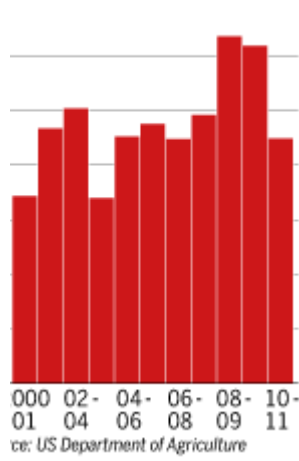


Russian wheat production

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Russia's wheat farmers fear for next year's crop

By Isabel Gorst

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Having lost this year's crop after a devastating drought, farmers in Russia's grain belt have begun planting their winter wheat again, gambling that rain might at last fall in their parched farmland.

"If we don't sow now, we will reap nothing," says a resigned Maxim Zhalin, head of an agricultural holding in Tambov called October in the centre of the country's grain belt, who estimates the farm lost nearly \$700,000 as the grain crop failed this summer.

The success, or failure, of Mr Zhalin and thousands of other farmers will determine when Russia returns to the global wheat market, easing – or, in a worst-case scenario, increasing – pressure on prices.

Russia's grains export embargo has pushed wheat prices to a two-year high, triggering fears of a repeat of the 2007-08 food crisis.

On Monday, European milling wheat rose to €234.25 a tonne, within striking distance of the €236 peak hit last month on worries about dryness in Russia. Moscow has set a target to plant 18m hectares of winter wheat by the end of the month, as part of a plan to boost grain production to 80m-90m tonnes in 2010-11, up from about 60m in 2009-10. But farmers and analysts believe that the goal is optimistic.

The Commodity Weather Group, a consultancy, estimates that about a third of Russia's grain belt remains "too dry" for planting, although recent rains mean half of the country's grain areas "have enough moisture for establishment".

Tambov is an example of the problems ahead for Russian farmers – and for global wheat markets. The town lies 400km south-east of Moscow in the heart of the Black Earth region, a vast fertile area that accounts for the bulk of Russia's grain output.

As a light rain fell this week, farmers began sowing winter wheat. But they say there is no certainty the soil will be moist enough for seeds to take root. Planting must be completed before the end of the month when the first frosts usually set in.

Agro Vista, which farms 36,000 hectares of land in Tambov, says it is considering cutting winter wheat planting by 25 per cent if there is not substantial rain in the next few days. "It is a gamble," says David Metcalfe, chief executive. "There is a good chance some of the seeds will fail because of the dryness."

The concern is shared by experts. Dmitry Rylko, director of the Institute for Agricultural Market Studies in Moscow, a consultancy, says patchy rainfall would allow for successful sowing only in some regions.

Another wheat crop failure would ruin many Russian farmers and put global grain markets under extraordinary pressure.

The current shortfall has upset the market, but with plentiful inventories elsewhere – notably the US, the world's largest exporter – the impact has been somewhat cushioned.

That will change if Russian farmers cannot seed their winter wheat, further draining global stocks next year.

Moscow imposed a ban on grain exports last month, saying it would lift the embargo at the end of the year.

But in a sign of nervousness about the slow pace of winter wheat planting, Vladimir Putin, prime minister, said last week the export restrictions would continue until the 2011 harvest was gathered. By late August, Russian farmers had sowed about 485,000 hectares with winter wheat, half the nearly 965,000 hectares of last season, according to official data.

The weather is not the only factor weighing on planting – access to cash to finance the purchase of seed, fertiliser and to pay for other planting expenses is just as critical.

Farmers in Tambov say they have come under pressure from the authorities to inflate the size of the grain harvest or risk losing subsidised loans essential to the planting season.

As evidence of the drought's toll mounted over the summer, the government promised to help farmers. But Mr Zhalin says the slow disbursement of funds could prevent winter wheat sowing at some farms.

“Not a kopeck has arrived. People are not in a condition to plant.”

Additional reporting by Javier Blas