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Report Highlights:

Post increases its 2002 total grain production estimate to 77 million metric tons, with feed quality wheat expected to occupy the greatest share of output. Although domestic Russian prices are low and competitive with world prices, total exports are not expected to notably increase over last year's, as infrastructure and trade barriers will constrain trade.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Summary

Post increases its total grain production estimate for Russia to 76.8 million metric tons (mmt). Wheat will again be the major crop, and most of the estimated 44.0 mmt of output is expected to be class four or lower. Feed quality wheat exports will be stimulated by extremely low prices, but limited port capacity will keep trade at just over last year's level. Russia will have a surplus of milling wheat, but more demanding international quality standards and price uncertainty will limit trade opportunities. For these reasons, Post forecasts Russian total wheat exports at 3.7 mmt, the same level as MY 2001. Given a surplus of rye, Russia should export a limited quantity in MY 2002. The corn production forecast is held at 1.0 mmt, but an abundance of cheap feed quality wheat will dampen demand for corn imports; Post forecasts trade at 600,000 metric tons, only 50,000 mt more than in MY 2001.

Production

Russia's latest official grain production forecast ranges from 75 to 77 mmt, although some market experts foresee output exceeding 83 mmt. The Russian Federation's Ministry of Agriculture reports that as of September 2 over 61 percent of planted area was harvested and that the harvest bunker weight has already reached 68 mmt. As of that date, the average yield is 2.31 tons per hectare.

By federal district, the harvest is progressing as follows: in the Southern Federal District, some 26 mmt have been collected, with the harvest almost completed, except for corn; in the Volga Valley Federal District 20.6 mmt have been taken from the nearly-completed harvest; in the Central Federal District the corresponding figure is 16.6 mmt. In contrast, the Ural district reported that less than 1.0 mmt of grain has been harvested from 0.5 million hectares (13 percent of sown area), and in the Siberian district, about 3.1 mmt has been harvested from 1.8 million hectares.

A week-long delay in harvesting in the Ural and Siberia regions is due to late grain ripening this year. In some areas of Siberia, farmers are afraid that the grain will not be ready for harvesting before fall frosts. As the harvest moves to the east, grain yields are expected to decrease. Therefore, output in Ural region is forecast lower year-to-year. Harvesting in Siberia is expected to be completed only in the beginning of October. The fields look good, but good weather in West Siberia is mixed with rainy days, and harvesting will therefore be more difficult than in European Russia. There is a shortage of combines, but as the harvest in European Russia is almost over, these shortages may be compensated to some extent by moving some harvesters in from the west. Early prospects for the grain crop in West Siberia remain good. According to the RosHydromet, September is the optimal time for winter grain planting in the Southern Federal District, and in most parts of this district (except for Southern part of Volga), the level of moisture in the soil estimated as good or normal after good rains in August.

Post increases its MY 2002 grain crop production estimates to 76.8 mmt, including 44.0 mmt of wheat, 16.5 mmt of barley, and 6.6 mmt of rye.

Prices

Talk of the second large grain crop in a row has pushed domestic procurement (elevator) prices down to an average of 2,200 Rubles (\$70) per metric ton of milling (Russian class III) wheat, 900 Rubles (\$28.6) per metric ton of rye, and 1,300 Rubles (\$41.3) per metric ton of fodder barley. The average price of feed quality wheat is fluctuating between 800 Rubles to 1,100 Rubles (\$25 - \$35) per metric ton depending on the quality and location of the farm. These low prices often do not cover the cost of production, especially at farms with yields lower than 1.9-2.0 tons per hectare.

Domestic Feed Consumption

Post estimates that domestic feed consumption of grain in MY 2002 will increase to 35.0 mmt from 31.6 mmt in MY 2001. However, this 11 percent increase will not result in a corresponding expansion of domestically produced animal products, because most of this grain will be used on farms where livestock operations are saddled with low grain conversion efficiency.

Trade

Post forecasts that total grain exports from Russia will increase to almost 6.3 mmt from 5.92 mmt in MY 2001. Wheat exports will remain at last year's level, with the overwhelming volume of that trade expected to be feed quality wheat. Barley exports (fodder barley) are forecast to increase to 2.5 mmt. According to sources, most export port terminals already have contracts for storing and handling grain equal to their operating capacity. Grain is shipped mostly from the grain producing oblasts of the Southern and Central Federal districts, and owing to the low purchase price of feed wheat, currently around 1,100-1,200 R per metric ton (\$35-38), exporting companies are able to use expensive reloading of grain from small vessels loaded on the Don river to ocean ships in the Azov and Black sea. A significant portion of grain is exported by international grain trading companies, which are more comfortable in the international grain markets, and can fully exploit the advantages of low domestic prices. In spite of high transportation and handling costs and the present wheat import limitations imposed by the EU, Russian exports are forecast to be destined mostly for middle Asian and North African countries, although traders are actively searching for other markets.

Policy

On August 29, 2002 Prime Minister Kasyanov held an inter-ministerial meeting on the issue of stabilization of the grain market, and the decision was made to conduct grain purchase interventions in the milling wheat and rye markets. The details of these interventions and sources of financing will be discussed and approved on September 19, 2002 at a meeting of the Government of the Russian Federation devoted to the development of the Russian grain market in 2003-2007. The interventions are supposed to start in the beginning of October, 2002.

According to Deputy Prime Minister Gordeyev, 6-7 billion rubles (\$190 million - \$220 million) will be needed for wheat and rye interventions, and the minimum milling wheat procurement price (class III wheat) will be 2,300 R (\$73) per metric ton. The presence of the First Deputy Chairman of the Central Bank of Russia along with representatives of Ministry of Finance, Ministry of Economic Development and Trade and Rosselkhozbank at the discussion supports the rumor that this year's scheme of grain purchase interventions will avoid the use of additional federal budget allocations, but will use credit from the Central Bank of Russia passed through Rosselkhozbank.

Wheat

Post increases its 2002 wheat production forecast to 44.0 mmt. The last verified official data for area sown to wheat were 25.8 million hectares, including 10.1 million hectares sown to winter wheat (18 percent more than in MY 2001), and 15.7 million hectares sown to spring wheat (three percent more than in MY 2001). In spite of the EU's import restrictions, limited Russian port export capacity and the high percentage of feed quality wheat, Russian traders are preparing to export at least the same quantity as last year.

With traders acting on weak domestic prices, available grain holding facilities at both export terminals and inland elevators were quickly filled. Most of this grain is destined for export. For these reasons, Post sets its wheat export forecast at 3.7 mmt. Post forecasts that wheat imports, at 400,000 metric tons, will be lower than in MY 2001. According to specialists, there will be enough class three wheat (plus some class four wheat that could also be milled) to meet domestic food consumption requirements. Nevertheless, most wheat will be class three (which, according to Russian standards, may be used as milling wheat without additives) or lower. Feed consumption will increase, but this consumption is limited by the slow growth of the livestock sector.

The Russian Grain Inspection Service reported that as of mid August, 60 percent of inspected wheat from the 2002 crop has been milling quality. The share of milling wheat is lower than the last year, but the actual amount of available milling wheat will be equal to or more than in MY 2001. Specialists opine that average crop quality and yields will be drawn downward as the harvest continues eastward.

Table 1. Wheat Supply and Distribution

PSD Table						
Country:	Russian Federation					
Commodity:	Wheat					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	23200	23200	23800	23800	24900	24900
Beginning Stocks	1200	1200	1400	1400	7100	7100
Production	34450	34450	46900	46900	41000	44000
TOTAL Mkt. Yr. Imports	1604	1604	500	500	1000	400
Jul-Jun Imports	1604	1604	500	500	1000	400
Jul-Jun Import U.S.	45	45	0	0	0	0
TOTAL SUPPLY	37254	37254	48800	48800	49100	51500
TOTAL Mkt. Yr. Exports	696	696	3700	3700	2500	3700
Jul-Jun Exports	696	696	3700	3700	2500	3700
Feed Dom. Consumption	11500	11500	14000	14000	15000	16000
TOTAL Dom. Consumption	35158	35158	38000	38000	39000	40100
Ending Stocks	1400	1400	7100	7100	7600	7700
TOTAL DISTRIBUTION	37254	37254	48800	48800	49100	51500

Barley

The latest data on area sown to barley are 10.4 million hectares, 240,000 hectares more than in MY 2001. Post increases the barley output estimate to 16.5 mmt, but decreases barley exports to the MY 2001 level of 2.5 mmt.

Table 2. Barley Supply and Distribution

PSD Table						
Country:	Russian Federation					
Commodity:	Barley					
		2000		2001		??
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	9200	9200	10200	10200	10100	10100
Beginning Stocks	289	289	1529	1529	4629	4679
Production	14100	14100	19500	19500	16000	16500
TOTAL Mkt. Yr. Imports	413	413	200	200	350	200
Oct-Sep Imports	346	346	200	200	350	200
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	14802	14802	21229	21229	20979	21379
TOTAL Mkt. Yr. Exports	573	573	2350	2200	2800	2500
Oct-Sep Exports	1031	1031	2300	2200	2800	2500
Feed Dom. Consumption	8800	8800	9950	9950	10500	10600
TOTAL Dom. Consumption	12700	12700	14250	14350	15300	15400
Ending Stocks	1529	1529	4629	4679	2879	3479
TOTAL DISTRIBUTION	14802	14802	21229	21229	20979	21379

Corn

Post's corn production forecast is held at 1.0 mmt, largely because of the smaller area sown to corn and unfavorable growing conditions. Domestic corn feed consumption will grow, but at a slower pace than originally forecast, because very low domestic feed wheat prices stimulate poultry, pig and milk producers to use wheat instead of more expensive corn in feeding rations wherever it is possible. Increased industrial consumption of corn (starch, syrup, glucose for confectionary industry) reported by specialists will be covered by corn imports. The forecast high corn crop in Ukraine may be the source of most of these imports.

Area sown to corn for grain in MY 2002 was 124,000 hectares lower than in MY 2001, and is officially reported at 765,000 hectares.

Table 3. Corn Supply and Distribution

PSD Table						
Country:	Russian Federation					
Commodity:	Corn					
		2000		2001		??
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	800	800	700	700	750	750
Beginning Stocks	471	471	199	199	99	99
Production	1550	1550	800	800	1000	1000
TOTAL Mkt. Yr. Imports	179	179	550	550	800	650
Oct-Sep Imports	150	150	800	800	600	650
Oct-Sep Import U.S.	26	26	0	0	0	0
TOTAL SUPPLY	2200	2200	1549	1549	1899	1749
TOTAL Mkt. Yr. Exports	1	1	0	0	0	0
Oct-Sep Exports	1	1	0	0	0	0
Feed Dom. Consumption	1500	1500	1050	1050	1300	1150
TOTAL Dom. Consumption	2000	2000	1450	1450	1800	1650
Ending Stocks	199	199	99	99	99	99
TOTAL DISTRIBUTION	2200	2200	1549	1549	1899	1749

Rye

The area sown to rye this year is reported to be 5.5 percent higher than in MY 2001. Given the low prevailing prices, and prospects for rye purchase interventions, Post increases its forecast end of year rye stocks, and expands exports to 50,000 metric tons.

Table 4. Rye Supply and Distribution

PSD Table						
Country:	Russian Federation					
Commodity:	Rye					
		2000		2001		??
	Old	New	Old	New	Old	New
Market Year Begin		7/2000		7/2001		7/2002
Area Harvested	3500	3500	3600	3600	4000	4000
Beginning Stocks	200	200	293	293	1088	1088
Production	5450	5450	6600	6600	6500	6600
TOTAL Mkt. Yr. Imports	193	193	0	0	0	0
Oct-Sep Imports	63	63	0	0	0	0
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	5843	5843	6893	6893	7588	7688
TOTAL Mkt. Yr. Exports	0	0	5	5	5	50
Oct-Sep Exports	0	0	5	5	5	50
Feed Dom. Consumption	1200	1200	1400	1400	1600	1600
TOTAL Dom. Consumption	5550	5550	5800	5800	6000	6055
Ending Stocks	293	293	1088	1088	1583	1583
TOTAL DISTRIBUTION	5843	5843	6893	6893	7588	7688