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Serbian Wheat Update

Report Categories:

Agricultural Situation

Approved By:

Hoa Huynh

Prepared By:

Tatjana Maslac

Report Highlights:

The planting area of Serbian wheat crop for MY09/10 is estimated at 560,000 HA, about 73,000 HA higher than last year. Overall production of wheat is estimated at 2 million MT, lower than previously estimated, but still on the level of average annual production. Wheat harvest is delayed due to heavy rain and flooding at the end of June. Serbian wheat stocks are currently at 477,000 MT, a record high. Combined with the new crop Serbia is planning to export around 440,000 MT of wheat in MY09/10.

General Information:

According to the Ministry of Agriculture, Serbian producers planted 560,000 HA of wheat last autumn. This is 73,000 HA more than last crop year (MY08/09), when wheat was planted on 487,000 HA. Revised estimates of the MY09/10 Serbian wheat crop indicate that total wheat production is lower than initially projected due to spring drought, heavy rain at the time of harvest and very limited use of mineral fertilizers due to high prices.

March, April and first part of May were very dry throughout most of Serbia this year. The most seriously affected areas by drought were Vojvodina and West Serbia. The first significant spring rainfall occurred throughout Serbia last week of May. The rain occurred at the critical growing point for wheat, known as “watering of seed”. This is a critical point for plant to receive water, which decides what quality the grain will be. These May rain showers were considered to be heavy, but were not sufficient to “cure the problem” totally but just to mitigate it. After a very dry spring, the end of June in Serbia was very rainy. Heavy showers for more than ten days caused some flooding of fields and delays of two weeks of wheat harvest, since farmers were unable to enter to the fields with agriculture machinery. According to agriculture experts, wheat quality will be probably affected by heavy rainfall in the time of harvest. Humidity level will be higher and protein level might be lower.

The average yield is estimated at 3.6 MT/HA and the overall production at about 2 million MT that is Serbian annual average. Usually the average yield in the Vojvodina region that account about 60 percent of total area planted is higher than wheat yields in Central Serbia.

According to the wheat analyst from the Serbian Wheat Association, total wheat production of 2 million MT in MY09/10 will be sufficient for domestic needs but with big ending stocks of the previous year crop, there will be significant wheat quantities, about 440,000 MT, for export, mostly with shipments to neighboring Balkan countries (CEFTA countries) and customers in North Africa. In MY2008/09 Serbia exported only 134,000 MT of wheat, wheat was exported mostly to Bosnia and Hercegovina, Montenegro and Macedonia.

Wheat prices throughout 2008 were very high reaching highest level of 445 USD/MT in April 2008 and then dropping to 179 USD/MT by the end of the year. From the beginning of 2009 wheat prices for wheat crop MY08/09 were relatively stable at around 11.2 din/kg (167 USD/MT). Price increase to 13.5 din/kg (201 USD/MT) happened in the second half of May due to obvious effects of the spring drought in Serbia, expected lower wheat crop and higher wheat prices on international market. But before the wheat harvest Serbian millers and traders offered to the wheat farmer’s price between 8 din/kg (119 USD/MT) and 9 din/kg (134 USD/MT) for the new wheat crop. Prices of wheat flour are stable despite the reduced price of the new wheat crop. Price for flour type TIP-500 is 18-22 din/kg (268-328 USD/MT). Serbian farmers are currently very unsatisfied with price of wheat that millers and traders are offering for the new crop. However, they will have no other choice but to accept that price.

Wheat prices in Serbia are lower than the world market prices due to a very high ending stocks of about 470,000 MT from last year and insufficient storage facilities available to farmers. Due to limited wheat storage facilities Serbian farmers are forced to sell their wheat crop immediately after the harvest to milling companies or traders for lower prices than they would be able to get if they could storage their crop and wait for better price during the year.

As a part of Serbian Government effort to solve wheat storage problem, Serbian Parliament adopted a new Law on Public Warehouses at the end of May. The Law on Public Warehouses for agricultural products, mostly grains, enacted the implementation of the warehouse receipts system which is the alternative solution for commodity producers, processors and traders to access short-term financing for operations, and take advantage of price fluctuation and secure the storage for the

crops. The framework for establishment of a WHR system focuses on registration, licensing and inspection of public warehouses; and development of financial instruments for collateralized loans, insurance of commodities and claims and indemnity funds. The Law will also enable the creation of a uniform and well regulated system of storing of commodities, protection of depositors, ensuring of the quality and quantity of deposited commodities, and give the opportunity to agricultural producers to take advantage of higher prices during the off-season periods. According to this law, for the first time in Serbia it will be possible to store wheat according to the wheat quality. Most of the wheat in Serbia is stored in storages without grading the wheat quality. Only in two storages in Serbia, “Zitko” in Backa Topola and “Danubius” in Novi Sad, grading of wheat is performed and wheat is segregated and traded depending on the quality. Since the Law on Warehouses was adopted at the end of May, just before the new wheat harvest, it is more likely that positive effects of this law can only be realized next year.

In order to reduce high ending stocks from the MY08/09, Serbian Commodity Reserves decided to offer to traders some 100,000 MT of old wheat crop from their stocks but only for exports. According to the public announcement, Commodity Reserves will give loan of 35,000 MT of wheat of the old crop only for exports with the obligation to return this quantity of wheat from the new crop by the end of this year. Commodity Reserves also made a public announcement for exchanging 65,000 MT of wheat for mineral fertilizers NPK with an obligation for traders to export this quantity of wheat.

Just prior to the harvesting of wheat, Commodity Reserves announced that it will purchase 65.000 MT of the new wheat crop for the price of 13 din/kg (194 USD/MT), that is for 4-5 din/kg higher than the current market prices. Additional measure introduced by the State to help wheat farmers is the possibility for farmers to pay up to 50 percent for the new agriculture mechanization with the current wheat crop. Price of wheat in this barter arrangement will be 3 din/kg (45 USD/MT) higher than the market price. The purpose of this measure is to increase sale of the agriculture mechanization and to reduce farmers stocks with wheat in order to increase wheat price on the market.

A new Wheat Association called “Zita Srbije” was established in Serbia in mid May. The Association will work on improving working conditions for grain producers, represent interests of all its members to the Serbian Government, assist in necessary arbitration and will be involved in preparation of standard contracts for wheat trade on local and international markets and in preparation of the new rulebook that regulates quality of grains in accordance with EU and international standards.