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Grain and Feed

September Grain Update

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Report Highlights:
As estimates of Russia's grain production increase, wheat and barley exports are expected to expand while imports remain steady.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1], RS

Executive Summary

Post increases its total grain production estimate to 70 million metric tons (mmt) based on season-long favorable weather, reported high volumes of recently-harvested winter grains, and on the good progress of spring grain collection now underway. The most significant changes are for wheat (upward by 1.0 mmt to 39.5 mmt), and barley (by 500,000 metric tons to 15 mmt). Regarding trade, total imports are estimated at nearly 1.95 million metric tons, with wheat representing over 50 percent of that quantity. The primary source of that wheat will be Kazakhstan, as freight expenses and price from that origin are attractive. Due to low internal prices and expanded output, grain exports are forecast upward to 2.7 million tons, two-thirds of which will be wheat, with barley comprising much of the remainder.

Grain Production

Post increases its grain production estimate to 70 mmt, a figure more cautious than the 75+ mmt of grain estimated by some specialists, or than official Ministry of Agriculture forecasts of 72-75 mmt. Despite some variance in estimates, all agree that output expanded due to the nearly-completed winter grain harvest's best results in 5 years. Weather continues to be very favorable for spring grain in European Russia, and has been good for grain production in the Urals and Siberia, too.

Despite greater output potential, the market cannot yet count on that entire amount reaching it. The main factors which could decrease final grain supply are harvest and storage losses due to a shortage of combines and inadequate on-farm granaries, respectively. Although in many territories farmers do not have covered or paved sites to store grain (much less, metal bins) to use for withholding grain from the market in the expectation of better prices, most farmers also refrain from placing their grain at regional or terminal elevators because those institutions recently increased service charges by almost 20 percent, and because of farmer's distrust of elevators due to suspected fraud, downgrading of product quality, and other factors.

Post does not include in its forecast grain which is neither reported by the producers, nor reflected in the reports of officials. Specialists estimate volumes of grain at 3-5 percent of production. Without hidden grain losses, often camouflaged by increased feed consumption on the farms, Post forecast total grain losses at 0.9 mmt, thus leaving ending grain stocks at 5.0 mmt, only 1.2 mmt higher than in MY 2000/01.

Although early, experts express the opinion that next year's grain crop may be worse, reflecting the historic cycle of weather. Moreover, decreasing prices currently faced by farmers weaken their ability to invest in the next season, especially in land preparation for the just-starting winter grain sowing . Thus, high grain production in the current market year may not bode well for intensive grain industry development in the near future.

Prices

According to surveys, wheat prices at oblast-level elevators continue to decrease from an average 3,500 Rubles per MT ($120) in the beginning of June to 2,500 Rubles ($86) per MT in the beginning of August. However, in general the price situation is not clear, because grain marketing in Russia is not yet fully transparent. The following example of Stavropol oblast shows how non-market factors influence grain trading and pricing:

–The grain crop in Stavropol is estimated at over 4.5 mmt, third largest oblast production after 7.7 mmt in

Krasnodar and 6.0 mmt in Rostov, but ranks the first in output of food quality wheat. With exception of a few big diversified farms which have the facilities to store and process grain, most farmers are forced to sell grain as quickly as possible to pay back almost 700 million Rubles ($24 million) of short term credits provided by the local government and to get cash for winter grain sowing and other payments.

This year, the regional input supply and grain procurement company affiliated with the regional government announced the minimum procurement price for food quality wheat at 2,800 Rubles per ton ($97), but this price is essentially an accounting tool to credit farmer debt by the agency that previously-supplied production inputs. Despite that price being higher than current offers of about 2,500 Rubles ($86), some farmers may opt to sell to middlemen (in Stavropol - mostly from Moscow or Dagestan) to get needed infusions of cash more quickly than possible through above-mentioned procurement system. Farmers are also selling now as those middlemen are telling farmers that grain prices will plummet after the cheap grain from Kazakhstan reaches Russia. In most of cases cash selling of grain to middlemen is not reflected in official data.

Specialists identify several channels for marketing grain:

- First, in kind payments to workers, which in Stavropol are estimated to amount at least one million tons. This is not a taxable income, and workers, either individually or through their collective farms sell this grain to middlemen at cheaper price.

-Second, payments with grain for custom work. For example, custom harvesting is usually paid with 20 to 25 percent of the harvested crop. Sales of this grain, which is the property of the service companies, are usually not reflected in reports.

-Third, in Stavropol the tax police started repossessing grain from farmers as payment for tax liabilities. Later, this grain is sold through non-transparent channels.

-Fourth, grain sales of the regional supply and procurement company which received grain as payment for the spring loans will also fill the non-transparent channels. This situation is typical for all grain producing regions and makes grain marketing non-transparent.

Grain Trade

Post forecasts that total grain exports will increase to 2.7 mmt, of which 1.7 million tons will be wheat, followed by barley, exports of which are forecast to reach 0.9 mmt. Other minor grains make up the difference.

Quite recently, top Russian officials announced that Russia may become a net grain exporter, and will be able to export 4 or even 5 million metric tons this year. Although experts consider that domestic ports facilities do not have capacity to export more than 2.5 - 3.0 million tons of grain, this declaration by government officials may keep domestic grain prices from plummeting, and allows postponement of planned grain purchasing intervention into the state reserve until the terms for selection of agents and the intervention minimum and maximum prices are set (please see section on policy for more information on this intervention scheme).

Policy

The Russian government recently introduced new rules for grain market management, and will set a price band for guiding federal intervention purchases this fall. However, given the unclear price situation, and low share of grain which reaches transparent marketing channels, the final effect of government grain interventions on prices will be reduced. Further, given that the intervention volume will likely be small and transactions (this year only buying for federal reserve) will not likely start until after the main portion of grain for export is already sold in November, any positive effect for grain producers will be very small.

Wheat Supply and Demand

Post increases its wheat production forecast to 39.5 mmt, based on continued good growing weather. Exports are forecast to increase to 1.7 mmt, mostly to Middle East and the North Africa countries. Wheat exports will be stimulated by competitive domestic prices and high production in the regions such as the Volga Valley oblasts and Rostov-on-Don, from which Russian grain trading companies traditionally ship grain to the CIS, Middle East, Mediterranean and Northern Africa countries. However, competition in these markets will be tough because wheat crops are much higher this year not only in the CIS countries, but in Eastern European as well. Post holds forecast imports at one million tons, mostly from Kazakhstan, which will compete with domestic wheat in some districts of Russia. Kazakhstan's wheat quality is expected to be worse than last year's, but its offer price will be more attractive. Year-end stocks are raised by 100,000 tons to 3.0 mmt, and the total domestic consumption is increased to 37.2 million tons, including increase in wheat losses.

Based on official Russian customs statistical data, final estimates of wheat imports, in MY 2000/01 are 1.6 mmt, 100,000 tons higher than USDA latest data, and exports are 700,000 metric tons, 50,000 metric tons higher (trade includes wheat flour in grain equivalent). Post increased total domestic consumption of wheat for MY 2000/01 by 50,000 tons to 35.15 mmt.

Table 1. Wheat PSD

PSD Table						
Country:	Russian Federation					
Commodity:	Wheat					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Area Harvested	23000	23000	23200	23200	23800	23800
Beginning Stocks	1000	1000	1200	1200	1400	1400
Production	31000	31000	34450	34450	38500	39500
TOTAL Mkt. Yr. Imports	5083	5083	1500	1600	1000	1000
Jul-Jun Imports	5083	5083	1500	1600	1000	1000
Jul-Jun Import U.S.	947	947	0	0	0	0
TOTAL SUPPLY	37083	37083	37150	37250	40900	41900
TOTAL Mkt. Yr. Exports	518	518	650	700	1000	1700
Jul-Jun Exports	518	518	650	700	1000	1700
Feed Dom. Consumption	11800	11800	11600	11600	13000	13000
TOTAL Dom. Consumption	35365	35365	35100	35150	37000	37200
Ending Stocks	1200	1200	1400	1400	2900	3000
TOTAL DISTRIBUTION	37083	37083	37150	37250	40900	41900

Wheat Quality and Wheat and Wheat Flour Standards.

The official Russian wheat quality standard includes five wheat grades. Although technically inaccurate, grade 4 (the second lowest) is considered to be food quality by authorities in years when quality grain is in short supply as long as the gluten content meets published requirements. Although the present grain standards do not specify "food" or "feed" quality, wheat flour standards (GOST) have certain rather strict requirements for gluten and other grain characteristics. The wide use of wheat with low milling characteristics started in the mid-1990s and was permitted by the so-called "Industrial Technical Conditions" (PTU) issued as milling industry internal technological recommendations or instructions almost every year. At present the institutions which develop wheat and flour standards are working on modification of flour standards in order to soften the required quality characteristics of wheat for milling.

Barley

Post increases its barley production estimate to 15 mmt, based on the continued good weather and favorable first reports from producers. With greater production, barley exporters were more active than usual in August, and Post estimates that barley exports may reach 900,000 tons in the current marketing year (July 1, 2001 - June 30, 2002).

Barley imports are left unchanged at 300,000 metric tons, all malting barley for the beer industry, and the lowest level since the beginning of development of an important local beer industry in mid-1990s with exception of the post crisis period of MY 1998/99. However, big beer companies are demanding ever-higher quality barley, and in case they cannot find barley of the necessary standard in the local market, they will continue to import, thereby potentially boosting barley trade to 400,000 tons.

Post decreases import and raises export trade data for MY 1999/00 to reflect the final official customs data. These adjustments shrink feed domestic consumption and total domestic consumption, while year-end stocks are left unchanged. For MY 2000/01 official final customs data are higher for both imports and exports, and based on these new data, Post slightly decreases total domestic consumption. Feed domestic consumption is raised by 50,000 metric tons to 10 mmt, and the total domestic consumption is raised to 14.55 mmt.

Table 2. Barley PSD

PSD Table						
Country:	Russian Federation					
Commodity:	Barley					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Area Harvested	9850	9850	9200	9200	10200	10200
Beginning Stocks	374	374	281	281	1133	1133
Production	10600	10600	14100	14100	14500	15000
TOTAL Mkt. Yr. Imports	839	679	300	370	300	300
Oct-Sep Imports	737	700	400	320	200	200
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	11813	11653	14681	14751	15933	16433
TOTAL Mkt. Yr. Exports	91	91	500	616	600	900
Oct-Sep Exports	325	422	400	400	700	800
Feed Dom. Consumption	8959	8800	8818	8818	9950	10000
TOTAL Dom. Consumption	11441	11281	13048	13002	14350	14550
Ending Stocks	281	281	1133	1133	983	983
TOTAL DISTRIBUTION	11813	11653	14681	14751	15933	16433

Corn

Post increases the corn production estimate to 1.15 mmt. Weather in the corn-for-grain areas of Russia was not favorable, but the resulting lower yields there were partially compensated by more extensive production based on a switch to corn for grain in areas where it has traditionally been grown for forage (although, these territories do not report corn production for grain). Demand for corn as a necessary and effective component of feeds for poultry and milking cows is reflected in the use of better seeds and better treatment of corn in the fields by farmers.

Post forecasts corn imports upward to 300,000 tons based on the growing demand of the poultry industry, where corn is made an integral part of feeding formulas at those plants with intensive production.

Post makes adjustments in the corn imports data for MY 2000/01 based of the final official Russian customs data.

Demand for the corn is also stimulated by restoration of domestic corn starch plants. The domestic starch enterprises lobbied introduction of the three year special import duties on potato and corn starch starting August 10, 2001. The duty for corn starch (TN VED Russia-1108 12 0000) remains 10 percent of the customs value, but shall not be less than EUR 0.04 per kilo. The value limitations did not exist in the previous tariff. As for most products, this change does not affect imports of corn starch from country-members of the CIS Customs Union.

Table 3. Corn PSD

PSD Table						
Country:	Russian Federation					
Commodity:	Corn					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Area Harvested	700	700	800	800	850	850
Beginning Stocks	150	150	471	471	200	200
Production	1100	1100	1550	1550	1000	1150
TOTAL Mkt. Yr. Imports	1165	1165	179	184	200	300
Oct-Sep Imports	870	870	150	150	200	300
Oct-Sep Import U.S.	491	800	0	0	0	0
TOTAL SUPPLY	2415	2415	2200	2205	1400	1650
TOTAL Mkt. Yr. Exports	10	10	0	0	0	0
Oct-Sep Exports	10	10	0	0	0	0
Feed Dom. Consumption	1600	1600	1650	1655	1000	1200
TOTAL Dom. Consumption	1934	1934	2000	2005	1300	1550
Ending Stocks	471	471	200	200	100	100
TOTAL DISTRIBUTION	2415	2415	2200	2205	1400	1650