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Russian Potato Crop and Import Prospects

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Report Highlights:
Given the expected 30 percent decrease in potato production, Russia's staple food product, Russian officials forecast it will import 4 MMT's before the beginning of harvest in 2011. In efforts to facilitate these imports Russia is planning to temporarily lift import duties on seed and table potato.

General Information:

Production

The Russian Ministry of Agriculture (MinAg) forecasts that the severe summer drought will result in a 30 percent decrease in potato production to 22 million metric tons (MMT). Since 2000 potato production in Russia has stabilized at 28-30 MMT and that domestic production covered over 95 percent of demand. Russia's Food Security Doctrine determined that Russia shall have 95 percent self-sufficiency in potato, and in 2009 MinAg forecasted that this level would surpass 99 percent by 2012. In 2008 and 2009 Russian business made some investments in industrial potato production, but up to 85 percent of Russia's potatoes are still produced by individual households. Even at industrial commercial farms irrigation is scare and the potato crop significantly depends on weather conditions. In 2010, drought affected both big industrial potato farms and households in the Central and the Volga Valley Federal District that traditionally produces over 60 percent of Russian potato crop. Sources report that some households managed to save part of the crop by intensive manual watering of potato and vegetable plots. However, the yields and the quality of this potato is worse than in the previous years, and the spread of diseases is significant and may cause problems with winter storage. Some provinces reported that losses in the big enterprises reached 80 percent of planned crop and losses at households were only slightly less. According to one farmer in Tambov oblast (Central Federal District), "the potatoes were baked in the soil". Since 2007 some farmers in European Russia began producing potatoes of special quality for food industry (chips, dried, frozen potato, etc.). This contracted production was a new and perspective business. However in 2010 Russian farmers will not be able to meet the demand of food industry.

Table 1. Russia: Potato Sown Area, Yields, Production in 2004 – 2009, MinAg's Forecast for 2010.

	2004	2005	2006	2007	2008	2009 prelim.	2010 forecast
Sown area, total, 1,000 ha	2,415	2,277	2,129	2,069	2,104	2,195	2,207
Yields (per harvested area), MT/ha	11.6	12.4	13.3	13.2	13.8	14.2	NA
-in citizen's households	11.3	11.9	12.7	12.6	13.0	NA	NA
Production, total	27,900	28,100	28,300	27,200	28,800	31,100	22,000
- in citizen's households	24,900	25,000	24,000	23,000	24,000	NA	NA

Source: State Statistical Service of the Russian Federation (Rosstat); MinAg

Consumption

In Russia potato remains the staple food product for the majority of urban population, and the major food products for rural population (27 percent of Russian population). However, data on potato food consumption are not accurate, because 85-90 percent of potato is produced at the private plots, at small households, and is consumed by these producers or delivered to their relatives and families in urban areas, or sold at the side-road markets. MinAg and Rosstat estimate domestic food consumption of potato at 16 MMT, based on the estimated per capita potato consumption at approximately 110 kilograms. MinAg estimates Russian industrial and seed consumption of potato at 12 MMT. Thus, the total annual consumption of potato is estimated at 28-29 MMT.

Meantime, the real volumes of potato consumption depend on the changes in disposable incomes. In the years of stability and prosperity Russian consumers, especially consumers in metropolitan areas, switch to other products, including vegetables. On the contrary, during the crisis years the Russian population increased consumption and production at households. Area sown with potato in the crisis and post-crisis years 2009 and 2010 increased. Given that Russia's recovery from economic crises is slow and that inflation surpasses growth of disposable incomes, demand in staple food like potato in 2010/2011 might be bigger than the 28 MMT's "needs" estimated by the Ministry of Agriculture.

Marketing

Experts estimate that domestic marketing of potato will decrease. Farmers and household owners in all areas will be saving potato for their own consumption and for seeds.

Since August 2010, when it became obvious that potato crop will not recover from the drought, prices of potato began increasing. In September 2010 potato prices kept going up, although previously September and October were periods of low potato prices. According to mass media, in Moscow oblast, which is one of the major suppliers of Moscow city, in the previous harvest seasons the wholesale farm-gate price of potato (so called "economy class", unwashed, average quality, often "mixed" varieties) was 5,000 – 7,000 rubles ($167-$233) per metric ton (MT). Shortly after beginning of harvest (mid August, 2010) price of potato increased to 12,000 rubles ($400) per MT. In the first week of September price increased to 15,000 rubles ($500) per metric ton, and by mid September it reached 18,000-20,000 rubles ($600 - $667) per metric ton, and is kept at this level. Experts forecast that in Moscow oblast instead of planned 750,000 – 800,000 MT of potato, farmers will manage to harvest only 150,000 MT [i] . The Moscow city Government that has separate budget for creation and maintenance of city stocks of staple food products has already started purchasing potato in other provinces.

Retail prices of potato in Moscow supermarkets vary from 30 rubles ($1) to over 45 rubles ($1.5) per kilogram and at the "farmers' markets" in Moscow price of potato ranges from 20 rubles ($0.67) to 35 rubles ($1.2) per kilogram. Potato is a staple, socially important product, and theoretically the price might be controlled by the Government, if the government finds signs of monopolization of retail trade, but potato market less concentrated than markets of other food products.

Trade

According to MinAg's estimate in MY 2010 Russia should import 4 MMT of potato to meet the domestic "needs" in potato. Russian officials mentioned Belarus and Ukraine as the major possible suppliers of potato to Russia. Experts also name Poland and Egypt as possible suppliers to Russia in 2010-2011, but they are skeptical that it will be easy to find the necessary quantities of potato in these countries without preliminary contracts.

Russia has been almost self-sufficient in fresh and chilled potato for many years. Thus, in July 2009 – June 2010 imports of fresh and chilled potato were less than 2 percent of domestic production in 2009. Imported potato is usually a high quality, longer shelf-life product for supermarkets in metropolitan area. Prices of imported potato (price includes import tariffs) vary from $300 to $600 per metric ton.

Official customs data does not show imports from Belarus, while Belarus has been one of the major suppliers of cheap fresh potato to Russia in the periods of decreased domestic crop. Poland, formerly another important supplier of relatively cheap potato to Russia, has significantly decreased exports of fresh potato, and increased exports of processed potato products, including frozen potato. It is not very likely that Poland will switch from exports of the value added potato products to table potato for Russia's sake. According to experts, Ukraine and Belarus together may ship up to1.5 MMT of potato to Russia. Thus Russia may increase its range of potato suppliers and increase imports of more expensive potato from the far-away countries, including the U.S. Growth of retail prices may decrease demand in potato in the big cities, but the middle- and high-income consumers would prefer to purchase less but pay more for the top-grade imported potato, and demand for the U.S. potato might increase.

Table 1. Russia: Potato Imports by Countries, 1,000 Metric Tons, Year Ending June

	2008	**2009**	**2010**		**2008**	**2009**	**2010**
	Imports, 1,000 MT				**Prices: $/MT**		
World	531	394	401		413.16	382.88	393.23
Netherlands	137	102	117		360.18	348.88	358.5
Egypt	113	71	76		494.99	489.52	473.77
Azerbaijan	80	91	58		375.76	287.5	310.61
France	51	19	34		322.29	328.15	328.12
China	54	46	33		439.8	431.53	430.86
Finland	7	5	25		576.73	518.48	403.61
Belgium	32	13	12		303.23	311.86	308.31
Saudi Arabia	7	8	11		304.38	324.19	342.41
Germany	20	14	11		618.38	481.61	589.74
Israel	15	15	9		522.09	490.94	597.82
Lebanon	0	0	2		0	450	562.51
Lithuania	0	1	2		353.18	307.57	321.31
United States	2	2	1		528.94	803.53	581.08
United Kingdom	2	1	1		873.41	686.44	582.27
Other	11	6	9				

Source: World Trade Atlas

<u>Policy</u>

Given the 30 percent expected decrease in domestic potato crop, the Ministry of Agriculture and the Ministry of Economic Development offered the Government to lift potato import duties for this season. The current import duty on potato planting seeds is 5 percent of the custom value, and import duty on table potato is 15 percent of the custom value. Any tariff changes shall be enforced by a government resolution. The Government has not yet adopted a resolution on the potato import duties, but it seems very likely that imports of potato in January – June 2011 will be duty-free. The phytosanitary memorandum on imports of U.S. potato that was signed between Russia and the U.S. in 2009 lifted some quarantine issues, and the duty free import regime may provide additional incentives to imports of U.S. potato.

[i] Source: Torgovaya Gazeta, September 15, 2010.