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### Agent for Grain Procurement Interventions Selected

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#### Report Highlights:

On August 21, 2009, the Russian Ministry of Agriculture selected the Reserve Food Company, a new, private agribusiness company, as the agent to conduct grain interventions in MY 2009. Information on the sites for intervention sales, contacts, and requirements has been recently published on the Ministry of Agriculture's web site. To date, the federal budget outlays to Rosselkhozbank for intervention purchases do not exceed 20 billion rubles (\$645 million), two times less than in MY 2008, and the budget related grain procurement is forecasted at 4.0 MMT.

#### Executive Summary:

On August 21, 2009, the Russian Ministry of Agriculture selected the Reserve Food Company, a new, private agribusiness company, as the agent to conduct grain interventions in MY 2009. Information on the sites for intervention sales, contacts, and requirements has been recently published on the Ministry of Agriculture's web site. In August, Agricultural Minister Yelena Skrynnik reported that Russia has enough storage capacity in the South for new intervention grain. To date, the federal budget outlays to Rosselkhozbank for intervention purchases do not exceed 20

billion rubles (\$645 million), two times less than in MY 2008, and the grain procurement is forecasted at 4.0 MMT. The reduction is due to budget constraints, not simply decreases in projected production. However, Minister Skrynnik clarified that interventions will be used for stabilization of the grain market and not for filling the state funds. The time and volumes of purchases will depend on the changing market situation. As of mid-August the price of milling wheat in the Southern Federal District dropped to 75 percent of the declared intervention price announced by the Ministry of Agriculture in March 2009. The interventions were expected to begin between August 25 and September 10, based on the day-to-day monitoring of the grain market and prices, but might be postponed due to organizational problems and delays in financing.

### **General Information:**

#### Agent for the State Grain Procurement Interventions Selected

On August 21, 2009, the Ministry of Agriculture had chosen the Reserve Food Company as an agent for conducting grain and dry milk<sup>[i]</sup> interventions in MY 2009. The selection of the agent was a surprise for many grain market players and experts as it is a new entrant to the market. The Reserve Food Company (RPK) was created and registered as a legal entity, a limited liability company, in Moscow oblast on July 10, 2009, and submitted its application for a tender at 11:00 AM on August 17, a moment before the applicants' envelopes were opened. RPK was founded by the Rosagropromsoyuz (Russian Agro-Industrial Union), the association of 68 provincial agro-industrial unions and more than 40 companies. Posagropromsoyuz is chaired by Ivan Obolentsev, the head of group of companies Optifood<sup>[ii]</sup>, and the Chairman of Agro-Industrial Complex Commission in the Russian Chamber of Industry and Commerce. According to mass media, RPK asked for the lowest contract price - 1.2 percent of price of intervention grain, and the lowest fee for storing grain – less than 0.1 percent of price of stored grain. Besides, RPK offered the highest guarantees – 5.9 million rubles (approximately \$190,000). Given that in MY 2009 Rosselkhozbank's loans for grain interventions are forecasted at 20 billion rubles (\$645 million), RPK's fee might reach 250 million rubles (\$8.1 million). According to Ivan Obolentsev, this is a good sum in times of crisis<sup>[iii]</sup>.

#### Grain Intervention Might Begin Between August 25 – September 10

Several weeks ago the Prime Minister of the Russian Federation Vladimir Putin strongly recommended that grain interventions should begin by the end of August. Some mass media expected the beginning of the grain procurement interventions on August 25, shortly after selection of the state agent. Meantime, Ministry of Agriculture has issued information on MinAg's website regarding the procedure, location and accreditation requirements for interventions. The site also includes possible intervention scenarios for MY 2009:

<http://www.mcx.ru/documents/section/show/8442.61.htm>

This documents states that between August 25 and September 10, the MinAg's Department for regulation of food markets should announce the start date for interventions based on the day-to-day monitoring and forecast of grain market situation, including stocks, prices, exports. According to MinAg's scenario, procurement interventions start in the beginning of September if the average price of Class 4 milling wheat decreases below 3,500 rubles (\$113) per MT.

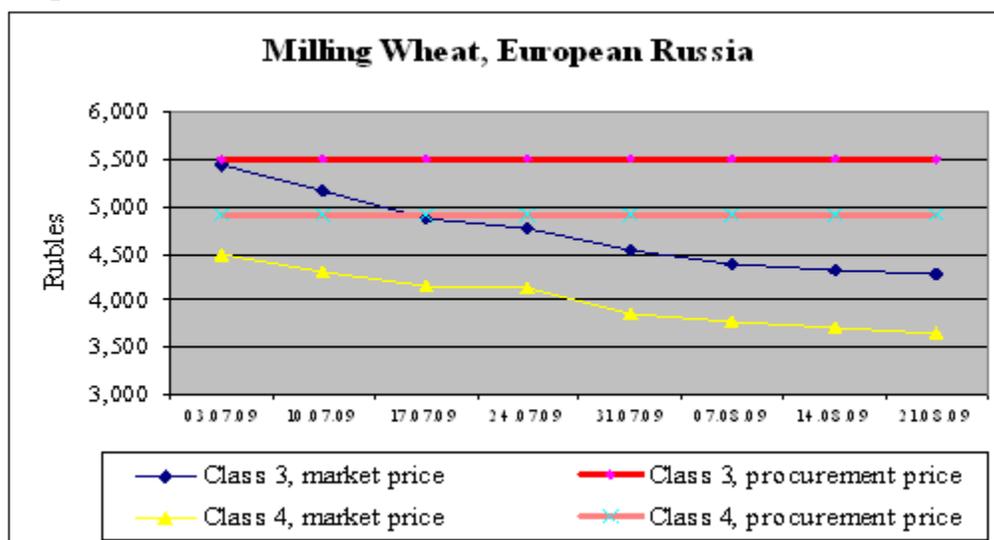
The price (EXW) of milling wheat Class 4 in the European Russia decreased from 3,800 rubles (\$122.6) per MT in the beginning of August to 3,640 rubles (\$117.4) per MT on August 21. Given that experts forecast that Russia's crop will be at a minimum 90 MMT, or 5 MMT more than the last 5 year's average, and that exporters' competition in the world grain market will tighten, domestic grain prices might decrease below 3,500 rubles per MT in the beginning of September.

If the forecast 20 billion rubles' federal outlays for procurement interventions are available on time, the government might purchase up to 4.0 MMT of high quality milling wheat. Compared with MY 2008, massive procurement of milling wheat Class 4 and fodder wheat is unlikely.

## Prices

The graph below shows changes in milling wheat Class 3 and Class 4 market prices (EXW European Russia)<sup>[iv]</sup> in July – August 2009 compared with the intervention prices announced by the Russian Agricultural Minister in March 2009 for grain procurement interventions in MY 2009.

**Graph 1**



## Comments

Grain analysts forecast Russia's grain crop at not less than 90 MT; carry-over stocks of grain by beginning of marketing year exceeded 15 MMT; domestic demand for grain has stabilized at 75 MMT; exports are forecasted below 20 MMT. Given all these factors, Russia's grain prices will continue declining in September – November 2009. In this situation procurement interventions might play important role in stabilizing prices. However, experts point out several organizational, financial and logistical problems which might postpone these interventions and limit their influence:

- selected agent has neither experience nor personnel to organize interventions properly;
- unclear relation between the agent and the United Grain Company which, by its status, is responsible for grain procurement interventions;
- financing from the budget is promised, but not yet actually available

- no capacity at the central federal district elevators

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<sup>[i]</sup> Decision on adding dry milk to the list of intervention commodities was made by the Government in November 2008. However, dry milk has never been purchased or sold in course of interventions, and the mechanism of milk interventions has not been developed yet.

<sup>[ii]</sup> According to mass media, group of companies Optifood controls 15 percent of Russia's poultry imports

<sup>[iii]</sup> Source of this information is article "Competition of Relatives" in Vedomosti, August 24, 2009.

<sup>[iv]</sup> Source: ProZerno