Moscow's risky wheat price game

PREMIUM

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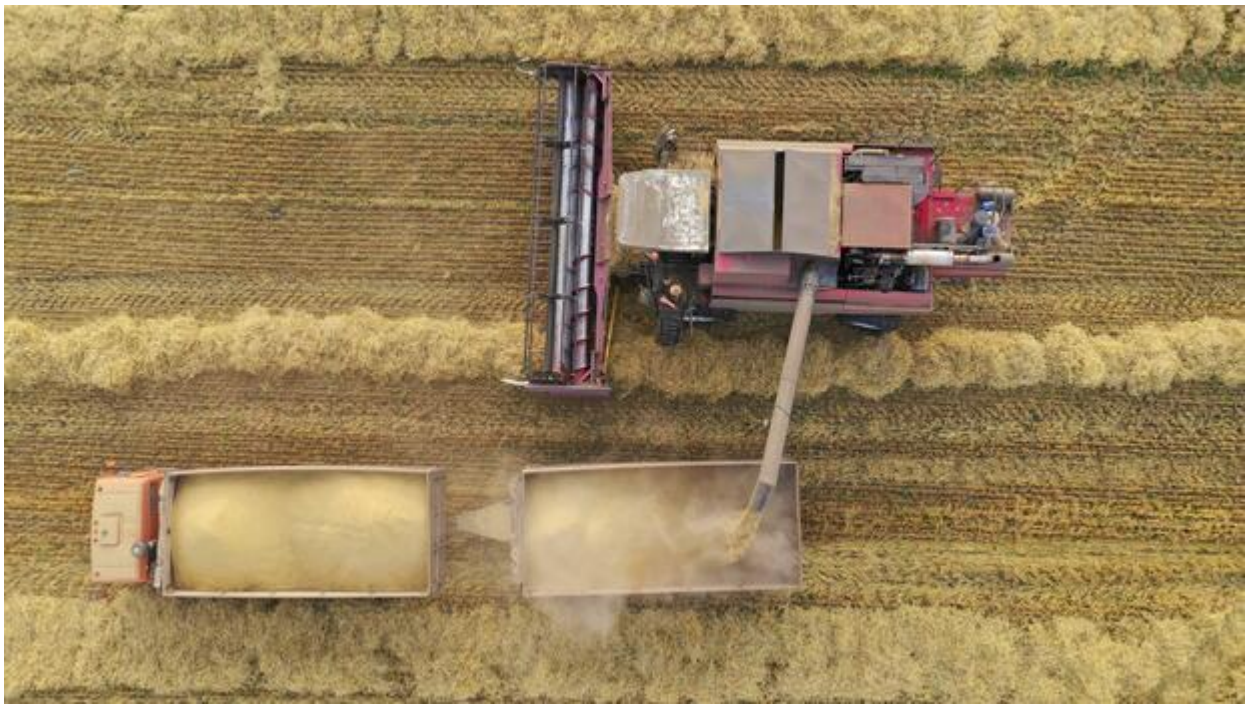

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In the struggle with rising food prices, Russia wants to restrict grain exports. Experts and farmers warn that the government is delivering one of the few successful industries to the knife.

Agriculture in Russia , says Martin Leu, has always been a difficult profession. Capricious weather conditions can severely affect the harvest. Finding attractive financing for projects is difficult. But the last year was better than it has been in a long time. “Such a large grain harvest of such good quality as last autumn is rare in the life of a farmer,” says the Swiss agricultural specialist.

Leu has decades of experience as an agricultural manager in Canada and Russia and is now driving forward its own projects in the largest country in the world. The Swiss intends to cultivate almost 160,000 hectares with his company in the future. But instead of being happy about the success of the industry, Leu is currently primarily shaking his head when he looks at Russia. The Swiss belong to the overwhelming majority of farmers and investors in Russia who are currently looking somewhat perplexed at the decisions of the Moscow government. For weeks Moscow has been trying to put a stop to agricultural exports with horrific export tariffs. And this despite the fact that production in Russia is increasing while grain prices have been on the rise worldwide for months. "Try to explain the time to an investor" criticizes the Swiss Leu. It was not until March 15 that additional export taxes on corn and barley were introduced. The competition from Europe, including Germany, rubs their hands together over the free shares in the world market.

In fact, at first glance, the situation seems paradoxical. For years, agriculture has been one of Vladimir Putin's favorite foster children, to whom he pays a lot of attention. Russia's government forged plans to expand its own agricultural exports and protected domestic manufacturers through import bans, invested in export infrastructure, provided subsidies, and successfully negotiated with potential buyer countries to give Russian companies access to the market.

The successes are impressive. In the past few years, Russia has become the world's largest wheat exporter. Fish, vegetable oils and meat from Russia have also been in increasing demand recently. In 2020, for the first time in recent history, the country sold almost 26 billion euros more agricultural goods abroad than it had imported. Russian exporters have also successfully stolen market shares from European grain suppliers.

With an increase of 1.5 percent over the previous year, the agricultural sector remained one of the last growing sectors in Russia in the crisis year 2020. Overall, Russia's economy shrank by 3.1 percent in the pandemic year. But precisely this success could now fall on the feet of the growth industry.

Instead of demonstratively praising the agricultural successes for a long time, Vladimir Putin recently spoke more and more frequently of “excess profits” that farmers reap. A formulation that the Kremlin chief has so far mainly used in the field of energy exports, in times of rising oil prices, to justify a high tax burden. In fact, the high world market prices for important agricultural commodities in recent months have brought additional funds into the coffers of Russian producers.

The problem: Because the ruble lost almost a quarter of its value against the euro last year, inflation and thus also food prices in Russian supermarkets rose noticeably at the same time. Most recently, experts put the annual price increase in the food sector at around ten percent.

The state reacts to this with a veritable firework of interventions in the market. First, grain exports were limited to 17.5 million tons from February to summer. The export tariffs on wheat were gradually increased to 50 euros per ton, which corresponds to around 20 percent of the current world market price. The final shot is a wheat export tax planned for June at the rate of 70 percent of the export price from an exemption of 200 US dollars per ton. "We have to prevent all of our grain from being sold abroad," said Agriculture Minister Dmitry Patrushev this week.

For Andrei Sizow, the managing director of the prestigious Moscow agricultural consultancy Sovecon, these steps are nothing more than populism. Because there is an abundance of grain. "The government wants to take these steps to control rising food prices before the parliamentary elections in autumn, but it will actually

damage the entire industry and only have a very small effect on the price tags in the supermarket," the expert is convinced. The problem is not the high grain prices, but the weak ruble.

RUSSIA **Putin's economic failure**

Vladimir Putin is coming under increasing economic pressure. The share of Russia in the world economy is falling, the standard of living in the country remains low. And that's not just due to the corona crisis.

In fact, the past few months have been extremely good for Russian farmers. But the situation will now change quickly. “We expect exports to decline in the current year. But what is much worse, investments and sowing in the coming autumn will also decline because the industry is no longer so attractive, ”says Sizov. In the end, the grain harvest could shrink again from 2022.

Sovecon experts anticipate that the government's intervention in the market could result in at least 2.2 billion euros in additional costs and revenue shortfalls for the grain farmers in the current year. In the coming season, when the 70 percent export tax applies, the losses could add up to 4.5 billion euros. The main winners, on the other hand, are likely to be foreign competitors, such as grain farmers in the EU and USA, but also the Russian meat breeding and food industry, who can now stock up on domestic prices at lower prices.

Indeed, one of the arguments put forward by regulatory supporters is that Russia's agricultural exports are too dependent on raw materials like grain and cooking oil. If these were not exported but had to be sold more cheaply domestically, this could help the industry. But experts like Sizow are skeptical. "We have a grain industry that has managed to displace competition from the USA and Europe and we want to help other industries at their expense that have not yet proven their efficiency," criticized Sizow. "It would be much better if the market did it alone."

The Swiss leu also remains skeptical. Wheat, according to the agricultural entrepreneur, is primarily there for export in all major manufacturing nations, whether in Canada, France or Russia. The export of flour and other processed products alone is hardly worthwhile. "It would be better, one would finally let these supposed excess profits reap the farmers so that they can continue to invest and promote the industry, instead of creating artificial barriers."