sector. It has legal status and financial autonomy under the supervision of the Ministries of Agriculture, Economic Affairs and the Budget. Its activities which cover both technical and economic matters in the cereal sector also means that it is in regular contact with other Government departments, such as the Inland Revenue, Customs and Excise, Consumer Affairs and Development.

The policies of ONIC are governed by a Central Council which is composed of 47 members appointed by the Ministry of Agriculture. Of these 47, 24 are representatives of producers 16 from trade or industrial grain-using industries and 7 represent consumer interests.

With the establishment of an EEC common cereals policy in 1967, ONIC became the elected body for administering the Community regulations concerning cereals under the CAP. Accordingly ONIC now has both a national and a Community role in cereal marketing. It is the national role of ONIC which is of prime interest since this is particular to France whereas each Member State of the EEC has an organisation which enacts Community policy measures (eg. intervention purchase, issue of export licences) in a broadly similar way. Of ONIC's national functions one aspect, the collection of cereal taxes, is not described here but in Section 4.4.

3.2.5 Licensed Buyers - Collecteurs Agréés

The system of licensed buyers has continued to operate in France. This system imposes an official marketing channel for the sale of grain off farms. Grain in excess of farm consumption has to be marketed through licensed collectors. ONIC's role is to give approval for organisations to operate as cereal collectors. Through their Central Council and **Comite de Céréales** at the department level they dictate minimum standards for collectors with respect to storage capacity (minimum for new collectors - 500 tonnes), grain handling and conditioning facilities.

The only major reform made to legislation, was in 1967, at the end of France's 5 year accessionary period to the EEC. The acceptance criteria for a **collecteur agréé** were liberalised to enable non-national organisations to operate as collectors so long as they maintained an office in France. The licenced buyer system is the key component of the cereal market in France. It forms a basis for all other ONIC activities.

3.2.6 Financing of Stocks

The guarantee given by ONIB to co-operatives in 1936 which enabled them to borrow funds at lower interest rates on the wheat in store was extended to all cereals in 1940 at the creation of ONIC. In 1967 further arrangements were made to enable private and industrial collectors to benefit from this scheme.

The licensed buyers receive finance not on the total price paid to the farmer but at 95 per cent of the reference price for breadmaking wheat and 95 per cent of the intervention price for feed wheat and barley. The level of finance increases monthly by the storage increment until March. The co-operatives obtain finance through the CNCA (**Crédit Agricole**).⁽¹⁾ Private and industrial collectors are obliged to pass through the intermediary of a Mutual Insurance Company which acts as the first guarantor. Collectors can also receive finance for stocks of seed grain.

There are basically two reasons why ONIC pursues its policy of funding cereal stocks. First the availability of funds enables the collector to pay the producer within a 14 day period from the date of delivery of grain to the store. With ONIC as a guarantor there is virtually complete security of payment. Secondly by regulating the conditions concerning repayment. ONIC indirectly regulates the flow of stocks onto the market from collectors' stores. At the start of the season, when collectors' stocks are at a maximum, the bills enable collectors can delay repayment by up to three months. After the 16th December, repayment can only be delayed by up to two months and from the 16 March repayment is within one month.

In addition the ONIC guaranteed financing does not allow for any storage increment in the price beyond the end of March. The overall effect of these measures is that collectors are encouraged to store grain at the start of the season, preventing a heavy flow of grain into the market during the harvest period. The reduction in the duration of the finance deters collectors from carrying stocks for too long and is designed to encourage the orderly sale of stocks before the new harvest.

Since the co-operatives are directly guaranteed by ONIC and bank with CNCA they receive more favourable rates of interest on this type of borrowing as compared to private traders and industrial collectors. The union representing private collectors (**la Fédération Nationale des Sociétés de Caution Mutuelle des Négociants**) has been in constant conflict with the Ministry of Agriculture in attempting to benefit from the lower interest and banking charges available through the CNCA.

(1)see 3.4.

3.2.7 Market Information and Control

An important aspect of ONIC's work is concerned with collecting statistical information from organisations at all levels in the cereal marketing chain. **Collecteurs agréés** provide ONIC with monthly data concerning the quantity of cereals received from each producer, the level of stocks and their sales of grain indicating the destination and method of transport used. Other storage organisations, secondary stores and the grain-using industries are also obliged to provide information on their level of stocks. This information enables ONIC to monitor the flow of grain through the marketing chain and keep all the relevant professions informed. At the same time data collection is a means of control over the system for financing cereal stocks and collecting cereal taxes. The regional offices are also required to keep the central information office at Paris (**Centre Technique d'Information, Paris**) informed on price movements, trends in plantings and yields, meetings held by organisations etc.

3.3 Co-operative Activity in the Cereal Sector

The development of co-operatives in the French cereal market stems from the creation of ONIB in 1936. Until this date there were relatively few co-operatives involved in the purchasing and sale of cereals, and those that did exist were small and poorly equipped. At the outset, ONIB determined prices and set up an official marketing channel which prohibited organisations other than those approved by ONIB from buying wheat ex-farm (see 3.2.2). Although private traders could become official collectors there was special encouragement for co-operatives to develop their activities in the cereal **collecte**. This reflected the fact that co-operative collectors were obliged to accept any quantity of grain offered by their members, thereby providing a secure fixed price outlet to the producer. The Government helped finance storage programmes at low interest by channelling money through the CNCA. ONIB also gave preferential treatment to co-operatives by acting as guarantor on money they borrowed to finance cereal stocks (see 3.2.2).

These privileges led to rapid growth in the number of cereal co-operatives in the 1930s and 1940s and consequently a fall in the market share of the private traders. Continual support from successive Governments has maintained the co-operative sector in a dominant position not only in terms of the level of their **collecte** but also in terms of cereal storage and handling equipment. As at 1 April 1981 co-operatives handled 69 per cent of the overall cereal **collecte** as compared with 28 per cent for private traders and 3 per cent for industrial users. Since there were only 544 co-operatives licenced as collectors compared with 1,300 private traders it is clear that the co-operatives have, on average, handled a substantially greater cereal volume.

The first co-operatives were established at a local level, (**cantons**) and had territorial restrictions imposed on them by the Ministry of Agriculture or the Prefect of their department. During the 1960s the number of co-operative collectors began to fall, a result of mergers and takeovers between these first level or primary co-operatives to overcome these territorial

restrictions and increase their marketing chains. The first co-operatives had tended to be specialised by product or activity and the mergers during this period led to the development of the multi-purpose co-operatives.

In the cereal sector, as in other product markets, the continued economic necessity for co-operatives to merge has led to the growth of co-operatives of departmental and regional importance ie. second-level co-operatives and regional unions. The mergers were not only undertaken for economic reasons but also on the basis of political and religious beliefs. This division of first and second-level co-operatives led to the formation of two major unions. First the **Union Nationale des Coopératives de Céréales (UNCAC)** which represented the socialist co-operatives and secondly **UGCAF (Union Générale des Coopératives Agricole Français)** representing the catholic right wing co-operatives. Unions are third-level co-operatives and can be described as co-operatives of co-operatives. They have the same legal status as first-level co-operatives, the major difference being that their share capital is subscribed by member co-operatives, where the share capital of first-level co-operatives is subscribed by its farmer members. Originally the unions were principally concerned with collective action to further the interests of their members at a national level. Now this activity is carried out by the **Fédération Française des Coopératives Agricoles des Céréales (FFCAC)**. The unions have a commercial role, developing marketing activities and services which are too expensive to be supported by individual co-operatives. These two unions will be discussed in detail later (see 3.3.3, 3.3.6).

Unions exist in most product markets and at the national level they tend to fall into two groups. First the socialist-inspired group **GAMM (Group Agricole Maillot Malakoff)** formerly known as the MacMahon Group, to which UNCAC belongs. The second is the group **Lafayette**, to which UGCAF belongs. Historically the co-operative's choice of union depended upon the views of its farmer members. At present it is estimated that about 50 per cent of co-operatives belong to both unions as a result of mergers between co-operatives.

The federations of co-operatives such as FFCAC in the cereal sector are the trade union wing of the co-operative movement. These exist in all the major product markets and are brought under the umbrella of the **Confédération Française de la Coopération Agricole (CFCA)** which represents agricultural co-operation at a national and Community level. This body tries to encourage concentration rather than competition between co-operatives, acting as an intermediary on disagreements between member groups. On a more general level, it defends and promotes co-operative activity within France. The nature of the hierarchy with respect to co-operatives in the cereal sector is shown diagrammatically in Figure 3.1.

Figure 3.1 The Hierarchy of Co-operatives within the Cereal Sector

CFCA

Confédération Française de La Coopération Agricole
Unifies the Federation of Co-operatives in the major product markets.

For the cereal sector:-

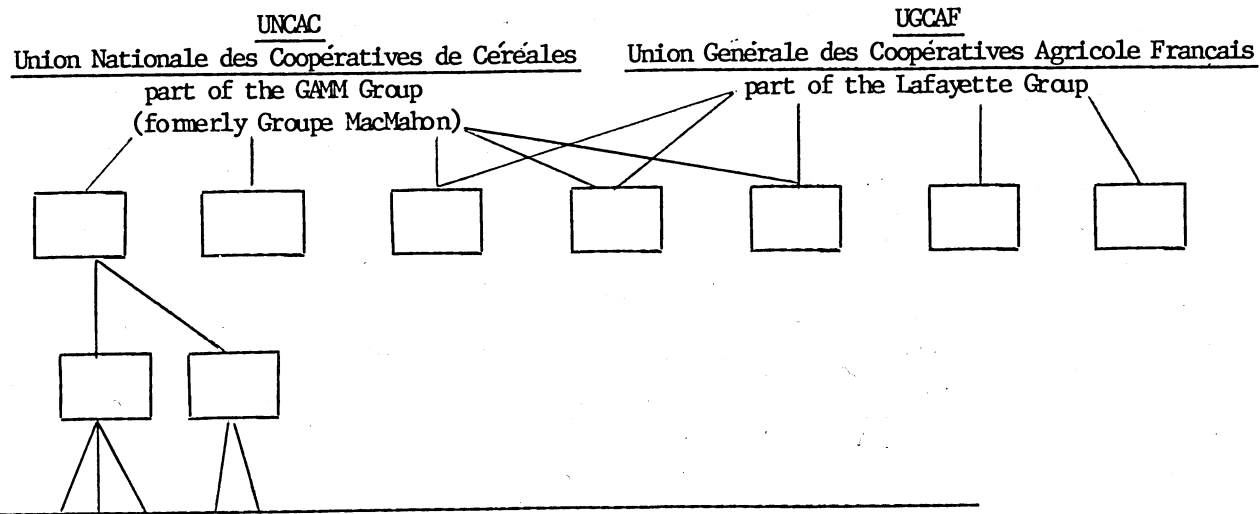
FFCAC

Fédération Française des Coopératives Agricoles des Céréales

National Level
3rd Level
Co-operatives

Regional and Departmental Level
Co-operatives
Unions

Producer
Level



3.3.1 Trade with the Private Sector

Modifications to co-operative law and varying degrees of Government support have favoured a vertical growth in co-operative activity in France. Mergers and the establishment of unions have enabled the co-operatives to supplement their activities through the combining of resources. But it is primarily due to a relaxation of laws concerning non-member trading that has boosted co-operative involvement in the para-agricultural sector. Co-operative law gives co-operatives the right to trade up to 20 per cent of their turnover with non-members. By forming a SICA (**Sociétés d'intérêt Collectif Agricole**) this percentage can be increased to 50 per cent. SICA's are known as 'nearly co-operatives,' since they are societies formed between co-operatives and non co-operative bodies, where the agricultural or co-operative interests maintain the majority shareholding.

The greater flexibility to trade with non-members has led to a number of cereal co-operatives becoming involved in cereal trading. SICA alliances in the cereal sector have been most noticeable with animal feed processors and for the export trade through the joint ownership of port silo facilities.

3.3.2 Co-operative Unions

In general all first and second level cereal co-operatives are members of at least one of the two major unions. Due to mergers, it is often the case that a co-operative is a member of both. The unions unite the co-operatives at a national level and serve two basic purposes. The first is to improve the economic bargaining position of the small and medium size co-operatives with the large industrial and commercial powers. In France, the cereal co-operatives are very unequal in size and certain regional co-operatives have similar bargaining powers to the union eg. *La Franciade* in the department of Loire et Cher. The second purpose is to supplement the activities of their members by involvement in projects which an individual co-operative alone could not or would not finance eg. research/plant breeding.

3.3.3 Union Nationale des Cooperatives de Cereales (UNCAC)

UNCAC is principally concerned with marketing of cereals to the domestic and export markets and providing secondary storage facilities. It has other interests in plant breeding, transport and engineering but these will not be described.

Four hundred out of 544 licenced co-operatives hold share capital in UNCAC, but this does not mean that each is necessarily an active participant. In fact only 150-200 co-operatives trade with UNCAC on a permanent basis. UNCAC created a subsidiary, CAFGRAIN to give it greater flexibility particularly when operating on the export market. CAFGRAIN is subject to company tax, unlike UNCAC but has the right to purchase from any source - private traders, exporters, non-member co-operatives. Through CAFGRAIN, UNCAC can trade in cereals buying and selling grain contracts on the string market⁽¹⁾ which enables UNCAC to offset

(1) See Debatisse, M L (1979). *Le commerce international des cereales*, Centre Francais du Commerce Exterior, Paris.

certain risks. In addition it can buy grain futures on the world grain markets, which it would not itself be permitted to do under co-operative law. In terms of the total quantity of cereals traded, UNCAC receives only one third from its member co-operatives, two thirds being purchased in the name of CAFGRAIN.

3.3.4 Cereal Marketing Activities of UNCAC

UNCAC buys grain from its member co-operatives either on a spot price basis or under a contract arrangement. Contracts are based on the premise that UNCAC will sell the grain in the best market (*pour rendre au mieux*) and payment is on account. The contracts are agreed at the start of the season and provide for co-operatives to supply UNCAC with 15 per cent of their cereal *collecte*, stating the month of delivery. Co-operatives can sell more than 15 per cent through UNCAC but they rarely choose to do so. Of the 150-200 co-operatives who sell grain through UNCAC each year, 80 per cent opt for this basis of payment. At the date of delivery the co-operatives suppliers receive the same base August price on account and receive a supplement when the cereals are sold.

UNCAC has a regional structure of August base prices (see 6.3.2) reflecting transport costs to the principal market outlets. Therefore all co-operatives in the same region, irrespective of size, receive the same August base price (monthly storage increments are added to the price, depending on the month of sale) and the excess on trading is distributed equally at the end of the year.

The spot price method of payment is used when there is no contract agreement or for quantities above the contracted amounts. This basis is used for cereal trading operations with third parties. Although UNCAC sells grain to domestic users it is chiefly concerned to strengthen the co-operative sector position on the export market. In 1980/81 UNCAC (plus CAFGRAIN) marketed 2.9 M tonnes of cereals of which roughly 2.6 M tonnes were exported. Around 60 per cent of the trade is within the EEC.

Most of the grain exported by sea is sold on an f.o.b. basis, but UNCAC is extending its experience of international grain trading practices through its new partnership with A C Toepfer International Ltd. Although UNCAC has exported to N African countries such as Algeria, Morocco and Egypt on a c.i.f. basis, the development of trade with Third countries is limited by the financial risks involved. In an effort to reduce risks in export trading UNCAC (and other organisations such as AGPB) have been presenting the case for fixed export refunds to certain countries as an alternative to the tender system. They have also been promoting the development of long term EEC export contracts as a method of improving the security of disposal of surplus production. If such contracts were arranged it seems likely that the co-operative sector in France will be in a favoured position for effecting the trade.

3.3.5 Cereal Storage Activities of UNCAC

UNCAC owns 600,000 tonnes of secondary storage facilities which are suitably located alongside rail and river networks or at port sites. These facilities are used by the cereal marketing branch of UNCAC but are also rented to co-operatives on a yearly basis. A storage subsidiary, MAGEFI enables UNCAC to rent its facilities to non-members.

3.3.6 Union Générale des Coopératives Agricoles Français (UGCAF)

Although titled a '**Union Générale**' UGCAF is principally involved in cereal storage and marketing. It does have subsidiaries operating in related fields but their activities will not be described in detail. These are UNISIGMA (plant breeding), UNISEMENCES (cereal testing) and SEM DIFFUSION (seed multiplication and distribution). 380 cereal co-operatives hold share capital with UGCAF although only 80-100 trade or use UGCAF's services to a significant extent.

3.3.7 Cereal Marketing Activities of UGCAF

In 1972 UGCAF established a society, UFC (**Union Français des Céréales**) with Louis Dreyfus Ltd (51 per cent UGCAF, 49 per cent Dreyfus) to enable it to develop its export marketing activities. The export marketing department of UGCAF was dissolved and in return Dreyfus accepted to buy French grain only through its UFC partnership. During the first three years UFC was the largest single exporter of French grain. In 1974, for example, UFC exported 2 M tonnes of cereals (accounting for 16 per cent of cereal exports). But by 1976 its exports had fallen to 0.9 M tonnes, falling behind UNCAC who exported 1.2 M tonnes.

In 1979 UFC was dissolved after accumulating heavy losses. The failure of UFC was basically due to the incompatibility between each partner's interests. UFC became a clearing house for co-operative stocks when more attractive outlets could not be found. Under the UFC agreement, Dreyfus was obliged to export grain offered by UGCAF's co-operatives and was therefore denied the flexibility to purchase grain when and where in France it considered appropriate. UGCAF no longer markets cereals on behalf of its members, but acts only as a broker arranging contracts between its members and buyers. It accordingly never takes physical possession of the grain but arranges sales contracts and, if required, transport to the point of sale. UGCAF operates through five regional offices (Paris, Nancy, Poitiers, Toulouse and Saint Quentin) and is the largest brokerage business. They have also created a subsidiary UGEGRAIN, which carries out the same operations but with non-members.

3.3.8 Grain Storage Activities of UGCAF

UGCAF owns 400,000 t of secondary storage facilities which it rents to members, or if not required by members, to other organisations through its subsidiary MAGEPAG. 80,000 tonnes of storage capacity is under contract to ONIC for intervention purposes. The major problem for UGCAF is its lack of storage capacity in port silo facilities since a large proportion of its stores were sold to cover debts from the UFC failure. It is currently negotiating to obtain a share-holding in certain existing port silos.

3.4 Le Crédit Agricole Mutuel and the Caisse Nationale de Crédit Agricole

The **Crédit Agricole Mutuel (CAM)** is a mutual co-operative credit organisation created in 1894. It began with farmers depositing money in a local fund which was used for financing the agricultural investments of the contributors.

In 1899, to give members greater access to funds and longer term security, the local credit co-operatives regrouped at a regional level. This local and regional relationship still exists, the local branches (**caisse locales**) are local groupings of shareholders, while the regional branches are actual offices which now provide general banking services and to which shareholders refer when they wish to borrow money. The shareholders of CAM (**sociétaires** - co-operative shares are not transferable on the stock exchange) are now not only farmers, but include farm workers, rural property owners, certain professions such as vets, doctors, rural craftsmen and agricultural groups, syndicates, associates, co-operatives, SICA's. It also provides banking services to non-members.

The connection between the **Crédit Agricole Mutuel** and the **Caisse Nationale de Crédit Agricole (CNCA)** stems back to the period after the 1914-18 war. French agriculture was in a very underdeveloped and depressed state and the Government decided to channel resources into the sector through subsidies and loans at low interest rates. The Government created CNCA, which was governed by the Ministries of Finance and Agriculture and through which public funds were directed for approved agricultural investment projects. The existing structure of CAM was used for distributing Government funds held by the CNCA to the regions. There were other agricultural credit co-operatives in existence but CAM was the sole credit co-operative which could distribute Government funds through the mechanism of the CNCA. Hence the explanation for Credit Agricole as the most important source of credit to the agricultural sector in France.

3.4.1 Provision of Credit

The local branches are agencies through which producers deposit money and thereby become shareholders. Shareholders, wishing to obtain an investment loan go directly to the regional branches which carry out a financial and technical analysis of the proposed investment plan. The project must in addition be approved by the CNCA before the regional officers can effect a loan. State funds from the agriculture budget refund the difference between the subsidised and market rates to the CNCA.

3.4.2 Interest Rates on Agricultural Sector Loans

Prior to 1981, when the socialist Government changed the status of the CNCA, the bank did not pay tax on its profits. This placed the CNCA in a favourable position and its interest rates were in general slightly lower than those charged by other banks. In this sense all CNCA loans were subsidised but with taxation of profits this arrangement no longer exists. The important distinction now is between finance at the normal level of interest and specially subsidised credit.

There is no UK overdraft equivalent and the nearest arrangement is a short term loan (under two years). Interest on these loans is in general not subsidised. Cereal producers are unlikely to receive subsidised interest rates for the finance of working capital and machinery replacement. Nor can they finance storage investment at a subsidised rate because such projects do not fall with the Government plan for storage development. Over recent years most subsidised loans have been given to young farmers for land purchases or modernisation and to livestock breeding projects.

In the cereal sector, investment projects which increase or modernise collector's or secondary co-operative's cereal storage capacity qualify for subsidised loans (see 5.4). The rate charged varies depending on type of storage and status of the borrower - at a minimum this is 9 per cent. In addition SOFIPAR (**Société de Finance et de Participation**) a subsidiary of the CNCA can also provide medium and long term credit to cereal storage projects through loans or share participation.

The other main contribution of CNCA to the cereal sector is the financing the co-operatives' grain stocks (see 3.2.6) at subsidised rates of interest. Private traders cannot bank with Credit Agricole. The consequence is an interest rate 2.5-3 per cent higher because of higher commission charges and the financing of an insurance guarantee for the credit.

3.5 Association Generale de Producteurs de Ble et Autre Cereales (AGPB)

In France in addition to the general farmers union, FNSEA (**Federation National des Syndicats d'Exploitants Agricole**) and the union of young farmers CNJA (**Centre National des Jeunes Agriculteurs**) there are unions representing producer groups. In the cereal sector there is the AGPB which represent producers of all cereals except maize, these being represented by AGPM.

The AGPB was created in 1924 when a small group of farmers united to protest against low wheat prices caused by American grain. They demanded stable and 'satisfactory' returns to producers, tariffs on imports and encouragement for producer co-operatives in order to increase producer strength in the market.

In addition to representing the cereal producers in public they set up an information service in order to keep producers informed on the market situation and outlook. The AGPB were actively involved in the discussion which gave rise to the establishment of ONIB and successfully achieved a privileged role for the co-operatives. Today the AGPB is a formalised association funded entirely from annual contributions of its farmer members, at a rate of 0.40 FF/tonne of cereals sold.

The principal activities of the AGPB can be classified into three groups as follows:

- (i) The protection of returns to cereal producers, through representation both at a national and Community level. The AGPB is a member of COPA (**Comite des Organisations Professionnelles Agricoles**).
- (ii) Technical development in cereal production
In this area the AGPB has put particular emphasis on the quality aspect of cereals. In the 1950s they ran a series of publicity campaigns aimed at producers and collectors to encourage the separation of cereal varieties into quality categories required by the grain-using industries. The AGPB in return negotiated a premium with the grain-using industries (particularly millers) for homogeneous lots of high quality breadmaking wheat. The creation of ICTF (**Institut Technique des Céréales et des Fourrages**) by the AGPB and the co-operative sector was a further attempt to develop the quality potential of French grains. The ICTF is an applied research institute which receives funds from the taxes levied on cereal producers (**Taxe statistique and Taxe FNDA**). Each year the ICTF carries out a quality survey jointly with ONIC and SCEES from which a publication giving the varietal and regional quality characteristics is produced.
- (iii) The Development of Market Outlets for Cereals
The AGPB participates in the commercialisation of cereals through its shareholding in UNIGRAINS (see 3.6), a financial organisation which provides investment funds for the cereal and related sectors.

It is difficult in a brief description of AGPB activities to convey the extent to which this union appears to have become both a powerful political lobby for cereal producers and a pervasive influence in the technical and economic development of the industry. Several aspects seem relevant here. Because the AGPB is confined to producers of cereals it suffers less from internal conflicts of interest than would be the case with a union covering different types of producer. Its director is also a director of ICTF and UNIGRAINS, and AGPB is represented on the Council of ONIC. This gives AGPB a comprehensive technical and financial coverage of the industry. In addition there is commonly a remarkable overall unity of direction aimed at furthering collective producer interests through the AGPB, the co-operative movement, ONIC and the Ministry of Agriculture. The extent of AGPB involvement with Government bodies places AGPB in a powerful position at both national and Community level.

3.6 UNIGRAINS

This is the popular acronym for **Union Financiere pour le Développement de l'Economie Céréalière et le Fonds de Solidarité Céréaliculteurs et des Éleveurs**. It was originally established as a financial organisation providing funds solely to cereal sector industries. However in 1970 a reconstitution took place aimed at developing the longer term interests of cereal production by the encouragement of co-operation ('solidarity')

between cereal and livestock producers - hence the solidarity fund FSCE. UNIGRAINS was created in 1963 by UNICEREALES and a group of 23 Paris banks. UNICEREALES groups together certain national cereal professions including the AGPB, AGPM, the national cereal unions UNCAC and UGCAF, the **Fédération National du Commerce des Grains** and the CNCA. UNICEREALES controls 51 per cent of the capital of UNIGRAINS and the banks 49 per cent.

The authorisation of funds for investment projects and general policy decisions are made by an Administrative Council which is composed of certain national banks and national professions in the cereal sector. ONIC is represented on this council. In contrast the financial committee of the FSCE which selects particular investment projects for presentation to the Administrative Council has a majority representation from livestock as opposed to cereal producers. Other members of this committee include representatives from the co-operative credit banks, the National Young Farmers Union (CNJA), and government representatives from the Ministries of Economy, Agriculture and the Budget.

3.6.1 Fonds de Solidarité Céréaliculteurs et des Eleveurs (FSCE)

UNIGRAINS receives its funds from the **taxe statistique** levied on cereal producers. In 1980/81 this gave an income of 165M FF. Each year 100M FF from this income is added to the solidarity fund (FSCE) for effecting loans to the cereal and livestock sectors.

UNIGRAINS can provide interest bearing loans but more commonly its finance is provided in the form of share capital at a level sufficient to influence company decisions but not amounting to a majority holding. The proportion of share capital subscribed by UNIGRAINS varies between projects but does not exceed one third. In certain cases where projects have run into financial difficulty UNIGRAINS has taken over a majority shareholding. UNIGRAINS principally lends to the co-operative and SICA sector and repayment of loans is usually by the buying back of UNIGRAINS shares over 7-10 years. 35 per cent of the FSCE fund is directed towards investment projects of direct relevance to the cereal sector, such as the development of storage facilities and modernisation within the cereal-using industries. In the 1980/81 season FSCE took part in storage investments totalling 213 M FF representing a storage capacity of 395,000 tonnes. At the export level UNIGRAINS gave support to UNCAC enabling it to form a partnership with A C Toepfer International Ltd., so that the cereal co-operative sector can extend its marketing activities in to the export market. UNIGRAINS is not a source of finance for producers; its activities are directed at other points in the marketing chain and principally the processing industries (eg. millers).

Livestock producers and producer groups receive 25 per cent of the FSCE funds for improving the efficiency of livestock production units. It is argued that this development of the cereal-using livestock sector is of indirect benefit to cereal producers. The livestock marketing and processing organisations receive 45 per cent of the FSCE funds for projects⁽¹⁾ which

(1) The activities of UNIGRAINS in the livestock sector are described in "Bullen A M and Pickard D H (1979). Livestock Marketing Systems in EEC Countries - France, Wye College.

will "encourage longer term structural development in the industry and provide stable market outlets to livestock producers." Although cereal producers continue to protest against the unequal allocations of the FSCE funds in favour of the livestock sector the proportion of the fund entering the cereal sector has increased over the last decade.

3.6.2 Fonds de Garantie à l'Exportation

Created in 1964 this export guarantee fund is much smaller than the FSCE and does not benefit from an annual injection from the **taxe statistique** income. The fund is roughly 75-80 M FF and increases only through accumulated interest. It is a fund used to finance exporters (private and co-operative), on sales of grain to countries requiring credit and can act as a guarantor when there is the risk of non-payment. UNIGRAINS has no formalised plan concerning its export guarantee activities. At present it offers its services to exporters trading with Poland, supplementing the aid already been given by COFACE.

4.

MARKETING TO COLLECTORS4.1 Procurement of Cereals by Collectors

Since 1936 the sale of cereals off farms can only be made to approved licenced buyers known as **collecteurs agréés**. The status of being a **collecteur agréé** (collector) is granted by ONIC after certain conditions have been satisfied (see 3.2.5). Collectors, can be classified into three groups: co-operative organisations, private grain traders and industrial users of cereals. In addition a small amount is collected directly off-farms by exporters.

The majority of the cereal **collecte** is procured by co-operatives and private traders. Their numbers have fallen on account of numerous mergers among co-operatives and a trend towards greater concentration in the private sector (Table 4.1). The balance in number between co-operatives and private traders has, however, remained fairly stable over time.

Table 4.1 Numbers of Co-operatives and Private Traders Licenced as Collectors

	<u>1970/71</u>	<u>1972/73</u>	<u>1974/75</u>	<u>1978/79</u>	<u>1979/80</u>
Co-operatives	667	621	592	556	565
Private Traders	1,881	1,808	1,707	1,511	1,484

Source: ONIC.

Table 4.2 shows the importance of each category of collector in terms of the percentage of the **collecte** handled. Co-operatives have continued to enjoy a dominant position in the collection of all cereals, particularly in the case of soft wheat. In the 1980/81 season, they collected 72 per cent of the wheat marketed 69 per cent of the barley and 60 per cent of the maize.

Table 4.2 Percentage of the Marketed Output of Wheat, Barley and Maize Handled by Type of Collector

	Wheat			Barley			All Cereals (except rice)		
	Co-op %	P.T. %	I.U. %	Co-op %	P.T. %	I.U. %	Co-op %	P.T. %	I.U. %
1973/74	72.0	24.7	3.3	67.1	29.2	3.7	67.7	29.0	3.3
1974/75	72.1	24.7	3.1	67.7	28.2	4.1	68.5	28.2	3.3
1975/76	71.8	24.5	3.6	67.3	27.3	4.8	67.4	28.7	3.9
1976/77	70.5	25.3	4.2	66.9	28.4	4.8	67.0	28.8	4.2
1977/78	71.0	25.6	3.3	66.9	29.8	3.2	67.3	29.4	3.2
1978/79	70.7	25.5	3.8	67.6	28.7	3.7	67.2	29.0	3.7
1979/80	71.0	25.2	3.7	67.9	28.5	3.6	64.7	32.2	3.1
1980/81	71.7	24.9	3.4	68.9	28.2	2.9	68.4	28.4	3.2

Source: ONIC Co-op = Co-operative
P.T. = Private Trader
I.U. = Industrial User

The gains and losses in terms of market share held by each type of collector vary slightly from one year to the next. In general after a good harvest, when there is an increase in the proportion of the crop that is marketed, the increase is taken up by the co-operative sector which is obliged to accept all grain offered to it. Conversely in a poor crop year when prices tend to be firm, farmers market a larger proportion of their crop through private traders who compete more actively for supplies.

4.1 Regional Differences

The importance of each type of collector also varies regionally. Co-operatives dominate the **collecte** in all regions except Limousin and Alsace where direct purchase of cereals by cereal processors is relatively important (Table 4.3). The co-operatives' strength is particularly noticeable in the major cereal plains of the Paris Basin where over 75 per cent of the crop is marketed.

Table 4.3 Importance of Co-operatives in the Regional Collecte of All Cereals

Proportion of the Regional Collecte handled by Co-operatives				
Less than 45%	45-60%	60-70%	70-80%	Greater than 80%
Limousin Alsace	Aquitaine Auvergne	Rhone-Alpes Centre	Bourgogne Provence-Côte d'Azur	Picardie Champagne
Wheat	Franche-Comte Nord Pays-de Loire Midi-Pyrenees Bretagne	Poitou- Charente	Lorraine Reg. Paris Haute-Normandie Basse-Normandie Languedoc	
Limousin Alsace	Aquitaine Auvergne	Centre Reg. Paris	Bourgogne Provence-Côte d'Azur	
Barley	France-Comte Nord Rhone-Alpes Pays-de-Loire Midi-Pyrenees	Poitou- Charente Basse-Normandie Bretagne	Lorraine Haute-Normandie Languedoc Picardie Champagne	

Source: ONIC. Enquête Economique et Financière sur les Organismes de Collecte 1978/79.

The percentage of cereals marketed in relation to production varies considerably from one region to another. In the livestock areas, an appreciable share of the crop is used on the farm; this contrasts with the predominantly arable areas where little of the output is retained. For all cereals the percentage marketed is generally as follows:-

- Under 25 per cent of the crop in Brittany.
- Between 25 and 50 per cent of the crop in the Auvergne region.
- Between 50 and 75 per cent of the crop in Aquitaine, Burgundy, Rhone/Alpes, Lorraine, Loire, Normandy, Poitou-Charente and the Midi-Pyrenees-Languedoc regions.
- Over 75 per cent of the crop in the Picardie, Champagne, Nord, Cote d'Azur, Centre and Paris regions.

4.2 Cereal Marketing in the Centre Region

4.2.1 Introduction

The method of sale and payment for cereals between producer and collector varies greatly throughout France. The type of selling method available to a producer depends firstly on the timing of sale within the year, which is itself affected by the availability or otherwise of storage capacity, and, secondly, on the types of collector operating in the region.

In order to obtain information on the marketing of grain from producers to collectors, interviews were held with several co-operatives, private traders and farmers operating in the Centre region and particularly the department of Eure et Loire. In the Eure et Loire there are 15 co-operative organisations and 15 private merchants, but of these, two co-operatives and one private trader dominate the *collecte*, handling 65 per cent of the marketed output of all cereals and over 80 per cent of the wheat.

The limitation imposed by time and the geographic size of France prevented a more comprehensive regional coverage. However, it was suggested by less detailed investigation elsewhere that the insight gained into cereal marketing operations in the Centre region gave a good indication of producer/collector relationships throughout France.

4.2.2 Cereal Production in the departement Eure et Loire

The Eure et Loire is the leading department in the production and marketing of cereals in France.⁽¹⁾ This is a highly specialist cereal region where 76 per cent of the agricultural land is devoted to cereal production. Wheat is the major cereal crop accounting for 65 per cent of the total cereal area in the 1980/81 season, with maize and barley occupying 16 per cent and 13 per cent respectively. The region is predominantly arable with crops such as sugar beet, peas and rape providing the rotational break from cereals. The livestock population has continued to fall over the last decade, at the same time becoming more concentrated in the western half of the department. Cereal utilisation on-farm is correspondingly low and 80 per cent of production is marketed.

Eure et Loire is a department of large farms, averaging 53.8 ha, as compared with a national average of 23.4 ha. On the cereal plains of the Beauce, the average farm size is 70 ha with 15 per cent of all farms being greater than 100 ha. A further characteristic feature of the department is the large capacity of storage available on-farm. As a percentage of total cereal production, producers have available storage capacity for 68 per cent of the cereal crop as compared within national figure of 32 per cent.

(1) 1980/81 Crop Production Estimates, Recensement Général de l'Agriculture 1979/80, Ministry of Agriculture SCEES/INSEE.

Table 4.4 Availability of Storage Capacity at the Farm Level as Compared to Collectors' Capacity in the Eure et Loire 1980/81

<u>Storage Capacity</u> (all cereals)	<u>At the Farm Level</u> (tonnes)	<u>By Collectors</u> (tonnes)
Silo Storage	890,000	996,700
Floor Storage	480,000	16,200
TOTAL CAPACITY (does not include maize cribs)	1,370,000	1,002,900

Source: ONIC, Region Centre.

Cereal storage at the farm level has never been encouraged in France. Moreover the national policy has favoured the development of a centralised storage system under the control of licensed collectors. Since the creation of ONIB in 1936 successive Governments have given financial aid for the construction of storage capacity to be carried out by these collecting organisations. Therefore it is somewhat surprising to find a department in France where collectors' storage capacity in 1980/81 was only 74 per cent of that available at the farm level (Table 4.4). Storage facilities at the farm level are however, technically inferior to those of the collectors. 35 per cent of the total capacity at the farm is in the form of floor storage as compared to 2 per cent of the collectors' capacity. Although floor storage is less suitable for storing grain over long periods, the on-farm storage capacity available enables producers to store more than two thirds of the cereal crop and permits a more even flow of grain off-farms throughout the season. This is clearly depicted in Figures 4.1 and 4.2 where the monthly sales of wheat and barley off-farms in the Eure et Loire are compared with the national monthly flow of cereal marketing. Only 36 per cent of the wheat crop was sold off-farms during the first three months of the 1979/80 season, as compared to 68 per cent of the national wheat crop. Barley in general leaves the farm more rapidly because there is a preference for storage of the higher value wheat crop. Nevertheless, only 53 per cent of the barley crop was marketed in the Eure et Loire by the 1st November (Figure 4.2) as compared to 78 per cent of the national barley crop.

Figure 4.1 Flow of Wheat Sales Off-farms in the 1979/80 Season

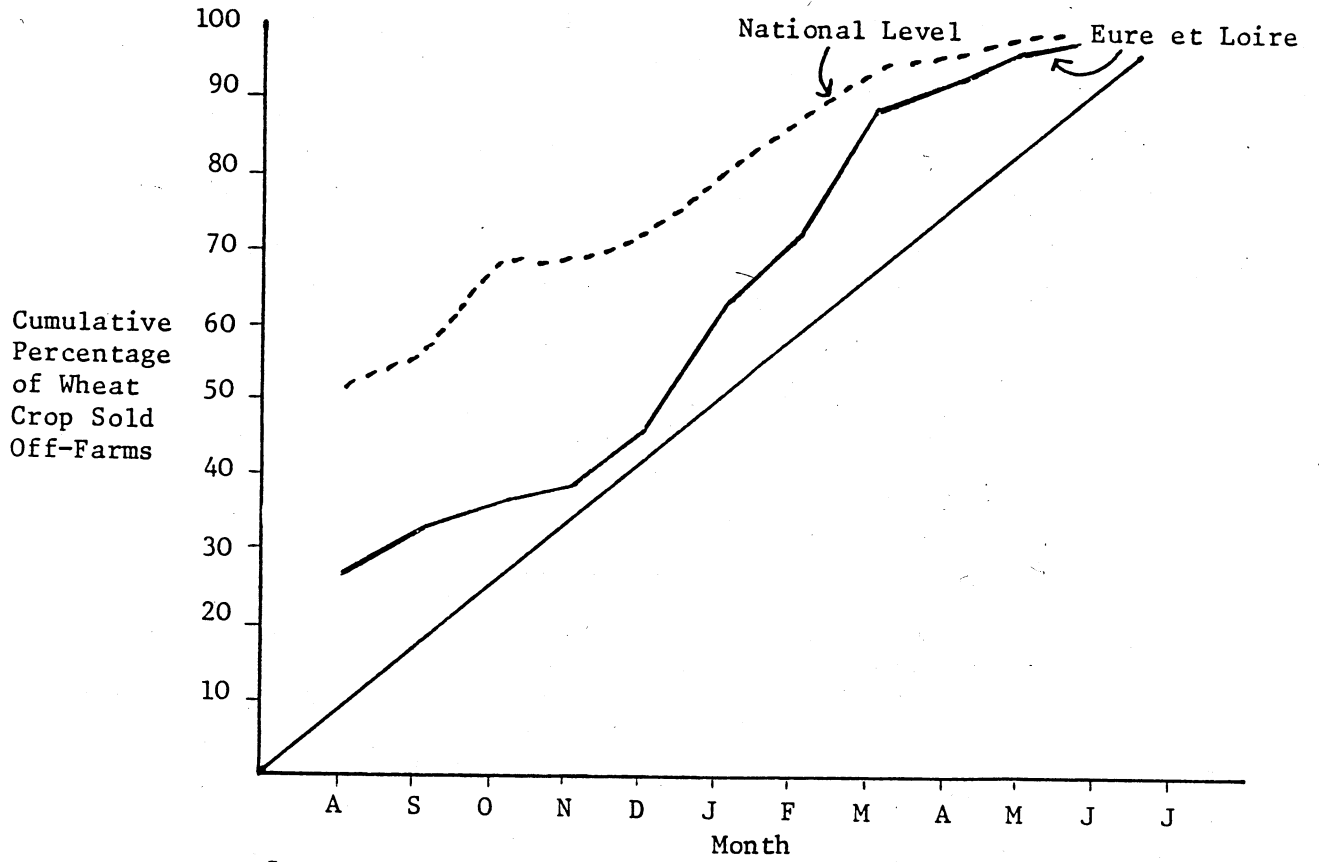
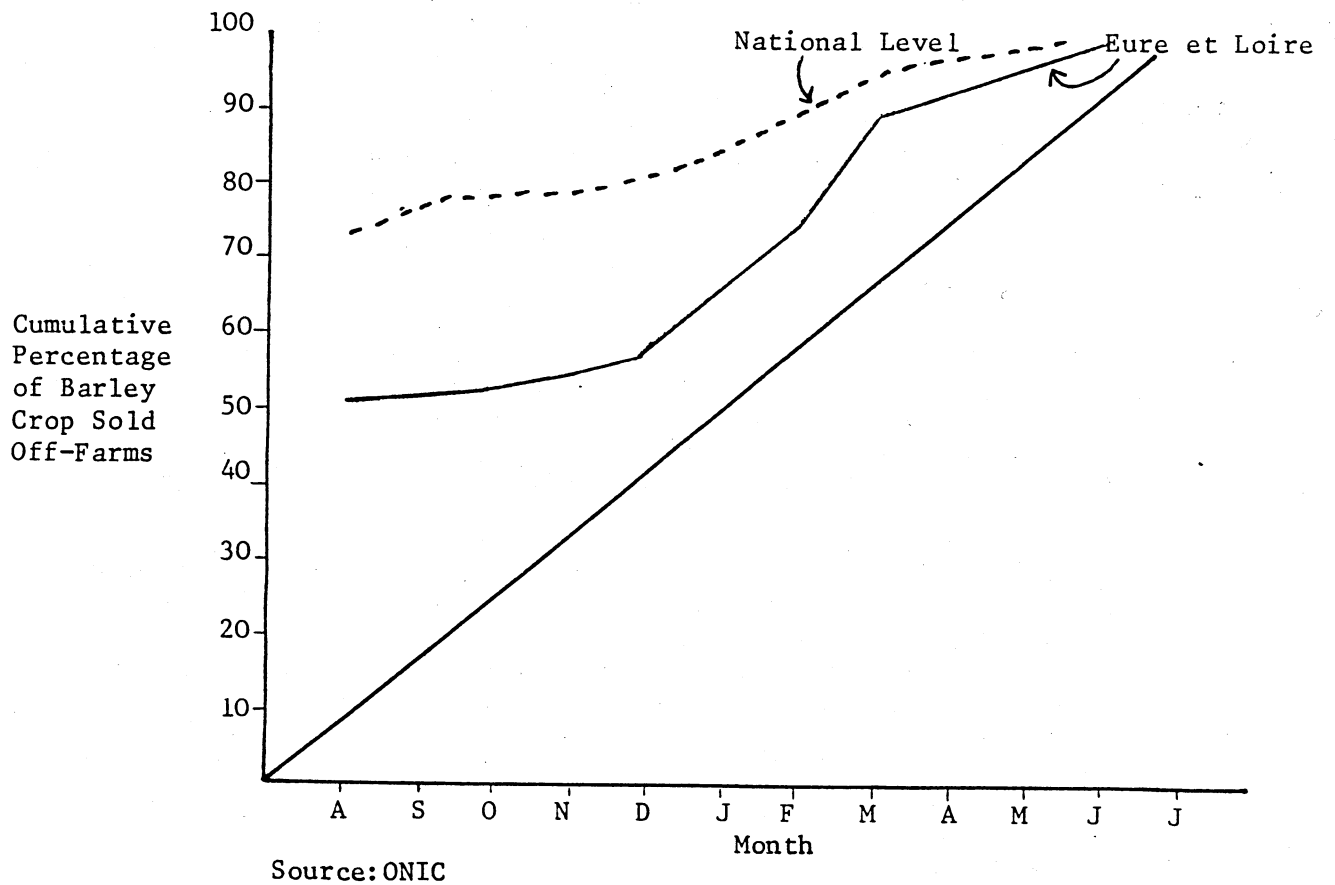


Figure 4.2 Flow of Barley Sales Off-farms in the 1979/80 Season



Whilst the type and extent of on-farm storage capacity clearly influences the timing of sales off-farms, several other factors affect marketing decisions. They can be considered as either financial or physical.

a) Financial Factors

Farmers may during the year have cash requirements which dictate the timing of sales. Where such cash flow effects are not present the relationship between market prices (spot and forward) and storage costs may be expected to have a strong influence on cereal marketing. Producers would store if they anticipated a price rise more than sufficient to cover the storage costs, which consist principally of interest on capital.

In addition, there are fiscal reasons which may favour storage until January. Income tax levied on farmers in France can be on one of two bases; Real Income (*le revenu réel*) or Assessed Income (*au forfait*). Most farmers opt for the assessed income method since they are not obliged to keep detailed accounts. But large farming enterprises are obliged to use a real income basis and with this method a delay in the sale of grain beyond January can have tax advantages.

b) Physical Factors

Delivery of a large part of the harvest direct to the collector's store is not practicable in this region because of the distances involved and the interruption this would cause in the large scale harvesting operations. It is more convenient to store on-farm and market at a later date. In addition, August to December is a peak work period for farmers in the region and the maize and sugar beet harvests follow the wheat crop and these together with sowing of the winter crops give little time for cereal marketing until the following year.

4.2.4 Marketing Alternatives for Producers

Since the Centre region is predominantly an arable region the majority of cereals produced are sold off the farms, passing through the official marketing channels. Table 4.5 shows the apportionment of the *collecte* by category of collector for major cereals marketed in the Centre region during the 1979/80 season.

The greater part of the marketed output is sold to co-operative organisations and private traders with only negligible amounts sold direct to industrial users. The collectors' respective share in the market is relatively stable, with 67 per cent of the collect going through the co-operatives and 31 per cent through the private traders. Producers sell on average two thirds of their cereals to their co-operative and the remainder to private traders, only 40-50 per cent of producers selling totally to a single collector.

Table 4.5 Proportion of Collecte Handling by Different Organisations (%)

<u>Type of Cereal</u>	<u>Co-operatives</u>	<u>Private Traders</u>	<u>Industrial Users</u>
Soft Wheat	69.6	28.3	32.1
Hard Wheat	54.5	45.5	0.0
Barley	62.3	31.6	6.1
Total Cereals	66.7	30.7	2.6
Comparison with 1978/79	66.6	31.1	2.3

Source: ONIC Region Centre 1979-80.

Industrial users tend to buy only from farmers who can provide grain in minimum lots of 20 tonnes of the same quality and the final price is usually 30-40 FF/tonne above that paid by other collectors. This sales outlet is only available for farmers who have the equipment for loading lorries quickly. The price paid is usually an ex-farm spot price rather than a delivered store, but heavy deductions are made to this for delays during the loading operations.

4.3 Pricing Arrangements

There are basically two methods by which a producer can sell grain, although several variations on these exist.

- i) Sale on a spot market basis where the price received is the, going market price at the date of delivery to the collector's store.
- ii) Payment on account for the cereals delivered to the collector's store with an additional payment (supplement) at a future date.

The practice of selling cereals on account (*la compte*) is particularly common for sales around the harvest period. All co-operatives and some private traders provide this facility, but their methods of calculating the supplement differ. The principle behind the account method is to give the same price to all producers delivering immediately after harvest. This is achieved by giving the same payment on account. The basis for this payment is usually 90-95 per cent of the intervention price at the start of the new crop year, plus an additional supplement, paid later, which is the average spot market price throughout the harvest period less the initial basis. The time period considered as the harvest period varied between collectors ranging from one to three months. Collectors who average prices over greater than a 6 week period add a storage payment on to the initial basis for those farmers delivering at the end of September and October. The storage payment used by all collectors was equal to the monthly support price increment.⁽¹⁾ An example of 'on account' trading from the 1981 harvest is given overleaf.

(1) The monthly increase in the intervention and reference prices.

August 1981 reference price for soft wheat	= 1108.17 FF/tonne
On account base price in August (95 per cent of reference price)	= 1052.76 FF/tonne
Monthly storage increment	= 13.43 FF/tonne
Average market price over 3 months (basis August)	= 1132.43 FF/tonne

(All prices quoted, unless stated to the contrary, are August base prices ie. they do not include monthly increments.)

In this example therefore, a producer delivering in August would receive 1052.76 FF/tonne on account and a supplement of 79.67 FF/tonne in November (1132.43 - 1052.76). Producers delivering in October would receive the August basis on account (1052.76 FF/tonne) plus 2 monthly increments (26.86 FF/tonne) plus a supplement of 79.67 FF/tonne in November.

The payment on account is only used by private traders during the harvest period and is a method much more favoured by the co-operative organisations (see 4.3.1). Most co-operatives continue to use the on account purchasing method throughout the season, but usually give the option to their members of selling on a spot market basis. One large co-operative did not purchase any grain on a spot market basis but provided a more speculative on account method although only 5 per cent of their members opted for this form of contract each year.

4.3.1 Reasons for Payment On Account

The on account contract is not specific to co-operatives within the Centre Region. It is a method commonly used throughout France. The reasons for its favour amongst co-operatives relate to two basic principles. Firstly, they exist to trade on behalf of their members rather than be motivated by private gain and secondly they are obliged to accept any quantity of grain offered by members at any time. Consequently co-operatives often find themselves in an exposed position where they are 'long in grain.' ie. their purchases exceed the quantities contracted for sale. Two further factors aggravate this situation. ONIC regulations stipulate that producers must receive payment for their grain within 10-12 days of the date of its delivery into the collector's store. In addition, the fact that there is not a futures market in France means that a co-operative cannot offset the physical long risk position by going short on the futures market. Therefore the co-operative hopes that it can sell its stocks at a price sufficient to cover the purchase price plus a margin to cover operational costs (storage, financing of stocks, handling charges).

There are, however, four other aspects of the on account system which should be noted.

- i) The initial account paid to producers at the time of delivery is an underestimate of the market price. As earlier explained the basis is usually 90-95 per cent of the reference or intervention price; therefore, at the most, the co-operative can always sell into intervention and cover the price paid for the grain. The payment of the

supplement means that the co-operative can pay a final price to the producer which is indicative of the market situation and at the same time reduce the buyer's risk of being in a long position. Since the basis price is a function of the intervention price which each month increases by a storage factor, the final price paid to farmers opting to sell on account tends to be above the market price offered at the time of sale because by averaging over future prices the producer will be paid an extra storage premium.

- (ii) Prices received on the account method fluctuate less over the season than spot market prices, since by their very nature they are an average of spot market prices. Producers therefore reduce their price risk since they will neither receive the lowest nor the highest prices registered on the spot market.
- (iii) The levelling out of prices leads to a more regular flow of deliveries to the collector's store. Producers become less inclined to sell according to changes in the spot market since price variations are averaged away. The method is particularly favoured by co-operatively-minded producers because a fixed basis treats all members equally irrespective of the quantities they deliver to the store.
- (iv) With the payment on account method, co-operatives can conceal the final price they pay for their grain. Therefore competitors are less able to compete for customers on a price basis because producers do not know what final price they will receive and are less able to compare prices between different collectors.

4.3.2 Delivery Contracts

In certain cases where a producer sells grain on account outside from the harvest period, there is an obligation to make a delivery contract with the collecting organisation. In this contract the producer is asked to state approximately the quantities of grain to be delivered in each month of the year. This is in no way binding on the producer but it gives an indication of future deliveries for the collector so that sales can be planned. Even when the producer deviates from the original sales plan, the co-operatives tend to accept the grain rather than run the risk of losing a member. Of the co-operatives interviewed, none relied heavily on such contracts. The general opinion was that delivery contracts were not worth operating since a farmer could not be held to the contract for the reasons already stated. Those that still operated them found that they were only useful for giving indications as to the total quantity of deliveries to the store rather than their timing in the year. Past experience and keeping in close contact with producers are the principal ways in which a co-operative can assess the flow of future deliveries.

4.3.3 Other Aspects of Sale to Collectors

The on account and spot market price methods of payment account for 75 per cent and 15 per cent respectively of grain sales

between producers and collectors in the Centre region. Under both these methods the farmer receives payment for grain within 10-12 days after delivery to the collector's store. It is this fact which distinguishes these two practices from all other methods of sale which are described below.

i) Delayed Payment Methods

a) Mise en Dépôt or Storage/sale Contracts

In the Eure et Loire where storage capacity on farms is important and sales of grain off farms is more evenly distributed throughout the year, most collectors provide the facility for producers to rent storage capacity and then sell at a later date. A storage charge is levied - typically half the monthly intervention increment. The producer either takes the decision when to sell or leaves this to the discretion of the collector. Although most collectors are willing to provide this facility, only 5 per cent of cereals collected in the department are marketed in this way.

b) Delayed Payment for Fiscal Reasons

In certain cases payment for cereals, at the request of producers is delayed until the next financial year which begins in January. This enables producers to delay payment of taxes on their cereal revenue until the following year. This arrangement is provided by private traders but accounts for only 1-2 per cent of the total collecte since its legality is suspect.

ii) Co-operative Bonus

Under co-operative law any surplus on trading operations must be re-distributed amongst members in relation to their trading activities with the co-operative. In the case of cereals, where the co-operative has over-estimated the operating costs a refund is paid to producers at the end of the year in relation to the cereal tonnage sold regardless of the contract arrangement used. This refund is therefore an additional item to be considered when assessing the prices received by producers for their cereals. The return to a producer selling to a co-operative on account is thus the August base price plus the storage increment plus the refund (ristourne).

iii) Fidelity Premiums

Certain co-operatives and private trades pay a price premium of around 10 FF per tonne to those producers who have sold their entire crop through them. At the end of each marketing year ONIC issues an attestation to all producers showing the quantity of cereals they have sold during the year. It is this document that enables collectors to effectively operate a fidelity premium scheme.

One co-operative which has operated a fidelity premium scheme for the last 15 years, stated that 80 per cent of their members now deliver their entire crop to them. One private trader interviewed, paid a premium to producers

in arrears. In this case producers were not only encouraged to deliver all their cereals but also obliged to continue trading with him if they wished to receive their fidelity dues from the previous season.

4.4 Cereal Taxes

In France cereal producers and users are taxed directly. This is of some interest not only because of the relatively high rate of taxation (eg. a minimum of 42.5 FF/tonne⁽¹⁾ soft wheat or barley produced in 1981/82) but also because of the direction of tax revenue expenditure. Part of the tax revenue for example, is used to finance the activities of UNIGRAINS in the livestock sector.

The principal method of cereal tax collection is by the licenced collectors who make appropriate deductions from payments to producers. ONIC through their collector network thus act as collectors and inspectors of cereal taxes. This appears to be a most effective method of tax collection with evasion only taking place by unauthorised farm to farm sales. Grain used on-farm is not subject to tax.

Four taxes are levied on producers, as follows:-

- i) **Taxe statistique**, created in 1950.
- ii) **Fond National de Développement Agricole (FNDA)** created in 1975.
- iii) **Taxe Sociale de Solidarite**, created in 1971 and also known as **taxe CCSMA** or **tax BAPSA**.
- iv) **Cotisation de Solidarité** or **FAR**, created in 1969.

The first three taxes are parafiscal, and to a great extent the revenue from these taxes is diverted back into the cereal sector. The fourth tax, FAR is purely fiscal, the revenue goes directly into the general agricultural budget.

Details of the rates of tax levied on producers of barley and soft wheat are given in Table 4.6. Somewhat different rates apply to hard wheat and other cereals.

4.4.1 Taxe Statistique

In 1981/82 this tax is levied at 7.5 FF/tonne on soft wheat and barley plus additional rates for large scale producers (collecte exceeding 100 tonnes). The average **taxe statistique** over all cereal producers is expected to be 8.9 FF/tonne. Of this sum ONIC receive 4.3 FF/tonne (48.3%), UNIGRAINS 3.5 FF/tonne (39.3%) and ITCF 1.1 FF/tonne (12.7%).

4.4.2 Taxe FNDA

Table 4.6 shows the rates of FNDA tax over the 1980/81 and 1981/82 seasons. It is entirely allocated to l'**Association Nationale de Développement Agricole (l'ANDA)**, a body financed by taxes on producer output. The cereal sector contributes 67% of l'ANDA finance.

(1)Equivalent to £3.86/tonne at £1 = 11 FF.

The income of l'ANDA is directed into two main areas. These are:-

- i) applied agricultural research at a national level through direct contributions to the product research institutes (eg. ITCF).⁽¹⁾
- ii) the operation of the agricultural advisory services at a departmental level.

Table 4.6 Rates of Taxation on Producers of Soft Wheat and Barley (FF/tonne)

Year	TS	FNDA	TSS	CS	Total
1980/81	9.5	11.5	18.2	5.0	44.2
1981/82	7.5 ¹	10.2 ²	19.8	5.0	42.5

¹ An additional tax is levied at 2.5 FF/tonne for **collecte** exceeding 100 tonnes and 5.0 FF/tonne for **collecte** exceeding 300 tonnes.

² An additional tax is levied at 3.4 FF/tonne for **collecte** exceeding 100 tonnes and 6.7 FF/tonne for **collecte** exceeding 300 tonnes.

Note: TS : **Taxe de statistique**

FNDA : **Taxe destinee au Fonds National de Developpement Agricole**

TSS : **Taxe sociale de solidarite'**

CS : **Cotisation de solidarite**

4.3 Taxe Sociale de Solidarite

This tax, levied at a fixed rate on the **collecte** (Table 4.6) is often referred to by two alternative names - CCSMA and tax BAPSA. This reflects the fact that the tax revenue goes directly to a central agricultural social support fund, CCSMA (**Caisse Central de Secours Mutual Agricole**) which supplies in return BAPSA (ie. **Budget Annexe des Prestations Sociales Agricoles**). The CCSMA is responsible for social welfare issues in the agricultural sector eg. sickness benefits, old age pensions for agricultural workers.

In the 1980/81 season this tax accounted for 43 per cent of the total cereal tax revenue but accounted for only 2 per cent of the CCSMA funds. This tax is the most heavily criticised by the AGPB who wish to see a reform of the social security system which will progressively decrease the burden on cereal producers.

4.4.4 Cotisation de Solidarite

This is the only fiscal tax, its revenue supporting the **Fond Action Rurale (FAR)**. This fund finances rural development projects, for example, drainage schemes and rural electrification. Since its creation in 1969 the tax rate has been fixed at 5.0 FF/tonne and over time the burden to general producers has declined in real terms and as a proportion of the total tax payments.

(1) ITCF receives 14 per cent of the tax FNDA via l'ANDA.

4.4.5 Levy on Cereal Users

A flat rate tax of 3 FF/tonne is levied on the volume of wheat, barley and maize leaving the collectors' stores. The revenue enters BAPSA (See 4.4.3). It is refunded on grain exported from France and the revenue from BAPSA is used to finance security stocks of flour and Member State intervention costs.

5.

CEREAL STORAGE IN FRANCE5.1 Introduction

ONIC considers that storage plays a key role in French cereal marketing. For this reason all organisations who store cereals, regardless of their position in the marketing chain or the duration of storage are obliged to provide information on their storage capacity and level of stocks. This information enables ONIC to monitor the flow of grain and assess the sufficiency or deficiency of storage facilities in terms of both quality and quantity.

Each year ONIC carries out a survey of on-farm storage availability at 1 January. For all other forms of storage, surveys are carried out bi-annually, showing the situation as at 1 August and 1 February. ONIC classifies storage facilities on the basis of the type of storage operator at the time of the survey. Four types are identified. These are on-farm storage, storage operated by collectors, secondary storage⁽¹⁾ and industrial users'/processors' storage.

Table 5.1 Evaluation of Cereal Storage Capacity¹ in France

Marketing Year	Production (excl. rice) (M tonnes)	Marketed Output (M tonnes)	Farm Storage (M tonnes)	Collectors' Storage (M tonnes)	Secondary Storage (M tonnes)
1973/74	42.12	31.36	8.89	17.52	2.97
1974/75	40.62	30.17	9.48	19.01	2.97
1975/76	35.11	25.33	10.36	19.88	3.22
1976/77	31.96	23.66	10.61	20.16	3.45
1977/78	38.75	28.56	10.80	20.39	3.49
1978/79	44.87	33.34	10.80	20.44	3.49
1979/80	43.73	33.45	12.01	19.85	4.20
1980/81	47.32	36.61	13.16	20.55	4.16
1981/82	n.a.	n.a.	n.a.	21.35	4.23

Source: ONIC.

¹ Storage capacity excludes maize cribs.

Table 5.1 shows the extent of the different forms of storage in relation to total cereal production and marketed output (**collecte**). Storage owned by industrial users is relatively insignificant (2.3 M tonnes 1981/82) and therefore not included. It is clear that the principal source of storage is that operated by collectors. This has shown little growth since 1975/76, yet the **collecte** has increased very substantially. Secondary and on-farm storage have by contrast tended to keep pace with the expansion in production. The characteristics of the different storage categories are now discussed in turn.

(1) This category refers to those premises which do not receive grain directly from the farm but act as intermediary storage centres between collectors and consumers.

Table 5.1 shows the extent of the different forms of storage in relation to total cereal production and marketed output. Storage owned by industrial users is relatively insignificant (2.3 M tonnes 1981/82) and therefore not included. It is clear that the principal source of storage is that operated by collectors. This has shown little growth since 1975/76, yet the *collecte* has increased very substantially. Secondary and on-farm storage have by contrast tended to keep pace with the expansion in production. The characteristics of the different storage categories are now discussed in turn.

5.1.1 Farm Storage

In contrast to the situation in England and Wales where the on-farm storage capacity is calculated at 15.5 M tonnes for a production of around 19 M tonnes⁽¹⁾, on-farm storage in France can only handle 20-30 per cent of the cereal output (Table 5.1). Even then, a proportion of the on-farm storage included in the statistics is non-specialised, on-floor storage termed "*aire et planchers*" by ONIC. In the January 1981 survey, it was found that of the 13.2 M tonnes of on-farm storage capacity only 6.4 M tonnes was in ventilated silos (Table 5.2). Thus high quality on-farm facilities were only available for 14 per cent of the total cereal harvested.

Table 5.2 Farm Storage Capacity at 1 January 1981 in Terms of Method of Storage

<u>Type</u>	<u>Capacity</u> (<u>'000 t</u>)	<u>Per Cent</u>
Ventilated Silos	6,465	49
Non-Ventilated Silos	2,269	17
Ground Storage Capacity (<i>aire et planchers</i>)	4,424	34
Total Storage Capacity	13,158	100

Table 5.3 Changes in Cereal Storage, Co-operative and Private Sectors 1978-81

	<u>No. of Storage Centres</u>		<u>Total Storage Capacity</u> (<u>M tonnes</u>)		<u>Average Store Capacity</u> (<u>'000 tonnes</u>)	
	<u>1978</u>	<u>1981</u>	<u>1978</u>	<u>1981</u>	<u>1978</u>	<u>1981</u>
Co-operatives	4,790	4,630	14.8	15.1	3.09	3.26
Private Merchant	3,150	2,760	5.4	5.3	1.71	1.92
Total	7,940	7,390	20.2	20.4	2.54	2.76

Source: ONIC.

(1)MAFF estimates 1980/81 and 1981/82.

5.1.2 Collectors' Storage

Together, co-operatives and private grain merchants collect virtually all cereals sold off-farm. Not only do they dominate the *collecte* but in addition own or operate half of all the grain storage capacity. The rapid expansion of collectors' capacities in the 1971-75 period has since been followed by a much slower growth in storage investment. The number of storage centres has tended to decline consistently from 1964, the trend being for the development of larger, better equipped stores in response to the increased *collecte* rather than for the development of more storage centres. Private traders have shown a greater proportionate fall in the number of centres than occurred in their share of total capacity (Table 5.3). In the 1978-81 period the number of private storage centres fell by 12.4 per cent as compared with 3.3 per cent for the co-operatives. The expansion in co-operative capacity has occurred not only through new construction and the expansion of existing facilities but also by the takeover of private collectors' storage by co-operative SICA's. The relative expansion of the co-operatives undoubtedly reflects in part the preferential credit and subsidised interest facilities that are available in that sector. In addition the interest rate differential between co-operatives and private traders for the financing of stocks has a pervasive influence on their storage operations. The co-operatives with lower finance costs have become the long-term *stockeurs* whilst the private sector has tended towards a faster turnover of stocks because of their higher storage costs.⁽¹⁾

The importance of the export market as an outlet for French cereals has favoured the development of storage at sites which are linked to a rail or canal network, thus allowing cereals to be transported in bulk. The concentration of storage facilities at terminal points is limited by the need to remain at the service of producers. Therefore this trend has been most evident in regions where there is a rail or canal network and where farm storage is significant. The August 1981 storage survey showed that 19 per cent of all collectors' stores were linked to the rail network and 3.8 per cent to the inland waterway system. Co-operative stores appear to be better located geographically with respect to the benefits from lower cost transport methods. Twenty three per cent of co-operative stores are linked by rail s compared to only 12.7 per cent of private traders' stores. Similarly for transporting grain on the inland waterway system, 4.7 per cent of co-operative stores are constructed along rivers or canals as compared to 1.9 per cent of private collectors. Details of facilities for bulk handling and transport links are shown for both co-operatives and private merchants in Table 5.4.

(1) A point discussed in *Debatisse M L (1981)*.
EEC Organisation of the Cereals Market, Wye College, Kent.

Table 5.4 Characteristics of Collectors Storage Facilities with Respect to Bulk Handling and Transportation of Cereals

Facilities	Co-operative Organisations	Private Traders
Total Number of Centres	4,630	276
No. of centres Equipped for Handling Cereals in Bulk	4,393(95%)	2,370(86%)
Handling Capacity (tonnes/hour)	67	43
No. of Centres Linked by Rail	1,064(23%)	35(13%)
Those Equipped for Handling Complete Trains	188(4%)	59(2%)
Handling Capacity (tonnes/hour)	59	66
Number of Centres Linked by Water	218(4.7%)	52(1.9%)
Handling Capacity (tonnes/hour)	126	168
Handling Capacity for Transport by Lorry (tonnes/hour)	55	35

Source: ONIC.

5.1.3 Secondary Storage

Secondary stores are those which do not collect grain direct from the farm but receive their supplies from the collectors. These stores can be used as short term transit stores where the throughput may be as high as 20 rotations⁽¹⁾ per year. Alternatively, secondary storage may be used for long term storage such as that required for intervention.

Table 5.5 Evaluation of Secondary Storage Capacity 1979-1982

Marketing Year	Location of Silos			Total Secondary Storage Capacity (M tonnes)
	Inland Site ¹ (M tonnes)	Riverside (M tonnes)	Port (M tonnes)	
1979/80	1.65	1.86	0.69	4.20
1980/81	1.69	1.78	0.69	4.16
1981/82	1.72	1.46	1.06	4.23

Source: ONIC.

¹ Secondary storage facilities in zones of consumption or production.

NB a change in data collection procedures concerning secondary stores prevents a comparison of the importance of each category of secondary store before 1979/80.

(1) Rotation is a term used to describe the number of times a store is filled up during one year. The 'rotation factor' is the total quantity of grain throughput divided by the storage capacity.

Though secondary stores only account for 15 per cent of off-farm storage in France, they are important for their geographic location and their operational efficiency with regard to the rapid intake and forwarding of cereals. They are usually found in regions of intensive cereal production or at river or port outlets, although secondary stores do exist in certain important consuming regions. Of the 4.23 M tonnes of secondary storage available in August 1981, 1.72 M tonnes was located at inland sites, 1.46 M tonnes at riverside sites and 1.06 M tonnes at ports (Table 5.5). Storage capacity at these stores is usually above 12,000 tonnes and thus considerably greater than that is common for collectors' storage (on average 2,700 tonnes). Over 60 per cent of these stores are linked to the railway network and 50 per cent to the waterwork network. The overall capacity of these stores increased steadily throughout the 1970s (Table 5.1). Census figures show a fall of 30,000 tonnes between 1979 and 1980 but this was due to collectors renting storage space at secondary stores to cope with the 1979/80 record harvest.

Secondary stores are principally owned by the co-operative sector, either through unions of co-operatives (both at a regional and national level) or through SICA's where co-operatives and exporters operate together, co-operatives having the majority shareholding. Private ownership of secondary storage primarily occurs with port silo facilities eg. Lecureur, Soufflet at Rouen.

5.1.4 Industrial Users' and Processors' Storage

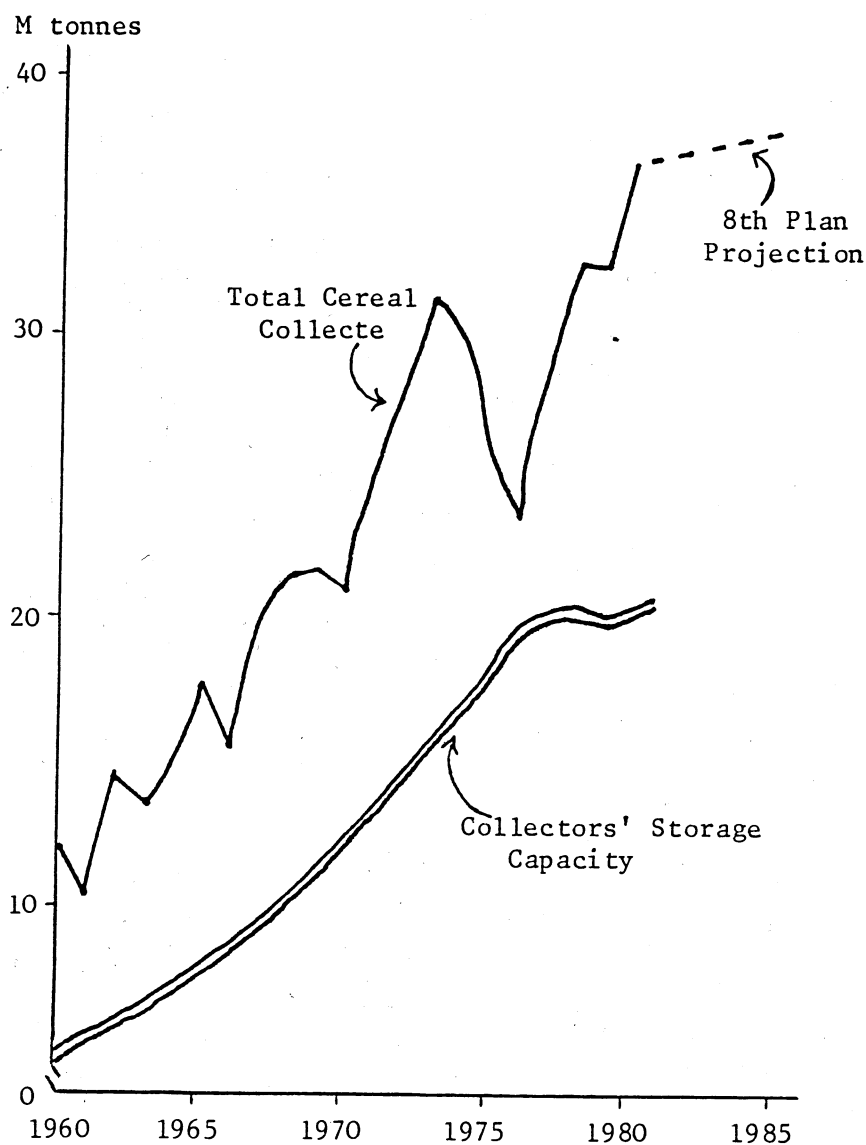
The storage capacity held by industrial users and processors of cereals, represents only a minor part of the overall grain storage capacity available off-farms. In 1981, 2.29 M tonnes or 8 per cent of storage capacity off-farms was registered as being under control of the French grain-using industries and this was primarily held by millers (1.13 M tonnes) and compound feed manufacturers (0.73 M tonnes).

5.2 The Requirement for Storage Capacity

The adequacy of collectors' stores in handling the cereal *collecte* is a key issue in the maintenance of a stable cereal market in France. With farm storage capacity only sufficient for 20-30 per cent of the cereal harvest, the bulk of cereals must be sold off farms in the harvest period. On average, 56 per cent of wheat and 76 per cent of the barley crop is sold off farms before the 1st of September each year.

Since 1977, ONIC and the AGPB have been concerned by the slow rate of expansion in collectors' storage capacity as compared to the rate of increase in marketed output. They foresee that such trends will lead to less orderly and efficient marketing of cereals, as collectors are forced to sell cereals during the harvest period.

Figure 5.1 Trends in Total Cereal Collecte and Collectors' Storage Capacity 1960-1980



Source: Le Producteur agricole français, November 1980, ONIC.

Figure 5.1 shows the development of collectors' storage capacity in relation to changes in the total **collecte** since 1960. During the period 1960-74, the growth of collectors storage capacity was slightly higher than the rate of increase in marketed output. Evidence of this is shown in a fall in the rotation factor from 2.16 in the 1959/60 season to 1.79 in 1973/74. From 1975/76 there were three consecutive poor harvests which together with rising storage costs discouraged the creation of new storage capacity. The fall in **collecte** also caused the closure of 465 collecting centres during the same period. Since 1978 and the return of production to pre-1975 levels, the gap between marketed output and collectors' storage capacity has widened.

Table 5.6 A Comparison of Storage Capacity with Cereal Sales
Off-Farm before 1 October

Marketing Year	Cereals Sold Off-Farms before 1 October ¹ (M tonnes)	Collectors Storage Capacity (M tonnes)	Capacity Margin (M tonnes)
1974/75	15.9	19.0	3.1
1975/76	12.6	19.9	7.3
1976/77	13.3	20.2	6.9
1977/78	14.9	20.4	5.5
1979/80	17.7	20.4	2.4
1980/81	16.9	19.8	2.9

Source: Calculated from ONIC data.

¹Does not include maize and rice.

Table 5.6 shows the collection of cereals off-farms up to the 1st October each year in relation to collectors' storage capacity. The margin, which is storage capacity less the quantity of cereals collected off-farms up to 1st October over-estimates the sufficiency of storage capacity because there is a need to separate different types and qualities of cereals which is not accounted for in this calculation. In 1980, a record cereal crop led to sales off-farms up to 1st October amounting to 20 M tonnes. This exhausted the collectors' storage capacity and prices fell drastically as collectors sold off grain to make room for the maize crop. Offers into intervention reached an unprecedented level of 2.1 M tonnes during the harvest period.

Primarily as a consequence of the problem in collecting the 1980/81 harvest the French government, ONIC and AGPB have embarked on a plan to expand storage capacity by 2.85 m tonnes over a 3 year period. There is also the view that extra collectors' and secondary storage capacity is required in order that France can compete efficiently as a grain exporter to Third countries. Improved storage is thus seen as an essential component in the improvement of market structure and export capability.

5.3 Storage Expansion Proposals

The overall proposals embrace four objectives as follows:-

- (i) To ensure a greater storage security margin by bringing down the rotation factor to between 1.6-1.65 at collectors' stores and to between 12-15 rotations at port silos. (In August 1981, the average number of rotations at collectors' stores was estimated to be 1.84).
- (ii) To improve the technical efficiency of equipment for handling and conditioning grain at all levels in the marketing chain.
- (iii) To favour the construction or expansion of storage facilities at sites suitable for the forwarding of grain towards the export market.

- (iv) To increase overall storage capacity to take account of
- The projection in the 8th plan for marketed output to reach 39 M tonnes in 1985 (Figure 5.1).
 - A plan to set up a cereal classification scheme in 1983/84 which would require separation of grain into quality groups and hence make greater demands on storage (see 7.2).

The following 2.85 M tonnes of extra storage capacity is sub-divided as follows:-

- 2 M tonnes should be constructed at the level of the **collecte**.
- 150,000 tonnes should be in zones of utilisation eg. Brittany.
- 700,000 tonnes should be extra capacity with ONIC having optional usage for intervention purposes. 200,000 tonnes of this would be located at ports.

Aid for this programme would come from various sources

- state grants
- grants from ONIC on projects approved for intervention usage.
- loans from UNIGRAINS and CNCA at preferential interest rates.

Only in the case of the 700,000 tonnes storage plan for intervention use is there any structured plan or criteria for acceptance of projects. This is under the control of ONIC and the aim is to expand storage capacity by 500,000 tonnes in regions where intervention often occurs. The programme therefore is limited to the following ONIC regions:- Region Parisienne, Picardie, Champagne, Lorraine, Centre, Poitou Charente, and the Departement of Yonne (Burgandy region). Also, due to the fact that the majority of intervention stock is exported, the ONIC plan is to create an extra 200,000 tonnes of storage capacity which can be used to facilitate intervention export. This is open to investment plans at the ports of La Pallice, Nantes, Caen, Le Havre and Rouen. Of the 200,000 tonnes, 150,000 tonnes is designated to Rouen.

In the ONIC investment proposals financial aid is given in return for an option on using a proportion of the new storage capacity for intervention purposes over a 10 year period. Unlike the previous contracts, ONIC can decide each year (before 1st May) if it will require the use of the storage capacity. Only in the case where storage capacity is demanded will ONIC guarantee and pay a minimum usage fee of 150 times the daily storage tariff per tonne. In 1981/82 the daily tariff on reserved capacity is 0.25 FF/tonne/day.

5.4 Financial Aid for Storage Investment

Capital grant and interest relief aid is available from national funds for approved projects as follows:-

- (i) 10 per cent grant from the Ministry of Agriculture.
- (ii) 10 per cent grant on storage capacity available for intervention purposes by ONIC.
- (iii) Loans to the value of 10 per cent of investment from UNIGRAINS, where payment is deferred by 6-7 years.
- (iv) In the case of co-operatives, the CNCA will supply up to 80 per cent of the finance at preferential rates of interest - 2 per cent below the Credit Agricole short term rate.

For projects to receive approval the storage plans must satisfy a number of stringent criteria.

- (i) be at least 5,000 tonnes if inland and 10,000 tonnes if at port.
- (ii) be branched to the rail network and have facilities enabling complete trains to be loaded and unloaded.
- (iii) possess equipment for conditioning and sampling grain.

In the case of a new inland storage capacity, 400,000 tonnes of new capacity has been accepted. At present no port investments have received final approval.

6.

MARKET OUTLETS AND PRICES

6.1 Sale of Grain from Collectors' Stores

The control of the *collecte* of cereals off farms in France by licenced buyers restricts the marketing opportunities open to farmers. A farmer has the choice of when to sell and through which collector or collectors. The licensed buyer system prevents producers as individuals or groups of farmers from acting together in anything less than through a legally approved co-operative structure. Therefore, farmers cannot offer grain into intervention nor directly export. The criteria used by ONIC for approving organisations as *collecteurs agréés* are such that informal groups with limited financial backing and capital equipment are prevented from collecting and selling grain. The French producer taxation system, in which collectors deduct the cereal taxes from payments to producers, is a further factor explaining the absence of informal grain marketing. A more diverse system would be more difficult to control.

In general the outlets available to collectors depend on their location in France and the type, quantity and quality of cereals they have to sell. But the actual choice of markets and the degree of involvement by the collector in the sale transaction also depends on the collector's commercial interests and attitudes to risk, and in the case of co-operatives there may be additional political considerations which influence their trading activity.

In the Centre region 80-85 per cent of the region's cereal marketed output is exported out of the region.⁽¹⁾ The main wheat outlets are to the milling trades concentrated around Paris or for export, principally through the port of Rouen. The feed barley trade is primarily to compounders and co-operatives in Brittany with malting barley largely being exported to Belgium and Germany. In addition to domestic and export outlets the EEC system of intervention support is available to collectors in principle on the same basis as in the UK. One important difference is that with relatively few sellers into intervention in France, since only collectors are eligible, there is a much closer relationship between the intervention agency (ONIC) and the sellers than can occur in the UK. This does facilitate the use of special intervention measures (intervention B) for bread making wheat, although it must be observed that the support buying arrangements of the Community have developed largely to accommodate French market operations and interests.

(1) *Mouvements de Céréales*, 1979/80, ONIC.

Details of the 'silo' system of intervention support are given elsewhere.⁽¹⁾ With barley and feed wheat, intervention A is available throughout the year but 'special measures' are taken by the Commission to support breadmaking wheat of average or minimum quality at the corresponding reference levels. This has usually been achieved by offering intervention for the first three months of the season although other additional measures are available.⁽¹⁾

In France, as a whole, the collecting organisation is distinct from the processing or exporting organisation. Only a small percentage of collectors are grain users; similarly the direct involvement of exporters in the cereal *collecte* is negligible. Therefore the bulk of grain purchased by collectors is for re-sale. The majority of sales between collectors and buyers are transacted through the intermediary of a grain broker (*courtier*). In France there are 85 grain brokers, the majority of which are concerned only with transactions between buyers and sellers on the domestic market. Brokers are widely used because of their extensive network of contacts, their risk reducing function and the fact that in certain cases both seller and buyer may wish to remain anonymous until a deal is finalised.

Apart from sale into intervention, direct sale of grain between collector and buyer exists to a limited extent particularly where grain of a specific quality is required by an industrial user. Such contracts tend to be established over time and provide profitable and secure market outlet as long as the collector can continue to satisfy the contract requirements. Direct sales are usually limited to domestic transactions, though certain collectors have for example, built up links with maltsters in Belgium and Germany.

Sales for Export

With a relatively static domestic uptake of wheat and barley, traders have inevitably tended to play a more positive role in the supply of grain for export in order to maintain their volume of the *collecte* and secure their market position. The extent to which traders have diversified along the marketing chain varies considerably. Smaller collectors tend to sell ex-store thus avoiding the additional risks of selling further along the marketing chain. Larger co-operatives and private traders have extended their marketing activities into the transport sector (eg. *Transcéréales*) and into port handling facilities. Increasingly collectors are selling delivered rather than ex-store and f.o.b. rather than delivered port (*rendu*). UCACEL (*Union des Coopératives Agricoles de Céréales d'Eure et Loir*), a port silo complex at Rouen owned by 96 co-operatives, unions of co-operatives and SICA organisations, is an example of the extended involvement of collectors in the marketing chain. Similar relationships with private collectors at port silos also exist.

⁽¹⁾ for example. *Agra Europe: CAP Monitor 1982.*
Perspectives agricoles, 57th Congres de l'AGPB, 1981.

Table 6.1 Grain Exported by Various Organisations through Rouen (1980/81) Season

	Quantity Exported '000 tonnes)	% of Total Exports
<u>1. International Shippers</u>		
Dreyfus	6.4	20
Granax Cargill	4.1	12
Bunge	2.2	7
Philip Bros	1.1	3
<u>2. Co-operatives Unions</u>		
UNCAC/CAFGRAIN	3.0	9
<u>3. Private Silos</u>		
Levy	1.4	4
Lecureur	0.6	2
Soufflet	0.3	1
<u>4. French Exporters</u>		
Tradimer/Tradigrain	4.3	13
CAPBN	0.3	1
CEDC	2.2	7
CEC	2.2	7
Graniere	1.9	6
CAM	0.8	2
OCA	0.3	1
<u>5. Others including regional co-operatives</u>		
	1.8	5

The c.i.f. trade⁽¹⁾ continues to be dominated by the international shippers who tend to have a stake in port facilities rather than installations at the level of the *collecte*. Table 6.1 gives an approximate indication obtained from stevedore records of traders operating c.i.f. through Rouen in 1980/81. The trade is dominated by international shippers, in particular Dreyfus, but with French-based exporting companies taking a sizeable share (36%). The proportion handled by co-operative organisations and other private traders is relatively small. Collectors' involvement in the c.i.f. trade is restricted to specialist grain cargoes eg. hard wheat over inland routes, where the size of quantities traded are insufficient to attract the large exporters. Certain private traders who profess to sell c.i.f. on sea transport do so only in conjunction with international exporters/shippers.

(1) A detailed description of international grain trading contracts and operation is given by Debatisse M L (1979), 'Le Commerce International des céréales'. Centre Français du Commerce Extérieur, Paris.

To counterbalance the position of the international shippers in the export trade co-operatives via their unions have attempted to gain market share. Unions are second level co-operatives which receive grain from their member co-operatives and therefore have a larger geographical grain catchment area (see 2.3). Co-operatives are not obliged to sell through their union, but where sales occur it is usually on fixed contract basis ie. a certain percentage of the co-operatives total **collecte**, usually 15%. The price paid is usually a pool price. Therefore the larger co-operatives sell grain through their union primarily as a gesture of solidarity rather than for economic motives, whereas the smaller co-operatives with limited marketing knowledge may gain financially from selling through their union. The international trading links of the unions are described in sections 3.3.4 and 3.3.7.

Market Prices

3.1 Price Determination

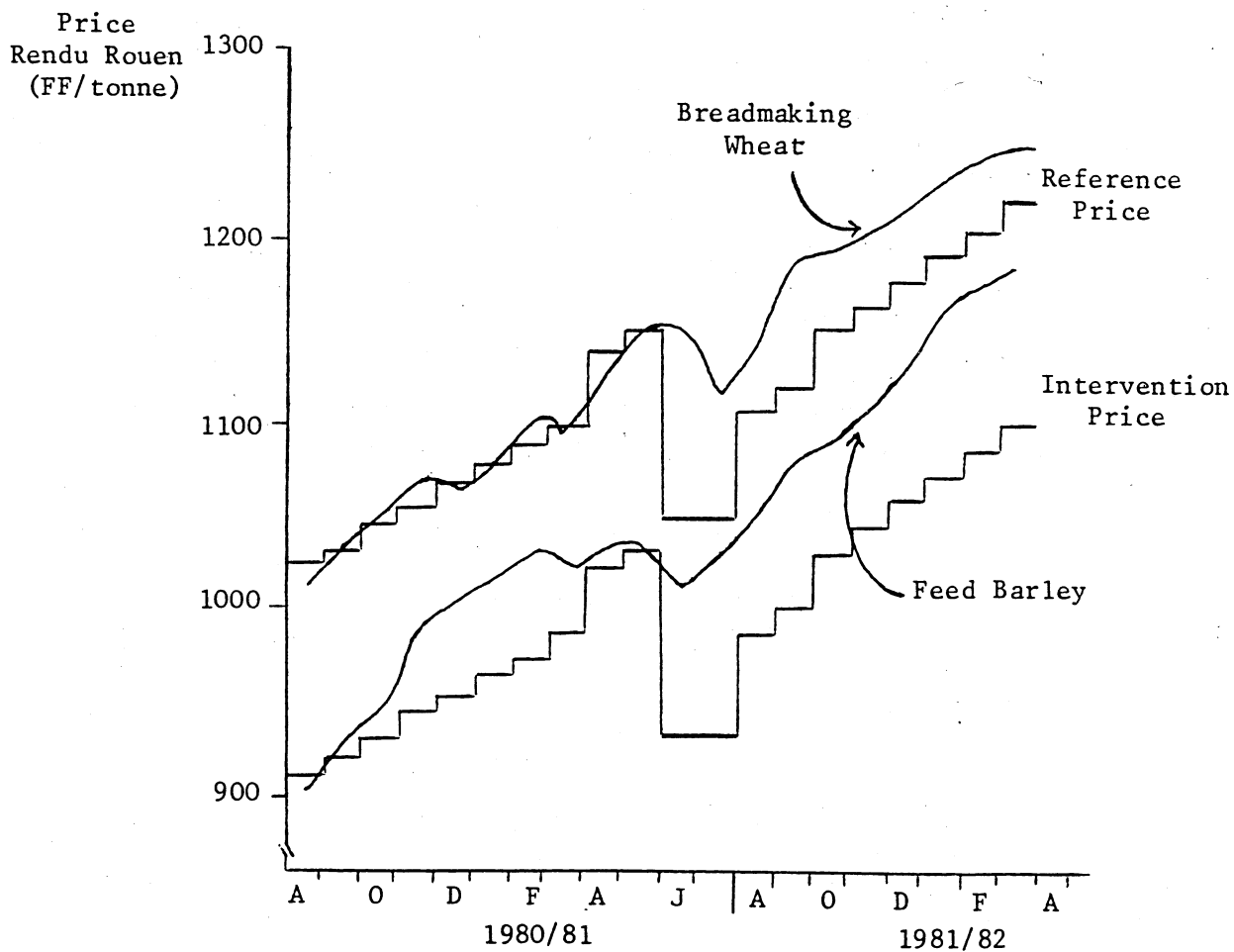
The factors which affect French cereal prices are not surprisingly the same as those determining prices in the UK. For a given quality of cereal at a specified location price will be determined by the supply coming on to the market, this being affected by the anticipated benefits from further storage, where storage capacity is available, and the sources of demand - domestic uptake and export. Intervention, if available, forms a lower price floor. With the strong surplus of both wheat and feed barley in France the role of the CAP price support methods (intervention and export refunds) is particularly significant. Either or both of these could determine price at a particular time, but for both wheat and barley, intervention is principally important in the harvest and post-harvest periods. Thereafter in at least the last two seasons the extent and size of the export refunds in relation to the remaining cereal stock surplus to domestic needs has been the critical factor determining market prices.

Delivered Rouen prices for bread making wheat and feed barley are shown in Figure 6.1. The Figure shows the pattern of price development over the past two seasons in relation to the wheat reference and barley intervention prices. Detailed commentary on the price movements can be found elsewhere⁽¹⁾ but the generally higher 1981/82 prices in relation to the support levels reflects the high level of early season exports, and the low level of intervention stocks. Intervention wheat stocks on January 1st 1982 were 0.51 M tonnes compared with 2.7 M tonnes a year earlier. Absolute price levels at Rouen are of course, higher than those recorded inland, (ex-collector or ex-farm) because of the transfer costs involved in moving grain to port. Over the period covered in Figure 5.2 the **départ** Eure et Loire prices were on average 34 FF/tonne lower than the plotted delivered Rouen figures. AGPB state that prices **départ** Chartres, Marne and Indre are typically 25, 40 and 50 FF/tonne lower respectively than the

(1)HGCA Weekly Bulletin.

rendu Rouen price.⁽¹⁾ With respect to the within-year price changes there is an approximate trend for prices of both wheat and barley to follow the support price increments, departures from the trend occurring principally towards the end of the marketing year. This reflects the setting of support price increments by the Commission at around the level of monthly storage premia evident in market prices in order to provide a permanent lower level of intervention support to the market.

Figure 6.1 Prices for Bread Making Wheat and Feed Barley Delivered Rouen



(1) Le Producteur Agricole Français, Nov 1981, p 35, AGPB.

The generally stable development of normal prices evident over several years in France reflects three main factors associated with the French market quite apart from the reduction in variability resulting from on account trading:-

- i) With large surpluses of wheat and barley, prices are heavily dependent on the support mechanisms of the CAP. These have been developed principally in relation to French needs as the major producer. Thus for example, the timing and scale of wheat export refunds by the Commission must primarily be geared to the orderly removal of surpluses from the French market. With barley the French market position is still important although the UK situation is also relevant.
- ii) The storage premia in the support prices are directed towards covering the marginal storage costs in France as the principal Community producer and storer. For example, in the 1981/82 year the intervention increment was 13.43 FF/month. Wheat *départ* Eure et Loire was quoted at 1120.6 in August 1981 and with the Credit Agricole short term interest rate at 12.75 per cent for most of the 1981/82 season, the monthly finance cost is 11.9 FF. The storage premium covers the finance cost and allows for slight losses in storage. For co-operatives able to finance their stocks on more favourable terms the gains from storage would be enhanced. There is thus a general incentive for co-operatives to store if there is existing capacity. Since not all the crops can be stored on-farm or by collectors, market prices early in the season will be determined by intervention. The pattern of price development would then be expected to approximately follow the monthly increments. With the incentive to store, the volatility in market prices observed towards the end of some marketing years in the UK (eg. 1978/79), when those were unforeseen shortages, is unlikely to occur in France.
- iii) The institutional framework of the market with the strong co-operative sector and close ONIC/collector links leads to a more controlled and less speculative price environment. Speculative behaviour is not favoured within the Co-operative movement and ONIC, at least in some regions, seems to discourage price competition in the interests of stable and secure returns for producers. In the department of Eure et Loire, for example, there is a weekly price agreement meeting (*constatation de prix*) between collectors. The object of the meeting, which is organised by ONIC, is to agree on a price for each cereal type that can be released to official sources as being representative of ex-collector price during the previous week. A secondary objective is to prevent a level of competition between producers that would be disruptive to the market and in the long run contrary to farmers interests. Although prices to be paid to producers are not fixed at these meetings, agreement on a representative market price follows through to similar prices being offered to producers for their grain. Any differences tend to reflect transport costs within the departments rather than price competition amongst collectors.

6.3.2 Quoted Market Prices

In France, producers are obliged to sell through an official marketing system of licensed buyers, approved by ONIC. Due to this fact market prices quoted refer to the price at which these collectors sell or the price of grain delivered by a collector to a specific location eg. **rendu** Rouen. There is no 'ex-farm' price basis as in the UK.

A further consideration is that prices are typically quoted for a quintal of grain (0.1 tonne) on an August basis (ie. excluding the intervention storage increment). Unlike the storage increment on the intervention price which is adjusted monthly, the August base price is adjusted at two weekly intervals. The value of the storage increment is calculated for the date at which the grain leaves the collector's store.

For example: on the 7th October 1981, milling wheat price **départ** Eure et Loire quoted at 1135 FF/tonne.

<u>Delivered Period</u>	<u>Storage Price to be Added to the August Base Price</u>
1-15 September	6.71 FF/tonne
16-30 "	13.43 FF/tonne
1-15 October	20.14 FF/tonne

Therefore the actual price paid for 1 tonne of cereals leaving a collector's store in the Eure et Loire would be 1135.00 plus 20.14, 1155.14 FF/tonne.

6.3.3 Ex-Collector and Ex-Farm Prices

In order to estimate delivered-collector or ex-farm prices three adjustments must be made from a quoted ex-collector (eg. **départ** Eure et Loire) price. These are:-

- i) The operating margin of the collector ie. the difference between the collector's buying and selling price adjusted for storage delay. This varies between collectors and over time depending on handling costs and the extent of competition between collectors. La Depeche (6/8/81) suggest a figure of 70-80 FF/tonne. ONIC, in their enquiry on the 1978/79 harvest,⁽²⁾ calculated a mean margin of 66.2 FF/tonne but in the Centre region the margin was on average lower at 50.7 FF/tonne. For an ex-farm price transport costs from farm to collector's store must also be deducted.
- ii) Cereal taxes (see 4.4) levied on the producer. In the 1981/82 season the taxes on soft wheat and barley are 42.50 FF/tonne.⁽²⁾ This is deducted by the collector before payment is made to the producer. From 1981/82 a further tax will be applied for deliveries over 100 tonnes.

(1) ONIC: Enquête économique et financière sur les organismes de collecte de céréales, campagne 1978-79.

(2) Equivalent to £3.86/tonne at £1 0 11 F. This contrasts dramatically with the HGCA levy of 2p/tonne in 1981/82.

- iii) Price adjustments made for quality differentials above or below intervention standard and for services provided by the collector (eg. drying, grading).

In surplus regions where prices are being supported by intervention purchases the net-of-tax delivered-collector price received by producers for intervention quality grain is typically around 90 per cent of the intervention price. For example, with intervention quality barley sold in August 1981 the producer may receive the intervention price of 990.6 FF/tonne less a collector's margin of, say 70 FF/tonne and producer taxes of 42.50 FF/tonne, giving a delivered price of 878.1 FF/tonne. This is 89 per cent of the intervention price and assumes that the collector's store is an intervention centre. Additional transport cost to an intervention centre would reduce the producer return. Clearly when collectors can sell at higher than intervention prices the return to producers would be increased.

6.4

Comparison of French and UK cereal prices

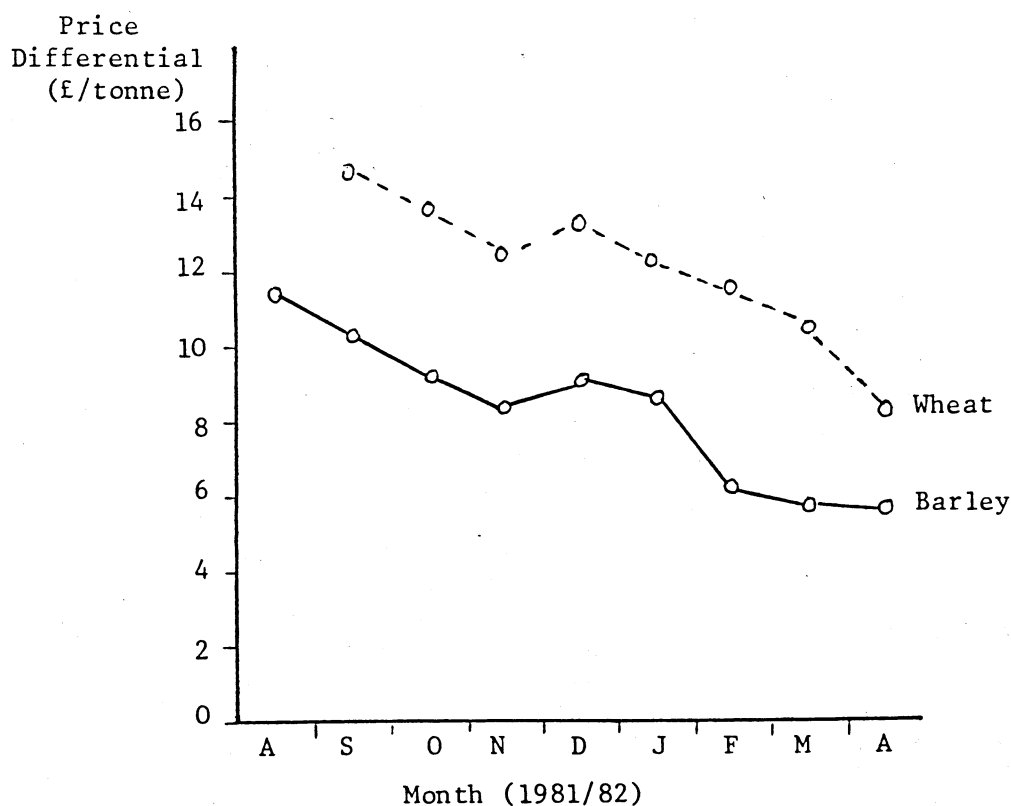
Whilst a comparison of the ex-farm prices received by producers in UK and France is superficially appealing as a step towards assessing the efficiency of the marketing systems and the operation of support measures, such a comparison is very difficult to make. Price differences resulting from location and grain quality would have to be accounted for and there is a major difficulty in comparing prices when the French/UK exchange rate can vary. In addition, to compare the returns from cereal growing in each country, account would have to be taken of both the costs of inputs for cereal production and the prices of the goods on which the income was spent.

A much more direct price comparison can be made in terms of export trading because the UK and France compete in the export market for disposal of surplus output. It is to be expected that French export prices for both wheat and barley would exceed those in the UK because of the superior quality of French grain, better port facilities, nearness to most Community and Mediterranean markets and a history of trading links with certain importing countries. France with its substantial storage capacity at the collector and secondary levels and the generally lower interest rates, particularly to the co-operative sector, has traditionally become the grain stockholder of the EEC. In so far as storage organisations in the UK have to finance stocks at higher interest rates it is to be expected that this difference in carrying charges would be reflected in higher price increases in the UK over the season than in France. Clearly if the interest rate difference was sufficiently extreme the UK would tend to export in early season and import later in the year, storage being undertaken elsewhere. The increase in market price would in this case not cover UK carrying charges. It would, however, require a very major and consistent difference in interest rates for this to occur. In practice, with a smaller differential one would anticipate UK export prices being relatively low at the start of the season but increasing more rapidly than in France, hence the UK/France price differential would narrow as the season proceeds.

To investigate the average price differences of export grain viz a viz UK and France and the changes over the season, a comparison was made over 1980/81 and 1981/82 between prices f.o.b. UK East Coast and f.o.b. Rouen. Such a comparison was far from straightforward. Export trading is virtually all on a forward basis but with no information on the quantities contracted at given times the calculation of an average price for a specified delivery month is elusive. In the event data from the HGCA weekly bulletin were used.

The UK price for a specified delivery month was taken as the average of the weekly forward f.o.b. quotes ex-East Coast recorded in the preceding month. The same basis could not be used for ex-Rouen prices. Rendu forward prices were therefore averaged over the first three weeks of the month of delivery and 30 FF/tonne added to give an estimated f.o.b. price.⁽¹⁾ This f.o.b. price was converted to sterling at the weekly spot rate given by HGCA. The UK price was adjusted for the average MCA⁽²⁾ available as an export subsidy in the month of delivery. The value of the export refund available for Third country trade was not included since this would be the same regardless of the exporting country. The assumption is therefore that whereas the value of export refunds could affect absolute price levels of export grain, differentials in price between Member States would not be affected.

Figure 6.2 Average Monthly Price Differential Between Rouen FOB and UK East Coast FOB (ex-MCA) (1981/82)



(1) Taux de mise en FOB de cereales en vrac, SGS France, Paris.

(2) This was a net figure after the appearance of the French negative MCA from 15/4/82.

The monthly differences between ex-MCA UK and Rouen f.o.b. prices (1981/82 season) in sterling terms are shown in Figure 6.2. The wheat comparison is between French milling wheat and UK feed wheat. The barley is feed barley in both countries. Part of the wheat differential can thus be attributed to a quality difference. On average French milling wheat commanded a premium of £12.1/tonne over UK feed wheat and French feed barley £8.3/tonne over UK feed barley. The higher price of French grain is in part attributable to its milling quality and the superior location and characteristics of Rouen as an exporting port. Unfortunately it was difficult to quantify the differences in quality between UK and French wheat which would be the first step in explaining the price differences. Although ITCF produce a detailed quality survey by variety and region each year, this is not in a form which allows comparison with UK quality data collated by HGCA.

It is possible, in addition, that the different and more controlled organisation of grain marketing in France may itself elicit a price premium by some regulation of the quantities offered for sale. Although this view was proposed to the authors no firm evidence could be obtained in its support.

The monthly price differences plotted in Figure 6.2 do follow an apparently linear downward trend through the 1981/82 season for each cereal. In order to estimate the slope of the trend linear regressions were fitted to the data as follows:-

$$\text{Wheat } p = 16.3 - 0.77t \quad R^2 = 0.86 \\ (\pm 0.13)$$

where

p = price differential (£/tonne)

t = month, August = 1

September = 2 etc

$$\text{Barley } p = 11.7 - 0.69t \quad R^2 = 0.91 \\ (\pm 0.08)$$

Thus the difference between UK and French grain prices is estimated to decline by £0.77/tonne/month for wheat and £0.69/tonne/month for barley.

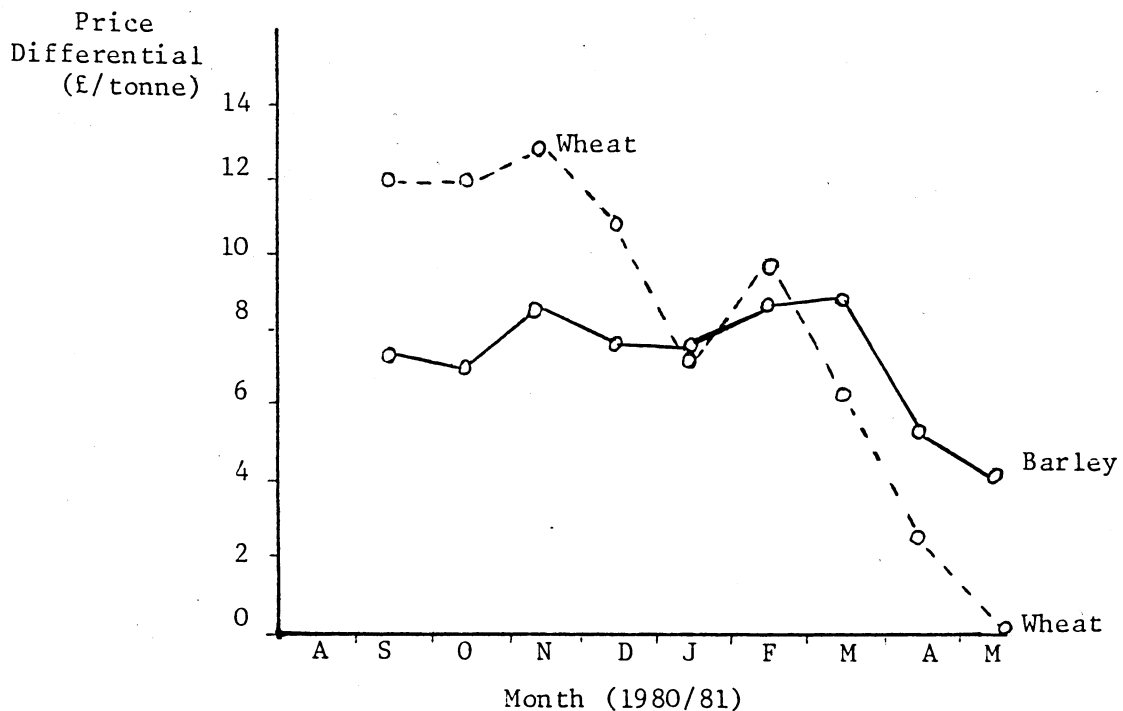
UK grain therefore is most competitive at the start of the season and, if sufficient export refunds are available, one would expect the bulk of UK grain to be exported early in the season. French grain becomes progressively more competitive as the season progresses. This effect can, in part, be explained in terms of different storage costs in the two countries. During October 1981 to April 1982 the UK/France prime lending differential⁽¹⁾ was fairly stable varying over the range 0.85-2.0 per cent. With French co-operatives, the principal grain stockholders, subsidised by around 3 per cent the differential becomes 4-5 per cent. On a monthly basis this becomes £0.36-£0.48/tonne/month, which could therefore account for a large part of the observed price change.

(1) The Economist: prime lending rates.

However, numerous other factors may have influenced relative export prices in 1981/82. For example, the timing and cumulative quantity of the export refund tonnage allocation in relation to the expected exportable surplus could have an influence. It is not, however, clear how this effect might best be quantified. Large refund allocations early in the season might lift UK export prices because of the availability of relatively cheap UK grain at that time. This would reduce the early season price differential and hence the size of the average monthly fall in price differential over the season. In addition, the size of the MCAs could also affect relative prices due to distortions in the MCA system. However during 1981/82 MCAs on UK exports were very stable at around £9-10/tonne (wheat), only falling to £3-4/tonne during October and November. It was not surprising therefore that when used as an explanatory variable the MCA refund proved non-significant.

Decisions about storage are affected by availability of storage capacity and by the views of traders as regards future interest rates and the balance between grain stocks and expected uptake. Given the complexity of the situation it would in fact be rather surprising if interest rates alone could account completely for differences in French and UK grain prices.

Figure 6.3 Average Monthly Price Differential Between Rouen FOB
and UK East Coast FOB (ex-MCA) (1980/81)



The equivalent price data for 1980/81 produced a comparison that was less easily explained (Figure 6.3). Both wheat and barley show a narrowing over the season in the price differential but the pattern was an erratic one, particularly for barley. When a linear regression against time was fitted for each cereal there was no significant relationship for barley and the wheat differential changed at the high rate of £1.54/tonne/month.⁽¹⁾ A number of possible explanations can be offered for this lack of concurrence with the 1981/82 analysis. First the HGCA price quotes are much less complete in 1980/81 (particularly in September/October) and so the data were fundamentally less satisfactory. Secondly, 1980/81 was a season in which a UK domestic shortage of wheat occurred and prices rose very sharply in the spring, narrowing the UK/French price difference. Thirdly the UK MCA export refunds varied substantially during the season reaching a peak of £19.7/tonne (wheat) in February. Finally the UK/France interest rate differential changed markedly with the UK clearing bank base rate falling from 16 per cent to 12 per cent (August 1980 - May 1981) while French lending rates rose by 0.5 per cent over the same period. Although these interest rate changes could have partially explained the price movements in 1980/81, the price effects of interest rate changes during the year are not simple to analyse. A rather more detailed investigation preferably with more reliable price data, would be required to take the analysis of UK/French prices any further.

More generally, the price analysis showed a substantial price premium for French export grain ex-Rouen with the advantage declining during the season. It is presumed that the French price advantage reflects quality differentials, particularly for wheat, and the location of Rouen and its deep water facilities. In addition the history of wheat exporting by France and the relatively new development of the UK wheat export trade undoubtedly confers a price advantage on French wheat. Over time and with the development of deep water loading facilities for boats exceeding 10,000 tonnes in the UK (initially at Hull and Southampton) the French price advantage should decline. The generally higher carrying costs in the UK and limited storage facilities make UK grain most competitive early in the season and if export refunds are available it is at this time that the majority of the exportation will take place. France by contrast has traditionally acted as the Community stockholder of grain with the main boost to exports coming in the January-April period.

(1) Standard error ± 0.23 , $R^2 = 0.86$.

CHAPTER 7

DEVELOPMENTS IN FRENCH GRAIN MARKETING

7.1 Introduction

A number of proposals for change that affect cereal marketing are either outlined in the 8th plan or are currently being discussed within the industry. These primarily relate to removing what are seen as deficiencies in the present marketing structure and capabilities (eg. grain storage) and planning for the disposal of the increased output of soft wheat expected in future years. With no expected growth in exports of grain within the EEC the development of marketing to Third countries is seen as the main priority. A secondary issue which will not be elaborated on here is the attempt to maintain Community consumption of feed grain by regulating the imports of cereal substitutes.

The proposals for increased storage capacity and the associated investment incentives have already been described (see 5.3). This is in part directed to facilitating Third country exports by specifying increased capacity at ports and particularly at Rouen. Two other aspects of market development are being given considerable attention. These are, firstly, greater quality orientation as a method of competing in the export trade and, secondly, the more direct development of Third country trade.

7.2 Quality Orientation

A debate on how to improve the quality of French cereals, how to classify different qualities and whether adequate price premia could be derived from the market has proceeded in France for a very long time. A detailed scheme based on four classes and two grades of wheat was set up by ONIC in 1969 but proved unsuccessful. The different classes did not result in consistent price differentials and collectors mixed batches as trading opportunities arose. The problems of establishing and operating a grading scheme are of course enormous. The classification criteria must relate to market differences in valuation which may change over time and must receive widespread industry approval. In addition the extra costs for analysis, extra storage facilities and administration must be recouped from an increased envelope of returns.

The industry has been attempting to obtain quality improvement in wheat in numerous ways apart from incentives to storage investment needed if quality separation is to be effected. For example, by giving more precise information through ITCF on varietal quality characteristics in relation to the requirements of industrial users, there has been an attempt to influence choice of varieties by producers. In addition an interprofessional agreement was made with the milling trade in September 1981 to pay a price premium for breadmaking wheats of recommended varieties classified by variety. The premium is

50 FF/tonne as compared with wheat not of specified varieties. The major stimulus to classification has, however, come through the export trade. The increasing export of poorer quality UK wheat under 'céréales Européen' contracts has heightened the need for the French industry to separate wheat of French origin.⁽¹⁾ This aim is to achieve a French quality image for Third country trade thus improving French competitiveness and potentially gaining a price premium.

Table 7.1 The ONIC Port Classification Scheme for Wheat

	Class I	Class II	Class III
Specific weight (kg/hl)	min 78	min 76	
Moisture (%)	max 14.5	max 15.5	all other
Hagberg Index (seconds)	min 221	-	
W (Alveogramme)	max 150	max 100	

A classification scheme at ports is proposed and ONIC has been operating a pilot investigation at La Pallice. ONIC is classifying wheat on the basis of the three grades as outlined in Table 7.1. Certificates are given by ONIC as appropriate to the grade. The precise grading criteria and the method of implementation of the scheme on a national basis are subject to differing views within the industry since many vested interests are affected. There is disagreement, for example, over whether such a scheme would be run totally by ONIC staff, by surveillance companies under contract or by surveillance companies independently. More generally private traders are concerned at further Government regulation and control in their operations and many feel that a rigid scheme cannot respond to the needs of the market. The intention is to extend the scheme to Nantes, Bordeaux and Rouen (1983) ultimately creating a national arrangement.

7.3 Development of Third Country Trade

With a growing dependence on Third country markets as the outlet for the French grain surplus, efforts to facilitate this trade are being made on several fronts. Some of these actions are national developments while others are based on lobbying the Commission to initiate changes which will be advantageous for the French grain sector. With outstanding deep water ports available for grain export (particularly Rouen) the national plan has primarily been directed at encouraging investment in storage/handling facilities and at improving and classifying grain quality. By a system of capital/interest incentives and ONIC inspired discussion throughout the industry the aim is to improve the marketing structure to increase competitiveness in the export trade. There is now a greater emphasis on identifying

⁽¹⁾eg. Perspectives Agricoles No.50, p 24, AGPB;
La Dépêche 25/3/82.

wheat as of French rather than (less explicitly) European origin and in the more distant markets (eg. Japan) to promote higher valued grain products (malt, flour) as high transport costs reduce the competitiveness of French grain.

Action in influencing Commission policy has taken numerous forms. The aim has generally been to improve the security and seasonal distribution of grain exports given the instability of world markets, the sizeable EEC grain surplus and the possibilities of budget constraints on the size of export refunds. There is support for an increased food aid programme and for the negotiation of long-term contracts with Third country buyers. Such contracts particularly if made with traditional importers of French grain (eg. N Africa) would place France in a key position for fulfilling them.

With importers in essentially a 'buyer's market' for grain there is little incentive to engage in long term agreements without some financial incentive. Since this would tend to increase Community expenditure it is not surprising that some Member States have not supported the development of pluriannual contracts. As mentioned elsewhere (3.3.4) certain sections of the trade also see such contracts as a part of the market denied to them. With substantial sector interest not sympathetic to the development of long term contracts little tangible progress has been made thus far.

8.

DISCUSSION

8.1 Introduction

With market prices and cereal exports supported on a largely consistent basis throughout the Community it is perhaps surprising to observe marked differences between cereal marketing in different Member States. This does not primarily reflect different preferences amongst national consumers or different production conditions, although these clearly exist. The main UK/France differences lie in the historical development of the markets, the degree of Government intervention, the institutional organisation and the attitudes of producers and traders.

8.2 Government Planning in the Cereal Sector

The French cereal sector today reflects Government intervention, principally through ONIC and CNCA, over a prolonged period. More generally the development of the sector has been greatly affected by the French commitment to 'interprofessional' planning. To formulate the 5-year plans relevant organisations in the sector, such as ONIC, ACPB and the co-operative movement review the state of the industry and make proposals for its development. Although such economic planning was less popular under Giscard D'Estaing it is receiving greater emphasis since 1981 under the Socialist administration. By attempting to achieve a concensus view and then linking Government credit subsidies and capital grants to the national plan, the effectiveness of planning is increased. A high level of intervention does, however, produce a formidable bureaucracy with a correspondingly high level of operating costs.

Government intervention in the cereals market is primarily directed at the 'trade' level in the marketing chain and not the individual farm as in the UK. Thus it is at the level of the collectors and export traders that plans for quality classification and storage/export facilities are enacted. The concept of market development does, however, run right to the retail level with UNIGRAINS providing finance for millers, processors and retail outlets. In their price support and development activities the Commission have clearly followed to a large extent this French system of operation. Price support by import levies, export refunds and intervention is all at the collector/trader level and the development program necessary for FEOGA finance are industry-wide plans of which a specific project must be a part. The support of farmers' incomes is thus derived from the direct support at the level of trading.

In the French system of intervention at the trade level several associated and necessary developments have occurred. The co-operative sector has been encouraged as a countervailing force in the market. Its development means that producers are not solely dependent on competition within a private merchant/processor sector to pass on the benefits from price support and state subsidies to farmers. A strong co-operative

sector can compete directly with private traders and provides a basis for producer involvement along the marketing chain. It also leads to grain marketing under predominantly French control and, in particular, prevents multinational companies from achieving a dominant position in the market.

Producers can influence the overall development of the industry in two other ways. First the high degree of self-financing in the cereal sector by way of producer taxes allows producers, through their union, more influence over the direction of expenditure and the maintenance of French producer interests than if state financing was used. Secondly, and of greater significance, the co-operative movement, AGPB and ONIC are closely linked by interprofessional discussion and by personal representation at an executive level. Policies formulated by these bodies are readily translated into policy objectives with a Ministry of Agriculture label. A powerful and direct route from producers to Ministry and hence Commission level is evident. It is a scheme of operation, however, in which the interests of private traders and consumers are less well represented.

It is thus possible to see a coherence in the structure and planning of the French cereal market in which the well-being of cereal and livestock producers is a prime concern. A controlled development and support of the marketing chain is seen as a contribution. By directing all marketed output through registered collectors not only do the collectors become the pivotal force in the market but their relatively small number, co-operative dominance and close links with ONIC give the Government much greater degree of control over the market than occurs in the UK.

3

Grain Marketing

For French producers their market organisation leads to a more limited range of market outlets and correspondingly less price variability amongst producers within a region. With the ONIC regulations and guarantee system, payment by collectors is quicker and more secure than in the UK. The producer taxes set at 42.50 FF/tonne at a minimum - equivalent to about 4 per cent of the value of grain sales - are a major direct loss to producers but do provide a substantial income for the management and development of the industry. Such a market organisation allows producers little choice and flexibility and it seems unlikely that UK producers would find it attractive. Such an interventionist system is in any case at variance with the declared policy of the present Government. UK producers have the benefit of a range of market outlets - direct sales to intervention, direct exporting and domestic contracts on a spot or forward basis. This allows the UK producer to take more initiative in marketing, because the options are greater. In France the marketing is essentially at the level of the collector. For example, by making direct sales into intervention a UK producer has, on occasion, the possibility of achieving a considerably higher price than could be obtained by spot sale to a merchant. Admittedly there are additional costs and a greater risk but, these apart, there is the potential for gain which is denied to French producers. The more laissez-faire UK system allows those producers with marketing skills and good judgement to gear their marketing more specifically to their business requirements.

Within the merchant sector, the French market is characterised by a much greater degree of state involvement than in the UK. The French Ministry of Agriculture, principally through ONIC, is informed about collectors' buying and selling prices and stock levels. ONIC are involved in credit guarantees and the approval of subsidised investment. This allows a high degree of knowledge and control at the regional level. Private traders and co-operatives must operate within this framework which creates some fundamental departures in operation as compared with the UK. The short time between delivery from producers and payment by collectors and the limited use of forward contracts leaves collectors in an exposed (long) position. Without a futures market, this situation has to be countered in other ways. Permanent intervention with storage increments is the key method of reducing the collector's risks in trading. This coupled with the prevalent 'on account' contract system only leaves the buyer committed to an extent that is secure within the price support methods of the CAP. With breadmaking wheat, intervention is only normally available for the post-harvest three months, a situation which appears to expose collectors to substantial risks after the end of this period. However the Commission's management of special intervention measures and export refunds offers only a slightly less secure guarantee that ex-collectors prices will not fall below the reference level.

The system of capital grants and subsidised credit which favour the co-operative sector has clearly had a long-term effect in giving the co-operatives a dominant position in storage capacity and hence quantity collected off-farm. The lower interest cost on short-term finance also leads to differences in the trading operation of co-operatives and the private traders. The co-operatives have tended to become the principal stockholders of grain making positive margins from the secure expectation of the support price increments. The private traders with lower gains from storage have of necessity tended to hold grain for shorter periods while concentrating on their trading activities. It is noteworthy that a small differential in finance cost can effect such an influence on the activities of different types of collector.

8.4 UK Cereal Policy

It is of interest finally, to assess whether Government policy and organisation in the French cereal sector can contribute to the formulation of policy in the UK. A convenient starting point would be a statement of current UK policy but this is difficult because in contrast to France there is little public identification of policy. It could be that no coherent policy exists but with neither the tradition nor mechanisms for government involvement on the French model there is clearly much less need for a detailed policy.

Instead the aim here is to identify some pointers for UK policy in areas where government could take action if it desired.

(i) Market Prices

Historically as a high cost producer and grain importer, the UK had a policy of limited support to producers dictated by considerations of farm income and security of supply. The consumer benefits from 'low' prices were paramount with any extension of domestic production as a

substitute for cheaper imports involving a net loss to the UK as a whole. The UK cereal policy under the CAP has not been so obvious. It might be expected that the prime objective would be to contain the annual increases in support prices for cereals - in particular for wheat and barley. The reasons are well established. In contrast to the French situation an increase in price leaves the UK with a net loss in resources - the gains to UK producers being more than outweighed by the higher prices to consumers and an increased budget cost.⁽¹⁾ This situation is not altered by the fact that the UK has increasingly become a net exporter of barley and by 1982/83 may be an overall net cereal exporter. Whilst the UK objective on prices does seem to have been that of containing the annual increases in support, this has not been marked with outstanding success. This could represent a lack of distinct policy objectives. It is more likely to reflect the difficulty of carrying a minority position within the support price negotiations and the attempt to effect a trade-off between farm prices and budget contributions.

Within the CAP, prices to producers, traders and ultimately consumers are also affected by the implementation of the support methods and the structure and performance of the marketing chain. Is there an argument for Government action to improve marketing efficiency so as to increase producer returns? As discussed earlier (see 3.6) the French have concentrated substantial investments on improving cereal marketing through to the retail level, with UNIGRAINS allocating around £3.5 million (1980/81) for the cereal sector. They also allocate substantially larger sums from cereal producer taxes for improvement of marketing in the livestock sector. Little of this UNIGRAINS expenditure does in fact benefit cereal producers. Producer prices predominantly reflect intervention or export grain prices with demand for domestic uptake of no great consequence. Thus in the short term it is only improvements in marketing for intervention or export which can be reflected in producer returns. Improvements in efficiency elsewhere will only be reflected in the returns of the organisations involved and ultimately in prices to consumers. UNIGRAINS is thus, apart from its involvement in storage and export finance from which producers benefit, principally transferring producer taxes to consumers.

Much the same reasoning would apply in the UK. With market prices generally dominated by intervention or export demand only the improvement of marketing in these directions could categorically contribute to produce returns. Even then there would be a consequential increase in prices for consumers of cereal products and Government policy could place greater weight on consumer/livestock farmer interest than those of cereal producers. It will be interesting to observe the strategy of the Food from Britain organisation with respect to cereal marketing and in particular how the differing interests of cereal producers and consumers are taken into account.

(1) Due to reduced EEC expenditure on policies from which the UK is a beneficiary. C N Morris (1980) has attempted to quantify the extent of UK losses and French gains from increases in wheat and barley support prices (Fiscal Studies 2 p 17).

There are other grounds for a positive Government role in market development, either directly or via producer involvement. For example, the Government could act by instituting changes that no part of the market could enact singly (such as quality classification), by financing investment in risky long term projects or by developments that allow the security of access to a more diverse range of markets. These aspects are considered below.

(ii) Grain Storage

So long as storage costs in the UK exceed the monthly increase in the support prices the market will attempt to dispose of surplus production as early in the season as possible. UK grain prices will be most competitive at that time, relative to France. The French co-operatives with lower storage costs, are best placed to act as the Community stockholders exporting their surplus production later in the season. Orderly marketing in the UK is thus best served by the granting of sufficient export refunds at the start of the season to cover the exportable surplus. The Government should exert pressure to effect this. Without any great incentive to store in the UK any policy on development of storage capacity should concentrate on the additional needs of merchants, co-operatives and co-operative groups rather than producers. The principal requirement is for sufficient post-harvest storage to allow orderly procurement, facilities being located and designed with export requirements in mind.

Government financing of off-farm storage is currently at the minimum level (8 per cent capital grant) to permit a FEOGA application. Co-operatives through CCAHC can obtain a higher national contribution. If the Government wishes to increase the returns of cereal producers by stimulating investment in the grain storage/drying facilities of traders and co-operatives, more attractive levels of capital grant are the obvious method. But it seems unlikely that this would be seen as desirable. The encouragement of investment in export-orientated facilities is, however, a more deserving case.

(iii) Export Trade

Direct Third country export has become the Commission's principal method of removing the exportable grain surplus. For most of the season, producer prices in the UK are therefore dependent on export prices. The situation is the same in France but the French industry has taken a positive approach towards the development of Third country markets and marketing. The attitude in the UK is more passive with, at the extreme, the support of market prices and disposal of surpluses seen as totally a problem for the Commission. Given the limited UK export facilities and the fact that most of the UK surplus either directly or via transshipment is exported outside the Community markets, there is a case for following the French example. In order to increase the longer term security of the export trade, UK traders must be able to compete with the French and other producers in world markets. This could be especially

relevant if there were restrictions on export refunds because of budgetary costs. Given the developments in progress at Hull, Southampton and Bristol, it may be that no direct Government assistance is needed, the benefits from private investment being adequate. However, this development of export facilities should be welcomed as a step towards improving the competitive position of UK grain.

SUMMARY

1. The aim of the study was to describe the key features of cereal marketing in France. Particular emphasis was given to the institutions involved in the cereal market, the finance and storage of stocks and marketing for export.
2. France is the principal Community cereal producer and exporter, (soft wheat being the predominant grain) and the Paris Basin the main producing region (1.1). The output of soft wheat has increased substantially since the mid 1970s but production of both barley and maize has remained relatively static (1.2). Off-farm sales of wheat and barley in 1981/82 were 19.4 and 6.3 M tonnes with grain exports of 10.1 and 3.2 M tonnes respectively (2.1). The quantity of wheat and barley exported to other EEC countries (principally Belgium, Netherlands, West Germany and Italy) has changed little in recent years with increases in wheat production being exported to Third countries. Europe, North Africa and the Far East are the main French markets (2.3), with Rouen the important exporting port (2.2).
3. The French cereals market is characterised by a much greater degree of State and co-operative involvement than is the case in the UK. This stems from pre-war State control of the market and encouragement of producer co-operatives (3.2). Ex-farm sales can only be made to approved buyers (mainly co-operatives and private traders) licensed by the National Cereals Office (ONIC) (3.2.4, 3.2.5). The Licensed collector system is the key to the market since it is at this level that ONIC assists in the financing of cereal stocks (3.2.6), directs State investment subsidies for storage/handling facilities and obtains market information (3.2.7).

Growth of the co-operative sector has been encouraged by low-interest investment finance and co-operatives now dominate the cereal market (3.3). Their favoured position reflects the security of this outlet for producers (3.3) and the State desire for French (producer) domination of the market. The co-operative sector has evolved a hierarchy of organisations including co-operative unions (3.3.2), SICAs (3.3.1) and national groups (3.3). It engages in all aspects of cereal marketing and may obtain finance at subsidised rates for approved investment in stock and facilities through Credit Agricole (3.4). The cereal producers' union (AGPB), the co-operative sector and ONIC act with extraordinary cohesion in the formation of policy and its implementation at national and Community levels (3.5).

The Government organisation UNIGRAINS, financed by taxes on cereal producers, is a source of subsidised credit and credit guarantees for market development (3.6).

4. Sales of grain off farms can only be made by approved buyers (collectors) of which there are around 2,000 in France (4.1). Co-operatives handle nearly 70 per cent of the cereal collected (4.1). The timing of grain sales depends largely on the availability of capacity and finance for on-farm storage and the anticipated benefits from storage. Generally in France investment in on-farm storage has not been encouraged, the

collectors acting as stockholders (4.2.3). Sales to collectors are principally by spot purchase or on account and producers must be paid within 10-12 days of delivery (4.3). In the on account system a producer is typically paid 90-95 per cent of the August intervention price. At a later date a supplement is paid to bring the return to the average market price during harvest and for later deliveries a storage increment is also paid. There is no futures market in France and, unlike the UK, much less tradition of forward and speculative trading. Cereal producers are subject to a variety of taxes which together amount to at least 42.5 FF (£3.86)/tonne in 1981/82 (4.4). Much of the tax revenue is used to finance research, advisory market development and institutional activities in the cereal sector.

With limited on-farm storage the capacity of collectors' storage is seen as a crucial element in orderly grain marketing at harvest (5.2). Since 1975 the expansion of this storage has not kept pace with increases in output and a major plan for 3 M tonnes of new capacity storage with subsidised finance is in operation (5.3). This plan also encourages storage for export since the French ability to compete in the export market is given high priority (5.2).

Since off-farm sales must be made to licensed collectors, producers have a very limited choice of market outlets. Marketing is essentially in the hands of the collecting agencies which, as in the UK, have three principal markets - intervention, export or domestic uptake (6.1). The c.i.f. export trade is dominated by the international shippers although the co-operative sector through its union UNCAC has been increasing its activity in this area (6.2).

Ex-collector prices for wheat and barley are determined by the CAP support measures (intervention and export refunds) with intervention in surplus regions being particularly important in the harvest period (6.3). Price development within the year tends to be more stable in France because of the strong surplus of wheat and barley, the storage premia directed towards French needs and the institutional organisation of the market (6.3.1). To derive ex-farm prices, the collector's margin, the costs of delivery and cereal taxes must be deducted from the ex-collector price. In surplus regions where prices are supported by intervention, ex-farm prices are typically around 90 per cent of the intervention price (6.3.3).

When a comparison is made between f.o.b. prices (ex-Rouen and ex-UK East Coast, adjusted for MCAs) French prices exhibit a strong premium particularly for wheat. This reflects quality differences and the location and facilities at Rouen (6.4). Within the marketing year, the differential between French and UK prices tends to narrow reflecting the French storage tradition and subsidised interest on stocks for co-operative collectors. Thus UK grain is most competitive early in the season. The main thrust of French exports comes later in the post-January period (6.4).

7. Developments in French grain marketing have, apart from proposals to expand storage, centred on two aspects - grain quality and Third country trade (7.1). The aim is to develop Third country markets for French grain. A pilot wheat classification scheme has been operated by ONIC at La Pallice and this is likely to be extended to all ports (7.2). Actions to expand secure Third country outlets has mainly been by influencing Commission policy on long-term contracts and food aid (7.3).
8. The French system of centralised planning and regulation is apparent in the cereal sector and contrasts markedly with the UK where there is little evidence of Government involvement and a history of unrestricted trading. The close links between the French producers' union, the co-operatives, ONIC and the Ministry allows French producers a powerful lobby in the formulation of national and Community policy (8.2).

French producers are, however, denied the range of market outlets available in the UK because sales can only be made to licenced buyers. Direct selling into intervention is not permitted (8.3).

In terms of policy, the French and UK positions are in many cases diametrically opposed. On prices the French position is dominated by producer interests whereas in the UK consumer and budget effects are of greater importance. On storage the French policy has been to encourage storage particularly by co-operatives - the storage incentive being largely Commission financed. The UK, without interest subsidies, is best placed to minimise storage and dispose of surplus production early in the season. Even with the export market the French drive to improve facilities and secure Third country markets is not so clearly the appropriate policy for the UK. There is, however, a case for improving the UK competitive export position (8.4).