



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 1/26/2009

GAIN Report Number: RS9002

Russian Federation

Grain and Feed

Government Strengthens Grain Market Control

2009

Approved by:

Mary Ellen Smith
U.S.Embassy

Prepared by:

Yelena Vassilieva, Mary Ellen Smith

Report Highlights:

In 2009 the role of the Russian Government in the grain market may increase significantly due to accumulation of large volumes of grain in the state intervention reserve and the planned creation of the state grain company. As of January 23, 2009, the Russian Government purchased 6.4 million metric tons (MMT) of grain, and set the goal to procure up to 20 MMT (19 percent of Russia's 2008 grain crop) by the end of MY 2008.

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

Table of Contents

Executive Summary **3**

Grain Procurement Interventions **3**

 Table 1. Russia: State Procurement Interventions, as of January 23, 2009. 3

 Table 2. Grain Procurement Prices, Rubles and US\$ per Metric Ton (by Groups of Russian Provinces) 4

Grain Transportation News **5**

Draft Presidential Decree on the State Grain Corporation **5**

Relevant Reports..... **6**

Executive Summary

In 2009 the level of control of the Russian Government over its grain market may increase significantly due to accumulation of large volumes of grain in the state intervention reserve and planned creation of the state grain company. As of January 23, 2009, the Russian Government purchased 6.4 million metric tons (MMT) of grain for the intervention fund. According to the First deputy Prime Minister Viktor Zubkov, the government target is to purchase up to 20 MMT of grain, or 19 percent of Russia's 2008 grain crop. Grain sold into intervention is currently purchased at a higher than market price. However, the purchases have been limited by the shortage of adequate storage facilities, uneven distribution of these storage facilities, and unclear prospects of selling grain from these reserves in the future. On January 12, 2009, the Government sent the President the draft Presidential Decree on the creation of the state grain company. According to the First Deputy Prime Minister Viktor Zubkov, the mission of this company is "to strengthen Russia's grain potential, including developing the national port infrastructure and storage facilities, as well as a system of transporting and selling grain". Zubkov also added that the company will become the biggest grain exporter in the international markets. Although Zubkov underlined the role of this company in the development of domestic grain market, experts are worried that the major interest of this company will be grain exports, including exports of grain from the intervention fund. Experts consider that the company may control more than 50 percent of the Russian grain market.

Grain Procurement Interventions

Grain procurement interventions in Russia began on August 19, 2008. As of January 23, 2009, the Russian government purchased 6.38 million metric tons of grain into intervention fund. The total value of purchased grain is 30.0 billion rubles¹ (\$915 million).

Table 1. Russia: State Procurement Interventions, as of January 23, 2009.

Commodity	Purchases, Metric Tons	Minimum Price, Ru/MT	Maximum Price, Ru/MT	Average price, Ru/MT	Value of Purchased Grain, 1,000 Ru
Soft milling wheat, Class 3	1,697,558	5,000	6,850	5,792	9,832,512
Soft milling wheat, Class 4	1,931,850	4,300	6,250	4,901	9,467,372
Soft wheat, Class 5	1,640,070	3,000	5,450	3,918	6,425,945
Milling rye, Group A	130,410	3,650	3,900	3,888	507,038
Fodder barley	738,555	3,100	3,800	3,710	2,739,735
Corn, Class 3	246,240	3,800	4,000	3,990	982,575
TOTAL	6,384,683				29,955,177

Source: NAMEX

Since the beginning of intervention purchases the Ministry of Agriculture increased the ceiling procurement price of milling wheat and added corn to the list of procured crops². In January, 2009, the Ministry of Agriculture increased the ceiling procurement price of milling wheat for several provinces of the North-West, Central, and Volga Valley Federal Districts, in efforts to compensate for the costs associated with shortage in these provinces and the necessity to

¹ Rate of US\$1 to Ruble has been increasing since September 2008, and devaluation of Ruble intensified in December 2008 and January 2009. The information on the Russian Central Bank's exchange rate can be found on the web-site:

<http://www.finmarket.ru/z/vlk/valdetails.asp?val=840>

² For more information see GAIN Reports RS8097, RS8091, RS8085

ship grain from these provinces to the distant elevators in Siberia for storing. The table below shows the original ceiling price levels for procured grains and the current price levels.

Table 2. Grain Procurement Prices, Rubles and US\$ per Metric Ton (by Groups of Russian Provinces)

	August 19, 2008		January 22, 2009	
	Rubles/T	US\$/MT	Rubles/MT	US\$/MT
Soft milling wheat, Class 3				
- Group 1	5,100	208.25	6,850	208.84
- Group 2	5,100	208.25	5,500	167.68
- Group 3	5,000	204.16	6,000	182.93
Soft milling wheat, Class 4				
- Group 1	4,900	200.08	6,250	190.5
- Group 2	4,900	200.08	4,900**	149.39
- Group 3	4,800	200.08	4,800	146.34
Soft wheat, Class 5				
- Group 1	4,100	167.42	5,450	166.16
- Group 2	4,100	167.42	4,100**	125.00
- Group 3	4,000	163.33	4,000	121.95
Milling rye, Group A				
- Group 1	3,900	159.25	3,900	118.90
- Group 2	3,900	159.25	3,900	118.90
- Group 3	3,900	159.25	3,900	118.90
Fodder barley				
- Group 1	3,800	155.17	3,800	115.85
- Group 2	3,800	155.17	3,800	115.85
- Group 3	3,800	155.17	3,800	115.85
Corn, Class 3				
- Group 1			4,000	121.95
- Group 2			4,000	121.95
- Group 3			4,000	121.95

Source: NAMEX, and Post's calculations of price in US\$ based on the official exchange rates: on August 19, 2008 1 US\$ was 24.49 rubles, and on January 23, 2009 - 32.80 rubles.

* Wheat prices differ by the following groups of provinces:

- Group 1 includes the following provinces of Russia: Vologda, Kaliningrad, Leningrad oblasts and Republic of Kareliya from the North-Western Federal Districts, Smolensk, Bryansk, Tver, Yaroslavl, Kostroma, Vladimir, Ivanovo, Kaluga, Moscow oblasts and the city of Moscow from the Central Federal District, Kirov oblast, Perm kray and Republic of Udmurtiya from the Volga Valley Federal District;
- Group 2 includes Voronezh, Lipetsk, Tambov, Ryazan, Tula, Belgorod, Kursk, and Orel oblasts from the Central Federal District, Nizhniy Novgorod, Penza, Saratov, Ulyanovsk, Samara oblasts, Mariy-El, Mordovia, Chuvash, Bashkortostan, Tatarstan Republics from the Volga Valley Federal District; all provinces of the Southern Federal District;
- Group 3 includes Orenburg oblast from the Volga Valley Federal District, oblasts and krays of the Siberia Federal District

** Including Orenburg oblast

At the meeting of the Presidium of the Government of the Russian Federation on January 12, 2009, the Deputy Prime Minister Viktor Zubkov underlined that in order to support domestic grain producers the government shall purchase 18-20 MMT of grain to the intervention fund.

In order to stimulate grain procurement the Ministry of Agriculture increased the number of elevators accredited for storing procured grain from 60 to 323 at the expense of elevators in Siberia and some on-farm elevators in other regions. Procurement tenders are conducted 5 days a week, instead of three days a week in the beginning of interventions. The level of guarantee deposit (marginal loan) was decreased from 120 rubles per metric ton to 100 rubles for juridical persons and to 60 rubles for small farmers and small business.

Meantime, specialists refer to the following shortcomings of selling grain into interventions. The final price that farmers get for their grain is lower than the announced price by 20-30 percent, because the procurement price includes VAT, cost of delivery of grain from a farm to accredited elevator, fees paid to the broker, guaranteed deposit, and some other overhead expenses. Some farmers in the Southern Federal District report that instead of the promised 5,500 rubles per metric ton for milling quality wheat they actually get slightly more than 3,000 rubles. This amount, 3,000 rubles, equals the price that is offered to farmers by local traders who usually ship grain from the farm via their own trucks and pay cash immediately. Because of the current bank problems with liquidity and slow money transfers, half of the farmers who already sold grain to the intervention funds have not received money yet.

Grain Transportation News

In the end of December 2008, in order to stimulate shipments of grain from European Russia to Siberia, the Federal Service on Tariffs of the Russian Federation decreased the railroad grain transportation fees:

- the decreasing 0.5 coefficient for grain and flour shipped domestically and for exports through the Russian ports from the stations of the Central Federal District, if the shipment is more than 1,100 kilometers. The coefficient will be in force until June 30, 2009;
- the decreasing 0.5 coefficient was set for grain and flour consignments for exports through the ports of the Far-East from Siberia and the Far-Eastern Federal districts for distances over 1,100 kilometers.

According to Russian media, in the end of November 2008, the Federal Anti-Monopoly Service of the Russian Federation agreed upon creation of a specialized railroad company "Rusagrotrans" for transportation of agricultural products. The company will enhance some railroad transportation facilities, including grain cars, for improvement of shipping grain domestically and abroad. This new company is in the process of registration.

Draft Presidential Decree on the State Grain Corporation

On January 12, 2009, the Russian government submitted to the Presidential Administration a draft Presidential Decree on setting up a state grain company. The First Deputy Prime Minister Viktor Zubkov told media that the company's mission is "to strengthen Russia's grain potential, including developing the national port infrastructure and storage facilities, as well as the system of transporting and selling grain". Viktor Zubkov noted that the company will be working on behalf of Russia as "the biggest grain exporter, participant of international tenders, and grain supplier within international humanitarian programs, and will be a match for multiple foreign companies". The company will be created on the bases of the FGUP "Federal Agency on Regulation of the food market"³ and will unite 33 grain enterprises (facilities) in 19 regions, including major grain port facilities in Navorossiysk, Yeysk, and Kaliningrad. Experts in the Ministry of Agriculture calculated that the total storage capacity of elevators under control of this company will be about 3.0 MMT. The draft Presidential Decree,

³ For more information see GAIN RS8052 Government Grain Trade Monopoly May Return

according to mass media, envisages that the new state company will have wide-scale opportunities incomparable with any private grain company. It will be involved in building new regional elevators and port terminals, and will have its own train-cars for grain transportation⁴. Although Zubkov underlined the role of the state grain company in the development of domestic grain market infrastructure, experts are worried that the company will be first of all oriented towards grain exports. It may control more than 50 percent of the Russian grain market and will monopolize grain exports. At present, according to IKAR⁵, 60 percent of Russia's grain exports are controlled by the 6 (six) private companies: International Grain Company (MZK, Russian daughter of Canadian Glencore), Agrika, Rosinteragroservice, Yugtransitservice, Yug Rusi, and Aston. According to media, some major Russian grain trading companies will be invited to purchase shares of the state grain company, but most of grain traders consider that at the first stage the company will be 100 percent owned by the state. While private sector support of this initiative is critical to its success, industry representatives are not speaking for or against the establishment of the company. Given the present economic and financial crisis, private sector buy-in will be heavily dependant on the level of federal budget allocations to this company and the ability of private companies to participate in using these funds.

In the period of economic and financial crisis in Russia, financing of this company from the federal budget may become the main obstacle for its creation, although the Russian Minister of Agriculture Aleksey Gordeev mentioned that Rosselkhozbank will be the partner of this state company. Another obstacle will be that the monopolization of the grain market contradicts Russia's present anti-monopoly legislation, and its WTO accession commitments. However, Ministerial lobby refers to the experience of the state grain monopolies in Canada and Australia, and to necessity to consider Russia's grain market as a strategically important sphere of Russia's economy.

As of January 23, 2009, the Presidential Decree on the state grain corporation has not been released yet.

Relevant Reports

RS8097 Russia Begins Corn Procurement Interventions on December 22, 2008
<http://www.fas.usda.gov/gainfiles/200812/146306940.pdf>

RS8091 December Grain Update
<http://www.fas.usda.gov/gainfiles/200812/146306655.pdf>

RS8090 Russian Government Intends to Support Grain Exports
<http://www.fas.usda.gov/gainfiles/200812/146306735.pdf>

RS8085 Government Increased Wheat Procurement Prices
<http://www.fas.usda.gov/gainfiles/200811/146306353.pdf>

RS8052 Government Grain Trade Monopoly May Return
<http://www.fas.usda.gov/gainfiles/200807/146295244.pdf>

⁴ The company Rusagrotrans may become a part or a close partner of the state grain corporation.

⁵ IKAR – Institute for Agricultural Market Studies, is an analytical and consultancy company engaged in analysis of the domestic Russian and global agricultural and food systems