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Effects of the Summer Drought and Fires on Russian Agriculture

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Agricultural Situation

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Report Highlights:

Severe drought in European Russia affected over 30 percent of Russia's grain sown area, and may result in a 10-percent overall decrease in agricultural production in 2010 on a yearly basis. Imports of agricultural products such as fruits, vegetables, and meat may increase to meet consumer demand in metropolitan areas. However, increased domestic prices of grains, oilseeds, meat, dairy and some other staple products may stimulate farmers to intensify production and increase productivity in the coming year.

General Information:

The Russian government forecasts a 10-percent reduction in agriculture production in 2010 because of the weather^[i]. The drought caused losses on over 17 percent of all planted acreage, including over 30 percent of grain sown area.

According to Rosstat^[ii], agricultural production (in value terms, in comparable prices) already decreased in January – August 2010 by 5.7 percent compared with the same period last year. The drought caused a reduction in production of all major Russian crops, such as grain, sunflower seeds, potatoes, vegetables and fodder grasses. The official crop data is not yet available, but experts estimate that in 2010 Russia will harvest 37 percent less grain, 24 percent less potatoes, 7 percent less vegetables, and 10 percent less sunflower seeds than in 2009. The Government has tried to calm rumors of a feed shortage by frantically imposing a grain export ban. However, stubborn merchants continue to hold onto their grain and cattle slaughter has started, but was not significant so far, and primarily happens at private households in the drought affected provinces. As of the end of August the total number of cattle decreased by 2.4 percent from the same date the previous year, while meat production (mostly as a result of cattle slaughter) increased by 7.3 percent in January – August 2010 compared with the same period in the previous year. The number of dairy cows decreased by 1.6 percent and resulted in the 1.2 percent decrease in milk production. Fifty-one percent of sheep and goats are held by private households, but many of them still hope that feeding sheep and goats will be easier than feeding cattle, and the number of sheep and goats decreased by only 1.5 percent on a year-to-year basis. Sixty-four percent of swine production is concentrated in large-scale farms and the feed shortage has not yet affected these farms. The total number of pigs in the country increased by 0.7 percent by the end of August compared with the same date a year ago.

Grain Production Decreased by 35-37 Percent

As of October 20, 2010 Russia harvested 62.3 MMT of grain in bunker weight from 33 million hectares or 97 percent of planned harvested area. Thus, the total grain crop in the clean weight that is usually 5-7 percent less than the bunker weight will hardly exceed 61 MMT, and will be 36-37 MMT less than in 2009. Some experts consider that the grain crop this year will hardly exceed 59 MMT.

According to the Deputy Prime Minister Viktor Zubkov, the sown area to winter crops may be almost 30 percent less than last year. This reduction will hardly be compensated by increased spring sowing and will impact next year's total grain production.

Grain Stocks

In 2008 and 2009, years of abundant grain crops (108 MMT and 97 MMT) and relatively low grain prices, the Russian government supported grain producers by purchasing grain to the Grain Intervention Fund at fixed prices, which were higher than market prices. By the beginning of grain marketing year 2010 (July 1, 2010) Russia had approximately 9.5 MMT of grain in this state Fund^[iii]. These stocks included Russia's grain carry-over stocks as of the beginning of marketing year (MY)^[iv] 2010. The most recent data reported by the Russian Minister of Agriculture, Yelena Skrynnik, on October 1, 2010 with reference to Rosstat, is that Russia's total carry-over stocks, including grain at the private households is

26 MMT. Prior to the drought, this had never been reported. Experts are more cautious about these stocks and estimate them at 22-24 MMT.

Grain Trade

Beginning August 15, 2010 the Russian government banned all exports of grain and flour until December 31, 2010. On October 21, 2010, Russian Prime Minister Vladimir Putin extended the ban to July 1, 2011, with exception of wheat and rye flour^[v]. Since July 1, 2010^[vi] and through August 15, 2010, Russian traders managed to export 3.7 MMT of grain, including 3.4 MMT of wheat and wheat flour (in grain equivalent). Given the extension of the ban to July 1, 2011, Russia will hardly export more than 5 MMT of grain in MY 2010. In 2008 and 2009 Russia gained the status of one of the world's major grain exporters and the world's third largest wheat exporter. In MY 2009 Russian's grain exports reached 22 MMT, including 19 MMT of wheat. The ban removed Russia from the list of major grain exporters, and according to some experts caused potential losses in incomes of grain farmers in southern European Russia. These farmers have not suffered from drought and usually marketed their grain to exporting companies. On the other hand, the ban soothed anxiety of domestic grain consumers caused by the expected smaller crop and slowed down the increase of domestic grain prices.

Grain Supply and Demand

The Russian Agricultural Minister reported that Russia's total domestic grain consumption is approximately 77 MMT. Therefore even under the worst case scenario (grain crop at 59 MMT, stocks at 22 MMT, minus 4 MMT's exports in July-August 2010 = 77 MMT), Russia will have enough grain to meet domestic demand through July 2011. Food, seeds, and industrial grain consumption (FSI) will hardly change from the normal 35-37 MMT, as the total supply of food grain will be enough to meet domestic demand, while the shortage of some niche grains (i.e. buckwheat and millet) and grain for industrial production of starch, malt, cereals, and some other processed products might be compensated by imports. Given that grain prices are increasing, farmers, traders and processors will try to decrease grain losses. Increased grain prices will also stimulate livestock and poultry producers to decrease feed consumption. Thus, the portion of non-food consumption of grain (Feed and Residual) might decrease from the normal 40-41 MMT to less than 37 MMT, although domestic meat and milk production might suffer.

Drought- Affected Production of Other Crops in European Russia

Other crops that suffered from the drought in European Russia are fodder crops, grasses, potatoes, fruits, and vegetables. Production of potatoes, Russia's second staple food product after bread, is forecast to decrease by 30 percent from last year to 22 MMT^[vii]. However, recently the government lifted import duties on potatoes, cabbage and buckwheat, and expects potato imports to increase up to 4 MMT. Consumption of fruits and vegetable in Russia is still lagging behind consumption in the developed countries, and some shortage of fruits and vegetables for consumers in the metropolitan area may be filled by imports.

The drought drastically decreased grasses and some other fodder crops in European Russia, including regions with high milk and meat (cattle and pigs) production. The Ministry of Agriculture reported that as of September 8, 2010, Russia was lagging behind last year by 3.7 MMT in procurement of so called

rough feeds, such as hay, silage, and straw compared with 38.6 MMT in 2009. Procurement of so called “succulent feeds”, such as green-chop, root crops, etc. decreased from last year by 6.7 MMT to 17.0 MMT.

Less Feed, More Meat... Temporarily

Development of Russian livestock and poultry industries has been a national priority and is the basis for the current five-year plan for 2008-2012. The emphasis has been on subsidizing interest rates for loans to purchase pedigree livestock and to construct new facilities. However, the drought has adversely impacted not only the 2010 feed supply but also the seeding of winter crops for next year’s feed supply.

This presents a near-term threat to Russia’s poultry and livestock production, especially in the beef and pork industries. The decrease in the numbers of cattle, pigs and other livestock and even poultry might be expected due to the short feed supply. However, the rates of decrease will be different, and experts expect the reduction in the number of cattle to outpace the effects on the number of pigs. On the other hand, poultry production may continue to increase, but at a slower growth rate. Russian producers increased poultry production 15.9 percent to 1.66 MMT (live weight) in the first half of 2010, but the rate of growth is decreasing in the second half of 2010 due to increasing feed prices and summer heat conditions that adversely impact average daily gains. A primary reason Russian poultry production has flourished is that it is dominated by large agricultural enterprises, whereas private households continue to account for roughly half of pork and beef production^[viii]. According to the draft program, “On the Development of Feed Production,” poultry’s share of compound feed consumption is set to grow from 31 to 34 percent between 2009 and 2012. Poultry establishments currently produce/manufacture 70 percent of their own feed demands, but some of them still purchase grain and other feed components.

Higher feed prices and therefore higher slaughter rates in the second half of 2010 will increase pork production 8.8 percent in 2010 but only 4.9 percent in 2011. The larger slaughter numbers will slow the pace of herd expansion from 3.4 percent in January 2010 to 2.4 percent in January 2011.

Beef production continues to be the least developed animal protein sector in Russia. Animal husbandry concerns as well as economic returns, in particular start-up costs for new entrants, will continue to present challenges. In the short-term, economic returns will be further eroded by high feed costs causing the cattle inventory to undergo further pressure. The shrinking dairy cow herd continues to be the leading long-term indicator of beef production. However, in 2010 increased slaughtering of the herd due to feed costs/shortages is further accelerating its decline and will lead to the first, albeit short-term, growth in beef production in more than a decade. Regions impacted by the drought represent 47 percent of the total cattle herd in 2010. As shortages and higher prices are already being felt by livestock producers, information from the regions indicate the situation will only worsen in the future.

Therefore, inventory and production expectations for 2011 remain similar to 2010 as feed shortages will again present financial challenges for producers to maintain inventory. Yelena Skrynnik, Agriculture Minister, said that she expected the drought and feed shortage to further reduce beef production. USDA Moscow feels these reductions are reserved for 2012, when feed supplies recover, and after the herd has been dramatically reduced in number.

Government Policy and Emergency Subsidies

In 2009 and 2010 the Russian government has continued to finance agriculture, especially livestock and poultry industries within the framework of the “Program for Development of Agriculture, Regulation of Agricultural Commodity Markets, and Rural Development for the period 2008-2012”. This program called for 1.1 trillion rubles (\$37 billion) to be spent over five years, with funding being split between federal and provincial budgets. Most funds are being spent to subsidize interest rates.

The agricultural budget in 2010 was planned to decrease to 107.6 billion rubles (\$3.6 billion), and the major portion of the money (74 percent) was aimed at interest rate subsidies. However, the drought has changed these plans.

By the end of summer 2010 the drought-affected provinces estimated direct and potential losses of agriculture at 160 billion rubles (\$5.3 billion), and appealed to the government for over 40 billion rubles (\$1.3 billion) in emergency budget support. The government responded with a range of measures aimed at easing the drought’s effect on agriculture:

- Introduced a ban on the exports of grain and flour from August 15 by December 31, 2010, and extension of this ban to July 1, 2010;
- Allocated 35 billion rubles (\$1.2) from the federal budget in the form of direct subsidies to farms (through provinces) where the crop was lost completely (10 billion rubles - \$333 million) and in the form of budget loans to provinces affected by drought (25 billion rubles – \$833 million). By mid-October 2010, 20 billion rubles (\$667 million) from the federal budget were transferred to provinces, and another 15 billion will be transferred in November;
- Encouraged state banks to extend repayment of farmers’ debts. Rosselkhozbank and Sberbank, two major state banks and creditors of Russian agriculture, have developed programs to extend loans and decrease interest rates for farm loans. Thus, Rosselkhozbank estimated that 5,500 clients suffered from drought and the volume of loans to be extended amounts to 32 billion rubles (\$1.1 billion). On October 22, 2010, Prime Minister Vladimir Putin informed that the Government decided to add by 1 billion rubles (\$33 million) to the Charter Capital of Rosselkhozbank to compensate for these efforts.
- Pledged to begin selling of intervention grain to feed and flour mills, but postponed these sales until the crop is harvested and grain balance is clarified;
- Promised to curb fuel prices for the fall and spring sowing;
- Allotted up to 2 billion rubles (\$67 million) for compensations of losses of the Russian railway monopoly (RZhD) from decreased tariffs for transportation of grain from Siberia and the Southern European Russia to the Central European Russia and to the Volga Valley provinces;
- Allocated an additional 1 billion rubles (\$33 million) for fertilizer subsidies, and another 1 billion rubles (\$33 million) for spring sowing, including seed purchases^[ix];
- Allocated 5 billion rubles (\$167 million) to those farms that will manage to maintain the number of cattle by the end of winter 2011.

In the meantime, the Ministry of Agriculture reported that 2010 investments will not meet the State program due to lower-than-expected profits in the industry.

At the meeting of the government held on September 23, 2010, Prime Minister Vladimir Putin informed that in 2011 the Russian state program for developing agriculture will be financed with 153 billion federal-budget rubles (\$5.1 billion)^[ix]. This is almost a 50-percent increase in financial assistance

compared with the planned budget for 2010. The new budget is aimed at diminishing the effect of the 2010 drought. In 2011-2012 the government plans to expand support of the livestock and poultry industries, and has drafted separate programs for the development of the feed and dairy industries.

Comments

Despite the adverse effects of harsh weather on the development of Russian agriculture in 2010, the government still hopes that agriculture may recover in 2011 due to the support that they have provided^[xi].

Given that Russia still does not have reliable, unbiased statistical data on production, stocks and demand for grain, dairy, meat and other staple products, forecasts of the development of Russian agriculture in 2011 are difficult to make. Several issues need to be considered:

- The 2010 drought in itself would not have been such a significant disaster for Russian agriculture if it was not preceded by the financial crisis. Russian farmers had accumulated large amounts of debt by 2010. Decreased incomes and direct losses in 2010 aggravated their financial status, and many of them will not be able to recover without serious government support.
- The majority of Russian farmers have never had access to any kind of “safety net” such as land mortgages, crop and business insurance, assets in input-supply and farm products distribution chains and processing facilities.
- Russia is still lagging far behind the developed countries in rural infrastructure, such as roads, available and reliable power supply, modern means of transportation, storage facilities, and irrigation facilities. Quality of seeds, machines, livestock, equipment, and other input supplies has certainly increased in the 2000’s, but still has room for improvement. These weaknesses will make recovery after the drought year difficult and slow.
- Given unclear land tenure issues, dependence on local bureaucracy and the non-competitive business environment, Russian agriculture is still not attractive for private investors. In many cases big capital invests in agriculture primarily for the sake of controlling land resources and not for efficient agricultural production.

The 2010 drought and fires were a disaster for Russian agriculture; however, this crisis may provide an opportunity to make serious changes in the domestic agricultural policy if Russia wants to meet its food security targets. The government seems to understand the necessity, not only to support farmers in the difficult year, but to improve the support system and increase the efficiency and productivity of farming.

^[i] The First Deputy Prime Minister Igor Shuvalov told the State Duma on September 24, 2010.

^[ii] The Russian Federal State Statistical Service (Rosstat)

^[iii] For more information on the state procurement grain interventions in 2009 see GAIN report RS1022 _Grain and Feed Annual _ Moscow _ Russian Federation _ 4/9/2010; and other FAS, Moscow GAIN reports published in 2009 and 2010 under category Grain and Feed.

^[iv] Marketing year for grain in Russia begins on July 1 of the given year and ends on June 30 next year.

^[v] The decision was announce at the meeting of the Government on October 22,

2010 <http://premier.gov.ru/events/news/12693/>

^[vi] July 1, is the beginning of marketing year for Russia’s major grain crops.

^[vii] For more information see GAIN RS1060 _Potato and Potato Products _ Russian Potato Crop and Import Prospects – Moscow _ Russian federation _ 10/7/2010

^[viii] For more information on Russian poultry production and policy see GAIN RS1052 Poultry and Products Semi-annual _ Russia Resumes Imports of U.S. Poultry _ Moscow _ Russian Federation _ 9/21/2010

^[ix] This information was released at the Meeting of the Government held October 22, 2010.

^[x] Meeting of the Russian Government on September 23, 2010.

^[xi] Report of the First Deputy Prime Minister Igor Shuvalov to the State Duma on September 24, 2010.