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Russian Federation

Grain and Feed

Temporary Reprieve for Grain Exports

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Report Highlights:

On February 28, 2005 the Deputy Head of the Federal Customs Service issued an order allowing the export of grain and grain products without the required State Grain Inspection Service (SGI) quality certificate for a period of one month. Since the liquidation of the SGI no part of the GOR is responsible for issuing these certificates even though they remain on the list of required documentation at exit points. If this problem is not resolved before the end of the month, trade could come to a screeching halt.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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History

The State Grain Inspection Service (SGI) was abolished in December of 2004 and was given three months to transfer all remaining "necessary" functions and property to other agencies (See GAIN RS4066). On March 1 (the end of this liquidation period), nothing had been transferred due to technical delays and a lack of understanding between the Ministry of Agriculture (MinAg) and the Ministry of Economic Development and Trade (MEDT). All foreign trade stopped at the end of February because local SGI offices discontinued issuing quality certificates even though these certificates remain on the list of documents demanded by Customs officials, who fall under the authority of MEDT. Reportedly, MinAg has asked MEDT to exclude these certificates from the list of required documents, but no decision has yet been made. The issuance of the order to allow exports without this certificate for one month will allow trade to resume temporarily, but will not resolve the uncertainty currently permeating the grain market.

Impact on Foreign Trade

On March 1, major newspapers *Kommersant* and *Vedomosti* reported that exports could come to an abrupt halt. As proof, one of the largest traders reported that 20 train carloads of grain were stopped at the border by Customs because the required certificates were missing. The cost associated with the demurrage of these cars is estimated at over one million rubles (\$36,000). The SGI office in Belgorod oblast, where the grain originated, has been liquidated and, therefore, no certificate could be issued. Traders estimate potential exports of grain during the period March through June 2005 at 2.0 –2.6 million tons, but were not able to estimate the possible damage to trade if export contracts are violated. According to traders, the company will have to pay a ten percent penalty for breach of contract plus demurrage, which on a 25,000 vessel varies from \$20,000 to \$25,000 per day.

Customs also requires a SGI quality certificate for imports of grain and grain products. Grain imports are small, but sources report that if the problem is not resolved, imports of rice and buckwheat could suffer. Igor Strelnikov, General Director of "Angstrem", one of the biggest rice importers, told *Vedomosti* that he foresaw this problem and took measures to increase his stocks of rice.

Impact on Domestic Grain Production

Although grain exports traditionally slow down during the spring months, some farmers and elevators are still selling left over stocks to make room for the next crop. Interruptions in grain exports could increase the domestic supply resulting in a price decrease, which could scare farmers on the eve of the spring planting cycle. According to the Chairman of the Russian Grain Union Arkadiy Zlochevskiy, if the official decision to cancel the requirement for an SGI quality certificates is not made in the near future, all exports will discontinue flooding the domestic market and prices will plummet.

Official Measures

Many experts foresaw these problems last year when the liquidation of the SGI was first under discussion and this directive only postpones the inevitable. The press first reported during the week of February 20 that Minister Gordeyev sent a letter to MEDT with a proposal to transfer the right to issue grain quality certificates from SGI to other agencies and that MEDT agreed to transfer these functions to specialized commercial organizations like in many other countries. However, the future of these proposals still remains unclear and the press reported that on February 28, Gordeyev sent another letter to MEDT with a request to completely abolish the use of SGI quality certificates.

The fact that the GOR is not of one mind on the proper handling of this issue is muddying the waters even further. During a meeting of the Federation Council (upper chamber) Agrarian Committee on March 10, Chairman of the Federation Council Sergey Mironov stated that currently no governmental organ is responsible for inspecting the quality of grain and this poses a "significant danger." He then said the issue is not about resurrecting the SGI, but about putting grain quality inspection at the government level (as opposed to the Ministry level). MinAg and MEDT have been discussing giving this responsibility to private survey companies and the press reported that several companies have already been selected for this task. But, given Mironov's comments, this approach might not be successful, which could mean further delays as the two Ministries go back to the drawing board. Also during the same meeting, Gordeyev admitted that liquidating the SGI was a mistake and that the two-month delay was affecting exports.

Comments

The reorganization of the GOR, which began in 2004, is taking much longer than expected because dozens of laws, administrative and ministerial regulations, and instructions have to be abolished, coordinated, or adjusted. Market players are either suffering seriously from this "transitional" period, or are using it to extend and strengthen their non-market resources, such as the use of personal connections and bribes. Grain exporters are already incurring losses from delays at Customs points, while the milling and bakery industry has not yet reported the same level of losses. However, in both cases this situation is causing the future of prices, demand, and stocks to become very unpredictable on the eve of spring planting and this could affect the plans of farmers in MY 2005.