

## **10 Spain**

### **10.1 – Agriculture and the Spanish economy**

#### **10.1.1 - Development of the Spanish economy and prospects**

The Spanish economy showed sound growth in 2004 enabling the country to consolidate the good performance in 2003 and previous years, and thus continuing convergence towards the European average. However, this positive balance may be overshadowed by two factors – inflation and the trade balance –, as is discussed in the following paragraphs.

According to the latest National Statistics Institute data, the economy as a whole grew by 3.1% in 2004 compared to 2003 in terms of GDP, with constant growth rates throughout the year<sup>1</sup>. As in previous years, growth was mainly sustained by internal consumption, with the addition of a remarkable increase in investment. On the other hand, poor results were recorded in net exports bringing total growth down by 1.6 percentage points. The main figures for the Spanish economy in 2004 and 2003 are set out in **Table 1**.

Public administration consumption grew over the private consumption rate (6.4% and 4.3% respectively), and both were higher than the 2003 figures. The positive evolution of private consumption is closely related to several factors, the most important being the rises in employment together with net wealth gains – due to stock market gains and the increase in value of real estate – and low interest rates combined with easy access to loans.

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<sup>1</sup> In May 2005 the National Statistics Institute changed the method used for calculating the National Accounts, altering the data used and introducing major methodological variations. In short, with respect to statistical data, the main change is the use of new population estimates (with higher population figures than in the past). With regard to methodology, the main change is the adoption of a chain-linked index for estimates, in accordance with Commission Decision 98/715. This means that the previous year is taken as the reference year for the annual growth calculations. There is thus no fixed reference period, growth estimates for 2004 being made with respect to 2003, just as those for 2005 will be made with respect to 2004 and so on. Another methodological variation is the accounting of middleman financing activities, also due to EC regulations. As a result of all these variations, the Spanish GDP figures for past periods have increased, as illustrated in **Table 2**.

**Table 10.1 – The Spanish economy. GDP growth. Annual variation (%)  
(New methodology - CNE 2000)**

Activities	2003	2004
<b>Public and private expenditure</b>	<b>2.8</b>	<b>4.8</b>
- Household consumption	2.6	4.3
- NPO consumption	1.7	2.7
- Public consumption	3.9	6.4
<b>Gross Fixed Capital Formation</b>	<b>6.2</b>	<b>3.9</b>
- Plant and equipment	1.9	2.1
- Construction	6.3	5.5
- Other	7.8	4.4
<b>Changes in inventories</b>	-	-
<b>Domestic demand</b>	<b>3.8</b>	<b>4.7</b>
Exports of goods and services	3.5	2.7
Imports of goods and services	6.2	8.0
<b>External demand</b>	<b>-0.9</b>	<b>-1.6</b>
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>3.1</b>

Source: CNE (National Statistics Institute).

**Table 10.2 – The Spanish Economy. Comparison between the new methodology (CNE 2000) and the previous methodology (CNE 1995).  
GDP growth in real terms, annual variation (%)**

	CNE 2000	CNE 1995
<b>2001</b>	3.5	2.8
<b>2002</b>	2.7	2.2
<b>2003</b>	2.9	2.5
<b>2004</b>	3.1	2.7

Source: National Statistics Institute.

With regard to investment, the good business results during the year and the relatively good expectations, together with factors facilitating access to loans resulted in an increase in firms' investments in plant and equipment. The continued growth in expenditure on capital formation in the construction sector is also worthy of note. In 2004 this item grew to 5.5%, contradicting expectations of a "soft landing" for the activity of this sub-sector. It was responsible for a good share of the previous year's growth, and this is likely to continue for the next few years if real estate market pressures induce construction firms to effect new investments.

Inflation continues to burden the Spanish economy. In 2004, the Consumer Price Index (CPI) rose by 3.2%, 0.6 percentage points above the 2003 result. Most of this increase is due to the rise in international oil prices, despite the fact that the euro-US dollar exchange rate was favourable for European importers. Also, the services showed considerable reluctance to lower their prices. On the other hand, industrial goods prices grew at a rather moderate rate due to competition in the sector. A remarkable trend in the food sector was that fresh food also showed restrained growth while higher growth rates were recorded for processed food.

As regards the poor results in Spanish prices, comparison with the other euro partners shows that Spain's Harmonised Consumer Price Index (HCPI) is still substantially above average. In 2004, the Spanish index showed a growth rate of 3.3%, whereas the euro-zone average was 2.4%, widening the gap between the two indexes. Indeed, only Luxembourg presented a higher HCPI than Spain among euro countries in 2004.

It should be pointed out in general that Spain is currently in a different economic cycle momentum compared to the main euro economies, with strong domestic demand that is pushing prices up to a greater extent than in other euro countries. Due to the lack of national monetary policies targeting specific national goals and other internal factors, Spanish economists are pessimistic in their forecasts for price evolution over the next few years. Several internal factors mentioned in last year's report (the lack of actual competition in several key sectors and the year-to-year wage negotiations linked to inflation forecasts) still apply. Moreover, the new government introduced a year-to-year adjustment of the minimum wage also linked to inflation forecasts, aggravating the problem, since some wage negotiations are linked to the minimum wage. **Table 3** shows prices figures for 2003 and 2004.

**Table 10.3 – Evolution of the consumer price index (2001=100)**

	<b>2003</b>	<b>2004</b>
Variation (%)	2.60	3.20
Difference compared to euro-zone average HCPI (%)	0.70	0.90

Source: National Statistics Institute.

The good results in internal activity were reflected in employment, since 422 000 new jobs were created in 2004. It is worthy of note that, whereas the services sector was the main net job creator, there seems to be a certain amount of deceleration compared to the 2003 results. Furthermore, there was a significant increase in total jobs in part-time employment and in the employment of women. In these two areas, Spain presents a considerable gap compared to its European partners. The rise in the number of employed persons brought an appreciable drop in the

unemployment rate (10.56% by the end of the year, whereas it was 11.37% in 2003), despite the fact that the working population and the activity rate increase yearly. **Table 4 contains** figures on the labour situation. And finally, the significant differences in unemployment rate between men (7.76%) and women (14.55%) are a matter of concern, since women are being integrated into the labour market but it does not seem to be ready to absorb them.

**Table 10.4 – Labour statistics**

	2002	2003	2004
Unemployment rate (%)	11.62	11.37	10.56
Activity rate (%)	54.63	55.91	56.74
Total working population (1000)	19 037.2	19 811.7	20 447.5
Number of employed (1000)	16 825.4	17 559.7	18 288.1
Number of unemployed (1000)	2 211.8	2 252.1	2 159.4

Source: Active Population Survey, National Statistics Institute.

The poor results in the exporting sector are illustrated by the negative current account balance, which deteriorated throughout 2004. By the end of the year it accounted for 4.2 negative percentage points of GDP. The euro exchange rates against other currencies together with strong internal demand and the extremely competitive goods from the countries of Eastern Asian led to a vigorous increase in imports. On the other hand, exports did not improve at the same pace for several reasons, the weakness of European partners and euro exchange rates being the main factor according to the findings of several economists (Servicio de Estudios La Caixa, 2005).

Let us examine this issue further. As mentioned in the previous paragraph, external circumstances are blamed for the poor exports results. While this may be true for a given year, it is also true that net exports have been showing a deficit every year since 1998 and there may be other complementary reasons. One argument is that Spanish products have lost competitiveness on international markets. Firstly, inflation is higher than the level in competitor countries, as shown in previous paragraphs. Secondly, modernisation in human and technological capital would seem necessary in order to overcome the competitiveness gap. In the past few years, Foreign Direct Investment (FDI) has decreased in Spain due either to shutdowns or to outsourcing strategies.

Since Spain is neither a core-innovative economy nor a cheap labour country, it suffers from pressures on both scores. Measures to improve labour force skills and provide broader access to new technologies could probably help in defining Spain's role in the global division of labour and trade. According to the OECD's analysis (OECD, 2005), it is important for Spain to avoid becoming locked into

specialisation in relatively low-technology sectors where it is likely to face growing competition from countries with lower labour costs.

Spain should thus be able to attract FDI again – as a means of importing technology in the short and medium term – in view of the quality of its labour, good infrastructures, broad access to technologies and political and economic stability. The long-term challenge for the country is to convert itself into an innovative technology-exporting economy based on these solid foundations.

A final comment must be made with regard to the change in government which came about in March 2004. While the new government belongs to the left-wing parties, minor changes are expected regarding economic policies. Perhaps the main change is related to the economic stability issue: whereas the former government pursued zero public deficits at the end of the fiscal year, the current government has declared its intention to pursue economic stability throughout the entire economic cycle. Economic agents have interpreted this as a gain in the degree of freedom for public authorities to increase expenditure on social concerns, leading to minor deficits in the first years of the new government's term.

As OECD pointed out in its 2005 economic survey on Spain, while the preservation of sound public financing is warranted, the new policies must not undermine fiscal discipline. Moreover, measures to maintain a fiscal surveillance system for the regions and to strengthen the incentives for regional authorities to act in a cost-conscious way should be implemented in order to enhance the fiscal situation. The long-term sustainability of public finances, particularly with regard to public pension schemes, is also a matter of concern due to the ageing of the Spanish population.

### ***10.1.2 - Agriculture and food in the national economy***

In 2004, the agricultural sector lost 1 percentage point of value added compared to 2003; as shown in **Table 5**, it was the only sector with negative results. As was the case in 2003, it was the only sector with negative results within the whole economy and, even in years showing positive results, the agricultural performance is worse than those of the other sectors. According to the National Statistics Institute, the sector's value added accounted for 3.13% of total GDP.

As regards the share of agriculture in the labour market, the percentage is slightly higher than the rate recorded for its share in GDP. Thus, according to the National Statistics Institute, agricultural activities accounted for 5.6% of the total working population by the end of 2004. Since the rate was 6.66% at the beginning of 2002, this indicates a decrease in employment in the sector. When the employed population is analysed, the same conclusion holds: as of December 2004, the number of persons employed in agriculture accounted for 5.36% of those employed in the economy as a whole. In the last quarter of 2003 the employment rate was 5.76%.

**Table 10.5 – Economic indicators: GDP growth by production sector (%)**

	<b>2002</b>	<b>2003</b>	<b>2004</b>
Agriculture	0.4	-0.1	-1.0
Energy	2.3	1.4	2.2
Industry	0.7	0.9	0.7
Construction	6.3	5.1	5.1
Services	2.6	2.8	3.5

Source: National Statistics Institute.

It can be pointed out in conclusion that the value added for every person employed in agriculture is smaller than the country average; the labour drift to other sectors can thus be expected to continue.

## **10.2 – Agricultural and food production, food consumption and trade**

### ***10.2.1 - Agricultural structures and land use***

According to the recently published results of the 2003 Structures Survey, the average size of farms rose by 8.62% since the 1999 Census. Although the census and the surveys are not comparable, these results confirm the trend observed in previous years.

Currently the average size of survey farms is 22.07 hectares of Agricultural Area in Use (AAU), whereas in 1999 it was 20.32 ha.<sup>2</sup> The number of farms has decreased (-11.39%), with the same pattern for every type of land use except vineyards, the number of which increased by 2.16%.

As was pointed out in previous reports, the number of farms in Spain is dropping sharply and the average size of farms is increasing, although still below the EU-15 average. **Tables 6 and 7** give the most important figures resulting from the 1999 Census and the 2003 Survey.

<sup>2</sup> Note that Surveys only take account of farms which fulfil one of the following conditions: a) an AAU of over 1 hectare; b) more than 0.2 hectares devoted to vegetables, flowers, nurseries, irrigated orchards or glasshouses; c) an animal farm of a minimal economic size. Only farms fulfilling one of these requirements have been extracted from the 1999 Census for the comparisons made in this report.

**Table 10.6 – Agricultural structures. Comparison of the 1999 Census and the 2003 Survey**

	<b>1999</b>	<b>2003</b>	<b>Variation (%)</b>
Number of farms	1 287 418	1 140 733	-11.39
Total area (ha)	35 205 947	33 314 181	-5.37
Agricultural area in use (AAU) (ha)	26 158 409	25 175 260	-3.76
Cultivated land (ha)	16 790 021	16 649 029	-0.84
Annual crops and fallow land (ha)	12 367 928	12 302 675	-0.53
Fruit crops (ha)	1 133 204	1 095 647	-3.31
Olives (ha)	2 220 266	2 204 396	-0.71
Vineyards (ha)	1 010 074	1 031 892	2.16
Total area/farm (ha)	27.35	29.2	6.79
AAU/farm (ha)	20.32	22.07	8.62
AAU/total area (%)	74.3	75.57	1.71
Cultivated land/AAU (%)	64.19	66.13	3.03

Source : Structural Survey 2003. National Statistics Institute.

**Table 10.7 – Number of farms by size and acreage – 1999 census**

<b>size</b>	<b>Number of farms</b>	<b>% of total</b>	<b>cumulated %</b>
<b>0 - 1 ha</b>	455 424	25	25
<b>1 - 5 ha</b>	643 128	36	61
<b>5 - 20 ha</b>	403 109	23	84
<b>20 - 50 ha</b>	137 010	8	92
<b>50-100 ha</b>	58 994	3	95
<b>&gt;100 ha</b>	66 791	4	99
<b>Total</b>	<b>1 790 200</b>	<b>100</b>	

Note: The total figure includes farms without land.

Source: Agricultural Census 1999. National Statistics Institute.

According to López (2003), there were three factors behind the structural adjustment process. First, the farm closure rate increased during the 1990s. At the same time, land mobility improved, and, finally, changes in land use led to an increase in total AAU – clearly illustrated in Table 10.6 – and consequently an increase in the AAU/Total Area ratio.

With regard to the economic size of farms, it has been observed that the gross margin per hectare of AAU increased sharply as measured in European Size Units, from 0.37 ESU/hectare in 1989 to 0.59 ESU/hectare in 1999, <sup>3</sup>, i.e. an annual rate of variation of 4.9% over the decade. Two elements explain this improvement: i) yields increased, and ii) the evolution of prices and subsidies led to a rise in the gross margin per physical unit. The gross margin per farm more than doubled over the 10-year period, increasing from 4.0 to 8.7 ESU per farm.

As for the overall evolution of land use, as illustrated in **Table 8**, the main change in cultivated land is a shift from cropland (both annual and perennial crops) to fallow land between 2002 and 2003. There was a remarkable percentage rise in irrigated fallow land. The forestry area also increased, with an internal shift from underutilised forest resources (low density forests with scant economic profits) to other types of more productive forests.

**Table 10.8 – Land use in Spain (1000 ha)**

Use	Rain-fed		Irrigated		Total	
	2002	2003	2002	2003	2002	2003
Annual crops	7 591.4	7 497.0	2 180.7	2 167.3	9 772.1	9 664.3
Set-aside, fallow and idle	3 020.8	3 158.5	174.3	194.6	3 195.1	3 353.1
Perennial crops	3 859.3	3 846.2	1 117.8	1 117.6	4 977.1	4 963.7
<b>Total cropland</b>	<b>14 471.5</b>	<b>14 501.6</b>	<b>3 472.8</b>	<b>3 479.5</b>	<b>17 994.2</b>	<b>17 981.1</b>
Natural meadows	1 261.5	1 253.5	317.7	292	1 579.2	1 545.5
Pastureland	5 658.7	5 548.2	-	-	5 658.7	5 548.2
<b>Total pastures &amp; meadows</b>	<b>6 920.1</b>	<b>6 801.7</b>	<b>317.7</b>	<b>292</b>	<b>7 237.8</b>	<b>7 093.7</b>
Woody forests	7 557.2	7 613.7	-	-	7 557.2	7 613.7
Low-density forest	4 297.1	4 246.1	-	-	4 297.1	4 246.1
Firewood forest	4 638.3	5 007.3	-	-	4 638.3	5 007.3
<b>Total forests</b>	<b>16 492.7</b>	<b>16 867.2</b>	<b>-</b>	<b>-</b>	<b>16 492.7</b>	<b>16 867.2</b>
<b>Other land</b>	<b>8 857.3</b>	<b>8 594.8</b>	<b>-</b>	<b>-</b>	<b>8 857.3</b>	<b>8 594.8</b>
<b>Total area</b>	<b>4 6741.5</b>	<b>4 6765.3</b>	<b>3 790.5</b>	<b>3 771.5</b>	<b>50 532.0</b>	<b>50 536.8</b>

Barley is the most important crop in acreage, with more than 3 million hectares. This crop, like the other winter cereals, is sown mainly in the interior regions of the

<sup>3</sup> The ESU equivalent in ECU (euros) increased in that time span. Some researchers therefore "correct" raw data in order to compare results. We have not done so in our analysis.



Iberian Peninsula. Olives are the second crop in acreage, used mainly for oil production with a smaller share devoted to table olives. Although this tree crop is distributed over the entire Peninsula and the Balearic Islands, the main plantations are in Mediterranean regions such as Andalusia, Valencia and Catalonia.

Other important crops for the Mediterranean regions can be classified under two headings: on the one hand, vineyards and nuts are traditional perennial crops, as is the case in other Mediterranean countries, and account for a significant share of the total agricultural acreage. The development of these two crops has varied over the past few decades. In general terms, vineyards have been undergoing an ongoing process of modernisation and crop intensification, while the nuts acreage (almonds being the most important in terms of cultivated area) has been decreasing as has their share in national agriculture. They are now mainly grown in mountainous and dry areas which are unsuitable for more profitable crops. On the other hand, citrus fruits and horticultural products are core products of the successful Spanish agricultural exports (see 10.2.5), although they are less significant in terms of acreage. **Table 9** shows acreage figures based on MAFF (Ministry of Agriculture, Forestry and Fisheries) data.

**Table 10.9**

	<b>Acreage 1000 ha</b>		
	<b>2003</b> <i>(def.)</i>	<b>2004</b> <i>(prov.)</i>	<b>2005</b> <i>(est.)</i>
durum wheat	913.2	910.7	882.1
common wheat	1 307.5	1 240.8	1 273.5
barley	3 110.9	3 170.4	3 166.7
maize	476.1	479.7	430.0
rice	118.3	121.3	112.1
other cereals (oats, rye, triticale, sorghum)	652.3	615.7	609.6
<b>total cereals</b>	<b>6 578.3</b>	<b>6 538.6</b>	<b>6 474.0</b>
potatoes	101.1	97.1	95.3
sugar beet	99.8	102.5	102.1
sunflower	786.8	749.6	628.8
other: pulses	566.7	573.9	578.2
fodder (fodder maize, <i>vicia sativa</i> , alfalfa)	401.3	399.1	
lettuce	37.7	37.5	
watermelons	16.0	16.3	16.0
melons	38.9	38.1	35.4
tomatoes (fresh+industrial)	93.6	107.1	
peppers	22.4	21.8	
onions	21.3	22.8	22.5
oranges	136.8		
mandarins	118.6		
lemons	47.4		
apples	46.0		
pears	38.1		
peaches	78.5		
almonds	641.7		
bananas	9.6		
table grapes	22.7		
wine grapes	1 142.4		
table olives	168.7		
oil olives	2 270.8		
other tree crops: apricots, cherries and plums	69.8		

Source: MAFF.

### **10.2.2 - Agricultural production and prices**

As of September 2004, the Spanish administration had not made official data on agricultural results in 2004 available (with the exception of the total sector growth and labour data); there are therefore no data on agricultural income, on intermediate consumption, or on the differences between animal and crop husbandry.

It can be pointed out as a general comment that crop husbandry recovered from the very bad 2003 farm year. In fact, since the weather conditions were more favourable for agriculture in 2004, good yields brought a significant increase in the production of many cereals. The same holds for pulses, industrial crops, potatoes and fodder crops. Since vegetables were less affected by weather conditions, there were changes in both directions, the most outstanding being increases in tomato and onion production and a marked decrease in lettuce output.

On the other hand, the total output of tree crops decreased in general, with the exception of bananas and mandarins. The most marked decreases concerned oil olives, apples, pears and peaches. Due to the drought which has affected practically the entire Iberian Peninsula the preliminary harvest estimates for 2005 are very bad for most crops.

With regard to animal husbandry, there was a general drop in the total output of meat in 2004, with minor reductions in every sub-sector. All of these figures are set out in **Tables 10 and 11**.

**Table 10.10 – Evolution of main products 2003-2005**

	output 1000 T		
	2003 (def.)	2004 (prov.)	2005 (est.)
durum wheat	1 989.1	2 714.6	1 151.3
common wheat	4 029.9	4 393.3	3 601.1
barley	8 693.9	10 608.7	6 370.7
maize	4 355.0	4 765.9	n.a.
rice	861.9	900.4	n.a.
other cereals (oats, rye, triticale, sorghum)	1 173.4	1 312.9	890.3
total cereals	21 103.2	24 695.8	12 013.4
potatoes	2 665.0	2 745.4	
sugar beet	6 365.1	7 015.2	
sunflower	762.5	785.3	
other: pulses	519.5	588.7	409.8
fodder (fodder maize, <i>vicia sativa</i> , alfalfa)	16 679.6	17 708.6	
lettuce	1 044.7	967.1	
watermelons	733.0	764.6	
melons	1 071.2	1 102.4	
tomatoes (fresh+industrial)	5 493.7	6 608.8	
peppers	1 056.2	1 006.0	
onions	936.8	1 083.7	
oranges	3 052.2	2 713.5	
mandarins	2 060.4	2 457.7	
lemons	1 129.6	737.5	
apples	888.1	603.0	
pears	143.8	122.4	137.3
peaches	1 270.8	916.5	1 078.7
almonds	214.4	86.4	201.8
bananas	402.1	412.7	412.0
table grapes	320.6	331.0	
wine grapes	6 927.6	6 955.3	
table olives	498.7	439.2	
oil olives	7 058.9	4 526.7	
other tree crops: apricots, cherries and plums	482.1	330.7	445.9

Source: MAFF.

**Table 10.11 – Evolution of animal products, 2002-2004**

	slaughters (1000)			meat output (1000 T)		
	2002	2003	2004 <i>estimate</i>	2002	2003	2004 <i>estimate</i>
meat						
beef	2 692.4	2 763.1	2 683.9	676.1	706.4	702.3
sheep	20 950.7	20 782.2	20 214.1	237.1	236.2	231.5
goat	1 829.7	1 684.6	1 603.7	15.1	13.9	13.4
pork	37 023.5	38 180.1	37 834.6	3 070.1	3 189.5	3 175.6
horse	29.8	24.1	24.0	5.7	4.8	4.8
poultry	700 022.0	701 587.0	692 398.0	1 331.7	1 333.3	1 300.7
rabbit	96 353.0	90 300.0	87 655.0	119.0	111.6	106.6
other						

	output (1000 T)		
	2002	2003	2004 <i>estimate</i>
milk			
cow's milk	6 610.4	6 632	
ewe's milk	420.5	421.5	
goat milk	528.5	528.4	
other			
eggs*	971 592		
other			
* in 1000 dozens			

	cattle (1000 head)		
	2002	2003	2004 <i>estimate</i>
cattle	6 487.8	6 551.3	
sheep	23 813.2	23 485.9	
goats	3 046.7	3 162.056	
pigs	23 517.2	24 097.543	
laying hens			
other			

Source: MAFF.

As regards prices paid to farmers (see **Table 12**), the prices of animal products rose by 2.70%, while crop product prices dropped by 0.25 percentage points. In the crop area, there were significant increases in potato, industrial crop, fodder crop, flower, nuts and olive oil prices, whereas the prices of wine, pulses and non-citrus fruits dropped. Wine producers are facing an unprecedented crisis with real prices declining yearly, and if this situation continues over the next few years a decline in output and in the number of farms is to be expected.

**Table 10.12 – Farm gate prices, 2002-2004**

price .....€/T	2002	2003	2004 <i>estimate</i>
wheat	134,10	138	141,50
barley	118,20	121,50	128,30
maize	137	147,90	148,70
rice	275,10	274,80	207,90
other cereals: oats	126,20	123	125
other cereals: rye	122,20	142,90	124,20
other cereals: sorghum	128,20	147,20	138,80
potatoes	163,20	212,50	221,90
sugar beet	51,50	58,80	60,80
sunflower	261,40	216,50	229,90
fodder: alfalfa	118,30	111,10	118,40
lettuce	381,50	476,60	321,50
watermelons	191,60	302,30	175,80
melons	235,50	316,70	297,40
tomatoes	459,70	490,90	412,10
peppers	603,90	782,30	836,60
onions	147	165,90	161,80
oranges	199,70	191	210,60
mandarins	271,80	266,60	255,1
lemons	233,90	252,40	212,9
apples	319,80	350,40	314,5
pears	419,60	503,50	472,8
peaches	491,70	628,40	625
apricots	419,30	730,70	744
almonds	686,80	919,30	1 348,6
bananas	273,80	299,90	248,7
table grapes	433,10	428,40	414,1
white wine*	2,79	2,97	2,43
red wine*	5,30	5,75	3,98
table olives	462,20	495,60	516,7
oil olives	352,50	333,80	426,7
olive oil	1 913,80	2 190,20	2 387,4
other: beans	1 461,50	1 400,20	1 228,9
other: plums	412,50	617,80	662,4
other: cherries	1 164,40	1 593,70	2 339,1

**Table 10.12 (contd.)**

	price .....€/T		
	2002	2003	2004 <i>estimate</i>
veal (beef < 1 year)	1 951,70	1 947,80	1 863,20
beef (> 2 years)	860,50	815,80	795,50
sheep (< 1.5 months)	3 756,70	3 720,50	3 864,50
goat (< 1.5 months)	4 516,10	4 536,50	4 378,70
pigmeat	1 037,40	968	1 048,60
poultry	741,50	835,90	857,10
rabbit	1 395,70	1 827,90	1722,20
milk			
cow's milk**	29,50	29,53	31,88
ewe's milk**	77,90	77,35	77,25
goat milk**	45,76	45,63	48,34
eggs ***	76,46	90,23	85,05
other			

\* prices in €/hectograde

\*\* prices in €/100 litres

\*\*\* prices in €/100 dozen

Source: MAFF.

In the animal product field, beef, goatmeat, rabbit and egg prices diminished, with higher increases for milk and pigmeat.

With regard to prices paid by farmers, the price of every input rose on a yearly basis. As a whole, only animal feeding stuffs showed moderate price rises (less than 5% in general), while the highest increase occurred in fuel prices (which increased by 11.46 percentage points yearly). Item-by-item indexes are shown in **Table 13**.

Several estimates made by farmers' organisations conclude that fuel accounts for about 10% of total costs in agriculture. As has been the case in other sectors highly dependent on this input (such as transport), this resulted in farmer demonstrations during the second half of 2004 putting pressure on the government because of fuel price increases. The organisations and the government eventually came to an arrangement consisting of compensation in the form of €170 million in aid to farmers. Since oil prices have continued to rise in 2005, several voices have been raised calling for a reduction or total elimination of the specific tax burdening fuels in Spain when the fuel is purchased by the transport, fisheries or agricultural sector (the so-called "professional uses of fuel").

**Table 10.13 – Price of main inputs, indexes 2002-2004**

	unit	index 1995=100 (except*)		
		2002	2003	2004 <i>estimate</i>
unskilled labour*	1985=100	286.65	291.92	300.19
skilled labour: tractor operator*	1985=100	292.96	289.54	298.43
non-irrigated land	1995=100	194.4		
irrigated land	1995=100	174.1		
seeds	1995=100	132.85	141.65	147.91
plants	1995=100	137.86	121.69	132.77
fuel	1995=100	154.99	161.88	180.43
transport	1995=100			
nitrogenous fertilisers	1995=100	115.69	115.77	124.55
phosphate fertilisers	1995=100	106.89	110.03	116.65
potassium	1995=100	114.12	116.63	118.65
other: compound fertilisers	1995=100	106.57	106.47	108.64
pest control products	1995=100	117.29	119.41	120.58
veterinary services	1995=100	140.55	131.64	145.26
hired labour	1995=100			
soil preparation	1995=100	128.15	130.4	134.97
tractor rent	1995=100			
combine harvester rent*	1985=100	282.3	297.7	297.85
fodder	1995=100	108.56	104.54	109.09
concentrated feed	1995=100	100.65	101.14	104.5
cattle feed	1995=100	104.04	103.34	103.36
sheep and goat feed	1995=100	102.63	100.88	103.08
pig feed	1995=100	99.84	99.8	104.83
poultry feed	1995=100	98.58	100.87	104.57
irrigation water	1995=100			
short-term interest rate	1995=100			
long-term interest rate	1995=100			

Source: MAFF.



### **10.2.3 - Food industries**

2004 can be described as a transitional year for the agro-food industry: on the one hand, the production of agro-food industries grew by 1.6% in real terms, less than the 3% increase observed in 2003. On the other hand, the number of firms dropped by 2% in a context of a 5% increase in the number of firms in the overall economy. Simultaneously, agro-food employment increased by 1.76 percentage points. These figures seem to indicate consolidation of corporate structures.

The sector is quite significant in the total economy: its total output accounts for about 8.15% of Spanish GDP; it generates 2.51% of total Spanish employment and 13.89% of industrial employment. Another indicator of the importance of the sector is its ability to attract FDI: in a context of year-to-year decreases in FDI in Spain, the sector has been able to increase FDI due to its competitiveness and good export performance. In 2004, the FDI attracted by agro-food industries accounted for some 34% of the total FDI attracted by Spanish industries. The sector also invests in other countries: €572 million were invested in foreign countries in 2004, the other EU-25 member states (51.26%) and Latin America (45.74%) being the main recipients of Spanish agro-food FDI.

The sector's export-import ratio is 88% (exports amounting to €13.108 billion and imports to €14.900 billion); this is better than the figure for the economy as a whole, but worse than the agricultural balance. The deficit observed, although significant in value, is improving in a dynamic perspective: it currently accounts for less than 3 % of the country's total trade deficit, whereas it was 4.40% in 2002.

**Table 14** shows the evolution of output Over the last 15 years, while **Table 15** contains figures on the size of the agro-food industries in 2004 in terms of employees. As was pointed out in last year's report, one of the main characteristics of the industrial sector in Spain is the relatively high percentage of small and medium-sized enterprises. As a matter of fact, in the agro-food sector only 3.3% of firms have more than 50 employees. Many of Spanish agro-food firms are family-owned and managed. These firms tend to concentrate mainly on the domestic market – a fact which is a shortcoming in a global market and a disadvantage for the future performance of firms.

**Table 10.14 – Gross output of the agro-food industry**

Variation in production (%)				
	Value (million €)	Quantity	Current prices	Constant prices
1989	35 574	1.4	6.4	-0.4
1990	37 263	5.6	4.7	-2.1
1991	39 486	3.2	6	0.1
1992	41 350	2.6	4.7	-1.3
1993	42 239	-6.1	2.2	-2.6
1994	44 415	1	5.2	0.5
1995	47 402	0.7	6.7	2.1
1996	49 553	1.3	4.5	1
1997	52 697	5.6	6.3	4.4
1998	53 628	3.5	1.8	0
1999	54 380	-0.3	1.4	-0.9
2000	55 023	-1.1	1.2	-2.9
2001	56 255	-2.5	2.2	-0.5
2002	58 864	3.6	4.6	0.7
2003	62 116	2.8	5.5	3
2004(*)	65 075	2	4.8	1.6

\* Estimate

Source: FIAB (Spanish federation of food and beverage industries)

**Table 10.15 – Number of agro-food industries, 2004**

	Number of employees	0	1 to 9	10 to 49	50 to 199	200 to 499	> 500	Total
<b>Whole economy</b>	Number	1 500 396	1 265 349	151 512	20 120	3 590	1 616	<b>2 942 583</b>
	%	50.99	43	5.15	0.68	0.12	0.05	<b>100</b>
<b>Total industry</b>	Number	76 754	125 988	38 282	5 774	1 076	415	<b>248 289</b>
	%	30.91	50.74	15.42	2.33	0.43	0.17	<b>100</b>
<b>Agro-food industry</b>	Number	8 879	17 658	4 977	820	185	67	<b>32 586</b>
	%	27.25	54.19	15.27	2.52	0.57	0.21	<b>100</b>

Note: Data relate to 1 January 2004.

Source: FIAB.

The meat, alcoholic beverages and dairy product sub-sectors are those producing higher production values. In contrast, employment is distributed more evenly, but

the bakery and meat sub-sectors account for almost half of total employment (see **Table 16**).

**Table 10.16 – Sub-sectors of the agro-food industry: employees and gross production**

	Employees (thousand persons)		Gross production (million current €)	
	2002	2003	2002	2003
Meat industries	88	91	11 581	12 294
Fish industries	27	27	2 858	3 054
Processed fruits and vegetables	37	38	4 160	4 635
Oils and fats	14	13	5 046	4 802
Dairy products	31	31	6 413	6 498
Grain-mill products	8	8	2 000	2 057
Animal feed	18	18	5 393	6 083
Bread, pastry, biscuits	104	102	4 190	4 622
Sugar, cocoa and chocolate	23	22	2 772	2 823
Other food	27	27	2 848	3 302
Alcoholic beverages	43	43	7 869	7 809
Water and non-alcoholic beverages	17	17	3 734	4 136
<b>Total</b>	<b>437</b>	<b>438</b>	<b>58 864</b>	<b>62 116</b>

Source: FIAB. 2004 data not available.

#### **10.2.4 - Food consumption**

According to MAFF panel data, total food expenditure amounted to €74.752 billion in 2004, which was 7.7% higher than in 2003 in current terms and 4% in real terms. Every household spent €1 292 per capita, accounting for a total of €54.231 billion. In 2004, expenditure in the hotel and catering industry was the main factor responsible for the growth in total food expenditure, which increased by 9.9 % compared to 2003 (approx. €19.2 billion).

It can be concluded on the basis of the Household Budget Survey that some 20.22% of total household expenditure – in current terms – is devoted to food, beverages and tobacco.<sup>4</sup> In 2004, the total expenditure of Spanish households amounted to €82.397 billion, €16.661 billion being devoted to food, beverages and tobacco consumption. According to FIAB calculations based on this survey, the average

<sup>4</sup> These figures only take account of in-home expenditure; restaurants and other forms of household expenditure are not included.

expenditure for each household was €1 147 and €393 per person for these commodities respectively.

### **10.2.5 - Agro-food trade**

Agricultural exports account for about 15.7% of total Spanish exports – with a slight drop compared to 2003 –, while the share of agro-food imports in total imports remains below 10 %. Total agricultural trade expanded to a lesser extent than total trade, thus reducing its share in national trade. The sectors with higher increases in trade figures – both exports and imports – are raw materials, equipment and industrial goods. As regards consumer goods, Spanish exports decreased in value throughout 2004 compared to 2003, while imports rose above 8%.

Whereas Spain's total trade balance shows a deficit, the agro-food trade balance has shown positive results during the last few years. It is at all events worthy of note that the export-import ratio of agro-food products decreased in 2004 to 106.99% (it was 113.05% in 2003). This deterioration was due to the fact that exports grew by 1.1% while imports grew by a significant 6.8%. The total figures indicate that agro-food exports amounted to €21 524.9 million, whereas agro-food imports amounted to €20 118.5 million.

The EU is the main agricultural trading partner. In 2004, exports to the current EU-25 amounted to €17 788.2 million (82.64% of total agricultural exports). On the other hand, the EU-25 is the origin of only 60% of Spanish agro-food imports. These trade data are set out in **Tables 17 and 18**.

**Table 10.17 – Total and agricultural external trade, 2003-2004**

	<b>2003</b>	<b>2004</b>	<b>2004</b>
	<b>million €</b>		<b>variation (%)</b>
<b>All products</b>			
Exports	138 119.0	146 452.1	6.03
Imports	185 113.7	207 125.5	11.89
<b>Agricultural products</b>			
	<b>21 294.5</b>	<b>21 524.8</b>	<b>1.08</b>
Exports	18 836.4	20 118.5	6.81
Imports			

Source: Own elaboration from Ministry of Economic Affairs data.

**Table 10.18 – Agricultural external trade by destination, 2003-2004**

	2003	2004
	million €	
<b>All countries</b>		
Exports	21 294.5	21 524.8
Imports	18 836.4	20 118.5
<b>EU-25 countries</b>		
Exports	17 709.854	17 788.197
Imports	11 175.374	12 006.129

A breakdown of data for agricultural, fisheries and forestry trade is shown in **Table 19**, which allows more detailed evaluation of exports and imports, highlighting several important factors. First, the two main export categories, in terms of economic significance, are fresh fruit and fresh vegetables, both of which decreased in value compared to the 2003 performance. As total exports have increased in value, it can be said that the composition of the Spanish agriculture, fisheries and forestry export portfolio is becoming more balanced and less dependent on the results in these two key sectors. At all events, it could be of advantage for private and public agents in Spain to analyse the future trend of fruit and vegetable exports.

**Table 10.19 - Agricultural, fisheries and forestry external trade by category, 2003-2004**

	2003		2004	
	Imports million €	Exports million €	Imports million €	Exports million €
Live animals	386.45	259.61	334.48	283.7
Meat and edible meat offal	790.04	1 473.33	833.9	1 719.26
Fish and crustaceans; molluscs and other aquatic invertebrates	4 086.53	1 595.42	3 942.11	1 688.24
Dairy products; birds' eggs; natural honey	1 213.02	724.31	1 351.05	702.5
Products of animal origin, not elsewhere specified or included	86.58	76.65	98.13	96.17
Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	192.89	211.35	186.78	212.47
Edible vegetables and certain roots and tubers	634.16	3 452.06	831.98	3 328.38
Edible fruit and nuts; peel of citrus fruit or melons	1 069.68	4 549.77	1 228.82	4 285.88
Coffee, tea, mate and spices	335.53	127.61	339.06	130.19
Cereals	1 292.22	401.47	1 350.56	308.07
Grain-mill products; malt; starches; inulin; wheat gluten	88.76	153.77	92.16	160.7

**Table 10.19 (contd.)**

	2003		2004	
	Imports	Exports	Imports	Exports
	million €	million €	million €	million €
Oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	1 129.62	179.95	1 130.57	166.98
Lac; gums, resins and other vegetable saps and extracts	63.02	126.14	70.78	120.47
Vegetable plaiting materials; vegetable products not elsewhere specified or included	10.55	7.72	10.77	7.16
Animal or vegetable fats and oils and their derivatives; prepared edible fats, animal or vegetable waxes	471.84	1 595.57	597.04	1 944.47
Meat preparations; fish preparations or preparations of crustaceans, molluscs or other aquatic invertebrates	425.85	601.6	424.57	599.77
Sugars and sugar confectionery	460.05	381.61	463.26	344.31
Cocoa and cocoa preparations	430.57	229.52	425.89	222.40
Cereal, flour, starch or milk preparations; pastrycook's products	633.9	554.32	717.56	596.32
Vegetable, fruit or nut preparations or preparations of other parts of plants	537.21	1 622.09	576.68	1 569.60
Miscellaneous edible preparations	851.47	579.53	909.5	600.28
Beverages, spirits and vinegar	1 465.07	2 085.21	1 590.73	2 114.02
Residues and waste from the food industries; prepared animal fodder	982.22	306.31	1 176.60	304.69
Tobacco and manufactured tobacco substitutes	1 324.22	157.36	1 565.72	168.95
Leather	708.24	522.44	551.32	474.03
Wood and charcoal	2 095.76	817.01	2 121.76	878.52
Cork	138.55	289.82	121.38	260.35
Wood pulp	431.71	395.24	429.76	475.78
Wool, fine or coarse animal hair, horsehair yarn and woven fabric	160.06	180.17	158.15	177.62
Cotton	625.1	796.47	630.78	833.48
Other vegetable textile fibres; paper yarn and woven paper yarn fabrics	90.69	41.55	83.55	42.97
<b>Total agricultural trade</b>	<b>23 211.6</b>	<b>24 494.98</b>	<b>24 345.4</b>	<b>24 817.73</b>

Source : Own elaboration from Ministry of Economic Affairs data.

The most important products in terms of export value – apart from fresh fruits and vegetables - improved their performance in 2004 compared to 2003, with the exception of vegetable preparations. These commodities - meat, fish, fats and beverages - seem to be consolidating their competitiveness. On the other hand, relatively marked slowdowns - in terms of exports - were registered in the case of several products such as cereals, sugar and confectionery, dairy products and leather, which belong to the intermediate-value category of exports.

As far as imports are concerned, fishery products are the main commodity, accounting for over 16% of imports expenditure. Wood, beverages, tobacco, dairy products, fruit, oilseeds and cereals are also particularly significant. Of these major commodities, tobacco, fruit and dairy product imports rose sharply, the value of fish imports being the only item where a decrease was registered.

An interesting point to be underlined is the difference observed depending on the origin of the products traded. Forestry products account for 11.63% of imports and only 7.22% of exports. The situation is similar in the case of fishery products: as mentioned, their share in imports is quite significant (16.19%), contrary to their share in exports (6.80%). Trade in animal-based products is fairly balanced – about 15% of total imports and exports – despite unbalanced net results in several sub-sectors such as dairy products.

### **10.3 – Agriculture and agro-food policies**

#### ***10.3.1 - The MTR in Spain***

The Mid-Term Review (MTR) of the Common Agricultural Policy of June 2003 has clearly been the most important event in the definition of agricultural policies in Spain in recent years. Its scope has been broadened since April 2004, when the tobacco, cotton, hops and olive oil sectors were reformed in line with the same decoupled-payments approach.

In 2005 and 2006 countries will be allowed to retain part of the payments linked to production (partial decoupling) in order to avoid abandonment of production in several areas. Last year the CIHEAM Annual Report elaborated on many aspects of the reform, including the various options chosen by each Mediterranean EU-15 member state (CIHEAM, 2005). Spain will not be applying the single payment scheme until 2006, as is the case with France, Greece, the Netherlands and Finland. In the following paragraphs we summarise the MAFF proposals (October 2004) concerning the application of the MTR to the new reform items on the basis of central government assessment and decisions.

- Individual historical reference (the reference years being 2000, 2001 and 2002), instead of the regional calculation models used in Germany, Finland, Denmark, Luxembourg and Sweden.
- Partial decoupling for arable crops, 25% of the payment being coupled. The reason for this option is the tremendous importance of arable crops in terms of land use (about 40% of AAU), together with the difficulty in finding alternatives in several areas, and the fact that they complement tree crops and extensive husbandry in other areas. At all events, the Ministry underlines the importance of

arable crops for maintaining economic activity and is therefore trying to maintain production incentives.

- A reduction in the compulsory set-aside area with a view to maximising entitlements (since the set-aside area does not affect the *calculation of entitlements* but does affect the *aid received*).
- For the beef sector the Commission proposes three partial decoupling alternatives. One is to keep the suckler cow premium 100% coupled, together with the 40% coupling of the calf premium and 100% coupling of the adult animal premium. The other two options (100% coupling of the adult animal premium or 75% coupling of the male premium) are not compatible with this option.
- The payment for suckler cows will thus remain completely coupled to production. The reason is that the most Spanish farms are located in mountainous areas and employ an extensive or semi-extensive regime with some indigenous breeds. They thus help to fix the population and occupy land in rural areas with special characteristics and to preserve bio-diversity. Furthermore, since Spain has a deficit in calves brought to abattoirs, the government wants to prevent more dependence on foreign mothers. The higher level of coupling has been chosen for these reasons.
- As a result, the adult animal premium has been kept at its maximum level of 40% and the calf premium has also been maintained at the 100% level of coupling.
- Spain is also trying to maximise the level of coupling for the sheep and goat sector, where it is fixed at 50%. Since most meat farms are profitable because of CAP payments, the maximum level of coupling could help them to continue in the production sector. As is the case with the other sectors mentioned, rural development and territorial concerns are key factors in the choice of this option.
- The new olive oil regulation allows countries to receive 40% of the total payment as a per-hectare payment, and the other 60% is a decoupled payment. The MAFF has proposed to decouple payment at the rate of 90%, together with a new per hectare payment that takes account of the social, environmental, landscape and technical aspects of farms; 5 olive grove categories are thus being defined.
- With regard to tobacco, Spain will be keeping the maximum coupled rate of 60% from 2006 to 2009 in order to maintain production in the specific areas where the crop is grown as long as possible.
- The MTR has integrated 65% of the payment for cotton into the single payment scheme. The other 35% will be a per-hectare payment with a maximum guaranteed area. In order to avoid behaviour geared solely to obtaining premiums, the Spanish ministry is encouraging the modulation of aids according to the quality of the product.
- The dairy premium will be incorporated into the single payment regime in 2006, since, according to official MAFF memoranda, there was nothing to gain by bringing it forward to 2005.
- With regard to the possibility for countries to reduce the decoupled payments by up to 10% and devote the budget thus saved to quality and environmental programmes – Article 69 of Regulation 1782/03 – Spain has expressed its intention to make use of it, although the reduction rate is not yet clear.



To sum up, it can be said in general that Spain is trying to minimise the impact of total decoupling on its farms, since the administration argues that this is the best way to preserve activity in areas less suitable for crop and animal husbandry. This strategy could be of advantage in the transitional period, but national policies should plan for the long term in order to prevent the undesired effects of total decoupling.

### **10.3.2 - EAGGF transfers**

The data available on EAGGF guarantee transfers indicate a minor increase in the funds received by Spain. The 2004 increase is due mainly to increases in the rice, wine, fruit and vegetables and milk sector transfers. **Table 20** gives a sector-by-sector breakdown. As can be observed in the table, over 25% of the total funds received are devoted to arable crops, whereas 15.5% of funds go to the olive oil sector, the beef sector being the destination of almost 12% of total transfers.

There are three typical Mediterranean activities of importance in Spanish agriculture which account for about 7% of the total funds received: sheep and goat husbandry, fruit and vegetable production, and wine and alcoholic beverages production. Some 7% of total funds were also allocated to rural development schemes.

The breakdown according to type of expenditure indicates that the bulk of the funds (€5.029 billion) took the form of direct payments to producers, €856 million were payments to industries and other private entrepreneurs and middlemen, €33 million were devoted to financing private food stocks, €44 million were devoted to the free distribution of food and €17.5 million to quality improvement and market promotion of olive oil.

Rural development plans accounted for €507.5 million, refunds and other trade facilities accounted for €183.7 million, and expenditure on public stocking amounted to €78.8 million.

**Table 10.20 – EAGGF Guarantee transfers, 2003-2004**

Item	Unit: million €	2003	2004
Total arable crops	Total	1 827.82	1 824.60
	Cereals+ other arable crops	1 172.48	1 589.60
	Durum wheat	211.80	195.48
	Protein seeds	47.48	11.93
	Non-textile flax	0.41	0.21
	Oilseeds	151.09	7.97
	Set-aside	246.04	20.98
Other cereal subsidies	Total	-4.84	-6.62
	Export refund	2.06	0.47
Rice	Total	33.30	123.27
	Per-hectare aid	12.24	98.39
	Export refund	4.50	2.67
Pulses and fodder	Total	162.93	241.53
Sugar	Total	38.82	49.44
	Export refund	20.87	22.44
Cotton	Total	168.22	266.25
Textile flax and hemp	Total	0.15	-0.16
Tobacco	Total	113.38	106.02
Olive oil	Total	1 064.71	1 043.18
	Production subsidies	990.85	968.88
	Export refund	0.06	0.00
Wines and alcohol	Total	432.95	471.77
	Vineyard modernisation	167.13	180.01
	Distillation	173.81	182.36
	Export refund	12.55	10.26
Fruit and vegetables	Total	475.30	496.10
	Operative Funds	117.01	121.31
	Export refund	8.32	9.23
Beef	Total	859.28	806.75
	Suckler cow premium	323.71	305.45
	Calf premium	133.22	133.77
	Extensification premium	154.14	157.06
	Export refund	47.65	19.28
Pork	Total	16.43	6.60
	Export refund	2.71	2.64
Sheep and goat	Total	496.69	512.26
	Sheep and goat premium	369.65	377.62
Milk and dairy products	Total	57.68	116.07
	Export refund	22.19	37.45
Eggs and poultry farming	Total	0.33	0.29
Accompanying measures/ Rural development EAGGF - Guarantee Section	Total	494.61	507.46
	Retirement	44.25	44.73
	Agro-environment	121.96	133.27
	Forestation	90.55	80.30
Fishing products	Total	3.12	6.77
<b>TOTAL EAGGF Guarantee Transfers</b>		<b>6 374.89</b>	<b>6 707.65</b>

Source: FEAGA (Spanish Agricultural Guarantee Fund) (2005 and 2004).

### **10.3.3 - National policies**

National policies currently focus mainly on insurances and water and other inputs – such as fuel – but new lines of policy targeting other national specific goals are expected to be developed. For example, as we mentioned in last year's report, a White Paper on Spanish Agriculture has been issued and problems are now clearly identified; since the MTR allows a certain amount of leeway for national tailoring of the CAP, the government should prepare plans for cases of low yields and mountain areas which could be damaged by the forthcoming full decoupling.

With regard to the “traditional” focal areas, the agricultural insurance policy is one of the most developed agricultural insurances in the world. It consists of a mixed system, in which public institutions are responsible for the technical regulations, premiums and general design and control, while the actual insuring is carried out by private companies. According to the general figures on the 2004 Agricultural Insurances Plan, the number of policies contracted has grown by 3%, whereas the number of tonnes insured increased by 6%. Thus, the total cost of insurances rose to €523.2 million, 5 % higher than in the 2003 Plan.

These figures confirm the sound position of the schemes included in the Plan, schemes which are extended and further developed from year to year as new needs are identified by insurance designers. “Yield insurances” have been introduced in recent years for olive groves and other fruits, for example, insurances for farms as a whole with different crops, aquaculture insurances, fire insurances on agricultural land devoted to forest uses and insurances covering the removal of dead animals on livestock farms.

The breakdown of insurance costs in 2004 is as follows, by activity insured: non-citrus fruit insurances are at the top of the list accounting for almost 20% of total costs, despite the general reduction in the main fruit crop production in 2004 (see section 2.2 above). The second in rank in terms of total cost of insurance, is the above-mentioned insurance for covering the removal of dead animals on stock farms (the total cost of this insurance was €82 million). Total expenditure on arable crop, vineyard and cattle insurances amounted to some €70 million for each category. The other two major types of insurance in terms of total cost are the various citrus fruit schemes and the vegetable and flowers insurances.

As regards claims, reported in 2004, 603 000 hectares were affected by risks, with over 85 000 claims reported. As a result, the total payments to farmers amounted to €297.8 million, of which 69% concerned crop husbandry policies and 31% animal husbandry policies.

Hailstones were the hazard with the most marked effect, concerning 343 000 hectares and 45 000 claims. Drought was of little significance in 2004 insurances, causing only 700 claims with 3 000 hectares damaged. The first insurance data for 2005 indicate that drought will cause more damage in 2005. Frost also caused

considerable damage on many fruit farms in 2004, and this damage is also expected to increase significantly in 2005.

As for water policies, in last year's report we mentioned the heated debate on the water transfers between rivers that were approved by the 2001 National Hydrographical Plan. These discussions concerned political, economic, environmental and regional issues and also involved the EU, since it had to co-finance most of the infrastructures. The new government finally decided to cancel the main transfer – from the river Ebro to areas in the south-east because of the “lack of sound environmental and economic analysis”. Since certain public works had already been awarded, the government had to pay compensation.

Furthermore, right-wing parties and public opinion in the south-eastern regions were (and still are) very critical of the decision. The alternatives chosen by the current government rely on the desalination of sea water, water management and water saving. As a part of this water strategy, the previous National Irrigation Plan has been maintained with a view to modernising the existing irrigation systems and introducing new irrigated areas by 2008. Total investment exceeds €5 billion, to be split between private investors (approx. 40%) and public administrations (30% regional governments and 30% national government).



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