USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 11/8/2007

GAIN Report Number: RS7082

Russian Federation

Grain and Feed

November Monthly Update

2007

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Report Highlights:
November's grain production estimate for Russia is 79.7 million metric tons (mmt). Wheat production forecast is raised to 48.1 mmt (7.1 percent increase from 2006 crop), while barley production forecast is decreased to 16.4 mmt (down 9.4 percent from 2006 crop). In order to stop domestic grain product prices from rising along with world prices, the Russian Government introduced export tariffs on wheat and barley, started selling grain from the state intervention reserves, and has undertaken administrative measures to freeze retail prices for certain types of bread. Russia's grain export forecast is raised to 12.0 mmt, including 11.0 mmt wheat and 0.9 mmt barley.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
[RS]

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Executive Summary

The November estimate of 2007 grain production for Russia is 79.7 million metric tons (mmt), 1.7 percent up from last year's crop. The wheat production estimate is 48.1 mmt, a 7.1 percent increase from the 2006 crop, while the barley production estimate is decreased to 16.4 mmt (down 9.4 percent from 2006 crop).

Since September's report, the wheat estimate has been raised by 3.1 mmt due to favorable weather and minimum harvest losses in Siberia. The barley forecast was lowered by 900,000 metric tons based on low reported yields. The corn estimate is lowered by 100,000 metric tons to 3.7 mmt due to low yields, principally caused by drought in the Southern Federal District. However, corn production is 100,000 metric tons higher than last year due to a significant increase in planted area.

In spite of high domestic grain prices, and temporary export duties on wheat and barley, the total grain export forecast for the 2007/08 marketing year remains 12.0 mmt, including 11.0 mmt of wheat and 900,000 metric tons of barley. Most of this grain will be exported by the end of CY 2007 because traders expect prohibitive wheat export tariffs to be imposed in January or February, 2008, and the 30 percent export tariff on barley, effective November 12, will stop barley exports.

Grain prices rose from June through September, and stabilized at a high level in October. Grain product prices jumped in August, and in October the Government undertook several emergency measures to curb growth of both consumer bread prices and grain prices: a 10-percent wheat and 30-percent barley export tariff starting November 12, milling wheat sales from the state intervention fund, and federal and regional administrative measures to freeze consumer prices of "social" products, including certain types of bread. These measures will not drastically change Russia's grain market, including Russia's exports and domestic grain consumption, as the total grain crop is enough to meet present demand for grain. However, exports will be somewhat lower than they would have been otherwise, and wheat product disappearance will increase slightly due to inflation-induced consumer hoarding of wheat products.

2007 Crop

Last month the Russian Ministry of Agriculture increased its grain crop estimate to 80 mmt based on a reported "bunker weight" grain production figure of 86 mmt as of October 10, 2007[1]. Official data on the final outturn of wheat, barley and corn are not yet available. Experts' estimates of the wheat crop vary from 47.5 to 48.5 mmt, barley – from 16.5 to 17.3 mmt, and corn – from 3.8 to 4.0 mmt. Reported data on the harvest progress in agricultural enterprises[2] as of October 30 is the following: total grain – 65.4 mmt, including wheat – 40.4 mmt, barley – 13.2 mmt, and corn – 2.6 mmt[3]. In 2006 agricultural enterprises produced 78.5 percent of Russia's grain, including 78.7 percent of wheat, 77.8 percent of barley, and 66.5 percent of corn. On the assumption that the share of agricultural enterprises in grain production remains unchanged in 2007, the total bunker-weight grain crop as of October 23, 2007, may be estimated at 83.5 mmt, including wheat – 51.2 mmt

[1] "Bunker weight" is 5-7 percent more than the "clean" weight, and includes higher moisture and foreign material.
[2] Agricultural enterprises, vs private households and private farms, include collective and state farms, joint stock companies and partnerships of all types, agricultural production cooperatives, subsidiary farming units affiliated with industrial, transportation and other enterprises, organizations and scientific research institutes.
[3] Source: SovEcon

(approximately 48.2 mmt clean weight), and barley – 17.0 mmt (approximately 16.2 in clean weight), and 3.9 mmt of corn. The corn harvest is still underway, and the final bunker-weight corn crop may exceed 4.0 mmt. On the assumption that "peasant" farms will take better care of the valuable barley crop than agricultural enterprises, and that their share in barley production will increase, we estimate the barley crop in 2007 at 16.4 mmt, while wheat production is pegged at 48.1 mmt.

Drought in the Southern Federal District and parts of the Volga Valley, particularly in Rostov Oblast, hurt winter grain yields. This was reportedly more than offset by better spring grain yields in western Siberia and less drought-afflicted areas of the Volga Valley.

Winter Sowing Progress

By November 1, 2007, winter grain sowing was almost completed. Sources report that the total winter grain area is 5 to 6 percent greater than in Fall 2006, and that October rains in European Russia improved soil moisture. In agricultural enterprises winter grains were sown on 12.3 million hectares by October 23, an 11.2 percent increase from last year's figure.

Trade

There are no official data on current grain exports from Russia. Sources report that Russia's grain exports in July- September were 4.8 mmt, including 4.25 mmt of wheat and 540,000 metric tons of barley. October grain export estimates vary from 2.3 mmt (MinAg's estimate) to 2.5 mmt (Russian Grain Union's estimate). From July through October, 2007, Russia exported more than 7 mmt of grain, mostly wheat. Based on estimates of export contracts outstanding and availability of railcars, experts forecast grain exports in November to decrease to 1.5 mmt, and in December - to 1.0 mmt. Thus, by end of Calendar Year 2007 Russia's grain exports should reach 9.5 mmt – 10.0 mmt.

Traders anticipate the already announced wheat export tariff of 10%, set to go into effect November 12, will be raised to a prohibitive level (from 30 to 50 percent, perhaps) effective sometime after January 1, 2008. If this happens, exports in similar volumes will restart only in April or May, 2008, in preparation for harvesting of the new crop, which will bring wheat exports for the Marketing Year 2007/2008 to about 11 mmt.

Barley exports for July – October are estimated at 750,000 metric tons, but will hardly exceed 0.9 mmt in MY 2007/08. Barley supplies are tight on the domestic market, and the export tariff of 30 percent, but not less than 70 Euro per metric ton, is prohibitive.

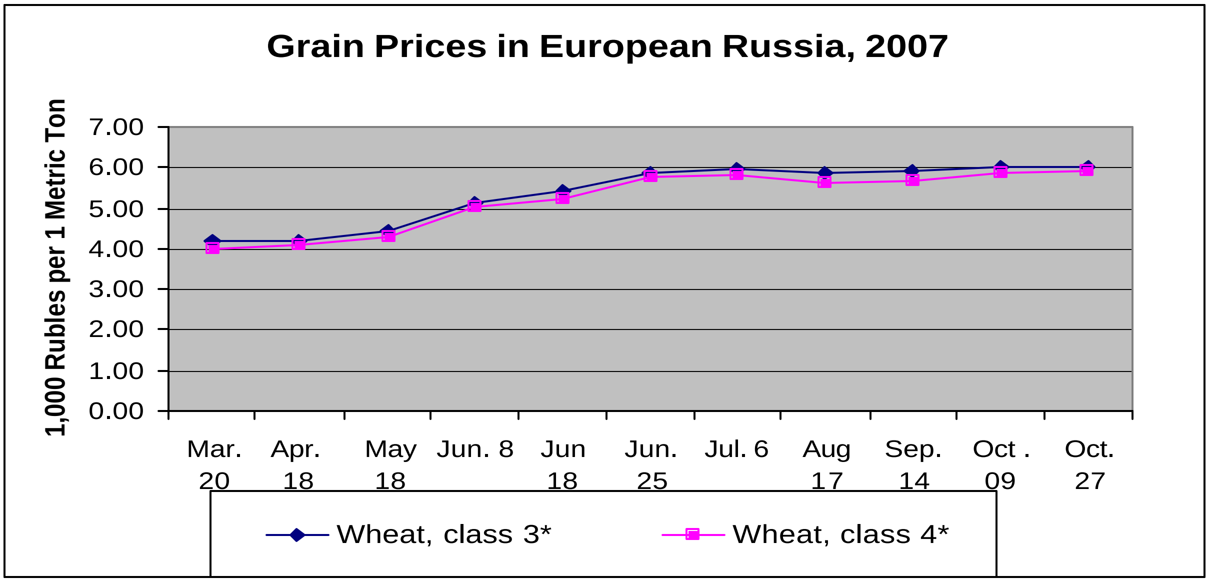
Prices

Wheat Prices

In European Russia, class 3 wheat prices reached 6,000 rubles per metric ton[4] by the end of September, and stabilized at this level in September and October. Class 4 wheat prices approached class 3 wheat prices, but also stabilized in October. Regional prices of wheat (class 3) in European Russia vary from an average in the range of 5,900 – 6,000 rubles in the Volga Valley Federal District, to 6,300 – 6,600 rubles per metric ton in the Southern Federal District. Sources report that wheat prices stabilized in October across all internal markets, and in the last week of October even tended to decline slowly.

[4] About $240 per metric ton, at then-current exchange rates.

Chart 1. Grain Prices in European Russia, March – October 2007



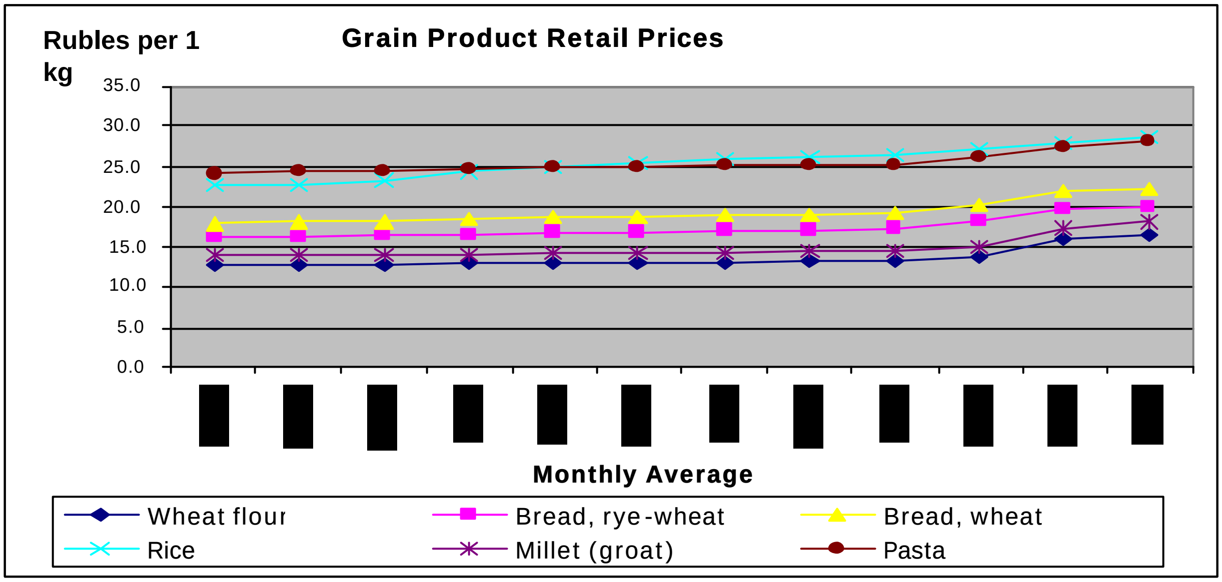
Source: WJ Interagro and Agency AgroFact. Central Bank of Russia exchange rates to the dollar: March 31, 2007: RUR 25.56, April 30, 2007: RUR 25.69, May 24, 2007: 25.90, June 30, 2007: 25.67, July 30, 2007: 25.41, August 30, 2007: 25.76, September 29, 2007: 24.95, October 31, 2007: 24.72

Bread and Grain Products

Wheat flour and bread prices started to increase rapidly in August 2007. This rise caused serious concerns on the part of the Russian government owing to the approach of parliamentary elections in December 2007 and presidential elections in March 2008.

Chart 2 shows average prices of wheat flour, white and brown bread in Russia for October 2006 through September 2007. According to the Russian State Statistical Service, bread prices in October increased by another 1 percent. Bread prices were increasing at different rates of growth in different regions of Russia, and in some regions these increases were stimulated by high export demand for wheat and rapidly rising domestic grain prices. In other regions, however, bread price inflation, given that price of grain is less than 30 percent of bread’s retail price, was primarily caused by other reasons, such as increases in the of cost of energy, increase of overhead expenses, and rising disposable incomes.

Chart 2. Russia: Grain Product Retail Prices, rubles per kilogram



Source: Torgovaya Gazeta, November 2006 – October 2007.

Policy

Grain interventions[5] began October 29, 2007. A total of 56,620 metric tons (only class 3 wheat) was sold from the 1.5 mmt in state grain intervention reserves, including 30,160 metric tons sold on October 29, and 26,460 metric tons on October 31. The average price was 5,293 rubles per metric ton.

On the eve of interventions changes and amendments were made to the bidding procedures[6]. The amendments limited potential grain buyers to flour mills registered on the territory of the Russian Federation with not less than a 200-metric-ton daily production capacity. In addition, these flour mills are to submit to the Intervention Agent recommendations from provincial government authorities and the provincial government's guarantee that grain bought from the intervention reserves will be used only on the territory of this province for production of cheap bread in order to stabilize local food prices. Thus, these interventions function as a targeted subsidy for local flour mills, and, being oriented toward a limited consumer segment, will hardly influence grain market prices. Commenting on the first day of interventions, Russian Minister of Agriculture Aleksey Gordeyev called on private traders to join the spirit of the interventions and to sell their grain on the same commodity exchange at prices "attractive to flour mills." However, no volunteers have been reported so far.

Grain export tariffs go into effect November 12, 2007.[7] The export duty on barley will be 30 percent *ad valorem*, but not less than 70 Euro per metric ton. Experts anticipate that this

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[5] GAIN RS7075 *Grain Interventions Announced*

[6] Changes and amendments (in Russian) were placed on the Russian Ministry of Agriculture's website on October 6, 2007: http://www.mcx.ru/dep_doc.html?he_id=949&doc_id=16182

[7] GAIN RS7070 *Russian Government Resolution on Temporary Export Duties on Wheat and Barley*

tariff will stop barley exports, as even currently high international prices will not compensate traders for this tariff. The export duty on wheat will be 10 percent *ad valorem*, but not less than 22 Euro per metric ton. According to experts, this tariff will not stop wheat trade, as traders have already accumulated stocks of grain to meet their foreign contracts, and international what prices are continuing to rise. Thus, though traders' margins will be cut, they will not lose money. However, traders predict that when Russia's grain (mostly wheat) exports exceed 10.0 mmt, and they expect this to happen by mid-January, 2008, the Russian government will act to curb exports, most likely by raising the export tariff to a prohibitive level in the range of 30 to 50 percent *ad valorem*.

Russian government agricultural support policies as promulgated in the Law on Agricultural Development and Agricultural Program for 2008-2012 are oriented toward the livestock sector.[8] In this regard growing demand for livestock feed will continue to encourage expansion of acreage under corn for grain and other feed crops, and may underlie this year's expansion of winter grain area, noted above.

That said, much of Russia's land taken out of production in the 1990s, estimated at about 20 million hectares, is overgrown with brush, weeds, and even saplings to the point that putting it back into production will cost an estimated 5,000 rubles (about 200 dollars) per hectare. In the face of this formidable barrier to entry, coupled with the absence of well defined land ownership rights, the odds of robust near-term expansion of grain area due to reclamation of abandoned acreage appear slim. Thus, expansion of winter grain area is probably coming about mostly at the expense of other, competing uses of existing arable land.

[8] GAIN RS7004 *Decrees on Agricultural Subsidization*, RS7005 *Federal Law "On Development of Agriculture"*, and RS7051 *Government Program for Agriculture and for Market Regulation 2008-2012*

PSD Tables

Wheat

Due to the large wheat crop, the wheat export forecast is raised to 11.0 mmt, with the bulk of wheat to be shipped before the end of CY 2007. After imposition of an anticipated prohibitive tariff on wheat exports expected for January through March, these exports may restart, in smaller quantities, in April 2007. In spite of high domestic wheat prices, traders accumulated stocks to execute their contracts, and exports in September and October are reaching historic monthly maxima, limited only by logistics, such as the availability of railcars and the limits of Russian port capacity.

Prices of flour and bread rose August through October 2007, and at the federal and provincial levels administrative measures were taken to curb this growth. Both this inflation and administrative measures that followed may slightly distort the wheat consumption pattern in MY 2007/08. Food-, seed-, and industrial consumption is forecast to increase to 23.4 mmt. Food grain consumption will likely increase from 14.78 mmt to 15.5 mmt due to consumer hoarding of bread and grain products. Hoarding will occur due to market uncertainties and expectations that prices for certain staples will skyrocket after the administrative price freeze expires at the end of January 2008. Industrial wheat consumption will increase for the same reasons, from 1.1 mmt to 1.3 mmt. Seed use will increase because attractive wheat prices will stimulate farmers to sow more wheat.

PSD Table										
Country	**Russian Federation**									
Commodity	**Wheat**						(1000 HA)(1000 MT)(MT/HA)			
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007	MM/YYYY
Area Harvested	25400	25400	25400	23700	23700	23700	24500	24200	24500	(1000 HA)
Beginning Stocks	3891	3891	3891	3809	3809	3809	2380	2509	2380	(1000 MT)
Production	47700	47700	47700	44900	44900	44900	48000	45000	48100	(1000 MT)
MY Imports	1282	1282	1282	861	850	861	1000	900	1100	(1000 MT)
TY Imports	1282	1282	1282	861	850	861	1000	900	1100	(1000 MT)
TY Imp. from U.S.	4	4	4	0	0	0	0	0	0	(1000 MT)
Total Supply	52873	52873	52873	49570	49559	49570	51380	48409	51680	(1000 MT)
MY Exports	10664	10664	10664	10790	10700	10790	12000	10000	11000	(1000 MT)
TY Exports	10664	10664	10664	10790	10700	10790	12000	10000	11000	(1000 MT)
Feed Consumption	14900	14900	14900	14100	14000	14100	14900	14100	15000	(1000 MT)
FSI Consumption	23500	23500	23500	22300	22350	22300	22300	22000	23400	(1000 MT)
Total Consumption	38400	38400	38400	36400	36350	36400	37200	36100	38400	(1000 MT)
Ending Stocks	3809	3809	3809	2380	2509	2380	2180	2309	2180	(1000 MT)
Total Distribution	52873	52873	52873	49570	49559	49570	51380	48409	51680	(1000 MT)
Yield	1.88	1.88	1.88	1.89	1.89	1.89	1.96	1.86	1.96	(MT/HA)

Barley

PSD Table										
Country	**Russian Federation**									
Commodity	**Barley**						(1000 HA)(1000 MT)(MT/HA)			
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007	MM/YYYY
Area Harvested	9150	9150	9150	10000	10000	10000	9800	9900	9800	(1000 HA)
Beginning Stocks	2110	2110	2110	873	873	873	1173	1173	1173	(1000 MT)
Production	15800	15800	15800	18100	18100	18100	17000	17300	16400	(1000 MT)
MY Imports	189	189	189	200	290	200	200	200	200	(1000 MT)
TY Imports	188	188	188	200	290	200	200	200	200	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	18099	18099	18099	19173	19263	19173	18373	18673	17773	(1000 MT)
MY Exports	1726	1726	1726	1600	1500	1600	1600	1400	900	(1000 MT)
TY Exports	1397	1397	1397	2000	2000	2000	1600	1400	900	(1000 MT)
Feed Consumption	10900	10900	10900	11800	11990	11800	11600	11700	11700	(1000 MT)
FSI Consumption	4600	4600	4600	4600	4600	4600	4500	4500	4500	(1000 MT)
Total Consumption	15500	15500	15500	16400	16590	16400	16100	16200	16200	(1000 MT)
Ending Stocks	873	873	873	1173	1173	1173	673	1073	673	(1000 MT)
Total Distribution	18099	18099	18099	19173	19263	19173	18373	18673	17773	(1000 MT)
Yield	1.73	1.73	1.73	1.81	1.81	1.81	1.73	1.75	1.68	(MT/HA)

Corn

PSD Table										
Country	**Russian Federation**									
Commodity	**Corn**						(1000 HA)(1000 MT)(MT/HA)			
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/YYYY
Area Harvested	850	850	850	1000	1000	1000	1300	1300	1400	(1000 HA)
Beginning Stocks	241	241	241	144	144	144	194	144	194	(1000 MT)
Production	3200	3200	3200	3600	3600	3600	3500	3800	3700	(1000 MT)
MY Imports	306	306	306	150	200	150	200	200	200	(1000 MT)
TY Imports	306	306	306	150	200	150	200	200	200	(1000 MT)
TY Imp. from U.S.	15	15	15	0	0	0	0	0	0	(1000 MT)
Total Supply	3747	3747	3747	3894	3944	3894	3894	4144	4094	(1000 MT)
MY Exports	53	53	53	100	100	100	100	100	100	(1000 MT)
TY Exports	53	53	53	100	100	100	100	100	100	(1000 MT)
Feed Consumption	3000	3000	3000	3100	3200	3100	3100	3250	3250	(1000 MT)
FSI Consumption	550	550	550	500	500	500	500	600	600	(1000 MT)
Total Consumption	3550	3550	3550	3600	3700	3600	3600	3850	3850	(1000 MT)
Ending Stocks	144	144	144	194	144	194	194	194	144	(1000 MT)
Total Distribution	3747	3747	3747	3894	3944	3894	3894	4144	4094	(1000 MT)
Yield	3.76	3.76	3.76	3.6	3.6	3.6	2.69	2.92	2.64	(MT/HA)

Relevant Reports

RS7075 Grain and Feed / Grain Interventions Announced
http://www.fas.usda.gov/gainfiles/200710/146292770.doc

RS7074 Grain and Feed / Court Upholds Anti-Trust Ruling Against VPSS
http://www.fas.usda.gov/gainfiles/200710/146292764.doc

RS7070 Grain and Feed / Russian Government Resolution on Temporary Export Duties on Wheat and Barley
http://www.fas.usda.gov/gainfiles/200710/146292739.doc

RS7068 Grain and Feed / Grain Export Tariffs Coming in November
http://www.fas.usda.gov/gainfiles/200710/146292716.doc

RS7320 Grain and Feed / Grain Interventions and Export Tariffs Likely
http://www.fas.usda.gov/gainfiles/200709/146292480.doc

RS7059 Grain and Feed / Grain September Update
http://www.fas.usda.gov/gainfiles/200708/146292218.doc

RS7051 Agricultural Situation / Government Program for Agriculture and for Market Regulation 2008-2012
http://www.fas.usda.gov/gainfiles/200707/146291764.pdf

RS7005 Agricultural Situation / Federal Law "On Development of Agriculture"
http://www.fas.usda.gov/gainfiles/200701/146279991.pdf

RS7004 Agricultural Situation / Decrees on Agricultural Subsidization
http://www.fas.usda.gov/gainfiles/200701/146279951.pdf