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## **Russian Federation**

### **Grain and Feed**

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#### **Report Highlights:**

**Official sources report that 86.5 million metric tons (mmt) of grain were harvested in 2002, slightly more than in 2001. Prices, which had been falling in the summer, have stabilized and in some regions even increased mostly due to strong exports, but also to the influence of governmental grain interventions. Exports of wheat and barley continue strong and Post increases the wheat export forecast to 8 mmt.**

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## Executive Summary

Official sources report that 86.5 million metric tons (mmt) of grain were harvested in 2002, slightly more than in 2001. Prices, which had been falling in the summer, have stabilized and in some regions even increased mainly due to strong exports, but also to the influence of governmental grain interventions. Exports in July-October, have already exceeded 5.4 mmt, and post estimates that by mid December around 10 mmt of grain have been removed from the domestic market destined for export. Thus, the large surplus stock situation in which the marketing year began has improved, but not enough to induce producers to increase winter sowing. The decrease of area sown to winter grains, which is lagging behind last year by 13 percent is also the result of farmers' financial constraints. Based on area sown to winter crops, experts forecast that next year's total grain crop will be at least 4-5 mmt less than in 2002.

## Production

Official sources report that 2002 wheat production increased to 49.5 mmt, or 57 percent of the total grain crop compared with 55 percent in 2001. The financial status of grain producers in CY 2002 has worsened because most of the exported grain was purchased from farmers in August and September when prices were the lowest. According to preliminary data, this year 52 percent of agricultural enterprises will finish the financial year in the red. Experts consider that without budget subsidies (both federal and regional), agriculture would have been unprofitable throughout almost all of Russia, with the exception of the Southern Federal district.

Winter grain sowing is lagging behind 2001 by almost 13 percent, and at the beginning of December only 14 million hectares were sown. However, the situation in Southern Russia, the main grain producing region, is better. In Rostov Oblast most of grain surplus (from the 6 mmt crop) was sold abroad at better prices and, therefore, provided the wherewithall for investing in next year's crop. According to the Minister of Agriculture and Food of Rostov Oblast, this year 400,000 more hectares was plowed for spring sowing, and 1.7 million hectares were prepared for winter sowing. The area sown to the winter crop in the Southern Federal District is 5.6 million hectares, or 40 percent of the total, down by almost 600,000 hectares compared with fall 2001. In the second most important winter grain producing region, the Volga Valley Federal District, the area sown to winter grains shrank by almost 900,000 hectares to 4.8 million hectares.

## Trade

Exports in the period July - October, 2002 reached 5.4 mmt, three-quarters of which was wheat (including small 50,000 of wheat flour in grain equivalent). Wheat exports reached 1.42 mmt in October, while exports of barley were 375,000 mt. These continuing strong exports show that in spite of limited port capacity and difficulties with logistics, the gap between domestic and international grain prices has stimulated exporters to find alternative ways of shipping abroad. This price gap combined with the still looming threat of EU limitations provided incentives to traders to try to export large amounts before January 1, 2003, including the use of non-traditional methods of grain handling such as lifting and dumping the grain from the train cars right onto the vessels.

In November, inspired by surging exports, the Russian insurance companies Ingosstrakh and Soglasiye announced the formation of a pool to ensure Russian exporters of agricultural products against the risk of non-payment by foreign buyers. The combined potential of Ingosstrakh and Soglasiye, the most active players on the export credit insurance market in Russia, will make it possible to offer insurance to exporters of agricultural products of amounts up to \$200 million per month.

## Port capacity

Russian port capacity is still quite limited and although modernization and improvement are underway its expansion will take at least two years. The port in Taganrog (Azov sea) has begun work on a new berth which will increase the grain handling capacity of this port by 45,000 tons a month. Sources also report that the port of Vladivostok will be ready to move 5,000 tons of grain a day from rail cars to vessels beginning 2003 (if weather allows). Post has also understood that improvements in Novorossiysk (Russian largest Black Sea port) and Yeysk (Azov Sea) are also underway. Nevertheless, overall port capacity in Russia will continue to be constrained by shallow drafts and lack of land around ports. Grain is also in competition for scarce facilities with other, higher value commodities. Additionally, some experts, including some from the Ministry of Transportation which supervises the use of port facilities, doubt that construction of new grain elevators will be profitable if Russia cannot produce at least this year's amount of grain in the coming years.

Thus, traders have been using facilities in the Baltic countries and the Ukraine to move Russian grain. The total capacity of Baltic ports is estimated at 7-8 mmt a year. This includes the port of Muuga in Estonia, the port in Liepaja (Latvia-capacity 500,000 tons a year), and the reconstructed port in Klaipeda (Lithuania), where storage previously used for handling fertilizer has been cleaned and re-equipped, increasing capacity of this port to 1 mmt by the beginning of 2003. The total capacity of Ukrainian ports is estimated at nearly 22 mmt tons a year and in October at least 7 percent of grain shipped through these ports was Russian origin. Taking in account the ongoing modernization of Ukrainian ports (Illichevsk, Odessa, Nickolayev, Khersonsk and Berdyansk) experts estimate grain transit through these ports at 2-3 mmt a year.

## Railroad transportation

Data from the Russian Ministry of Transportation show that for January-November of this year almost 19 mmt of grain was handled by railroad, compared with 14 mmt in the same period last year. Railroad grain shipments in November 2002 were 48 percent higher than a year ago and in December are forecast to be 55 percent higher. Post believes this increase in railway use is directly connected with a 20 percent railway tariff seasonal discount for distances over 200 km and with the additional 50 percent discount rate for shipments moving over 3,000 km. This latest discount was introduced in September. However, these discount rates will last only until January 1, 2003. The shortage of railway cars will continue to hinder the efficient movement of grain.

## Grain Intervention

Government grain intervention purchases began on November 13 in seven exchanges designated by the Ministry of Agriculture- two in the Central Federal District (in Moscow, and in St-Peterburg), in Samara, in N. Novgorod, in Yekaterinburg, in Novosibirsk, and in Rostov-on-Don. The interventions were conducted over several sessions, the last one held on December 11. In total 1,974,000 metric tons of grain were purchased, including 716,800 metric tons of class 3 wheat, 971,000 tons of class 4 wheat, and 286,200 tons of food quality rye. These purchases from these sessions were planned to last for two to three weeks and according to MinAg officials, they raised prices an average of 10-12 percent. MinAg also confirmed that interventions will continue until the grain prices reach the maximum level set in the GOR resolution: 2,300 R/mt for class 3 wheat, 1,800 R/mt for class 4 wheat and 1,400 R/mt for food rye.

Some shortcomings in the process became obvious, however. Interventions started when most traders had already managed to purchase grain from producers, although it was declared that only producers could participate in the

auction, this requirement was ignored especially in Siberia. Moreover, producers from the south of European Russia did not participate, as surplus grain had already been contracted for export or actually shipped by the start of interventions. Thus, Rostov-on-Don had no elevators participate in these interventions, while the total number of declared elevators Russia-wide exceeded 170 (although not all of them were approved by the Federal Agency). The regional authorities in Rostov claimed that big private traders like Aston and Yug Rusi, had earlier offered grain producers a better price than the maximum procurement price. Apparently, these companies found channels for export and were able to offer higher prices to producers. Thus Aston has its own terminal in Kaliningrad port (Torg. Gazeta, Nov, 22, 2002).

## Wheat

Post increases the export forecast for 2002 to eight mmt. Although possible restrictions on imports by the EU are still looming, significant quantities of wheat have already been shipped and the threat has only stimulated trade. Traders are also shipping to markets other than the EU, especially those in North Africa.

**Table 1: Wheat Supply and Distribution**

<b>PSD Table</b>						
<b>Country:</b>	<b>Russian Federation</b>					
<b>Commodity:</b>	<b>Wheat</b>					
		<b>2000</b>		<b>2001</b>		<b>2002</b>
	<b>Old</b>	<b>New</b>	<b>Old</b>	<b>New</b>	<b>Old</b>	<b>New</b>
<b>Market Year Begin</b>		<b>07/2000</b>		<b>07/2001</b>		<b>07/2002</b>
<b>Area Harvested</b>	<b>23200</b>	<b>23200</b>	<b>23800</b>	<b>23800</b>	<b>25700</b>	<b>25700</b>
Beginning Stocks	<b>1200</b>	<b>1200</b>	<b>1400</b>	<b>1400</b>	<b>6400</b>	<b>6400</b>
Production	<b>34450</b>	<b>34450</b>	<b>46900</b>	<b>46900</b>	<b>49500</b>	<b>49500</b>
TOTAL Mkt. Yr. Imports	<b>1604</b>	<b>1604</b>	<b>550</b>	<b>496</b>	<b>500</b>	<b>500</b>
Jul-Jun Imports	<b>1604</b>	<b>1604</b>	<b>550</b>	<b>496</b>	<b>500</b>	<b>500</b>
Jul-Jun Import U.S.	<b>45</b>	<b>45</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL SUPPLY</b>	<b>37254</b>	<b>37254</b>	<b>48850</b>	<b>48796</b>	<b>56400</b>	<b>56400</b>
TOTAL Mkt. Yr. Exports	<b>696</b>	<b>696</b>	<b>4372</b>	<b>4408</b>	<b>7500</b>	<b>8000</b>
Jul-Jun Exports	<b>696</b>	<b>696</b>	<b>4372</b>	<b>4408</b>	<b>7500</b>	<b>8000</b>
Feed Dom. Consumption	<b>11500</b>	<b>11500</b>	<b>14000</b>	<b>14000</b>	<b>17500</b>	<b>17500</b>
<b>TOTAL Dom. Consumption</b>	<b>35158</b>	<b>35158</b>	<b>38078</b>	<b>37988</b>	<b>41500</b>	<b>41500</b>
Ending Stocks	<b>1400</b>	<b>1400</b>	<b>6400</b>	<b>6400</b>	<b>7400</b>	<b>6900</b>
<b>TOTAL DISTRIBUTION</b>	<b>37254</b>	<b>37254</b>	<b>48850</b>	<b>48796</b>	<b>56400</b>	<b>56400</b>

## Barley

Post increases domestic consumption of barley by 300,000 tons as more barley will be used in feeding due to the large wheat exports.

**Table 2: Barley Supply and Distribution**

PSD Table						
Country:	Russian Federation					
Commodity:	Barley					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	9200	9200	10200	10200	10400	10100
Beginning Stocks	289	289	1529	1529	4386	4386
Production	14100	14100	19500	19500	19000	19000
TOTAL Mkt. Yr. Imports	413	413	200	200	200	200
Oct-Sep Imports	346	346	200	200	200	200
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	14802	14802	21229	21229	23586	23586
TOTAL Mkt. Yr. Exports	573	573	2600	2600	3500	3500
Oct-Sep Exports	1031	1031	2664	2664	3200	3200
Feed Dom. Consumption	8800	8800	9850	9850	10600	10800
TOTAL Dom. Consumption	12700	12700	14243	14243	15500	15800
Ending Stocks	1529	1529	4386	4386	4586	4286
TOTAL DISTRIBUTION	14802	14802	21229	21229	23586	23586