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Hungary

Grain and Feed

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Report Highlights:

Report Highlights: After the very low grain harvest in 2003, Hungary's grain trade is small. The upcoming EU accession will not result in major changes in the growing pattern. Normal weather points to an average crop in 2004. Contracting animal production will result in higher wheat and corn exports in 2004/2005. Hungary strictly follows EU biotechnology regulations, and it is expected that biotech varieties will not be introduced in the next few years.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Vienna [AU1]
[HU]

Production

Fall planted wheat area is 1,140 thousand hectare (plus 10,000 hectare durum wheat). The green crop wintered well under partial snow cover and had adequate precipitation. Yield expectations are for a solid average.

Farms seeded 193,000 ha of winter barley. Spring barley planting is still ahead but area is usually at about 160,000 ha.

The two other winter grains (seeded in the autumn) are rye and triticale. The rye area of 49,000 ha is in line with the long-term average, while triticale area, 160,000 ha, registers an eight percent increase over 2003.

The Government of Hungary (GOH) and industry forecasts a slight increase in corn area to 1.2 million hectare.

Production Factors

Fertilizer use in 2003 was at 460,000 MT active ingredients, 8.7 percent above the 2002 level. Analysts expect higher fertilizer use and more rational input use from 2004 as a result of increased production support for grain cultivation.

Prices and leasing fees for agricultural land were low in Hungary until 2003. Due to increasing EU and GOH support, leasing fees and land prices have started to increase. Direct payment on arable land was HUF 7,000/ha (USD 34/ha) in 2003. This support may reach HUF 38,000/ha (USD 183) in 2004 [although a part of it may effectively be paid out only in 2005; see Policy section for additional information].

Land owners/users registered only 3.5-3.6 million hectares of arable land for parcel identification by mid-March 2004. Registration is the precondition for direct payments. The original deadline for farms was December 20, 2003, but the GOH prolonged registration by one month more. Until now only eighty percent of Hungary's 4.477 million hectares of eligible arable land acreage has been registered. The smaller registered area may reduce direct payments to farms per one hectare.

Consumption

Grain use by the domestic food industry is not expected to change in 2004. Dry milling uses 1.7 - 1.8 million MT of wheat and 170 - 200 thousand MT of corn annually. The above figures were somewhat lower in CY 2003 - 1,45 million MT and 122 thousand MT - respectively. Wet milling (high fructose corn syrup production) consumes about 500,000 MT of corn annually.

Swine stock was 4.7 million at the end of 2003, the lowest in ten years. Opening stocks of adult poultry in 2004 were 55.4 million, 2.3 million lower than a year ago. The increase of chicken, turkey and geese could not counterbalance the drop in the number of layers and ducks.

Production in the main feed grain-consuming sectors, poultry and swine, will decline further in 2004 and 2005 (see Gain Reports HU4001 Poultry and Products and HU4006 Livestock and Products reports). Consequently domestic coarse grain consumption for feed will be lower. In the case of an average crop, exportable surpluses of wheat and corn may go up to million tons. Preliminary compound feed production data for CY 2003 shows an 8 percent drop from

the previous year. Feed for swine was 2.1 million MT, poultry 1.6 million MT, cattle 0.6 Million MT, and other mixed feed 0.2 million MT.

Trade

Hungarian grain exports after the short 2003 harvest were rather low until March 2004. High domestic prices, later administrative export limitations by the GOH (see at GAIN Report HU4003 Grain and Feed report) stopped the sales of wheat and cereals.

Imports were also bearish despite duty free import quotas for wheat and rye. The last months of the 2003/2004 marketing year may be short for grains, although the GOH plans to sell 150,000 MT wheat from central stocks.

The GOH will survey grain stocks of major trading and producing companies as of May 1, 2004. The EU 1972/2003 and 230/2004 orders mandate this measure. The EU imposes high taxes on grain stocks above the "normal" (previous years statistical) level. The regulation is designed to prevent speculation in cheap grain stocks by traders in EU acceding countries (who could later exploit the high intervention price of the EU). In Hungary's case, the probability of an above average grain stocks is minute.

After the May 2004 EU accession, Hungary may be a regional supplier of quality wheat and corn. Major importers of wheat may be Italy, Spain and Switzerland and Bosnia, Croatia and Romania. For feed corn, major buyers will be Austria, Germany and Poland. Having large processing capacities, Hungary may maintain its exports of flour, feed and other cereals to the neighboring countries.

In the case of continued good weather, 2004/2005 exportable surpluses of wheat could be 1-1.5 million MT, barley 130,000 MT, and corn about 1.5 to 2 million MT.

Wheat, Barley and Corn Trade of Hungary in the 2003/2004 MY (Metric Tons)

	Exports			Imports		
	Wheat	Barley	Corn	Wheat	Barley	Corn
July	112,769	17,253		0	0	
August	186,428	9,753		0	0	
September	152,627	11,575		390	2,609	
October	59,094	10,321	39,003	1,128	4,357	0
November	31,879	11,938	51,944	5	16,135	513
December	25,481	2,556	51,579	3,704	30,327	3,618
January	18,113	n/a	11,105	n/a	n/a	n/a
TOTAL	586,391	63,396	153,631	5,227	53,428	4,131

Source: Grain Processors and Traders Association and industry estimates

Prices

Futures prices for 2004 May at the Budapest Commodity Exchange (BCE) for wheat were at the top (HUF 52,000/MT; USD 241.86/MT) in December, 2003. After the export levy was

introduced, BCE dealers started to reach their quotes and prices of wheat dropped to HUF 42,000/MT; USD 201.92/MT by mid-March, 2004.

Feed corn prices (also for May, 2004 delivery) were also at their highest at the end of 2003 (HUF 43,400/MT; USD 201.86/MT) but then sank linearly until the HUF 36,50/MT; USD 175.48/MT in March, 2004.

Feed barley slowly increased until January 2004 (HUF 39,000/MT; USD 185.71/MT) and then registered a rapid decrease until March (HUF 36,500/MT; USD 176.48).

August 2004 futures for wheat and barley, and November 2004 futures for corn started to decline as a result of good weather conditions and unchanged expected plantings.

BCE futures for August 2004 (wheat, barley) and November 2004 (corn), USD/MT

	January 15, 2004	March 16, 2004
Milling Wheat	151.00	139.90
Feed Barley	131.43	128.85
Feed Corn	148.81	134.62

Policy

Year 2004 will be a cornerstone year for production support in the farm sector. The EU domestic support priorities differ from Hungary's, and this may lead to changes in the production structure in the next years.

Hungary's agricultural support budget was USD 838.3 million (HUF 216.3 bn) in 2002 and USD 1,021.7 million (HUF 235 bn) in 2003. The government has made major changes in the complex system of production subsidies for 2003 in order to orientate producers to the CAP system introduced in 2004. Still, the 2003 production subsidies represented the traditional Hungarian system more than the CAP priorities.

In January 2004, the Ministry of Agriculture (MOA) terminated many kinds of domestic production support due to two main reasons; first, the MOA was starting the transition to the EU support regime; second, the GOH needed to initiate austerity measures due to overspending in its central budget in 2003. Farmers started road demonstrations as a response to the cut of traditional forms of subsidies. MOA had to bring back some transitional support measures (valid until May) worth HUF 50 bn (USD 244 million) for swine, poultry and dairy.

The above unexpected spending, as well as the HUF 80 bn (USD 390) worth of carryover obligations from 2003 reduced the national agricultural budget of 2004. The GOH launched a (HUF 100 bn; USD 488 million) loan guarantee program for farms under EU and domestic government supplemental subsidies when the short budget occurred (paid only from the end of the year). Commercial banks and farms will finance the loan guarantees until the relevant "Paying Agency" grants direct payments.

The original GOH agricultural budget plan for CY2004 is about HUF 290 bn (USD 1,415 million). HUF 154 bn (USD 751 million) comes from the Hungarian budget, HUF 136 bn (USD 663) is expected from different EU funds).

Concerning the structure of the direct payments in Hungary, the country proposed the following Complementary National Direct Payment (CNDP) version under the Single Area Payment Scheme (SAPS).

Breakdown of Complementary National Direct Payments in Hungary		
	Forint (HUF)	US Dollar (USD)
EU Direct Payment (25%)	76 bn	370 million
Compl. National Direct Payment (30%)	92 bn	449 million
of which		
Arable land	72 bn	351 million
Rice	0.7 bn	3 million
Tobacco (Burley and Virginia Schemes)	4.5 bn	23 million
Beef cattle (Beef and Suckler cow Schemes)	9.4 bn	46 million
Dairy	3.6 bn	18 million
Ewes	1.7 bn	8 million

The EU has not approved the above direct payments proposal of the GOH. This is why the final per hectare payments are not known. However, direct payments for grains, forecasted at above HUF 30,000 (USD 144)/ha, will be higher than the production support of the previous years. This may create better financing for the grain production and will increase land prices and leasing fees.

The other factor that affects per hectare direct payments is the registered area. Hungary claimed EU direct payments for 4,477,000 ha, but until now only 3.5-3.6 million ha have been registered. This may reduce the overall budget and per hectare direct payments.

Tariffs

Hungary's EU membership will not change tariff conditions for the grain imports from the United States. The exceptions are barley and milled rice. The EU external tariff for rice is about 63% vs. the 39.6 percent Hungarian applied tariff (although the EU's application of the margin of preference results in a lower tariff for many U.S. suppliers). The EU tariff on barley is about 120% vs. the actual Hungarian duty of 32.8%.

Biotechnology

The Hungarian government may potentially be one of the EU's more forward-leaning members in support of biotechnology. Although the Hungarian government has pledged to adopt all relevant labeling and traceability legislation passed by the EU, the Hungarian government has allowed field tests for herbicide resistant corn, wheat and other crops.

Extensive biotechnology research is taking place in Hungary, which indicates the country's interest in further developments and the use of biotech will likely grow over time. Hungary has promulgated the main pieces of legislation required by the time of accession (such as executive orders on the labeling of food; sampling and threshold [GMO] limits for imported

materials; responsibilities of different authorities in enforcement etc.). However, Hungary's considerable grain and seed business will not open for biotech varieties in the near future. Seemingly the country follows the EU's hesitant (de facto) application of rules already made (several GMO plant varieties have passed the required field tests and are waiting for (the deserved) registration). The GOH has not shown any sign of having a real agricultural biotechnology policy so far, rather than repeating the importance of a "GMO-free" image for the country.

Country Hungary

Commodity Wheat

	2002		2003		2004		Forecast Post Estimate [New]
	USDA Official [Old]	Revised Post Estimate [New]	USDA Official [Old]	Estimate Post Estimate [New]	USDA Official [Old]	(1000 HA)(1000 MT)	
Market Year Begin	07.2002		07.2003		07.2004		
Area Harvested	1100	1100	1200	1112	0	1150	
Beginning Stocks	757	568	714	658	384	300	
Production	3910	3900	2920	2900	0	4400	
TOTAL Mkt. Yr.							
Imports	345	0	350	20	0	5	
Jul-Jun Imports	345	0	350	20	0	5	
Jul-Jun Import U.S.	0	0	0	0	0	0	
TOTAL SUPPLY	5012	4468	3984	3578	384	4705	
TOTAL Mkt. Yr.							
Exports	1278	860	800	600	0	1105	
Jul-Jun Exports	1278	860	800	600	0	1105	
Feed Dom.							
Consumption	1000	1000	900	900	0	900	
TOTAL Dom.							
Consumption	3020	2950	2800	2678	0	3000	
Ending Stocks	714	658	384	300	0	600	
TOTAL DISTRIBUTION	5012	4468	3984	3578	0	4705	

Country Hungary

Commodity Barley

	2002		2003		2004		Forecast Post Estimate [New]
	USDA Official [Old]	Revised Post Estimate [New]	USDA Official [Old]	Estimate Post Estimate [New]	USDA Official [Old]	(1000 HA)(1000 MT)	
Market Year Begin	07.2002		07.2003		07.2004		
Area Harvested	372	372	300	380	0	355	
Beginning Stocks	149	100	64	25	44	40	
Production	1100	1100	830	825	0	1100	
TOTAL Mkt. Yr.							
Imports	32	5	50	60	0	30	
Oct-Sep Imports	31	5	50	60	0	30	

Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	1281	1205	944	910	44	1170
TOTAL Mkt. Yr. Exports	117	80	50	70	0	50
Oct-Sep Exports	122	100	50	70	0	50
Feed Dom. Consumption	800	850	550	550	0	800
TOTAL Dom. Consumption	1100	1100	850	800	0	1045
Ending Stocks	64	25	44	40	0	75
TOTAL DISTRIBUTION	1281	1205	944	910	0	1170

Country Hungary

Commodity Corn

Market Year Begin	2002		2003		2004		Forecast	
	USDA Official [Old]	Revised Post Estimate [New]	USDA Official [Old]	Estimate Post Estimate [New]	USDA Official [Old]	Estimate Post Estimate [New]	USDA Official [Old]	Forecast Post Estimate [New]
	10.2002		10.2003		10.2004		10.2004	
Area Harvested	1150	1150	1100	1100	0	1200	0	1200
Beginning Stocks	251	519	239	750	173	350	173	350
Production	6121	6000	4534	4600	0	6900	0	6900
TOTAL Mkt. Yr. Imports	0	5	0	6	0	5	0	5
Oct-Sep Imports	0	5	0	6	0	5	0	5
Oct-Sep Import U.S.	0	0	0	0	0	0	0	0
TOTAL SUPPLY	6372	6524	4773	5356	173	7255	173	7255
TOTAL Mkt. Yr. Exports	1533	685	500	600	0	1555	0	1555
Oct-Sep Exports	1533	685	500	600	0	1555	0	1555
Feed Dom. Consumption	4000	4200	3500	3800	0	4100	0	4100
TOTAL Dom. Consumption	4600	5089	4100	4406	0	5000	0	5000
Ending Stocks	239	750	173	350	0	700	0	700
TOTAL DISTRIBUTION	6372	6524	4773	5356	0	7255	0	7255