

**Annual report
2005**

Spain

Agri.Med

**Agriculture, fishery, food
and sustainable rural development
in the Mediterranean region**

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2005**

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Victor D. MARTINEZ-GOMEZ,
Polytechnic University of Valencia, Valencia

TABLE OF CONTENTS

	Page
1 Agriculture and the Spanish economy	1
1.1 Development of Spanish economy and its perspectives	1
1.2 Agriculture and food in the national economy	4
2 Agricultural and food production, food consumption and trade	5
2.1 Agricultural structures and production	5
2.2 Food industries	15
2.3 Food consumption	17
2.4 Foreign trade	18
3 Agriculture and agri-food policies	21
3.1 Trend in agricultural policies	21
3.2 Structural policies	23
3.3 Price and subsidies policies	24
References	27

LIST OF TABLES

		Page
Table 1	Spanish economy in 2003. Annual variation (%), constant prices 1995	1
Table 2	Evolution of the index of consumer prices (1996=100)	2
Table 3	Labour statistics	3
Table 4	Economic indicators. Comparison between agriculture and the whole economy	4
Table 5	Number of farms by size and acreage	5
Table 6	Number of farms by size (in ESU) and acreage	6
Table 7	Agricultural economic account. Global results (million €)	6
Table 8	Agricultural economic account. Results by activity	7
Table 9	Evolution of main productions, 2002-2004	8
Table 10	Evolution of animal productions, 2001-2003	14
Table 11	Farm gate prices, 2001-2003	13
Table 12	Price of main inputs, indexes 2001-2003	14
Table 13	Gross output of agri-food industry	15
Table 14	Number of agri-food industries, 2003	16
Table 15	Sub-sectors of agri-food industry: employees and gross production	17
Table 16	Total and agricultural external trade, 2002-2003	18
Table 17	Agricultural external trade by chapters, 2002-2003	19
Table 18	EAGGF Guarantee transfers, 2002-2003	24

LIST OF FIGURES

		Page
Figure 1	Seasonal breakdown of the sheep meat production	11
Figure 2	Seasonal breakdown of the sheep meat prices for sheep < 14 kg	12

1 Agriculture and the Spanish economy

1.1 - Development of Spanish economy and its perspectives

Year 2003 has been a positive year for Spanish economy considered as a whole. In a context with the main Euro-zone countries –namely Germany and France– showing slightly positive growth, Spain increased its growth from previous years performance. Indeed, the Gross Domestic Product (GDP) grew 2,4% in 2003, 1,9 points above Euro-zone average.

This evolution of income in the country indicates real convergence of Spanish economy with regards to its main partners, as is happening since 1996. Anyway, it is noticeable that the growth levels seem to have stagnated around the 2-2,5% range in the last years, unlike the 4% increases happened between 1997 and 2000. With regards to the sources of such growth, as we mentioned in previous year report, the main responsible of such a successful rate was domestic demand. Actually, the contribution of net exports was negative (-1,0%) due to the fact that imports rose significantly (6,7%) while exports increased in a lower rate (4,0%).

With reference to the domestic demand, it seems that its breakdown is achieving a more balanced composition compared to 2002 results. In fact, while the construction sector reduces slightly its contribution to the overall economy –yet very relevant to date–, firms investment recovered a positive result for the first time since 2000. This change of trend illustrates an improvement of economic expectations among firms. Concerning consumption, both households and public administration expenses have increased from the good previous year results. Table 1 illustrates all these results.

Table 1 - Spanish Economy in 2003. Annual variation (%), constant prices 1995

Activities	2002	2003
Public and private expenses	3,0	3,3
- Households expenses	2,6	3,0
- Public administrations expenses	4,4	4,6
Gross Investment	1,0	3,0
- Equipments	-5,4	1,9
- Construction	4,2	3,7
- Others	2,6	2,8
Domestic demand	2,6	3,4
- Exports of goods and services	0,0	4,0
- Imports of goods and services	1,8	6,7
Exports demand	-0,6	-1,0
Gross Domestic Product	2,0	2,4

Source: National Statistics Institute.

Oppositely to the good GDP result, the evolution of prices showed a mixed pattern. First, the relatively high inflation rate of 2002 was partially corrected, reaching a 2,6% increase as measured by the Index of Consumer Prices (ICP). It is worth to mention that official forecasts expected a 2,0% increase, while several pessimistic agents were forecasting about 4% increases. In spite of this reduction in the rate, analysts consider that it has not been sufficient to fill the inflation gap with the average Euro-zone value completely. Indeed, Spanish ICP still remained 0,7 percent points above Euro-zone average in 2003 (table 2).

Table 2 - Evolution of the Index of Consumer Prices (1996=100)

	2002	2003
Index	119	122,1
Variation (%)	4	2,6
Difference (in %) with Euro-zone average inflation	1,7	0,7

Source: National Statistics Institute and FIAB.

Some of the causes of Spanish inflation remain unchanged in national economic environment from year to year: the unavoidable convergence with Euro partners prices, the need for further reforms ensuring greater competition in several key sectors (energy and other basic goods), the year-to-year salaries negotiations (linked to inflation forecasts), as well as the lack of monetary policy. While interest rates of Euro keep their current low values in order to encourage general Member States growth, Spanish economy will be burdened by such a “soft” monetary policy.

Following that reasoning, several economists blame such low interest rates as being responsible of the “construction boom” that remains in the economy. As mentioned earlier and depicted in table 1, the construction sub-sector is a key element in total growth but it has to be highlighted that simultaneously the debt of households has reached an unprecedented level. The reason is that the consumption of real state goods increases quarterly stimulated by low interest rates.

It is also worth to mention the relative weakness of exports in the last years. While in some extent it is related to the evolution of exchange rates – the strength showed by the Euro specially during 2003- there are other factors to be taken into account. As a matter of fact, about 70% of Spanish exports have Euro partners as destinations. The key element has to do with the erosion of competitiveness of national products in international markets: firstly, the –relatively- high inflation rate burdens Spanish exports in comparison with competing countries products, and, secondly, the productivity increases in a lower extent than in our competing countries. Within that chapter, the lack of a relevant effort in Research and Development (held by private firms and public administrations) is commonly blamed.

With regards to the labour situation, a remarkable point is that the growth in national economy generates jobs, but labour force increases simultaneously. In 2003, the net result was a very slight decrease in total unemployment rate (11,30% from 11,36%, following National Statistics Institute data). In figures, occupied population increased in 437 000 people, meaning a 2,7% increase which constitutes a very good indicator of a wealthy economy, but, simultaneously, active population increased up to 18,82 million people (+481 500 people). Hence, the number of unemployed increased and the end-of-year figure was 2,13 million unemployed. The unemployment rate in Spain is the higher one within the EU members, in spite of the steady growth achieved in the country. One of the stated reasons for such phenomenon has to do with the lack of flexibility of labour markets in Spain, and, as stated previously, the way in which salaries negotiations are held. Table 3 shows labour data for the period 2001-2003.

Table 3 - Labour statistics

	2001	2002	2003
Unemployment Rate	10,49	11,36	11,3
Activity Rate	52,88	54	55,03
Number of active (000 people)	17814,6	18340,4	18821,9
Number of occupied (000 people)	15945,6	16257,6	16694,6
Number of unemployed (000 people)	1869,1	2082,9	2127,3

Source: Active Population Survey, National Statistics Institute.

Eventually, it is worth to make a brief digress regarding the “outsourcing” of firms that is happening in the recent years in Spanish industry. Since 2001 to 2003, estimates account for more than 10 000 jobs that have been destroyed due to the fact that companies are shutting down their factories in Spain, while opening new ones in other countries. The sectors affected range from electronics to automotive and other manufactures. Most of those factories were established in Spain after its accession into the EU: while looking for lower wages, they required as well medium-skill workers, good infrastructures and a stable institutional and political framework.

Once other countries as well provide for those elements, salaries become the key factor. Hence, most of those factories has been moved to Eastern European countries and Asia. The 2004 EU enlargement is perceived within Spain labour force and its unions as a further threaten that may speed up this process. A response provided together by public administrations, labour unions and firms organisations is deemed as necessary to overcome this situation.

1.2 - Agriculture and food in the national economy

There has been a timid interruption in the diminishing contribution of agriculture to the general economy. Indeed, for 2003 the rate Agricultural Gross Value Added (GVA) over total Gross Domestic Product (GDP) remained in the 3.4% as in 2002, following Ministry of Agriculture, Fisheries and Food (MAFF) first calculations. Anyway, the decreasing contribution of agriculture to the national economy is out of debate: in 1990, this percentage was 5%, in 1995 it was 4,3%, and in 2000 reached 3,8%. As in other developed economies, the main reason of such a trend is that the agricultural GVA increases yearly in a lower rate than the total GDP.

Another common situation of developed economies is the relatively low productivity of agricultural occupied population: for 2003, the average GVA per occupied in agriculture is about 30 000 Euros, while the general GDP per occupied indicator is close to 45 000 Euros. As a result, the occupied in agriculture reduce year to year both in absolute terms and in percentage over the number of occupied in the whole economy. Table 4 depicts these data. As a summary, let us mention that the adjustment process in Spain in agriculture continues: with less number of workers in the sector, the value added produced increases yearly. The first paragraph of next section is devoted specifically to another situation that illustrates this course of action: the farm structural adjustment process.

Table 4 - Economic indicators. Comparison between agriculture and the whole economy

	2001	2002	2003
% GVA per occupied in the agricultural sector/GDP per occupied in the whole economy	63,6	64	66,3
% Occupied in the agricultural sector over total occupied	5,7	5,4	5,1
% Agricultural GVA over general GDP	3,7	3,4	3,4

Source: MAFF.

2 Agricultural and food production, food consumption and trade

2.1 - Agricultural structures and production

As we mentioned in 2002 report, the Agricultural Census of 1999 gives the last evidence of the evolution of farm structures. Unlike other EU countries, Spanish agriculture is reducing sharply the number of farms whereas the utilized agricultural area is increasing in a lower rate. Hence, the average dimension of exploitations is increasing, yet still below EU-15 average. Tables 5 and 6 give the more significant figures arising from 1999 Census and their comparisons with 1989 Census. To assess if the process is still going on, the results of the 2001 Farms Survey are required¹.

With regards to agricultural production in 2003, the first point to highlight is the slight increase in the Final Agricultural Output (+3,7%) -following MAFF estimates. While prices rose considerably (+6,0%), the quantities that were produced reduced in some extent (-2,2%). In a certain way, this situation tended to counterweight 2002 data, when prices dropped and production increased.

Table 5 - Number of farms by size and acreage

Size	Number thousand	% of total	% Cumulated
0 - 1 ha	455,424	0,25	0,25
1 - 5 ha	643,128	0,36	0,61
5 - 20 ha	403,109	0,23	0,84
20 - 50 ha	137,01	0,08	0,92
50-100 ha	58,994	0,03	0,95
>100 ha	66,791	0,04	0,99
Total	1790,2	1,00	

Note: the total figure includes farms without land.

Source : Agricultural Census 1999. National Statistics Institute.

¹ As there are no new data since the 1999 Census published in 2003, for more detailed figures and comments let us refer to the paragraphs written in last year report.

Table 6 - Number of farms by size (in ESU) and acreage

Size	1989			1999		
	Number thousand	% of total	% Cumulated	Number thousand	% of total	% Cumulated
<4 ESU	1604,91	76,69	76,69	1030,6	62,07	62,07
4-16 ESU	383,347	18,32	95,01	407,17	24,60	86,67
16-40 ESU	78,411	3,75	98,76	150,48	9,09	95,75
>= 40 ESU	26,053	1,24	100,00	70,357	4,25	100,00
Total	2092,72	100,00		1658,6	100,00	

1 ESU 1989: 1000€ of Standard Gross Margin.

1 ESU 1999: 1205€ of Standard Gross Margin.

Source : López (2003) from 1999 and 1989 Census.

Something that has not changed is the year-to-year increase in Intermediate Consumptions. Both prices and quantities of inputs used showed an increment: +1,0% and +2,6% respectively, yielding an overall +3,6% increase in value from 2002 to 2003. Among each input, the most significant increments in use were for fertilizers, fodder and veterinary services, with the most significant reductions in the quantities used of seeds and energy. The Intermediate Consumptions represent 36% of the Final Agricultural Output.

The final result of both results is the increase in the value of agricultural GVA (+3,7%), and, as depreciations, taxes and subventions have changed about the same percent, Agricultural Income has also increased in value (+3,8%). All these results are shown in table 7.

Table 7 - Agricultural economic account. Global results (million euros)

	2002	Indexes 2002 = 100		2003
	current price	volume	price	current price
I - Agriculture and livestock				
A. Final agricultural output	37632,4	-2,2	6	39009,3
vegetal productions	23142	-4,9	8,9	23959
animal productions	12944,8	2,7	1,5	13490
B. Intermeditate consumptions	13619	2,6	1	14112
C = A-B. Gross value added	24013,4			24697,4
D = Subsidies	2106,4			2144,8
E = Taxes	145,4			150,5
F = C + D - E. Gross value added at factor costs	25974,4			26691,7
G = Depreciations	3025,2			3078
H = F - G. Net value added at factor costs				
= agricultural income	22949,3			23813,6

Source : MAF.

**Table 8 - Agricultural economic accounts. Results by activity
(Current million euros)**

I - Agriculture and livestock	2002	Indexes 2002 = 100		2003
		Volume	price	
A. Final agricultural output	37632,4	-2,2	60	39009,3
vegetal productions	23142	-4,9	8,9	23959
cereals	4 032,00	-2,20	2,00	4 020,40
potatoes	464,4	-10,4	30,2	541,5
fodder crops	601,4	9,4	-8,4	602,7
industrial crops + pulses+ sunflower	1 535,40	-3,50	-4,50	1 415,10
vegetables (incl. nurseries)	6 249,20	-0,20	13,60	7 086,00
fresh fruit (incl. citrus, grapes and table olives)	5 467,10	-0,20	7,80	5 881,20
wine and grape juice	980	12,6	8,2	1193,4
olive oil *	2 790,20	-39,80	30,80	2 196,00
other	1 022,10	0,00	0,10	1 022,60
animal productions	12 944,80	2,70	1,50	13 490,00
beef	2 315,00	4,80	0,20	2 431,00
sheep and goat	1 986,60	-0,50	-1,20	1 953,00
pork	4 000,10	5,80	-3,80	4 071,60
poultry	996,30	1,20	13,20	1 141,70
horse	48,20	-9,40	0,00	43,70
other meats: rabbits,...	326,9	-2,4	35,1	431,1
milk	2 274,60	-1,90	-1,20	2 203,40
eggs	844,4	6,7	17,9	1061,7
B. Intermediate consumptions	13 619,00	2,60	1,00	14 112,00
seeds and plants	878,6	-1,6	-0,3	862,2
energy	1 120,10	-1,60	3,80	1 144,20
fertilizers	1 088,40	6,20	-0,60	1 148,60
phytosanitary products	958,9	2,6	2,2	1004,9
veterinary products	462,5	4,6	0,3	485,2
feeding stuff	6 221,80	4,60	-0,30	6 490,60
capital conservations and repairs	1 400,30	n.a.	n.a.	1 451,60
services	559,2	2,6	1,7	583,4
other	929,2	-1,6	2,9	941,3
C = A-B. Gross value added at market price	24013,4			24897,4
D = Subsidies	2106,4			2144,8
E = Taxes	145,4			150,5
F = C + D - E. Gross value added at factor costs	25974,4			26891,7
G = Depreciations	3025,2			3078
H = F - G. Net value added at factor costs				
= agricultural income	22949,3			23813,6

*: data correspond to the 2002/03 campaign, e.g, fruits harvested during the period November 2002 to February 2003.

Source : MAFF.

In a separate evaluation, the more significant feature is the different behaviour that vegetal and animal productions presented in 2003 campaign: most vegetal productions were affected by the drought of spring and the excessive temperatures registered in 2003 summer and, hence, the harvests reduced. These climatic

conditions influenced in a decisive way most of the crops. On the other hand, animal productions increased in general terms. Table 8 summarises economic results by activity, while table 9 focuses on provisional data and estimates for acreage and production for vegetable activities. Table 10 depicts the levels of animal activities: number of animals slaughtered, quantities produced and the national size of cattle.

Table 9 - Evolution of main productions 2002-2004

	Acreage 1000 ha			Production 1000 T		
	2002 (prov)	2003 (prov)	2004 estimation	2002 (prov)	2003 (prov)	2004 estimation
hard wheat	925,4	907	915,4	2073,2	2248,8	2293,3
soft wheat	1476,4	1311,1	1270,3	4709,7	4041,3	4167,3
barley	3100,2	3089	3154	8332,9	8698,4	9722,7
maize	462,6	476,2	481,7	4463,4	4338,7	
rice	112,9	117,5	119,7	815,7	855	
other cereals	611,6	625,8	618,4	1212,6	1174,5	1233,7
total cereals	6689,1	6526,6	6559,5	21607,5	21356,7	17417
potatoes	113,5	103,6	98,5	3098,9	2790	
sugar beet	114,7	100,2	101,1	8040,3	6483,9	
sunflower	753,9	790,3	751,2	757,2	769,3	
other: pulses	549,8	561,5	572,1	485,1	533,2	541,5
fouirage (fodder maize+ vicia sativa+ alfalfa)	404,7	403,2		16086,1	17596,8	
lettuce	33,2	35,2		914,9	956,8	
watermelons	16,5	15,6	16,2	608,8	714	
melons	38,9	40,4	39,1	991,3	1031,9	
tomatoes	86,5	96,8		5547,9	5496,9	
peppers	25,8	24,6		1047,5	1065,4	
onions	23,1	21,7	21,6	1101,2	984,7	
oranges	135,5			2867,1	3088,6	
mandarins	114,1			1952,1	2081,5	
lemons	45,2			919,7	1068,7	
apples	44,7			651,2	791,1	
pears	32,4			608,4	671,6	
peaches	71,6			1279,1	1310,4	1117,7
almonds				299,7	199,6	99,9
bananas				412,2	405,2	405
table grapes				332,5	317,3	
grapes for wine				5542,7	6546,6	
table olives				354,2	496,2	
olive oil				3936,5	6794,7	
other tree crops: apricots, cherries and plums	76,9			426,9	462,1	432,1

Source : MAFF except * (estimations belonging to CESFAC, fodder processors confederation).

Some paragraphs can be useful to underline the sector-by-sector main developments happened in 2003. For **cereals**, the high temperatures led to bad yields in some producing areas, mainly for winter cereals such as wheat and oats. The same situation can be pointed out for maize.

Regarding **sunflower**, a similar situation happened: while the planted area had increased in some measure, yields diminished in most of the productive areas. Only the southern regions -with early harvest- that could avoid the end of spring and summer high temperatures achieved normal yields.

For **cotton**, the cultivated area in Spain is relatively highly concentrated on 1 province with 60% of the cultivated area. In 2003 the crop suffered phytosanitary problems that, in addition to the climatic problem, decreased its profitability.

In the **olive oil** sector, climatic conditions improved the quality of the oil. Indeed, summer hot diminished the incidence of flies (*Bactrocera oleae*) attacks to the fruit and, hence, the quality of the oil was excellent in many productive areas. The quantity of olives harvested reached the 2001 campaign “record” level (6,5 million metric tonnes) but drought led to an abnormal low fat yield. Therefore, the amount of olive oil –although above the Maximum Guaranteed Quantity- did not exceed the maximum historical level of 2001. It is worth to highlight that these data correspond to the 2003/2004 campaign, whereas MAFF data reflected in table 8 correspond to the 2002/2003 campaign².

Similar comments can be done for the **table olive** campaign: it was reported a recovery on production compared to the previous year (campaign 2002/2003). The total amount produced was 564 500 tonnes, a 26% higher than the previous year. Additionally, it can be of interest to bear in mind that olive trees having alternate productive pattern, hence, the irregularity in harvests from year to year are common in this crop.

For the **wine** sector, first estimates for the 2003/2004 campaign confirm a new increase in the hectolitres of wine and grape juice produced. As the standpoint –the 2002/2003 campaign- was a good campaign, the last campaign could represent an unprecedented historical level of production. In a context of other European countries –France and Italy- reducing modestly their production, Spain has been increasing its productive levels since 2000. It is expected a further continuation of this trend since the vineyards recently modernised have not yet entered into full production.

² See also * on table.

Table 10 - Evolution of animal productions, 2001-2003

	Slaughters (1000)			Meat production (1000 T)		
	2001	2002	2003 <i>estimation</i>	2001	2002	2003 <i>estimation</i>
Meat						
Beef	2458,1	2692,4	2762,9	642,0	676,1	703,5
Sheep	20820,6	20950,7	20782,2	236,4	237,1	236,2
Goat	1764,8	1829,7	1685,0	17,5	15,1	13,9
Pork	36263,9	37023,5	38180,1	2992,7	3070,1	3189,5
Horse	36,8	29,8	24,1	7,0	5,7	4,8
Poultry	698340,0	700022,0	701587,0	1030,5	1331,7	1330,0
Rabbit	92905,0	96353,0	90300,0	111,5	119,0	112,3
Other						

	Production (1000 T)		
	2001	2002	2003 <i>estimation</i>
milk			
cow milk	5834,3	5967	
sheep milk	310	348,6	
goat milk	333,1	375,9	
other			
eggs*	962133	971592	1040983
other			

* in 1000 dozens.

	Cattle (1000 heads)		
	2001	2002	2003 <i>estimation</i>
cattle	6411	6487,8	6560,0
sheep	24300	23813,2	23486,0
goats	3114	3046,7	3162,01
pigs	23857,8	23517,2	24053,3
laying hens	43812		
other			

Source : MAFF.

Turning into animal productions, the **beef** sector showed in Spain a moderate increase in the amount of meat produced (about 700 000 metric tonnes in 2003), in spite of the data observed for the rest of the EU-15. It can be pointed out that this sector presents in Spain a dual structure: one sub-sector having suckler cows that produce calves, and the corresponding sub-sector fattening the calves. The number of exploitations that cover the whole productive cycle is relatively low.

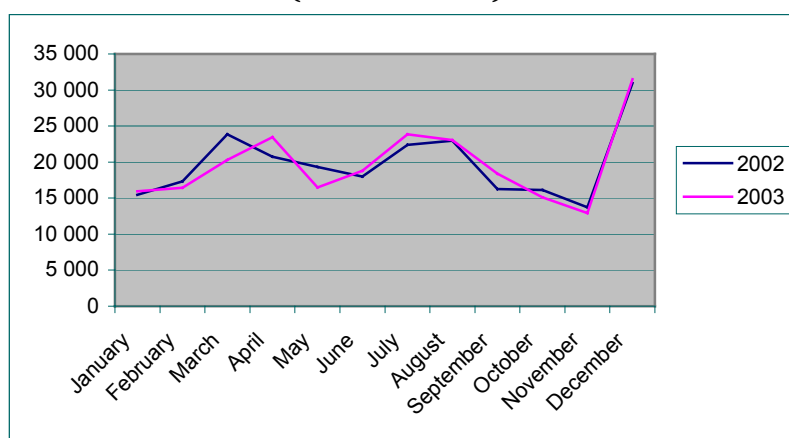
For the **sheep and goat** sector, Spain represents about 25% of EU-15 sheep meat production and 20% of goat meat production. In both cases it is the second producer,

and, also, it is the second country in number of animals. In a Mediterranean context, this activity represents a key activity in certain regions where other agricultural activities are difficult to be held, due to climatic and/or geographic conditions.

Following data from MAFF Census (December 2003), the number of sheep continued its reduction, reaching 23,5 million animals. The number of sheep in Spain reached 25 million in 2000, and, since then, it has decreased yearly. On the contrary, the number of goats (3,2 million animals) has recovered since the 3 million animals in 2001. Concerning the number of animals slaughtered, 20,78 million sheep and 1,68 million goats went to abattoirs in 2003. They represented a -0.8% diminution in sheep and a -8% diminution in goats.

Having into account the weight of slaughtered animals, a similar situation is happening in sheep meat and goat meat produced. For goats the total weight has reduced by - 8%, the same rate as the reduction in the number of slaughtered animals. Regarding to sheep, together with the reduction in number of sheep, a -0,4% decrease in total weight has occurred. In Spain, there is a traditional preference for low-weight sheep to be slaughtered, specially young animals younger than 2 months that have only been fed with milk³. As well, there is a seasonal response in the slaughtering of animals, both in number and in weight: December, April, and July and August concentrate almost one half of total meat production, due to productive reasons and a rise of prices in Christmas. The next graph show 2002 and 2003 seasonal evolution of the tonnes of sheep meat produced (figure 1), and the prices of less than two months animals (figure 2).

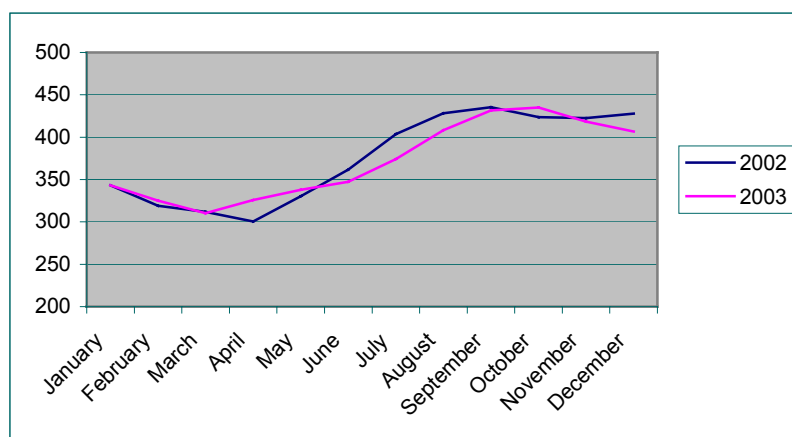
Figure 1 - Seasonal breakdown of the sheep meat production (metric tonnes)



Source: MAFF data on monthly slaughtering.

³ As an illustration, it can be worth to say that Spain ranks first in number of sheep slaughtered in the EU-15, but second in total weight slaughtered (after the United Kingdom).

Figure 2 - Seasonal breakdown of the sheep meat prices for sheep < 14kg (€/100kg)



For the **pork** meat sector, in 2003 there was an increase both in the number of animals slaughtered and in its total weight, about 3.5%. Oppositely, in **horses** and in **rabbits**, there were reported diminutions both in animals and in weight. For the **poultry** sector an almost flat pattern was reported.

For other animal products, the most remarkable situation is the 2% decrease in the amount of **milk** produced, while for eggs the dozens produced increased a notable 6,7%.

With reference to prices, the drop in vegetal productions led to increments for almost all the produce, with remarkable +30% increases in potatoes and olive oil and 13% in vegetables. The general index was +8,9%. For animal productions, the increase in prices was more modest (+1,5%), but showing a noticeable +13,2% in poultry prices and +17,9% in eggs prices. In the two cases, summer weather was blamed as provoking chickens and broilers deaths, and, therefore, the rise in prices. For other animal productions, a mixed pattern was reported: sheep, pork and milk prices reduced while the other products –other than eggs and poultry- increased their prices very slightly.

Table 11 - Farm gate prices, 2001-2003

	price€/T		
	2001	2002	2003 estimation
Wheat	148,8	134,1	138
Barley	126,5	118,2	121,5
Maize	136,4	137	147,9
Rice	279	275,1	274,8
Other cereals: oats	124,7	126,2	123
Other cereals: rye	123,4	122,2	142,9
Other cereals:shorgum	141,7	128,2	147,2
Potatoes	206,6	163,2	212,5
Sugar beet	51,2	51,5	58,8
Sunflower	255,6	261,4	216,5
FORAGE: alfalfa	111,8	118,3	111,1
Lettuce	301,2	381,5	476,6
Watermelons	205,2	191,6	302,3
Melons	257,9	235,5	316,7
Tomatoes	336,1	459,7	490,9
Peppers	647	603,9	782,3
Onions	153,1	147	165,9
Oranges	191,8	199,7	191
Mandarins	262,9	271,8	266,6
Lemons	236,7	233,9	252,4
Apples	234,8	319,8	350,4
Pears	309,3	419,6	503,5
Peaches	505	491,7	628,4
Apricots	313,3	419,3	73,07
Almonds	671,6	686,8	919,3
Bananas	236,7	273,8	299,9
Table grapes	454,7	433,1	428,4
White wine*	2,83	2,79	2,97
Red wine*	5,68	5,3	5,75
Table olives	497,6	462,2	495,6
Olives for olive oil	396,7	352,5	333,8
Olive oil	1735,1	1913,8	2190,2
Other: beans	1292,5	1461,5	1400,2
Other: plums	426,8	412,5	617,8
Other: cherries	1702,2	1164,4	1593,7

Table 11 (continued)

	price€/T		
	2001	2002	2003 estimation
Veal (beef < 1 year)	1587,9	1951,7	1947,8
Beef (> 2 years)	711,7	860,5	815,8
Sheep (< 1,5 months)	4322,6	3756,7	3720,5
Goat (< 1,5 months)	5056,8	4516,1	4536,5
Pork	1302,6	1037,4	968
Horse			
Poultry	950,7	741,5	835,9
Rabbit	1959,6	1395,7	1827,9
Milk			
Cow milk**	31,6	29,5	29,53
Sheep milk**	79,64	77,9	77,35
Goat milk**	456,5	457,6	456,3
Eggs ***	80,41	76,46	90,23
Other			

*: Prices in €/hectograde

**: Prices in €/100liter

***: Prices in €/100 dozens

Source : MAFF.

Table 12 - Price of main inputs, indexes 2001-2003

	Unit	Index 1995=100		
		2001	2002	2003 estimation
non qualified labour		275,17	286,65	291,92
qualified labour: tractors operator		283,24	292,96	289,54
non irrigated land		183,7	194,4	
irrigated land		164,0	174,1	
seeds		117,6	132,85	141,65
plants		147,84	137,86	121,69
fuel		165,98	154,99	161,88
transport				
azoted fertilizers		118,55	115,69	115,77
phosphated fertilizers		106,2	106,89	110,03
potassium		119,71	114,12	116,63
other: composite fertilizers		106,95	106,57	106,47
phytosanitary products		111,28	117,29	119,41
veterinary services		140,15	140,55	131,64
hired works				
soil preparations		123,82	128,15	130,4
tractor rent				

Table 12 (continued)

	Unit	Index 1995=100		
		2001	2002	2003 <i>estimation</i>
combine harvester rent		260,85	282,3	297,77
fodder		107,03	108,56	104,54
concentrated feed		101,65	100,65	101,14
cattle feed		105,19	104,04	103,34
sheep and goat feed		103,21	102,63	100,88
pork feed		100,04	99,84	99,8
poultry feed		100,57	98,58	100,87
water of irrigation				
short term interest rate				
long term interest rate				

Source : MAFF.

2.2 - Food industries

The gross output of Spanish agri-food industry reached a value of 62,116 million Euros in 2003. It represents an increase in current prices of 5.5% with regards to 2002. If measured in constant prices, it is a 3,0% increase that can be considered as a positive fact because since 1998 the data used to indicate light increases or even decreases in gross output (see table 13).

Table 13 - Gross output of agri-food industry

	Variation in production (%)			
	Value (million €)	Quantity	Current prices	Constant prices
1989	35574	1,4	6,4	-0,4
1990	37263	5,6	4,7	-2,1
1991	39486	3,2	6	0,1
1992	41350	2,6	4,7	-1,3
1993	42239	-6,1	2,2	-2,6
1994	44415	1	5,2	0,5
1995	47402	0,7	6,7	2,1
1996	49553	1,3	4,5	1
1997	52697	5,6	6,3	4,4
1998	53628	3,5	1,8	0
1999	54380	-0,3	1,4	-0,9
2000	55023	-1,1	1,2	-2,9
2001	56255	-2,5	2,2	-0,5
2002	58864	3,6	4,6	0,7
2003(*)	62116	2,8	5,5	3

* Estimate

Source : FIAB.

As we mentioned in last year report, one of the main characteristics of the sector in Spain is the relatively high percentage of small and medium enterprises –only 3,39% have more than 50 employees-, many of them being family-owned and managed firms. These firms tend to concentrate mainly in domestic market and, in a global market, this fact represents a shortcoming and a threaten for future performance of firms. Table 14 depicts the number of firms depending on its number of employees.

Table 14 - Number of agri-food industries, 2003

		0	1 to 9	10 to 49	50 to 199	200 to 499	> 500	Total
Whole economy	Number	1459938	1182845	145442	19888	3540	1506	2813159
	Percent	51,9	42,05	5,17	0,71	0,13	0,05	100
Total industry	Number	76859	125893	37737	6010	1128	411	248038
	Percent	30,99	50,76	15,21	2,42	0,45	0,17	100
Agri-food industry	Number	9199	18335	4612	866	193	70	33275
	Percent	27,65	55,1	13,86	2,6	0,58	0,21	100

Note: Data correspond to 1st January 2003.

Source: FIAB.

As another example of disadvantages due to the small size of firms, consumption data indicate that 21,6% of final food expenses are made on retailer-brand products in 2003 (9,1 percent points above 2002 data). As firms are able to retain less margin in these kind of products, a bigger dimension of food industries could improve their negotiating capital with retailers and hence, improve their profitability.

Within sub-sectors, the ones presenting the higher values in production are meat, alcoholic beverages and dairy products sub-sectors. In contrast, employment is more uniformly distributed, but the bakery sub-sector accounts for almost one quarter of total employment and meat industries about one fifth (see table 15).

**Table 15 - Sub-sectors of agri-food industry:
employees and gross production**

	Employees (thousand people)		Gross Production (million current Euros)	
	2001	2002	2001	2002
Meat industries	87	88	11916	11581
Fish industries	27	27	2360	2858
Processed fruits and vegetables	37	37	3910	4160
Oils and fats	15	14	4175	5046
Dairy milk industries	31	31	5925	6413
Mill products	9	8	1977	2000
Animal feed	18	18	5352	5393
Bread, pastry, biscuits	102	104	4055	4190
Sugar, cocoa and chocolate	24	23	2741	2772
Other food	27	27	2870	2848
Alcoholic drinks	41	43	7423	7869
Water and non-alcoholic drinks	17	17	3552	3734
Total	434	437	56255	58864

Source: FIAB.

2.3 - Food consumption

In 2003, the total food expenses were of 69,406 million Euros, a 4.8% higher than in 2002 –but only 1% in real terms-. Every household spent, *per capita*, 1,226 Euros. These household expenses account for 50,716 million Euros and are the main responsible of the growth of total food expenditure. The hotel and catering industry expenses increased 2.8% with regards to 2002 (about 17,000 million Euros) and for institutional –public administrations- expenditure, it increased a more timid 2%, while it remained about 1,200 million Euros.

According to the breakdown of the households expenses by products, in absolute terms the higher level of expenses corresponds to meat products (12 200 million Euros), while the next products in the ranking are fishery products, milk and other dairy products, fresh fruits, fresh vegetables, bread and pulses. Whereas there is some sort of stability in this ranking, certain products increased their participation in household basket. Indeed, in relative terms, the comparison with 2002 expenses shows that the main increases happened in beer, fresh fruits, prepared meals, mineral water and soft drinks, while other kind of products such as fresh potatoes and table wines diminished its total consumption despite the general rise in food expenditure.

2.4 - Foreign trade

Oppositely to the general merchandise trade balance, the agri-food trade balance for Spain shows a cover rate higher than 100% in the recent years. Indeed, whereas the general cover rate for 2003 was about 75%, the agri-food cover rate was 105%.

Focusing on the agri-food balance, both imports and exports rose: imports grew 2,64%, and exports increased by 3,98%. Also a remarkable aspect is the relatively high importance of agri-food exports: they account, in 2003 a 17,62% of total merchandise exports, whereas imports of agricultural products are responsible of the 12,52% of expenses. Table 16 shows trade figures for 2002 and 2003.

Table 16 - Total and agricultural external trade, 2002-2003

	2002 million €	2003	2003 % variation
All products			
Exports	130 814,1	137 815,3	5,35
imports	172 788,6	184 094,5	6,5
Agricultural products *			
exports	23346,3	24276,5	3,98
imports	22468,6	23062,2	2,64

Source : Own elaboration from Ministry of Economy data.

In a more detailed evaluation of exports, several facts can be pointed out. First, the two main categories of exports, attending to their economic weight, are fresh fruits and fresh vegetables. Following them in the ranking, their preparations, beverages, fats and oils, fish and meat products have also relevance. Thus, among these products, only fats and oils exports diminished in value in 2003, while in the other cases exports grew in 2003 in a higher rate than the general agri-food index. Therefore, with that exception, it can be interpreted that the main exporting sectors are competitive in the destination market, that is mainly the EU and other European countries.

The sectors having the worse exporting performance in 2003 were wool, leather and live animals. As table 17 illustrates, none of these products have special relevance in Spanish exports.

Table 17 - Agricultural external trade by chapters, 2002-2003

	2002		2003		
	1000 €	Imports	Exports	Imports	Exports
Live animals		388,7	265,63	377,3	232,6
Meat and edible meat offal		723,6	1297,53	790,2	1488,7
Fish and crustaceans; molluscs and other aquatic invertebrates		3911,1	1619,42	4070,5	1599,1
Dairy products; birds' eggs; natural honey;		1143,7	637,81	1196,4	710,8
Products of animal origin, not elsewhere specified or included		81,4	67,07	86,1	75,4
Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage		173,8	219,56	190,3	209,1
Edible vegetables and certain roots and tubers		604,4	3181,4	628,7	3381,9
Edible fruit and nuts; peel of citrus fruit or melons		904,1	4247,96	1056	4520,2
Coffe, tea, mate and spices		319,7	128,13	333,6	127,9
Cereals		1590,4	411,12	1281,5	394,8
Products of the milling industry; malt; starches; inulin; wheat gluten		94,2	134,96	87,8	151,5
Oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder		1214,9	134,31	1124,7	176,7
Lac; gums, resins and other vegetable saps and extracts		58,8	130,83	62,6	124,5
Vegetable plaiting materials; vegetable products not elsewhere specified or included		11,8	7,01	10,6	7,5
Animal or vegetable fats and oils and their cleavage products; prepared edible fats, animal or vegetable waxes		384,6	1635,73	471,7	1584,4
Preparations of meat; of fish or of crustaceans, molluscs or other aquatic invertebrates		355,0	594,9	425,2	600,5
Sugars and sugar confectionery		505,2	393,47	458,2	379,9
Cocoa and cocoa preparations		388,4	202,66	430	226,8
Preparations of cereals, flour, starch or milk; pastrycooks' products		556,4	512,91	626,7	551
Preparations of vegetables, fruit, nuts or other parts of plants		530,8	1463,66	535,2	1605,3
Miscellaneous edible preparations		777,1	529,16	849,1	574,1
Beverages, spirits and vinegar		1303,2	1964,68	1461,8	2081,8
Residues and waste from the food industries; prepared animal fodder		1039,9	272,52	975,2	274,6
Tobacco and manufactured tobacco substitutes		1207,0	157,33	1327,6	158,1
Leather		774,5	591,95	705,9	520,6
Wood and charcoal		1939,3	859,69	2071,7	808,9
Cork		125,9	280,25	131,5	288
Wood pulp		459,3	346,74	428	394,8
Wool, fine or coarse animal hair, horsehair yarn and woven fabric		187,5	209,72	158	180
Cotton		633,6	814,98	620,5	804,8
Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn		80,3	33,13	89,6	42,2
Total agricultural trade		22468,6	23346,22	23062,2	24276,5

Source: Own elaboration from Ministry of Economy data.

With regards to imports, the main chapter are fishery products, accounting for nearly 18% of imports expenditure. Also of special relevance are wood, beverages, tobacco, fruits, oilseeds and cereals. Among these major products, only decreased the value of cereals imports. Contrariwise, fruits, tobacco and beverages increased the value of imports in a significant rate above the average percentage.

Another point to bear in mind has to do with the different pattern that can be observed for trade in raw materials on the one hand and food products on the other hand. While the cover rate for food is 120%, the cover rate for raw materials – timber, leather, cork, wool, fibres...- is only 60%. Hence, Spain has a shortage of those materials and they have to be imported. The expenses to be borne are financed by the surplus in net exports of food.

Additionally, there is another difference depending on the origin of the traded products. Forestry productions represent 11,41% of imports and only 6,14% of exports. A similar situation can be highlighted for fishery products: as mentioned, their weight in imports is quite relevant (17,65%) oppositely to its share in exports (6,59%). For animal products, trade is more balanced, 16.21% of imports and 15,69% of exports, and, unlike the previous products, for vegetal produce the balance is clearly biased to the exports side. The cover rate for vegetal products is about 150%, and it occurs in spite of the important deficit in net exports of certain basic productions, like milk, cereals and oilseeds. Indeed, the significant surpluses achieved in fruits and vegetables trade compensate all the previous deficits.

During the last campaign, the association of producers and exporters of fruits and vegetables (FEPEX is their acronym in Spanish) has expressed their concern regarding the quoted acceleration of the imports of fruits. They state that, as the openness of EU market increases due to the bilateral agreements signed by the EU with Mediterranean partners and other countries, Spanish productions still face certain non-tariff barriers when entering into high-income countries such as Japan and the United States (US)⁴.

⁴ See El País, Sunday 9th May 2004, p.92: “La importación de frutas crece 20 veces más que la exportación”.

3 *Agriculture and agri-food policies*

3.1 - Trend in agricultural policies

MAFF's role in Spanish agriculture is twofold. On the one hand, it is responsible for the implementation of Common Agricultural Policy (CAP) regimes in Spain. For this reason, it must make the "transcription" of European Directives and Regulations, and distribute European Agriculture Guidance and Guarantee Funds. We elaborate on this point in section 3.3. On the other hand, MAFF has certain policy lines that are national-designed. Its main actions focus on agricultural insurances and irrigation policies, that we deal with in next sub-section.

Anyway, in this section we make a brief digress regarding the two main policy facts happened in 2003: the Mid Term Review (MTR) and the elaboration of a "White paper" of Spanish agriculture. The main development occurred in agricultural policies during 2003 was the approval of the CAP's MTR on June 2003. As known, certain factors led European policymakers to make changes in EU agricultural policies. Among these factors, we can point out external forces such as the need to gain in negotiating capital within World Trade Organisation (WTO) talks and the EU enlargement happened in May 2004. Also, several internal forces such as the budgetary constraints –e.g. the need for consolidating CAP's funds for next years- and the need for higher social recognition of the legitimacy of the expenses.

The most outstanding change under the new regime is the approval of the so-called "decoupled single payment" for each exploitation, regardless its actual productive orientation. It means that the payments will be perceived independently from the volume of production, since they will be calculated on a historical basis. Whereas this fact will be mandatory from 2007 onwards, in the intermediate campaigns (2005 and 2006) Member States may choose to maintain a limited link –partial decoupling- between production and payments to avoid abandonment of production.

Other points of the reform are, first, the linking of the single payment to the respect of environmental, food safety, animal welfare and plant and animal health standards. This formula is called cross-compliance and, until now, it was voluntary for Member States and applied to environmental standards only. Second, the reduction -modulation- of the single payments that exceed 5,000 Euros in a 5% since 2007, with lower percentages the previous years. In the previous scheme (Agenda 2000), modulation was voluntary and had little practical relevance.

The third main point of the MTR is related to the modulation. Thus, the savings obtained through this mechanism will be allocated to rural development, which will hence be strengthened. Its main goals are to help farmers to face new challenges in

their activity, and measures will range from the promotion of food quality to meet higher standards. Sector adjustments have been made also⁵.

In Spain, the results of the reform were considered, from a general point of view, as detrimental to national interests. Indeed, farmers organisations stated that the calculation of the decoupled payment on a historical basis would result on a lower payment for Spanish farms than the one perceived by other countries exploitations. Hence, an uneven funds distribution is maintained. Moreover, a discrimination between exploitations within the same country could happen after the full decoupling, since, for example, cereal exploitations could turn to the production of other crops (like potatoes or vegetables) still perceiving the cereals single payment.

Additionally, the increase in the policy options for Member States has led to fears to a re-nationalisation of the CAP, scenario in which poorer EU countries such Spain could support its agriculture in a lower extent than richer countries.

In addition to those stated shortcomings of the single payment scheme, its reductions due to the modulation are seen as a new source of uncertainty: while the losers are clearly identified, the gainers of the funds redistribution are still uncertain. Rural development is still perceived as a threaten rather than an opportunity by most farmers.

Finally, another point to stress is the approval in spring 2004 of the new regulations for three Mediterranean products –cotton, tobacco and olive oil. Since they followed the same approach of making partially independent the payment to the productive activity, some argue that they could lead to land abandonment in some low-yields areas. Farmers Unions blamed the new government for accepting a bad agreement, while it argued that the “decoupling” trend is unavoidable and farmers must be ready for such kind of adjustments.

Another important fact –in this case only of national interest- occurred in the general framework of agricultural policies was that, during 2002 and 2003, MAFF organised rounds of thematic discussions with the aim of identifying current circumstances and features of the Spanish agriculture. The discussions covered the most relevant topics in modern agriculture: agricultural structures, cooperatives, agri-food industry, coordination of the sector with the rest of the economy, income guarantees, environmental impacts of the activity, agricultural training, the impact of the CAP, fiscal treatment of agriculture, rural development, and other, as well as different discussions regarding the particular features and challenges of agricultural activity in every Spanish region.

⁵ Since the proposal of this report is to focus on Spanish agriculture and its developments, we are “setting-aside” a detailed description and deeper analysis of the MTR. For more detailed description and comments, we must refer to the first chapter of the CIHEAM Annual Report 2004, whereas – among other- FAPRI working group perform estimates as quantitative assessment of the MTR (see FAPRI Staff Report 2-03).

Experts from universities, farms unions, MAFF and regional administrations and other institutions discussed current facts and, more importantly, future forecasts for Spanish agriculture. The result of those discussions is the so-called “White paper of agriculture and rural development” (2,300 pages) that was published in November 2003. It contains analysis and recommendations for the future of Spanish agriculture and it is intended to serve as a source of policy guidelines.

3.2 - Structural policies

And for the irrigation policies, the first point to mention is the follow-up of the National Irrigation Plan that forecasts the public investment of 3 million Euros (plus 2 million belonging to private initiative) for the modernisation of irrigation structures and for new irrigated areas.

In addition to this Plan, the outstanding debate regarding water policies during 2003 was the beginning of the main actuaciones belonging to the National Hydrographical Plan approved in 2001. As we commented in last year report, there is a big controversy in Spain regarding the way in which water requirements of the South-Eastern regions could be satisfied. While most agents agree in such needs must be satisfied, the means of solving the problem are at the core of the issue.

Right political forces –in the national government by 2003- and farmers unions argue that the only feasible way consists on a water transfer –e.g. a several hundred kilometres channel plus regulation dams- from Ebro river to those areas, whereas left parties and environmental groups blame this solution as being expensive and environmental unfriendly.

Moreover, the debate has complicated and become angrier during 2003 due to two main facts. First, it has turned into a regional problem, because “dry” regions denounce the lack of solidarity of water origin regions, and state that economic and environmental arguments are excuses for their selfish behaviour. Second, the need for European funds for co-financing the transfers has led stakeholders to a “report war”, in which every European report –raised by Commission or Parliament to assess the feasibility of EU’s funding- is used for or against the Plan. By the end of 2003, national government started the actions for certain public works related to the transfer, which has led debate to an even more angry discussion.

3.3 - Price and subsidies policies

This section deals with MAFF's role of being the distributor or CAP funds to farmers. The agency responsible of price and market policies is FEAGA (acronym of Spanish Agricultural Guarantee Fund), which might be understood as the national reflection of EAGGF. FEAGA payments for 2003 are presented in table 18 and we mention in the next paragraphs the more highlighting facts.

First, it is of importance to mention that there has been a modest reduction in total funds perceived, from 6 555 million Euros in 2002 to 6 374 million Euros in 2003, a 2,75% diminution. The reason of such a reduction –with little CAP changes between the two years- is the bad productive campaign for most crops. While for animal productions the total funds perceived remained in a similar level -funds perceived diminished for certain sectors and for other ones they increased- and the accompanying measures increased the total allocated funds, for vegetal productions the funds reduced for almost every sector.

Table 18 - EAGGF Guarantee transfers, 2002-2003

Item		2002	2003
Total per-hectare aid to arable crops	Total	1825,70	1827,82
	Cereals	1210,01	1172,48
	Hard wheat	195,25	211,80
	Protein seeds	38,01	47,48
	Non-textile flax	0,85	0,41
	Oil seeds	148,36	151,09
Set aside		236,57	246,04
Other subsidies to cereals	Total	1,13	-4,84
	Export restitution	1,46	2,06
Rice	Total	53,25	33,30
	Per-hectare aid	24,12	12,24
	Export restitution	6,13	4,50
Pulses and fourrages	Total	196,72	162,93
Sugar	Total	47,88	38,82
	Export restitution	21,62	20,87
Cotton	Total	207,67	168,22
Textile flax and hemp	Total	6,04	0,15
Tobacco	Total	116,44	113,38
Olive oil	Total	1150,91	1064,71
	Production subsidies	1065,06	990,85
	Export restitution	0,02	0,06
Item		2002	2003
Wines and alcohol	Total	444,13	432,95
	Vineyard modernisation	189,37	167,13
	Distillations	153,88	173,81
	Export restitution	14,21	12,55
Fruits and vegetables	Total	519,26	475,30
	Operative Funds	108,21	117,01
	Export restitution	12,12	8,32

Table 18 (continued)

Item		2002	2003
Beef Item	Total	745,97	859,28
		2002	2003
	Suckler cow premium	254,2	323,71
	Calf premium	127,51	133,22
	Extensification premium	154,07	154,14
Pork	Export restitution	51,62	47,65
	Total	2,64	16,43
Sheep and goat	Export restitution	2,64	2,71
	Total	528,42	496,69
Milk and dairy products	Sheep and goat premium	391,28	369,65
	Total	85,79	57,68
Eggs and aviculture	Export restitution	26,88	22,19
	Total	0,39	0,33
Accompanying measures	Total	459,5	494,61
	Retirement	37,46	44,25
	Agri-environment	105,88	121,96
	Forestation	103,91	90,55
Fishing products	Total	4,52	3,12
Total EAGGF		6555,42	6374,89

Source : FEGA (2004 and 2003).

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