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## Czech Republic

## Grain and Feed

## Crop Update

**2005**

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**Report Highlights:**

On August 15, the Ministry of Agriculture estimated total grain production at around 7.8 million MT, which represents an 11% drop from the record harvest of 2004/2005. The smaller harvest is the result of smaller area (down by 1%) and lower yield (down by 10%). The quality of all grains will be lower. The State Agricultural and Intervention Fund (SAIF), the Czech Payment Agency, has contracted a storage capacity for 800,000 MT. However, 500,000 MT of last year's harvest still remain in storage. Almost all long-term storage capacity is in private hands, and the government is currently deciding whether to build state-owned warehouse for intervention purposes. At present, the Ministry of Agriculture is proposing three new warehouses with a total capacity of 300,000 MT. The decision whether or not to build these facilities will most likely be made in September.

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

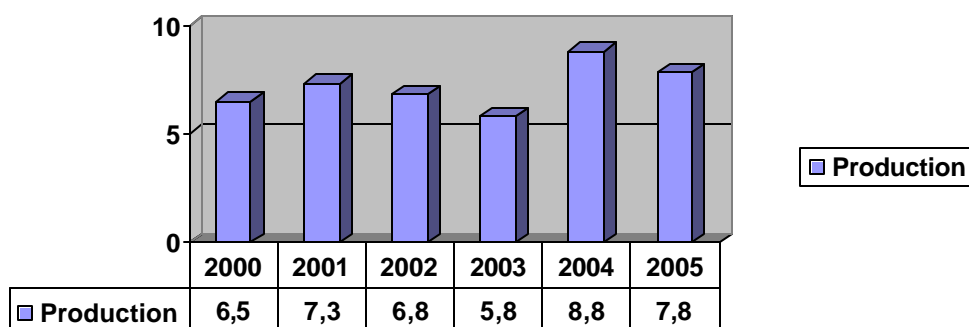
## Production

On August 15, the Ministry of Agriculture estimated total grain production at around 7.8 million MT, which represents an 11% drop from the record harvest of 2004/2005. The smaller harvest is the result of smaller area (down by 1%) and lower yield (down by 10%). Despite the drop, production will still be above average. Due to the cold and rainy weather the first half of August; production could be lower than the official estimate. Quality will not be good for all grains. Last year 70% of the wheat was of milling quality. This year only 20% to 30% of the wheat will be of milling quality.

Production of rapeseed is estimated at 774,000 MT, a 17.2% decreased compared to the previous year. The decrease is the result of lower yield at 2.9 MT/ha (compared to 3.6 MT/ha in MY 2004/05). Rapeseed area is slightly higher this year at over 267,000 hectares. This compares to 259,000 ha last year.

By the middle of August, 50% of grain and nearly 100% of rapeseed were harvested.

**Grain production in million MT**



## Comparison of area, yield and production between MY 2004/05 and MY 2005/06

Commodity	Area in 1,000 ha		Yield MT/ha		Production in 1,000 MT	
	MY 2004/05	MY 2005/06	MY 2004/05	MY 2005/06	MY 2004/05	MY 2005/06
Winter wheat	802	763	5.96	5.26	4,775	4,013
Spring wheat	61	57	4.35	4.20	267	242
Wheat, total	863	820	5.84	5.19	5,042	4,255
Rye	59	47	5.29	4.18	313	196
Winter barley	116	125	5.15	4.61	596	575
Spring barley	353	397	4.91	4.61	1,735	1,827
Barley total	469	521	4.97	4.61	2,331	2,403
Oats	59	52	3.88	3.54	227	183
Triticale	63	65	4.86	4.35	305	282
Corn	90	80	6.13	5.95	552	476
Other grains	7	8	1.98	1.81	13	15
<b>Grains, total</b>	<b>1,609</b>	<b>1,593</b>	<b>5.46</b>	<b>4.90</b>	<b>8,784</b>	<b>7,809</b>

**Consumption**

*Distribution of nearly 10 million MT of grains from MY 2004/05:*

Out of last year's production of 8.8 million MT of grains, almost 2 million MT were used for milling, another 4 million MT were used in feeds, over 1 million MT were exported on the free market, and 880,000 MT were purchased by the State Agricultural and Intervention Fund (SAIF) for intervention. Beginning stocks in MY 2004/05 were over 1 million and ending stocks of 1.6 million MT remain.

*Future:*

Domestic food use will probably remain constant, and feed use is not expected to rise. Feed mixtures contain the maximum grain content (around 75%) and cannot substitute other feeds. Livestock numbers are dropping significantly with cattle dropping by 20%, swine dropping by 16%, and poultry dropping 3% since last year.

The Ministry of Agriculture, supported by farmer lobby organizations such as the Agrarian Chamber or the Agricultural Union, wants to build new storage capacities for intervention stocks. According to the Bohemian-Moravian Union of Organizations for Agriculture Supply & Purchases ("Union of grain warehouses"), there is enough storage capacity and the building of new warehouses is not economical. Instead more systematic measures should be taken, e.g. support of declining animal production and support of bio-ethanol production, which according to EU recommendations, should be used in all fuels (5.75% by 2010). The Association of Private Farmers wants the Ministry of Agriculture to get an exception from

Brussels to start intervention in September instead of November. According to the Ministry of Agriculture, this proposal is not likely to succeed. The Association also wants the Ministry of Agriculture to support environmental programs in less favorable areas (LFA = mountain areas) and other set-aside programs to decrease grain production.

### **Intervention and Storage**

The Czech Republic's problem with storage capacity is not the lack of high quality elevators for long-term storage. Instead the problems lies with the fact that the government privatized almost all of the storage capacity at the beginning of the 1990s, and today there are only two major agricultural companies, Agrofert Holding and Agropol Group, that own most of the high quality elevators for long-term storage that are called the "ZZN" (Zemedelske zasobovani a nakup = Agricultural Supply and Purchase). The two companies are not willing to rent all capacity of the ZZN to the State Agricultural and Intervention Fund (SAIF), Czech's payment agency, because the SAIF does not offer favorable terms to these companies. In mid-August, the SAIF opened a new tender with a higher price of 55 CZK/MT/month (\$2.3/MT/month) for amounts stored. Warehouses can offer their storage facilities in this tender until May 2006.

### **Proposal to build new state-owned warehouses for intervention stocks**

The SAIF does not want to depend on these tenders and search for storage capacities for grain that it must purchase from farmers. As a result, the Ministry of Agriculture prepared a plan for constructing three new warehouses to store intervention purchases. The proposal is currently being reviewed by interested parties and then will go to the government, which should make a decision sometime in September. There are two lobby groups that support and oppose the construction project. Farmers, as represented by the Agrarian Chamber, argue that they do not want at the mercy of two major agricultural trading companies that control prices. Farmers are requesting new state-owned warehouses to be built with a capacity of 1 million MT. They argue that the SAIF needs to have storage capacity for intervention purchases and not depend on private companies to rent out their warehouses. However, the "Union of warehouses" (composed of the two agricultural trading companies and some smaller farmers) argues there is enough storage capacity and it is a waste of money to construct new storage facilities. They argue that the SAIF should offer better conditions to private companies in order to motivate them to sign long-term contracts with the SAIF for intervention stocks.

Total storage capacity of these "ZZN" is 4.5 million MT and farmers have another 5 million MT for short-term storage. After last year's harvest, farmers offered 1.4 million MT of grain to the SAIF for intervention purchase. Due to the inability of the SAIF to take the grain from farmers within four months (this period was extended), around 300,000 MT did not meet the required quality requirements and was withdrawn from intervention. And another 200,000 was withdrawn by farmers and sold on the free market. The SAIF purchased 880,000 MT of grain for intervention after the 2004 harvest, out of which 326,000 MT was sold through tenders to third countries (120,000 MT still physically remain in the warehouses in the Czech Republic), 55,000 MT moved to intervention storages in Germany and a contracted 200,000 MT moved to Belgium (190,000 MT are still in the CR). In July 2005, the SAIF got a tender from the European Commission to sell 180,000 MT to third countries (of which 60,000 MT of exports were approved, but physically the commodity is still remains in the CR).

Storage capacities currently house around 500,000 MT of grain from last year's harvest, and the SAIF, which has contracts for 800,000 MT of storage capacity, promises to empty warehouses by November 1, 2005, when farmers will begin selling grain to the intervention.

## Prices

Prices in the EU15 are higher than the intervention price of 101 Euro/MT (\$125), and farmers are motivated to sell as much grain as possible on the free market. However, Czech farmers are encouraged by the Agrarian Chamber to wait until November for intervention purchases. Farmers complain about low prices that are 2,300 and 2,500 CZK/MT (\$96-105/MT) for milling and around 2,000 CZK/MT (\$84/MT) for feed. Two Czech agricultural companies, Agrofert Holding and Agropol Group, import and export grain, own storage capacities and are animal producers. Many Czech farmers have "green loans" (loans for fertilizers, etc.) from these companies and must sell their grain to pay the bill. Also, the quality is lower and a large portion of grain cannot be offered for intervention at 101 Euro/MT in November. When farmers complain about low prices, these companies buy feed grain from Slovakia and Hungary for even lower prices.

Price of malting barley is around 3,000 CZK/MT (\$125), rapeseed 5,500 CZK/MT (\$230), milling rye 2,100 CZK/MT (\$87), and corn 2,800 CZK/MT (\$117).

## Trade

The Minister of Agriculture is advising farmers to export grain to Spain, Portugal and Italy due to the grain shortage as a result of the drought. However, high transportation costs prevent traders from making these sales. Instead farmers are opting to wait and sell grain at intervention for 101 Euro/MT in November. The Ministry of Agriculture estimates export in MY 2005/06 to be over 1 million MT with destinations being mainly neighboring countries (i.e. Germany, Poland, Austria, and Italy).

Farmers from border areas that do not have warehouses for long-term storage and worry about deteriorating quality, are selling grain to Austria and Germany for prices that are 15% higher than the domestic market.