

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Russian Federation

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### Russian Wheat Exports Potential

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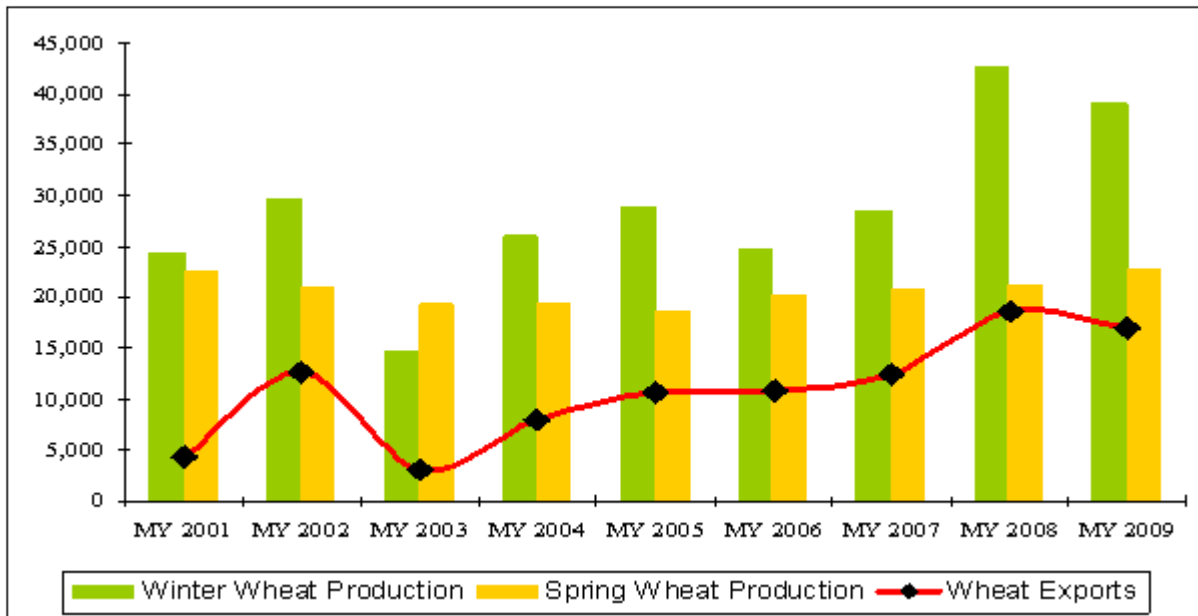
**Report Highlights:**

Tempered interest in recovering marginal land, farmers' financial constraints, limited infrastructure, conversion of grain area to fodder crops, issues with land ownership and tight competition in the world grain markets could potentially limit Russia's export opportunities in the coming decade.

### General Information:

In 2009 Russian politicians declared that Russia was to become one of the major grain exporting nations [1] and the leader in the world wheat exports. In MY 2008/2009 [2] Russia exported a record 18.0 million metric tons (MMT) of wheat and almost 0.7 MMT of wheat flour in grain equivalent. FAS Moscow estimates Russia's wheat exports in MY 2009/2010 (including flour in grain equivalent) at 17.0 MMT and forecasts 2010/2011 exports to increase to 18.0 MMT. However, several factors may affect Russian wheat export growth in the coming decade.

Graph 1. Russia: Wheat Production and Exports, MYs 2001 – 2009, 1,000 Metric Tons



Source: Russian State Statistical Data, Russian State Customs Data

### Constraints to Increase Wheat Area

Wheat production has increased by 38.1 percent in the last 20 years: from 46.2 MMT in 1992 (Russia's best crop year on the eve of collapse of the Soviet Union) to 63.8 MMT in 2009 (the best year of modern Russia). Area sown to wheat increased in this period by less than 2 million hectares: from 24.3 million hectares in 1992 to 26.6 million hectares in 2009. An increase in wheat production is primarily due to moving to higher yielding winter wheat production vs. spring wheat, improved technologies and management, and investments in grain cultivation and harvesting equipment. Wheat, especially winter wheat, is dominating in the best grain producing zones; meanwhile the total area of agricultural crops rapidly decreases in Russia. In 1992 wheat area comprised only 21.2 percent of total area sown with all agricultural crops, while in 2008 it comprised 34.6 percent of the shrunk agricultural land. Despite

improved agronomies, Russia's overall wheat yields still depend very much on the weather. In 2009, the area of wheat sown increased by 2.1 million hectares' to 28.7 million hectares (36.9 percent of area under all agricultural crops), but wheat production decreased by 2.1 MMT to 61.7 MMT.

Russia's wheat production is concentrated in zones with favorable weather, climate and soil conditions in both European Russia and West Siberia. Experts say increasing area sown to wheat on productive land is approaching its limit. Total area sown to agricultural crops in Russia has decreased from 1992 to 2009 by almost 37 million hectares. In 1992 114.6 million hectares were sown and only 77.8 million hectares in 2009. Expansion of wheat to abandoned land is unlikely, because most of this land is in the northern, severe climates and scarcely populated regions of Russia. Some experts say that only 20 million hectares of abandoned land could be returned to agricultural production, one major obstacle in doing so is the distance to export locations. Having been withdrawn from cultivation for more than 15 years, these lands are covered with shrubs and bushes, or have turned to non-agricultural use. Immense investment to re-cultivate these lands will be needed in order to restore them to their once productive state.

Investments re-establishing this land are additionally curbed by the murky property rights in Russia. In spite of multiple reorganizations of agricultural land management systems within the last 20 years, currently only 18 percent of Russia's agricultural land has a registered cadastre number which allows protection of property rights and land property transactions. The abandoned lands typically do not have properly registered ownership papers.

### **Financing Development of Wheat Production and Exports - Federal Budget Support**

The Russian Government declared support of grain production and exports. In 2008 and 2009 the Government supported domestic wheat prices through grain procurement interventions. In 2009, the United Grain Company was created in order to stimulate investments in domestic and export grain infrastructure in order to enhance grain exports [1] . Moreover, in 2009 the Russian Government extended its interest rates subsidies to loans borrowed for construction of elevators. In order to lift the burden of accumulating wheat stocks, in 2009 and 2010 the Russian Government intensified the lobbying of Russian grain exports through government-to-government agreements and international humanitarian programs. As declared by the Russian Minister of Agriculture, the government has the ability to allocate up to 10 billion rubles (\$325 million) for grain export subsidies. This government resolution has yet to be signed.

However, the economic crisis, federal budget constraints, absence of a long-term grain price support strategy and re-orientation of federal livestock and poultry support may curb financing of Russian

wheat production. The federal budget allocations for all agriculture, fishery, related industries and rural development, including overhead expenses, comprise approximately 2 percent of the total federal budget. In 2010, federal funds for development and implementation of State Agricultural Program's was estimated to be 107.6 billion rubles (\$3.6 billion), the majority of these funds are targeted for developing domestic livestock industries, in accordance with the Food Security Doctrine adopted January 2010. Federal funds for developing crop production are not significant, and limited to emergency measures aimed at disposal of the current 9.6 MMT's of grain stocks, worth almost 40 billion rubles (\$1.3 billion). Grain intervention policy in 2008-2009 has proved to be very cumbersome for the federal budget and Russia's major lending agricultural bank – Rosselkhozbank.

### **Private investments**

Private investments in wheat production have been curbed by the financial crisis constraints in 2009 - 2010 coupled with low domestic wheat prices. On June 4, 2010 in European Russia, the major wheat exporting region, milling prices for Class 3 (gluten 23 percent) wheat was 3,765 rubles per metric ton (MT), or \$118.5/MT. Class 4 wheat milling prices were 3,570 R/MT or \$112.3/MT, this is the major class of exported wheat. In some cases, when gluten (Russia's most important wheat quality parameter) is not a concern to the importer, traders may export fodder wheat mixed with Class 4 wheat. Fodder wheat was priced at 3,205 R/MT or \$100.9/MT. On January 29, 2010 prices were 4,030 R/MT (\$132.6/MT), 3,675 R/MT (\$120.9/MT), and 3,300 R/MT (\$108.6/MT). March 26, 2010 prices were 3,530 R/MT (\$119.1/MT), 3,255 R/MT (\$109.9/MT), and 2,845 R/MT (\$96/MT). According to experts, the present wheat prices represent production costs for a superior grain farms in the European Russia region. However, current prices do not stimulate additional investments to increase productivity. As for Western Siberia, the second largest wheat production zone, low local demand and the high cost of transportation to export points, makes wheat production unattractive in MY 2010/2011.

Given low wheat prices, and government incentives for livestock and poultry production, wheat farmers in regions located farther from export ports may convert their fertile land to oilseeds (such as rapeseeds, flax and soybeans) and fodder crops like legumes and legume mixtures, perennial grasses and grains. Given most Russian farmers are not flexible in shifts from one crop to another, in MY 2010/11, significant changes in the crop structure are not envisaged, farmers are expected to slightly decrease wheat hectares sown in 2010. Besides, farmers are gaining experience in the grain markets, and tend to understand that mono-crop grain production is risky in the present Russian agricultural economy. It is unlikely that in the coming decade farmers will significantly expand investments in wheat production.

## Wheat Exports Constraints

Russian wheat exports exceeded 18 MMT in MY 2008/2009. However, it is expected to remain under 20.0 MMT in the coming years.

Table 1. Russia's wheat exports, MY 2007, 2008, 2009, 1,000 Metric Tons

	My 2007/2008	MY 2008/2009	MY 2009/2010
July	434.0	721.6	871.3
August	1,698.3	2,181.75	1,875.5
September	2,143.2	2,630.2	2,117.6
October	2,844.5	2,546.2	2,015.2
November	1,756.3	1,596.2	1,601.4
December	1,660.0	1,405.9	1,291.6
January	893.0	855.7	1,361.5
February	149.1	1,112.1	1,031.6
March	5.0	1,694.75	1,721.7
April	16.2	1,480.9	1546.6
<b>July - April</b>	<b>11,599.7</b>	<b>16,225.4</b>	<b>15,434.1</b>
May	4.6	1,050.9	
June	6.1	757.2	
<b>July - June</b>	<b>11,610.4</b>	<b>18,033,6</b>	

Note: Wheat export data does not include wheat flour. In MY 2008 Russia exported almost 0.7 MMT of wheat flour (in grain equivalent). In MY 2009 exports of wheat flour was 0.3 MMT.

Source: SovEcon

In July – April Russia exported wheat to over 40 countries, with the major markets being: Egypt ( 5,156,150 MT), Turkey (2,126,680 MT), Syria (995,320 MT), Iran (708,650 MT), Libya (584,590 MT), Jordan (494,380 MT), Georgia (479,900 MT), Israel (471,460 MT), Yemen (404,910 MT), Bangladesh (378,050).

The strongest factors that will continue to support Russia's wheat in the near future are:

- Current low domestic prices based primarily on week domestic demand, large carry-over stocks, although high cost of shipping grain from Western Siberia, and a lagging storage infrastructure do not allow farmers to be competitive in the grain market;
- A relatively weak ruble compared to USD. The role of currency rates in grain trade is increasing. A decrease in the Euro may increase competition between Russian and European wheat in the Mediterranean markets, while the U.S. wheat may become less price-attractive.
- Participation of experienced international traders in Russia's wheat exports. International grain traders

came to Russia and brought to Russia their experience and knowledge of traditional markets, especially Mediterranean and Middle East markets. According to experts, international companies account for 40 percent of Russian grain, primarily wheat, exports.

- Russia geographical location near the Mediterranean and Middle East markets, allows for relatively low transportation cost from Southern European Russia.

However, each of these factors may as well play negative role in wheat exports. Thus, international traders may be able to easily switch to other sources of grain and other markets, if low domestic prices stop bringing profits. Some of these companies have already increased investments in domestic production of feed and food products, thus weakening demand for wheat exports. The state United Grain Company does not have experience in commercial grain exports.

## **Comments**

Russia will not be able to become the number one wheat exporter in this decade unless large sums of money are invested in the recovery of agricultural land, construction and maintenance of wheat export chains from Siberia to the Far East. Much will depend on the government activities in promoting Russian wheat abroad. Political initiatives and ambitious goals, if not financially supported, will not significantly increase wheat exports. Given that Russia's current Food Security Doctrine is targeted on increasing domestic production of animal products, an increase in wheat exports may not be the priority policy of the Government in the near future. However, Russian exporters and international traders will try to maintain Russia's active presence in the Mediterranean and the Middle East wheat markets and will continue working to improve the quality and phytosanitary parameters of wheat exports.

<sup>[1]</sup> Russian Agricultural Minister Yelena Skrynnik reported on February 8, 2010 at the meeting in Tuapse that by 2018 Russia will export up to 40.0 MMT of grain

<sup>[2]</sup> Marketing year for wheat begins in July and end in June.

<sup>[1]</sup> For more information see GAIN reports RS1011 \_ Grain and Feed \_ Government Gave 5 Billion Rubles to Get Rid of Intervention Grain; RS9022 \_ Grain and Feed \_ Russia's Federal United Grain Company Created