



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

**Date:** 7/10/2008

**GAIN Report Number:** RS8052

## Russian Federation

### Grain and Feed

# Government Grain Trade Monopoly May Return 2008

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**Report Highlights:**

The Russian Ministry of Agriculture intends to transform its Agency for the Regulation of Food Markets (AFM) into a major Russian grain trader. The Ministry is waiting for government approval to transfer its controlling interest in 28 of Russia's major grain elevators and terminals, including the ministry-owned grain terminal in Novorossiysk, to the AFM. Government control of these grain elevators will create the basis for its control of Russia's grain trade and exports, and may well constitute creation of a state trading enterprise.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Trade Report  
Moscow [RS1]  
[RS]

## Summary

The Russian Ministry of Agriculture intends to transform its Agency for the Regulation of Food Markets (AFM), an open joint stock company, into a major Russian grain trader. The ministry is waiting for government approval to transfer its controlling interest in 28 of Russia's major grain elevators and terminals, including its grain terminal in the port of Novorossiysk, to the AFM. This major pool of government-controlled grain elevators will create the foundation for large-scale federal grain trade. If this idea is implemented, experts believe that the government will become Russia's primary grain trader and exporter. Government control of these grain elevators will create the basis for its control of Russia's grain trade and exports, and may well constitute creation of a state trading enterprise.

### Plans to Create an All-Russian Grain-Trading Company under Government Control

Early in July 2008, mass media reported that the Russian Government supports the Ministry of Agriculture's idea to create a company uniting all federal assets in the grain marketing-system. Given that the federal government has a controlling interest in 28 of Russia's major grain terminals, this new company will become the primary Russian grain trader and exporter. According to mass media, the Ministry of Agriculture has taken the following steps in this direction:

- In the beginning of 2008, the Ministry of Agriculture transformed the Agency for the Regulation of Food Markets (FGUP FAP)<sup>1</sup> from a Federal State Unitary Enterprise into an Open Joint Stock Company (OAO), now known as AFM. Minister of Agriculture Aleksey Gordeyev stated that the agency's new legal status is that of a commercial company, not a state corporation.
- The Ministry of Agriculture developed a plan to transfer the government's shares in 28 major Russian grain elevators and terminals to AFM.<sup>2</sup> With an estimated worth of \$300 million to \$400 million, these include some of the most valuable assets in the grain industry. A grain and bread conglomerate in Novorossiysk is particularly appealing. It includes the largest grain-export terminal in Russia's major Black Sea port. Also included are several large regional elevators in Stavropol, Volgograd, and other major grain-producing regions.
- The ownership of AFM will most likely be structured to give the Ministry of Agriculture a 25% stake, while the remaining 75% of shares will be offered to commercial grain-trading companies. Preference will be given to Russian companies. The Ministry of Agriculture has already presented offers to Yug Rusi, OGO, and Siberian Agrarian Holding (SAHO).

The media state that the Ministry of Agriculture plans to make AFM Russia's largest exporter of grain, responsible for 40% to 50% of grain exports in the next three to four years. At the

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<sup>1</sup> The FGUP FAP was the state agency that purchased grain for the state grain reserve and conducted grain commodity interventions. Several years ago, FGUP FAP intended to start buying soybeans on foreign markets to supply protein feeds to Russian farmers and vegetable oil to the food industry. FGUP FAP purchased an initial shipment of soybeans, but it discontinued the project due to lack of funding.

<sup>2</sup> Over the course of privatization during the 1990's and 2000's, some major regional grain-elevators, terminals, and flour mills were partially left as federal property. The government retained ownership of at least 51% of the shares of these enterprises. The Federal Agency for Management of State Property (Rosimushchestvo) of the Ministry of Economic Development manages federal property.

same time, Russian grain exports are forecast to increase to between 25 and 30 million metric tons (mmt) by 2011-2012. In MY 2007, Russia exported 12.7 mmt of grain, not including flour exports, of which 60% were controlled by six grain traders: International Grain Company, Agrika, Rosinteragroservice, Yugtranzitservice, Yug Rusi, and Aston. Smaller Russian grain traders and international grain-trading companies exported the remaining 40%.

### Analysis and Comment

Rumors that the Ministry of Agriculture would re-create a state grain trading corporation *a la* the Soviet-era Ministry of Grain Products have been flying for months. According to these rumors, the push for a greater government role in both domestic merchandising and exports has not only been supported by major agricultural holding companies, it in fact was actively promoted by them. Certain holding companies, despite enjoying record high prices for grain, reportedly face serious financial difficulties and are looking to the government for what amounts to a partial buyout of their grain handling assets. According to these rumors, trade in oilseeds (primarily sunflower and sunflower products) and sugar will also be handled by AFM.

Most private Russian grain-trading companies have declined to comment on the plan, in part because it is not yet a done deal. This drastic transformation of Russia's grain trade will only occur if the Russian Government chooses to identify grain trade as fulfilling a special role in the Russian economy. Otherwise, it will be difficult to prove the necessity of financing the quasi-commercial AFM and amending federal anti-trust laws to create an exception to the general ban on monopolies for this special case. This, however, is not out of the question. In MY 2008<sup>3</sup>, the value of Russian grain exports exceeded \$3.5 billion, and this number could be even higher in the new crop year. This compares favorably with traditional "strategic" export sectors, such as arms exports estimated at between \$6.7 and \$8.0 billion per year.

Some grain experts believe that the AFM may be attractive to certain Russian grain trading companies. If the AFM imposes a system of grain export quotas, individual companies might receive quotas proportional to their share of AFM assets. Companies on the inside might also gain priority access to the AFM's grain marketing-infrastructure, especially the ministry-controlled terminal elevator in Novorossiysk, as well as to federal funding.

It is not clear, however, that creation of a state grain-trading "champion" will increase market efficiency. In 2007 and 2008, Russia's domestic grain prices soared, sometimes exceeding high world-market prices. In this situation, favorable to Russian grain farmers, competition among Russian grain traders increased and exposed some of the serious inefficiencies built into the Russian grain trading network. First, bureaucratic hurdles foster a non-transparent grain-pricing system in Russia. Among these hurdles are the Federal Veterinary and Phytosanitary Surveillance Service's<sup>4</sup> monopoly over grain surveying and quality-control, non-transparent and limited access by independent companies to government-owned grain terminals, unpredictable availability of government-owned railcars, and the state monopoly on rail transportation. Second, the real costs of handling, storing, and transporting grain are difficult to calculate and compare. In 2008, Russia began to trade grain futures, but the volume of trade in grain futures is still small. Thus, this trade has not yet significantly increased transparency of the grain market.

Expectations for the transformation of AFM into a grain-trading company under government control are only adding to the unpredictability of grain trading in MY 2008. That said, it is

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<sup>3</sup> July-June basis.

<sup>4</sup> See GAIN report RS7074 Grain and Feed / Court Upholds Anti-Trust Ruling Against VPSS.

likely that if AFM be allowed to dominate grain trade, the new grain-marketing system will be even less flexible than it is now. Small traders will be pushed from the market, and grain farmers will be given fewer choices when selling their products.

In 1993, the U.S. Department of Agriculture, using a combination of food aid and funding from the Emerging Democracies Program, assisted OGO and other private grain trading firms in creation of a vibrant private grain trading sector. As a result, the state-owned grain trading entity, Roskhleboprodukt (successor to the Ministry of Grain Products) withered away, and its foreign trading arm, Exportkheleb, was privatized. If the AFM is allowed to emerge as a state grain trading corporation dominating the grain market with a 40- to 50-percent market share, it will be a giant step backwards, essentially the latest in a series of industry renationalizations, and a reversal of what till now has been one of Russia's privatization success stories.

### Relevant Reports

RS8048 Grain and Feed / July Monthly Update

<http://www.fas.usda.gov/gainfiles/200806/146295021.pdf>

RS8047 Agricultural Situation / Ministry of Agriculture Authorities Again Redefined

<http://www.fas.usda.gov/gainfiles/200806/146294994.pdf>

RS8039 Grain and Feed / June Monthly Update

<http://www.fas.usda.gov/gainfiles/200805/146294789.pdf>

RS8026 Grain and Feed / Russia Begins Wheat Futures Trade

<http://www.fas.usda.gov/gainfiles/200804/146294261.pdf>

RS8024 Grain and Feed / Annual 2008

<http://www.fas.usda.gov/gainfiles/200804/146294162.pdf>

RS8010 Grain and Feed / Ban on Wheat Exports to Belarus

<http://www.fas.usda.gov/gainfiles/200802/146293781.pdf>

RS7096 Grain and Feed / Wheat Export Tariff Raised to 40 percent

<http://www.fas.usda.gov/gainfiles/200712/146293380.pdf>

RS7074 Grain and Feed / Court Upholds Anti-Trust Ruling Against VPSS

<http://www.fas.usda.gov/gainfiles/200710/146292764.pdf>

RS7070 Grain and Feed / Russian Government Resolution on Temporary Export Duties on Wheat and Barley

<http://www.fas.usda.gov/gainfiles/200710/146292739.pdf>

RS7051 Agricultural Situation / Government Program for Agriculture and for Market Regulation 2008-2012

<http://www.fas.usda.gov/gainfiles/200707/146291764.pdf>

RS7005 Agricultural Situation / Federal Law "On Development of Agriculture"

<http://www.fas.usda.gov/gainfiles/200701/146279991.pdf>