

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 3/24/2011

GAIN Report Number: RS1113

Russian Federation

Grain and Feed Annual

Annual 2011

Approved By:

Scott Reynolds

Prepared By:

Mary Ellen Smith and Yelena Vassilieva

Report Highlights:

In MY 2011, Russia's grain production might recover to 84 MMT, including 52.5 MMT of wheat and 16 MMT of barley. If production reaches this volume, the ban on grain exports might be partially lifted and Russia's exports could reach 6 MMT. Domestic grain consumption is forecast to reach 75 MMT compared to 66 MMT in the current marketing year. Feed grain consumption is forecasted to recover to 42 MMT. Food and industrial consumption of grain is forecast at 34 MMT.

Executive Summary:

Assuming average weather, FAS Moscow forecasts Russia's grain production will reach 84 million metric tons (MMT) in MY 2011 up from the 61 MMT from the drought afflicted crop of 2010. While total area sown to grain will only slightly increase, the yields are expected to improve. Wheat production might increase by 27 percent to 52.5 MMT, because of good agricultural practices in the Southern Federal District and West Siberia. Improved yields are also expected in the Volga Valley, Central and Southern Ural regions, which suffered from severe drought in 2010. The barley crop is forecasted to double from the record low crop in 2010, and may reach 16 MMT. The increase will result from an increased area sown for barley, and significantly better yields than in the drought year 2010. Corn production is forecast to increase by 24 percent due to a slightly increased area and better yields.

Practically all farmers, including grain farmers, have significant outstanding debts inherited from 2007-2009, when they were increasing investments in agricultural production with the aid of subsidized credits. Given the increased grain prices in MY 2010, the returns of farmers in some provinces might increase; and those farmers may increase investments in grain production.

The resumption of grain exports may be phased in gradually. We are likely to see shipments on government-to-government terms and increased exports of wheat flour. FAS Moscow forecasts grain exports in MY 2011 at 5.5 MMT, 1 MMT more than in MY 2010, when grain exports were abruptly stopped on August 15, 2010 by the export ban. Grain imports will return to the normal 1 MMT, from approximately 1.4 MMT in MY 2010.

Domestic food and industrial consumption will increase by 1.5 MMT to 34 MMT, and domestic feed consumption (including losses) is forecasted to increase to 41.5 MMT from the 33 MMT (5 year low) in MY 2010. The drop in feed consumption in 2010 was caused by high feed prices. The drought and feed shortage resulted in early slaughter and decreases in livestock. Recovery of feed demand will be based primarily on government support of the domestic meat and milk production through subsidized interest rates, direct subsidies and low interest rate loans to drought-affected provinces.

End of year grain stocks might increase to 9 MMT from the estimated 6 MMT at the beginning of MY 2011.

Given that 2011 is an election year for the Duma, and the presidential elections will be in March 2012, government policy might be fragmented, inconsistent, and dependent on the image of the Unity Party and its leaders, rather than focused on long-term investments. Thus, political factors will influence the marketing of grain and the government policy will be less predictable.

Table 1. Post's Forecast for MY 2011/2012, 1,000 Metric Tons, 1,000 Hectares

	Wheat	Barley	Corn	Rye	Oats	Millet	Rice	Other	TOTAL GRAIN
Area Harvested	25,000	8,000	1,200	1,800	3,000	250	210	2,100	41,560
Beginning Stocks	5,039	708	135	110	173	0	89	50	6,300
Production	52,500	16,100	3,800	3,500	4,500	220	702	2,000	83,700
MY Imports	300	200	300	0	0	0	130	50	980

TY Imports	300	200	300	0	0	0	130	0	980
TY Imp. from U.S.	0	0	40	0	0	0	0	0	40
Total Supply	57,839	17,008	4,235	3,610	4,673	220	921	2,050	90,606
MY Exports	4,500	800	100	0	0	0	130	0	5,530
TY Exports	4,500	800	100	0	0	0	130	0	5,530
Feed Consumption	23,500	9,900	3,500	600	3,100	80	0	850	41,530
FSI Consumption	23,000	4,400	500	2,800	1,400	140	700	1,200	34,140
Total Consumption	46,500	14,300	4,000	3,400	4,500	220	700	2,050	75,670
Ending Stocks	6,839	1,908	135	210	173	0	91	50	9,406
Total Distribution	57,839	17,008	4,235	3,610	4,673	220	921	2,050	90,606
Yield	2.10	2.01	3.17	1.94	1.50	0.88	5.14	0.95	2.01

Note: The table is composed of PSD forecasts for each crop. The total production is higher than the sum of all crops because rice in the table is “milled rice”, while the total includes rough rice, and the difference is forecast at 378 MT.

Commodities:

Wheat

Barley

Corn

Rye

Oats

Millet

Rice, Milled

Production:

FAS Moscow forecasts Russia’s total grain production in MY 2011 will equal 84 MMT, including 52.5 MMT of wheat, 16 MMT of barley, 4 MMT of corn, 3.5 MMT of rye, 4.5 MMT of oats, and approximately 3 MMT of other grains. The total forecasted grain production will slightly exceed the 7-year average (Table 2), and will be 38 percent higher than in 2010, which was one of the driest years in European Russia.

The recovery of grain production will primarily depend on the weather, though it is unlikely that severe drought will strike European Russia for the third year in a row. In 2009, drought was reported in almost 20 provinces of European Russia, and in 2010, crops were lost in 43 provinces, covering over 30 percent of Russia’s grain area. Additionally, farmers’ financial constraints, increased prices for input supplies, seed shortages in the drought-affected provinces, and uncertainties in government policies may prevent farmers from investing in improved technologies, seeds, and in some provinces financial constraints may affect sown area. Thus, Russia’s average yields for most crops will not exceed their 5-7 year averages, but some provinces (i.e. in the European South) will be much better than others (i.e. in the Volga Valley).

Table 2. Grain Area and Production, 2004 – 2010, 1,000 MT, 1,000 Hectares

	2004	2005	2006	2007	2008	2009	2010	<i>Average</i>
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							(prelim)	2004-2010
Planted Area, 1,000 Hectares								
Wheat, total	24,030	25,399	23,640	24,382	26,633	28,698	26,614	25,628
- winter	8,999	10,363	8,985	10,597	12,692	13,835	12,699	11,167
- spring	15,004	14,979	14,606	13,785	13,941	14,863	13,915	14,442
Barley, total	9,980	9,137	9,990	9,618	9,621	9,035	7,214	9,228
- winter	549	493	488	537	651	582	461	537
- spring	9,383	8,589	9,440	9,081	8,970	8,553	6,753	8,681
Rye (winter)	1,883	2,333	1,781	2,097	2,162	2,142	1,757	2,022
Oats (spring)	3,556	3,325	3,586	3,548	3,561	3,374	2,895	3,406
Corn for grain	877	820	1,031	1,509	1,812	1,365	1,416	1,261
Rice	132	144	163	162	164	183	203	164
Millet	1,026	499	668	506	572	522	521	616
Buckwheat	938	917	1,164	1,301	1,113	932	1,080	1,064
Legumes	1,213	1,103	1,211	1,094	1,006	1,080	1,305	1,145
Total	43,597	43,593	43,174	44,265	46,742	47,553	43,194	44,588
Harvested Area, 1,000 Hectares								
Wheat, total	22,936	24,714	23,080	23,519	26,027	26,612	21,732	24,088
- winter	8,826	10,230	8,820	10,178	12,594	13,432	11,207	10,755
- spring	14,105	14,420	14,203	13,327	13,507	13,249	10,545	13,337
Barley, total	9,544	8,724	9,605	8,376	9,410	7,741	4,970	8,339
- winter	533	483	478	526	646	560	446	525
- spring	9,040	8,223	9,122	7,834	8,793	7,160	4,516	7,813
Rye	1,865	2,311	1,734	2,034	2,135	2,091	1,371	1,936
Oats (spring)	3,281	3,170	3,320	3,317	3,412	3,017	2,236	3,108
Corn for grain	3,414	834	1,014	1,349	1,727	1,123	1,028	1,498
Rice	125	137	156	157	160	178	201	159
Millet	939	407	577	376	515	265	172	464
Buckwheat	867	830	1,069	1,196	1,004	627	575	881
Legumes	1,157	1,058	1,103	923	975	927	986	1,018
Total	41,538	42,262	41,601	41,311	45,453	42,780	33,311	41,180
Yields, Metric Tons per Harvested Hectare								
Wheat, total	1.98	1.93	1.95	2.1	2.45	2.32	1.91	2.09
- winter	2.94	2.83	2.8	2.81	3.39	2.9	2.49	2.88
- spring	1.38	1.3	1.43	1.56	1.56	1.72	1.29	1.46
Barley, total	1.8	1.81	1.89	1.87	2.46	2.31	1.68	1.97
- winter	3.74	3.24	3.63	3.86	4.12	3.67	3.74	3.71
- spring	1.68	1.73	1.8	1.74	2.33	2.21	1.48	1.85
Rye (winter)	1.54	1.57	1.71	1.92	2.11	2.07	1.19	1.73
Oats (spring)	1.51	1.44	1.47	1.63	1.71	1.79	1.44	1.57
Corn for grain	1.03	3.85	3.62	2.93	3.87	3.53	3	3.12
Rice	3.77	4.2	4.39	4.51	4.62	5.14	5.28	4.56
Millet	1.19	1.12	1.04	1.12	1.38	1	0.78	1.09
Buckwheat	0.75	0.73	0.81	0.84	0.92	0.9	0.59	0.79
Legumes	1.62	1.54	1.6	1.41	1.84	1.65	1.39	1.58
Total	1.88	1.85	1.89	1.98	2.38	2.27	1.83	2.01
Production, 1,000 Metric Tons								

Wheat, total	45,413	47,698	45,006	49,390	63,765	61,740	41,508	50,646
- winter	25,948	28,952	24,695	28,600	42,694	38,952	27,905	31,107
- spring	19,465	18,746	20,311	20,790	21,071	22,788	13,603	19,539
Barley, total	17,180	15,791	18,154	15,663	23,148	17,881	8,350	16,595
- winter	1,992	1,566	1,735	2,031	2,660	2,057	1,667	1,958
- spring	15,188	14,225	16,419	13,632	20,488	15,824	6,683	14,637
Rye (winter)	2,872	3,628	2,965	3,905	4,505	4,329	1,632	3,405
Oats (spring)	4,955	4,565	4,880	5,407	5,835	5,401	3,220	4,895
Corn for grain	3,516	3,211	3,669	3,953	6,682	3,963	3,084	4,011
Rice	471	575	686	709	738	913	1,061	736
Millet	1,117	456	600	421	711	265	134	529
Buckwheat	650	606	866	1,005	924	564	339	708
Legumes	1,875	1,630	1,764	1,301	1,794	1,529	1,371	1,609
Other	43	25	35	42	77	526	261	144
Total	78,092	78,185	78,625	81,796	108,179	97,111	60,960	83,278

Source: State Statistical Service (Rosstat).

Note: Harvested area is calculated by Post on the basis of production data and yields per harvested area (official Rosstat data). Some “Total” may differ from the sum of all grains due to possible re-sowing or over-sowing of winter area in spring with the same, or some other crops.

Sown Area

The Russian Agriculture Minister reports that in fall 2010 farmers planted winter grain on only 15.5 million hectares, 3.2 million hectares less than last year. The area sown for winter crops decreased in all federal districts except the North Caucasian Federal District, where it remained the same. The biggest, almost 30 percent, decrease in winter grain area was in the Volga Valley Federal District. This region reported that only 4.3 million hectares were sown for winter grain. Some sources consider that the actual sown area in this region was even smaller, because the soil in the fall remained very dry, and farmers did not risk their scarce (after drought) seeds and other resources by planting in the dry soil.

However, the local administrations reported higher area sown in order to receive greater federal support. According to experts, the share of winter wheat slightly decreased, while the share of winter barley and winter rye increased. In the South, winter grain survival has been good so far, while in many Volga Valley provinces, farmers reported poor conditions for winter crops.

The Agricultural Minister estimated that in order to compensate for the decreased winter area, Russian farmers will increase spring sowing by at least 1.5 million hectares over 2010 levels. The Agricultural Ministry intends to tie assistance such as distribution of subsidized fuel and fertilizer to their spring plantings. Most Russian grain farmers still adhere to crop rotations, and will hardly change these patterns despite the lure of subsidies. More likely, producers will report the balances required by the Ministry of Agriculture but continue planting according to their preferences. The current domestic grain prices are high and attractive for farmers, but the variability of these prices in the last four years was very high (Graph 1 and Graph 2). With limited resources farmers might prefer increasing oilseed production and the production of legumes and perennial grasses that provide more stable returns.

Input Supply

The input supply situation is not favorable for expanded grain sowing in 2011.

Fuel

Prices of fertilizer and fuel were growing rapidly at the end of 2010. In 2010, the price of diesel fuel increased by 35.5 percent, and the price of gas (motor fuel) increased by 10.7 percent. In January 2011, price increases continued to accelerate. Meanwhile, farmers in many provinces were unable to accumulate fuel stocks in 2010 for spring sowing. In some provinces, the price of motor fuel increased to 26,000 rubles (\$870) per metric ton (MT). In February 2011, the Russian government extended fuel price discounts for farmers through 2011. The discount is 10 percent off of the price of fuel as of November 2010 (for more information see GAIN report *Government Approved Fuel Prices Discount for Farmers for 2011 _ Moscow _ Russian Federation _ 2/17/2011*). However, the delivery of subsidized fuel to farmers is lagging behind even in the Southern Federal District, where farmers began spring field work and sowing in March. The Ministry of Agriculture, through local administrations, is trying to influence farmers' planting decisions by monitoring the distribution of subsidized fuel, thereby causing further delays. At the same time, the market price of fuel keeps increasing.

Fertilizer and Agrochemicals

Prices of fertilizer and agrochemicals are increasing while the federal funds for fertilizer subsidies shrank. Although the government promised to restore 6 billion rubles (\$200 million) for fertilizer subsidies, no action has yet been taken. The Russian fertilizer monopolies export over 80 percent of their fertilizer and robust world market demand has increased prices. Meanwhile, most Russian farmers, burdened with outstanding debts and very low capital, prefer the cheapest fertilizer over the most effective. As for agrochemicals, rising prices in 2011 will cause many farmers to minimize the use of agrochemicals, and they will prefer the cheapest, not branded chemicals. If grain prices remain high throughout 2011, the situation might improve in fall 2011 for the 2012 grain crop.

Seeds

Shortage of good quality planting seeds is one of the major restrictions for spring sowing 2011. Saved seeds comprise a significant portion of Russia's planting seeds for grain. Drought-affected provinces, especially in the Volga Valley will have a shortage of quality seeds. In February 2011, administrations complained that the availability of planting seeds for spring sowing is lower than in previous years. The federal government subsidizes seed breeding (Elite Seeds Program), but the reproduction of these seeds and their commercialization is not supported by the government. As a result, the market price of high quality seeds remains unaffordable for the majority of Russian grain farmers. Most farmers cannot afford improved seeds not only because these seeds are expensive, but because they show their effectiveness only in conjunction with appropriate technologies, fertilizer, chemicals, etc., which farmers cannot afford this year.

Biotech seeds are not allowed to be planted in Russia. Domestic seed breeding is improving slowly because many seed breeding centers are short on financing and specialists. In Tatarstan Republic they started experiments on the irradiation of grain planting seeds. These seeds show better results, but environmentalists have already launched a campaign against possible radioactive contamination of

plants and the environment. In Russia, the quality of seeds remains one of the major problems that hamper yield increases.

Use of imported seeds is limited because these seeds remain more expensive than domestic varieties and hybrids. Besides, most imported seeds, included branded seeds, are not suited for Russia's territories, climate, and soil. In 2010, farmers complained that imported seeds showed worse results in the drought conditions than the less productive but more reliable local varieties.

Machines and equipment

Due to the financial constraints of 2009, and the drought induced losses in 2010, Russian farmers were not able to improve their fleet of machines and equipment in 2010. Most machines were purchased and improvements made in 2007-2009, through the use of borrowed money and leases. High import duties on imported equipment and machines raised the prices of these agricultural machines to unaffordable levels, and prices of domestic machines followed. Although Rosagroleasing continues to supply farmers with domestically produced machines at a subsidized rate, farmers' purchases are decreasing, and their debts for these machines are growing.

Storage

According to official data, Russia's total grain storage capacity is 118.2 MMT, including 32.9 MMT of grain elevators' capacity. However, experts estimate the condition of 70-80 percent of Russia's storage capacity is bad. The location of most elevators and storage still reflects the patterns developed in the former planned economy and there are more storage facilities in the grain consuming areas and less in grain producing areas. Experts consider that grain storage remains one of the bottlenecks of Russia's grain industry, and the capacity, condition and location of storage is not ready for a grain crop exceeding 100 MMT. The high cost of transportation of grain is another factor that complicates logistics. In provinces that were not affected by drought, inadequate storage may be one of the limiting factors for increasing grain production in 2011. Thus, in southern Russia, farmers and traders complain that warehouses and elevators are still filled with grain and cleaning and preparation for storage of next year's crop is slow.

Finance

The drought significantly decreased farmers' overall returns from agriculture in 2010, even compared with the low returns in 2009. The regional diversity in returns in 2010 is extreme. In the drought affected regions, farmers' losses were very high and limited insurance programs did not provide a safety net. Experts believe that in the Volga Valley, many farmers will not be able to increase grain sowing in spring, and some of them are ready to stop farming completely. In the Southern and Siberian provinces where the 2010 grain crop was successful, farmers' returns were healthy. In 2007-2008 farmers in the Southern European Russia were making significant investments in agriculture, including grain and oilseeds production. These investments were highly leveraged and by 2010 most farmers accumulated large debts. Before 2010, farmers in Southern European Russia targeted their grain for export markets, and although prices were relatively low, these markets were reliable, safe, and growing. The export ban of August 15, 2010 cut these farmers off from the export markets and reliable returns. Domestic prices began increasing in summer 2010, but the demand for grain was low until January 2011. In August –

October 2010, many farmers in the South were in drastic need of financing to start winter sowing and other field works, and many of them were selling wheat at \$100 per MT or lower, while the world market price of wheat already reached \$150-200 per MT. By spring 2011, although the domestic price of wheat increased to \$250 per MT, many farmers had no grain to sell. A significant portion of reported remaining stocks of grain in the South already belong to traders and middlemen.

Consumption:

Feed consumption and losses

FAS Moscow estimated that grain feed and residual consumption in MY 2010 dropped by approximately 8 MMT to 33 MMT due to the drought. Drought caused an increase in feed prices and a decrease in livestock herds (cattle and pigs). In some provinces, drought and fires caused direct losses of animals. Almost everywhere, high feed prices resulted in increased slaughter at private households, which represent from 33 percent (pigs) to 47 percent (cattle) of livestock herds. By December 2010, the total number of cattle in Russia decreased by 3 percent, while the number of pigs, sheep and goats decreased by 1 percent. Post estimates that the residual's share decreased and the actual feed consumption of grain was approximately 4 MMT lower than in MY 2009. Meanwhile, the high prices of feeds will stimulate industrial, large poultry, pig and dairy farmers to increase the effectiveness of feeding and to continue to optimize feed rations. Along with decreasing the grain component in feeds they increased the feed conversion ratio by increasing the use of other ingredients, such as proteins, vitamins, premixes, etc. In December 2010, the Russian Ministry of Agriculture adopted a Program of Development for the Feeding Industry. However, financing of this program has not started and it will hardly bring any results in 2011. More information on the status of the feed industry in Russia and the plans of the Russian Agricultural Ministry to develop this industry is in the GAIN report RS1070 _ Feed Sector Update _ Moscow _ Russian Federation _ 12/16/2010.

High feed prices may stimulate the shift of Russia's livestock industry to more effective feeding patterns and to increased productivity in the future. Continued government support of the livestock industry may result in its restoration and increased efficiency in the upcoming years. Already in 2011, demand for feeds is forecast to increase, and FAS Moscow forecasts feed grain consumption to rise to 41 MMT.

Food and Industrial Consumption

Food consumption was unaffected in 2010, although food grain price increases caused increases in the price of flour, and some groats, such as buckwheat and millet. Consumer food prices were subject to government price-curbing measures. The government distributed small quantities of milling wheat to flour mills in St. Petersburg and in Moscow from the state Grain Intervention Fund. However, prices had little effect on the levels of food consumption of grain. Industrial consumption of Russian grain for the production of malt and starches decreased slightly, but the decrease in production was offset by increased imports of processed grain products, and total food and industrial consumption did not drop in MY 2010. FAS Moscow forecasts that in MY 2010 food and industrial consumption may slightly increase to 34 MMT from 33 MMT in 2010.

Trade:

By February 2011, Russia's total grain exports, including wheat flour (in grain equivalent) and malt in grain equivalent, almost reached 3.9 MMT. Wheat flour exports began increasing in January 2011,

when the ban on flour was lifted, and total grain exports in MY 2010 are estimated at 4.2 MMT. Major importers of Russian grain in MY 2010 (mostly in July – August 2010) were Egypt (1.6 MMT) and Turkey (0.6 MMT). Saudi Arabia, Israel, Armenia, Libya, Yemen, Azerbaijan and Georgia imported from 100,000 to 200,000 MT of grain each.

Table 3. Russia's Grain Exports, July 2010 - January 2011, Metric Tons

	07/2010	08/2010	09/2010	10/2010	11/2010	12/2010	01/2011	TOTAL
Total	1,938,580	1,700,046	6,362	36,384	37,996	67,571	19,220	3,806,159
Wheat and Meslin	1,717,792	1,584,384	2,510	5,000	12,295	11,153	0	3,333,134
Barley	166,703	99,656	0	0	0	0	0	266,359
Oats	0	0	442	189	94	425	127	1,277
Corn	44,278	9,711	0	0	0	0	0	53,989
Rice	9,807	2,574	1,850	30,242	25,608	55,914	19,093	145,088
Other	0	3,721	1,559	952	0	80	0	6,312
Wheat or Meslin Flour	14,359	3,665	2,290	1,077	2,829	1,560	10,430	36,210
Flour as grain (K=1.368)	19,643	5,014	3,133	1,473	3,870	2,134	14,268	49,535
Malt	4,739	4,695	1,028	503	493	746	730	12,934
Malt as barley (K=1.343)	6,364	6,305	1,381	676	662	1,002	980	17,370

Source: Global Trade Atlas

By February 2011, Russia imported approximately 360,000 MT of grain, flour and malt. Beginning in January 2011, data does not show imports of grain from Kazakhstan, but the total volumes of grain imports from Kazakhstan are small, and experts consider that the border trade in grain with Kazakhstan this year is smaller than in previous years. In addition to rice, Russia's traditional import, in MY 2010 Russia is importing barley and malt. Assuming that by the end of MY 2010 Russian imports maintain the rate of the previous seven months, the total MY grain imports might increase to 1 MMT, mostly barley and malt.

In the middle of March, 2011, Russia's major grain exporters created the Grain Exporters Association in order to lobby for Russian grain exports, but it is not clear what the program of this association will be and how it will coordinate its activities with the two other grain associations - Russia's Grain Union and the Association of Grain Producers of Russia.

Table 4. Russia's Grain Imports, July 2010 – January 2011, 1,000 Metric Tons

	07/2010	08/2010	09/2010	10/2010	11/2010	12/2010	01/2011	TOTAL
Total	8,397	15,531	33,478	50,874	65,891	68,002	36,637	278,810
Wheat and Meslin	3,609	42	1,472	110	20	0	0	5,253
Rye	114	56	11	0	0	0	0	181
Barley	1	1,508	5,451	15,942	39,822	40,042	19,716	122,482
Corn	350	209	153	662	1,628	3,279	3,329	9,610
Rice	4,296	13,716	26,365	34,159	24,227	24,180	12,478	139,421
Other	29	0	26	1	193	502	1,113	1,864
Wheat or Meslin Flour	427	721	548	409	483	639	317	3,544
Flour as grain (K=1.368)	584	986	750	560	661	874	434	4,848
Cereal Flour Other	584	459	620	975	815	769	417	4,639

- Other flour as grain (K=1.368)	799	628	848	1,334	1,115	1,052	570	6,346
Malt	6,673	7,513	12,789	7,003	6,760	5,547	4,601	50,886
- Malt as barley (K=1.343)	8,962	10,090	17,176	9,405	9,079	7,450	6,179	68,340

Wheat

FAS Moscow estimates wheat exports in MY 2010 at 4.2 MMT. Exports from July 2010 – January 2011 were 3,383,000 MT, including 3,333,000 MT of wheat and meslin and 50,000 MT of wheat flour in grain equivalent. 99 percent of wheat and 50 percent of wheat flour were exported in July-August 2010, before the ban. However, since January the ban on flour exports was lifted, and traders began shipping flour, so the total MY exports of wheat flour in grain equivalent might reach 120,000 MT. Some humanitarian or government agreements' based wheat shipments might happen before the end of the marketing year to round up total wheat exports to 4.2 MMT.

In MY 2011 FAS Moscow forecasts wheat exports, including flour in grain equivalent at 4.5 MMT.

Despite the low domestic crop, wheat imports have been slow, and FAS Moscow estimates them at 200,000 MT in MY 2010, including, 100,000 MT of wheat flour in grain equivalent. In July 2010 – January 2011, Russia imported only 5,000 MT of wheat and 5,000 MT of wheat flour in grain equivalent. However, imports of wheat and flour might increase in spring.

In MY 2011 FAS Moscow forecasts wheat imports at 0.3 MMT.

Barley

Given that by February 2011, Russia imported 190,000 MT of barley (including 68,000 MT of malt in grain equivalent), and that barley imports slowed down in winter, FAS Moscow estimates total barley imports at 400,000 MT. Most imports in the remaining five months will be malting barley or malt. Exports of barley are estimated at 300,000 MT, given that by February 2011, Russia already exported almost 285,000 MT of barley and malt (in grain equivalent) and that barley grain exports were completely discontinued in September 2010.

For MY 2011, if the barley crop returns to 16 MMT, exports of barley might increase to 0.8 MMT, while imports will decrease to 0.2 MMT (exclusively for malt industry).

Corn

The corn price in the international market remains too high for Russian feed millers, and imports of corn from Ukraine is subject to Ukrainian export restrictions. Thus, the total imports of corn in MY 2010 (begins in October) is estimated at 0.3 MMT. Given that corn remains one of the main ingredients for feeding Russia's still expanding poultry industry, its imports may continue at 0.3 MMT in MY 2011 despite restored domestic production. According to Ukrainian experts, Ukraine may lift restrictions on corn exports in spring 2011, and if this happens, Russia may increase imports of corn from Ukraine.

Volumes of imports will depend on the price of imported corn vs. the price of Russia's feed quality wheat, which, according to specialists, has already replaced corn in feeding poultry in many Russian poultry farms this year.

Other Grains

In MY 2011 Russia may continue reducing rice imports, but it might slightly increase exports of rice, buckwheat and niche grains like chick peas. However, trade in these grains will remain low.

Stocks:

FAS Moscow forecasts Russia's grain carry-over stocks to increase to 9 MMT, by the end of MY 2011 from the estimated 6 MMT at the beginning of the year. This includes the grain stocks in the State Grain Intervention Fund, which are forecast at 3 MMT in the beginning of MY 2011 (6.5 MMT less than in the beginning of MY 2010), and are forecast to remain at the same level through the end of MY 2011. As of March 2011, grain stored in the Intervention Fund totaled 9 MMT. Russia's statistical data on stocks is only reliable in the portion of grain stored in the Intervention Fund. Russian State Statistical Service (Rosstat) continues collecting data on stored grain, but the consistency of this data was disrupted in the summer 2010, when it began estimating grain stored at private household farms. In addition, the accuracy of private stockholders' reports is not controlled. Since the liquidation of the State Grain Inspectorate several years ago, control of the quality and the quantity of grain at private elevators and warehouses has ceased.

As of March 1, 2011, Rosstat reported that grain stocks at agricultural, grain storing, and processing enterprises were 28.3 MMT (22 percent less than on March 1, 2010), including 12.3 MMT were stored at agricultural enterprises (35.5 percent less than on March 1, 2010) and 16 MMT were stored at elevators and processing enterprises (7 percent less than a year ago). Despite lower current stocks of grain, the monthly consumption of these stocks in January and February was slower than in 2010 due to the export ban. Moreover, the uncertain government grain marketing policy, and the proposed direct distribution of grain from the State Intervention Fund adversely affected domestic sales and the monthly decrease of stocks. Since January 1, 2011 grain stocks decreased by 5 MMT, or 2.5 MMT monthly. However, the farmers' necessity to finance spring works, on one hand, and diminishing grain and feeds reserves at poultry and livestock farms and feed and flour mills will increase stocks' consumption. Given that the average monthly grain consumption in Russia in MY 2010 is estimated at 5.0-5.5 MMT^[i], by July 1, 2011, Russia's carry-over stocks will decrease by 20-22 MMT from the current 28 MMT. FAS Moscow estimates beginning of MY 2011 stocks at 6 MMT.

^[i] Sum of domestic feed, food and industrial consumption in MY 2010 divided by 12 months

Policy:

Russia's officials declare that their policy in 2011 will be aimed at guaranteeing livestock industry growth and resuming exports. In order to achieve these targets, at the end of 2010 and the beginning of 2011, the government adopted a set of measures aimed at restoring grain crop production in 2011 to 80-87 MMT. These measures include regulating fuel prices, federal subsidies and loans to drought-affected provinces interest rate subsidies, and dispersing funds to state banks (Rosselkhozbank and Sberbank) to restructure farmers' debts and to soften lending policy. According to the First Deputy Prime Minister Viktor Zubkov, for spring sowing agricultural producers will receive 220 billion rubles (\$7.3 billion), including 150 billion rubles (\$5 billion) of loans from the state banks. Rosselkhozbank reserved 105 billion rubles (\$3.5 billion) for this purpose and Sberbank reserved 45 billion rubles (\$1.5

billion). More information on the government measures aimed at restoring grain production is in the GAIN report RS 1106 _ Agriculture Development Program in 2010 and Priorities for 2011 _ Moscow _ Russian Federation _ 1/26/2011.

However, the implementation of these policies is lagging behind farmers' spring needs. The short-term government measures are controversial and dominated by political and social considerations in the pre-election year. Thus, there is no information or any certainty when or on what conditions the export ban will be lifted, or what government export regulations may replace it. The unpredictability of short-term government policy creates uncertainties in the domestic grain market and hampers farmers' decisions and abilities to develop grain production in 2011.

Since February, the government has auctioned 670,000 MT from the State Intervention Fund. Most of this grain is milling wheat (Class 3 and 4). Since March, sales of feed grain (fodder barley and feed wheat Class 5) stopped, as the government intends to distribute this feed grain directly to the livestock producers (feed millers and farms) at the price of purchasing this grain in the Fund in the abundant years. The necessary government resolution on the direct distribution of grain has not been signed yet, but the government's plans have already led to the suspension of farmers' sales of grain in the commercial market. Altogether, the government may distribute up to 2.5 MMT of feed grain from the Intervention Fund, but it is not clear, when this grain will actually reach consumers and what it will cost, considering that the elevators, and transport companies will charge fees for the delivery of grain from the storage places to consumers. At the same time, the auction sales and the distribution expectations have begun pushing market prices down (see Graphs 1 and 2).

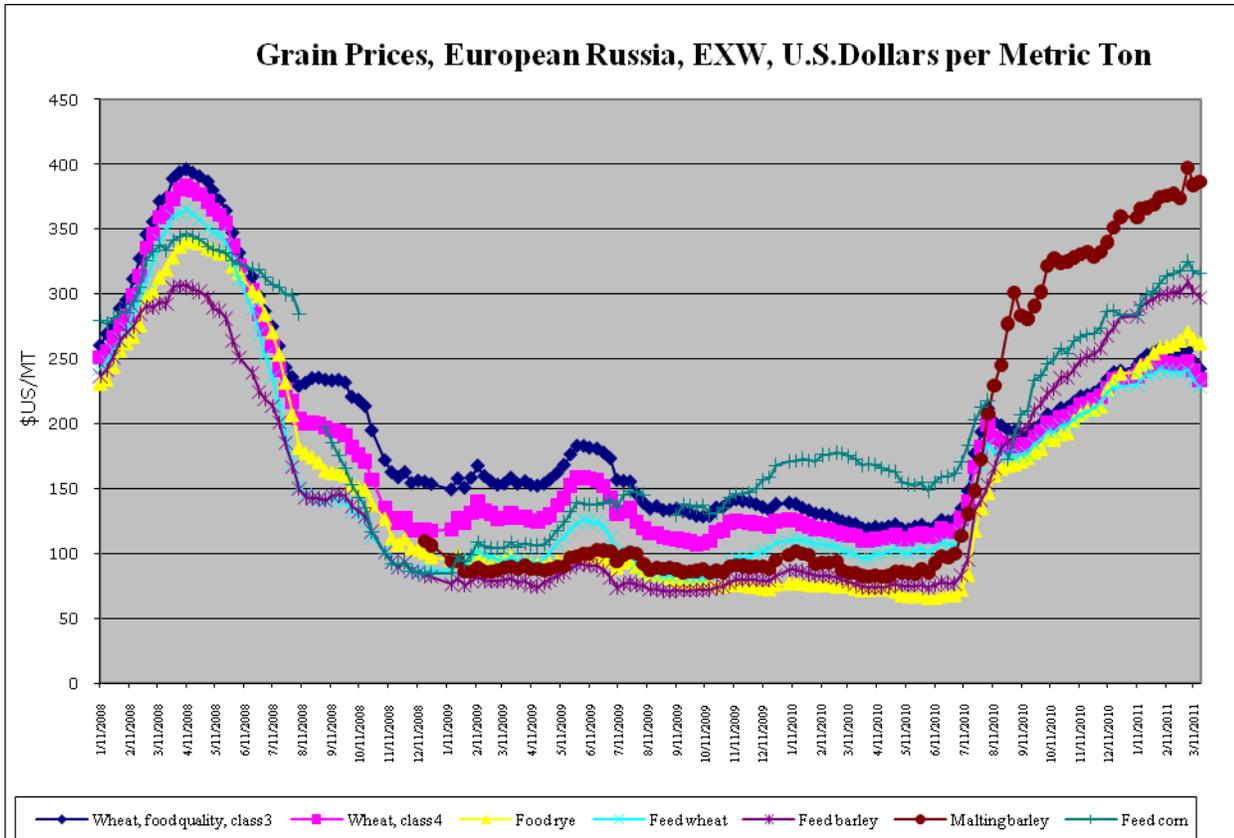
Marketing:

Grain Prices

Despite the sharp increase in domestic prices since July 2010, these prices have not yet reached the levels of MY 2007/2008, with the exception of malting barley prices (Graph 1). A catastrophic decrease in barley production caused skyrocketing prices of malting barley, which is physically unavailable in the market, and a sharp increase in feed barley prices, which in many cases led small brewers to mix feed barley with malting barley in malt production.

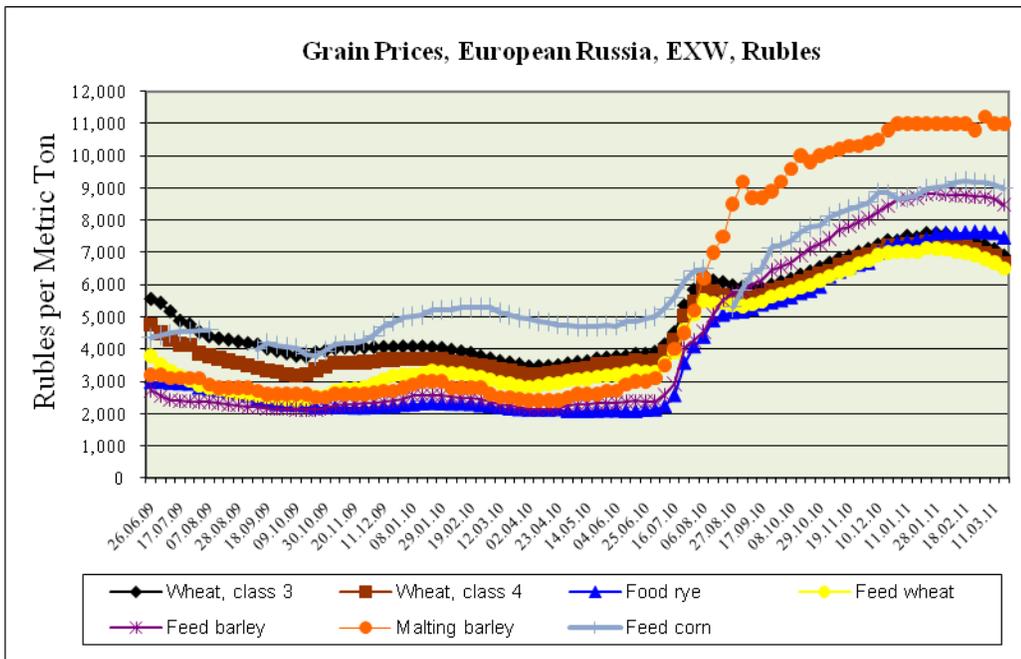
By the end of February 2011, prices of most grain stabilized at a high level (Graph 2). Experts believe the current price of Russian wheat in the domestic market is approximately \$100 less than the world market price. Because of the present export ban, the exchange rate with the dollar does not influence Russian grain exporters at the moment. In March, when the rumors of direct distribution of grain came true, grain prices began decreasing, but at a slow rate. The decrease is stimulated by the necessity of the farmers in the south of European Russia to sell as much grain as possible in order to prepare storage facilities for next year's crop, and to get cash for the spring crop.

Graph 1. Grain Prices, January 2008 – March 2011



Source: ProZerno

Graph 2. Grain prices in European Russia in Rubles, July 2009 – March 2011



Source: ProZerno

Production, Supply and Demand Data Statistics:

Table 5. PSD, Wheat

Wheat Russia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	28,700	28,700	26,600	21,710		25,000
Beginning Stocks	10,561	10,479	11,869	11,869		5,039
Production	61,700	61,700	41,500	41,470		52,500
MY Imports	164	164	500	200		300
TY Imports	164	164	500	200		300
TY Imp. from U.S.	0	0	0	0		0
Total Supply	72,425	72,343	53,869	53,539		57,839
MY Exports	18,556	18,556	4,000	4,200		4,500
TY Exports	18,556	18,556	4,000	4,200		4,500
Feed and Residual	19,000	18,918	23,000	21,500		23,500
FSI Consumption	23,000	23,000	23,000	22,800		23,000
Total Consumption	42,000	41,918	46,000	44,300		46,500
Ending Stocks	11,869	11,869	3,869	5,039		6,839
Total Distribution	72,425	72,343	53,869	53,539		57,839
1000 HA, 1000 MT						

Table 6. PSD Barley

Barley Russia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	9,050	7,750	7,200	4,960		8,000
Beginning Stocks	3,637	3,637	2,088	2,088		708
Production	17,900	17,900	8,300	8,330		16,100
MY Imports	8	8	300	400		200
TY Imports	13	8	300	400		200
TY Imp. from U.S.	0	0	0	0		0
Total Supply	21,545	21,545	10,688	10,818		17,008
MY Exports	2,657	2,657	300	300		800
TY Exports	2,086	2,086	250	300		800
Feed and Residual	12,300	12,300	5,550	5,810		9,900
FSI Consumption	4,500	4,500	3,900	4,000		4,400
Total Consumption	16,800	16,800	9,450	9,810		14,300
Ending Stocks	2,088	2,088	938	708		1,908
Total Distribution	21,545	21,545	10,688	10,818		17,008
1000 HA, 1000 MT						

Table 7. PSD Corn

Corn Russia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,100	1,100	1,025	1,020		1,200
Beginning Stocks	287	287	160	160		135
Production	3,950	3,950	3,100	3,075		3,800
MY Imports	50	50	500	300		300
TY Imports	50	50	500	300		300
TY Imp. from U.S.	0	0	0	0		40
Total Supply	4,287	4,287	3,760	3,535		4,235
MY Exports	427	427	25	20		100
TY Exports	427	420	25	20		100
Feed and Residual	3,200	3,200	3,100	2,950		3,500
FSI Consumption	500	500	500	430		500
Total Consumption	3,700	3,700	3,600	3,380		4,000
Ending Stocks	160	160	135	135		135
Total Distribution	4,287	4,287	3,760	3,535		4,235
1000 HA, 1000 MT						

Table 8. PSD Rye

Rye Russia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,150	2,150	1,750	1,380		1,800
Beginning Stocks	297	297	260	260		110
Production	4,300	4,300	1,650	1,650		3,500
MY Imports	0	0	300	300		0
TY Imports	0	0	300	300		0
TY Imp. from U.S.	0	0	0	0		0
Total Supply	4,597	4,597	2,210	2,210		3,610
MY Exports	12	12	0	0		0
TY Exports	11	11	0	0		0
Feed and Residual	825	825	100	100		600
FSI Consumption	3,500	3,500	2,000	2,000		2,800
Total Consumption	4,325	4,325	2,100	2,100		3,400
Ending Stocks	260	260	110	110		210
Total Distribution	4,597	4,597	2,210	2,210		3,610
1000 HA, 1000 MT						

Table 9. PSD Oats

Oats Russia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3,350	3,000	2,900	2,250		3,000
Beginning Stocks	581	581	378	378		173

Production	5,400	5,400	3,200	3,220		4,500
MY Imports	0	0	0	0		0
TY Imports	0	0	0	0		0
TY Imp. from U.S.	0	0	0	0		0
Total Supply	5,981	5,981	3,578	3,598		4,673
MY Exports	3	3	5	0		0
TY Exports	4	4	5	0		0
Feed and Residual	4,150	4,000	1,950	2,025		3,100
FSI Consumption	1,450	1,600	1,450	1,400		1,400
Total Consumption	5,600	5,600	3,400	3,425		4,500
Ending Stocks	378	378	173	173		173
Total Distribution	5,981	5,981	3,578	3,598		4,673
1000 HA, 1000 MT						

Table 10. PSD Millet

Millet Russia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	250	250	500	170		250
Beginning Stocks	0	0	0	0		0
Production	265	265	130	130		220
MY Imports	0	0	0	0		0
TY Imports	0	0	0	0		0
TY Imp. from U.S.	0	0	0	0		0
Total Supply	265	265	130	130		220
MY Exports	0	0	0	0		0
TY Exports	0	0	0	0		0
Feed and Residual	90	90	5	5		80
FSI Consumption	175	175	125	125		140
Total Consumption	265	265	130	130		220
Ending Stocks	0	0	0	0		0
Total Distribution	265	265	130	130		220
1000 HA, 1000 MT						

Table 11. PSD Rice, Milled

Rice, Milled Russia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	182	175	202	202		210
Beginning Stocks	49	49	55	69		89
Milled Production	590	590	690	690		702
Rough Production	908	908	1,062	1,062		1,080
Milling Rate (.9999)	6,500	6,500	6,500	6,500		6,500
MY Imports	220	220	200	150		130
TY Imports	220	220	200	150		130

TY Imp. from U.S.	0	3	0	0		0
Total Supply	859	859	945	909		921
MY Exports	154	120	120	120		130
TY Exports	154	120	120	120		130
Consumption and Residual	650	670	720	700		700
Ending Stocks	55	69	105	89		91
Total Distribution	859	859	945	909		921
1000 HA, 1000 MT						