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Report Highlights:

The MY 2004 crop estimate is raised to 75.8 million metric tons (mmt), including 43.8 mmt of wheat, based on the progress of harvesting. Given heavy precipitation in the European part of the country, the majority of this year's wheat will be of feed quality and the price gap between milling quality wheat and feed quality wheat is rising. Low barley prices will result in a significant drop in barley exports, which will not be compensated for by an increase in wheat exports. Corn imports will continue to increase fueled by the developing domestic poultry industry.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Production

Harvest Progress

According to the Ministry of Agriculture (MinAg), by August 23 47.8 mmt of grain, including 26 mmt of wheat, was harvested from 19.8 million hectares (44.6 percent of total area). Harvesting is progressing faster than last year and average yields are almost 20 percent higher (2.42 tons per hectare). The average yield of wheat is 2.96 tons per hectare, 33 percent higher than last year. Harvest progress by different federal districts and comparisons to the final crop in 2003 are given in the table below. Production numbers are in bunker weight for better comparisons (bunker weight is usually 5-6 percent higher than the final clean weigh).

Table 1. Grain Harvesting Progress as of August 23, 2004 compared to the Final Production and Harvested Area in 2003, by Five Federal Districts

Main Grain Producing Federal Districts	2004			2003	
	Harvested Grain, as of Aug. 23 Million Tons, Bunker Weight	Harvested Area, as of Aug. 23 Million Hectares	Total area to be harvested Million Hectares	Grain crop, as of Nov. 1, 2003 Million Tons, Bunker Weight	Harvested Area, Final, 2003* Million Hectares
Southern District	24.8	7.9	9.4	16.2	8.3
Central District	9.9	4.0	6.9	13.5	6.5
Volga Valley District	11.3	6.6	14.0	24.0	13.5
Ural Federal District	0.7	0.5	3.1	4.3	3.1
Siberian Federal District	0.7	0.4	9.0	12.6	10.0
Total Five Districts	47.4	17.4	38.2	70.6	41.4

Source: Data of the Ministry of Agriculture on August 25, 2004; "AgroKhele Bulletin" #3 (44), 2003, #1 (46), 2004

Regional Estimates

Based on MinAg data, total harvested area this year may reach 44 million hectares, two million hectares more than last year. August weather in the European part of the country was favorable for harvesting and yields from the remaining unharvested areas may not be much less than present regional averages. If the yields of 2.46 tons per hectare in the Central Federal District and 1.72 tons per hectare in the Volga Valley District hold constant, then the bunker weight could exceed 16 mmt and 22 million metric tons respectively. Rough crop estimates for the Southern, Central, and Volga Valley districts are 63-64 mmt. Siberia's crop will depend on the weather over the next few months, but appears to be average. Based on the oblast's forecasts, it could reach 12.5 – 13.0 mmt, including, up to 4 mmt in Altay kray and over 3 mmt in Novosibirsk oblast. Other regions usually add 1.0-1.5 mmt to these main five, to make the total preliminary weight 79 – 81.5 mmt (roughly 76 mmt clean weight). The crop in the Urals is expected to be smaller than last year.

Wheat Quality

This year the issue of wheat quality will be one of the main, if not the main, factor in price determination. Rainy weather caused a general decrease in the protein content of wheat grown in the European part of the country, but the levels of precipitation were different in different territories, and this will lead to big differences in the quality of protein from region to region. In the regions with more stable, and traditionally higher quality spring wheat (the southern Urals and some territories of western Siberia), the crop is forecast worse than last

year. According to the State Grain Inspection Service, most of the wheat produced this year in the Southern Federal District can be classified as class four wheat, which, according to Russian standards need improvers to be used for baking bread. However, this year the State Grain Inspection Service, for the first time in many years, conducted a special survey of grain quality which confirmed that baking characteristics of class four wheat in some territories of Krasnodar Kray can be used without additives, while the same class wheat from other regions is suitable only for feeding or needs improvers to be used in baking.

Trade

Total exports are forecast at 6.7 mmt, down 500,000 from last year due to lower world prices of barley. Wheat exports are forecast at 5 mmt, 1.1 mmt higher than last year. The large percentage of feed quality wheat in this year's crop and the resulting low domestic prices for this sort of wheat will make it competitive in world markets encouraging exports. Most companies that export grain from southern Russia have businesses in both Russia and the Ukraine and, therefore, can combine some Russian wheat with regular shipments of Ukrainian wheat. Russia may import more wheat from Kazakhstan to compensate for these exports and imports are forecast at 1.5 mmt, 500,000 tons more than last year.

Domestic wheat classification differs from international standards and exporters usually have wheat tested by internationally certified laboratories before exporting. The differences between domestic standards, that were developed to serve the needs of the Russian baking industry in the Soviet era, and international standards can lead to misunderstandings. This is why some doubt recent reports of a sale of Russian wheat to Pakistan. Wheat of the required class is not sold under this classification domestically even though it exists as a biological type and is produced in some regions. It is possible for traders to find a cargo of this type of wheat, but the producer will not benefit because there are no premiums for meeting international standards.

Barley exports are forecast to decrease due to low prices, which are encouraging farmers to hold onto their grain. Rye exports will discontinue this year due to the smaller crop.

Policy

Grain interventions are rumored to begin this month but no resolutions have been issued. At the regional level, governors announced "minimum" prices for milling wheat, usually not lower than 4,000 Rubles per metric ton. However, the regions do not have the funds to purchase much at these prices. Given the expected large crop and increased international competition, the demand for support will exceed the possible allocation of funds both at the regional and federal levels. Instead of allocating money, some regional authorities have begun using non-marketing tools to prevent sales of grain outside their oblasts. For example, in Krasnodar kray local police have begun controlling the movement of grain outside the kray following an unwritten plan of the administration to force farmers to pay back funds borrowed for seasonal work.

Wheat

Wheat production will increase to 43.8 mmt, accompanied by a subsequent increase in feed domestic consumption to 14.1 mmt (total domestic consumption will be 37.8 mmt).

Table 2. PSD, Wheat, 1,000 Metric tons, 1,000 Hectares

PSD Table						
Country	Russian Federation					
Commodity	Wheat				(1000 HA)(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2002		07/2003		07/2004
Area Harvested	25700	25700	22150	22150	24200	24200
Beginning Stocks	6479	6479	6133	6133	2233	2203
Production	50550	50550	34100	34100	43500	43800
TOTAL Mkt. Yr. Imports	1045	1045	1000	1000	1500	1500
Jul-Jun Imports	1045	365	1000	1000	1500	1500
Jul-Jun Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	58074	58074	41233	41233	47233	47503
TOTAL Mkt. Yr. Exports	12621	12621	3500	3900	5000	5000
Jul-Jun Exports	12621	12621	3500	3900	5000	5000
Feed Dom. Consumption	16000	16000	12500	11455	13500	14100
TOTAL Dom. Consumption	39320	39320	35500	35130	37500	37800
Ending Stocks	6133	6133	2233	2203	4733	4703
TOTAL DISTRIBUTION	58074	58074	41233	41233	47233	47503

Barley

Barley production will decrease to 18.2 mmt and the export forecast will also decrease. Official estimates will not be available before November, but traders have remarked that there are far fewer offers from farmers this year. Possibly, low prices in the spring (much lower than wheat prices) led to a decreased area sown, and therefore, despite good weather the crop will not be much larger than last year.

Table 3. PSD, Barley, 1,000 Metric Tons, 1,000 Hectares

PSD Table						
Country	Russian Federation					
Commodity	Barley				(1000 HA)(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2002		07/2003		07/2004
Area Harvested	10250	10250	10100	10500	10600	10600
Beginning Stocks	4387	4387	4706	4706	1506	1506
Production	18700	18700	18000	18000	18500	18200
TOTAL Mkt. Yr. Imports	251	251	400	400	300	300
Oct-Sep Imports	275	275	400	400	300	300
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	23338	23338	23106	23106	20306	20006
TOTAL Mkt. Yr. Exports	3132	3132	3000	3000	2000	1700
Oct-Sep Exports	3066	3066	3000	3000	2000	1700
Feed Dom. Consumption	10700	10700	13700	13700	11600	11600
TOTAL Dom. Consumption	15500	15500	18600	18600	16600	16600
Ending Stocks	4706	4706	1506	1506	1706	1706
TOTAL DISTRIBUTION	23338	23338	23106	23106	20306	20006

Other Grains

There are no changes to USDA's official corn PS&D. During the period October 2004 through June 2004, Russia imported 430,000 metric tons of corn, including approximately 7,000 metric tons of corn seed. Imports from the Ukraine comprised over 82 percent of the total. Imports from the U.S. took second place with 40,000 metric tons. Total MY 2003 corn imports are estimated to reach 500,000 metric tons and the forecast for MY 2004 is unchanged at 600,000 metric tons, 100,000 metric tons more than MY 2003. Given that the Russian poultry industry is expected to continue developing, this year's large feed wheat crop will not affect corn imports for industrial poultry production.

Rye, the second most important food grain in Russia, is forecast at 4.1 – 4.2 mmt, unchanged from last year's low level.

According to information from the regions, production of oats, a crop that farmers do not report, is forecast at 5.2 mmt, the average level. Rice production will be 300,000 metric tons.