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Trade Policy Monitoring

Rising Bread Prices Spark Government Intervention

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Report Highlights:

With the continued rise in grain and bread prices, the Ministry of Agriculture is planning to conduct grain interventions in the second half of this month while regional authorities turn to using administrative measures to curb bread prices or to supply a lower quality bread to people with lower incomes at a lower price. Post expects these measures will only stabilize the rise in prices and not lower them on a permanent basis.

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Executive Summary

The GOR issued a resolution January 30 to conduct grain intervention sales during the second half of February from the roughly 1.6 million metric tons (mmt) of wheat and rye stored in state reserves during last year's intervention purchases. The action is a response to last year's low grain crop, skyrocketing domestic bread prices, and worries about continuing grain exports despite measures enacted to curb them. This measure will likely only stabilize prices, not significantly lower them, and only for the short term before March elections. After that, prices will again begin to rise.

Production and Trade

Official final data on the grain crop is 67.2 mmt, a 22 percent decrease from last year. This includes a 33 percent decrease in wheat production and a 42 percent decrease in rye production. Drought in Europe and decreased world stocks pushed international prices up creating an extra incentive for Russian exporters to continue shipping outside Russia despite high domestic prices, which began rising last spring. The price of class three wheat (baking quality wheat) increased from 2,200 rubles per metric ton in March 2003 to 3,800 rubles in August 2003 and to 6,050 rubles at the end of January 2004. In spite of these high domestic prices, exports of wheat continued through January and according to preliminary Customs data, wheat exports from July to December 2003 reached 3.7 mmt. Barley exports were 2.5 mmt during the same period.

Domestic Grain Prices Increase

Table 1. Average Regional Offer Prices for Grains by Economic Districts, Rubles and US Dollars per Metric Ton

	2003								2004			
	September 22		October 6		November 11		December 8		January 16		February 1	
	Rubles	USD	Rubles	USD	Rubles	USD	Rubles	USD	Rubles	USD	Rubles	USD
Baking Quality Wheat, 3rd class											6050	211.4
Central	NA	NA	NA	NA	NA	NA	NA	NA	5567	192.8	NA	NA
Central Black Earth	4500	147.3	4500	147.7	4950	165.9	5350	181.0	5664	196.1	NA	NA
Volga Valley	4450	145.6	4450	146.0	4700	157.6	5100	172.6	5625	194.8	NA	NA
North Caucasus	4400	144.0	4600	151.0	5050	169.3	5450	184.4	5792	200.6	NA	NA
Ural	4000	130.9	4000	131.3	4350	145.8	4800	162.4	5070	175.6	NA	NA
West Siberia	3900	127.6	3950	129.6	4300	144.2	4750	160.7	5317	184.1	NA	NA
Feed Quality Wheat											5150	179.9
Central	NA	NA	NA	NA	NA	NA	NA	NA	4917	170.3	5300	185.2
Central Black Earth	3650	119.4	3650	119.8	3950	132.4	4350	147.2	4622	160.0	5129	179.2
Volga Valley	3250	106.3	3250	106.7	3650	122.4	4100	138.7	4700	162.7	5167	180.5
North Caucasus	3800	124.3	3800	124.7	-	-	4350	147.2	4550	157.5	5000	174.7
Ural	3150	103.1	3150	103.4	3350	112.3	3950	133.7	4433	153.5	5017	175.3
Rye											5360	187.3
Central	NA	NA	NA	NA	NA	NA	NA	NA	5133	177.7	NA	NA
Central Black Earth	2550	83.4	2850	93.5	4000	134.1	4450	150.6	4833	167.3	NA	NA
Volga Valley	2550	83.4	2650	87.0	3500	117.3	3900	132.0	4763	164.9	NA	NA
Ural	2150	70.4	2600	85.3	3300	110.6	3950	133.7	4267	147.7	NA	NA
Fodder Barley											3960	138.4

Central	NA	NA	NA	NA	NA	NA	NA	NA	3550	122.9	3900	136.3
Central Black Earth	2950	96.5	2600	85.3	2800	93.9	3100	104.9	3657	126.6	3999	139.7
Volga Valley	2950	96.5	2600	85.3	2850	95.5	3100	104.9	3533	122.3	3867	135.1
North Caucasus	3250	106.3	3250	106.7	3400	114.0	3450	116.8	3967	137.4	4325	151.1
Ural	NA		NA		2400	80.5	2950	99.8	3600	124.7	3800	132.8
Ruble/USD exchange rate	30.56		30.47		29.83		29.6		28.9		28.62	

Source: Interfax: Food & Agriculture Report

Bread and Grain Product Prices

Bread and grain product prices continued to increase in December 2003, but at slower pace due to measures taken by oblast and kray administrations on the eve of elections to the Duma such as sales of grain to flour mills at a low price from regional reserves. However this is only a temporary phenomenon and growth is expected to continue at a higher rate in January. January data is not yet available, but reports from some regions including Novosibirsk, St. Petersburg, Kostroma oblast, and Kirov oblast support this conclusion. Bakers also claim that the price of electricity, gas, and some other inputs increased in January as well, which is likely to cause further price increases.

Table 2. Average Flour, Bread, Cereals, and Pasta Prices, Rubles per kg

	Wheat flour	Rye and wheat-rye bread	Bread and bakery products made of wheat flour	Rice	Millet (groats)	Pasta (vermishel)
September-November, 1999	8.58	5.79	11.00	21.54	8.98	12.71
September, 2000	8.36	7.64	9.00	13.60	7.89	15.55
September, 2001	8.63	8.64	10.16	13.61	7.22	16.81
September, 2002	8.12	9.05	10.54	15.63	9.05	17.75
October, 2002	8.08	9.08	10.59	15.58	9.32	17.82
November, 2002	8.05	9.12	10.61	15.61	9.57	17.87
December, 2002	8.04	9.14	10.65	15.69	9.78	17.90
January, 2003	7.94	9.22	10.71	15.73	10.00	17.03
February, 2003	7.96	9.32	10.79	15.84	10.64	17.13
March, 2003	7.99	9.38	10.84	15.88	11.61	17.19
April, 2003	8.04	9.52	10.99	15.86	12.60	17.27
May, 2003	8.22	9.77	11.30	15.81	13.61	17.39
June, 2003	8.84	10.26	11.92	15.81	14.54	17.60
July, 2003	9.35	10.47	12.21	15.83	15.85	17.89
August, 2003	9.57	10.59	12.36	15.84	17.18	18.10
September, 2003	9.82	10.93	12.80	15.89	18.14	18.27
October, 2003	10.65	11.58	13.53	15.96	18.14	18.47
November, 2003	11.11	11.86	13.84	16.12	17.42	19.18
December, 2003	11.40	12.07	14.05	16.30	16.76	19.43

Dec. 02 to Dec. 03, percentage change	41.79	32.06	31.92	3.89	71.37	8.55
Jan. 03 to Dec. 03, percentage change	43.58	30.91	31.19	3.62	67.60	14.09
Nov. 03 to Dec. 03, percentage change	2.61	1.77	1.52	1.12	-3.79	1.30

Source: Torgovaya Gazeta

Table 3. Consumer Price Changes for Flour, Bread, and Cereals from November 2003 to December 2003, in Percent, by Region

	Wheat flour	Rye and wheat-rye bread	Bread and bakery products made of wheat flour	Rice	Millet cereal	Pasta (vermishel)
Russia, Average	2.61	1.77	1.52	1.12	-3.79	1.30
Belgorod oblast	1.08	3.15	10.70	0.15	-2.11	3.67
Bryansk oblast	0.85	4.08	6.85	0.58	-2.72	0.55
Voronezh oblast	2.43	3.81	2.13	0.00	-6.36	0.85
Kostroma oblast	0.66	6.15	2.58	0.00	0.00	2.61
Lipetsk oblast	-30.45	0.63	6.67	0.76	-2.97	0.21
Ryazan oblast	1.72	7.17	0.06	0.28	-6.12	0.55
Tula oblast	2.76	5.81	0.00	1.73	-4.70	0.78
Moscow, city	1.42	1.56	3.39	0.04	-0.96	0.28
Komi Republic	2.56	0.00	0.00	0.12	0.00	1.06
Arkhangelsk oblast	3.58	0.00	0.00	2.72	-3.26	3.49
Murmansk oblast	4.32	0.00	1.55	0.84	-5.16	2.21
Novgorod oblast	2.45	2.38	1.78	1.45	-0.56	4.77
St.Peterburg	0.90	1.30	3.80	0.00	-3.19	2.36
Krasnodarskiy kray	2.93	2.40	0.60	0.19	-2.60	2.03
Stavropolskiy kray	2.20	4.30	4.67	-0.81	-1.59	0.36
Astrakhan oblast	2.30	5.86	1.44	-1.38	-7.34	0.00
Republic of Tatarstan	1.67	0.00	0.00	0.84	-7.62	2.77
Chuvashiya Republic	0.77	1.03	0.00	1.65	-2.01	1.68
Kirov oblast	1.34	0.32	0.49	2.90	-14.40	0.71
Nizhniy Novgorod oblast	1.25	3.61	0.07	2.19	-10.95	0.37
Perm oblast	1.55	6.59	6.53	0.85	-4.58	0.62
Samara oblast	6.36	0.00	0.00	0.00	-11.58	3.76
Ulyanovsk oblast	0.57	4.88	2.13	1.50	-7.11	0.45
Sverdlovsk oblast	3.83	0.08	0.28	2.56	-4.42	1.22
Tyumen oblast	3.34	0.21	0.13	0.45	1.25	1.24
Chelyabinsk oblast	1.58	1.78	0.63	1.26	-0.25	1.16
Krasnoyarskiy kray	3.18	0.84	0.07	0.93	-1.18	1.07
Irkutsk oblast	2.43	0.63	0.85	6.14	-0.16	2.14
Kemerovo oblast	3.56	1.56	0.00	2.71	-1.93	0.40
Novosibirsk oblast	5.30	0.08	0.28	1.14	-2.15	-1.59
Omsk oblast	0.31	0.00	-0.67	3.92	-6.95	0.00
Primorskiy kray	2.63	0.28	0.36	4.04	1.38	1.36
Khabarovskiy kray	4.66	4.23	2.29	6.52	-2.23	1.07

Table 4. Consumer Price Changes for Flour, Bread, and Cereals from December 2002 to December 2003, in Percent, by Region

	Wheat flour	Rye and wheat-rye bread	Bread and bakery products made of wheat flour	Rice	Millet cereal	Pasta (vermishel)
Russia, average	41.79	32.06	31.92	3.89	71.37	8.55
Belgorod oblast	53.96	41.58	54.07	-1.71	61.28	24.58
Bryansk oblast	53.47	50.09	47.78	1.77	78.59	-6.37
Voronezh oblast	51.01	43.32	32.25	-1.50	64.08	8.13
Kostroma oblast	42.88	39.26	35.00	0.89	51.33	21.24
Lipetsk oblast	0.30	12.24	30.38	-3.75	112.94	10.51
Ryazan oblast	40.13	37.86	32.10	-3.04	49.46	-4.41
Tula oblast	44.97	111.82	NA	7.18	92.73	9.62
Moscow, city	14.36	25.61	24.72	5.03	74.84	10.90
Komi Republic	64.99	35.49	40.62	9.56	107.78	6.70
Arkhangelsk oblast	47.09	37.13	NA	-3.16	79.07	7.51
Murmansk oblast	31.26	18.72	13.10	7.31	63.01	14.18
Novgorod oblast	53.16	30.84	22.76	-4.58	76.56	22.18
St.Peterburg	28.33	39.13	36.42	5.01	53.51	6.64
Krasnodarskiy kray	63.73	54.85	60.93	7.45	82.46	9.86
Stavropolskiy kray	35.19	64.45	52.43	6.52	122.21	-6.19
Astrakhan oblast	35.05	51.69	51.28	-2.91	97.00	14.29
Republic of Tatarstan	32.65	22.30	15.25	0.18	58.83	-2.63
Chuvashiya Republic	70.70	46.14	24.28	2.25	75.90	1.40
Kirov oblast	66.82	32.82	59.98	7.98	59.56	102.38
Nizhniy Novgorod oblast	51.07	44.10	53.03	3.58	43.10	-2.73
Perm oblast	46.51	40.92	46.71	-11.50	57.19	-12.99
Samara oblast	40.00	25.69	50.90	13.30	86.80	38.98
Ulyanovsk oblast	70.62	77.14	61.75	-0.47	65.74	14.77
Sverdlovsk oblast	73.91	23.71	33.36	-9.84	35.66	5.88
Tyumen oblast	54.36	44.30	49.13	6.00	27.85	19.44
Chelyabinsk oblast	34.57	19.42	18.92	10.42	49.67	10.65
Krasnoyarskiy kray	48.82	18.37	25.07	3.89	67.82	4.16
Irkutsk oblast	54.55	36.62	22.85	11.24	82.24	8.23
Kemerovo oblast	50.00	21.09	0.00	2.24	69.04	15.20
Novosibirsk oblast	50.83	13.87	0.65	3.45	60.00	-0.30
Omsk oblast	46.37	33.97	34.91	3.84	71.35	22.99
Primorskiy kray	29.04	24.22	16.63	-11.25	7.35	-17.52
Khabarovskiy kray	57.99	38.71	28.08	24.71	76.39	7.96

The average price for wheat flour increased from 8 Rubles per kg in December 2002 to 11.4 rubles in December 2003. The most rapid increase in the price was in Sverdlovsk oblast, Ulyanovsk oblast, and Chuvashiya Republic (over a seventy percent increase). For rye and wheat-rye bread (cheap bread) the most rapid price increase was in Tula oblast (twelve percent) and Ulyanovsk oblast. The prices of more expensive white bread and bakery products made of wheat flour increased at a slower pace and the most significant increase

(over fifty percent) was in major wheat producing areas where white bread is traditionally cheaper than in other oblasts.

Government Measures

During the February 2 cabinet meeting, President Putin made the increase in bread prices the main topic of discussion, saying, "Do you know how much prices have increased in several regions? By two times!" He finished by saying it is "necessary to quickly react to what is going on in the grain market." The decision to begin intervention sales is MinAg's answer to his demands, but the idea had been discussed on several previous occasions and had been questioned by some state authorities. For example, the Main Control Board (Glavnoye Kontrol'noye Upravleniye) issued a report on the results of its investigation into the fulfillment of federal laws "On Grain" and "On the State Procurement and Supply of Agricultural Products, Raw Materials and Foodstuffs for the State Needs". According to this report, in accordance with present legislation the intervention prices should be determined in advance (procurement prices – in spring, and sales prices – in the fall) not at the time of the sale as is the case with the present resolution. Additionally, MinAg wants that the proceeds from the sales should be directed to a special fund for regulation of the grain market, while the Ministry of Finance wants the proceeds to go to pay the original loan that was taken out for the purchase of the stocks last year. However in the present Resolution, the proceeds will be put toward the federal budget.

Interventions

According to the resolution, the grain will be sold to mills in limited quantities and at prices that are at least twenty percent lower than current market prices. For example, class three wheat (i.e., normal milling quality wheat) will be sold for 4400 Rubles per ton, while the prevailing market price is currently 6000 Rubles per ton. Class four wheat will be sold at 3400 Rubles per ton and rye for 2500 Rubles per ton.

Questions remain as to how these mills will be chosen and how the tonnage sold to each mill will be determined, as the resolution doesn't specify an exact procedure for either. A representative of one mill wondered if MinAg will take suggestions from local governors on mill participation meaning that if a mill doesn't have a "warm relationship" with the local administration, it might be barred from participating. There is also the concern that a large enterprise with several different holding companies might be able to buy more than the allotted amount of grain by acquiring smaller amounts under the names of its holding companies.

MinAg also announced it is working on other measures to remove barriers to trade across regions, and between processors and consumers of grain (i.e., to enforce the statutorily mandated "unified domestic market", which currently is observed mainly in the breach.) This could lower bread prices even further although no specifics were offered. According to Minister of Agriculture Aleksey Gordeyev, several regions which have enough grain have refused to sell it to other regions which have a shortage. Some Russian observers have commented that all of this talk about removing barriers will have little effect because there are no "official" bans on movement of grain between regions, saying regional leaders are simply using their power to prevent exports by putting pressure on mills to comply with their wishes. However, this is not entirely true, as we are aware that regional governors have in some cases used the highway police under their control to stop truckloads of grain from crossing oblast and kray boundaries.

Will It Work?

Gordeyev publicly stated he believes these interventions will lower the market price by twenty-five percent and the prices consumers see by ten percent. Analysts are skeptical, pointing out that the resolution contains no mechanism for restricting the growth of prices, i.e. no means of taking control. Additionally, there is no guarantee that mills will lower the price of their final products. They may simply buy the Government's grain at the low price, and keep their selling price the same to make up for some of their recent losses due to higher grain prices.

Experts and analysts are also commenting on the need to restrict exports, otherwise the supply situation on the domestic market will remain the same. The GOR enacted a duty on exports of grain last December which went into effect January 15. Data on January exports are not yet available, but indications are that exports have all but stopped, though not necessarily due to the formal export restrictions. The price relationship between domestic and international prices makes exports unprofitable right now, and that will mask the influence of the export tariff even when January data are available. Aside from that, January and February are typically slow months at weather dependant Russian grain seaport terminals.

The role of local politicians in keeping bread prices down before the elections may be more important than any federal decree. Regional leaders have an interest in making elections run as smoothly as possible, and will take additional measures to ensure their own political survival. For example, local political leaders can be expected to press millers to comply with pre-election guidance on permissible price growth under threat of mills being fined or even closed for "violations" of bureaucratic, safety, or other regulations.

Comment

Post thinks this long-anticipated grain market intervention is simply more pre-election political grandstanding, and amounts to little more than an attempt to appear to be doing something. The actual resolution is very vague, leaving plenty of room for maneuvering. These sales from the government's very limited grain reserves may, however, stop rumors about impending shortages and at least stabilize prices briefly, just long enough for the run-up to March elections.