United States Department of Agriculture
Foreign Agricultural Service

GAIN
Global Agricultural Information Network

Voluntary Report – Voluntary - Public Distribution **Date:** June 24, 2022

Report Number: SP2022-0017

Report Name: Spanish Grain Supply Chain Shows Resilience in Challenging Times

Country: Spain

Post: Madrid

Report Category: Biofuels, Grain and Feed

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Report Highlights:

For MY2022/23, initially good crop prospects after the abundant rains in April were negated by above average temperatures registered in May and June. In-country grain demand remains relatively stable, driven by the recovery of the tourism sector, despite the somewhat lower livestock products exports and the grain prices hike. This season, access to Brazilian safrinha corn will be particularly critical to make up for the shorter domestic crop and the grain supply disruption created by Russia's invasion of Ukraine.

Abbreviations used in this report

EU European Union
FAS Foreign Agricultural Service
IPAD International Production Assessment Division
Ha Hectares
HRI Hotels, Restaurants, and Institutions
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)
TDM Trade Data Monitor
TMT Thousand Metric Tons

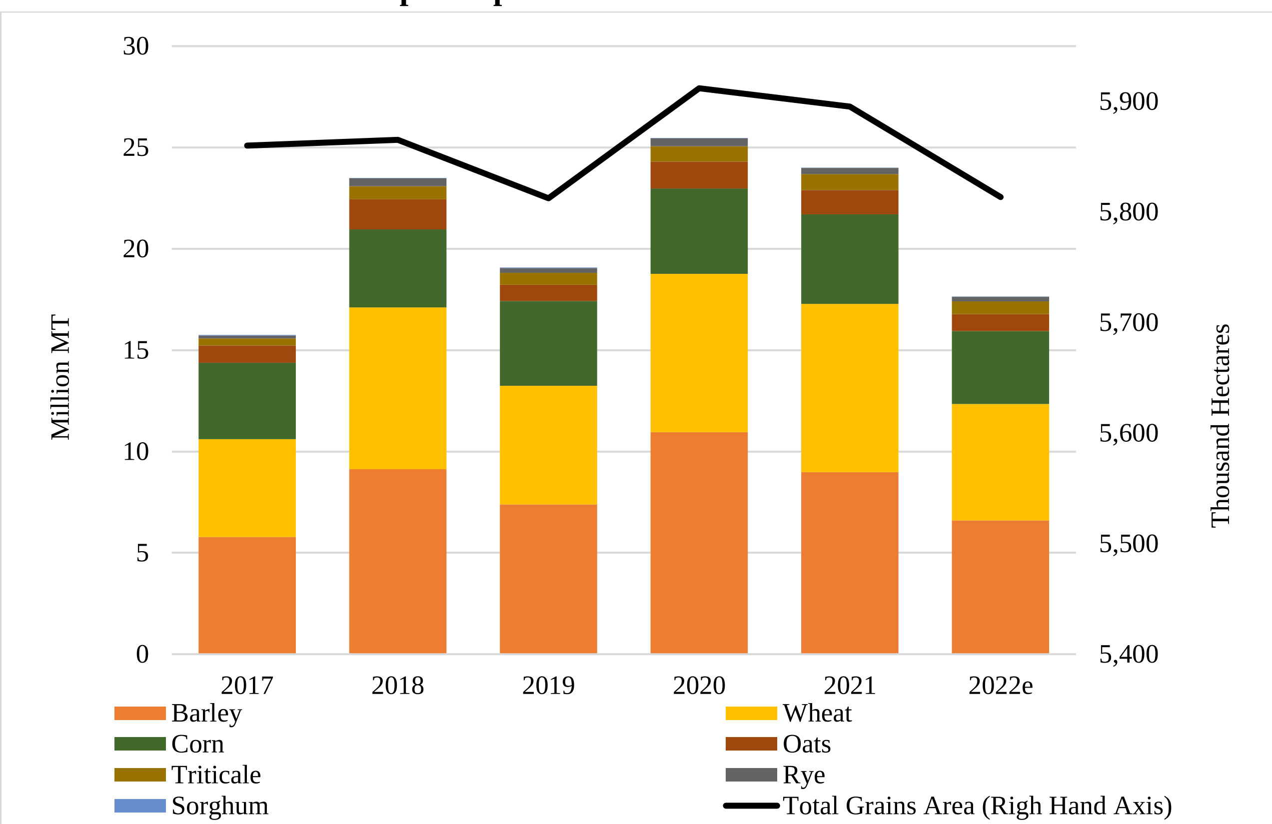
Note: Ukraine is one of the Spain's top suppliers of grains. Since February 24, 2022, Russia's invasion of Ukraine has significantly impacted Spain's trade flows, creating a volatile situation forcing Spain-based importers to seek alternative origins. Despite the different efforts deployed to facilitate Ukranian exports of grains, forecasts in this are based on the assumption of limited wheat and corn export availability from Ukraine this year.

Area and Production

Area statistics available reflect the continuation of the long-term decline trend and is expected to amount to just below 5.8 million hectares. Winter grain crops in Spain compete in area with more profitable tree crops (tree nuts, olive groves) and alternative annual crops such as rapeseed, which registered historically record levels, or pulses (lentils and chickpeas) whose area expanded in 2022.

In the case of corn, which is largely grown under irrigation, the higher input costs (energy and fertilizers) combined with irrigation water limitations in certain river basins has forced area down. For instance, farmers in the Guadalquivir basin (Andalucía), for the second consecutive year, face limits for irrigation purposes in crops such as cotton, corn, and rice, whose area has reportedly been halved in this autonomous region. Moreover, competition by less input-intensive and highly demanded sunflower plantings, both in irrigated and non-irrigated land, has resulted in what Post estimates as a 12 percent grain-corn area reduction compared to the previous marketing year.

Graph 1. Spain Grain Area and Production



Source: FAS Madrid estimates and MAPA data.

With winter grains harvest operations well-advanced, Spanish total grain production (including winter grains and corn) in MY2022/23 is anticipated to decline significantly from the sizeable crops achieved in the close to record MY2021/22 season when a sizeable crop was harvested. In the case of corn, which is largely grown under irrigation, the production reduction stems from the 12 percent decline in planted area, which could lead to a grain corn production of 3.6 MMT. In absence of official estimates, industry sources (Table 1) concur that winter grains production will be well below last year's figure and average levels in all growing regions. Spain's MY2022/23 total grain output, including corn, could be as low as just 17.6 MMT.

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

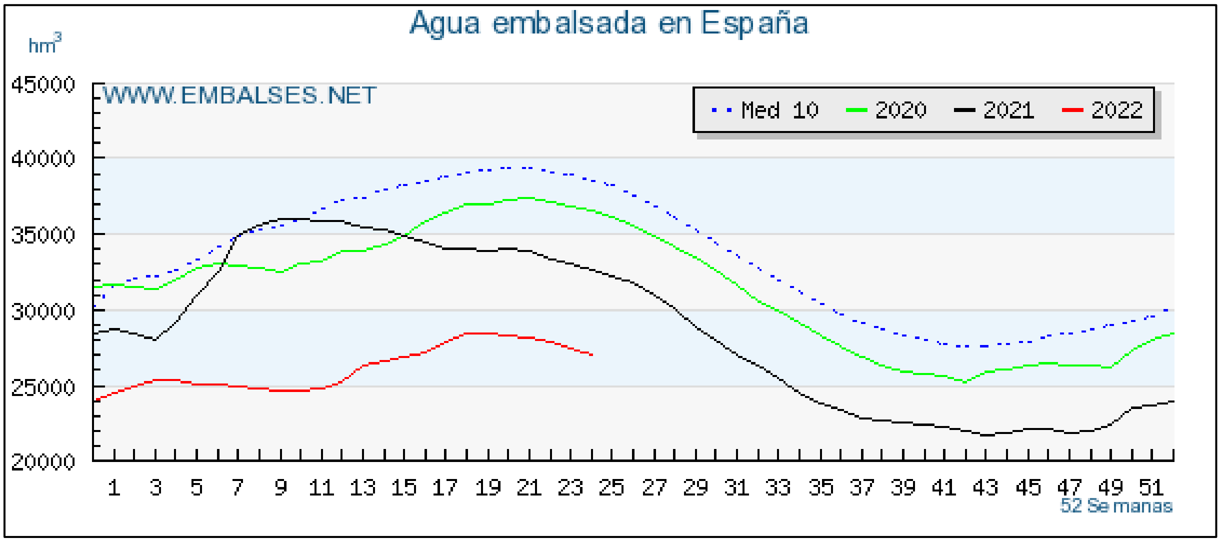
Crop	COCERAL	Cooperatives	ACCOE	ASAJA	Infomarket
Wheat	7,942	5,733	5,675	5,900	5,673
Soft	7,177	5059	5,097	5,300	5,061
Durum	765	674	578	600	612
Barley	9,774	6,607	7,220	7,600	7,134
Oats	1,262	839	901	1,000	-
Rye	378	228	283	300	-
Triticale	792	626	628	600	-
Total Winter Grains	**20,148**	**14,033**	**14,708**	**15,400**	**N/A**

Source: COCERAL, Agricultural Cooperatives, ACCOE (Grain Elevators Association), ASAJA (Young Farmers Union) and Infomarket (Private Market Analyst)

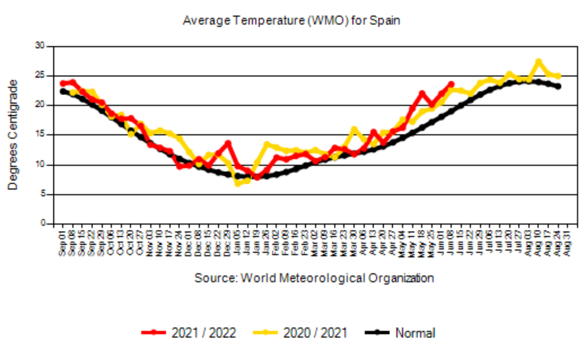
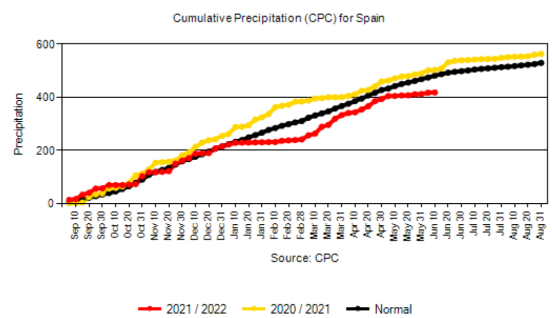
Weather Conditions and Crop Development

Abundant precipitation in April offset the dry fall and winter conditions, improving yield expectations, except for southern growing regions where yields were already compromised. Spring precipitation also contributed to replenish water storage levels in dams (Graph 2), which are currently at just below 50 percent of total storing capacity, well below the previous year's availability and the ten-year average. However, above average temperatures and dry conditions prevailing in May reduced grain specific weight, deteriorating yielding potential in the central part of the country. The extremely hot temperatures registered in June have been detrimental for the northern half of the country, where most of Spain's winter grains are produced.

Graph 2. Water Reservoirs

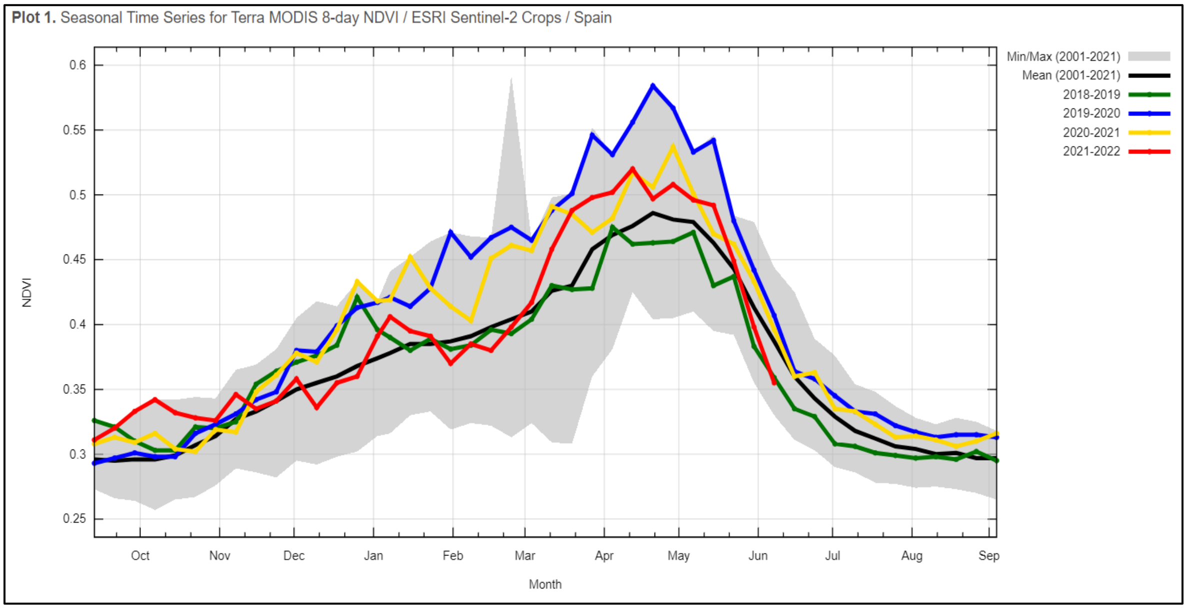


Source: Embalses.net

Graph 3. Average Temperatures	**Graph 4. Cumulative Precipitation**
	
Source: IPAD/FAS/USDA	Source: IPAD/FAS/USDA

The Normalized Difference Vegetation Index (NDVI) for the MY2022/23 crop in Spain (**Graph 5**) showed a close to average condition until May, when it deteriorated below the ten-year average. As of June, the NDVI is below the poor level registered in 2017, when dry and warm weather lowered yields expectations (See GAIN Report SP1714).

Graph 5. Vegetation Index Evolution



Source: IPAD/FAS/USDA

Consumption

Spain's total grain consumption in MY2022/23 is currently projected at 34.5 MMT, down from the over 36 MMT estimate for MY2021/22. The country's grain users are struggling with the commodity prices surge initiated in the second half of 2021 and aggravated by Russia's invasion of Ukraine in February 2022 and soaring energy costs. However, in MY2021/22 only slight downward corrections are being reported.

Feed: Animal feed is Spain's primary grain destination, accounting for over 75 percent of the country's demand. Spain's feed compounders supply the dynamic domestic livestock sector. Livestock products demand hinges on the evolution in export markets demand, led by other EU Member States and China, as well as internal household and Hotel, Restaurants, and Institutions (HRI) demand. In MY2022/23, if the tight market situation continues, shrinking livestock producers' margins could ultimately result in demand destruction, pressuring grain feed uses down. However, limited pasture availability is another factor that supports the stability in feed demand. Spain's Feed Compounders Association (CESFAC) anticipates a 4 percent reduction in industrial feed production in CY2022.

In MY2021/22, trade data available until April 2022 indicate that Spain's total meat exports[1] have declined by 6 percent. Interestingly, according to Spanish official data, in MY2021/22, in-country total slaughter-based meat expanded by 2 percent until March 2022. MY2021/22 official data reveal that breeders continue their preference for slaughtering animals at lower weights to avoid the extra cost that the latest live weight gain entails initiated in MY2020/21.

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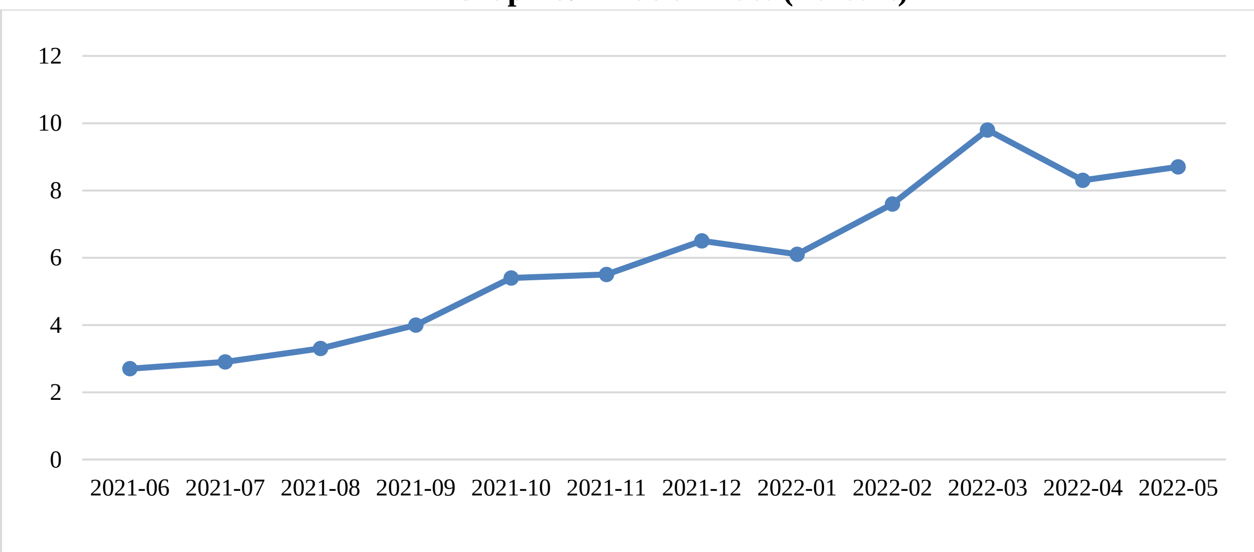
[1] Under HS Code: Chapter 02.

For additional information regarding Spain's livestock sector, please consult the latest [Spain's Livestock Report](#).

In terms of preferred type of grain, given the price differential, wheat is anticipated to see its competitiveness eroded against corn, which is anticipated to remain the preferred grain for feed purposes.

Food: Tourism figures are approaching pre-pandemic levels, allowing for an increased activity of the hospitality sector as public-health related restrictions are lifted, which would favor in-country consumption of grain-based foods (pasta, bread), drinks (beer), and livestock products. In April 2022, visitors amounted to 6.1 million, close to the 7.1 million registered in the same month of 2019. Notwithstanding, inflation is affecting food prices and may negatively affect consumption, which may ultimately favor building preference for grain-based over meat-based diets.

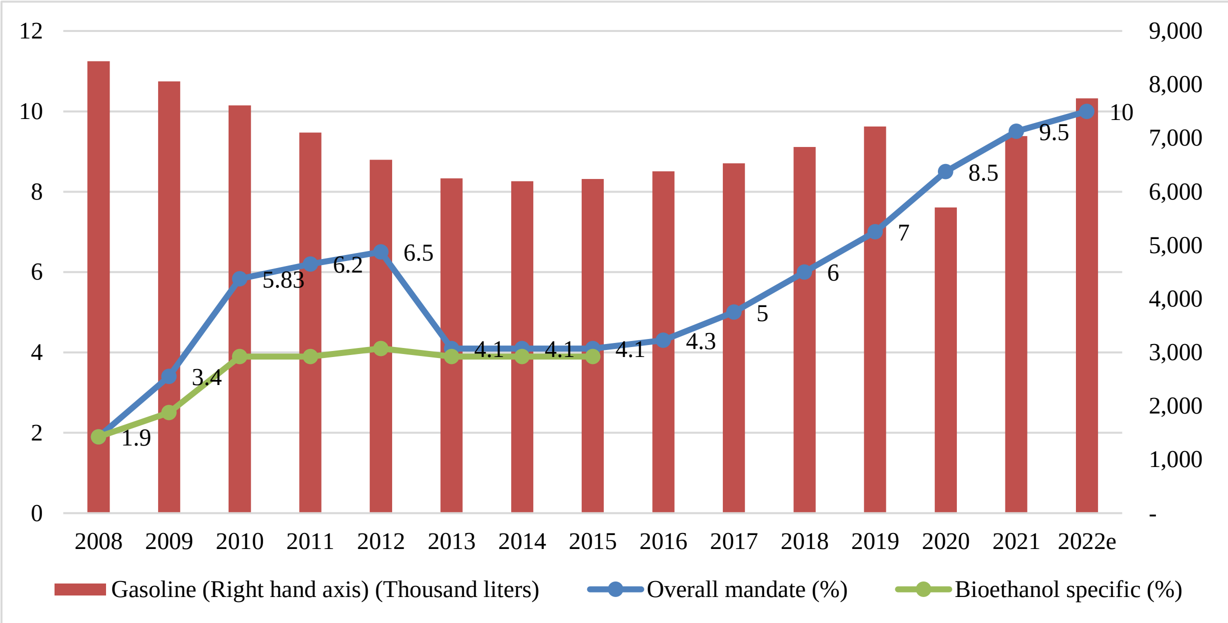
Graph 6. Inflation Rate (Percent)



Source: FAS Madrid based on National Institute of Statistics (INE).

Bioethanol: In 2022, bioethanol production in Spain should remain strong in response to the expanding consumption mandates and the recovery in the domestic gasoline pool (See Graph 7), in spite the soaring grain and gasoline prices. Bioethanol production in MY2022/23 hinges on the continuation of high energy and corn prices, which have the potential to ultimately erode bioethanol producer margins, as well as demand evolution (gasoline pools and consumption mandates) in domestic and export markets.

Graph 7. Spain Gasoline Consumption and Mandates (Percentage in terms of Energy)



Source: FAS Madrid based on CORES data and Ministerial Order ICT/2877/2008. Ministry of Energy, Tourism and Digital Agenda and Royal Decrees 1738/2010 and 459/2011 and Royal Decree-Law 4/2013 and Law 11/2013, Royal Decree 1085/2015 on biofuels promotion and Royal Decree 205/2021.

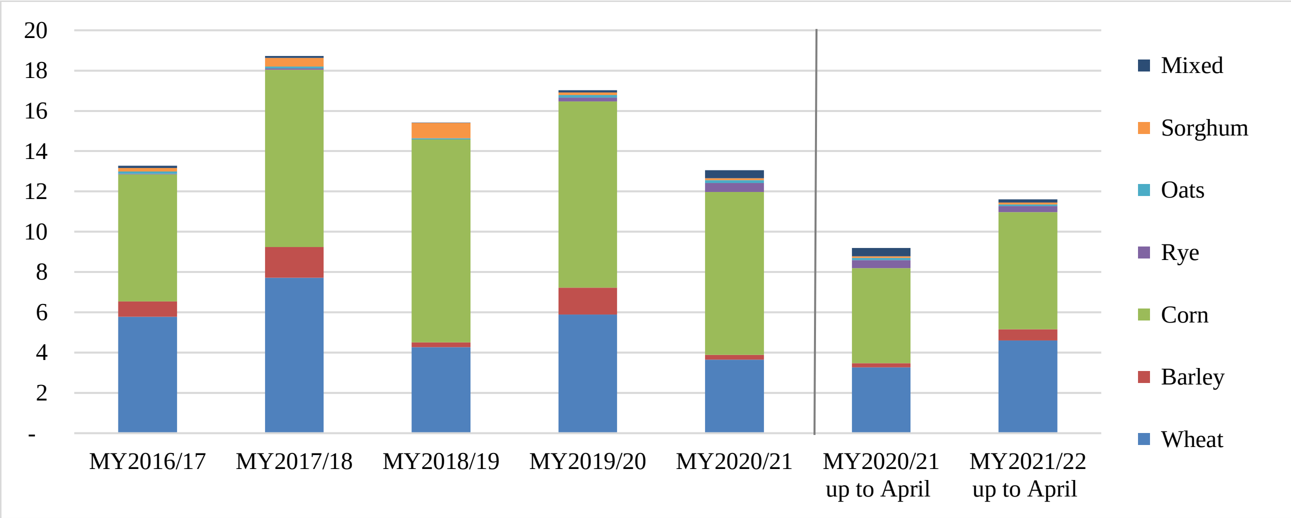
Additional information regarding EU's Bioethanol Sector is available in the latest EU Biofuels Report and in the latest Biofuel Mandates in the EU by Member State Report and Spain Biofuel Policy and Market.

Trade and Stocks

The combination of the previous season's ample domestic supplies, somewhat higher volumes imported during the first half of the MY2021/22 (See Graph 8), and timely U.S. corn and sorghum imports[2] helped Spanish feed chain compounders cushion the negative impacts of the constraints affecting the other large grain suppliers, such as Ukraine, in the spring.

[2] To date, 86,900 MT of U.S. sorghum and 528,500 MT of U.S. corn imports to Spain have been reported.

Graph 8. Spain's Grains Imports and Production (MMT)[3]



Source: FAS Madrid based on Trade Data Monitor LLC data.

Demand contraction in MY2022/23 could partially negate the need for larger grain imports given the well-below average in-country grain crop anticipated. Spain's grain imports are currently forecast at 15 MMT, down from the over 18 MMT imported in MY2017/18, when high consumption levels and poor in-country grain yields coincided. In MY2022/23, Spain's grain imports may be affected by the looming prospects regarding Ukraine's grain exports arriving in western EU destinations, concerns over other EU Member States' grain production, and the shorter domestic crop anticipated. Consequently, Brazilian *safrinha* corn supplies in summer will be particularly critical in the transition to the new Northern Hemisphere corn crop.

Attachments:

No Attachments.

[3] All grains MY run July – June, but corn, which runs October-September.