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Grain and Feed

1999 Harvest Prospects, September Update

1999

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Report Highlights:

An increase in the area sown to coarse grains, higher than expected winter grain harvest in Krasnodar, and spring grain yields in the Urals and West Siberia, brought the forecast 1999 grain harvest to 55 million tons. However, price increases for wheat combined with “opaque” markets and increasing regional trade barriers have already created shortages in grain deficit regions.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Total Grain

Production

July and August rains in European Russia were too late to significantly improve the grain crop in the Black Earth, Volga Valley and Central regions of Russia. In fact, in some areas the wet weather delayed harvesting and led to decreases in yields. These losses were made up by a better than expected harvest in Krasnodar, where yields were 3.98 tons per hectare, and by prospects for a good crop in the Urals and West Siberia, despite earlier problems with locusts. In addition, recent data indicate that production of coarse grains increased, bringing the total 1999 grain crop at 55.0 million tons, 2 million tons higher than in the previous report. Post forecasts for grains are in clean weight. This increase includes a 0.5 million-ton increase in wheat production and a 0.3 million-ton increase in barley production while the rest of the increase comes from buckwheat, oats, and millet. For these latter coarse grains, sown area increased by 1 million hectares because of a rapid increase in domestic groats prices in 1999.

While production forecasts among sources vary, most independent analyses forecast production between 53-57 million. The Ministry of Agriculture forecast is for a 60 million ton harvest – a figure Post believes will be revised downward as losses created by higher fuel prices, machinery shortages and poor storage mount.

Prices

Low carry-over stocks of grain (estimates of different sources vary from 2.0 million to 5.0 million tons), combined with the small 1999 harvest, regional trade barriers and increasing fuel prices have already pushed up prices for grain and grain products through August 1999. The tightening supply and demand situation is reflected by a near doubling in wheat dollar prices and a 30 percent increase in flour prices from the beginning of 1999. In ruble terms, wheat and wheat flour prices increased 300 and 200 percent since January, respectively. As a result, the domestic market price of grain is almost equal to world prices. Price movements since September 1998 are given below. The Russian grain market is not transparent, price information is scarce, and prices offered by producers and traders (in the table below) are at least 25-30 percent higher than the final agreed prices, which are usually not reported.

What is remarkable about the price data is not only how much they have increased in the last 11 months but that prices continued to rise despite imports and wheat coming in from the 1999 harvest. This lack of a seasonal price decline suggests that supplies are running low and/or buyers are hoarding grain in anticipation of low supplies later.

Wheat Prices: September 1998 - August 1999 in US Dollars and Rubles

	In Rubles		In U.S. dollars		Exchange rate
	Wheat (gluten 23%)	Wheat flour (top-grade)	Wheat (gluten 23%)	Wheat flour (top-grade)	Rubles/dollar
1998					
September	1,020	3,380	80	266	12.7
October	950	5,400	59	335	16.1
November	1,070	4,560	63	268	17.0
December	1,120	4,560	58	237	19.3
1999					
January	1,400	4,560	65	211	21.6
February	2,000	4,970	88	219	22.7
March	2,100	5,100	89	217	23.5
April	2,400	5,300	98	216	24.5
May	2,500	6,000	103	247	24.3
June	2,820	6,500	116	267	24.3
July	3,020	7,200	125	297	24.2
August	3,010	7,005	124	288	24.3

Source: Informzerno.

Market versus procurement prices

Another indication of tightening supplies is the increase of prices above the minimum Russian State guaranteed procurement prices for products bought for state needs. The table below compares guaranteed prices for different grains with maximum August offer prices published by Informzerno.

Market and Russian guaranteed procurement prices, August 1999

Commodities	State guaranteed procurement prices*		Seller's offer prices	
	Rubles	\$US	Rubles	\$US
Wheat, hard (Grade 3)	2,000	82	3,020	124
Rye (Grade 3)	1,200	49	1,450	60
Barley, brewer's (Grade 2)	1,500	62	2,900	119
Oats (Grade 3)	1,000	41	1,700	70

Source: Informzerno.

* State procurement prices do not include Value Added Tax, which is 20 percent for grain

Opaque marketing channels

On top of tightening supplies, movement of grain across Russia is hampered by the fact that grain markets are not transparent. Although the wheat market is better developed than that of other grains, wheat prices are often determined mostly by different regional “pricing” systems that reflect trade barriers and barter arrangements rather than supply and demand. As a result, prices and product availability differ dramatically from region to region. The functioning of a national grain market is further undermined by the refusal of Russia’s largest grain producing regions (Stavropol, Krasnodar, Kursk, Tambov, Belgorod, Altai, Krasnoyarsk and Novosibirsk) to sell grain to other areas. Combining this with tight grain supplies that would barely cover food needs even with good distribution, it is not surprising that some grain deficit regions in Siberia and the North are already beginning to experience shortages. Because of distribution problems tight supplies this close to harvest season make it more likely they will be more severe later.

Reflecting the non-transparency of the grain market, prices also tend to vary greatly between transactions for the same product at the same time. These price differences often reflect the influence of barter arrangements, which form the basis of many grain contracts. In barter trade, grain is often exchanged for fuel or lubricants. Increasing fuel prices in 1999 have driven up grain prices by pushing up operating expenses for farmers.

Bread Prices

Bread prices are kept low in most regions. In many areas, prices are subsidized through low wheat flour procurement prices from state-owned mills for bakeries that produce cheap bread. Other regions have put the burden on the bakeries which are forced to sell bread below production cost. In Moscow, for example, bread prices are not allowed to increase more than 5 percent a week. Some regions sell special low quality bread at very low prices, using poor quality flour. This is the practice in Saratov, for example where the price of this bread is half to a third of the price for ordinary white bread. These attempts to keep bread prices low recall Soviet days when farmers bought cheap bread in large quantities for livestock feed (this was reported in Kemerovo Oblast this month). Thus, although Russian officials report that Russia will have enough food grain in 1999, the supply of good quality white bread will be tighter than in 1998.

In spite of interventions by local governments, bread prices have risen sharply in many regions of Russia. In September 1998, the average price of 1 kg of white bread in Russia was 5.6 rubles (varying from 4.0 rubles in Krasnodar to 10.0 rubles in Murmansk and the Far East). In dollars, the average is \$0.44 with a minimum of \$0.31 and a maximum of \$0.79. In July 1999, the average price of a kg of white bread increased to 9.14 rubles (\$0.38) and ranged from 5.42 rubles per kg in Krasnodar (\$0.22) to 16.0 rubles (\$0.66) in Khabarovsk (Far East). Combining a 60 percent increase in bread prices with a 30 percent fall in consumer incomes since September 1998 means that consumers may have an increasingly difficult time affording bread, especially in the North, Siberia and Far East.

Wheat

Post increases its wheat crop production forecast by 0.5 million tons to 29.5 million tons despite reduced area harvested. The winter wheat crops in Krasnodar and in Stavropol are better than expected, and better weather has improved average yields of spring wheat enough to make up for a significant decrease in spring wheat harvested area. Based on new official data, post increases its forecast for wheat imports by 0.5 million tons which will boost consumption in the livestock sector.

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	25500	24000
Beginning Stocks	2580	2580	8600	8600	1000	1000
Production	44200	44200	26900	26900	29000	29500
TOTAL Mkt. Yr. Imports	2800	2800	3200	3200	3000	3500
Jul-Jun Imports	2800	2800	3200	3200	3000	3500
Jul-Jun Import U.S.	150	150	1750	1750	1000	1000
TOTAL SUPPLY	49580	49580	38700	38700	33000	34000
TOTAL Mkt. Yr. Exports	980	980	1500	1500	0	0
Jul-Jun Exports	980	980	1500	1500	0	0
Feed Dom. Consumption	16000	16000	12100	12100	8700	9200
TOTAL Dom. Consumption	40000	40000	36200	36200	33000	34000
Ending Stocks	8600	8600	1000	1000	0	0
TOTAL DISTRIBUTION	49580	49580	38700	38700	33000	34000

Barley

Barley prices increased from less than 800 rubles (\$63) per ton in September 1998 to 2,200 rubles (\$91) per ton in July 1999. Because of this price increase and the possibility of exporting barley to foreign markets, producers will try to maximize yields through careful harvesting. As a result, harvest losses will be low and Post increases its forecast of barley output in 1999 to 11.3 million tons, despite a decrease in area harvested to 10.0 million hectares because of the July drought and August rains.

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	11000	10000
Beginning Stocks	1580	1580	4250	4250	480	480
Production	20780	20780	9780	9780	11000	11300
TOTAL Mkt. Yr. Imports	290	290	160	200	200	200
Oct-Sep Imports	290	290	160	200	200	200
Oct-Sep Import U.S.	5	5	0	0	0	0
TOTAL SUPPLY	22650	22650	14190	14230	11680	11980
TOTAL Mkt. Yr. Exports	1300	1300	50	50	50	50
Oct-Sep Exports	1300	1300	50	50	50	50
Feed Dom. Consumption	13100	13100	9760	9760	7730	8030
TOTAL Dom. Consumption	17100	17100	13660	13700	11430	11730
Ending Stocks	4250	4250	480	480	200	200
TOTAL DISTRIBUTION	22650	22650	14190	14230	11680	11980

Corn

The latest official data show that corn for grain will be harvested from 930,000 hectares. High demand for corn and an expected shortage of feed grains during 1999/2000 is expected to raise prices enough to make producers more interested in reducing harvest losses. Post increases corn production estimates to 1.6 million 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	1450	1600
TOTAL Mkt. Yr. Imports	200	200	550	550	150	150
Oct-Sep Imports	200	200	550	550	150	150
Oct-Sep Import U.S.	50	50	50	50	0	0
TOTAL SUPPLY	3070	3070	2190	2190	1750	1900
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	1450	1200	1300
TOTAL Dom. Consumption	2250	2250	2040	2040	1750	1900
Ending Stocks	820	820	150	150	0	0
TOTAL DISTRIBUTION	3070	3070	2190	2190	1750	1900