



Bi-weekly Bulletin

December 30, 2005 Volume 18 Number 21

RUSSIA

Russia became the third largest wheat exporter in the world in 2002-2003, second only to the United States (US) and the European Union (EU). Two successive years of record wheat production, attributed largely to unusually high yields, made it possible for Russia to fill a supply void created when the US, Canada, Australia and Argentina experienced production shortfalls due to poor growing conditions. Similarly, but to a lesser extent, Russia was able to capitalize on barley export opportunities in 2002-2003 when barley production in Australia and Canada decreased dramatically. This issue of the *Bi-weekly Bulletin* looks at the situation for Russia's grains and oilseeds sector, and examines the implications for Canada.

Background

Russia has a population of over 140 million (M), and it is in its second decade of economic reform following the collapse of the Soviet Union in 1991. Russia has made significant progress in the development of a market economy, but resistance to change has limited the growth in personal income, demand for food stuffs and agricultural production.

For 2005, Russia's Gross Domestic Product (GDP) is forecast to increase by 6.0%, down from 7.1% in 2004 and inflation is forecast at 9.4%, down from 10.9% in 2004. Since the financial collapse in 1998, Russia's real GDP has increased by 38% and the capitalisation of the Russian market has increased more than fivefold, to about \$US 250 billion (G). Foreign currency reserves are estimated at US\$95G. Much of Russia's positive economic performance is attributed to high oil and gas prices in recent years.

Generally speaking, the benefits of a fairly robust Russian economy have not trickled down to the average Russian worker and poverty continues to be a serious problem. Average salaries are about US\$3,000 per year and one-third of the population lives below the poverty line. At the same time, a small number of influential oligarchs derives the benefits from a very prosperous oil and gas sector

which accounts for over 50% of Russia's total exports.

Agriculture

The major field crops grown in Russia, in order of production, are wheat, barley, sunflower, oats, rye, and corn. Russia's main agricultural region extends nearly 5,000 kilometres from the Central District, which borders Ukraine and Belarus, to the western part of Siberia. In 2005, for example, out of the roughly 133 million hectares (Mha) of arable land, 47 Mha of grains and oilseeds were harvested. The remainder is pasture and meadows for livestock grazing.

Agriculture accounts for about 7% of Russia's GDP, considerably less than the industrial sector which contributes 40%. Russia's agricultural sector, which employs about 12% of its labour force, has grown about 4% annually, which is somewhat slower than the industrial sector which has been growing at an annual rate of 7% for the last couple of years.

Nevertheless, today's agricultural sector bears little resemblance to the one that existed in 1991 when the Soviet Union collapsed. From being a net importer of grains, Russia has moved to being one of the largest world exporters of grain. As livestock subsidies were removed following the collapse of the Soviet Union, Russia

responded by reducing livestock production. Today, Russia is a major importer of beef and poultry meat, and the US supplies over 50% of its poultry import needs.

At a time when livestock production has been on a general decline in Russia, the exceptions are swine and poultry production. Russia's swine production has steadily increased during the past decade and, for 2005, is expected to hit a record 36 million head. Similarly, poultry production has been increasing steadily and is expected to reach a record 0.7 million tonnes (Mt) in 2005. The increase in swine and poultry production is attributed to higher prices to producers, which can be tied to the gradual phase-in of tariff rate quotas for beef and pork imports and a quota being imposed on poultry imports.

Russia's Agri-Food Trade

Canada is not a major trading partner with Russia in terms of agri-food products. Brazil provides, on average, US\$1.3G annually in sales of agri-food products, followed by Ukraine which sells US\$0.9G of agri-food products annually. On the export side, both Kazakhstan and Ukraine buy, on average, US\$0.26G of agri-food products annually from Russia. Trade in agri-food products between Canada and Russia has averaged CAN\$144M per year for the past five

years, with Russia enjoying a slight trade surplus during this period. By far the largest category of Canadian agri-food exports to Russia is meat and edible meat offal, averaging CAN\$41M per year. The bulk of Canada's agri-food imports from Russia are fish and crustaceans, averaging CAN\$54M per year.

SITUATION 2005-2006

For the past decade, Russia's farmers have reduced by about 11% the total area seeded to the major field crops (wheat, barley, oats, corn, rye, sunflower seed, and soybeans.) At the same time, total production increased by about 15% due to significant increases in yields for most of the field crops grown in Russia. For example, wheat yields have increased by about 35% from the late 1990s. This is particularly significant because wheat is the largest field crop grown in Russia. A similar situation exists with barley production where, despite a 19% reduction in seeded area, production increased slightly due to a 28% increase in barley yields.

In terms of disposition, Russia quadrupled its exports of the major field crops during the past decade. The sevenfold increase in wheat exports and a quadrupling of barley exports between the early 1990s and the 2000-2004 period are particularly noteworthy. Russia's feed use, on the other hand, declined slightly as a 27% increase in swine production did not offset the 48% reduction in cattle production. In the past decade, Russia's oilseed crush has increased considerably due to a doubling of both sunflower seed and soybean crush.

Wheat

Wheat accounts for over half of Russia's annual grain production. Winter wheat is grown on about one-third of the total wheat area, but accounts for nearly half of Russia's total wheat production. Winter wheat varieties typically yield higher than the spring varieties. The downside to winter wheat production in Russia is that during an average year, about 13% of the crop is lost to winterkill.

Winterkill fluctuates significantly from year to year. It can result from frost damage; ice crust which smothers the crop; heaving from repeated freeze/thaw cycles, and soaking, which occurs in some of the more waterlogged regions. In 2002-2003, for example, winterkill affected 22% of the crop in the Southern District versus 2% in the following year. Crops that do not survive winter weather conditions are typically replanted in the spring to barley, sunflowers, or some other spring-seeded crop.

Wheat **production** is estimated at 48.0 Mt, up from 45.3 Mt in 2004-2005 due to a small increase in seeded area. **Exports** are forecast at 10.0 Mt, up 2.0 Mt from the previous year due to the increase in available supplies. **Feed use** is forecast at 15.3 Mt, up from 13.6 Mt in 2004-2005 due to the amount of feed wheat available and a small increase in livestock numbers. **Carry-out stocks** are forecast at 4.0 Mt, slightly above the 10-year average.

RUSSIA: WHEAT SUPPLY AND DISPOSITION				
<i>crop year</i>	2003 -2004	2004 -2005	2005 -2006	2006 -2007
thousand tonnes.....			
Carry-in Stocks	6,133	2,645	3,791	3,991
Production	34,100	45,300	48,000	43,000
Imports	1,026	1,197	1,000	1,200
Supply	41,259	49,142	52,791	48,191
Exports	3,114	7,951	10,000	7,000
Feed Use	12,500	13,600	15,300	14,000
Food Use	23,000	23,800	23,500	23,500
Total Use	38,614	45,351	48,800	44,500
Carry-out Stocks	2,645	3,791	3,991	3,691
RUSSIA: BARLEY SUPPLY AND DISPOSITION				
<i>crop year</i>	2003 -2004	2004 -2005	2005 -2006	2006 -2007
thousand tonnes.....			
Carry-in Stocks	4,706	2,227	2,163	1,263
Production	18,000	17,200	16,000	17,000
Imports	439	325	400	400
Supply	23,145	19,752	18,563	18,663
Exports	2,318	1,089	1,200	1,200
Feed Use	13,700	11,700	11,300	11,500
Food Use	4,900	4,800	4,800	4,800
Total Use	20,918	17,589	17,300	17,500
Carry-out Stocks	2,227	2,163	1,263	1,163

Source: USDA-FAS, December 2005

RUSSIA: OATS SUPPLY AND DISPOSITION				
<i>crop year</i>	2003 -2004	2004 -2005	2005 -2006	2006 -2007
thousand tonnes.....			
Carry-in Stocks	580	189	239	239
Production	5,200	4,950	4,800	4,700
Imports	9	0	0	0
Supply	5,789	5,139	5,039	4,939
Exports	0	0	0	0
Feed Use	3,900	3,300	3,200	3,100
Food Use	1,700	1,600	1,600	1,600
Total Use	5,600	4,900	4,800	4,700
Carry-out Stocks	189	239	239	239
RUSSIA: RYE SUPPLY AND DISPOSITION				
<i>crop year</i>	2003 -2004	2004 -2005	2005 -2006	2006 -2007
thousand tonnes.....			
Carry-in Stocks	1,805	355	105	150
Production	4,200	2,850	4,000	4,000
Imports	6	200	50	50
Supply	6,011	3,405	4,155	4,200
Exports	156	0	5	5
Feed Use	1,100	300	500	450
Food Use	4,400	3,000	3,500	3,600
Total Use	5,656	3,300	4,005	4,055
Carry-out Stocks	355	105	150	145

Source: USDA-FAS, December 2005

Barley

Barley is Russia's second major grain produced, with spring varieties accounting for 95% of total barley area and 90% of total production. About 70% of Russia's barley production has gone into the feed grain market in the past decade, but an expanding brewing industry has increased demand for malting grade barley. That increased demand for malting barley has stimulated efforts to increase the supply of domestic malting barley and the remainder is being met with increased imports.

Barley **production** is estimated at 16.0 Mt, down from 17.2 Mt in 2004-2005 due primarily to lower seeded area. **Exports** are forecast at 1.2 Mt, up from 1.1 Mt from the previous year. **Feed use** is forecast at 11.3 Mt, down from 11.7 Mt in 2004-2005. **Carry-out stocks** are estimated at 1.3 Mt, down significantly from 2.2 Mt in 2004-2005, due largely to lower available supplies of barley.

Oats

For the past decade, area seeded to oats has been in a steady decline in Russia. However, production has not decreased proportionately due to significant yield increases.

Oat **production** is estimated at 4.8 Mt, down from 5.0 Mt in 2004-2005 due to lower seeded area. **Feed use** is forecast at 3.2 Mt, down slightly from 3.3 Mt in 2004-2005 due to lower available supplies. **Carry-out stocks** are expected to be unchanged from the previous year at 0.2 Mt.

Rye

In the past decade, Russia has steadily decreased the amount of land seeded to rye in response to declining demand for food grade rye. Demand for feed rye has also declined. However, there have been significant yield improvements which have partially offset the decline in seeded area for rye.

Rye **production** is estimated at 4.0 Mt, up from 2.9 Mt in 2004-2005, due to a

combination of higher seeded area and yields. Much of that increased supply is expected to translate into higher **food use** which is forecast at 3.5 Mt, up from 3.0 Mt in 2004-2005. **Carry-out stocks** are estimated at 0.2 Mt, up from 0.1 Mt in the previous year.

Corn

Only about 20% of the corn crop in Russia is harvested for grain. The remainder is used for silage, although the amount of silage produced in recent years has decreased dramatically due

to lower livestock numbers. The area seeded to grain corn fluctuates between 0.6 and 0.8 Mha depending on soil moisture conditions at planting time.

Corn **production** is estimated at 3.2 Mt, down from 3.5 Mt in 2004-2005, due to a lower seeded area which more than offset higher yields. With a decline in available supplies, **feed use** is forecast at 2.9 Mt versus 3.0 Mt in 2004-2005. **Carry-out stocks** are forecast at 0.2 Mt, down slightly from the previous year.

Sunflower seed

Sunflower seed is Russia's most important oilseed crop, and Russia is one of the world's top producers of sunflower seed. The steady growth in sunflower seed production is attributed to consistently high prices being paid to producers and the relatively low cost of production, factors which continue to maintain the profitability of sunflower seed production in Russia.

Sunflower seed **production** is estimated at 5.8 Mt, up from 4.8 Mt in 2004-2005, due to increased seeded area and higher yields. With that increase in available supplies, **exports** are expected to increase by 50% from the previous year, to 0.3 Mt in 2005-2006, and crush is forecast at 5.0 Mt, up from 4.3 Mt in 2004-2005. **Carry-out stocks** are forecast at 0.1 Mt, up significantly from the previous year.

OUTLOOK 2006-2007

Total production of Russia's major field crops is forecast at 78.2 Mt, down from 82.4 Mt in 2005-2006 due to lower expected yields which more than offset higher seeded area.

Wheat

Wheat **production** is forecast by Agriculture and Agri-Food Canada to decline by 10%, to 43.0 Mt, due primarily to a lower area seeded to winter wheat. With reduced supplies of wheat, **exports** are forecast at only 7.0 Mt, 30% below 2005-2006. **Feed use** is expected to decrease while **food use** is forecast to remain unchanged. **Carry-out stocks** are forecast at 3.7 Mt, down 7% from 2005-2006.

RUSSIA: CORN SUPPLY AND DISPOSITION

<i>crop year</i>	2003 -2004	2004 -2005	2005 -2006	2006 -2007
thousand tonnes.....			
Carry-in Stocks	113	159	259	209
Production	2,100	3,450	3,200	3,300
Imports	496	200	200	200
Supply	2,709	3,809	3,659	3,709
Exports	0	0	0	0
Feed Use	2,150	3,000	2,900	3,000
Food Use	400	550	550	550
Total Use	2,550	3,550	3,450	3,550
Carry-out Stocks	159	259	209	159

RUSSIA: SUNFLOWER SUPPLY AND DISPOSITION

<i>crop year</i>	2003 -2004	2004 -2005	2005 -2006	2006 -2007
thousand tonnes.....			
Carry-in Stocks	25	70	60	95
Production	4,850	4,750	5,800	5,600
Imports	5	10	5	10
Supply	4,880	4,830	5,865	5,705
Exports	310	200	300	275
Feed Use	230	120	225	215
Food Use	270	200	295	280
Crush	4,000	4,250	4,950	4,850
Total Use	4,810	4,770	5,770	5,620
Carry-out Stocks	70	60	95	85

Source: USDA-FAS, December 2005

Barley

Barley **production** is forecast at 17.0 Mt, up from 16.0 Mt in 2005-2006. **Exports** are expected to remain unchanged, at 1.2 Mt, and **feed use** is forecast at 11.5 Mt, up from slightly 11.3 Mt in 2005-2006. **Carry-out stocks** are forecast at 1.2 Mt, down from 1.3 Mt, and at a historically low level.

Oats

Oat **production** is forecast at 4.7 Mt, down from 4.8 Mt in 2005-2006. **Feed use** is expected to decrease marginally, to 3.1 Mt, due to a small decrease in available supplies and **carry-out stocks** are forecast to remain virtually unchanged at 0.2 Mt.

Rye

For 2006-2007, Russia's rye **production** is forecast to remain unchanged, at 4.0 Mt, and **food use** is expected to also increase slightly, to 3.6 Mt. **Carry-out stocks** are forecast to remain stable, at 0.15 Mt in 2006-2007.

Corn

For 2006-2007, Russia's corn **production** is forecast at 3.3 Mt, up slightly from 3.2 Mt, due to higher seeded area and despite an expectation of slightly reduced yields. **Feed use** is forecast to increase marginally, to 3.0 Mt, and **carry-out stocks** are forecast at 0.2 Mt, similar to 2005-2006.

Sunflower seed

For 2006-2007, Russia's sunflower seed **production** is forecast at 5.6 Mt, down from the previous year's record production of 5.8 Mt, as seeded area is expected to remain stable and yields return to normal levels. **Exports, crush** and **carry-out stocks** are expected to decrease slightly.

IMPLICATIONS FOR CANADA'S GRAINS AND OILSEEDS SECTOR

Russia's potential as a competitor in the world market for grain is currently constrained by the shortage of reliable farm machinery. The current supply of farm equipment is deteriorating quicker

than it is being replaced due to the heavy debt load that more than half of Russia's farms are carrying. As a result, these farmers are unable to secure the large, long-term loans needed to purchase the farm equipment and storage facilities required to compete with other major grain producers in the world. Infrastructure constraints include inadequate storage facilities and a road system which is in serious need of upgrading.

One of the factors favouring growth in grain production and exports include the considerable investment by vertically integrated companies into the agricultural sector. They are able to provide access to capital markets and modern inputs, improved management and minimized costs. A number of large domestic grain companies are leading in respective regional and functional markets. Transnational companies such as Cargill, Nidera, Louis Dreyfus, Glencore, Bunge and some others are present in the Russian grain market, especially in the exports operations sector. The shares of these companies are small, however their operations help to increase Russian grain market efficiency. For example, Louis Dreyfus has teamed-up with Russian agribusiness conglomerate Agros to form RusElCo., a primary grain handler which intends to build and operate 10 high-throughput grain elevators throughout the main Russian grain growing areas. In addition, US-based Bunge announced in October 2004, its purchase of the Rostov-na-Donu grain terminal north of the Black Sea.

Russia's agricultural sector is also expected to benefit from upgrades either being planned or being carried out at various port and grain handling facilities. This would include expansion and/or improvements at the ports of Taganrog and Yeysk, located on the Sea of Azov, the Black Sea port of Novorossiysk, the port of Vladivostok, located on the Sea of Japan, and the port of Astrakhan, located on the Caspian Sea. Total Russian port throughput capacity is

about 15 Mt, however, deep sea port capacity is only approximately 10 Mt. In response to limited capacity at Russian deep sea ports, Russian exporters have used facilities in Ukraine and other countries to reduce pooling and consolidation costs.

Over the medium-term, Russia's effect on Canada's ability to compete in world grain markets, especially that for wheat, is expected to be minimal. This is due to issues related to varietal development, assurance of supply and delivery, quality, consistency and infrastructure constraints. Canada continues to compete on the basis of consistency, quality and the dependability of supply.

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Electronic version available at
www.agr.gc.ca/mad-dam/

ISSN 1207-621X
AAFC No. 2081/E

Bi-weekly Bulletin is published by the:
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Issued also in French under title:
Le Bulletin bimensuel
ISSN 1207-6228
AAFC No. 2081/F

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