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Hungary

Grain and Feed

Logistical Problems Deepen Grain Market Slack 2008

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Report Highlights:
Historically, grain industry experts asserted that the ability of Hungary to export large quantities of grain was limited. This has changed given significant investment in commodity trade infrastructure during the past 7 years. The developments, however, have been uneven and bottlenecks still exist. While these infrastructure improvements enabled Hungary to increase its grain exports in recent years, this is unlikely to be the case in 2008/2009 as a result of market conditions.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Budapest [HU1]
[HU]

Logistical situation

It was a popular belief that the maximum amount of grain that Hungary could export totaled about 250,000-300,000 MT per month, with annual totals only reaching between 3.5 to 4.0 MMT. This belief was shattered in 2006/2007, when Hungary exported over 8.0 MMT of grains to both EU and non-EU destinations. Hungarian industry made significant investments in physical infrastructure in the years leading up to 2006/2007 which made these exports possible. However bottlenecks still exist and challenges remain.

Grain Export of Hungary by Transportation Mode
MY 2006/2007 – MY 2007/2008

Metric Tons

Marketing Year	Barge	%	Rail	%	Truck	%	Total*	%	Total Grain Export**
2006/2007	2,178,520	28.8	2,026,856	26.8	3,357,608	44.4	7,562,984	100	8,352,067
2007/2008	1,049,676	23.7	952,903	21.6	2,413,418	54.7	4,415,997	100	5,225,167

* Barley, Corn and Wheat together (based on Customs and Ministry of Transport data)

** Total Grain Export (Central Statistical Office trade data)

Transport by rail: According to the Hungarian Intervention Authority, of the 1,475 grain storage plants surveyed, only 148 have direct railroad access and the capability to fill railcars. The vast majority of the storage facilities can only serve trucks. The nominal loading capacity of grain depots to fill rail carts is 17,450 MT/hour, which is about 8.6 percent of the total national capacity. Another handicap is the outdated car fleet of the Hungarian railways (MAV). Grain traders and the railway company try to lease cars from neighboring countries, but the late summer-fall season is a peak period for the international transport of other bulk commodities, too. The round trip time of cars even from relatively close destinations (Italy, Greece) may take weeks.

The GOH wants to upgrade rail transport by selling MAV-Cargo (the goods transport unit of MAV) to private investors. The European Commission approved the purchase of MAV-Cargo by an Austrian company (Rail Cargo Austria) in November 2008. Traders expect reasonable development of railway export infrastructure from the new investor.

The share of rail-handled grain export decreased from 27 percent in 2006 /2007 to 22 percent in 2007/2008. High grain prices, infrastructure improvements and regional markets made road transport more competitive with rail. This remains the situation today even with lower grain prices. Rail and truck transportation costs about € 45-50/MT/1,000 km.

Barge traffic: The main waterway for Hungary is the Danube river. The Danube connects the country to West Europe via the Main-Danube channel and to the Black sea ports to the south. The Danube crosses more than 400 kilometers of important grain production regions in Hungary. While there are 15 major river ports along the Danube, only five of these have railway access. The barge loading capacities of these 5 ports represent only about 3 to 4 percent of the total grain loading capacities along the Danube. The share of barge filling capacity (4,700 MT/hour) is even smaller, 2.3 percent, when compared with the total

discharge capacity of the country. The fluctuating water level limits the full load navigability of the Danube to about 140-150 days in a normal year. This is why the barge transport volumes and the associated costs partly depend on the water level pattern of a given season. The idea of constructing a dam north of Budapest to deal with the fluctuating water levels was dropped in the early 1990's because of political opposition. This discussion is not likely to be revived in the near future.

According to data from the Hungarian Grain and Feed Association, barge transportation accounted for 28.8 percent (2.2 MMT) of the whole grain exports in 2006/2007 and 23.7 percent (1.0 MMT) in 2007/2008. The difference between the years' totals is explained by the relatively high water levels in 2006/07 which permitted more full barges for a longer period of time, compared to 2007/08 when water levels were relatively low and exportable supplies were smaller.

Trucking: Hungary's road system has improved significantly over the past ten years, which has included investments in border facilities with neighboring countries. Industry sources state that truck fleets of farms, trading and transport companies have in recent years expanded faster than barge and railway transport capabilities. Today, truck operators have excess transportation capacity in Hungary, which help keep their rates relatively low.

On the basis of high prices and the higher than usual grain and flour sales to Romania and other neighboring destinations, road transport deliveries shot up last year (see table). Decreased demands of neighboring countries and depressed prices in general will reduce the use of road transport in this season despite competitive transportation rates.

The nominal capacity of warehouses to fill trucks is 180,850 MT/hour, 89 percent of the total. The technical basis and transport price relationships facilitated the growth of road transport in grain exports over the past two marketing years. Truck deliveries to foreign destinations grew from 44.4 percent of the total grain export in 2006/2007 to 54.7 percent in 2007/2008.

Grain Storage: Hungary made major grain storage investments during the EU accession period (2002-2004), as well as in 2005 and 2006, when the country accumulated huge grain intervention stocks. Farms, mills, and trading companies also invested significantly in grain storage facilities with considerable EU financial support and with the expectation of attractive storage fee for handling intervention stocks.

Capacities of grain elevators and warehouse facilities, registered by the Intervention Office of Hungary's "Paying Agency" (MVH), increased from 8.3 MMT to 14.4 MMT between 2002 and 2007. For 2008/09, total grain storage capacities in Hungary are estimated at 18 MMT.

The majority of storage investments were carried out in the main grain producing areas and close to transport facilities (e.g. Danube river). However, the explosive growth of storage infrastructure has some weaknesses. Only 19% (2.7 MMT) of the total capacity are elevators above 50,000 MT in size. The majority is between 10,000 and 50,000 MT, and 25% of storage facilities are under 10,000 MT. It is difficult for these small facilities to serve large volume export demands quickly, with homogenous commodity. Another unfavorable feature of the warehouse storage is the breakdown by design. Only 5% (650,000 MT) of the grain storage potential is concrete vertical silo, and 13% (1.9 MMT) is metal silo. The remainder, about 11 MMT, is horizontal or flat warehouses made of concrete. These depots are relatively cheap to build and maintain, but the management of the commodity (aeration, pest management, discharge etc.) is slow and difficult. In addition, the storage time without spoilage is shorter than in vertical silos. The loading and unloading technology and its performance also reflect the outdated structure of Hungary's grain storages. Most of the flat

warehouses use mobile loading/unloading machines, rather than built-in conveyors. Most of these types of warehouses also do not have aerating equipment.

Other Factors Affecting Exports: Despite the increased investment in storage and transportation, a number of other factors help support Hungarian grain exports in 2006/07 and to a lesser extent in 2007/08. It is unclear to what degree these factors will be present in the future and how markets will account for differences.

Large Stocks: In 2006/07 Hungary had large homogenous volumes of grain in intervention warehouses ready for delivery. This it is not the case for 2008/09. Given the large export programs of the past two years, 2008/09 began with few centrally-held stocks available to the market and large stocks in farmer hands.

Price Fluctuations: In 2006/07 and in 2007/08 farm-level grain prices did not drop after harvest but actually increased. However in 2008/09, farmers did not take advantage of high pre-harvest prices and were surprised by the post-harvest price drop. The large grain and sunflower seed crops have not moved through the system given that farmers are holding supplies for higher prices.

Demand for Road Transportation: With better crops in the region, demand for small consignments of road-delivered grain has fallen dramatically, stifling this outlet which was extremely important in the past two years.

Relative Transportation Cost: Barge and rail traffic benefitted from the recent high grain prices which made leasing rail cars from other EU countries profitable. In addition, the high grain prices made the extra cost of running half cargo barges profitable. Depressed grain prices for 2008/09 will likely not cover such costs.

Current Market Situation: Currently, reports place total 2008/2009 Hungarian grain production at about 15.5 MMT. As a result, domestic coarse grain prices have fallen below the intervention price of €101.3/MT. Better regional crops have cut demand from neighboring counties. Therefore, industry sources expect depressed local grain prices and flagging export prospects. Farmers may offer grain for intervention because the deposit application and delayed payment terms make this option less attractive in the short term.

The Government of Hungary (GOH) has announced efforts to ease the glut affecting the grain market by purchasing 200,000 MT of wheat for central stockpiles. The plan, however, may not bring a quick fix as the purchase amount is only a tiny fraction of total market supplies. In addition, a proposed loan package for farms is unlikely to work due to the international financial crisis. There do not appear to be any plans to increase new bio-ethanol production capacity in the near term.