

Russia bans grain exports, world wheat prices soar

By Andrea Peters
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On Thursday, the Russian government placed a ban on all grain exports, in response to widespread crop failures caused by a severe drought. The measure will be in place from August 15 to December 1. Local authorities in each of the country's 28 growing regions have declared states of emergency.

News of the export ban, along with fears that other countries experiencing extreme weather conditions could enact similar measures and the actions of speculators, sent world wheat prices skyrocketing. The cost of a bushel of wheat rose to \$8.25 on Friday, the largest weekly gain in 50 years, according to the news agency Bloomberg. Experts are predicting it could soon reach \$10 a bushel, a high not seen since March 2008.

According to the research agency SovEcon, in the last week of July prices rose 19 percent in Russia. "That's faster than at the peak of the global food crisis in 2008, when food riots erupted from Haiti to Egypt, according to the Grain Union," writes Bloomberg in an August 4 dispatch.

In Russia on Thursday, the governor of Krasnodarskii Krai, home of the Novorossiskii Port, a major shipping terminus on Russia's Black Sea, had to set up an operational command to deal with a massive traffic jam extending dozens of kilometers from the port entrance. Thousands of trucks converged onto the area in an effort to get grain supplies loaded onto ships before the export ban goes into effect.

In 2009, Russia, which is the world's third largest wheat exporter, produced 97.1 million metric tons of grain. Russia's Ministry of Agriculture recently reduced its forecast for the 2010 grain harvest to 70 to 75 million metric tons, down from previous estimates of 85 million metric tons. Further downward revisions are possible.

Nikolai Demianov, deputy chief executive officer of

Glencore International AG's international grain unit, one of the world's largest commodities suppliers, described even the new forecast as "too optimistic."

Crop yields are down 20 percent so far this year, as the worst drought in 50 years—by some estimates 130 years—leaves wide swaths of the Russian countryside parched. In July, precipitation levels were only 10 to 30 percent of the long-term average in central Russia. Temperatures are consistently reaching into the 90s and 100s Fahrenheit (upper 30s and 40s Celsius), in some cases forcing harvesters to stop working.

In addition to destroying spring wheat, sugar beet, potato, and corn fields, the lack of rainfall threatens the planting of winter wheat, which generally starts in late August. This crop accounts for 65 percent of Russia's entire annual harvest.

In the region of Perm, an area in the Ural Mountains currently under a state of emergency, the local government announced that thus far 7.6 percent of land under cultivation had been damaged from the drought. As a result, as much as 40 percent of the region's grain and 45 percent of its potato harvests have been lost.

Grain industry representatives are reporting that Russian farmers are withholding their stocks in response to rising prices. Kirill Podolsky, chief of the country's third-biggest trader VALARS, told Bloomberg that some farmers are "delaying sales and suspending supply contracts."

The agricultural crisis is affecting the livestock industry as well. Analysts with VTB Capital told Bloomberg that in July the cost of wheat and barley fodder in Russia rose 50 percent and 80 percent, respectively.

An August 3 article on Agrimoney.com notes numerous reports of Russian farmers slaughtering animals in order to avoid "the risk of becoming a

hostage to tightened feed supplies through the winter.”

There is widespread concern among the general population about rising food prices, particularly with regard to the cost of bread and potatoes, but also in relation to dairy and meat products.

In an effort to stave off general panic, the Russian government has announced that it will release supplies from the country’s 9.64 million ton grain reserve, which it maintains is enough to stabilize the market and meet the population’s needs.

Nadezhda Shkolina, a representative of the Ministry of Agriculture, told the television program “Utro Rossii,” “There is more than enough to provide our entire country with bread and bread products.”

At a government meeting, Prime Minister Vladimir Putin indicated that the grain reserves would be distributed according to requests submitted by regional governments and “objective criteria worked out by the Ministry of Agriculture,” as opposed to sold in open auction, the procedure under normal circumstances.

After indicating that distributions would begin immediately, the Ministry of Agriculture reversed course and said that they would start in late October and early November, stating that the government needs time to assess the scale of the shortfall.

The online Russian business press RBK reports that the head of Russia’s Grain Union, Ivan Obvolentsev, also suggested that the government assume direct oversight of “feed supplies (hay, silos and the like) in order that the livestock industry, in particular dairy, does not suffer.”

Igor Artemiev, chief of Russia’s Federal Antimonopoly Service, indicated that his agency would be more closely monitoring food prices in the country, in search of “unwarranted” increases.

However, analysts are already revising upwards their estimates of Russia’s annual inflation rate, which Renaissance Capital, a Moscow-based firm, expects to reach 7 to 7.5 percent, a 1 to 1.2 percent increase over previous expectations. Others are predicting inflation could peak at 8 percent.

Price rises will erode ordinary Russians’ real incomes and negatively impact consumer demand, further undermining the country’s already fragile economic “recovery” and pushing it back into recession.

The Kremlin has become increasingly nervous about

the political consequences of the agricultural crisis as it reverberates throughout the economy.

Initially, Putin responded to news of the collapse in agricultural output with a show of indifference. In a July 5 article, *Moscow News* noted:

“Prime Minister Vladimir Putin, on a recent visit to the Tambov region, complained that farmers rarely bothered to insure their crops ... hinting that they were more interested in inventing reasons for compensation.”

However, rising popular anger over the devastation wrought by widespread drought-related forest fires (See “Forest fires kill 50 in Central Russia”), combined with the increasingly apparent severity of the agricultural situation, has prompted the Russian government to change its tune.

The Kremlin is hoping that releases from the country’s grain reserves, combined with a well-orchestrated PR campaign emphasizing the government’s supposed responsiveness to the drought, will prevent the emergence of a situation similar to that which erupted in 2007 and 2008, when surging food prices led to street protests by pensioners.

At that time, the Kremlin instituted price stabilization measures that brought the situation somewhat under control. However, Russia was roundly criticized by international finance capital for doing so. Given the current economic climate, and Russia’s intensifying efforts to secure foreign investment, it is questionable whether the government would be able to repeat such a move should a similar situation develop. Already warnings are being issued in the Western financial press about the possibility that the agricultural crisis will result in excess state intervention in the Russian economy.

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