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Report Highlights:

Post leaves its estimate for total MY2003/04 production at 67 million metric tons (mmt), but lowers the share of wheat. Post increases its export estimate to 6.3 mmt based on a strong first quarter. Food grain supply will be stable, but prices for both grain and bread will remain high.

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Production

Post has left its previous total grain crop estimate for MY 2003/04 at 67 million metric tons (mmt). MinAg reported that as of October 20, 2003 ninety-seven percent of total area was harvested and the crop in bunker weight amounted to almost 73 mmt. Warm and predominantly dry weather in the Volga Valley, the Urals, and Siberia at the end of September and into October reduced losses during fall harvesting and resulted in some overall improvement in the total crop. However, most experts and various regional sources continue to estimate the crop at no more than 70 mmt in bunker weight, or 65-66 mmt in clean weight.

Post decreases its estimate of the wheat crop to 34.3 mmt based on MinAg's report that as of October 16, 2003, 35,141 metric tons of wheat were threshed meaning it is not possible to thresh enough by the end of the harvest to reach 35 mmt. Post's barley production forecast remains unchanged at 15.8 mmt, and corn crop production forecast is raised to 1.3 mmt. Post forecasts rye production at 6.5 mmt, oat production at 5.2 mmt, and rice production at 0.6 mmt. Production of other crops is forecast at 3.3 mmt, 800,000 metric tons higher than last year.

Grain production estimates in regions.

The final crop will be very difficult to accurately estimate even after the harvest is completed for two reasons. First, farmers are likely to underestimate their crop as an attempt to hold onto it and sell it later for a higher price. Second, regional and oblast officials in general tend to inflate yields and harvest results. Post has included some examples from recent travels in the text below.

Diversity of grain crop conditions and output at the oblast level

Post was told by farmers in one Volga Valley oblast that there would be enough grain to cover both the food needs of the oblast and some sales to outside areas. Even with this, the crop is expected to be lower than last year, although oblast officials have reported the contrary. The crop situation also varies from region to region in any one oblast. For example, on the right bank of the Volga, where traditionally the winter wheat crop is large, losses are quite significant and rains resulted in quality deterioration in the spring wheat. However, on the left bank of the Volga, winter wheat production traditionally is not very large, but this year losses were not significant and the quality of spring grain is also higher. Post has heard that some farmers postponed harvesting winter grains because they thought the yields would be much lower than that of spring grain which was ready to be harvested at almost the same time. These farmers harvested spring grain over winter and now, when the spring grain harvest is over, are threshing for forage what is left on the winter grain fields.

Grain prices and storage

Post heard complaints that farmers are not willing to sell their crop, that they do not have livestock anymore, and use cowsheds for winter storage. Storing grain in this way deteriorates the quality but allows farmers to keep it for a longer period hoping for better prices. One elevator manager told Post that farmers are selling class three wheat at 4,000-4,200 R per metric ton (\$135-140), almost twice last year's price and that offers for this class of wheat are very small. This year it is also difficult to find class four wheat, the main crop of this oblast last year. Class four wheat is also used in baking, although the gluten content is lower than baking standards require. However, these standards have been unofficially replaced by lower technical requirements that allow the use of flour from class four wheat with the addition of improvers. Rainy weather and delays in spring wheat

harvesting have resulted in the deterioration of the quality of low-grade food wheat (class 4) to conditions of fodder wheat (class 5). The gluten content is very low and in some cases germination has started. However even so, class five wheat is being sold at 3,000-3,200 R per metric ton (\$100-107).

Post has also heard some rumors from farmers (Post couldn't confirm these rumors in any official capacity) that there is a federal storage subsidy program for those farmers who can prove that the grain they wish to store is from their own fields. These farmers are rumored to be able to store grain at certain elevators, which are certified for the "federal grain intervention program" free of charge for the first three months and for one half of a percent of the price of the grain for each additional month. The commercial rate of storing is 5.4 percent for the first month and from 0.8 to one percent for each month after that, making such a program advantageous for farmers. Post thinks the administrations at all levels are trying to encourage farmers to deliver grain to elevators (as "collateral" for reporting a higher crop) instead of selling right away.

Grain Quality

Post chatted with an owner of a bakery who mentioned again the extreme variance in the quality of wheat this year. According to him, the big bakeries that used to purchase mostly class four wheat at low prices and then mix it with small amounts of high gluten class three wheat, cannot do the same thing this year because of the shortage of class four wheat. They have been forced to start buying high quality class three wheat making the cost of production much higher not only because the price for class three wheat is higher, but also because the share of it in production is increasing. Reports from some oblasts also show that the quality of bread is deteriorating because some bakeries have already started using flour milled from this year's wheat. Traditional bread baking technologies require that grain be stored for at least one month to ripen it before milling and then the flour should also be allowed to "ripen" for at least one to two months. So in general, at least three months should pass between the grain harvest and the use of this grain for baking. Complaints about bread quality deterioration due to the use of the 2003 crop reflect either lack of professionalism among bakers or the absence of traditional stocks of last year's wheat at flourmills. This may be a bad sign for the future developments of flour milling and bread production.

Winter grain sowing

According to reports from farmers, this year the area sown to winter grains will be lower than last year. Given that prices are higher, the incentive should be for farmers to increase area sown, not decrease it. This unusual tendency is explained by several factors, including: frustration over winter grain losses last year, the lower crop last year which limited farmers' seed reserves (most of area is sown with ordinary seeds that farmers save from year to year), and an uncertainty about the future of prices. However, the main reasons for the reduced winter grain sowing were time and resource constraints, i.e. most farmers put priority on the late harvesting of last year's crop to sowing winter grain.

Food Consumption

Post is not forecasting any significant changes in food grain consumption, 22.8 mmt versus 22.7 mmt last year. The Russian State Grain Inspection Service reports the share of milling wheat this year is higher than last year and that Russia will have enough grain for food consumption, including pasta products. However, the price of bread will increase due to both higher grain prices in general and better quality of wheat and flour. Consumption of cereals will also increase.

Feed Grain Consumption

The supply of feed grains will be smaller than in MY 2002/03 and post estimates a slight decrease in feed grain consumption to 34 mmt. This is due to the overall smaller crop combined with a bigger percentage of food quality wheat which significantly decreased available volumes for feeding purposes. However, the demand for imported feed grains will not increase this same amount as consumption of meat and poultry is expected to stabilize. In the course of almost ten years of decreasing disposable incomes and high meat prices, meat consumption nationwide decreased. Consumption of meat flavored food, food with additives, different snacks, etc. has been increasing and people have become accustomed to these products instead of meat. So, the increase in incomes in the last two years was not followed by the same increase in demand for meat. The additional income has been swallowed up either by increased communal payments, electricity, gas, apartment maintenance, etc. or by some other spending. Demand for meat by a small group of high-income people has been relatively stable for the last 3-4 years and changes in meat prices did not affect this demand much. In the short-term, meat producers are more likely to increase prices rather than increasing output. Sources in the feed market report that the majority of feed millers do not make their own decisions on the purchase of feeds, because they are usually part of a larger company that has pig or poultry operations. The feed ingredients procurement policy is determined at the headquarters' level, i.e., at the level where the selling price for meat dominates over the procurement price of feeds.

Trade

According to the latest non-official information, in July-September 2003, Russia already exported 1.95 mmt of wheat and 1.05 mmt of barley. So, total exports in the first three months of MY 2003/04 reached 3.18 mmt. Wheat was exported to Romania, the EU, Ukraine, Egypt, and Israel, while barley was shipped to Saudi Arabia, Israel, Libya, and Cyprus. Exports in the same period last MY were 3.57 mmt, including 2.68 mmt of wheat and 0.85 mmt of barley and this was a year of historically high exports. In MY 2001/02, the first year of high exports, Russia exported only 444,300 metric tons of wheat and 590,000 metric tons of barley, and total exports amounted only to 1.1 mmt. Thus, the current MY is starting off strong despite the smaller crop. Incentives for grain traders to export grain remain significant and Post increases its total export estimate to 6.3 mmt, including 4.2 mmt wheat and 2.0 mmt of barley.

Stocks

By the end of MY 2003/04 stocks will fall to 4.8 mmt, compared with 12.6 mmt at the beginning of the marketing year. Stocks of wheat are forecast to decrease from 5.6 mmt to 1.6 mmt and stocks of barley will fall to 0.8 mmt.

Wheat

Table 1. PSD, Wheat, Thousand Hectares, Thousand Metric Tons

PSD Table						
Country	Russian Federation					
Commodity	Wheat				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	23800	23800	25700	25700	21500	21500
Beginning Stocks	1400	1400	6479	6479	5608	5608
Production	46900	46900	50550	50560	34000	34300
TOTAL Mkt. Yr. Imports	629	629	500	400	1000	3000
Jul-Jun Imports	629	629	500	400	1000	3000
Jul-Jun Import U.S.	53	48	0	0	0	0
TOTAL SUPPLY	48929	48929	57529	57439	40608	42908
TOTAL Mkt. Yr. Exports	4372	4372	12621	12700	3500	4200
Jul-Jun Exports	4372	4372	12621	12700	3500	4200
Feed Dom. Consumption	14000	14000	16000	15300	12500	13200
TOTAL Dom. Consumption	38078	38078	39300	39131	35500	37100
Ending Stocks	6479	6479	5608	5608	1608	1608
TOTAL DISTRIBUTION	48929	48929	57529	57439	40608	42908

Barley

Table 2. PSD, Barley, Thousand Hectares, Thousand Metric Tons

PSD Table						
Country	Russian Federation					
Commodity	Barley				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	10200	10200	10250	10250	10500	10500
Beginning Stocks	1529	1529	4387	4387	4587	4587
Production	19500	19500	18700	18700	15500	15800
TOTAL Mkt. Yr. Imports	201	201	200	200	200	200
Oct-Sep Imports	192	192	200	200	200	200
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	21230	21230	23287	23287	20287	20587
TOTAL Mkt. Yr. Exports	2593	2593	3200	3400	2000	2000
Oct-Sep Exports	2664	2664	3200	3400	2000	2000
Feed Dom. Consumption	9850	9850	10700	11300	12700	12900
TOTAL Dom. Consumption	14250	14250	15500	15300	17500	17800

Ending Stocks	4387	4387	4587	4587	787	787
TOTAL DISTRIBUTION	21230	21230	23287	23287	20287	20587

Corn

Official data on corn production is not yet available, however, based on preliminary crop estimates by major producing regions, the crop will be close to last year's level. So Post estimates production at 1.3 mmt. For example, in Krasnodar Kray, where almost forty percent of corn for grain is harvested, the crop is estimated at over 600,000 metric tons, equal to last year's level.

Demand for corn is higher than last year, however, and Post forecasts imports will triple. However, these projections are based on the positive resolution of GMO issues, because, given the lower European crop, with the exception of the Ukraine, the U.S. is the only source of bulk corn shipments. Imports of corn from the Ukraine will increase, but are not likely to exceed last year's level, while imports from Hungary will be also low and exporters will give preference to Europe over Russia. However, even with the resolution of GMO issues, Post does not foresee corn imports returning to the levels of MY 2001, i.e. 500,000 – 600,000 as demand from meat producers will be a limiting factor. Meat producers will focus on returns from higher prices rather than on lowering the cost of production. Sources report that feed mills do not generally determine the feed grain procurement strategies because the bigger feed mills are usually part and parcel of the poultry and livestock holdings. These producers are interested in fast returns from sales of value added meat products and in some cases squeezing production can bring higher returns, given that the consumer market has been pumped with pre-election money. Thus, stimuli to increase prices and economize on the cost of feeds is prevailing nowadays, and until spring, feed demand will not be as drastic as may be expected.

At this point almost all corn in Krasnodar Kray is pre-contracted by poultry producers. The preliminary purchase price of domestic corn is approximately 4,000 Rubles (\$138) per ton and given the freight and other delivery expenses, this price at the moment is still almost 1,000 Rubles (\$34) lower than imported corn.

Table 3. PSD, Corn, Thousand Hectares, Thousand Metric Tons

PSD Table						
Country	Russian Federation					
Commodity	Corn				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		10/2001		10/2002		10/2003
Area Harvested	700	700	550	544	700	700
Beginning Stocks	92	92	76	76	126	126
Production	800	800	1550	1550	1200	1300
TOTAL Mkt. Yr. Imports	534	534	100	100	600	300
Oct-Sep Imports	534	534	100	100	600	300
Oct-Sep Import U.S.	86	86	0	0	0	0
TOTAL SUPPLY	1426	1426	1726	1726	1926	1726
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0

Feed Dom. Consumption	950	950	1200	1200	1400	1200
TOTAL Dom. Consumption	1350	1350	1600	1600	1800	1600
Ending Stocks	76	76	126	126	126	126
TOTAL DISTRIBUTION	1426	1426	1726	1726	1926	1726

Table 4. Corn Imports, by Country, Marketing Years (October/September), Metric Tons

	MY 97/98	MY 98/99	MY 99/00	MY 00/01	MY 01/02	MY 02/03*
Total	195 345	589 394	728 079	172 070	557 704	78 549
- Ukraine	10 279	15 381	7 960	36 693	127 067	38 355
- United States	72 985	478 424	530 131	90 239	112 239	12 784
- Hungary	46 660	76 257	135 079	9 133	300 232	12 060
- Kazakhstan	725	1 944	4 867	3 765	5 587	7 522
- China	10 798	301	7 467	10 648	7 328	2 811
- Yugoslavia	44 436	7 139	21 895	3 859	1 209	1 331
- Check Republic	0	0	0	0	0	976
- Argentina	800	8	131	5 136	361	736
- France	977	453	1 229	353	432	671
- Moldova	7 159	8 980	15 330	3 075	2 516	489
Other	526	507	3 990	9 169	733	814

* MY 2002/03 is only for October 2002 through July 2003.

According to sources, in August 2003 Russia imported another 12,800 metric tons of corn, including 9,100 metric tons from Hungary. However, total imports of corn in MY 2002/03 will hardly exceed 100,000 metric tons and will be the lowest in the last six years.