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RUSSIA

Russia is a major producer and exporter of wheat and barley. As its farmers expand seeded area and adopt new technologies, Russia is expected to exert an even greater influence on world agricultural commodity markets. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Russia's agricultural sector and evaluates some of the implications for Canada's grains and oilseeds sector.

Background

Russia has a population of about 140 million (M) people and a land mass nearly double that of the United States (US), of which approximately 7% is arable. The country is rich in natural resources such as oil, natural gas, coal, minerals, and timber but its ability to exploit those resources has at times been hampered by harsh climate, rough terrain, and relatively long distances to important markets. As well, much of Russia's manufacturing infrastructure needs to be upgraded to sustain further broad-based economic growth.

Russia faces some difficulties as it moves from a centrally planned economy to a market driven economy. Despite the difficulties, Russia has experienced nine consecutive years of economic growth since the financial crisis of 1998. Russia's economic growth, which has averaged 7% annually for the past few years, has been driven by high oil prices and a favourable exchange rate, but gains in fixed capital investments and increasing consumer demand have also played an important role in achieving that economic growth.

With poverty in decline, and an expansion in Russia's middle class, the demand for consumer goods has been steadily increasing. As a result prices have increased significantly. In fact, the consumer price index increased by about 12% from 2006 to 2007. For certain food items, the increases have been more dramatic. For example, prices for vegetable oil increased by 150%, butter by 40%, milk by 30%, and bread by 25%. These increases exceed even those in emerging market economies such as China and India.

Nevertheless, Russia has improved its financial position considerably since the crisis of 1998. Oil export earnings have allowed it to increase its foreign reserves from US\$12 billion (G) in 1999 to US\$470G in 2007, which is the third largest reserve in the world. Russia's federal budget has run a surplus since 2001, and the government has repaid its Soviet-era debt owed to Paris Club creditors and the International Monetary Fund.

Agriculture

Russia is a major producer of wheat, barley, sunflowerseed, oats, and rye. Dry peas, corn, millet, buckwheat, rice, and soybeans are also produced, albeit in smaller volumes. In some temperate-climate locations, fruits such as apples, pears and cherries are also grown. Russia's farmers often face the challenges associated with variability in weather and the resultant effects on yields. Moisture tends to be a limiting factor in many areas, as are heat, excess moisture at seeding and/or harvest, cold weather (including risk of frost damage), diseases, and pests. However, an abundance of fertile black soil, and the availability of water and fertilizer help to offset the limiting effects of unfavourable weather.

Russia's farmers are increasing fertilizer use significantly in order to improve crop yields. For 2008, the Ministry of Agriculture estimates mineral fertilizer use at 1.5 million tonnes (Mt), up from 1.0 Mt in 2007. Nitrogen fertilizer use in particular is expected to double during this same period, to 0.8 Mt. Russia also plans to increase grain production by bringing idle land into production.

As Russia's economy continues to grow, along with consumer demand for food products, the agricultural sector is also benefiting from federal support. The government is making efforts to improve agricultural efficiency, with more assistance being put into capital and technological improvements. A new federal law on development of agriculture is being put in place to provide a more stable legal and regulatory framework for the agricultural sector. Federal programs are being implemented during 2006-10 to emphasize sustainable farming, rural development, and quality of life in rural areas. While farmers face a significant price-cost squeeze due to the sharp increase in fuel costs, the government has introduced a subsidy for this input.

With a focus on increased grain production, Russia's demand for large-scale farm equipment is growing considerably. Recognizing the potential of Russia's rapidly emerging market for farm equipment, global giants Claas, Case IH, and Deere & Co, have either already established a presence there, or they are looking to do so in the very near future. As a sign of the times, Russia's largest combine manufacturer, Rostselmash, recently purchased Canada's high horsepower tractor manufacturer, Buhler Versatile Inc., located in Winnipeg, Manitoba.

Grain handling capacity is also being developed to accommodate the steady increase in grain exports. A high speed grain terminal with an annual capacity of 4 Mt was built in Novorossiysk in late 2007, and another high speed grain terminal is currently under construction in Yeysk, Krasnodar region.

Food Policy

The government employs several mechanisms for assuring affordable grain-based food supplies for the domestic market. Firstly, the *price intervention mechanism* allows the government to purchase grain from farmers at a pre-determined procurement price. This usually occurs when the market price is at or below the government procurement price, or when the delivery for export, or to another region of Russia, is particularly difficult. If prices increase sharply, the government sells grain from its intervention stocks to bring down prices.

However, during a prolonged period of high prices, such as recently experienced, intervention stocks can be drawn down considerably. As a result, the prospects for replenishing Russia's depleted intervention stocks, even with expectations of a good crop for 2008-2009, can be seriously limited by some key factors, including: inordinately low grain stocks worldwide, increasing demand for grain, globally and domestically; inflation; and high input prices. The funding for grain intervention stocks is also limited but the mechanism does occasionally help to stabilize the milling wheat supply in regions where increases in bread prices are particularly sharp.

Export tariffs are another mechanism used to regulate food prices. In early 2008, Russia imposed a 40% tariff on wheat and barley exports. However, the tariff is not expected to be extended beyond July 1, 2008 due to forecasts of a good harvest this year. It must be noted that the *price freeze* on food items such as bread was discontinued on May 1, 2008.

Russia's Futures Market

On April 9, 2008, the National Mercantile Exchange (NAMEX), which is part of Russia's Moscow Interbank Currency Exchange (MICEX), launched Russia's wheat futures market. The futures market can be an effective price discovery mechanism and a risk management tool for the agricultural sector. The project has the support of the Ministry of Agriculture of the Russian Federation, Administration of Krasnodar Region, and the Russian Grain Association.

Russia's previous attempts at establishing a grain futures market ended in failure. However, success is more likely this time as grain traders have become accustomed to dealing with international markets and Russia's grain exports have increased significantly in recent years.

Market participants can trade in two types of wheat futures: on FOB terms (port Novorossiysk); and on franco-elevator (EXW) terms. As of April 1, 2008, United States Department of Agriculture Foreign Agricultural Service lists 32 elevators in the Southern Federal District as being accredited by NAMEX to offer standard grain contracts. This includes 14 elevators in Krasnodar kray, 8 elevators in Rostov oblast, and 8 elevators in Stavropol kray.

Trade

In 2007, Russia exported US\$365G worth of petroleum and petroleum products, natural gas, wood and wood products, metals, and chemicals. On the import side, it imported US\$260G worth of machinery and equipment, consumer goods, medicines, meat, sugar, and semi-finished metal products. Despite the ongoing positive trade balance, there are concerns that Russia's oil and gas sector may not be able to provide the export growth required to offset the increasing demand for imported goods, and that Russia's trade surplus could be in decline.

Russia's main *export* destinations are: Netherlands (12.3%), Italy (8.6%), Germany (8.4%), China (5.4%), Ukraine (5.1%), Turkey (4.9%); and Switzerland (4.9%). Russia's main *import* destinations are: Germany (13.9%), China (9.7%), Ukraine (7%), Japan (5.9%), South Korea (5.1%), US (4.8%), and Italy (4.3%).

Russia signed bilateral market access agreements with Canada in 2005 and the US in 2006 as part of the process of acceding to the World Trade

Organization (WTO). The main outstanding agriculture issue in Russia's accession to the WTO is the high ceiling commitment for trade-distorting domestic support to the agriculture sector Russia is seeking. Many WTO members, including Canada, expect Russia to accede with a commitment that is in line with those of other recently-acceded members. According to some observers, Russia could formally accede to the WTO as early as the end of 2008.

Russia's Major Grain Exports

Wheat is Russia's most important grain export, averaging 9 Mt over the 2001-2005 period. In 2005, Russia exported a record 10.7 Mt of wheat, of which 2.9 Mt went to Egypt. Of the 80 countries that bought Russian wheat during that period, the following 5 accounted for 46% of those exports: Egypt (6.2 Mt), Italy (3.5 Mt), Algeria (2.2 Mt), Greece (2.0 Mt), and Azerbaijan (1.8 Mt).

Barley is Russia's second most important grain export, averaging 2 Mt annually. In 2002, Russia exported a record 3.1 Mt of barley, of which 1.6 Mt went to Saudi Arabia. Of the 50 countries that bought Russian barley over the 2001-2005 period, the following 5 countries accounted for about 70% of those exports: Saudi Arabia (4.5 Mt), Israel (1.0 Mt), Iran (0.7 Mt), Libya (0.6 Mt), and Cyprus (0.6 Mt).

Trade with Canada

The value of agri-food product trade between Canada and Russia has averaged CAN\$200M during the past 10 years. Canada's trade balance with Russia during this period has fluctuated between a deficit of CAN\$50M in 1999, to a surplus of

RUSSIA: MAJOR FIELD CROPS* SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
thousand tonnes.....						
Carry-in Stocks	13,264	13,377	5,866	6,824	5,431	4,460	4,133
Production	88,173	70,035	80,631	82,742	83,179	85,659	90,675
Imports	<u>1,421</u>	<u>1,986</u>	<u>1,924</u>	<u>1,839</u>	<u>1,264</u>	<u>1,684</u>	<u>1,535</u>
Total Supply	102,858	85,398	88,421	91,405	89,874	91,803	96,343
Exports	16,268	5,948	9,187	12,896	12,671	13,380	14,260
Feed Use	34,402	34,282	32,872	32,823	33,087	34,522	35,737
Crush/Food	<u>38,811</u>	<u>39,302</u>	<u>39,538</u>	<u>40,255</u>	<u>39,656</u>	<u>39,768</u>	<u>39,880</u>
Total Use	89,481	79,532	81,597	85,974	85,414	87,670	89,877
Carry-out Stocks	13,377	5,866	6,824	5,431	4,460	4,133	6,466
* Wheat, barley, sunflowerseed, corn, oats, rye, soybeans, rapeseed, and millet							
Numbers may not add due to rounding.							
f: forecast, USDA; Source: USDA (FAS)							

CAN\$160M in 2007, when Canada exported a record CAN\$257M worth of agri-food products. The major categories of Canadian

agri-food exports to Russia are *meat and edible offal*, and *fish and crustaceans*. The major categories of Canadian agri-food

imports from Russia are *fish and crustaceans*, and *beverages, spirits and vinegar*.

RUSSIA: WHEAT SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....thousand tonnes.....							
Carry-in Stocks	6,479	6,133	2,645	3,891	3,809	2,380	2,580
Production	50,550	34,100	45,400	47,700	44,900	49,400	52,000
Imports	<u>1,045</u>	<u>1,026</u>	<u>1,197</u>	<u>1,282</u>	<u>861</u>	<u>1,000</u>	<u>1,000</u>
Total Supply	58,074	41,259	49,242	52,873	49,570	52,780	55,580
Exports	12,621	3,114	7,951	10,664	10,790	12,000	12,500
Feed Use	16,000	12,500	13,600	14,900	14,100	15,400	16,000
Food Use	<u>23,320</u>	<u>23,000</u>	<u>23,800</u>	<u>23,500</u>	<u>22,300</u>	<u>22,800</u>	<u>23,000</u>
Total Use	51,941	38,614	45,351	49,064	47,190	50,200	51,500
Carry-out Stocks	6,133	2,645	3,891	3,809	2,380	2,580	4,080

Numbers may not add due to rounding.
f: forecast, USDA; Source: USDA (FAS)

RUSSIA: BARLEY SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....thousand tonnes.....							
Carry-in Stocks	4,387	4,706	2,227	2,110	873	1,226	776
Production	18,700	18,000	17,200	15,800	18,100	15,650	17,000
Imports	<u>251</u>	<u>439</u>	<u>272</u>	<u>189</u>	<u>200</u>	<u>200</u>	<u>200</u>
Total Supply	23,338	23,145	19,699	18,099	19,173	17,076	17,976
Exports	3,132	2,318	1,089	1,726	1,547	1,000	1,200
Feed Use	10,700	13,700	11,700	10,900	11,800	10,700	11,300
Food Use	<u>4,800</u>	<u>4,900</u>	<u>4,800</u>	<u>4,600</u>	<u>4,600</u>	<u>4,600</u>	<u>4,600</u>
Total Use	18,632	20,918	17,589	17,226	17,947	16,300	17,100
Carry-out Stocks	4,706	2,227	2,110	873	1,226	776	876

Numbers may not add due to rounding.
f: forecast, USDA; Source: USDA (FAS)

RUSSIA: SUNFLOWERSEED SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....thousand tonnes.....							
Carry-in Stocks	5	25	273	226	246	314	186
Production	3,685	4,850	4,800	6,450	6,750	5,650	5,600
Imports	<u>7</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>10</u>	<u>10</u>	<u>10</u>
Total Supply	3,697	4,884	5,083	6,687	7,006	5,974	5,796
Exports	186	311	45	396	162	200	220
Feed Use	85	230	239	240	350	310	300
Crush/Food Use	<u>3,401</u>	<u>4,070</u>	<u>4,573</u>	<u>5,805</u>	<u>6,180</u>	<u>5,278</u>	<u>5,230</u>
Total Use	3,672	4,611	4,857	6,441	6,692	5,788	5,750
Carry-out Stocks	25	273	226	246	314	186	46

Numbers may not add due to rounding.
f: forecast, AAFC; Source: USDA (FAS)

SITUATION (2007-2008)

Area seeded to Russia's major field crops (Wheat, barley, sunflowerseed, corn, oats, rye, soybeans, rapeseed, and millet) is estimated at 48 Mha, the highest level since 2002-2003 when a record 50 Mha were seeded. *Production* is estimated at a 5-year high of 86 Mt, and *exports* at a 5-year high of 13 Mt. *Domestic consumption* (feed use, oilseed crush and food use) is expected to increase marginally, and *carry-out stocks* are expected to decline to the lowest level in recent years.

Wheat

Higher *production*, due to increased seeded area and improved yields, has more than offset relatively low *carry-in stocks* for 2007-2008. With a moderate increase in supply, *exports* and *domestic consumption* are expected to increase accordingly. *Carry-out stocks* are expected to increase minimally.

Barley

Lower *production*, due to reduced seeded area and yields, is a major factor in the decline in available supplies for 2007-2008. As a result, *exports* and *domestic consumption* are expected to decrease significantly, and *carry-out stocks* are expected to be the lowest in recent years.

Sunflowerseed

Lower *production*, due primarily to reduced seeded area, is expected to more than offset relatively high *carry-in stocks*. Despite lower supplies, *exports* are expected to increase slightly but *domestic consumption* is expected to decrease significantly. *Carry-out stocks* are expected to decrease slightly.

Rapeseed

Higher *production*, due to increased seeded area and improved yields, plus record high *carry-in stocks* are expected to contribute to record high supplies for 2007-2008. As a result, *exports* and *domestic consumption* are expected to increase significantly, and *crush* is forecast at a record 0.5 Mt, exceeding the previous year's record. *Carry-out stocks* are expected to increase minimally.

OUTLOOK (2008-2009)

Area seeded to Russia's major field crops is forecast to match the record 50 Mha set in 2002-2003, due in part to a commitment by the Ministry of Agriculture to reclaim about

RUSSIA: RAPESEED SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....thousand tonnes.....							
Carry-in Stocks	26	16	16	10	21	77	81
Production	115	192	276	303	522	632	725
Imports	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>4</u>	<u>0</u>
Total Supply	141	208	292	313	544	713	806
Exports	20	48	48	54	79	125	140
Feed Use	15	17	15	13	17	17	17
Crush	<u>90</u>	<u>127</u>	<u>219</u>	<u>225</u>	<u>371</u>	<u>490</u>	<u>600</u>
Total Use	125	192	282	292	467	632	757
Carry-out Stocks	16	16	10	21	77	81	49

Numbers may not add due to rounding.
f: forecast, AAFC; Source: USDA (FAS)

0.7 Mha of previously idled crop land. In addition, the Ministry has called for farmers to improve soil fertility, which would also contribute to record high crop yields forecast for the 2008-2009 crop year. To reduce fuel consumption, the Ministry has called for the adoption of minimum till and no-till technologies for 40% of the area seeded to grain.

Major field crop *production* is forecast at a record 96 Mt, up from 86 Mt in 2007-2008. *Exports* are forecast at 14 Mt, up slightly from 2007-2008, but short of the record 16 Mt exported in 2002-2003. *Domestic consumption* is forecast to increase marginally, and *carry-out stocks* are forecast at 10 Mt, up from 4 Mt expected for 2007-2008.

Wheat

Production is forecast at a record 54.0 Mt, up from 49.4 Mt in 2007-2008, due primarily to expectations of record high seeded area. *Supply* is forecast at 57.6 Mt, up from 52.8 Mt in 2007-2008, and *exports* are forecast at 12.5 Mt, the highest level since 2002-2003. *Domestic consumption* (feed and food use) is forecast at 39.0 Mt, up from 38.2 Mt in 2007-2008. *Carry-out stocks* are forecast at 6.1 Mt, up from 2.6 Mt in 2007-2008, and the highest level since 2002-2003.

Barley

Production is forecast at 17.5 Mt, up from 15.7 Mt in 2007-2008, due primarily to expectations of improved yields. *Supply* is forecast at 18.5 Mt, up from 17.1 Mt in 2007-2008, and *exports* are forecast at 1.3 Mt, up from 1.0 Mt in 2007-2008. *Domestic*

consumption is forecast at 15.9 Mt, up marginally from 2007-2008. *Carry-out stocks* are forecast at 1.3 Mt, up from 0.8 Mt in 2007-2008.

Sunflowerseed

Production is forecast at 6.5 Mt, up from 5.7 Mt in 2007-2008, due to higher seeded area and improved yields. *Supply* is forecast at 6.8 Mt, up from 6.0 Mt in 2007-2008, and *exports* are forecast to increase marginally. *Crush* is forecast at 6.1 Mt, up from 5.3 Mt in 2007-2008. *Carry-out stocks* are expected to decrease slightly.

Rapeseed

Production is forecast at 0.7 Mt, up from 0.6 Mt in 2007-2008, due to record high seeded area and near record yields. *Supply* is forecast at a record 0.8 Mt, up from the previous year's record of 0.7 Mt. *Exports* are forecast to increase marginally, and *crush* is forecast at a record 0.5 Mt. *Carry-out stocks* are expected to increase.

Implications for Canada

Canada is expected to build on its trade relationship with Russia. Canada's agri-food products exports to Russia have almost tripled in value over the past 10 years and, as Russia's growing middle class develops a taste for western-style food products and beverages, Canada is well positioned to exploit the market opportunities for these value-added products.

From time to time, Canada will continue to fill the demand for primary agriculture products, particularly as Russian farmers

seek out genetically superior grains and animals. As well, Canada is expected to meet the demand for technologically-advanced farm equipment as Russian farmers increase the size of their farming operations and, with that, the need for bigger and better equipment.

Over the medium-to-long term there is potential for agricultural production to increase significantly in Russia. Significant investment by the federal government and the oblasts in infrastructure, transportation, and input availability is expected to increase production and exports. For some crops, especially the wheat market, Russia is expected to provide increased competition for traditional exporters such as Canada. However, it is not likely that Russia will be competing with Canada in the premium wheat markets. Increases in Russia's agricultural production and marketing over the next 15 years are highly dependent on farmers being able to adopt the new technologies and agronomic practices, and there has to be an adequate financial and grain handling infrastructure to support a higher level of agricultural activity.

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