

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ban on Grain Exports from Russia Comes to Force on August 15

Report Categories:

Grain and Feed

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Report Highlights:

The Russian Government imposed a temporary ban on exports of wheat, barley, rye, corn and wheat and rye flour beginning August 15 through December 31, 2010. Putin declared the ban in efforts to stymied fears regarding food and feed prices.

General Information:

On August 5, the GOR announced the suspension of grain exports from August 15 until December 31, 2010 and an allocation of 35 billion rubles (\$1.2 billion) in subsidies to the sector. In addition, the GOR said it would distribute grain from its State Grain Intervention Fund to the affected regions without auctions. The Government Resolution # 599 of August 5, 2010 “About Introduction of the Temporary Ban on Exports of Certain Agricultural Commodities from Russia” came to force on August 6, 2010 after its publication in Rossiyskaya Gazeta. Other Government initiatives on farmers’ support have not been documented yet. The text of the Government Resolution #599 is attached.

Grain Embargo

The embargo would apply to all grain exports, including contracts that had been already signed. The very preliminary estimates of canceled wheat contracts range from 2.0 MMT to 2.5 MMT. On August 6 some local authorities did not allow grain to be loaded on the railcars, although the embargo had not started yet. Experts believe that only grain that is already on ships may be exported.

The grain embargo imposed by the government will free exporters from meeting their obligations and any associated penalties. It is rumored that some traders actually asked for this, because along with an increase in domestic prices, the gap between their purchase price and the contract price is increasing. However, exporters were not prepared for the embargo to begin so soon. The Russian Grain Union estimates that almost 0.5 MMT of grain (mostly wheat) is stored at the Novorossiysk elevators and 250,000 MT of wheat is in route to the port via rail and truck.

Export controls (export taxes) are not uncommon in Russia. Export taxes were imposed in 2008 when domestic stocks were drawn down by exports, but ultimately there was significant production and controls were lifted. It is rumored that GOR opted for a ban rather than taxes as it was faster, easier to implement and exempted exporters from penalties.

Current Crop Data

According to the Russian Ministry of Agriculture, as of July 29, Russia harvested 33 million metric tons of grain (bunker weight) from 14.2 million hectares (33 percent of the planned area), including 24.6 MMT of wheat (from 9.6 million hectares), and 4.2 MMT of barley (from 2.1 million hectares). As of July 29, 2010, the average wheat yield was 2.56 MT/ha (in 2009 on the same date the average yield was 2.92 MT/ha), and the average barley yield was 1.99 MT/ha (in 2009 – 3.02 MT/ha). Along with harvest progress from the Southern Federal District to the Central, Volga Valley and Ural Federal Districts, yields are decreasing rapidly, as these areas were most drastically affected by drought.

Experts consider that the grain crop in all these districts will be lower than last year, especially in the Volga Valley and the Central Federal Districts, where it may drop by 30 – 50 percent from last year.

Grain crop forecasts for the Siberian Federal District looks good so far, but farmers have not started harvesting their grain. Due to a rainy and cold spring harvest in Siberia it is lagging behind the normal harvest schedule by approximately two weeks. Siberian farmers experienced significant financial problems in 2009 caused by very low grain prices and decreased area sown to grain in 2010. The best crop forecasts for Siberia vary from 16 MMT to a maximum 18 MMT.

According to official data (Rosstat), the grain carry-over stocks as of July 1, 2010, is 21.7 MMT, including 9.5 MMT from the state intervention fund. Experts estimate carry over grain stocks to be a maximum 20 MMT, including 9.5 MMT in intervention stocks. Until recently the Russian Ministry of Agriculture was predicting that Russia's 2010 grain crop would hit 85 MMT with 20 MMT for grain export. However, on August 3, 2010, Deputy Minister of Agriculture Belyaev decreased the crop forecast to 70-75 MMT.

The last independent forecast on the Russian grain production was made by company ProZerno on August 4, 2010: the total grain crop is forecast at 74.0 MMT with potential to decrease further to 72.0 MMT. This crop is forecast to consist of 48.1 MMT of wheat (31.8 – winter, and 16.3 – spring); 10.2 MMT of barley, 2.9 MMT of rye, 4.4 MMT of oats, 4.4 MMT of corn, 1.7 MMT of legumes, and 2.3 MMT of other grains. Given the preliminary estimates of harvested wheat, it will be primarily milling quality wheat Classes 4 and 3 (76.4 percent of wheat crop or 37 MMT), while the fodder wheat will be 23.6 percent, or 11.5 MMT^[i].

There appears to be a restriction on future data coming out of Moscow. The analytical company SovEcon, will stop commenting and publishing their forecasts until the crop production data and it is possible that the Russian Ministry of Agriculture will also stop publishing data on the grain harvest or sharing any grain production/demand/exports/stocks estimates until the situation is back under control.

Current Price Data

Decreasing crop forecasts and bad weather conditions are expected for August all over European Russia and the Urals resulting in sharp increases in domestic grain prices, especially feed grain prices. In only one week (July 23 to July 30) fodder wheat (Class 5) prices in European Russia (EXW) increased by 475 rubles to 5,075 rubles (\$168.1) per metric ton and fodder barley prices increased by 230 rubles to 4,270 rubles (\$141.5) per metric ton. For comparison, in June 2010 these prices were 3,270 rubles (\$105) per metric ton for fodder wheat and 2,365 rubles (\$76) per metric tons for fodder barley. The price for milling Class 3 wheat increased in the last week of July 2010 by 485 rubles to 5,835 rubles (\$193.3) per metric ton, while it was only 3,813 rubles (\$122) per metric ton in June 2010. The price of milling Class 4 wheat increased by 435 rubles to 5,485 rubles (\$181.7) per metric ton in June 2010 it was 3,606 rubles (\$115) per metric ton. The price of food quality rye jumped in the last week of July by 510 rubles to 4,075 rubles (\$135) per metric ton, while in June prices were 2,079 rubles (\$67) per metric ton^[iii].

Speculations about Russia's grain crop, domestic feed demand, exports and end-of-year stocks seriously affected domestic and world grain prices in the beginning of August, and have already stimulated a sharp increase in prices of milling products. Experts estimate, that supply of milling wheat, rye, and rice in MY 2010 will be more than enough to meet all domestic demand, but domestic prices of these products increased in the last week of July. Thus, the price of the top wheat grade flour

in the European Russia increased by 650 rubles to 12,350 rubles (\$409.1) per metric ton (in June 2010 the price was 6,449 rubles or \$207 per metric ton), and the price of rye flour increased in one week by 670 rubles to 6,830 rubles (\$226.3) per metric ton, while a month ago it was 3,579 rubles (\$115) per metric ton.

Comments

It is FAS Moscow's opinion that the export ban was taken as a preventative measure. Bread is sacred to the Russians and when the price of bread goes up it makes the headlines. The ultimate impact of the drought and fires on this year's wheat crop remains unclear; so Putin took this action to safeguard domestic supplies and prices through 2010. It is not anticipated that there will be a shortage of grain domestically in Russia and the ban may come off once the drought and fires have subsided and the actual grain situation is clear. Putin chose to sacrifice exports for domestic stability. Prior to the ban Russian's grain exports forecasts for MY 2010 varied from 14 MMT to 20 MMT.

The Resolution called for extension of the ban to all Customs Union members which would include on the Kazakhstani wheat. However it is most unlikely that Kazakhstan will agree. According to the Custom Union Agreement, each side has a right to unilaterally introduce protective measures. The Customs Union Commission has now 30 days to decide whether to recommend the introduction such a protective measure by other Customs Union member-countries. If the Commission does not approve such a recommendation, the unilaterally introduced ban will only be valid for a maximum of six months.

Attachment 1. Government Resolution # 599 of August 5, 2010 "About Introduction of the Temporary Ban on Exports of Certain Agricultural Commodities from Russia"

Unofficial translation:

Begin Text:

Government Resolution # 599 On Introduction of the Temporary Ban on Exports of Certain Agricultural Commodities from Russia August 5, 2010, Moscow

"In accordance with Article 8 of the Agreement of June 9, 2009, On the introduction and application of measures affecting foreign trade in commodities on a single customs territory with respect to the third countries, the Government of the Russian Federation decrees:

1. Set from August 15, 2010, through December 31, 2010, a temporary ban on the export of wheat and meslin (TN VED TS ^[iii] code 1001), barley (TN VED TS code 1003 00), rye (code TN VED TS 1002 00 000 0), corn (TN VED TS code 1005), wheat flour or wheat-rye flour (code TN VED TS 1101 00) from the territory of the Russian Federation.

2. Ministry of Economic Development of the Russian Federation in accordance with established

procedure shall:

- inform the States – members of the Custom Union, as well as the Commission of the Custom Union on the introduction of the ban referred to in paragraph 1 of this resolution;
- submit proposals for the consideration of the Commission of the Custom Union on the application of measures referred to in paragraph 1 of this resolution, by other states - members of the Customs Union.

Chairman of the Government
of the Russian Federation

V. Putin

End Text

^[i] Source: Agronews, August 6, 2010

^[ii] All data on prices in European Russia are from ProZerno publications

^[iii] TN VED TS codes – abbreviation for the codes of the Commodity Nomenclature of the Foreign Economic Activity of the Custom Union. The Codes are close but may not be identical to the HS Numbers in the foreign trade.