USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Voluntary _ Public

Date: 12/13/2012

GAIN Report Number: RB1218

Serbia

Post: Belgrade

Wheat and Corn Update

Report Categories:

Grain and Feed

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Report Highlights:

Serbia's fall wheat crop planted area is 600,000 HA, or 25 percent higher than previous years. With estimated wheat yields of about 4 MT/HA, total production is expected to be 2.4 million MT. This year's severe drought heavily reduced corn yields by 45 percent. Total corn production in 2012 is estimated at 3.8 million MT and there are aflatoxin concerns. Estimates on the extent of the contamination have varied over the last few weeks from 7-70 percent, although the Ministry of Agriculture reports that regardless the crop is still suitable for animal feed and biofuel use. On December 11, after an ad hoc inspection control, the Serbian Ministry of Agriculture announced only 7 percent of the tested corn samples tested positive for aflatoxin.

General Information:

Wheat update

According to the Serbian Ministry of Agriculture, for MY12/13, Serbian producers planted 480,000 HA of wheat. With yields averaging 4 MT/HA, production reached 1.9 million MT or about 7.5 percent less than MY11/12. Harvest of wheat this year was completed in the optimum time during June, with yields above Serbian average for the last five years. Even with the extreme drought this year, wheat production was good and the baking quality of the wheat flour is considered to be excellent. Domestic consumption of wheat is estimated at 1.3 million MT and ending stocks are estimated at about 200,000 MT. Approximately 400,000 MT of MY12/13 wheat are expected to be available for export, which is on a par with the average for the last five years.

The average MY12/13 wheat crop quality was reported to be very good. According to Serbian regulations the wheat was classified as 1st and 2nd quality class.

MY12/13 Wheat Quality Parameters

Parameter	Average values of Serbian MY12/13 wheat crop
Hectoliter Weight	81.32 kg/hl
Moisture	11.8%
Proteins	12.9%
Foreign Materials	4.4%
Hagberg Falling Number	396
Alveogram W	180.5
Wet Gluten Content	30%

Source: Food Processing Institute Novi Sad

The price of wheat at the beginning of harvest (beginning of June) was 19 dinars/kg (223 USD/MT), whereas by the end of the harvest (end of June) it had increased 20 percent to 23 dinars/MT (270 USD/MT). It reached 27 dinars/kg (318 USD/MT) by September 2012. This represents a 50 percent increase over the price of 18 dinars/kg ($200/MT) in September 2011. From September until December 2012, the price of wheat remained stable at 27 dinars/kg (318 USD/MT).

In July 2012, in order to stabilize the wheat market and to provide enough wheat for the State Commodity Reserves, the Serbian Government opened a tender for 100,000 MT of wheat at a gross price of 23 dinars/kg (including VAT). However, since the net price was only 21.30 dinars/kg (251 USD/MT) and market prices were beginning to rise, Serbian farmers showed little interest in selling their wheat to the State Commodity Reserves. The Reserves only managed to buy about 10,000 MT.

In September 2012, the Serbian Government issued an announcement that the cost of “social bread”, of flour type 500, could not exceed 48.5 dinars/loaf and that bakers would have to allow at least 40 percent of their production to be composed of this type of bread. For the past year, the price has been fixed at 44 dinars/loaf. Also in September, due to significant drought losses and to stabilize the domestic market, the Serbian Government formally suspended customs duties on wheat imports until June 30, 2013.

According to the Grain Fund of Serbia, Serbia exported 263,000 MT of wheat and 145,000 MT of flour from July 2011-June 2012. Between June 2012-October 2012, Serbia exported 187,000 MT of wheat and 48,000 MT of flour. Part of Serbia's wheat trade is shipped by truck to neighboring Bosnia and Herzegovina, Kosovo, Macedonia and Albania, and by barge to Romania. Serbian wheat is mostly sold to foreign international companies FOB at Port on the Danube in Serbia.

Due to very dry weather, autumn sowing of the new wheat crop this year started in September, earlier than usual and was completed in the optimum time by mid-November. Wheat planting was hampered by extremely dry soil, difficulties in adequate preparation of soil and insufficient application of mineral fertilizers.

Planted area for this year's wheat crop was 600,000 hectares (HA), or 25 percent higher than previous years. With estimated wheat yields of about 4 MT/HA, total production is expected to be 2.4 million MT. This is the first time since 2007 that Serbia has planted so much wheat and total production should be enough for both domestic consumption (1.3 MT) and exports (700,000 MT). MY12/13 wheat ending stocks are estimated at 380,000 MT. The 25 percent increase in wheat planted area this year happened for several reasons. First, wheat as a winter/spring crop vs the spring/summer crops, suffered almost no damage from the extreme drought in 2012 and is even experiencing record high yields. Some Serbian agriculture experts are predicting that Serbia may face another dry summer in 2013, and many farmers are concerned about suffering significant losses like last summer (e.g. corn down 45%, soya down 42%, sunflower down 23%, and sugar beets down 23%). Second, even with the significant size of the wheat crop, wheat prices increased during the harvest (usually they drop during and after harvest time) and have remained stable at about 27 dinars/kg (318 USD/MT). Finally, the cost of planting wheat is cheaper than planting other crops (most farmers do not use certified seeds for wheat planting).

Since December 8, most of the wheat planting areas in Serbia have been covered by significant amounts of snow, providing excellent protection for the new plants.

Production, Supply and Demand Data Statistics Wheat:

Wheat Serbia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: May 2011		Market Year Begin: May 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	493	493	480	480		600
Beginning Stocks	322	322	261	364		324
Production	2,000	2,000	1,900	1,900		2,400
MY Imports	10	10	10	10		10
TY Imports	10	10	10	10		10
TY Imp. from U.S.	0	0	0	0		0
Total Supply	2,332	2,332	2,171	2,274		2,734
MY Exports	471	408	400	400		700
TY Exports	471	408	400	400		700
Feed and Residual	200	260	200	250		350
FSI	1,400	1,300	1,400	1,300		1,300

Consumption						
Total Consumption	1,600	1,560	1,600	1,550		1,650
Ending Stocks	261	364	171	324		384
Total Distribution	2,332	2,332	2,171	2,274		2,734
1000 HA, 1000 MT, MT/HA						

Corn Update

Corn was planted this spring on some 1.3 million HA and production was expected to reach 7 million MT based on average yields. However, lack of precipitation in June and July together with very high temperatures over an extended period of time, caused extreme stress to the plants. The drought coincided with the critical corn pollination period and thus corn kernel development was very poor with little or no kernels at the end of the development phase. This year's corn harvest started in the second half of August, almost one month earlier than usual due to the extreme temperatures and state of the corn crop. The harvest was completed by mid-November.

According to the Serbian Statistical Office, average corn yields declined by 45 percent in many areas of the country. In some areas, corn yields were even below 2 MT/HA. Post estimates that MY12/13 corn production is about 3.8 million MT, with an average yield estimated at only about 3 MT/HA, which is significantly below Serbia's average of about 5 MT/HA.

In order to assure supplies for the domestic market, the State Commodity Reserves announced in September that it would buy up to 200,000 metric tons of corn at an attractive gross price of 29.7 dinars/kg (350 USD/MT) or a net price of 27.50 dinars/kg (325 USD/MT). Although there was keen interest on the part of Serbian farmers to sell their corn at the offered price, the State Commodity Reserves bought only 150,000 MT and had to stop by October 10 due to a lack of funds.

Also, in order to ease the effects of the drought in Serbia, the Serbian Government removed all customs duties and levies on imports of corn until August 31, 2013 (import taxes for grains were 30 percent). At the same time, the Government continued to monitor daily grain exports. By liberalizing the grain market, the Serbian Government stopped rumors in October 2012 that it planned to impose a corn export ban in order to keep enough quantities for domestic needs.

Due to drought related domestic supply issues and increased export demand, the price of corn in Serbia started to rise in June from 23 dinars/kg (USD 271/MT) to 27 dinars/kg (USD318/MT) after the harvest in the beginning of October. However, since then, the price of corn has been falling. In December 2012, the price was 24 dinars/kg (USD 280/MT) and this trend is expected to continue mostly due to reports about aflatoxins in the crop.

For years Serbia was a net corn exporter. In MY 2011/12, Serbia exported a record quantity of 2.3 million MT, valued at 460 million Euros (600 million USD), or about 16 percent more than MY2010/11 volumes making it one of the largest corn exporters in Europe. Serbia typically produces more corn than it consumes, exporting to neighboring and Mediterranean countries. It often finds itself competing with regional corn producers from Russia, Ukraine, Romania, and Hungary. Most of the exports destined for Montenegro, Croatia, Bosnia and Herzegovina, and Albania go by truck, while exports for Cyprus, Italy, Spain, Portugal and North African countries go via the Danube River to Port Constanza and the Black Sea. Three years ago Serbia started to export corn to South Korea and Japan (about 800,000 MT has been exported so far), offering non-GMO corn.

From October 1, 2012 until December 2012, Serbia exported approximately 350,000 MT and should have another 250,000 MT available for export during MY12/13. However, reported corn quality problems, may cause exports to fall by 200,000 MT, resulting in total corn exports in MY12/13 of only about 400,000 MT. With a current market price of 24 dinar/kg (280 USD/MT) this could represent a significant loss of approximately 56 million Euros (72.8 million USD) and could have a longer term affect on Serbia's reputation for selling quality corn. During the last couple of years Serbia's corn crop has sold mostly for human consumption at prices 20-30 EUR/MT higher than corn from Hungary or the Ukraine.

This year's severe drought not only heavily reduced corn yields but caused serious quality problems (aflatoxins have been detected). Reportedly the whole Balkan Region, together with Hungary, Romania, and Bulgaria, are facing similar problems. The Serbian international testing and certification company "SGS," announced on November 30, that almost 70 percent of total corn production in Serbia might be affected by aflatoxins at a level which would mean the crop could only be used for biofuels or with some additional treatments for cattle feed. On December 7, the Serbian Ministry of Agriculture formed a working group to determine the exact percentage of contaminated corn. The conclusions from the working group's investigation were published on December 11, stating that according to the Ministry of Agriculture's Inspection Service, only 7 percent of the tested sample of this year's corn had an aflatoxin problem. However the earlier aflatoxin reports have already negatively affected Serbian consumer confidence, with polls showing 80 percent of the population is concerned with the corn contamination, and most distrust the government and its ability to control food safety.

Production, Supply and Demand Data Statistics Corn:

Corn Serbia	**2010/2011**		**2011/2012**		**2012/2013**	
	Market Year Begin: Oct 2010		**Market Year Begin: Oct 2011**		**Market Year Begin: Oct 2012**	
	USDA Official	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	1,230	1,230	1,260	1,260	1,250	1,300
Beginning Stocks	1,023	1,023	1,022	1,026	393	428
Production	6,800	6,800	6,300	6,300	3,900	3,800
MY Imports	3	3	2	2	50	50
TY Imports	3	3	2	0	50	50
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	7,826	7,826	7,324	7,328	4,343	4,278
MY Exports	2,004	2,000	2,331	2,300	300	400
TY Exports	2,004	2,000	2,331	2,300	300	400
Feed and Residual	4,400	4,400	4,200	4,200	3,600	3,400
FSI	400	400	400	400	200	200

Consumption						
Total Consumption	4,800	4,800	4,600	4,600	3,800	3,600
Ending Stocks	1,022	1,026	393	428	243	278
Total Distribution	7,826	7,826	7,324	7,328	4,343	4,278
1000 HA, 1000 MT, MT/HA						