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Russian Federation

Agricultural Situation

Russia May Prolong Food Price Controls as Inflation Continues to Grow

2007

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Report Highlights:

The Russian Ministry of Economic Development and Trade forecast of 12 percent annual inflation in 2007 far exceeds the target of 8 percent. The growth in food prices is a primary contributor to higher-than-expected inflation. The Russian Government took a number of measures to combat food price inflation including the introduction of export tariffs on wheat and barley, lower import duties on dairy products, and a freeze on prices on staple food products until January 31, 2007. Market analysts believe that the price freeze may be extended through the end of March.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
[RS]

Summary

The latest Russian Ministry of Economic Development and Trade (MEDT) forecast indicates that annual inflation will reach 12 percent in the Russian Federation in 2007. The Russian Statistical Service (Rosstat) reports that inflation reached 11.1 as of December 10, with growth in food prices as a primary contributor. According to Rosstat, food prices in Russia increased by as much as 30 percent in September for nine out of every ten food products. The Russian government took a number of measures to combat climbing food prices including the introduction of export tariffs on barley and wheat, the reduction of import duties on dairy products, and a temporary freeze on prices of staple foodstuffs. Food market analysts believe that the price freeze may be extended until after the Presidential elections in March 2008.

Inflation continues to grow

The latest Russian Ministry of Economic Development and Trade (MEDT) forecast indicates that annual inflation will reach 12 percent in the Russian Federation in 2007. As of December 10, 2007, inflation reached 11.1 percent, substantially higher than Russia's target of 8 percent. According to Rosstat, food prices in Russia increased by as much as 30 percent in September 2007 for nine out of every ten food products, making it the highest single-month increase since 2000. Staple commodities experienced considerable price increases, such as vegetable oil (up 13.5 percent), pasteurized milk (up 9.4 percent), yogurt products (up 7.9 percent) and cottage cheese (up 7.5 percent). Increasing dairy prices are a large contributor to inflationary pressures in Russia, as prices for milk and dairy products increased 27.3 percent from January through November 2007, including increases of 3.7 percent in November, 9.6 percent in October, and 7.2 percent in September 2007. Market analysts believe that dairy prices are rising in Russia due in part to changes in European Union (EU) farm policies, rising grain prices and changing trade patterns among Russia's regional neighbors as traditional suppliers in Belarus and Ukraine have begun shipping dry milk to Europe, Asia, and Africa.

Despite measures to halt price growth, food prices continued to climb 3.3 percent in October and 1.9 percent in November.

Russia took measures to combat price growth

The Russian government has taken several measures to combat climbing food prices:

- In an effort to reduce inflationary pressures on the Russian economy, on October 10, 2007, Minister of Agriculture Aleksey Gordeyev announced a 30-percent export tariff on barley and 10-percent export tariff on wheat would be imposed in November (see GAIN RS7065, RS7068 and RS7070).
- On October 24, 2007, a formal agreement was signed between the Ministry of Agriculture, major retailers, and producers to freeze prices at October 15 levels on staple foodstuffs until January 31, 2008. Specific varieties of bread, cheese, milk, eggs and vegetable oil are some of the products considered to be of social significance that were affected by the price freeze.
- GOR has also announced that the new 2008 budget will allocate one billion rubles (US\$40 million) to subsidize interest rates on working capital loans for milk processors to acquire raw materials. However, companies applying for the subsidized loans must agree to maintain price controls for a certain period.
- The Russian government issued a Resolution that orders the Federal Antimonopoly Service to work with regional leaders to ensure producers and food retailers are

observing antimonopoly legislation, with special attention to be paid to dairy products.

- The Russian government issued resolution No. 674 on October 15, 2007, under which tariff rates will be set at 5 percent of customs value for milk and dairy products, and 0.3 Euro per kilo on cheese, excluding positions 0406 10 through 0406 40, on which duties are set at 5 percent. Market analysts predict it will have little if any effect on rising dairy prices as consumer demand continues to grow rapidly.
- The Ministry of Economic Development and Trade has proposed implementing an export duty on dry milk. No details have emerged yet about this proposal.

Market analysts are unsure how the Russian government will protect economically vulnerable groups if prices increase after January 31, 2008 once price controls are removed, and they believe that the price freeze may be extended until after the Russian Presidential elections in March 2008. The market also anticipates imposition of either an outright ban on wheat exports or prohibitive export tariffs when grain exports reach 12.5 mmt for this marketing year.

Relevant Reports

RS7086 Grain and Feed / December Monthly Update
<http://www.fas.usda.gov/gainfiles/200711/146293138.doc>

RS7084 Dairy and Products / Dairy Annual Report
<http://www.fas.usda.gov/gainfiles/200711/146293007.pdf>

RS7082 Grain and Feed / November Monthly Update
<http://www.fas.usda.gov/gainfiles/200711/146293082.doc>

RS7075 Grain and Feed / Grain Interventions Announced
<http://www.fas.usda.gov/gainfiles/200710/146292770.doc>

RS7071 Dairy and Products / Certain Dairy Import Tariffs Reduced
<http://www.fas.usda.gov/gainfiles/200710/146292751.doc>

RS7070 Grain and Feed / Russian Government Resolution on Temporary Export Duties on Wheat and Barley
<http://www.fas.usda.gov/gainfiles/200710/146292739.doc>