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Russian Federation

Grain and Feed

Possible Export Duties

2003

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Report Highlights:

Given this year's smaller crop, continuing exports, and high domestic prices, the GOR is considering the possibility of introducing a temporary (six months) duty of 25 Euro per ton on exports of rye, wheat, and meslin, although there are rumors of adding barley to this list.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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Executive Summary

Given this year's smaller crop, continuing exports, and high domestic and international prices, the GOR is considering the possibility of introducing a temporary (six month) duty on grain exports. The Inter-Agency Committee on Protective Measures in Foreign Trade decided to recommend that a duty of 25 Euro per ton be applied to exports of rye, wheat, and meslin on all exports outside the Customs Union (Belarus, Kazakstan, Kyrgyzstan, and Tajikistan). An official Resolution of the Government is expected to be sent to Prime Minister Kasayanov for his signature shortly. Post thinks this measure comes too late to have much of an impact on exports because weather and transportation problems generally stymie trade during the winter months anyway. Additionally, international prices are currently higher than domestic prices meaning traders may still be able to make a profit even with this duty.

Grain Production and Exports

Although official crop data will not be published until the end of December, Deputy Prime Minister and Minister of Agriculture Alexsey Gordeyev for the first time publicly stated at a conference held on November 19, 2003 that this year's crop is likely to be smaller than MinAg had previously estimated. Before this speech, MinAg had adhered to its original estimate of 70 mmt, although many analysts still contend the crop will be no larger than 66 mmt. In order to maintain the domestic grain balance, according to Gordeyev, exports this MY should not exceed five mmt. However, according to data of the group of companies "Unidell", during the period from July 2003 through the beginning of November 2003 Russia exported 4.4 mmt of grain, and unofficial export estimates for November range from 0.8 to 1.0 mmt. So by the beginning of this month, exports already exceeded the volume "recommended" by Gordeyev.

Alternative Measures to Curb Grain Exports

Although the possibility of instituting measures to curb exports was first openly discussed at the annual meeting of the Grain Union last month, informal discussions began last summer. Gordeyev stated that if in the early part of the spring of 2004, the GOR finds it necessary to keep prices from soaring, grain from the State Reserves that was collected during last year's interventions would be sold. According to some experts, selling grain from the State Intervention Fund may provide the legal basis for a ban on exports of the same type of grain.

Last week, the grain market lobby demanded the GOR make a rapid decision on the mechanism of interventions for next year. Standard bureaucratic procedures of approval of interventions take up to three months meaning they may be too late this year if action is not taken now. However, according to media reports, the Ministries of Economic Development and Trade and of Finance think interventions make no economic sense. For conducting interventions last MY, money from the Savings Bank of Russia was transferred to the federal budget and given the storage and insurance costs, the proceeds generated from the subsequent sales will not cover this loan. Moreover, these two Ministries expect the revenue from intervention sales to go into the Federal budget (for repayment of the loan), while MinAg wants any proceeds to go into the Federal Food Agency for future interventions. The failure to reach a quick agreement on disposal of the income generated from intervention sales prompted this idea of export tariffs.

Traders' Reaction

Some traders commented that interventions and export duties might actually benefit them, as they could use an "emergency situation" to refuse to fulfill some contracts. On the other hand, they also remarked that if the GOR decides to apply export duties, but international prices also increase at the same time, it may still be profitable to export despite any restrictions. Specialists also comment that rumors about possible restrictive measures may stimulate traders to export as fast as possible before January 2004. Some players in the market think China's entering the international arena will likely cause a significant increase in international freight rates, which may open up a niche for Russia because exports from Australia to Africa and Asia will become more expensive. The general sense of all discussions was that traders will only think about profits and any restrictions, if they happen, will be either too late or may actually benefit them.