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Prospects for increasing exports of Russian wheat to the world market

Перспективы наращивания экспорта российской пшеницы на мировом рынке

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Abstract

The article discusses the development of wheat export, which is the main grain crop in the structure of production and export of Russia. The record crop of grain crops in 2017 provided a good basis for the activation of Russian grain exporters in the world market. An analysis of geographical areas by source of grain export showed that crop growth allowed Russia to become a leader, as the main North American and European competitors experienced certain difficulties that led to a reduction in their export potential. The main geographical areas in which there is an increase in demand for wheat are the countries of Africa and Asia, whose population needs a more affordable form of food, which have become the main importers for Russian wheat along with Egypt and Turkey. Russia mainly exports low-grade wheat of the 4th and 5th grade; therefore, such wheat at a lower price and relatively high level of protein content is competitive in a number of foreign markets. The key problems for the export of Russian wheat are unstable gross grain harvests in Russia, which determine the search for innovative-intensive methods of increasing the yield and its stability, and the development of transport and logistics infrastructure. It is necessary to increase port capacities due to the Baltic and Far East directions in the context of political contradictions between Russia and Turkey and

Аннотация

В статье рассматриваются вопросы развития экспорта пшеницы, являющейся основной зерновой культурой в структуре производства и экспорта России. Рекордный урожай зерновых культур в 2017 году дал хорошую базу для активизации российских экспортеров зерна на мировом рынке. Анализ географических зон по источнику экспорта зерна показал, что прирост урожая позволил выйти России в лидеры, так как основные североамериканские и европейские конкуренты испытывали определенные трудности, повлекшие сокращение их экспортного потенциала. Основными географическими зонами, в которых идет увеличение спроса на пшеницу, являются страны Африки и Азии, население которых нуждается в более доступном виде продовольствия, которые и стали основными импортерами для российской пшеницы наряду с Египтом и Турцией. Россия преимущественно экспортирует пшеницу невысокого качества 4 и 5 класса, поэтому такая пшеница при меньшей цене и относительно высокого уровня содержания белка является конкурентоспособной на ряде зарубежных рынков. Ключевыми проблемами для экспорта российской пшеницы являются нестабильные валовые сборы зерна в России, определяющие

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expanding the geography of wheat supplies to Africa and Southeast Asia for Russia makes sense. This will not only increase the competitiveness of exports, but also create additional incentives to increase grain production in a number of regions of the country remote from the Azov-Black Sea ports.

Key Words: grain crops, grain product subcomplex of the agro-industrial complex of Russia, wheat, world grain market, export, diversification, geographical areas, logistics infrastructure, economic and state regulation, efficiency, competitiveness.

Introduction

In recent years, Russia has become one of the world's largest exporters of wheat and is actively promoting its products in the fast-growing Asian and African markets. Basically, wheat of grades 4 and 5 is grown in Russia, which shows an increase in gross harvests, and also wheat of grade 3 is grown, the proportion of which is not large, since the climatic conditions in many regions do not correspond. Ensuring high grain quality is also difficult due to physical and chemical degradation of soils, since obsolete agricultural technologies are used in Russia, and among the intensification tools, emphasis is placed on mineral fertilizers (Alabushev, 2019). Due to the devaluation of the ruble in 2014 and relative to a number of competitors, low wheat quality indicators, but with a high protein content, Russian exporters improved their competitive positions in the world market (Panteleeva & Panteleeva, 2018). The bulk of the exported wheat from Russia belongs to the 4th and 5th classes, only because 3 classes are produced little, and its export negatively affects consumers on the domestic market (Zyukin, 2019). In the current state of the world grain market, the price factor played a role in reducing the US share in the world grain market, as because of high prices, the competitiveness of American products decreased and demand fell, which, combined with the aggressive policies of other exporters, led to a deterioration in US position (Korotkikh, 2019). At the same time,

поиск инновационно-интенсивных приемов увеличения величины урожая и его устойчивости, и развитие транспортно-логистической инфраструктуры. В контексте политических противоречий России и Турции и расширения географии поставок пшеницы в Африку и Юго-Восточную Азию для России имеет смысл увеличить портовые мощности за счет балтийского и дальневосточного направлений. Это выступит не только способом повышения конкурентоспособности экспорта, но и создаст дополнительные стимулы к увеличению производства зерна в ряде регионов страны, удаленных от Азово-Черноморских портов.

Ключевые слова: зерновые культуры, зернопродуктовый подкомплекс АПК России, пшеница, мировой рынок зерна, экспорт, диверсификация, географические зоны, логистическая инфраструктура, экономическое и государственное регулирование, эффективность, конкурентоспособность.

Russia, even having a price advantage, cannot enter stable markets where high demands are placed on the quality of grain, therefore it is forced to look for a market niche among other countries (Altukhov, 2017a).

The reduction in domestic demand for grain in the period after the collapse of the USSR allowed Russia to develop its own export potential (Tyupakov, Reznichenko, Klochko, Verty & Cherner, 2019). At the same time, the change in the position of the agrarian sector in the structure of the Russian economy played an important role, which determined the growth of private investment and state support in the industry, starting with the implementation of the national project, as well as the successes of 2007-2008, reflecting the high export potential of Russian grain (Zyukin, 2018). Almost all of Russian grain exports are moving to non-CIS countries, while domestically, after dynamic growth due to the intensification of import substitution processes in 2018-2019, there has been a decrease in domestic demand for grain from the livestock complex, there is also a decrease in grain processing for flour and cereals and feed and consumption (Schutskaya & Ivanova, 2018).

The world's leading wheat producer belongs to China, but it is also the largest net importer of grain (Zhidkov & Voronina, 2019). Russia is one of the three world wheat producers, while

becoming the leader in terms of its export to the world market in 2017, displacing the positions of the USA, Canada and Australia (Fedorova & Kuzmenko, 2018). However, the key problem for maintaining competitiveness for Russia remains the state of the transport and logistics infrastructure, which is not able to quickly respond to the dynamic change in export flows across the country. The main part of Russian grain exports moves through the Azov-Black Sea basin (Zyukin, Svyatova, Zolotareva, Bystritskaya & Alyokhina, 2020), therefore, the regions that are closest to access routes to the Azov-Black Sea basin are the most promising in terms of wheat exports. Therefore, exporting becomes even economically inexpedient in cases with lengthy road transport and high domestic grain prices; This reduces the export potential of Russia. This problem is relevant due to the fact that over the past decade, the regions of the Central Black Earth Region and the Volga Region have made a significant jump in grain harvests, so it is necessary to ensure reorganization in these local markets so as not to cause a loss of incentive to further increase production dynamics, using innovative factors. Weak integration of the main wheat producing and export-oriented regions with the domestic market reduces its spatial efficiency (Svanidze & Götz, 2019), which in the future will hinder the growth of Russian grain exports.

One of the main competitors of Russia in Eastern Europe is Ukraine, which quite successfully maintains its competitive position in the world wheat market, and becomes a big threat to Russian wheat in years with favorable climatic conditions. At the same time, Ukrainian suppliers, also having access to the Azov-Black Sea basin, are significantly closer to port facilities than most regions of Russia (Goychuk & Meyers, 2014). With the declining role of the United States and Canada in world grain trade due to unfavorable crop forecasts, the possibilities of other exporters improve in the short term. At the same time, in contrast to Ukraine, it remains problematic for Russia to support favorable partnerships with Turkey, on which the possibility of the movement of Russian grain depends, since this country controls the key straits between the Black and Mediterranean Sea. Therefore, the escalation of the conflict against the backdrop of the Syrian problem is not beneficial for Russian grain exporters (Kuksin, 2018).

Supporting high volumes of wheat exports from Russia also remains problematic, as harvests still have high seasonal variation. Therefore, the

choice of geographical areas for the expansion of Russian wheat should be carried out taking into account the likelihood of a decrease in export potential. In the near future, export is the main incentive to increase wheat production, however, it is important to maintain the status of a stable exporter, with flexible supply options.

The theoretical basis

Wheat is the main grain crop in Russia, which accounts for more than 50% of arable land with high export potential. In the context of instability in the oil and gas market, political pressure on buyers of products of the Russian military-industrial complex, it is very important for Russia to remain the leader in wheat exports as a stable inflow of foreign exchange earnings. This creates the political weight of the country, as food is becoming an increasingly important product in the context of an exponential increase in the world's population. The advantage for the Russian grain product sub-complex of the agro-industrial complex from a strong export position lies in the very nature of export as an effective tool for reorganizing the domestic market and an incentive to increase gross grain harvests. Success in maintaining the competitiveness of Russian wheat is determined by a competent strategy for choosing key export expansion zones, where the positions of Russian exporters will be strong relative to their main competitors. A study of the structure of zonal exports and imports is a key element in shaping the concept of increasing the export of Russian wheat in certain markets.

Methodology

2017 was a record year in terms of gross grain harvest in Russia, which significantly expanded the country's export potential in the coming season. However, in the future, yields were significantly lower, therefore, in the 2019/2020 season, the Ministry of Agriculture considers the feasibility of introducing a quota limiting exports to 45 million tons to meet the needs of the domestic market. Export in this situation will be below a record high of 54.8 million tons.

In accordance with this, it is necessary to consider the prospects of Russia on the world markets in the context of its local production maximum of this period, i.e. as of 2017. Promising markets for Russia should be considered those where there is a high concentration of the population and a low standard of living, therefore, Russian grain is in

demand by the price criterion, despite the low quality.

Structural analysis evaluates the importance of grain crops in export, in particular, showing the priority of wheat in comparison with other crops as a fundamental element of Russian exports. Being a key export-oriented crop, wheat makes it possible to approach its production from the perspective of intensifying intensification to increase its production in order to have the potential to meet the needs of rapidly growing markets.

The need to assess the global market capacity in the context of certain geographical zones is determined by taking into account the influence of both logistic and foreign policy factors that determine the possibility for Russia to enter sustainable grain buyers markets. The nature of the logistical problem is caused solely by the cost

of grain delivery or technical difficulties, then political factors can not be overcome even with a strong economic component. A comparison of the positions of the main buyers of Russian wheat in Russia as of the base year 2017 and the last reporting year 2019 reveals changes that have occurred in the country's export policy.

Results

2014 was a breakthrough for Russia in the export of grain, when compared to the previous period, exports increased by 57.6% and the threshold of 30 million tons was overcome. In 2017-2018, there was a new significant shift in increasing exports, which became a local maximum and a guideline. As a result, in a relatively short period of time, Russia managed to increase its exports by 35 million tons or 2.9 times (Figure 1).

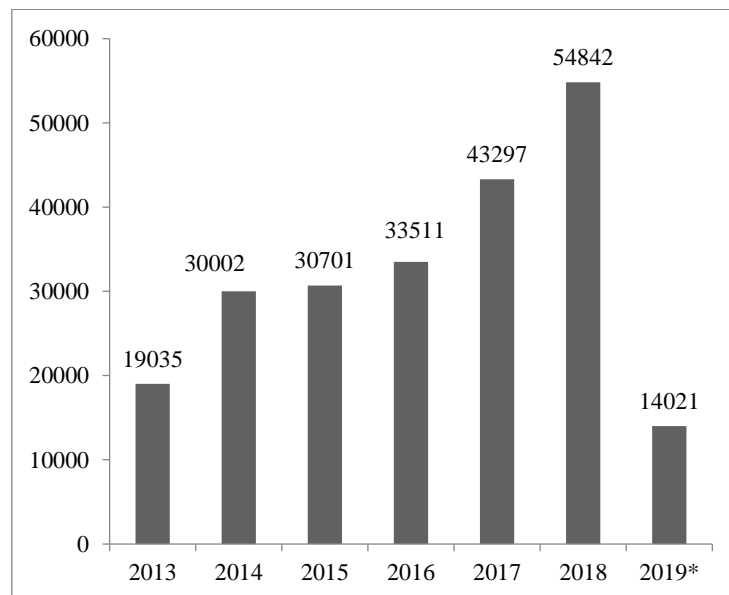


Figure 1. Dynamics of cereal exports from Russia in 2013-2019, thousand tons.

** compiled by the author based on the source Ru-stat.com (Export and import of Russia by goods and countries).

* January-June 2019.

The export volume was record-breaking in 2018, when 188.1% more cereals were sold relative to the base period. For six months of 2019, Russian grain exports reached 73.7% of the export level in 2013, which, with the harvest level in 2019 at more than 120 million tons, leaves ample opportunities for export. The benchmark that exports can achieve in the 2019/2020 season is estimated at 45 million tons. Above this volume, exports can lead to a threat to national food security, so the Ministry of Agriculture has prepared a variant of the restrictions by

introducing a quota. This approach has its own threats, since export is currently not so efficient due to high domestic prices, which jeopardizes the long-term plans of exporting companies, prompting them to reconsider their export strategy, thereby introducing instability into the grain economy.

More than 8 crops are present in the structure of Russian grain exports, but wheat prevails significantly over the rest. In the analyzed period, the share of wheat dropped below 70.0% only

once in 2015, in other years it occupied from 73.3% to 80.6%. Barley and corn are in second place in importance in Russian grain exports, which occupied the second position in the structure of exports in different years. Rice is

insignificant in Russian exports, and its share in the dynamics is decreasing, as well as other crops, including buckwheat, sorghum, triticale (table 1).

Table 1.
Dynamics of the structure of grain exports of Russia in 2013-2019, %

Cereal crop	Years						
	2013	2014	2015	2016	2017	2018	2019*
Wheat and Meslin	73,3	76,6	69,9	75,4	77,4	80,6	75,7
Barley	11,7	11,1	16,7	7,6	9,8	9,8	10,8
Corn	12,4	9,7	10,6	15,2	11,3	8,2	10,6
Rice	1,9	1,8	1,8	1,5	1,0	0,7	1,5
Other	0,7	0,8	1,0	0,3	0,5	0,7	1,4

** compiled by the author based on the source Ru-stat.com (Export and import of Russia by goods and countries)

* January-June 2019

World wheat exports grew in dynamics by 13% or almost 23 million tons. The largest increase in export deliveries is observed in the geographical areas insignificant in the global export market - Southeast Asia and North Africa, which export less than 50 thousand tons of wheat. In general, exports from Africa decreased by almost 70%, and from Asia by 44%. Exports from Europe as a whole increased by 15% due to growth in

Eastern Europe, while export volumes are declining as in Western Europe. Growth in wheat exports from America was due to a fourfold increase in exports from South America, while Central America is decreasing. Oceania, whose share in world wheat exports is about 10-11%, develops its export potential mainly due to Australia. In dynamics, Oceania showed an average increase in exports (table 2).

Table 2.
Dynamics of wheat exports in 2014-2017 by geographic zones of the world, thousand tons.

Geographical areas	Year				Growth	
	2014	2015	2016	2017	thousand tons	%
World	173900	170666	189890	196789	22888	13,2
Africa, including	443	362	96	141	-302	-68,2
East africa	62	90	2	33	-29	-46,3
North Africa	4	15	37	24	20	475,7
South Africa	354	227	53	79	-275	-77,6
West Africa	23	30	6	4	-19	-83,3
America, including	54720	53394	57657	64160	9440	17,3
North America	49835	44879	43744	49361	-474	-1,0
Central America	1266	910	1517	492	-774	-61,1
South America	3610	7603	12396	14306	10697	296,3
Asia, including	8507	4576	4876	4737	-3770	-44,3
central Asia	4258	3636	4535	4262	4	0,1

Geographical areas	Year				Growth	
	2014	2015	2016	2017	thousand tons	%
East Asia	6	5	11	10	4	58,4
South asia	3996	667	208	299	-3697	-92,5
Southeast Asia	3	28	28	46	43	1482,2
West Asia	244	240	95	120	-124	-50,8
Europe, including	91948	95280	111113	105765	13817	15,0
Eastern Europe	49343	51065	66721	70635	21292	43,2
Northern Europe	7168	9374	10961	8123	955	13,3
Southern Europe	1827	1953	2880	2008	181	9,9
Western Europe	33609	32889	30551	24998	-8611	-25,6
Oceania	18283	17053	16148	21986	3703	20,3

* compiled by the author based on data from the Food and Agriculture Organization of the United Nations (Livestock and crop products. Food and Agriculture Organization of the United Nations)

Thus, the restrictions that may be introduced for Russian exporters will primarily affect wheat, which means that they can serve as a factor that discourages the current level of production and cultivation technologies. In the future, this will affect the export potential due to the lack of its production, as the world wheat market is highly competitive and the largest among grain crops. The record harvest of 2017 created Eastern Europe, primarily in the person of Russia, as the main zone exporting wheat, ahead of the North American zone, which includes Canada and the United States. South America and Australia are also a serious competitor, since there was an increase in export deliveries there, while the countries of Western Europe significantly reduced their export potential. European countries are the main competitors for Russia in the markets of African countries, while Australia in the market of Southeast Asia.

The structure of wheat imports in comparison with its exports is more widely differentiated. The largest importers of wheat are located in Asia and Africa, but Europe also buys large volumes of wheat. The Asian market is the

largest in terms of wheat imports, and it grows by 16.8% in dynamics, which makes it the fastest growing in the world and the most attractive for Russia. This is largely due to Southeast Asia, although growth is noted across all geographical areas of Asia. The European market is also growing rapidly, where over the period growth has exceeded 16%, mainly due to an increase in imports to Eastern Europe. The African market in dynamics has grown less than the rest due to a decrease in purchases in North Africa, which purchases 13 times more, for example, than South, and 4 and 3 times more than East and West, respectively. The US wheat market grew by only 2.2%, due to a decrease in imports to North America, which exceeded the growth in imports to Central and South America, whose market volumes were higher than North American. Despite the reduction in purchases by North African countries, including Egypt's largest wheat import partner, the African market is promising for Russian expansion, as its volume is higher than the remote geographically American and stable European, where Russian grain is not quoted by quality (table 3).

Table 3.
Dynamics of wheat imports in 2014-2017 in the context of geographical zones, thousand tons.

Geographical areas	Year				Growth	
	2014	2015	2016	2017	thousand tons	%
World	173003	166818	189620	191353	18351	10,6
Africa, including:	45548	42774	47907	46387	839	1,8
East africa	5448	5876	6820	6276	828	15,2

Geographical areas	Year				Growthx	
	2014	2015	2016	2017	thousand tons	%
North Africa	29787	26692	30762	27206	-2582	-8,7
South Africa	2167	1421	1788	1970	-197	-9,1
West Africa	7060	7507	7382	9649	2588	36,7
America, including	24740	22394	24137	25282	542	2,2
North America	3670	2592	2326	2896	-774	-21,1
Central America	5964	5775	6297	6567	603	10,1
South America	13181	12119	13706	13852	670	5,1
Asia, including	67197	64186	75130	78518	11321	16,8
central Asia	2786	3186	3536	3544	758	27,2
East Asia	14039	14114	14996	15657	1618	11,5
South asia	12588	9153	10335	14050	1462	11,6
Southeast Asia	15590	19755	26595	25422	9833	63,1
West Asia	22193	17977	19668	19844	-2349	-10,6
Europe, including	34650	36583	41568	40234	5584	16,1
Eastern Europe	1881	1789	3825	2923	1042	55,4
Northern Europe	3318	2817	3135	3696	378	11,4
Southern Europe	15360	15683	18193	17351	1991	13,0
Western Europe	14091	16294	16414	16264	2172	15,4
Oceania	868	881	878	932	64	7,4

* compiled by the author based on data from the Food and Agriculture Organization of the United Nations (Livestock and crop products. Food and Agriculture Organization of the United Nations)

Over the past few years, high grain exports for Russia have allowed building closer foreign policy relations with the countries of Southeast, Central and Central Asia, the Middle East, and North Africa, where there is a rapid population growth and the key factor in choosing a supplier

is the price factor, than Russia has an advantage (Altukhov, 2017b).

In the past three years, Russia has become one of the largest exporters of wheat; three stable large ones can be noted, the positions of which do not change among its partners (table 4).

Table 4.
Dynamics of wheat exports from Russia by country and their position in Russian exports

Countries	2017		2018		2019*	
	amount, million US	dollars	amount, million US	dollars	amount, million US	dollars
Egypt	1430	1	1900	1	515	2
Turkey	797	2	1260	2	570	1
Iran	355	3	495	3	337	3
Bangladesh	321	4	368	8	173	4
Vietnam	273	5	477	4	0	x
Yemen	267	6	265	10	129	5
Sudan	264	7	417	5	74,3	9
Saudi Arabia	261	8	404	6	67	x
Nigeria	256	9	404	7	33,1	11
Lebanon	242	10	258	12	66,8	12

Countries	2017		2018		2019*	
	amount, million US	dollars	amount, million US	dollars	amount, million US	dollars
Azerbaijan	230	11	0	x	80,7	7
Indonesia	201	12	259	11	0	x
South Korea	198	13	161	16	0	x
UAE	182	14	141	20	47,9	14
Tanzania	123	15	152	19	0	x

** compiled by the author based on the source Ru-stat.com (Export and import of Russia by goods and countries)

* January-June 2019

The largest buyer of Russian wheat is Egypt, which ranks second in the world in terms of wheat imports after Indonesia in 2017 (Livestock and crop products. Food and Agriculture Organization of the United Nations). Large volumes of wheat are purchased from Russia and Turkey, deliveries to which, for example, were higher than to Egypt in 2014 [ru-stat.com]. The third position in Russian exports is occupied by Iran, which acquired almost the same volume of wheat as in 2017 for six months of 2019. The composition of the top ten importing countries is relatively stable, including Bangladesh, Vietnam (which did not make purchases in the first half of 2019), Yemen, Sudan, Saudi Arabia, Nigeria. In 2018-2019, Latvia was ranked among the fifteen largest buyers of Russian wheat, which ranked 19th in exports in 2017. Lebanon, Indonesia (the largest wheat import in the world by the end of 2017), South Korea and the UAE are stable buyers of Russian wheat, and, despite the lack of purchases in 2019, some of them do not exclude the possibility that they will not occupy higher positions in the ranking compared to previous periods according to the results of the year.

Discussions

We agree with the authors, who believe that the solution of the problem of grain surpluses in the domestic market of Russia should be solved in a strategic perspective by developing livestock production within the country (Zhilyakov, Avdeev, Orekhova, Shichiyakh, Plisova & Tesalovsky, 2019). However, at the moment, export is a necessary element that stimulates a further increase in wheat crops and sanitizes the domestic market. Further expansion of wheat exports requires both a systematic solution to the problem of sustainable increase in yields due to innovative intensification factors, leveling the influence of adverse climatic factors, and in the diversification of markets in the world. At the moment, Russia in terms of yield is significantly

inferior to its North American competitors, however, this also has a reserve for increasing its presence in the world market as the main exporter of wheat. At the same time, intensification is an essential condition for achieving the goal of improving the quality of wheat, which is lacking both in the domestic market of Russia and in the structure of its export, where the main share is wheat of 4th and 5th grade (Karashchuk, 2018). First of all, the intensification should be carried out due to the achievements of selection in grain production, which corresponds to the concept of rational nature management (Fursov, 2018).

The global economic challenge for Russia is to improve the production and logistics infrastructure of the grain-product subcomplex of the agro-industrial complex, which also contributes to increasing the competitiveness of Russian grain in the world market and expanding the possibility of its movement along the country's transportation routes. At the moment, wheat exports are estimated at 48.5 million tons in an optimistic scenario (Alpatov, Osipov, Sidorenko, Zavgorodneva & Fedyushin, 2017). Preservation of the existing transport and logistics infrastructure will not allow reducing transaction costs to increase the competitiveness of wheat exports from regions remote from port capacities, the resources of which provide a reserve for increasing export potential. In addition, the inability to promptly remove excess wheat from the domestic market will lead to a decrease in its production and reduce the investment attractiveness of the grain economy. An illustrative example of the development of such a scenario is the experience and problems in the beet-sugar subcomplex, the modernization of which is not feasible, since there are enough current capacities to meet Russia's domestic needs, and export to foreign countries is less competitive than cane sugar, including for expensive logistics (Zyukin, Svyatova &

Soloshenko, 2016). The modern export-oriented transport and logistics infrastructure has unresolved problems, which in the future can become not only a serious obstacle to increasing the country's export potential, but also to improve inter-regional exchange processes (Bykov, 2019).

Conclusions

Export is the main incentive to increase gross grain harvest due to innovative and intensive production factors in the short term. Domestic grain consumption in Russia ceased to increase in 2018, stipulating the implementation of the functioning vector of the grain economy in favor of increasing wheat sowing, which is the main export crop for which Russia took the lead in the global market in 2017. This situation contributes to the imbalance in grain production in favor of wheat, and export is a tool that not only neutralizes the negative consequences of this, but also provides an inflow of foreign exchange earnings for the business, increasing its investment attractiveness.

It is important to ensure both the internal development of the directions that create demand for it, and create conditions for increasing the efficiency and flexibility of organizing export flows. At the moment, the world demand for grain is growing in many countries, moreover, these are not necessarily high-quality types of wheat, which gives Russia the opportunity, which mainly produces and exports wheat of the 4th and 5th grades. The undeveloped countries of Africa and Southeast Asia, in which a large and continuing increase in the population requiring cheap types of food, is in most market niches for wheat of this quality.

The record grain harvest in 2017, including wheat, created the prerequisites for intensifying Russian export deliveries to new markets, however, a decrease in gross revenues in subsequent years poses a threat to further expansion and even maintaining current positions. It is important to ensure a stable level of grain production, taking into account the provision of domestic needs and the realization of export opportunities to foreign markets. The geography of Russian wheat supplies continues to grow, but the main starting point is the ports of the Azov-Black Sea basin. In the context of tensions with Turkey and entering the markets of the Atlantic coast of Africa and the Pacific coast of Asia, it is necessary to diversify the port infrastructure through its development in the Baltic and the Far East. It also requires a general

modernization of the entire production and logistics infrastructure from the storage phase to loading at ports, which will reduce costs and increase the speed and flexibility of organizing wheat export flows. Such a strategic task cannot be solved without active state participation, including direct investment in the construction of a new road infrastructure, as well as the creation of all kinds of favorable conditions for agribusiness, which is going to implement infrastructure projects.

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