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December 1999 Grain Harvest Update

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Report Highlights:

On November 29 Russia lowered its official clean weight grain harvest forecast to 54.5 million tons. Carry-over stocks are estimated at an extremely low level and are expected to push up prices, especially after December 1999. Imports are expected to total between 3 - 4 million tons of low quality milling wheat from Kazakhstan and Ukraine but will not be sufficient to maintain the domestic livestock herd.

Includes PSD changes: Yes
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Grain Production and Trade

Production

On November 29, Russia lowered its official clean weight grain harvest forecast to 54.5 million tons which is very close to the FAS Moscow estimate of 54.0 million tons given in the previous report. While some analysts believe that actual production is 4 - 5 million tons higher because of unreported grain, virtually none of it is marketed.

Trade

Extremely low carry-over stocks, which are estimated at between 2 - 5 million tons are expected to fuel price increases. Imports from neighboring countries are expected to total between 3 - 4 million tons of low quality milling wheat from Kazakhstan and Ukraine but this will not be sufficient to maintain herd sizes. Kazakhstan has already agreed to sell Russia 300,000 tons of grain and other agreements based on barter terms are expected. However, imports are unlikely to meet demand despite low world grain prices and an excellent crop in Kazakhstan because of continuing problems in Russia's financial sector.

Grain quality

While in 1998 more than 76 percent of wheat was food quality according to Russian standards, only 63 percent of the crop will meet the food wheat criteria in 1999. However, grain quality in the Urals, West and East Siberia was better, with between 70 and 90 percent of the crop rated as food quality. Quantities, however, are quite limited.

Increasing regional trade restrictions

Most regions augment their own grain production because only 16 can meet their own demand. Because of this, meeting demand in many parts of Russia will be made more difficult by the prevalence of *de facto* regional export or import bans currently in place in 36 regions. These restrictions continue in defiance of Russian Federal law because the regions are anxious to ensure their own grain reserves in a time of tight supplies. Many regions restrict trade by requiring exporters to have a special note to export grain or by denying access to truck or rail -- or simply by having the police confiscate the grain. Other regions use "softer" methods like subsidies and preferential access to storage facilities to encourage farmers not to sell grain out of the region. The continuation of regional trade restrictions reflects the willingness of regional governments to interfere in markets and the lack of faith that market mechanisms can provide enough food for the population. There is little expectation that this will change for the better as long as feed grain supplies are tight.

The upcoming Duma and Presidential elections further encourage regions to take an active role in markets, limiting grain movements across internal borders, especially since the August 1998 economic crisis which undermined the banking sector. These factors, along with continuing farm indebtedness, have spurred the growth of the oil-based barter trade which makes up an estimated 80 percent of trade between the farm and first purchaser. Under this system, prices for crops are often determined in spring meaning that producers often do not benefit from price increases. The flour milling sector is also becoming less transparent because supplies are much better for companies connected to regional government and because of the expansion of regional trade restrictions which limit a mill's ability to buy grain and sell flour.

Prices

Grain Prices

Traders expect prices for milling wheat to rise 5-10 percent after inflation in the next 12 months while prices for feed are expected to increase 10-20 percent in the same period, with only the possibility of government to government trade assistance ameliorating this trend. Inflation may also be dampened by lower international prices, but will be fueled in grain deficit regions by regional trade restrictions. However, it is expected that grain price increases will be muted until well after the Duma elections. Because of continuing problems in the Russian financial sector, the VAT and other trade barriers, it is possible that the Russian domestic price for grain could exceed world prices in the next few months.

Bread Prices

According to traders, US and EU shipments boosted stocks and reduced flour price increases. Administrative measures in the regions were also used to control prices, including price controls, mandatory sales of products and various kinds of subsidies. However, after the new year, the stocks of flour and subsidies designed to keep prices down are expected to run out, resulting in expected sharp price increases. Traders and senior Russian agricultural officials also observed that bread prices mainly depend on regional policies. Below is a table comparing prices between selected regions:

Prices in selected Russian Regions, Oct. 1999, Rubles		Wheat bread, 500 g loaf		
Region				
	Minium	Maximum	Average	
<u>All Russia</u>	2.2	20.0		
<u>Northern Region</u>				
Komi Republic	5.7	11.8	7.2	
Archangel Oblast	10.2	14.8		
Vologda Oblast	5.5	5.7	5.6	
<u>Northwest Region</u>				
Leningrad Oblast	4.3	7.0	5.1	
<u>Central Region</u>				
Bryansk Oblast	9.0	9.0	9.0	
Vladimir Oblast	8.5	10.3	9.5	
Ivanovo Oblast				
Kaluzha Oblast	4.0	6.5	4.6	
Kostroma Oblast	4.9	5.8	5.4	
Ryazan Oblast	9.0	9.0	9.0	
Smolensk Oblast	7.8	12.8	10.8	
Tver Oblast	9.4	10.6		
Yaroslav Oblast	5.8	9.7		
<u>Volga-Vyatski Region</u>				
Mordovia	4.6	10.0	4.6	
Chuvashia	6.2	6.2	6.2	
Kirov Oblast	8.5	11.0	10.2	
Nizhgorod Oblast	7.5	10.5	9.0	
<u>Central Black Earth Region</u>				
Belgorod Oblast	3.5	3.5	3.5	
Kursk Oblast	2.9	4.9		
Lipetsk Oblast	3.1	3.1	3.1	
Tambov Oblast	9.5	10.0	9.5	
<u>Central Volga Valley</u>				
Volgograd Oblast	5.0	5.0	5.0	
Penza Oblast	2.2	9.6	5.6	

Samara Oblast	5.8	11.0	9.0	
Saratov Oblast	3.5	3.8		
<u>North Caucasus Region</u>	5.0	9.6		
Adygiya	6.2	6.5	6.2	
Northern Ossetia	5.0	5.0	5.0	
Stavropol Krai				
<u>Urals Region</u>	3.8	11.2		
Bashkortostan	4.9	8.3	6.6	
Udmurtia	8.3	11.2	8.3	
Kurgan Oblast	3.8	8.3		
Orenburg Oblast	5.0	10.0	7.8	
Sverdlovsk Oblast	6.5	11.0	8.7	
<u>West Siberia Region</u>				
Kemerovo Oblast	7.0	7.0	7.0	
Novosibirsk Oblast	4.8	9.2	5.0	
Tomsk Oblast	8.2	8.2	8.2	
<u>East Siberia Region</u>				
Krasnoyarsk Krai	6.4	7.4	7.4	
Irkutsk Oblast	7.4	7.4	7.4	
Chita Oblast	9.0	11.0	9.0	
<u>Far East Region</u>				
Primorskiy Krai	6.4	11.4	7.1	
Khabarovsk Krai	6.3	20.0	6.7	
Jewish OA	6.7	6.7	6.7	
Kamchatka Oblast	8.3	10.8	9.2	

Source: Russian State Statistical Committee; 1 US Dollar = 25 rubles

Early prospects for 2000

Early indications for the 1999/2000 harvest point to another low harvest in Russia unless the weather is very good. Harvests are likely to be depressed by the combined effects of chemical, machinery and input shortages, higher fuel costs, regional trade restrictions, declining soil fertility, non-market oriented management and other problems which will impede both sowing and harvesting. Industry sources and post believe that farms in the Northern Caucasuses and Western Siberia will be less affected by these problems because of either more market-oriented policies or because there has been more investment. Farms in the Black Earth and Volga Valley regions are expected to face more difficulties. Although Russian data anticipate that 1999/2000 grain plantings will total 49.5 million hectares, only 28.6 million hectares have been plowed. At the same time, farmers have only sown 12.5 million hectares of a planned 15.1 million hectares of winter crops. All of these figures are well below five year averages. Combining these factors, post estimates that Russia can only produce 59-60 million tons of grains in 1999/2000 given normal weather. This figure is consistent with data reported at the Annual Conference of the Russian Grain Union where possible production scenarios varied between 65 - 67 million tons under optimum conditions and between 40-48 million tons given more bad weather.

Wheat

Latest customs data show that wheat exports in 1998/1999 were around 1.5 million tons, requiring post to make small adjustments in the exports and domestic consumption estimates for the year. Because of a slight improvement in the Siberian harvest during the fall, and post increases wheat production forecast 30.0 million tons -- although grain quality is low and moisture is high (causing problems with harvesters and in milling). Post increases its wheat import forecast because of the import of 1.7 million tons of US and EU wheat in July-September 1999 along with brightened prospects for commercial imports from Kazakhstan. These factors should boost ending stocks slightly.

PSD for Wheat, Thousands of Metric Tons

PSD Table						
Country:	Russian Federation					
Commodity:	Wheat					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		06/1997		06/1998		06/1999
Area Harvested	25700	25700	26100	26100	24000	24000
Beginning Stocks	2580	2580	8600	8600	1000	1000
Production	44200	44200	26900	26900	29500	30000
TOTAL Mkt. Yr. Imports	2800	2800	1900	1900	4000	4500
Jul-Jun Imports	2800	2800	1900	1900	4000	4500
Jul-Jun Import U.S.	150	150	1000	1000	1000	1500
TOTAL SUPPLY	49580	49580	37400	37400	34500	35500
TOTAL Mkt. Yr. Exports	980	980	1660	1500	0	0
Jul-Jun Exports	980	980	1660	1500	0	0
Feed Dom. Consumption	16000	16000	11000	11200	9500	9500
TOTAL Dom. Consumption	40000	40000	34740	34900	34500	35000
Ending Stocks	8600	8600	1000	1000	0	500
TOTAL DISTRIBUTION	49580	49580	37400	37400	34500	35500

Barley

The barley production forecast is cut to 11.0 million tons because of poor harvest conditions in Siberia. The latest customs data for September 1999 (the last month of MY 1998/1999) indicate that Russian exports will come to about 50,000 tons. At the same time, Russia is expected to import at least the same quantity of malting barley as last year.

PSD for Barley, Thousands of Metric Tons

PSD Table						
Country:	Russian Federation					
Commodity:	Barley					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Harvested	12500	12500	11330	11330	10000	10000
Beginning Stocks	1580	1580	4250	4250	500	500
Production	20780	20780	9780	9780	11200	11000
TOTAL Mkt. Yr. Imports	290	290	300	300	300	300
Oct-Sep Imports	290	290	300	300	300	300
Oct-Sep Import U.S.	5	5	0	0	0	0
TOTAL SUPPLY	22650	22650	14330	14330	12000	11800
TOTAL Mkt. Yr. Exports	1300	1300	90	90	50	50
Oct-Sep Exports	1300	1300	90	90	50	50
Feed Dom. Consumption	13100	13100	9500	9500	7900	7900
TOTAL Dom. Consumption	17100	17100	13740	13740	11750	11750
Ending Stocks	4250	4250	500	500	200	0
TOTAL DISTRIBUTION	22650	22650	14330	14330	12000	11800

Corn

The rainy fall and delays in harvesting caused further losses in corn. As a result, post decreases its corn production forecasts to 1.1 million tons while cutting feed consumption to 1.1 million tons.

PSD for Corn, Thousands Metric Tons.

PSD Table						
Country:	Russian Federation					
Commodity:	Corn					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Harvested	900	900	800	800	900	930
Beginning Stocks	200	200	820	820	150	150
Production	2670	2670	820	820	1300	1100
TOTAL Mkt. Yr. Imports	200	200	550	450	200	200
Oct-Sep Imports	200	200	550	450	200	200
Oct-Sep Import U.S.	50	50	500	450	0	50
TOTAL SUPPLY	3070	3070	2190	2090	1650	1450
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	1600	1600	1450	1350	1100	900
TOTAL Dom. Consumption	2250	2250	2040	1940	1650	1450
Ending Stocks	820	820	150	150	0	0
TOTAL DISTRIBUTION	3070	3070	2190	2090	1650	1450