

## RUSSIA'S WHEAT EXPORT<sup>1</sup>

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*Russia has become the world's biggest wheat exporter, and it has a chance to remain as such. A downswing trend in global food markets and a weakened effect of rouble devaluation may reduce success rates of Russia's grain exports in years to come.*

Russia exported 13,9 to 30,7 million tonnes of grains in 2008–2015. Overall, Russia's exports of grains have been growing steadily since 2013. Wheat, Russia's main export crop, exhibits a similar dynamics. In contrast, exports of corn and barley (cereal grains that exhibit the second largest export volumes after wheat grains) show no stable growth.

The 2016 wheat crop has almost been harvested by 98%, according to the data as of 9 October 2016. The initial weight of the yield after threshing amounted to 75,7 million tonnes, which is 16% above the value recorded in the previous year and in excess of the forecast value. Wheat exports are estimated at 24,45 million tonnes in 2015/16 and at 31,5 million tonnes in 2016/17, with total grain exports at 34,7 and 42,5 million tonnes respectively<sup>2</sup>. Following the USDA projections for world wheat import volumes at 155,5 and 157,8 million tonnes<sup>3</sup>, it is reasonable to say that Russian wheat accounted for 15.7% of imports in 2015/16<sup>4</sup>, and that it will represent as much as about 20% in 2016/17. Historically, this phenomenon has never been observed before, as is evident from the data on previous years (*Table 1*).

*Table 1*

#### FIVE BIGGEST EXPORTERS' SHARE OF WORLD WHEAT EXPORTS, AS % OF TOTAL EXPORTS

	Australia	Canada	Russia	USA	France
2015	10.1	13.9	12.5	12.4	11.7
2014	12.1	16.0	14.6	16.2	13.5
2013	13.0	14.2	10.0	24.0	14.2
2012	22.7	17.3	15.5	24.9	15.9
2011	16.3	13.5	12.5	27.1	16.8
2010	15.5	18.0	11.6	27.0	20.6
2009	20.1	18.6	16.2	21.2	16.3
2008	24.7	28.8	12.4	31.8	17.2
2007	17.5	20.5	16.8	38.3	16.7
2006	22.7	18.7	9.8	23.6	16.8
2005	21.3	14.5	10.8	28.4	16.8
2004	37.9	21.2	6.6	44.3	20.8
2003	15.4	13.1	8.5	28.4	18.2
2002	29.6	18.2	12.6	29.7	16.8

Source: Comtrade.

1 This paper was originally published in *Online Monitoring of Russia's Economic Outlook* No.17(35).

2 A forecast made by Petrichenko V.. ProZerno Company. Russian Crop Production Conference 2016/17, <http://www.agroinvestor.ru/conference/23394/materials/>

3 USDA Agricultural Projections to 2024. [http://www.usda.gov/oce/commodity/projections/USDA\\_Agricultural\\_Projections\\_to\\_2024.pdf](http://www.usda.gov/oce/commodity/projections/USDA_Agricultural_Projections_to_2024.pdf)

4 There is the difference between the data presented in the Table and the data herein because the Table presents volumes within a year, whereas volumes herein are shown within a crop-to-crop season.

Wheat is grown as the main export crop in Russia. This country accounts for about 8% of world's total gross production of wheat (Russia's share of wheat-growing areas is more than 11%). Russia is steadily expanding wheat-growing areas (*Table 2*).

Table 2

RUSSIA'S SHARE OF WORLD WHEAT PRODUCTION						
	1990	2012	2013	2014	2015	2016
Wheat-growing areas, million hectares						
Rest of the world	231.3	217.2	218.3	221.6		
Russian Federation	24.2	24.7	25.1	25.3	26.8	27.7
Gross output, million tonnes						
Rest of the world	592.3	667.5	711.1	729		
Russian Federation	49.6	37.7	52.1	59.7	61.8	71.3
Russia's share, %						
growing areas	10.5	11.4	11.5	11.4		
gross output	8.4	5.6	7.3	8.2		

Sources: FAOstat, Rosstat.

Russia's Agriculture Minister Aleksandr Tkachev says Russia will be able to export 50 million tonnes of grains in the near future<sup>1</sup>. Theoretically, one may suggest that growth over the currently existing level driven largely by wheat grains may be absorbed by the market without a dramatic drop in prices (with few assumptions though). For instance, demand for wheat imports (including wheat flour) can increase 16% or 24,5 million tones until 2024, according to the USDA projection<sup>2</sup>. Had not other countries increased exports, Russia would have found itself in a good position because growth in export opportunities coincides with the forecast increase in demand. If other suppliers boost their supply, wheat prices may drop because production growth, according to the estimates made, will have already been higher than demand for grains.

According to the US Department of Agriculture, Indonesia and Egypt will become the biggest importers by 2024, with each being expected to reach more than 10,5 million tonnes of imports of wheat and wheat flour. Collectively, consumption is expected to grow by 4,8 million tonnes annually in countries such as China, Vietnam, Philippines, Bangladesh and Thailand, according to the USDA report. Imports are expected to grow by more than 10,4 million tonnes in Africa and in the Middle East. Saudi Arabia will discontinue wheat production and increase imports to 4 million tonnes due to draught conditions. Iran is the sole country in the region that is expected to reduce imports. The countries that increase imports are geographically close to Russia, which provides Russia with extra competitive advantage over other exporters.

According to the USDA projections, wheat demand for domestic purposes in Russia will be growing faster than wheat exports. This is, however, extrapolation of the trends that emerged prior to 2014. The fall in the rouble exchange rate has made exports appealing while the decline in household incomes has resulted in food demand contraction, mostly meat demand while grain demand remained unchanged. Domestic consumption is stable enough as opposed to export volumes.

<sup>1</sup> <http://tass.ru/ekonomika/3457242>

<sup>2</sup> [http://www.usda.gov/oce/commodity/projections/USDA\\_Agricultural\\_Projections\\_to\\_2024.pdf](http://www.usda.gov/oce/commodity/projections/USDA_Agricultural_Projections_to_2024.pdf).25

Russia's Ministry of Agriculture has determined an objective of boosting exports if other major exporters (USA and Canada) are set to reduce slowly their wheat-growing areas. With such a policy being in place, yield growth will result in insignificant growth in production and in small reduction of grain exports. For instance, wheat-growing areas are expected to be reduced by almost 9% in the United States in the period between 2014 and 2024<sup>1</sup>. By 2024, US exports are planned to be cut by 9.5% compared to 2013/14 and by 15% more than in 2014/15.

Indeed, Russia is becoming the world's number one wheat exporter while other countries are standing down. What is the reason for it?

The US forecast until 2024 shows growth in wheat exports that may be regarded as substantial ones only in the European Union and Russia (8,9 and 8 million tonnes respectively). Other major exporters are expected to see a growth of not more than 1 million tonnes per country. According to the foregoing forecast, although demand for wheat imports will be increasing, its growth rates will lag behind demand for other products that are yet exported in small volumes from Russia. For example, imports of soybeans and soybean products will grow steadily at higher pace than wheat imports. This forecast growth in demand that is higher than wheat demand makes the soya market more appealing in the longer term. Additionally, soybeans can generate higher profits. Why?

A simple comparison between the planned export growth and profitability of crops shows that long-term planning considers the relative production efficiency for agricultural producers rather than market demand for additional products (*Table 3*).

Table 3

**FORECAST EXPORTS OF CROP PRODUCTS FROM USA**

Product	Exports 2024/2025 vs 2014/15, %	Net income/variable costs per acre, 2024, forecast
Corn	147	0.76
Sorghum	100	0.42
Barley	100	0.41
Oats	100	0.28
Wheat	115	0.63
Soybeans		1.32
Legumes	107	
Oil	143	
Soybean products	95	

Source: USDA.

A comparison between US and Russia's agricultural producers and government export plans is presented in *Table 4*.

Table 4

**COMPARISON BETWEEN US AND RUSSIAN FOREIGN MARKET ACCESS STRATEGIES**

	2013	2014	2015	2024	Government's export forecast
USA					
\$ /bushel	6.87	5.9	5.0	4.85	15% export growth from 2014/15
Rb/100 kg*	808.2	824.3	1127.3	1087.7	
Russia					
*Rb/100 kg	730	727.50	923.50	n/a	Considerable export growth

\*farm price.

1 USDA Agricultural Projections to 2024 [http://www.usda.gov/oce/commodity/projections/USDA\\_Agricultural\\_Projections\\_to\\_2024.pdf](http://www.usda.gov/oce/commodity/projections/USDA_Agricultural_Projections_to_2024.pdf)

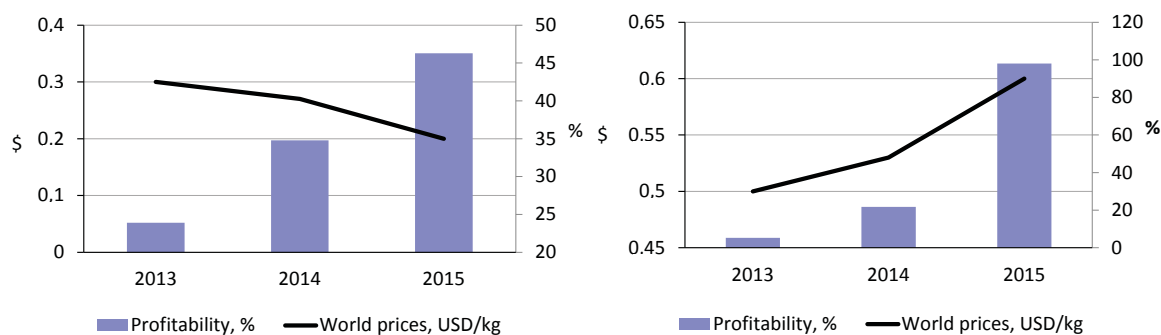


Fig. 1. Dynamics of prices in the world wheat market, and wheat production profitability for agricultural enterprises; wheat (right column), buckwheat (left column)

Sources: USDA, Russia's Unified Interdepartmental Statistical Information System.

The growth in wheat prices in Russia can be explained by the rouble depreciation because the dollar-denominated price in the external market was on the slide. The price is forecast to fall in the longer term. In this regard, Russia's ambitious wheat export plans seem to be too optimistic with regard to generating profit from this type of activity by Russian agricultural producers rather than with regard to export volumes. If wheat sales revenues contract, according to the US forecast, agricultural producers will refocus to other, more profitable, production. In this context it is hard to say that Russia has sidelined other exporters.

Wheat prices in the external market are falling. Indeed, prices, as calculated using the ComTrade database<sup>1</sup>, dropped from \$349 to \$257 per tonne in the period between 2013 and 2015. Russia's rouble-denominated wheat exports remained appealing because of the rouble devaluation (Fig. 1).

If there is no further devaluation, the ongoing price fall (which, for example, the USDA forecast relies on) is unlikely to encourage Russian producers to double exports, given the existing internal costs.

There is another aspect that deserves consideration and refers to grain exporters. All the five biggest grain trans-shippers are subject to foreign jurisdiction, one of which is assumed to be a Russian company, TD RIF LLC (ООО ТД РИФ), that is registered offshore. The success of Russia's exports is driven by the fact that the Russian grain market has international players that have embedded Russia's grain exports into the already-existing framework (Table 5).

Therefore, on the one hand, the external market offers good opportunities for Russian grains: wheat consumption is projected to grow until 2024, potential importers are geographically close to Russia. On the other hand, wheat prices are forecast to drop, the effect of devaluation may be depleted, export operations will become less profitable. Additionally, the United States as the second biggest exporter has a potential to boost its production that is not employed at full capacity because the country continues expanding to the external market by means of crops that produce higher profits for US farmers.

However, Russia has a product, buckwheat, that can help Russia hold the status as the world's number one exporter. Unlike prices of grains and legumes, soybeans and sunflower, prices in the world buckwheat market are on the upswing. Indeed, the buckwheat market is narrow one, of which, however, Russia accounts for almost 23%.

1 <http://comtrade.un.org/>

Table 5

**BIGGEST GRAIN IMPORTERS (COMPANIES)**

Company	Share of grain trans- shipping, % (2014–2015)*	Founder
MZK LLC (ООО МЗК)	9	100% FIRADA B.V. (The Netherlands)
GC Cargill (ГК Каргилл)	8	100% Cargill International Luxemburg 2 SARL (The Netherlands)
TD RIF LLC (ООО ТД РИФ)	7	99.9% Laparkan Investments Ltd. (Cyprus) and 0.1% Grain Ltd. (Virgin Islands)
Outspan International LLC (ООО Аутспан Интернешнал)	5	Olam International Ltd. (Singapore)
Louis Dreyfus LLC (ООО Луис Дрейфус)	5	100 Sungrain Holdings SA (Switzerland)
Total	34	

\* <http://agro2b.ru/ru/news/23139-Rejting-eksporterov-Eksport-zerna-Rossii-Sezon.html>  
Source: SPARK – Interfax, August 2016.