

## The best laid plans

Over the winter period forward grain values for the coming harvest have been sustained at a premium to spot values and intervention supported levels. Supportive factors have included the anticipated reductions in grain output in the Black Sea region, dry conditions in the US HRW wheat belt and relatively low world opening stocks. However, the arrival of spring has so far brought relatively favourable crop conditions to both the US and the EU.

Barring a major crop problem, current indicators suggest that the EU is heading for a large grain crop this harvest, supplemented by relatively high intervention and open market stocks. If a large grain crop is achieved the EU is likely to have to remain an aggressive exporter for much of the coming season even if the wider world wheat market were to remain well supported.

Looking further ahead the EU Commission has recently detailed their assessment of prospects for EU Cereal Markets from 2005 to 2012. In this report they paint a picture of a relatively manageable EU

grain surplus, supportive world grain price levels and currency exchange rates. However, over this time period the potential for increased grain production in the new and prospective EU member countries of Eastern Europe is very likely to remain a major challenge for policy makers and the market.

How effective will de-coupling be in assisting producers to better match production to the needs of the market? Will bio-fuels develop quickly enough to absorb any increase in surplus that occurs? How soon will the EU Commission be required to revisit the question of EU market support?

These uncertainties amongst others could mean that the reality could be very different from the relatively benign Commission's medium-term market outlook. The risk remains high that a combination of low world prices and/or a large EU grain crop could place major pressures on existing EU support mechanisms at any point over the next five years.

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# Energy and Fertiliser Costs

**With dramatic increases in energy and fertiliser costs over the last two years, farmers across the globe are looking at ways to economise. In most situations their options are limited. The major exception to this is the opportunity for US farmers to sow more soyabeans and less maize.**

Farm input prices are generally stable when compared with output market prices and, therefore, not often an issue for farmers when making production decisions. Over the last two years, however, price increases in crude oil, and to a lesser degree in natural gas have had a material impact on the cost of production and particularly on farm fuel and fertiliser (Graph 1, 2). Legumes, with their ability to more than meet their own nutrient nitrogen needs, have thus enhanced production cost advantages over other crops.

It is also evident that farms are often distant both from consumption centres for their output and the source of their farm inputs. Although competition rather than costs usually determine the prices farmer receive and pay, farmers are likely to end up bearing the higher transportation costs. UK farmers, due to their closeness to major population centres, undoubtedly have an advantage over their counterparts isolated on the US Great Plains and Canadian Prairies.

## US

The US Department of Agriculture (USDA) forecasts that US farmers will spend US\$13.8, US\$12.6 and US\$3.5 billion this year, respectively on fertiliser, fuel and oil, and electricity (Table 1). Together they account for

nearly 80% of farm expenditures on manufactured inputs and pose an increase of almost 50% on five years ago. Fuel expenditures have doubled, fertiliser expenditures have increased by about 40%, while electricity expenditures have remained relatively flat.

Prices for natural gas, a major component of nitrogenous fertilisers, ballooned to over US\$11 / MBtu in autumn but have since slipped back to about US\$7, a level not much higher than a year ago. Although crude oil prices declined from their peaks in early autumn and diesel and petroleum derivative prices have fallen also, they remain still about a third above last year's level.

But for US agriculture as whole fuel, fertiliser and electricity only account for about 13% of total input expenditures. For crop production, however, they represent a much higher percentage, depending on the crop. USDA projections made last November suggest that farmers can typically expect to spend about US\$250 and US\$60 / ha on fertiliser, fuel, oil and electricity for the production of maize and soyabeans (Table 2). These represent 24 and 8% of total forecast maize and soyabean production costs. While both these figures are about a third higher than last year, the cost increase is naturally much larger for maize than for soyabeans and it is not reflected in returns for the two crops.

As in many instances Corn Belt farmers have the option of growing either of these spring sown crops, production of less expensive soyabeans will clearly appear more attractive. Most farmers may be restricted to some degree by agronomic and management considerations. Also such factors as soil moisture conditions, sowing progress, market prospects, concerns over soyabean rust, and indeed prices for these inputs when purchases are actually made will influence decisions.

These factors may have a greater or smaller impact in any particular year. But the ratio of maize to soyabean area, which was typically 1.25:1 until ten years ago and has subsequently fallen to around 1.1:1, is likely to continue to fall if current energy costs are sustained.

Another crop likely to benefit from higher

Table 1 US Farm Sector Production Expenses, 2001-2005

	\$ billion				
	2002	2003	2004	2005F	2006F
<b>Farm origin inputs</b>	<b>48.7</b>	<b>52.6</b>	<b>56.4</b>	<b>57.7</b>	<b>57.8</b>
Feed	24.9	26.6	28.3	29.5	30.5
Livestock	14.9	16.7	18.6	18.2	17.0
Seed	8.9	9.3	9.4	10.0	10.4
<b>Manufactured inputs</b>	<b>28.0</b>	<b>28.3</b>	<b>30.4</b>	<b>35.8</b>	<b>38.4</b>
Fertilizer & lime	9.6	10.0	11.0	12.8	13.8
Fuels and oils	6.8	6.8	7.8	11.2	12.6
Electricity	3.3	3.1	3.4	3.4	3.5
Pesticides	8.3	8.4	8.2	8.4	8.6
<b>Total interest charges</b>	<b>13.0</b>	<b>13.2</b>	<b>13.3</b>	<b>15.0</b>	<b>16.7</b>
<b>Other operating expenses</b>	<b>66.2</b>	<b>65.3</b>	<b>71.7</b>	<b>71.9</b>	<b>74.9</b>
<b>Overhead expenses</b>	<b>37.5</b>	<b>38.3</b>	<b>39.7</b>	<b>40.6</b>	<b>41.3</b>
<b>Total Production Expenses</b>	<b>193.4</b>	<b>197.6</b>	<b>211.4</b>	<b>221.1</b>	<b>229.2</b>

F = Forecast

Source: USDA Economic Research Service

fuel and fertiliser costs is **Western Canadian** field peas. Originally seen as a niche market commodity mainly for human consumption, field peas have grown to a level where they compete as a protein source in conventional feed markets. A Prairie sown area of 1.4M ha and exports of over 2Mt are anticipated this year. With fertiliser costs 25% of those for cereals and 15% of those for canola, it is seen as a viable option by an increasing number of farmers. Interest in legumes/pulses is likely to be evident around the world while current energy costs continue.

## UK

UK farmers are faced with the same

US\$ per hectare	Maize			Soyabeans		
	2004	2005	2006	2004	2005	2006
<b>Total Operating Costs</b>	<b>402.38</b>	<b>472.21</b>	<b>498.34</b>	<b>197.41</b>	<b>220.41</b>	<b>230.74</b>
Seed	87.55	96.49	99.21	68.94	77.86	80.06
Fertilizer	120.78	136.25	143.92	20.93	23.97	25.33
Chemicals	64.57	66.32	68.30	41.69	39.83	41.02
Custom Operations	27.72	29.53	30.37	15.69	16.31	16.78
Fuel, Lub., and Electricity	62.15	95.31	103.63	23.52	30.71	33.41
Repairs	36.42	39.39	40.55	25.03	27.45	28.27
Other variable Expenses *	0.54	0.62	0.64	0.30	0.32	0.35
Interest on Operating Capital	2.64	8.30	11.71	1.31	3.95	5.54
<b>Total Allocated Overhead Costs</b>	<b>483.25</b>	<b>513.15</b>	<b>527.48</b>	<b>401.96</b>	<b>425.70</b>	<b>437.64</b>
Hired labor	7.78	8.13	8.33	4.72	5.19	5.31
Unpaid labor	65.78	68.47	70.20	39.96	40.92	41.96
Capital Recovery *	145.42	157.35	162.07	111.57	122.09	125.77
Land	219.77	233.48	239.91	201.86	212.56	218.41
Taxes and Insurance	13.81	14.01	14.31	14.55	14.68	15.00
General Farm Overhead	30.59	31.70	32.67	29.31	30.27	31.18
<b>Total Costs (listed)</b>	<b>885.63</b>	<b>985.36</b>	<b>1025.82</b>	<b>599.37</b>	<b>646.12</b>	<b>668.38</b>

<sup>1</sup>) Forecasts as of November 2005. Source: USDA Economic Research Service.  
<sup>2</sup>) Cost of purchased irrigation water plus cost of ginning for cotton and baling for wheat and barley.  
<sup>3</sup>) Cost of depreciation and interest for farm machines.

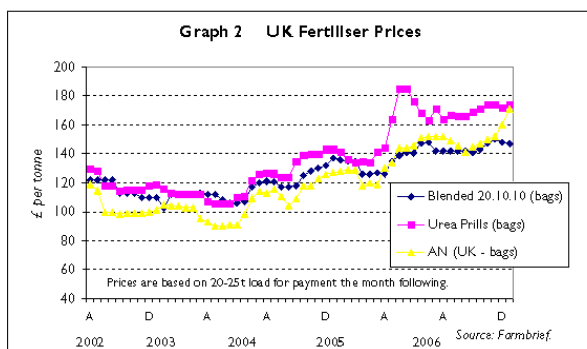
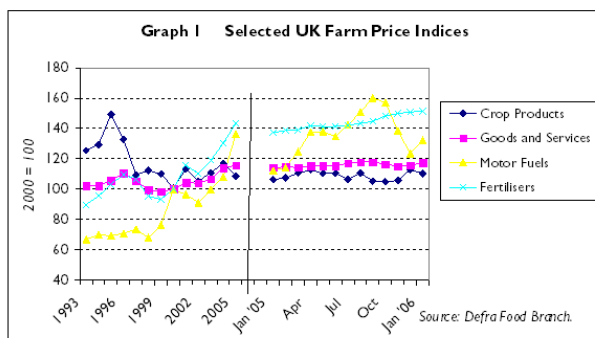
challenge as their US counterparts (Graph 2). While farm input prices have tended to be more stable than crop output prices, even with the stabilising influence of the EU CAP, the energy related farm inputs have risen significantly in recent years.

UK nitrogenous fertiliser prices have risen by more than 50% over the last five years and those of blends by about half that amount. While other issues have had an impact, higher energy costs and natural gas prices are the underlying cause of the increases. Fuel prices have doubled over the last five years with the reductions in the rebate on farm fuels contributing to increases.

In the UK, and probably generally in Europe, soyabeans and other pulse crops are not regarded by many farmers as a major production alternative, even if they are relatively inexpensive to grow. There was no evidence of any significant switch to pulse crops this autumn or is there likely to be in the spring. In England, for instance, an estimated 75,000 ha were sown to winter beans this autumn, down 6.8% from last year, compared to 1.65M ha sown to winter wheat, down 4.2% from last year.

The reduction in the area of winter wheat, despite generally favourable sowing conditions, was generally attributed to increased following of less favourable land with the advent of single farm payments.

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## Key Points

- Crude oil, diesel and petroleum derivative prices still a third above last year
- US maize and soyabean production costs a third higher than last year
- US maize/soyabean area ratio has fallen from 1.25:1 ten years ago to 1.1:1
- Prairie sown field pea area expected at 1.4M ha this year and exports at over 2Mt
- UK nitrogenous fertiliser prices have risen by more than 50% over the last five years

# EU Cereal Markets Prospects

**The EU Commission's latest report on medium-term projections for EU-25 cereals markets forecasts a gradual improvement in the EU cereal balance, with an expansion in EU cereal production foreseen.**

The report on Prospects for Agricultural Markets and Income for the period 2005 to 2012 was released by the Commission in February and updates the Commission's report from July 2005. The report is based on information available at the end of November 2005. It therefore does not take into account recent decisions adopted in the world trade liberalising negotiations in Hong Kong in December 2005, which included a commitment to phase-out refunds on EU agricultural exports by the end of 2013. It also does not take into consideration EU heads of state agreement on the EU budget for 2007 to 2013, which included sharp cuts in EU rural development policy spending and cuts in EU arable aid payments, when compared to the Commission's proposals.

The medium-term projections for EU-25 cereal markets are also based on a series of assumptions which include a mandatory set-aside rate for arable crops of 10% until 2012, 93% of EU arable aid payments will be decoupled from production under CAP reform and commitments under the Uruguay Round Agreement on Agriculture will remain unchanged over the period. Inflation is also assumed to remain stable in the medium-term at around 1.9% and the € is assumed to return gradually to 1.15 versus US\$ which should help to improve the competitiveness of EU cereals.

The report claims that medium-term perspectives for EU cereal markets seem relatively positive for the majority of EU cereals, apart from barley which will only become more competitive on EU markets at around the end of the decade. Problems could also arise for soft wheat and maize in some of the new member states due to their land-locked position, but it is assumed that the market integration of these regions into the single market will gradually increase until 2008 alongside with infrastructure improvements.

## Yield, area, production

Cereal yield growth until 2012 is expected to show a more modest pattern than earlier forecasts suggested, with an estimated average annual growth of 0.8% between 2005-2012. But maize yields should continue to rise substantially throughout the EU. The higher yields are expected to offset the decline in cereal area and lead to a gradual growth in overall cereal production in the medium-term to reach 271Mt in 2012, with total wheat output seen at 130.9Mt (of which soft wheat at 121.6Mt).

## Consumption

Domestic consumption of cereals is predicted to exhibit a 8.8Mt rise over the projection period to reach near 253Mt in 2012. Cereal feed demand is expected to continue to expand only moderately from 152Mt in 2005 to 156Mt in 2012. This is in part due to ongoing increase in feeding efficiency, especially in the new member states, resulting in lower feed use / t of meat and livestock products than seen in the past. The overall rise in white meat and egg production in the EU is also expected to be lower than in the past.

In the medium-term, changing price relations are expected to result in a significant change in the composition of cereal feed use. In the first half of the projection period, soft wheat and also maize are seen to become more attractive in feed use, while barley will only gain competitiveness in the second half of the period.

## Stocks, exports

Large grain stock levels are likely to continue to burden cereal markets over the next two

Table 1 Total Wheat Market Projections for the EU, 2003 - 2012

	2005	2006	2007	2008	2009	2010	2011	2012
	<i>M tonnes</i>							
Beginning Stocks	26.8	25.2	21.2	17.1	16.1	16.1	16.1	16.6
Imports	7.0	6.4	6.4	6.4	6.4	6.5	6.4	6.5
Usable Production	120.5	122.1	123.5	125.6	126.3	127.6	129.6	130.9
of which EU-15	98.4	103.6	105.2	106.2	107.8	108.9	110.7	111.8
EU-10	22.1	18.5	18.3	19.4	18.6	18.7	18.9	19.1
Consumption	116.1	117.0	115.8	115.8	115.4	115.9	116.5	117.0
of which EU-15	96.8	97.4	96.4	96.6	96.5	97.1	97.7	98.2
EU-10	19.3	19.5	19.3	19.2	18.9	18.9	18.8	18.8
Exports	13.0	15.5	18.2	17.2	17.4	18.0	19.1	19.9
Ending Stocks	25.2	21.2	17.1	16.1	16.1	16.1	16.6	17.1
of which intervention	7.5	4.9	1.0	0	0	0	0.5	1.0

Source: EU Commission

years. The effect of a higher mandatory set-aside rate as well as measures to decouple arable aid payments from production under the CAP reform will restrict production growth in the first part of the projection period. Together with rising exports, this will cause a gradual decline in stock levels. EU grain exports are forecast to rise to 30.4Mt in 2012, compared to 22.8Mt in 2005. Wheat exports are expected to increase by nearly 7Mt over the period to 19.9Mt in 2012. Total cereal ending-stocks are forecast to reach 40.1Mt in 2012, some 18.1Mt less than in 2005, the report says.

In the short-term, most of the intervention stocks are likely to consist of soft wheat, rye and maize. But by 2007, rye intervention stocks are expected to disappear. Soft wheat and maize stocks are predicted to also gradually fall and disappear in 2008 and 2009 respectively. Barley is predicted to lose competitiveness during that time and intervention stocks of barley are therefore expected to increase. A drop in barley intervention stocks is forecast from 2009 onwards, once barley's competitiveness has improved according to the report. Maize is forecast to significantly gain competitiveness in feed use after 2008 with the expected full integration of the land-locked new member states into the single market. Soft wheat is predicted to slightly lose competitiveness at the end of the projection period, the report adds.

### **World markets**

World cereal prices are projected to recover in the medium-term as supply adjusts to global demand growth, with wheat and maize prices forecast to rise to \$160 / t and \$120 / t respectively by 2012/13. The improved world market situation, combined with a higher set-aside rate, a weaker euro, moderate yield growth prospects and the recent CAP reform should lead to an improvement of the EU cereal balance.

### **Decoupling impact of recent CAP reform**

Under a status quo scenario, the report assumes that 93% of EU arable aid payments are decoupled from production in 2012 and only France and Spain allow 25% of aid to be coupled to production. Through the introduction of the Single Farm Payment and the reduction in the

overall level of support in the cereals sector, it is estimated that set-aside and fallow land will rise until 2012. This is likely to occur in France, Spain and Poland, mainly at the expense of total cereal area which will amount to 50M ha, as land with low profitability would move out of production. The largest amount of EU-25 cereal production in 2012 is forecast to be harvested in north-western Germany, eastern England, western Poland, Hungary and northern France. These regions are predicted to show shares of cereals in crop rotation of more than 50% and yields of up to 10 t / ha.

Under a full decoupling scenario, there would not be major changes in the EU-25 total cereal area as well as set-aside and fallow land as direct payments have already been fully decoupled in the framework of the current policy situation, apart from France and Spain.

Under a full coupling scenario, it is assumed that Italy, Greece, Portugal and Austria would keep 40% of the durum wheat premium coupled to production and other member states would opt for a 25% rate. The EU-25 cereal area is expected to rise by 0.6% and set-aside and fallow land would fall by 0.8%. Increases in the cereal area would mainly take place in countries that have fully decoupled direct payments in the status quo situation. Durum wheat production would also slightly rise in Greece, Portugal, Austria and Italy, the report claims.

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## **Key Points**

- *Medium-term outlook for EU-25 cereal markets good (except for barley)*
- *Gradual expansion in EU cereal output and decline in EU intervention stocks foreseen*
- *Total EU usable cereal production forecast at 271Mt by 2012 (250.3Mt in 2005)*
- *Total EU usable soft wheat production forecast at 121.6Mt by 2012 (113.3Mt in 2005)*
- *No EU wheat intervention stocks from 2008 onwards*
- *But barley intervention stocks to rise between 2006 and 2009*

# EU Grain Balance 2006/07

**EU grain production in '06 is expected to exceed last year's output but is forecast to remain below the near 290Mt harvested in '04.**

**Given large opening stocks, export availability is set to rise next season, with EU wheat expected to have favourable export prospects.**

**Production** - Total EU-25 cereal production is forecast to rise to 267Mt this year compared to 255.8Mt in '05 (Strategie Grains), as improved yields are expected to more than offset a 1% decline in overall planted grain area. The largest increase is anticipated for wheat, estimated to rise to 120.5Mt compared to 115Mt last year, as production is expected to recover mainly in Spain and France. Barley output is seen more than 4Mt higher at 57.5Mt, while the maize crop is expected to remain close to last year's level of 49.5Mt.

**Usage** - Wheat consumption is forecast 0.7Mt below last season, at 110.3Mt

as forecast higher industrial usage of wheat (mainly for ethanol production) is not enough to offset lower wheat demand in animal feed. The estimated 5Mt feed wheat demand drop takes account of anticipated improved competitiveness of protein-rich feed ingredients, greater availability of barley and an estimated 1.6Mt reduction in EU poultry feed output due to bird flu. Lower poultry feed output is also reflected in lower forecast barley and maize demand in animal feed compared to previous estimates. Barley usage in animal feed is still seen nearly 2Mt above last season, reflecting a recovery in production and consumption in Spain, but remains some 0.5Mt below earlier estimates. The same is true for maize, which, although estimated to only marginally change on last year's balance, is some 0.7Mt below previous Strategie Grains' estimates.

## Exportable surplus -

Given estimated opening stocks of a high of nearly 19Mt and a 5.6Mt increase in output, the exportable wheat surplus could rise to 15.5Mt and above, if intervention stocks are to be exported. If so, wheat exports in '06/07 could turn out well above this season's exports, which are estimated at 11Mt. EU barley export availability is also forecast to rise in '06/07, with exportable surplus forecast at 5.8Mt, possibly rising to 8Mt, if intervention stocks are included. Barley exports in '05/06 are seen at 3.9Mt (Table 1).

**Conclusion** - Prospects for a larger EU grain crop coupled with comparatively large opening stocks means a greater wheat and maize availability for '06/07, with wheat supply estimated some 3Mt above '05/06. Fortunately the larger supply coincides with generally favourable export prospects for EU wheat next season. Black Sea wheat crops are forecast to fall well below those of '05, potentially providing the EU with additional export markets next season, assuming EU crops develop favourably between now and harvest. The effect of bird flu on grain consumption has already been taken into account to a certain degree but uncertainty remains. A spread of bird flu could mean a further drop of poultry meat output and grain consumption, while a bird flu-free EU can rapidly rebuilt flocks and cereal demand could rise accordingly.

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**Table 1 EU-25 Grain Supply and Demand Balance**

M tonnes	Wheat		Barley		Maize	
	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
Opening Stocks	20.5	18.7	8.1	7.2	7.7	10.6
Production	114.9	120.5	53.2	57.5	49.2	49.5
Imports	5.3	4.1	0.3	0.4	2.6	2.8
Total Domestic Use	111.0	110.3	50.4	52.3	48.3	48.3
of which Feed	55.3	50.3	35.9	37.8	37.4	37.4
Human & industrial	49.7	54.0	11.0	10.9	9.1	9.1
Exports	11.0	-	3.9	-	0.1	0.2
Exportable Surplus/Free Market	-	15.5	-	5.8	-	-
Ending Stocks	18.7	18.5	7.3	7.0	8.4	12.2
of which intervention	6.5	7.9	0.9	1.8	5.4	7.1
Surplus / required Stocks	2.3	-	1.1	-	2.4	4.5

Estimates as of 16 March 2006.

Source: Strategie Grains.

# EU Grain Trade

**The EU Commission granted export licences for a total of 16.9Mt of cereals between 1 July 2005 and 28 March 2006. This is 1.5Mt more than during the same period in 2004/05. Total cereal import licences are also up by 0.4Mt to 8.1Mt. Wheat and barley export licences, to date, are up by 2M and 0.5Mt respectively, while exports of rye, oats, maize and malt to end-March are lower than last season.**

Of the total 9.1Mt of wheat export licences granted to 28 March this season (compared to 7.2Mt granted at the same time last year), 5.94Mt have been 'open market' export licences, granted on a weekly basis at the Thursday Cereal Management Committee meetings. Export restitutions granted for these exports have ranged between €3 and €9 / t. A further 3Mt have been granted for direct export out of

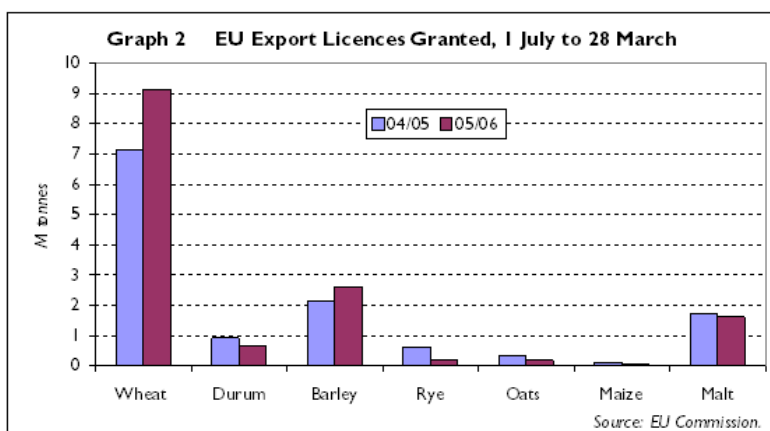
intervention stores, while 0.3Mt of licences have been taken out under the 'Standing' or 'Daily' Refund system, which has maintained the refund at zero throughout the season.

In recent weeks (since 9 February) the Commission has not accepted any open market bids for restitution, choosing instead to concentrate on exports from intervention. Main competition in the soft wheat market has come from the Black Sea region this season, in contrast to last year when Argentina undercut EU wheat on the world market. A significant rise in Ukrainian wheat prices however, due to concerns about the size of next year's crop, as well as some logistical problems in executing export contracts, has increased the competitiveness of EU wheat since January. The smaller Argentine wheat crop meanwhile has limited that country's export potential for this season. The main markets for EU wheat this season have

been countries in North Africa, notably Algeria, Egypt and Morocco.

Total **barley export licences** taken out over the season stand at 2.6Mt, compared to 2.2Mt last year. Licences granted under the open market tender have totalled 0.35Mt, while the majority of barley exports have been sold out of German and French intervention stocks. Licences granted for oat exports to date this season, at 0.18Mt, are 45% lower than the same time last year. Lower production in Sweden and Finland, which are the only origins eligible for export restitutions (negotiated under their EU accession agreements), has resulted in much lower exports to their traditional market, the USA, this year (Graph 1).

The quantity of **wheat import licences** granted so far this season, at 4.25Mt, is slightly higher than last season (3.94Mt). While a further tranche (for 0.59Mt) of the EU Tariff Rate Quota for low/standard quality wheat will be opened for April/June, the recent convergence in Black Sea and EU wheat prices means that imports from these origins will not be as competitive as earlier in the year. Maize import licences, at 2.15Mt are up by 0.3Mt compared to the same time last year, while sorghum imports have fallen from 0.21Mt last year to only 44,000t.



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# EU Sustainable Development Strategy

**Recent EU Commission plans for a Review of the EU Sustainable Development Strategy offer a long-term vision for addressing issues such as climate change and clean energy, sustainable transport as well as preservation of natural resources.**

It sets clear objectives, targets and procedures for monitoring and measuring progress. It also includes a number of specific initiatives, such as encouraging the development of cleaner cars. Ideas for the Review of the 2001 Sustainable Development Strategy was already outlined in February 2005, the latest Communication, which was released by the Commission in Brussels in December, builds on these ideas.

## **Climate change and clean energy**

The Commission claims that the fight against climate change is multi-faceted, with both energy and transport policies having a key role to play in reducing green house gas emissions. Action on sustainable energy will also enhance security of energy supply and promote rural and local development. The EU is well endowed with renewable sources of energy, such as biomass, and has the technology to use these to meet a far greater proportion of its demand for heat and fuel, the paper adds.

The EU intends therefore to cut greenhouse gas

emissions further, beyond the end of existing commitments in 2012 under the Kyoto Protocol. This will be done by developing proposals and working towards broader international agreements that cover all greenhouse gases and sectors. The Commission has already released an Action Plan designed to boost the use of biomass energy in transport, including biofuels such as bioethanol and blended with petrol. The Commission will launch a debate in 2006 on EU policy on renewable energy up to 2020, including on the share of the energy mix from renewable energy.

## **Resource management**

The Commission claims that the loss of bio-diversity, prompted in part by climate change, has economic impacts on tourism and sectors such as agriculture that are dependent on ecosystem services, namely soil fertility and water quality. The Commission therefore intends to better integrate biodiversity concerns into internal and external policies and draw up an action plan to promote sustainable production and consumption.

## **Sustainable transport**

The Communication states that the benefits of more sustainable transport are wide ranging and significant, including reducing climate change and biodiversity impacts. The Commission will propose a package of measures to improve the environmental performance of cars by

promoting clean and efficient vehicles including a Directive on the procurement of such vehicles, new vehicle standards and increasing the use of biofuels.

A proposal to promote clean road transport vehicles was already released in December. The proposal forces member states to ensure that public bodies and independent operators which provide transport services allocate a quota of 25% of their total annual procurements of heavy duty vehicles, weighing over 3.5t, to clean vehicles, which could boost biofuel use. An extension of the clean vehicle procurement obligation to passenger cars and light duty vehicles will be considered at a later stage, the proposal adds. The Commission also released in February an EU Strategy for Biofuels which aims to further promote the production and use of biofuels.

## **More effective follow-up**

The Commission claims that there is a need for more effective monitoring and follow-up and consequently plans to submit a progress report every two years. It will draw on the set of sustainable development indicators adopted by the Commission last February. In addition, member states have developed their own national sustainable development strategies and member states must review these and publish them by the end of 2006.