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CONTENT

1	Introduction:.....	4
2	Overview of recent developments in external trade.....	5
3	Recent developments in production and prospects for the future.....	7
4	Logistics: storage and transport	9
5	The demand on the internal market.....	10
6	Conclusion.....	12
Annex 1 : Country reports		13
	CZECH REPUBLIC.....	13
	HUNGARY	14
	POLAND.....	17
	SLOVAKIA.....	17

1 Introduction:

The four main cereal producers among the 10 new Member States (NMS) are, in order of importance as cereal producers, Poland, Hungary, the Czech Republic and Slovakia, accounting respectively for around 10%, 5%, 3% and 1% of EU-25 cereal production. Together, they represent 90 % of the cereal production in the NMS and around 20 % of the output of the EU-25.

Despite the volume of cereal exports tending to increase over time, the 2004/05 marketing year saw a rapid build up of intervention stocks of both wheat and maize in Hungary and to a lesser extent Slovakia. Indeed currently Hungary holds about one half of the total cereals intervention stocks of the EU-25. This rapid build up has engendered some concerns within the Union.

In the report « Prospects for agricultural markets and income in the European Union 2006-2013¹ » published by the Commission on 28th July 2006, cereal market integration in the Czech Republic, Hungary, Poland and Slovakia is identified as a « *significant downward risk for regional cereal markets* ». The report indicates that structural surpluses, particularly of maize, could weigh heavily on the Hungarian and Slovakian markets.

The central scenario in by the Commission's report is of « *a gradual integration of Hungarian cereal markets and Slovakian maize markets until 2013* ». The report indicates that « *Any change in the pace of market integration should have significant impacts on the level of public stocks in the EU-25. A faster integration would lead to a swift reduction of public stocks over the medium term. On the other hand, a further delay due to persisting problems in the marketing infrastructure and the stabilisation of domestic use could worsen the situation significantly and larger public stocks could build up.* »

This report provides a review of the factors that could influence the evolution of cereal markets in the Czech Republic, Hungary, Poland and Slovakia (referred to collectively in this report as the Visegrad 4). The objective is to provide the Commission with a synthesis of views on factors influencing market integration.

The report has been prepared during August and early September 2006. It is mainly based on expert views: analysts and traders from each country and from France and the UK have been interviewed. Most of the statistics used in the report are derived from Eurostat or the Commission. The report is concise as it provides the major conclusions as well as a review for each country. The annex provides statistics as well as information on the operators in each country.

¹ See http://ec.europa.eu/agriculture/publi/caprep/prospects2006/index_en.htm

2 Overview of recent developments in external trade

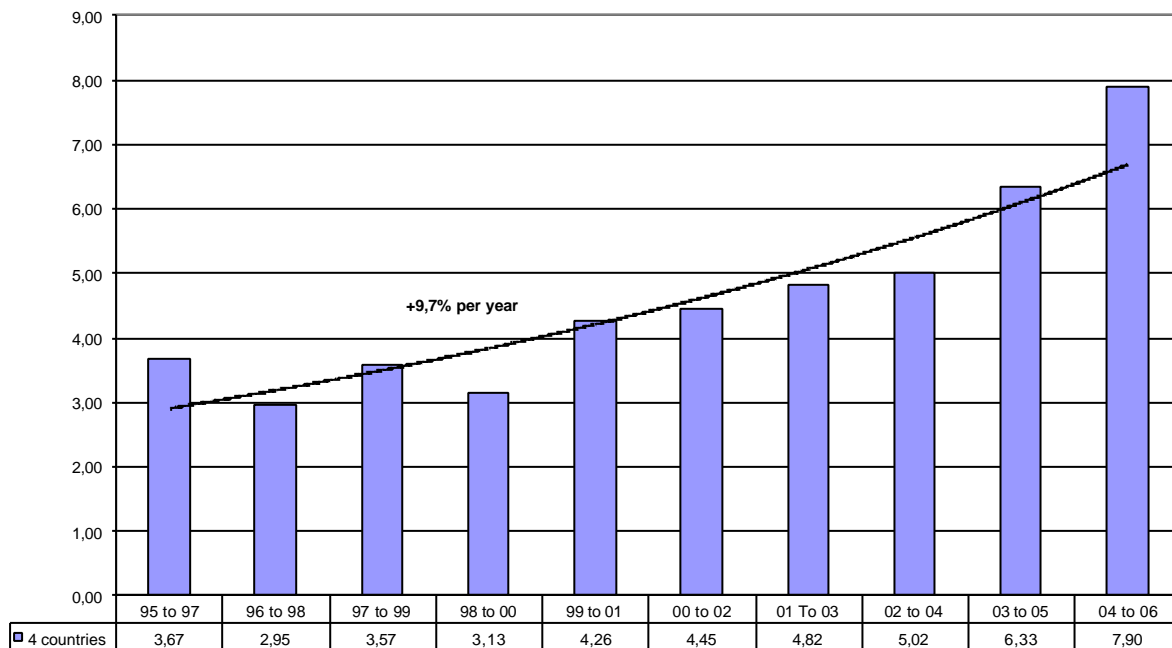
1. **The four countries have rather different patterns of external trade.** Poland's external trade in cereals is roughly in balance taking one year with another whilst the three other countries are net exporters. Hungary is by far the largest exporter with a positive annual trade balance averaging 4 million tonnes in recent years, followed by the Czech Republic (some 1.2 million tonnes) and Slovakia (0.4 million tonnes). The main cereal exports are maize (2 million tonnes from Hungary) and wheat (Hungary 1.5 to 1.7 million tonnes, Czech Republic 0.5 and Poland 0.4). A particular feature is the importance of maize in Hungary's production and external trade. Hungary is a large producer with a self sufficiency ratio of 120% while the EU-25 is a net importer.

Table1: Overview of the different trade pattern of the four countries

	Czech Republic	Hungary	Poland	Slovakia
Self sufficiency ratio	120%	160%	100%	120%
Average volume of net commercial exports 2003/04 to 2005/06 (million tonnes)	1.2	4.0	nil	0.4
Main exports	Wheat & Barley	Maize & Wheat	Wheat	Barley & Maize

2. **The volume of cereals exported by the Visegrad countries is increasing.** The figure below shows the 1995-2005 3-year moving average of the volume of cereals exported. Between 1995 and 2005, exports of cereals in the four countries have increased, on average, by around 10% per year. In total, the annual quantity exported increased from 3-4 million tonnes to 6-7 million tonnes.

Graph1: Three-Year Moving Averages Of The Combined Cereal Exports Of The Four (figures in Mn tonnes)



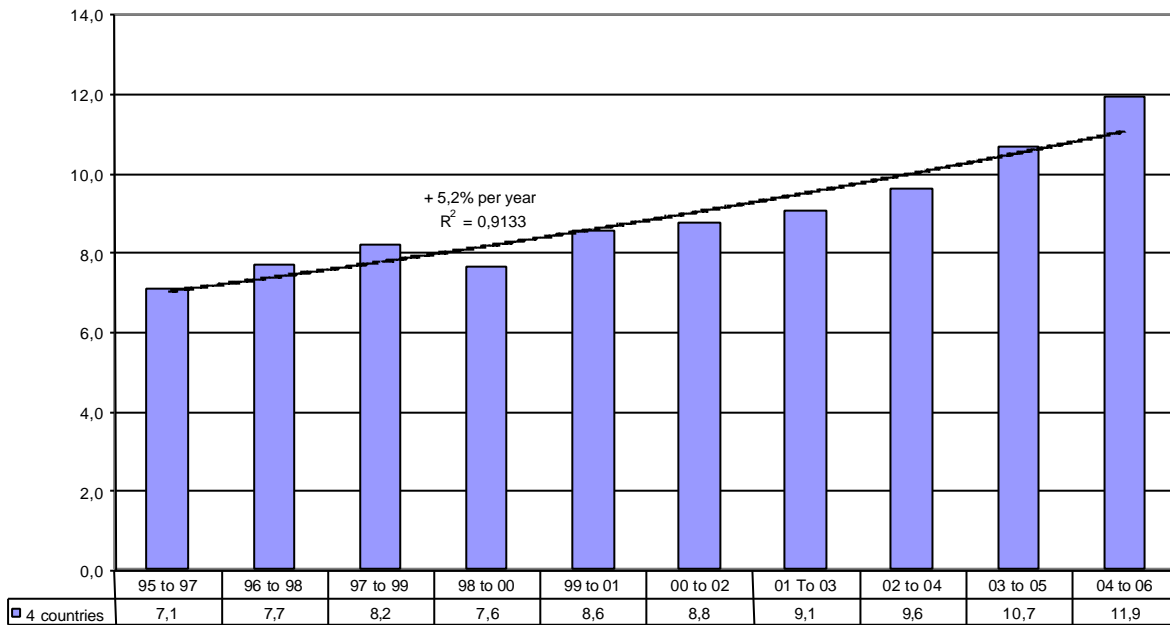
The share of exports in total production is also increasing, indicating an **improvement in the integration of the Visegrad 4 in the world market** on the export side. When looking at the 3-year average trends, the increase is about 9% per year starting from around 7% of the production exported before 2000 to reach around 14% in the last years. **Integration on the EU-25 market has also increased:** between 2002/03 and 2005/06, exports to the EU-25 increased from 55% to 74% of total exports.

3. **This improved market integration is counterbalanced by the increase in stocks.** The trend in the quantity of cereals in stock at the end of each campaign followed a similar pattern as exports. Between 1995 and 2005, the volumes in stock have increased, on average, by around 9% per year. In total, end-year stocks increased from 9 million tonnes to 13-15 million tonnes. The share of annual production going into stocks is also increasing by about 8% per year starting from around 15-20 % of the production in stock at the end of the campaign before 2000 to reach around 25% in recent years. This indicates that market integration has proceeded at a slower pace than had been hoped.
4. **Exporters have not always been able (or willing) to take advantage of commercial export opportunities.** Instead, traders have been quick to take advantage of the EU intervention system. A major reason has been shortcomings in the transport systems in the three landlocked countries: the long distances from ports mean that transport costs can equal as much as 25% of the export price, making selling into intervention a more profitable option than exporting. Another major reason is the distortion created by the incentive for storage. In Hungary, the monthly storage fee paid by the Intervention Board for cereal stored on-farm or in other private stores exceeds the actual storage costs thus providing a continuing flow of income for storage operators. Another reason is speculation on the market. It seems that there have been some companies that anticipated profitable speculation on intervention by investing in storage facilities (sometimes using EU-funded low interest loans) before and since Accession. Many cereal growers have been under pressure to sell directly after harvesting due to their lack of on-farm storage capacity and the need to repay loans used to finance production. The main beneficiaries from the support system have been the merchants and other traders who buy at harvest and sell into intervention after it opens.
5. **As regard future prospects,** analysts expect that Hungary will become a regional supplier of wheat and maize. Exports of maize are not expected to greatly exceed 2 million tonnes, with Austria, Germany and Poland the main buyers. Major importers of wheat may be Italy, Spain, Switzerland, Bosnia-Herzegovina, Croatia and Romania. There is some intra-Visegrad-4 trade in cereals, mainly reflecting differences in the varieties or qualities of cereals produced and demanded in the different countries.

3 Recent developments in production and prospects for the future

6. **There is a significant trend of an increasing production of barley and maize.** When looking at 3-year average production between 1995 and 2006, the increase in the production of maize averages 5% per year (see figure below). The increase of barley outputs averages 4% per year (see annex). Wheat production has been fluctuating from one year to another and no significant trend can be seen. Recent years have been marked by a bumper harvest in 2004 and 2005, that more than compensated the bad agro-climatic conditions of 2003.

Graph2: Three-Year Moving Averages Of Maize Production Of The Four (figures in Mn tonnes)



7. **The overall area remains stable whilst yields are increasing.** Average cereal yields in the Czech Republic have been rising in recent years and are now 10% higher than at the turn of the century. In contrast the total cereals area has been tending to fall slightly over the same period, most significantly the wheat area which is now nearly 5% lower. In Hungary, following a disastrous crop in the drought year of 2003 when maize yields were down to below 4 tonnes/ha, compared to the average for the years 2000 to 2005 of 5.9 tonnes/ha (excluding 2003), yields recovered strongly in 2004 and 2005. The view from trade sources is that over the coming years, yields of over 6.5 tonnes/ha will be the norm. In Poland, increase in the use of inputs should improve the yields in the future. In Slovakia, the average yield reached 4.65 tonnes per hectare in 2004/2005. In comparison with the previous marketing year, the average yield was higher by 1.51 tonnes per hectare.

8. **Medium size farms are emerging, at the expense of the very small and largest holdings.** In Slovakia, Hungary and the Czech Republic, most of the production comes from the large farms, though the number of tiny holdings remains very high especially in Slovakia and Hungary. The Czech Republic, Slovakia and Hungary have a dual production structure with large farms inherited from the state farms (439.7ha/holdings in average, for the year 2003) on one hand and very small farms on the other hand. The evolution to reduce this gap between small farms and large holdings is quite fast and the medium size farm group (20 to 150ha) has the highest growth rate in all four countries. In the Czech Republic, 12% of the holdings exceeds 150ha and combined they account for 85% of the total area (see table below). The number of holdings growing cereals on less than 5 ha was reduced by 18% between 2003 and 2005. In Hungary, the number of small farms remains very high with 90% of the farms under 10 ha. However, despite the small number of holdings exceeding 150ha, they represent more than 54% of the total cereal area. The recent changes over the past five years show an abandonment of very small farms many of which have been amalgamated into larger holdings. Over the same time period, the number of holdings in the 80 to 150 ha ranges increased by 78%.

Table2: Overview of the structure of production in the four countries

	Czech Republic	Hungary	Poland	Slovakia
70% of the holdings are	< 30ha	< 2ha	< 5ha	< 2ha
80% of the area grown with cereals is hold by	<12% of the holdings	<7% of the holdings	14% of the holdings	<4% of the holdings

In Poland, the majority of farms belong to the small and medium size groups. The trend in holdings structure in Poland differs from the evolution of other Visegrad countries. It is the only Visegrad-4 country where the number of small farms increased between 2003 and 2005 (farms with less than 2ha of cereals are up 5%). However, the group of farms exceeding 20ha also increased, with the major gain in the farms with 30 to 80ha of cereals. The Slovakian farm structure is very similar to that of Hungary. 75% of the farms are smaller than 2ha and 90% smaller than 10ha. On the other hand, large farms account for 88% of the total cereals area. The evolution is in favour of farms ranging from 80 to 150 ha.

9. **Structural changes should lead to higher cereal yields and production.** As the farm structure evolves towards larger farms, an increase in the average yield can be expected in the coming years. This trend, combined with the anticipated increase in farmer incomes may lead to an even greater rise in cereal yields than is generally expected. The arrival of western farmers is another factor that could contribute to yield increase. The area under cereals is expected to at least remain stable and in some cases might keep on increasing (Hungary). These factors should lead to an increased production over the medium term.

4 Logistics: storage and transport

10. **Although storage capacity has increased in recent years, the four countries still have a domestic and regional shortage of grain store capacity**, particularly of stores suitable for long term storage. In the Czech Republic, it is estimated that 25 % of the stores are unsuitable for long term storage. In Hungary 30% of the total capacity is considered obsolete and 40 % is 20 to 30 years old. In Hungary, the storage capacity is estimated at 16 million tonnes (equivalent to annual cereal production), of which 7 to 8 million tonnes are of intervention storage standard. Investment in building or reconstructing new stores is reported in each country partly with EU and public funds.

Table3: Estimation of storage capacity and storage costs in the four countries (in Mn tonnes)

	Czech Republic	Hungary	Poland	Slovakia
Production (all cereal)	6-7,5	13 - 16	25 - 30	3 – 3,5
Total private storage capacity	4,5	15	11,5	2,5
Total public storage capacity	0,18	1,2	10,5	0,01
Capacity of public storage qualifying for intervention	0,73	9,8	0,81	0,5
Monthly storage cost	50 CZK	1,4	1,5	2,02 – 4,03

11. **The degree of competition for access to modern storehouses appears limited.** Grain growers or association of growers have a limited share in the ownership of storehouses. In Hungary, it is estimated that grain producers share in the ownership of not more than 10 per cent of about 1000 storage companies. In Slovakia, it is estimated that the storage capacity is almost entirely off-farm and non-farmer owned and controlled. In Poland, it is estimated that around one third of the private storage is owned by farmers but the infrastructure is very often obsolete. In Poland, Slovakia and Hungary, the competition at local level is often limited, traders or storage specialists having a local monopoly of modern storehouses. The Czech Republic presents a particular pattern with a duopoly (Agrofert Holding and Agropol Group) owning most of the long-term storage capacity, having between them almost 4,5 million tonnes of storage capacity.

12. **The competitiveness of cereal exporters is hampered by high transport costs.** Although Poland is not a land lock country, internal transportation costs are high and port charges are more significant than in other EU countries, making exports from Poland less competitive. The distance from Hungary to the Adriatic Sea ports makes exporting to other than neighbouring countries expensive.

Table 4: Estimation of transport costs in the four countries

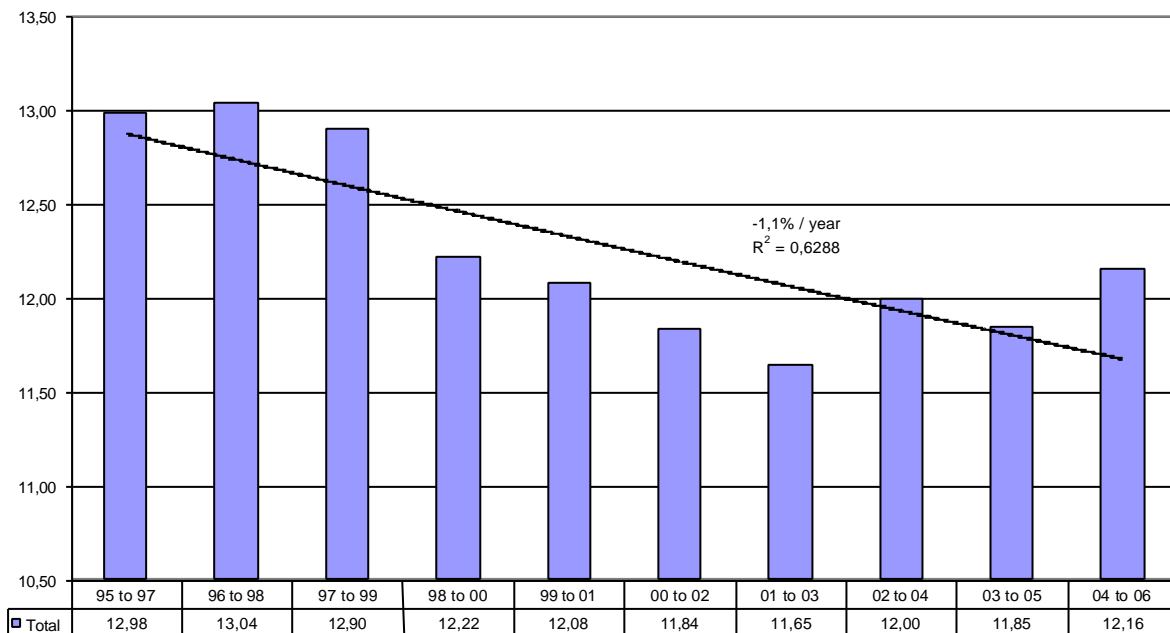
	Czech Republic	Hungary	Poland	Slovakia
Estimated transport cost in €/per ton / km by road	NA	0,060	NA	0,080
Estimated transport cost in €/per ton / km by rail	NA	0,015	0,03- 0,05	0,073
Estimated transport cost in €/per ton / km by barge	NA	0,025	NA	0,020

13. **Shortcomings in transport capacity can lead to slow deliveries of cereal exports.** In Hungary the total monthly transportation capacity is estimated at 0.6 million tonnes of cereals. Barge traffic on the Danube is estimated at 0.2 million tonnes per month but the traffic can be hampered by climatic conditions, particularly by low water levels. Railway traffic to the south-west of Hungary is also limited by the lack of available freight capacity: in 2005 the Hungarian Railways had to lease trains from Italy and Slovenia. These shortcomings may be an additional reason for the decision of the merchants and traders to take advantage of the intervention system rather than exporting.

5 The demand on the internal market

14. **The demand for domestic use has declined in the Czech Republic, Hungary, and Slovakia.** It was maintained at the same level in Poland. The main reason for this decline is a weaker demand for feed use, due to a reduction of livestock numbers. In the Czech Republic, feed use has been fairly constant in recent years, but there has been a decline in human consumption (especially of barley and wheat). Though the human consumption of maize in this country tends to grow slightly. In other countries human consumption of cereals is stable. Bio-energy is seen as a significant way to absorb excess production for the future.
15. **Apart from Poland, cereals demand for feed use decreased in the years preceding accession.** The Polish intensive livestock sectors experienced significant growth post-Accession, resulting in increased demand for feed grains. Most of the cereals produced are used on farm for animal feed (about ¾ of the feed production).

Graph 3: Three-Year Moving Averages Of The Feed Use in Hungary, Czech Republic and Slovakia
(figures in Mn tonnes)



However structural changes in Polish animal production in recent years (concentration and intensification of production) have led to increases in the demand for compound feedingstuffs, with less on-farm feed mixing. In the other Visegrad countries, there is a decline in cereals consumption for feed use. The reason for this decline is a reduction in livestock numbers, particularly of pigs and cattle. In the Czech Republic, less efficient producers have been forced out of milk, veal and pig production in particular, causing a reduction in the use of cereals for feeding. Since EU-Accession there has been a decline in intensive livestock numbers in Hungary and Slovakia, notably pigs and cattle, and this has led to demand for cereals for animal feed tending to fall. At the crop level, the consumption of maize for feed use has increased at the expense of rye and barley. In Hungary, even if livestock populations were to recover towards their levels of 2000 to 2002, animal feed usage is not expected to go over 4 million tonnes. The cereals feed sector may suffer further from the expansion of the compound feedingstuffs market.

16. **Bioenergy use may absorb some of the surpluses** and may help reduce stocks. Hungary already has some bio-ethanol plants under construction which should help to absorb excess supplies of maize. In public debate, significant importance is attached to the prospected development of the biofuel market and potential extra demand for cereals for that purpose. Taking into consideration Poland's obligation to increase its utilisation of biofuel in the economy (commitments of complying with the Directive 2003/30/WE), it can be estimated that demand from the fuel industry might increase from 178 million litres to 850 million litres by 2020, which corresponds, respectively from 0.54 million tonnes to 2.5 million tonnes of cereals (mainly rye). The development of bioethanol production appears, therefore, of crucial importance for the future balance of the Polish cereals market. Over the next few years, the biofuel industry's demand for course grains could rise to 1.5 million tonnes of rye by 2010. Cereals are Slovakia's most important crop and their significance will increase with the planned production of bio-ethanol fuel and the use of straw for thermal energy output. The current problems in the Czech cereals market are also expected to ease somewhat in two to three years time, primarily due to the opening of plants for the production of bio-ethanol, which could use as much as 300,000 tonnes of wheat a year, if this amount is not supplied by imports.

6 Conclusion

The years following the Accession have been marked by an increase in the marketable surplus in the four largest cereal producers from the New Member States. This increase is mainly explained by climatic factors (the bumper harvests in 2004 and 2005) but there is also a significant trend of increased cereal yields and a fall in domestic feed use. Although market integration has improved since the Accession, exports on the free markets have not increased sufficiently to balance the market and EU intervention stocks have experienced a dramatic increase: in September 2006, the 4 countries represent 58% of the EU intervention stocks (10.8 million tonnes)².

The reasons of the increasing stocks are twofold: the CMO itself on one hand and the transport costs and capacity on the other.

Although in principle under the reformed cereals CMO only “crisis intervention” is permitted, in practice in years of surplus production intervention creates a secure outlet for the surplus cereals, making intervention more attractive than exporting. The study reveals that operators have been speculating on the intervention system. It seems that farmers did not benefit from the practice due to their limited access to storage. It has been reported that grain merchants buy at harvest at low prices and wait for the opening of intervention. The study could not show evidence of any lack of competition at national level (except perhaps in the Czech Republic where two operators own most of the modern storage capacity) but it reveals that at local level competition is often limited, traders or storage specialists having a local monopoly of modern storehouses.

It is established that the Visegrad-4 countries are suffering a loss of competitiveness on the international markets due to their higher transport costs than other EU countries for overseas exports. Additionally it appears that shortcomings in transport capacity further handicap export competitiveness on the continental market.

It is hard to determine which cause has been dominant as quantification has not been possible. However, it seems that without any change in the intervention system and/or improvement in the transport system the current situation will continue and further delay full market integration.

Increasing use of cereals for Bioenergy may help to absorb some of the current surpluses and thereby reduce stocks. Bio-ethanol plants are currently under construction in Hungary and the Czech Republic and are planned for Slovakia. Further capacity will be needed in Poland if that country is to meet its obligations to increase utilisation of biofuel. Over the next few years, the requirement for greater use of biofuels could result in the annual demand for cereals rising in the Visegrad countries by perhaps 2 million tonnes, but is unlikely to solve the surplus problem on its own.

² Hungary represents 50% of the total intervention stocks (Situation as at 10.09.2006)

Annex 1 : Country reports

The following report has been compiled with the assistance of colleagues in the CEECAP Project from the Czech Republic, Hungary Poland and Slovakia. We have also had direct contacts with cereal sector organisations and individual experts working for companies engaged in commercial trading in the four Visegrad countries, including companies linked to major multinational trading companies.

CZECH REPUBLIC

Average cereal yields in the Czech Republic have been rising in recent years and are now 10% higher than at the turn of the century. In contrast the total cereals area has been tending to fall slightly over the same period, most significantly the wheat area, and is now nearly 5 % lower. These two contrasting tendencies have resulted in an overall modest growth in output, though the 2003 and 2004 harvests saw respectively the lowest output for some decades at 5.76 million tonnes and the highest ever at 8.87 million tonnes. A “normal weather”, or average, harvest might now be expected to produce some 7.5 million tonnes including rather more than 4 million tonnes of wheat and just over 2 million tonnes of barley.

In contrast to the rising level of production, recent years have seen a decline in demand for cereals for both human consumption and animal feed; the former a slight fall associated with the opening up of the country to imports of cereal based foodstuffs; the latter caused by reduced livestock numbers as less efficient producers have been forced out of milk, veal and pig production in particular. Cattle numbers are now more than 10% down on 2000 and the national pig herd is more than 20 % below its level in 2000.

Rising volumes of production coupled with falling internal demand, though not great changes in themselves have brought about a growing marketable surplus of cereals and Czech exports of both wheat and barley have risen very significantly in recent years, primarily to other central and eastern European countries.

Despite the fall in cereal stocks at the end of 2003 following that year’s very low harvest, the bumper crop in 2004 resulted in end-year stocks of some 2.5 million tonnes, though total stocks had fallen back somewhat by the end of 2005. Whilst Czech traders have been successful in responding to the increase competitive pressures resulting from EU-Accession, in dealing with the fluctuations in the size of the crop in 2003 and 2004 and also in finding export outlets for the modestly rising level of annual surpluses, there is evidence that farmers have not done so well since 2004. That year’s bumper crop led to low farmgate prices as on-farm storage facilities could not cope with the volume of output and prices have remained depressed since.

Despite the current low farmgate prices, the direct support system means that Czech farmers are likely to continue to grow cereals on the current area and as yields continue to increase in yields production surpluses will increase. In the immediate future, the scale of intervention purchases could increase as demand in the domestic market is expected to stagnate or continue its gentle decline. However, the current problems in the Czech cereals market are expected to ease somewhat in two to three years time, primarily due to the opening of plants for the production of bio-ethanol, which could use as much as 300,000 tonnes of wheat a year.

Although the AGROCENZUS 2000 showed a total of nearly 14,000 grain stores (mostly off-farm) with a total capacity of 4.9 million tonnes, less than 2400 with a total capacity of 0.58 million tonnes had been modernised in the previous 10 years! In December 2005, a survey by the Research Institute of Agricultural Techniques (VUZT) showed the number of grain stores to have fallen to just over 11,000 of which upwards of 25 % were unsuitable for long term storage. There are relatively few modern, high quality, stores mostly owned by traders or storage specialists, often having a local monopoly. Investment in building or reconstructing two large stores with a capacity of 100,000 tonnes is currently underway.

HUNGARY

Arable crop production, especially wheat and maize, had been expected to become more profitable following EU entry, as yields gradually rose and the exports both within EU-25 and outside were also expected to rise due to Hungary's competitive advantage. Efforts to improve external trade had proved successful in recent years, with around 16 to 20% of wheat and maize and 10% of barley output being exported. However, whilst production has tended to rise over time, demand for human consumption has stabilised at around 2.2 million tonnes and that for animal feed has fallen. During the transition period, Hungary's dairy herd declined sharply and this has continued, so that by 2005 it was only half that of 1989. Since EU-Accession there has been a decline in intensive livestock numbers, notably pigs, and this has led to demand for cereals for animal feed tending to fall though this now shows signs of levelling off at about 6 million tonnes a year.

The peak yields in 2004 led to production greatly exceeding demand and prices falling dramatically. Transport and storage limitations prevented the export of greater quantities of Hungarian grain. The market price impact was exacerbated by inadequate long-term on-farm storage facilities and the need to repay loans of working capital which lead most producers to sell immediately after harvest. The opening of intervention afforded Hungarian merchants and other traders the opportunity for short-term profits through selling into intervention and Hungarian stocks now constitute the majority of the EU intervention stocks.

The market price remained low throughout the 2004/05 marketing season and although in 2005 yields reverted to more normal levels, due the size of stocks, prices remained low. This led the Hungarian government to try to stabilise the cereal sector using a series of support measures for animal health treatment, feed purchase and land purchase for livestock farms. However as farming practices modernise in the intensive livestock sectors and feed conversion rates improve towards western European levels, animal feed demand will lag behind the increase in livestock numbers.

As intervention at €101.31 per tonne puts a floor in the market price and is quite profitable for many Hungarian producers, production surpluses are now expected to continue most years...

Storage

Storage capacity has increased in the past two or three years, rising by some 2.5 million tonnes in 2005 alone, in response to the realisation that the EU support system makes selling cereals into intervention profitable. The country is estimated to have storage capacity in excess of 16 million tonnes (equivalent to annual cereal production), of which 7 to 8 million tonnes are of intervention storage standard. However some 30% of the total capacity is obsolete, where it is risky to store, and another 40 % is 20 to 30 years old.

Much new storage capacity has been constructed post-Accession, partly with EU and public funds. However, although overall there is adequate storage capacity for Hungarian cereals, at the local level competition is limited with few grain growers owning or having a share in the ownership of storehouses. (It is estimated that grain producers share in the ownership of not more than 10 per cent of about 1000 storage companies.) In consequence the main beneficiaries from the intervention system appear to be grain merchants and traders rather than producers.

Transport

The most common mode of cereal transportation is on road by truck. Transport by rail, is much slower partly because of the extra times in loading and reloading but also because the railway network is old and running speeds quite slow. Average prices according to experts are: €0.06 per tonne per kilometre for transport by road, €0.07 per tonne per kilometre by rail and €0.08 per tonne per kilometre by barge. The distance from Hungary to the Adriatic Sea ports makes exporting to other than neighbouring countries expensive and thus enhances the attraction of selling into intervention.

Competition

The cereals trade market has changed significantly since the turn of the century -of 15 market-leading companies in 2000 only 3 remain of which only one is outstanding. The current largest 10 companies have a combined market share (CR₁₀) of 25 %.

In some cereal markets competition is high, in others it is negligible. Concentration ratios (CR_N) – i.e. market share of the largest N firms in the market - are as follows:

Animal Feed	CR ₁₀ (of 170)	45 %;
Milling	CR ₁₀ (of 160)	60 %;
Malt	CR ₂ (of 5)	85 %, CR ₄ 99%;
Starch	CR ₁ (of 3)	80 %;
Distilling	CR ₁₀ (of 200)	80 %.
Isoglucose	monopoly	

Possible/expected developments over the next 5 years

Hungarian experts do not expect any further substantial increase in the current storage capacity in the foreseeable future, but anticipate further concentration in ownership. In rail and river transport, international carriers might enter the market to challenge incumbents and many small and medium size road haulage companies could leave the sector as multinational competition increases.

Maize seems to be the crop with the greatest exportable surplus at around 3 to 4 million tonnes. Following a disastrous crop in the drought year of 2003 when yields were down to below 4 tonnes/ha, compared to the average for the years 2000 to 2005, excluding 2003, of 5.9 tonnes/ha, yields recovered strongly in 2004 and 2005. The view from trade sources is that over the coming years yields of over 6.5 tonnes/ha will be the norm with production exceeding 8 million tonnes in most years. Even if livestock populations were to recover towards their levels of 2000 to 2002, animal feed usage is not expected to go over 4 million tonnes a year and with human consumption of maize only around 0.5 million tonnes, an annual surplus production of 3.5 million tonnes seems inevitable. Exports, which are overwhelmingly to other EU-25 MS, are not expected to greatly exceed 2million tonnes, so

unless other uses of maize are developed the Hungarian intervention stocks, now 3.5 million tonnes could almost double by the end of the 2007/8 marketing year.

The intervention stocks of wheat are also causing concern. In the Accession year of 2004, nearly 1.5 million tonnes of wheat went into intervention, since when intervention stocks have risen to 2.2 million tonnes. Under normal weather conditions, the annual production can be expected to comfortably exceed 5 million tonnes and with utilisation unlikely to significantly exceed 3million tonnes even if livestock populations recover, surpluses of 2 to 2.5 million tonnes can be expected. Hungarian exports in recent years have risen to a high of 1.8 million tonnes, but these are insufficient to take up the entire likely surplus, hence the pressure on intervention is likely to continue if the intervention price is unchanged.

Commentary

The potential for higher yields in Hungary has long been very clear though the overall volume of production had been reduced by the very fragmented pattern of land ownership and operation. In recent years this has been changing and a feature of the industry since the turn of the century has been that numbers of western European farmers have acquired land or set up farming enterprises in Hungary. These ex-patriots are bringing modern farming technology to production thereby raising the levels of yield and whilst the total area they farm at present is limited the potential for the transfer of this technology is considerable. Thus the likelihood is that national average yields and consequently production will continue to increase. Hungarian farmers complain that last year illicit and unrecorded cereal imports from outside the EU (which they allege are of low quality) upset the market.

The attraction of putting cereals into intervention is twofold: first the intervention price has been above the market price (though currently the market price is fluctuating at around the intervention price level) and as intervention standards are relatively easy to achieve, the certainty of payment is better than waiting for an opportunity to sell to processors or manufacturers. Second, provided the storage facilities are of acceptable standard, cereals can be stored on-farm or in other private stores and a monthly storage fee (which is less than the actual costs incurred in storing) is paid by the Intervention Board - this therefore provides a continuing flow of income for as long as the cereals remain in store.

However, lack of on-farm or local co-operative storage coupled with the need to repay loans used to finance production means that many Hungarian cereal growers have been under pressure to sell directly after harvest. The main beneficiaries from the support system then become the merchants and other traders who buy at harvest and sell into intervention after it opens in November.

It seems that some of the increased storage capacity built in the pre- and post- Accession years has been aided by EU funded low interest loans. However a lack of capital has prevented many producers from taking advantage of this opportunity. Instead main investors were not farmers or producer organisations but companies that anticipated profitable speculation on intervention.

POLAND

In contrast to the other Visegrad countries, the Polish intensive livestock sectors experienced significant growth post-Accession sectors resulting in the increased demand for feed grains. The two immediate pre-Accession years were marked by high cereal prices, partly due to poor harvests; although market prices fell back following the bumper harvest in 2004, cereal growers returns were supported by area-linked direct payments. Before Accession cereals intervention commenced during the harvest period but EU-Accession brought changes to the intervention system with higher standards and later commencement than hitherto. This resulted in only 1 million tonnes of cereals going into intervention despite the fact that the 2004 crop was 4.5 million tonnes higher than the average of the previous four years. The great majority of Polish cereals are utilised on-farm and even in the case of wheat, less than half of the crop goes onto the market. Most of the sales take place during the harvest season because of poor on-farm storage facilities.

More than 60% of cereals, around 16 to 18 million tonnes a year, are used for animal feed; with 70 to 80% of that total being fed on the farm of origin. However structural changes in animal production in recent years (concentration and intensification of production) have led to increases in the demand for compound feedingstuffs, with less on-farm feed mixing. The increase in livestock prices after EU-Accession was an additional incentive to switch to using compound feeds.

Throughout the 1990s and until the last year or two, Poland has been an importer of cereals though since 1997 imports have accounted for less than 10% and since 2000 less than 5% of total grain usage. In 2005 the volume of exports actually rose above that of imports.

For the future, the balance within the cereals market could be disturbed by Poland's commitment to develop the use of biofuels, thus bringing potential extra demand for cereals; however the development of the biofuel industry is as yet fairly slow.

SLOVAKIA

Cereals are Slovakia's most important crop, though the area has trended to drift downwards in recent years whilst yields have risen significantly over time. "Normal weather" output would be in the region of 3.5 million tonnes a year, of which just over 1 million tonnes is used for human consumption and a little under 1.5 million tonnes for animal feed. Both 2004 and 2005 produced bumper harvests and although commercial exports rose in 2004, nonetheless the volume of stocks rose by nearly two-thirds to reach close to 900,000 tonnes. In 2005 an equivalent to the overall surplus production was exported, but the increase in exports was mainly of wheat. A worrying feature of the Slovak cereals market is that in both 2004 and 2005 little more than half of the maize produced was utilised at home and in both years nearly 200,000 tonnes (20%) of the crop went into storage.

In common with the situation in a number of the NMS, Slovakian growers find that the markets for processing most of their grains are dominated by a relatively small number of firms. Thus the concentration ratios (CRN) – i.e. market share of the largest N firms in the market - are as follows:

Wheat Milling	CR ₅ 58%
Rye Milling	CR ₅ (of 18) 69%;
Malting Factories	CR ₅ (of 10) 89%;
Beer Production	CR ₂ 80 %
Corn Starch	monopoly

Even some of the downstream activities, such as the baking industry, which appear to be in the hands of competitive SMEs, are in practice subject to limited local competition. Faced with buyers who can exercise significant market power and with little storage capacity of their own, the growers are weak sellers and a substantial share of the profits in the agri-food sector inevitably go elsewhere, limiting the capital for future modernisation of the farming sector. Although storage capacity is growing, it is almost entirely off-farm and non-farmer owned and controlled.

With human consumption demand stable and feed usage continuing to fall along with declining cattle and pig numbers, unless cereal exports can be further increased, the structural surpluses will simply add to intervention tonnages. The Slovakian transport sector is expanding and becoming more competitive, but rising oil prices and the consequent rise in transport costs is adversely affecting grain exports. Cereals processors and manufacturers are facing a price squeeze from multinational retailers coupled with rising imports and the food industry seeks to transfer the price pressure, in most cases, onto the growers.

The volume of wheat being offered into intervention in 2005 seemed to catch the authorities by surprise, as received wisdom was that the great bulk of the crop would find commercial outlets at home and abroad. However, the major Slovakian traders contacted, particularly those with close links to multinational groups, claim that the rise in intervention stocks was far from unexpected. New storage facilities have been built to intervention store standards so that advantage could be taken of the intervention system.

Enquiries of farmers and producer organisations showed a preference – at least for the time being – for delivering grains into intervention warehouses rather than seeking new trading partners or commercial outlets on the domestic market because of the certainty of payment compared with the risks of delayed or non-payment entailed in selling to little known outlets. In addition most farmers and many producer organisations lack the language and marketing skills to be confident of finding new business partners abroad. Despite these misgivings, more than 100,000 tonnes of maize from the 2004 harvest were exported to Spain. Nonetheless the expectation must be that even in average yielding years, there will continue to be surplus production, particularly of maize, that does not find (or perhaps seek to find) a commercial outlet.