

Voluntary Report – Voluntary - Public Distribution

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Report Name: Perfect Weather Secures a Record Winter Grains Crop

Country: Spain

Post: Madrid

Report Category: Biofuels, Grain and Feed

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Report Highlights:

After a rather dry winter, abundant precipitations and mild temperatures prevailing since mid-March significantly improved grain crop conditions and secured record yields. The COVID-19 pandemic has modified grain consumption patterns affecting food, feed, and industrial use of grains. Based on the anticipated large crop and slightly lower demand, Post pegs Spain's total grain imports at about 12 MMT, well below the nearly 17 MMT record figure registered during the previous season.

General Information:

After a rather dry winter, abundant precipitations and mild temperatures prevailing since mid-March significantly improved grain crop conditions and secured record yields. On the demand side, the pandemic has also reduced grain demand affecting food, feed and industrial use. As a result, the combination of a well above average MY2020/21 production and slightly lower demand has reduced the country's import needs to about 12 MMT, down from the 17 MMT record reached during the previous season.

Abbreviations used in this report

EU European Union

FAS Foreign Agricultural Service

IPAD International Production Assessment Division

Ha Hectares

MAPA: Ministry of Agriculture, Fisheries and Food.

MY Marketing Year

MT Metric Ton (1,000 kg)

MMT Million Metric Tons

MY Marketing Year.

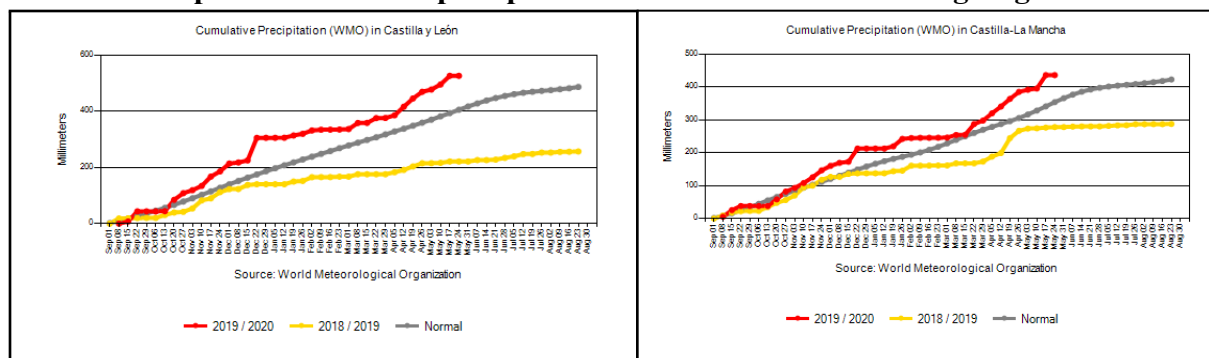
MS EU Member State(s)

TMT Thousand Metric Tons

Precipitation and Temperatures

The lack of precipitation in October 2019 delayed plantings, however timely rains in November allowed for proper planting operations. During winter, dry conditions prevailed. The long-awaited rains arrived since the beginning of the spring throughout the entire country, and secured good production levels. Rainfall registered in spring was well above last year's and well above average in Spain's main grain producing regions, such as Castile y León and Castile-La Mancha (**Graph 1**).

Graph 1. Cumulative precipitation in Main Grain Producing Regions

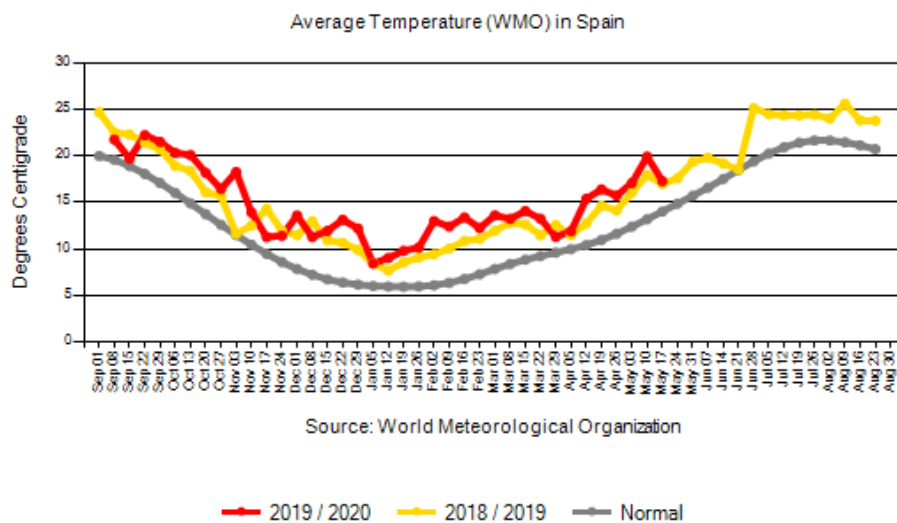


Source: IPAD/FAS/USDA.

Temperatures

Temperatures during winter grains crop were above average and sped up crop development and reduced dormancy. However, mild temperatures (**Graph 2**) since mid-March adjusted crop development to normal values. The absence of late frosts (up to May 15th) contributed to secure excellent production levels, in particular in the Northern grain growing regions, that are normally more exposed to the risk of late frosts.

Graph 2. Average Temperatures in Spain



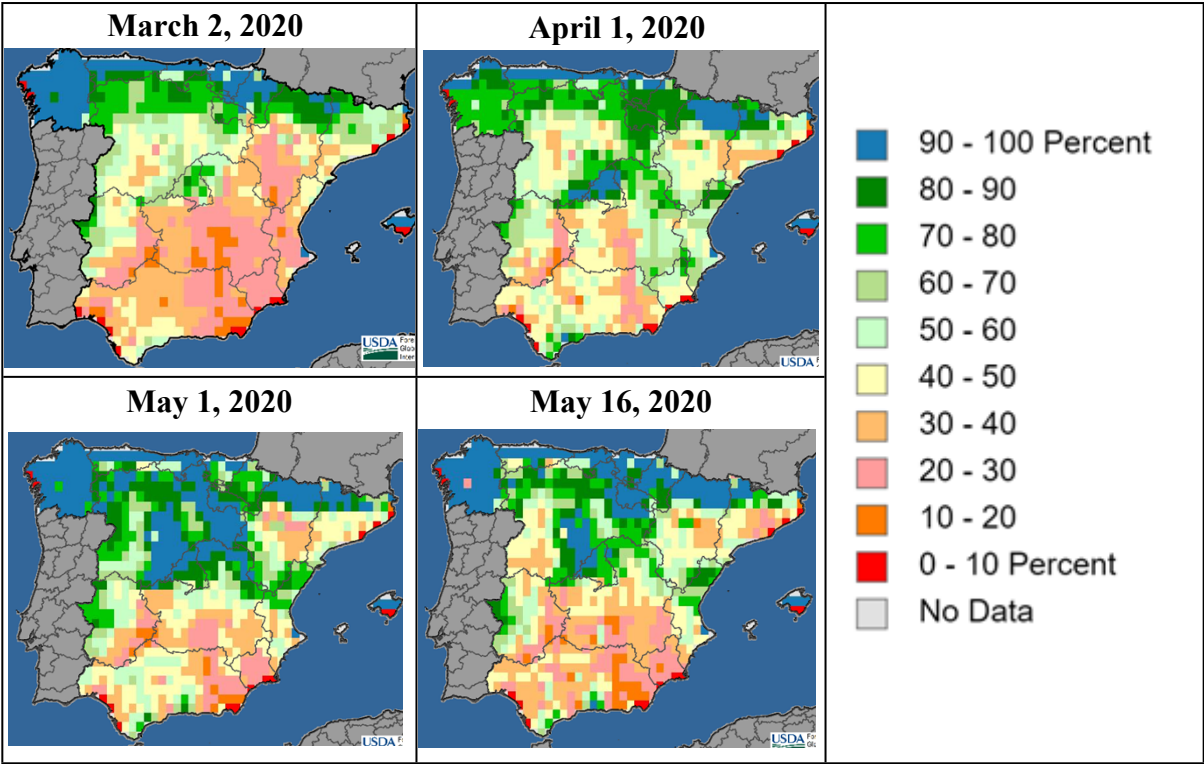
Source: World Meteorological Organization

Source: IPAD/FAS/USDA

Soil Moisture and Water Reservoirs

After a dry winter, abundant spring rainfall restored soil moisture throughout the country. Mild temperatures prevailing contributed to maintain good soil moisture conditions until mid-May, when drier and warmer weather started driving soil moisture levels down (**Graph 3**).

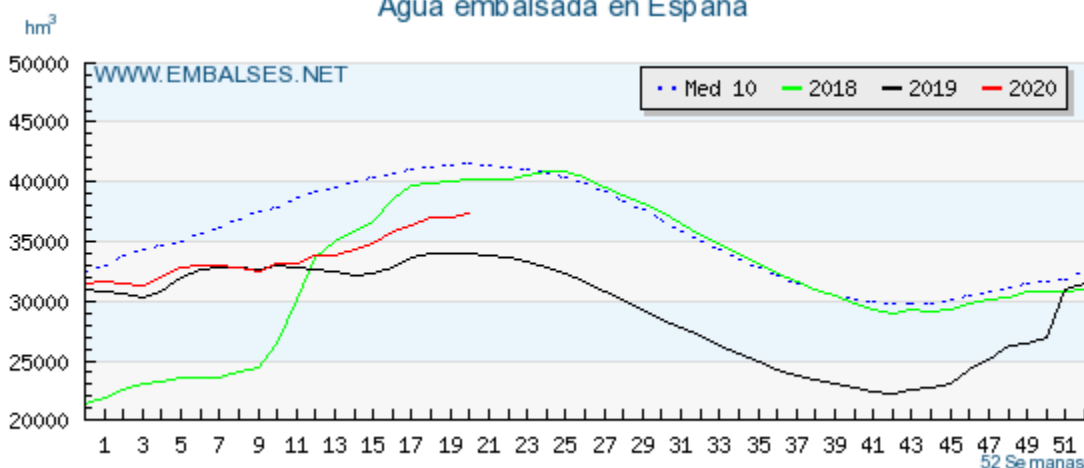
Graph 3. Soil Moisture Percentage



Source: IPAD/FAS/USDA

Spain’s total water reservoirs (**Graph 4**), are currently at 67 percent of total capacity, which equals 36,945 hm3 of stored water, 6 point higher than last year’s level (61 percent) but still well below the ten-year average (75 percent). Attending to the different grain producing regions, the Northern half basins present a higher share of storage capacity than Southern half basins. The Duero basin, located in the Northwest of the country and covering most of the Castile y Leon grain growing areas, stores nearly 88 percent of the total capacity. The Ebro basin, in the country’s Northeast, covering the grain growing regions of Aragon, Navarra and Catalonia, has 90 percent of its water storage capacity. The Guadiana basin, which supplies Castile-La Mancha and Extremadura is at 43 percent of its capacity, while Andalusia’s dams are 50 percent of capacity. In any case, with this level of water in storage, Post anticipates no limitations on irrigation practices.

Graph 4. Water Reservoirs
Agua embalsada en España



Source: Embalses.net

Planting Decisions

The total winter grain area, after a long-term decline trend with tree crops competing with arable land, has stabilized around 5.4 million hectares. Area planted to the different winter grains has remained fairly stable compared to the previous season, with the exception of durum wheat plantings, which registered an 8 percent increase. In the case of corn, despite the limited crop alternatives available, Post anticipates a decline in planted area in MY2020/21 in response to the declining world corn prices. With the exception of MY2019/20, when Spain registered marginal growth, total corn area in Spain has been declining since MY2013/14. Lower margins compared to alternative crops, and to a lesser extent, crop diversification established under EU's greening measures, account for the area decline.

Table 1. Spain's Winter Grain Area (1,000 Ha)

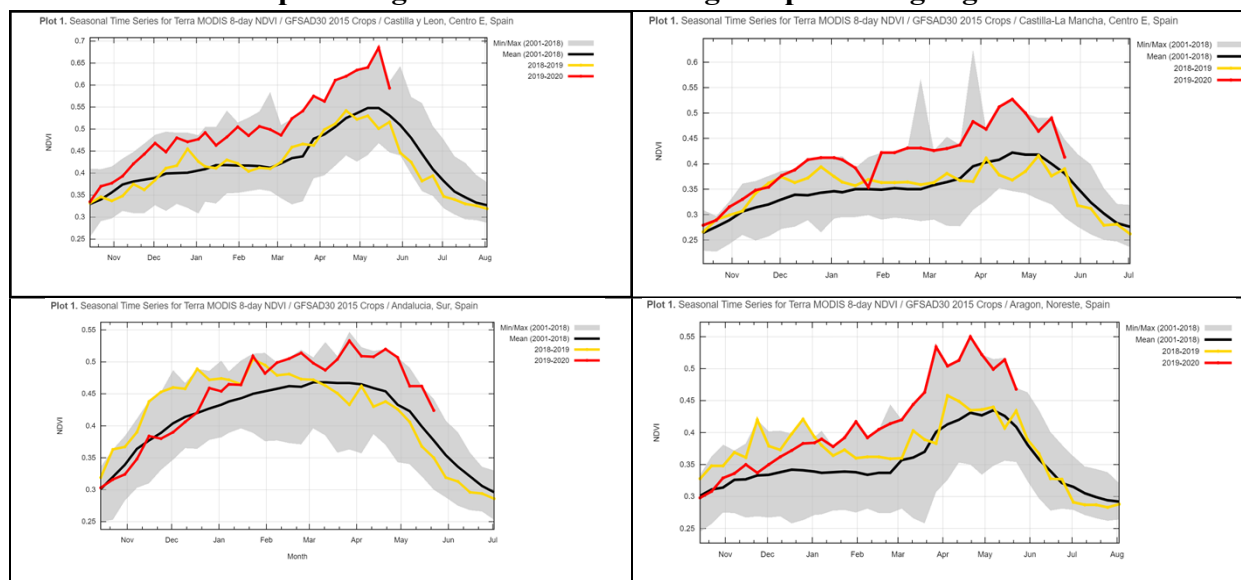
Crop	MY2016/17	MY2017/18	MY2018/19	MY2019/20	MY2020/21e
Wheat	2,256.8	2,059.2	2,061.5	1,918.5	1,928.8
Soft	1,808.7	1,641.6	1,686.9	1,652.9	1,643.1
Durum	448.2	417.6	374.6	265.6	285.7
Barley	2,563.2	2,597.5	2,569.5	2,684.3	2,682.9
Oats	509.8	558.8	556.5	463.2	482.0
Rye	155.3	108.1	136.3	135.9	139.4
Triticale	227.8	195.9	213.1	246.1	243.7
Total Winter Grains	5,712.90	5,519.5	5,536.8	5,448.0	5,476.80
Corn	359.3	333.6	322.4	357.6	345

Source: MAPA. Avance de Superficies and FAS Madrid estimates.

Crop Development

The Crop Vegetation Health Index (VHI) in Spain's major grain producing regions has been exceptional. In particular, since March when current the crop year VHI coincides with the largest VHI recorded within the 2001 -2018 historical series.

Graph 5. Vegetation index in main grain producing regions.



Source: IPAD/Foreign Agricultural Service/USDA.

Production Projections

In the absence of official estimates, industry operators (**Table 3**) concur that winter grains production will be well above last year's figure and above average levels in all growing regions. Spanish harvesting operations normally start in late May in Andalucía, and then move up north. Harvest data available from Andalucía confirm the good harvest prospects. However, it is in Andalucía where the impact of the abundant spring rainfall in boosting yields was lower, as the crop was more developed when precipitations started. The abundant precipitations when grains reached mature stages led to the presence of black-pointed and sprouted grains.

Table 3. Spain's Winter Grain Production Estimates (1,000 MT)

Crop	Cooperatives	ACCOE^p	Infomarket
Wheat	8,247	8,216	8,035
Soft	7,292	7,284.	7,048
Durum	955	932	987
Barley	11,880	11,403	10,718
Oats	1,455	1,291	N/A
Rye	450	445	
Triticale	855	860	
Total Winter Grains	22,887	22,215	N/A

Source: Agricultural Cooperatives, ACCOE (Grain Elevators Association), p: provisional data and Infomarket (Private Analyst)

In the case of corn, virtually all is grown under irrigation, hence yields are very stable. Assuming average yields, the lower corn plantings anticipated could result in a production of 3.7 MMT, which would leave a total grain crop of 26 MMT.

Consumption

With agricultural industry considered as an essential activity under Spain's COVID19 confinement measures, the grain supply chain has continued to operate normally throughout the pandemic crisis. After an initial stock-piling following the lockdown announcement in mid-March, the normal flow of goods was immediately restored in subsequent weeks. The pandemic, though, has modified grain consumption patterns affecting food, feed and industrial use.

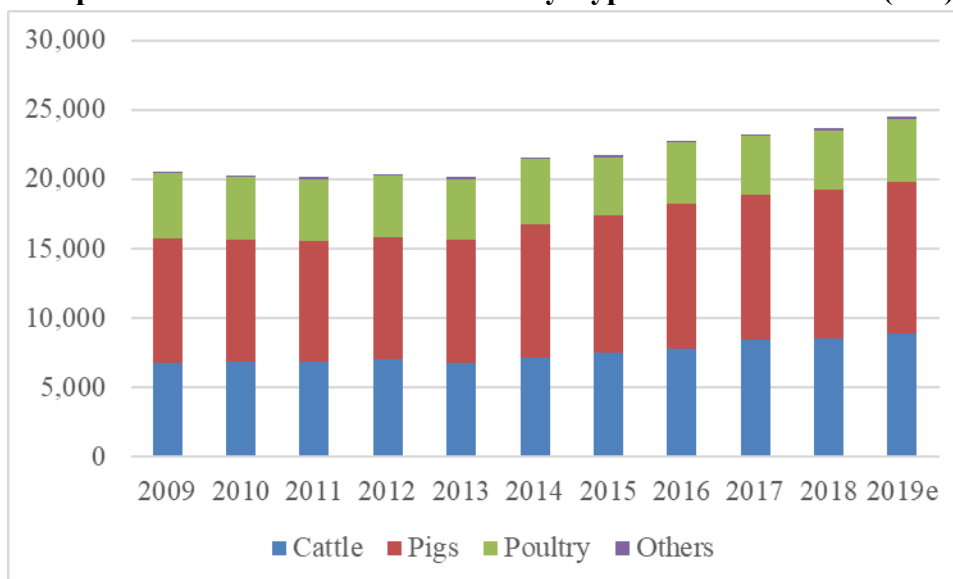
Food Use

Grain demand from the food industry is traditionally very stable. However, following the announcement of the State of Alarm, Spanish household stockpiled non-perishable foods such as flour and pasta. In the second half of March, flour millers and pasta processors witnessed a sharp increase in demand as consumers started stockpiling wheat-based products. In response, processors increased their installed capacity for the retail outlet. Notwithstanding, industry sources report that the increase in retail sales of wheat-based products represents only a small part of their sales and does not compensate for the absence of sales through hotels, restaurants, and institutions (HRI) channels and tourism. This is due not only to the lower population in the absence of tourists, but also due to the fact that household eating habits differ from consumption carried through HRI, where normally a larger share of food waste takes place. In the absence of HRI and tourist activity, total beer sales in Spain fell drastically since the beginning of the COVID-19 crisis. The increase in the retail sales did not offset the loss of sales resulting from the closure of the HRI sector. Consequently, beer production has suffered a setback. Hence, the excess supply of malting barley is being reoriented to feed uses at a discount in prices.

Feed Use

The robust feed industry is Spain's primary grain consumer. In 2019, feed production in Spain continued expanding hitting record levels (**Graph 5**) driven by the increasing demand from Spain's export-oriented livestock sector. That expansion is also explained by an increase in domestic meat consumption, as Spain continued to break tourist records. Industry sources agree that the record feed production levels registered in 2019 will not likely be repeated in 2020. On one hand, this year's ample availability of domestic pasture is reducing the need for feed compared to the previous year. At the same time, feed demand was negatively affected in the last quarter of MY2019/20, as the lack of tourists reduced in-country population, driving down the demand for animal products. Lockdown restrictions had a negative effect in the sales of seasonal, high-end and HRI-dependent livestock products. Conversely, the export-oriented animal production coped better with movement restrictions.

Graph 5. Feed Production Evolution by Type - CY 2009 - 2020 (MT)



Source: FAS Madrid based on FEFAC data and FAS Madrid estimates.

The recovery pace for the consumption of food grain-based products and feed is directly linked to the recovery of the HRI and tourism sectors' activity. On the onset of MY2020/21, the phase-out of COVID-19 confinement restrictions may prompt a recovery of the HRI channel. Until the flow of foreign tourism is fully restored, the reduced population will continue driving internal demand down. In addition, an economic slowdown affecting consumers' disposable income is already shifting consumer preferences to cheaper animal products.

For additional information in the Spanish Livestock situation, see Post's latest [Spanish Meat Sector Update](#) GAIN report.

Industrial Use

With all other production incentives phased out, the size of the Spanish bioethanol market depends on consumption targets and overall fuel consumption. At the moment, there are three grain-based bioethanol facilities in Spain, whose total grain consumption amounts to just over 1 MMT. Favorable market conditions allowed these plants operating beyond nominal capacity in 2018 and 2019. The pause in economic activity following the State of Alarm declaration in March reduced expectations for fossil fuel consumption. This decline was more significant in gasoline numbers compared to diesel. Gasoline is mainly used in private vehicles while diesel is largely used in public transportation and the transport of goods, activities that were considered essential during the lockdown.

Spain-based bioethanol facilities have managed to cope with the impact of COVID-19 and keep a large rate of utilization capacity, by delivering ethanol for medical purposes. Considering 2020 as a whole, the evolution of fossil fuels consumption in Spain will depend on the length and depth of the confinement measures, the post-pandemic evolution of economic activity and change in consumer behavior. The post-pandemic scenario may open up additional market opportunities for bioethanol if consumers' preference for individual transport modes materializes. Throughout 2020, corn is anticipated to remain the sole feedstock used by the Spanish grain-bioethanol industry.

Trade

The combination of highly variable winter grains yields and a comparatively large livestock sector positions Spain as the EU largest grain importer. On average years, Spain needs to import 13 MMT of grains to make up for its grain deficit. In MY2019/20, the volume of imports hit record levels with an estimated imports volume of 17 MMT, despite the ample availability of pasture and weaker demand during the second half of the marketing year. Early estimates for MY2020/21, indicate that, considering the projected larger crop and the somewhat reduced consumption expectations, Spain's total import may settle at about 12 MMT.

Spain has a structural shortfall of all grains except for durum wheat. In MY2020/21, the larger durum wheat harvest could result, in principle, in a bigger exportable supply. However, export opportunities will depend on the crop's ability to meet minimum quality specifications. Other EU Member States, such as Italy, Portugal, France, and non-EU destinations, such as Turkey and Tunisia, absorb the majority of Spanish durum wheat exports. If the sizeable barley crop for MY2020/21 is confirmed and the downwards price trend consolidates, Spain may reach a tipping point and become a net exporter of this feed quality grain. In addition to trade within the EU, other destinations for Spanish barley would include North Africa and the Middle-East countries. In spite of barley exports materializing, Spain's MY2020/21 barley ending stocks could close at 2 MMT.

Policy

The pandemic-related collapse of U.S. corn prices, along with low freight costs, triggered additional EU grain import tariffs, as established under EU [Regulation 642/2010](#). The import duty is calculated based on the difference between a European reference price and the price in the United States calculated as CIF maize price (i.e. cost, insurance and freight included) at the port of Rotterdam. [Commission Implementing Regulation \(EU\) 2020/573](#) introduced a €5.27 import duty to corn, sorghum and rye, applicable between April 27th and May 3th. Since May 4th, the duty increased to €10.40 under [Commission Implementing Regulation \(EU\) 2020/615](#).

Attachments:

No Attachments.