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## Romania

### Grain and Feed

### September Update

### 2005

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**Report Highlights:**

Unrelenting rains since April 2005 have drowned out a substantial share of Romania's grain and oilseed production, significantly shrinking the export surplus of the country.

Ministry of Agriculture's early assessment of quality was that 70 percent of the total wheat production is of milling grade, although industry representatives report that the excessive moisture developed high sprouting in over 60 percent of the wheat crop, which makes it fall outside the local milling grade range. We see therefore opportunities for some 100-150 thousand MT of US hard red winter wheat later in the season, albeit currently, the domestic price doesn't allow any imports (the cheapest alternative is Russian/Ukrainian wheat at \$165 delivered, incl. 25 percent import duty). EU can export duty-free wheat to Romania within the 125,000 MT TRQ and it is expected that Hungary, a traditional source already, will use a good portion of the quota.

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[RO]

*Special thanks are due to Bryan Purcell, PECAD crop analyst, for his continuous professionalism and promptness in helping Post to interpret satellite imagery for crop estimates.*

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## EXECUTIVE SUMMARY

Up to April 2005, Romanian farmers were expecting, for a second year in a row, substantial grain and oilseed exportable supplies, due to favorable weather conditions in most growing regions. Since then, for the following six months, the country has been continuously under unrelenting rains, drowning out or washing away a substantial share of the total production. National statistics have been step by step revised down, reflecting the effects of the heavy floods.

Ministry of Agriculture's early assessment of quality was that 70 percent of the total wheat production is of milling grade, although industry representatives report that the excessive moisture developed high sprouting in over 60 percent of the wheat crop, which makes it fall outside the local milling grade range.

Romanian exporters are expected to seek markets for feed wheat in traditional Middle East and the Mediterranean region countries, where crops are reportedly down and import demand on rise, nonetheless facing strong competition from other Black Sea countries. EU export potential remains also high.

Domestic feed use of wheat is forecast higher because of livestock population growth.

Heavy rains continue to strike in the second half of September, damaging what was expected to be a good crop of corn and oilseeds and thus significantly shrinking the export surplus of the country.

## WHEAT

### Production

Timely and adequate rainfall throughout the growing season was just about to lead to bountiful crops for all winter grains and good perspectives for corn and oilseeds in most regions when for the first time floods violently hit Romania in April 2005. Rural communities in the most affected region in western Romania near the Serbian border (Timis, Arad, Bihor, Caras-Severin, Hunedoara, Mehedinti), but also in Suceava, were overwhelmed by the disaster. Reported damages in agriculture stood at almost \$31 million. Since then, three other separate waves of floods have hit Romania, affecting 34 of 42 counties.

In the first half of July, a second wave of heavy rains struck the southern and eastern parts of Romania, from Arad to Constanta and Tulcea, from Galati and Vrancea up north to Suceava, in total 32 counties. The floods took a heavy toll including in human lives, while the total flood damage was assessed at around \$2 billion.

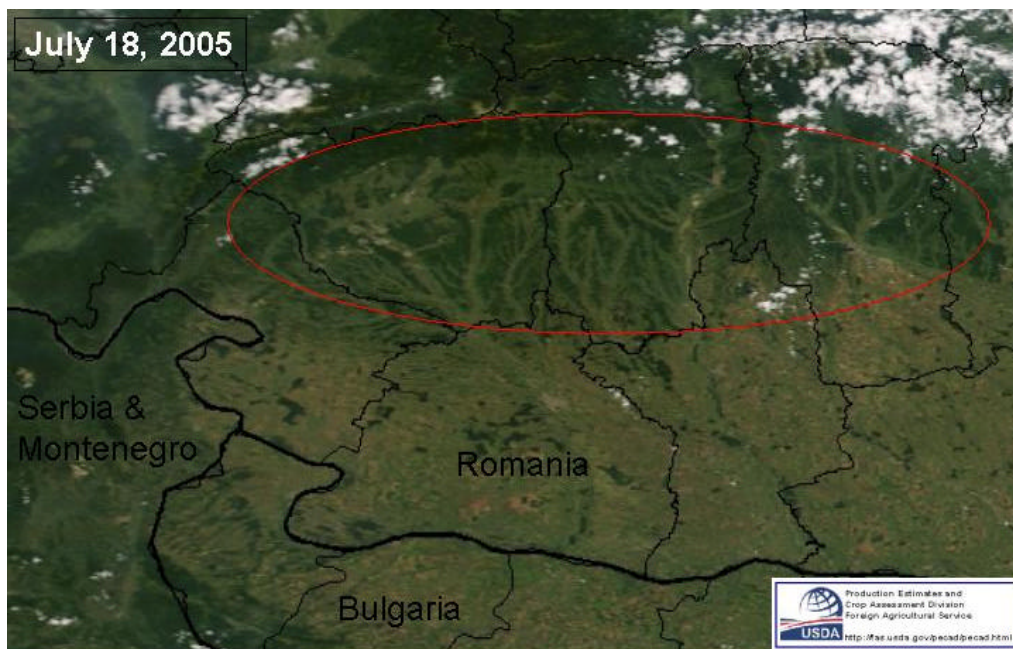
The Ministry of Agriculture estimated the July flood damages in the agricultural sector at RON 494.7 million (approx. \$167 million), of which in crop and livestock production RON 267.85 million (roughly \$90.5 million), in forestry RON 104 million (\$35 million) and in land reclamation works RON 123 million (approx \$41.5 million).

More rain followed in August continuing to cause humanitarian disasters (hardest hit being the Transylvanian judets Harghita, Mures and Covasna).



Vast arable areas in Moldova, Oltenia, Baragan, were affected, as proved by the satellite images embedded below.

Figure 1



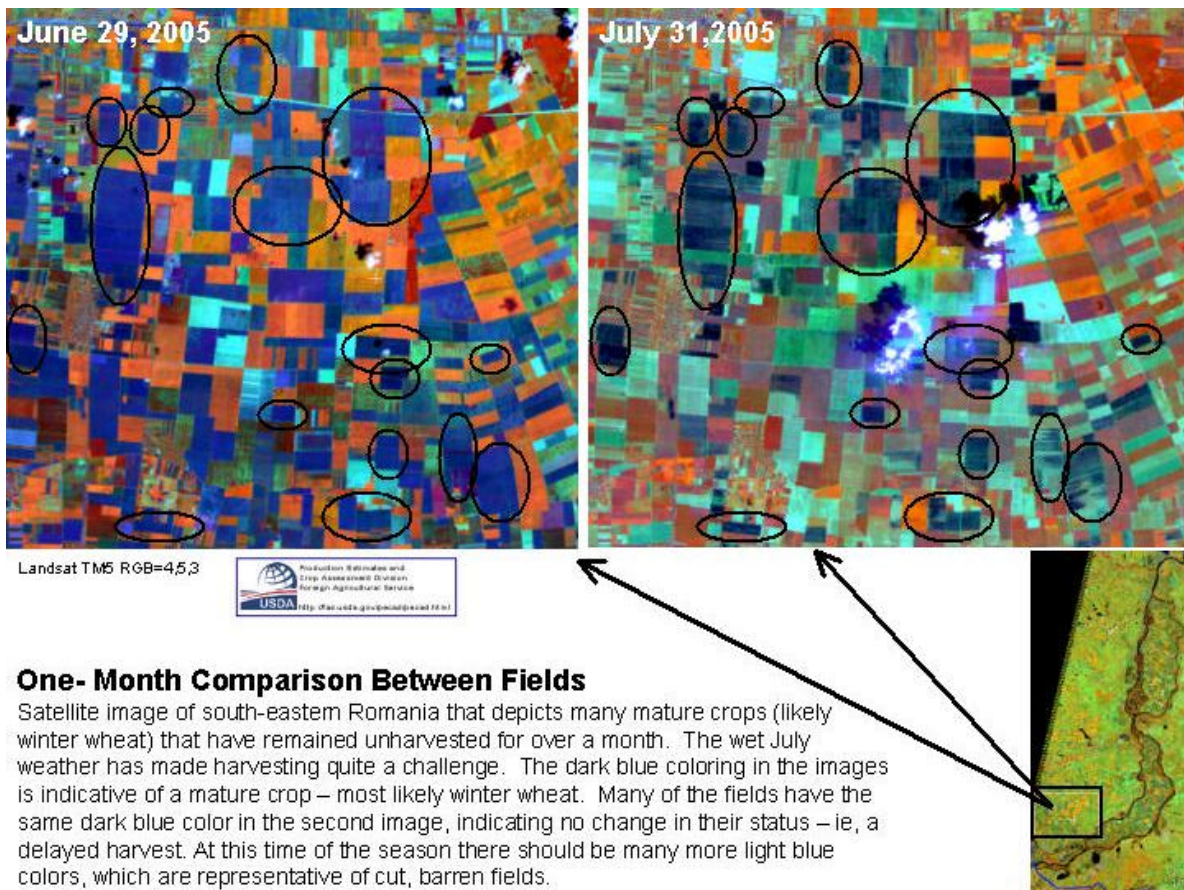
A MODIS satellite image from July 18, 2005 shows a large, dendritic pattern inside the red circle. This is likely the result of water flow that had disturbed vegetation and stirred-up debris after strong storms passed through the region



Nonetheless, despite some mid-July figures provisionally indicating high losses, the Ministry of Agriculture finally assessed that the effect of flooding on winter grains was generally small and, consequently, pegged its post-harvest figures at almost 7.1 MMT of wheat (resulting from a total harvested area of 2.4 million HA and an average yield of 2.95 MT/HA), respectively 623,000 MT of barley (that is, an average of 2.79 MT/HA on a total of 223 thousand HA). To these, about 130,000 MT of winter two-row barley (from 51,000 HA harvested), and, respectively about 380,000 MT of spring two-row barley add.

Although we have incorporated in our analysis late adjustments made by the authorities on reportedly wider plantings than the 2.1 million HA initially registered, FAS Bucharest’s final production figure for wheat for MY2005/06 is significantly lower than the one of the Ministry of Agriculture. Corroborating field observations with interviews with farmers and traders and based on satellite imagery (providing indexes of vegetative vigor, see figures 1 and 2), Post’s MY 2005/06 wheat production final estimate is 5.9 MMT, reflecting lower yields and cropland, of about 2.8 MT/HA and 2.1 million HA respectively. The difference in harvested area results from our assessment that damages (winterkill and floods) affected some 10 percent of the 2.4 million HA planted to wheat in the fall of 2004. Average yields, on the other hand, although varying less among different regions (from about 2.6 to 3.3 MT/HA), were affected by excessive moisture and delays in harvesting. Satellite images in Figure 2 indicate that mature crops (winter wheat) remained unharvested for over a month.

Figure 2



## Production, Supply and Demand Table

Romania							
Wheat							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate[ New]	USDA Official [Old]	Post Estimate[ New]	USDA Official [Old]	Post Estimate[ New]	
Market Year Begin		07/2003		07/2004		07/2005	MM/YYYY
Area Harvested	1500	1500	1800	1800	2100	2100	(1000 HA)
Beginning Stocks	1431	951	843	250	2102	1300	(1000 MT)
Production	2000	2000	6500	6500	5500	5900	(1000 MT)
TOTAL Mkt. Yr. Imports	2529	2092	300	120	300	300	(1000 MT)
Jul-Jun Imports	2529	2092	300	120	300	300	(1000 MT)
Jul-Jun Import U.S.	533	200	0	0	0	80	(1000 MT)
TOTAL SUPPLY	5960	5043	7643	6870	7902	7500	(1000 MT)
TOTAL Mkt. Yr. Exports	17	3	41	65	300	500	(1000 MT)
Jul-Jun Exports	17	3	41	65	300	500	(1000 MT)
Feed Dom. Consumption	1300	1100	1700	1700	1800	1800	(1000 MT)
TOTAL Dom. Consumption	5100	4790	5500	5505	5600	5500	(1000 MT)
Ending Stocks	843	250	2102	1300	2002	1500	(1000 MT)
TOTAL DISTRIBUTION	5960	5043	7643	6870	7902	7500	(1000 MT)

Using a 5.9 MMT production number of which only 2.5 - 2.7 MMT of milling grade likely to reach the market, the domestic milling wheat balance reflects a deficit of 300-500 thousand MT. Representatives of the milling and baking industry report that the wet gluten content (with average levels of 17-21 percent, compared to the minimum industry requirement of 22 percent) poses special problems, as the rain washed away the gluten in kernels. The falling number of the samples tested from the 2005/06 wheat harvest stands at 170-200 mm (while the minimum baking requirement is 220 mm). Sprouting is also extremely high in some parts of the country, well above the 1 percent limit allowed within local grades 2 and 3. The improvement of gluten content can be done either through blending with appropriate quality wheat (e.g., hard red winter wheat) or by using corrective additives, although the latter is a significantly more expansive technique. We see therefore opportunities for some 100-150 thousand MT of US hard red winter wheat later in the season, albeit currently, the domestic price doesn't allow any imports (the cheapest alternative is Russian/Ukrainian wheat at \$165 delivered (incl. 25 percent import duty). EU can export duty-free wheat to Romania within the 125,000 MT TRQ and it is expected that Hungary, a traditional source already, will use a good portion of the quota.

Romania can ship to EU 230,000 MT of wheat with no customs duties.

According to figures released by the Ministry of Agriculture, from the total wheat harvest, about 800,000 MT are stored within the national warehouse system (Comcereal and Cerealcon), about 200,000 MT were purchased by the milling industry, 1.6 MMT are in other operators' silos, about 30,000 MT were supplied to compound feeders, and another 20,000 MT to the poultry industry, with the balance stored on-farm.

A livestock sector on raise (both in poultry and swine) is forecast to slightly increase domestic feed use of wheat compared to the MY2004/05.

About 450 thousand MT of seed wheat should be normally used for plantings in the fall campaign of 2005, although industry representatives currently state that area planted to this crop may half if rain continues, as farmers will miss the planting season.

### Policy

Storage costs for 1.5 MMT of milling wheat from the 2005/06 harvest are covered for 6 months (August 2005 – January 2006) from the state budget, within a RON32 million (i.e. roughly \$1.28 million) ceiling<sup>1</sup>. The Ministry of Agriculture considered the measure necessary to help farmers with cope with deteriorating domestic wheat prices, currently varying between \$132-160/MT, delivered at processing point. Domestic bids for feed quality wheat are \$72-75/MT. Consequently, at the current high spread between feed and milling wheat, farmers are reluctant to sell and prefer to wait for a better opportunity.

Although warehouse receipt system legislation passed in 2002-2003, this instrument is not operational in Romania at the moment, in the sense that the conditions able to make the receipt a fully functioning warrant are not met yet. Therefore, amendments are needed to establish a grading system, an inspection and licensing system, and an indemnity fund which is adequate for broadly supporting a warrant based warehouse receipt system, or to establish a warehouse receipt system which will have applicability only for those warehouses, producers or other agencies who can secure the receipt with assets in addition to the warehouse receipt<sup>2</sup>.

The Government supports domestic prices also via procurement payments, budgeted for 1.5 million MT of baking wheat, in the amount of RON40/MT (i.e. \$32/MT).

For the fall campaign (already delayed because of a new wave of rains begun after mid-September), the State also budgeted RON175/HA planted (equivalent to \$70/HA), for no more than 5 HA/farm. These subsidies will be disbursed as input vouchers.

### BARLEY

The 2005/06 barley crop totals, according to the Ministry of Agriculture statistics, over 1.1 MMT, of which 623,000 MT of winter barley (from 223 thousand HA cropland), about 130,000 MT of winter two-row barley (from 51,000 HA harvested), and, respectively about 380,000 MT of spring two-row barley.

Domestic consumption is fully covered, with about 700,000 MT used as animal feed, some 100,000 MT kept as seed for sowing, while the beer industry will process another 300,000 MT of barley. This means that the exportable surplus is very slim further into the current marketing year, although the high inventories of feed wheat may increase it.

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<sup>1</sup> RON10 million from the FY05 budget and RON22 million from FY06 budget. The Romanian fiscal year overlaps with the calendar year.

<sup>2</sup> Recommendations for establishing the Romanian Grain Indemnity Fund were made by Agriteam Canada, consultants to the GOR under a World Bank-funded project.

## Production, Supply and Demand Table

Romania							
Barley							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate[ New]	USDA Official [Old]	Post Estimate[ New]	USDA Official [Old]	Post Estimate[ New]	
Market Year Begin		07/2003		07/2004		07/2005	MM/YYYY
Area Harvested	317	317	400	400	450	460	(1000 HA)
Beginning Stocks	114	9	165	48	328	130	(1000 MT)
Production	540	540	1400	1400	1100	1134	(1000 MT)
TOTAL Mkt. Yr. Imports	161	170	50	25	50	40	(1000 MT)
Oct-Sep Imports	193	164	50	20	50	20	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	815	719	1615	1473	1478	1304	(1000 MT)
TOTAL Mkt. Yr. Exports	0	1	187	188	200	120	(1000 MT)
Oct-Sep Exports	0	70	200	200	200	450	(1000 MT)
Feed Dom. Consumption	450	230	700	600	600	500	(1000 MT)
TOTAL Dom. Consumption	650	670	1100	1155	1000	1134	(1000 MT)
Ending Stocks	165	48	328	130	278	50	(1000 MT)
TOTAL DISTRIBUTION	815	719	1615	1473	1478	1304	(1000 MT)

In the MY2004/05, Romania exported close to 190,000 MT of barley, to markets in the Middle East and the Mediterranean region (Saudi Arabia, Morocco, Italy, Israel, Cyprus, Libya).

Current domestic bids for barley delivered at the processing point do not exceed \$100/MT.

There are no price support measures for the MY2005/06 barley crop.

**CORN**

Corn harvesting was about 6 percent completed in mid-September, when rains struck again. Damages have been not quantified yet, but pictures of extensive inundated lands circulated by local TV channels make us easily assume that adjustments will be certainly needed to reflect reductions in both cropland and yields. Our current estimate for the MY2005/06 corn production is 8.7 MMT, on 2.5 million HA, but this still a very early estimate and subject to changes in the near future, especially as rains are forecasted to continue.

Corn in-silo prices have currently climbed to about \$110/MT, after a couple of months in which varied close to \$100/MT.

Romania exported in January-July 2005 roughly 280,000 MT of corn (almost \$37 million worth, that is 9.9 percent of the value of country's agricultural exports), to Spain, Italy, Egypt, Tunisia, Turkey, Portugal.