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Moldova, Republic of

Grain and Feed

Grain and Feed

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Report Highlights:

After the grain deficit in MY03/04, Moldova expects a bumper wheat and barley crop at 800,000 MT and 300,000 MT, respectively, in MY04/05. Wheat exports are estimated at 150,000 MT. However, the success of these exports are questionable due to new GOM policy to administratively intervene in grain trade and restrict private interests.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Sofia [BU1]
[MD]

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Summary

After very serious grain deficit in MY2003/2004, Moldova is currently harvesting a good grain crop. The supply will likely exceed local demand and stocks needs. However, actual execution of exportable quantities of wheat is questionable due to new policy changes aiming state control and trade intervention in violation of international trade rules.

Note: the information in this report is based on AgOffice estimates, Moldova grain trade estimates, Moldova Center for Strategic Studies reports, and media reports.

Production

Planted Area: Planted area estimates are at 420,000 HA both wheat and barley; of which 120,000 HA under barley and 300,000 HA under wheat.

Production: Estimates are for 700,000 MT - 800,000 MT of wheat; and 300,000 MT - 330,000 MT of barley.

As of July 26, 250,000 HA of total wheat area and barley area was harvested, and total production to date was reported at 650,000 MT including 400,000 MT of wheat and 250,000 MT of barley. The harvest is likely to be completed by early August. The MinAg reported wheat average yields to date of 2.94 MT/HA with some farms reaching 3.5 MT/HA, which is the highest result for the past 10 years. AgOffice estimates average wheat yield at 2.7 MT/HA. Average barley yield was reported at 2.81 MT/HA with good farms harvesting over 3.0 MT/HA, also record high results.

Early reports regarding wheat quality show good to very good results. Reportedly, milling quality wheat accounts for 52-54 percent of collected wheat to date compared to the usual ratio of 31-42 percent (base period 1999-2003). Wheat with gluten content 18-22 percent is about 70-80 percent of total wheat; and with gluten content more than 25 percent, 7-8 percent of total wheat. Better quality milling wheat is produced in south Moldova where rainfall was sufficient.

Wheat production estimates for the period 2002-2004 in Moldova			
Year	Harvested area, HA	Yields, MT/HA	Production, MT
2002/2003	440,463	2.68	1,180,000
2003/2004	342,000 planted; 150,000 harvested	1.06	160,000
2004/2005	300,000	2.7	800,000
Source: CAMIB (marketing information agency) data for 2002; AgOffice estimates for 2003-2004			

Supply and Demand

Experts estimate local wheat demand at 360,000 MT for human consumption; 140,000 MT are usually provided to land owners as in-kind rent for land, and used mainly for feed (130,000 MT) and more rarely for bread (10,000 MT); 80,000 MT are used for seeds; and 40,000 MT-50,000 MT will be used as feed at industrial livestock complexes; 30,000 MT will be purchased by the state grain stocks. About 150,000 MT of feed quality wheat are planned to be exported.

Wheat supply and demand, MY03/04 and MY04/05, in MT		
	MY03/04	MY04/05
Beginning Stocks	100,000	0
Production	160,000	800,000
Imports	260,000	0
Total Supply	510,000	800,000
Exports	0	150,000
Human consumption	350,000	360,000
Feed consumption	80,000	170,000
Seeds	80,000	80,000
Ending stocks	0	40,000*
Total demand	510,000	800,000
Note: Ending stocks in MY04/05 include 30,000 MT state stocks and 10,000 MT commercial stocks		

State Stocks

Moldova state stocks were depleted during the grain deficit in MY 2003/2004. In MY2004/2005, the GOM announced a tender procedure for refilling state stocks with 30,000 MT of wheat.

The terms for purchases are: wheat at gluten content 18-21 percent, purchased at a price of \$125/MT; 22-25 percent of gluten, at \$142/MT; and more than 25 percent, at \$175/MT. Expectations are that this transaction will bring more benefit to traders rather than farmers due to lack of clear and transparent terms for purchases. Farmers report that the majority of MY04/05 wheat is of the first category or the cheapest, at \$125/MT. A net price of \$125/MT does not cover production costs.

In April, the state stocks had a tender for delivery of imported wheat for filling the depleted reserve. The result was a purchase of 12,500 MT of imported wheat instead of needed 25,000 MT. The quantity was imported at CIF price of \$164/MT plus in-land transportation (\$275,000) to the silos in Floresti town.

Trade

Exports

New Policy: In early MY04/05, the GOM took a decision to intervene on the grain market and to try to discourage and restrict private interest by involving quasi-government body called "Universal Commodity Exchange of Moldova". The new GOM policy requires mandatory closing of export deals via this "exchange". "Universal Commodity Exchange of Moldova" is a body of unclear ownership which has never played any role on the grain market since the grain trade is not developed yet to the extent to require such a structure.

In late July'04, the Exchange has made public the requirements for private companies to close export deals for wheat, barley, wheat flour, and mixture of wheat and rye (no information yet regarding corn and sunflower exports). According to the rules, export contracts must be registered with the exchange, starting July 27. Companies which want to export cereals must apply via a broker accredited at the Commodity Exchange, at least three days before registration of transaction. The offers will be included in a list of sales at the Exchange and will be mediated via the exchange's bulletin, press and online reports. The

price is to be established at auctions. After the transaction is registered, the exchange will issue a sale/purchase contract, the CEO of the Exchange should allow exports of cereals to occur, and Customs Department should issue export certificate on basis of Exchange's documents.

According to GOM, the new regulation will allow the state "to monitor the market of cereals more efficiently, while businesses can sell their cereals for higher prices." However, farmers already are protesting the new regime since the seller will receive the payment from the sale only 30 days after the payment is done to the Exchange by the buyer. The traders also have protested the new regime and the AgOffice has received complaints from grain exporters that this new state intervention will not only make grain exports more expensive and difficult, but may slow it down to the extent to make it impossible.

MY04/05 Moldova wheat exports might face more difficulties than in previous years due to the following reasons:

- Currently, there is a significant difference between farmers sell price and traders offers. Farmers claim that the "minimum" price which covers their production costs and provides a small margin is 1.8-2.5 Mlei/kilo (\$150-\$208/MT) compared to traders offers of about 1.0-1.1 Mlei/kilo (\$92/MT).

- Exports are hindered as well by a new decision of the Romanian government to exclude wheat from the free trade agreement between the two countries and to introduce 25 percent import duty on Moldova wheat coming to Romania.

- The cost of wheat is higher compared to regional competitors such as Romania and Ukraine. Both countries provide some type of subsidies or support for grain exports, and Moldova does not.

- Quality of Moldova wheat is not generally high. This year, the moisture content of harvested wheat is higher which requires extra expenses, shortens the shelf life and increases the cost.

- Moldova's export infrastructure is limited: exports are often combined with cargoes from Ukraine, Russia, Kazakhstan or Romania.

- There are rumors that the GOM will not allow wheat exports to occur before 30,000 MT are procured (or contracted) for the state stocks, or until September.

Currently, estimates for potential wheat exports are from 70,000 MT to 150,000 MT. Factors which are encouraging such exports are as usual, related to lack of storage for farmers and farmers need in financing.

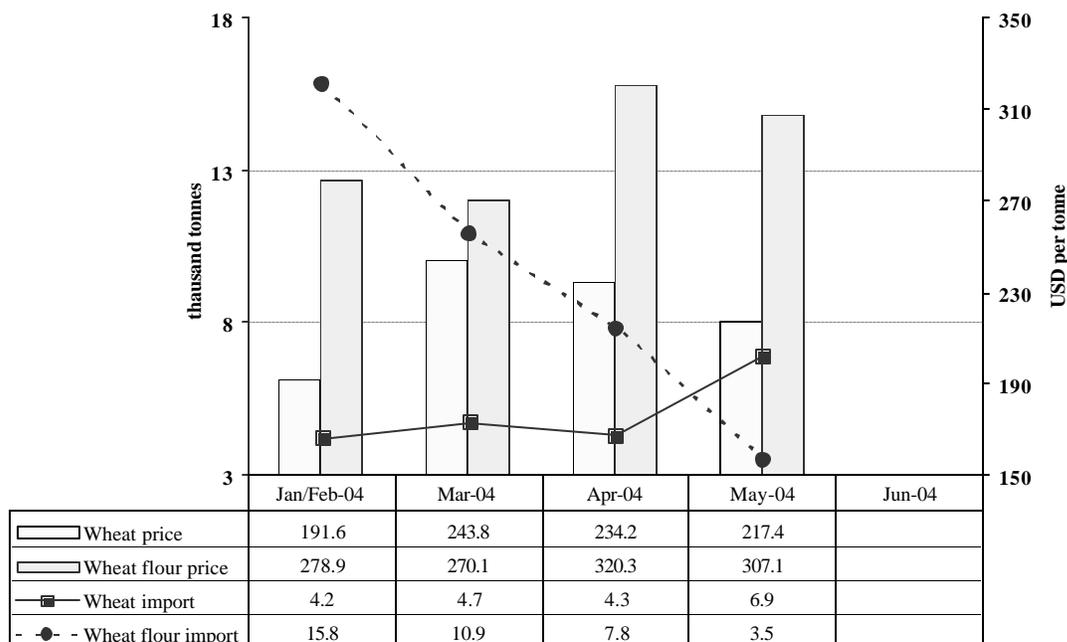
Imports

As it is seen from the graph below, grain imports for January – May 2004 were 20,200 MT of wheat and 38,100 MT of flour (52,700 MT in wheat equivalent) or total 72,900 MT. By end-May, experts estimate wheat flour stocks at 50,000 MT. By end-May, imports of flour were reduced on the expense of wheat imports. The human consumption demand for the period June-September (the new crop is in use by September/October), is for 57,000 MT-62,000 MT of wheat.

It is not clear if imports will continue (the VAT/import duty exemption for wheat/wheat flour imports was extended until September) due to the traders fear of potential losses as a result of the bumper wheat crop. On the other hand, current wheat prices on Moldovan market are

higher than in the region (Ukraine, Romania, Russia), and wheat farmers are unwilling to sell at lower prices.

Wheat and Wheat flour Import in January-May 2004: Volumes and Average Prices



Local market

The wheat deficit in MY2003/2004 affected very negatively private milling and baking industry.

Since August 2003, wheat prices have skyrocketed until February 2004, to reach \$230-\$240/MT for milling wheat and \$200-210/MT for feed wheat. After February' 04, there has been a slow and slight decline in prices to reach in May 2004, \$200-\$210/MT for milling wheat and \$185-\$190/MT for feed wheat.

During 2003 fall, the state baking monopoly Franzeluta was continuously supplied with cheaper wheat/flour from Moldova state stocks and from Russian imports, a supply which was not accessible for private millers and bakers. Despite private bakers efforts to stay on the market (for example, to produce lower quality bread at the previous price for better quality bread; to reduce weight, not changing the price; etc.), many of them bankrupted.

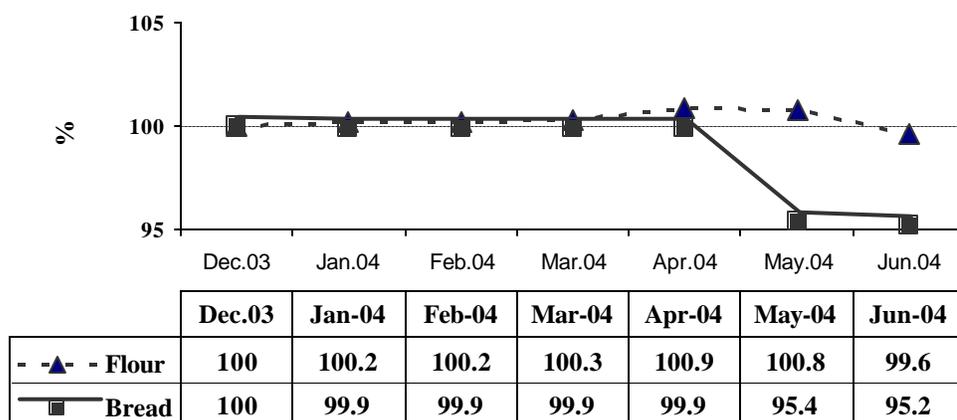
After liberalization of wheat/wheat flour imports since January 1, 2004, imports did not cause any stabilization on the flour/bread market, again, due to the policy to support state producers and the baking monopoly Franzeluta.

Franzeluta was given continued access to soft credit, better quality and less expensive wheat/wheat flour. There was a GOM order to Franzeluta to provide "cheap bread". The company lowered prices of 10 most popular types of bread by 10-25 percent.

<i>Bread Type</i>	<i>Old Price in lei/loaf</i>	<i>17.11.2003</i>	<i>January-April 2004 price in lei/loaf</i>	<i>01.05.2004</i>
Chisinau	2.75	2.75	3.18	2.00
Snop	2.80	3.90	3.90	3.30
Pâine alba pe vatra	2.10	3.10	3.30	2.75

As a result, flour prices remained stable, however, Franzeluta was dumping "cheap" bread and, bread prices were declining (see the graph below) due to majority share of the state "cheap" bread. Private bakers (about 200 small facilities) account for 30 percent of nationwide market and for 10-12 percent in Chisinau. They had to compete at uneven conditions with the state. "Private" bread was about 1.0 Mlei/loaf more expensive than Franzelutza prices. Thus, private bakers continued to bankrupt. At the same time, consumers were staying in lines for "cheap bread", and Franzelutza was also suffering losses (reportedly, May' 04 losses were 1.6 million lei).

The dynamics of the consumer price index in 2004 (December 2003 = 100%)



As of July 2004, the GOM does not intend to change its policy and to encourage the development of the private sector. Franzelutza continues to be supported by the state and to intervene on the bread market for political reasons. It is estimated that this policy will continue in MY04/05 in the view of upcoming political elections in the spring of 2005. This policy is likely to have very negative economic and social result in the medium term.