**CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE**

**Faculty of Economics and Management**

**Department of Economics**

**Bachelor thesis**

# The analysis of foreign trade - Case study of grain exports and imports in Russia

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

# BACHELOR THESIS ASSIGNMENT

Ksenia Gekhtman

Business Administration

Thesis title

**The analysis of foreign trade – Case Study of grain exports and imports in Russia**

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**Objectives of thesis**

The aim of bachelor thesis is to define trade relations between countries and also to analyze export and import of grain in Russian Federation.

**Methodology**

In theoretical part descriptive methods are used. Practical part consists mainly of the analysis and conducted by using of comparative, qualitative and quantitative methods.

**The proposed extent of the thesis**

40 – 60 pages

**Keywords**

export, import, grain, foreign trade, Russia

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**Recommended information sources**

Avdokushin E.F. International economic relations: Textbook.– M.: Economist, 2004.– p.366.
Ustinov I.N. World trade: Statistical analytical reference work. – M.: Economics, 2004.
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World grain statistics, International grain council, London, 2005.
World trade and international economic relations: Education guidance/ Under edition of A.P. Golyakova- Simferopol, 2004.- p.432.

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**Declaration**

I hereby declare that I have worked on the bachelor thesis titled "The analysis of foreign trade – Case study of grain exports and imports in Russia" completely on my own under supervising of doc. Ing. Mansoor Maitah, Ph.D. et Ph.D. and the literature and other information sources I used are listed in the references section and cited in the text.

In Prague, March 11th, 2016. ……………………………..

Ksenia Gekhtman

**Acknowledgement**

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**Summary**

In this work was discussed the structure of foreign trade, which is the most developed and widespread form of international economic relations. In theoretical part were defined main theories of foreign trade, history of its formation, main indicators and types of foreign trade, treaties and organizations regulating foreign trade relations and also its main problems.

In practical part it was analyzed the dynamics and development of export and import structure of grain in Russian Federation. The analysis included the data of the period 2000-2015. All literature materials I used were pointed in the list of references and processed by myself. I also used data from the Federal Customs Service of Russia.

**Keywords:** export, import, grain, foreign trade, Russia.

## Souhrn

V této práci byla probrána struktura zahraničního obchodu, což je nejvíce vyvinutá a rozsáhlá forma mezinárodních ekonomických vztahů. V teoretické části byly definovány hlavní teorie mezinárodního obchodu, historie jeho formování, hlavní ukazatele a typy zahraničního obchodu, smlouvy a organizace regulující vztahy zahraničního obchodu a také jeho hlavní problémy.

V praktické části analyzovala jsem dynamiku a vývoj exportní a importní struktury obilí v Ruské federaci. Analýza obsahuje data z období 2000-2015. Všechna použitá literatura je na seznamu referenci a byla mnou zpracována. Dále jsem použila data z Federal Customs Service of Russia.


**Klíčová slova**: export, import, obilí, zahraniční obchod, Rusko.

## Table of contents

# 1. Introduction

Foreign trade is the most developed and widespread form of international economic relations. It takes the main place among modern foreign policy interests and problems of the countries. Therefore studying of its essence, dynamics of development and modern structure is an important element for determining of foreign policy of the state and programs of its development.

International trade is one of the most important development tools of the international economy. With its help the volume of production and labor productivity are improved and increased. The countries, which export the goods to other states, receive a good economic benefit due to development of the productions, which have higher quality and efficiency. On the other hand, the free exchange of goods between the states gives to consumers an opportunity of choice and wider range of the goods made worldwide.

The principle, which underlines the base of international trade, shows that output of production will be the greatest, if goods are released with minimal costs of production in comparison with the state, where these goods will be exported. And the purchase of goods of other country will be more favorable, than to organize own production, which will involve big material inputs on similar production.

This topic has been studying for a long time till nowadays. It is a necessary condition for working of the separate organizations connected with foreign trade as well as for activity of each country. Therefore monitoring of a state of foreign trade don't stop as well as the processes of forecasting and planning. There are a lot of articles about international economic relations. Can be allocated some authors, such as A. Smith and D. Ricardo, which described theoretical bases of foreign trade most widely.

# 2. Objectives and Methodology

## 2.1. Objectives

The aim of bachelor thesis is to define trade relations between countries in theoretical part and to analyze export and import of grain in Russian Federation during the years 2000-2015 in practical part.

## 2.2. Methodology

During the writing of this work I used the information sources, such as: books, articles, documentaries, internet sources and own supervision.

In theoretical part descriptive methods were used. Practical part consists mainly of the analysis and conducted by using of comparative, qualitative and quantitative methods.

# 3. Theoretical Part

## 3.1. Theories of foreign trade

Foreign trade is the form of relations between producers of different countries. This form evolves on the basis of the international division of labor and expresses their economic interdependence. In literature the following definition is often given: foreign trade represents the process of a purchase and sale which is carried out between buyers, sellers and intermediaries in the different countries. It includes export and import of goods. The ratio between them is called trade balance.

Problems of foreign trade interested scientists and politicians even before the different directions of the economic theory were developed.

### 3.1.1. Mercantilism

The first attempt of theoretical judgment of foreign trade was the doctrine of mercantilism. The early mercantilism appeared at the end of XV century. It was based on aspiration to increase the monetary wealth. For retention of money in the country their export to foreign countries was forbidden. Foreigners had to spend all their money received from sales on purchase of local products. Early mercantilists had views, according to which the state should sell as much as possible in a foreign market and to buy as little as possible.

The late mercantilism was developing from the second half of XVI century till the middle of XVIII century. The system of active trade balance was the main provision of late mercantilism. The wealth was identified by surplus of goods which immediately had to turn into money on a foreign market.

For ensuring active trade balance and capture of foreign markets the state limited import by taxation to duties of foreign goods and encouraged export, paying, in particular, awards for the organization of goods production, which were in great demand on a foreign market.

Mercantilists were the first, who emphasized the importance of international trade and for the first time described the balance of payments. The main lack of this theory is that here development of the countries seems possible only due to redistribution of wealth.

### 3.1.2. Theory of absolute advantage

During the transition of the leading countries to large mechanical production Adam Smith raised a question of rational international trade. In the well-known book "The Wealth of Nations" (1776) devoted to criticism of mercantilism it assumed that for the state can be favorable not only sale, but also purchase of goods in a foreign market. There was also defined, which goods are favorable to export and which to import. In literature this approach received the name of the principle of absolute advantage. The basic rule was not to produce those goods, which you can rather buy by less price, than to produce by higher price.

**Table No. 1: Principle of absolute advantage**

| | Country A | Country B |
|---|---|---|
| Good 1 | 3 hours | 12 hours |
| Good 2 | 6 hours | 4 hours |

Source: own representation.

In Table 1 there is the data about time needed for production of unit of concrete goods, which are provided in the concrete country. For example, for production of unit of good 1 in the country A we need 3 hours, while in the country B 12 hours are required. In the country A is needed less time for production of good 1, than in the country B. That means that country A has absolute advantage in production of good 1. Meanwhile, the country B has absolute advantage in production of good 2. If the country A reduces the production of good 2 and increases production of goods , the country B will reduce production of good 1 and will increase production of good 2. The international division of labor and international trade, which are based on the principle of absolute advantage, will take place.

**Table No. 2: Benefits of the international division of labor based on the principle of absolute advantage**

| | Country A | Country B | World |
|---|---|---|---|
| Good 1 | +2 units | -1 unit | +1 unit |
| Good 2 | -1 unit | +3 units | +2 units |

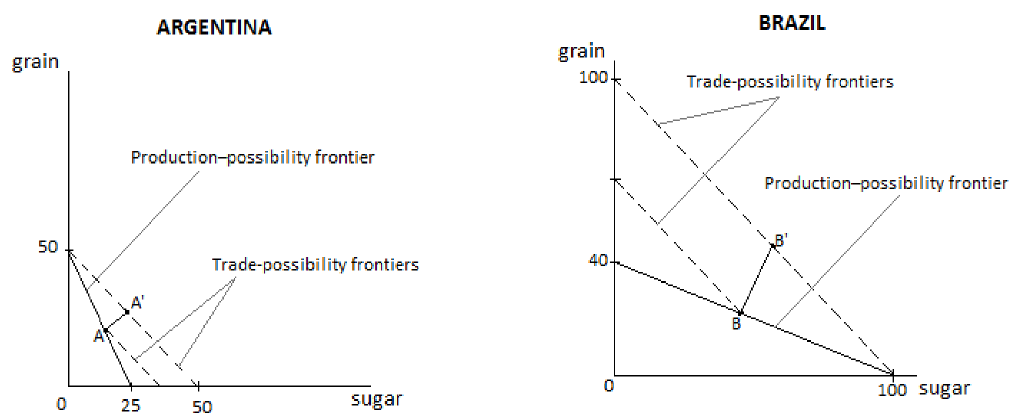
Source: own representation.

If in the country A production of good 2 is reduced by 1 unit, it will allow to save 6 hours, which we can use for production of 2 additional pieces of good 1. The similar situation will occur and in the country B. After the reducing of production of good 1 by 1 unit 12 hours will be saved for production of 3 additional units of good 2. In general, world production of good 1 will be increased by 1 unit and production of good 2 will be increased by 2 units without using of additional resources and only thanks to the international division of labor.

### 3.1.3. Theory of comparative advantages

David Ricardo had noted the specifics of the international economic relations. He created model in which he showed that if the principle of Adam Smith isn't followed, it won't obstruct mutually advantageous trade. D. Ricardo opened the law of comparative advantage: the country has to specialize on an export of goods in which production it has the greatest absolute advantage (in case when this country has absolute advantage in production of both goods) or the smallest absolute disadvantage (in case when this country has no absolute advantage in production of both goods).

**Figure No. 1: Principle of comparative advantage**




Source: Fomichev V.I. International Trade. (2000 ed.), Moscow, own representation.

Let’s assume that on a certain unit of cost Argentina can produce 50 tons of grain or 25 tons of sugar. Brazil at the same unit of cost can produce 67 tons of grain or 100 tons of sugar (figure 1).

Though for Argentina the production of both goods costs more, than for Brazil, the grain is rather cheaper in Argentina: 1 ton of grain = 0.5 tons of sugar in comparison with 1 ton of grain = 1.5 tons of sugar in Brazil. It means that Argentina has comparative advantage in production of grain and can export it in exchange for sugar. The total volume of production will be the greatest only when all goods are produced by that country, in which opportunity costs are lower.

This theory for the first time proved existence of a prize from trade.

### 3.1.4. Heckscher – Ohlin theorem

Factor intensity refers to the relative proportion of the various factors of production used to make a given product.

According to this theory each country exports those factor intensive goods, for which production it has relative surplus of factors of production, and imports those goods, for which production it has a relative deficit of factors of production. This theory removes the cause of influence of different factors of production on international trade. International trade leads to alignment of the prices of production factors in the trading countries. But in this theory only two countries with identical technologies are considered and internal factors aren't considered.

### 3.1.5. Leontief's paradox

In 1947 Leontief made an attempt of checking of Heckscher – Ohlin theorem's conclusions and came to paradoxical results. During the investigation of export and import structure in the USA, he found out that in export of the USA there are more labor-consuming commodities, and in import there are more capital-intensive commodities.

Considering that in post-war years in the USA the capital was rather excess factor of production, and the wage level was much higher, than in other countries, this result contradicted Heckscher – Ohlin theorem and therefore received the name of Leontief's paradox.

## 3.2. History of formation of foreign trade

World trade reaches considerable scales at a boundary of the 18th and 19th centuries. Creation and development of mechanical production in industrially developed countries, such as England, Holland, etc., was such as powerful impulse of this process. It was focused on large-scale and regular import of raw materials from economically less developed countries of Asia, Africa and Latin America and also on export of industrial goods to these countries.

In the 20th century world trade has endured a number of deep crises. The first one was connected with World War of the years 1914-1918. It led to the long and deep violation of world goods turnover. It had been continuing till the end of World War II, which thoroughly changed the structure of the international economic relations. During the post-war period world trade has met the new difficulties connected with disintegration of colonial system. Nevertheless, all these crises have been overcome. In general, the characteristic feature of the post-war period was significant acceleration of world trade development rates, which have reached the highest level for all history. And growth rates of world trade exceeded growth rates of world GDP.

From the second half of the 20th century the world trade started to develop very fast. During the years 1950-1994 the world trade turnover had grown by 14 times. According to the western experts, the period between 1950 and 1970 can be characterized as "Golden Age" in development of international trade. So, the average annual growth rate of world export in the 1950$^{th}$ years was 6.0%, in the 1960$^{th}$ years - 8.2%. During the period from 1970 to 1991 the average annual growth rate was 9.0%. In 1991-1995 this indicator reached 6.2%. Respectively the volume of world trade increased too. Recently this indicator grows on average for about 1.9% per year [1].

From the second half of the 20th century the dominant position of the USA has been staggered. Export rate of Germany came nearer to the export of the USA and sometimes even exceeded it. Besides Germany the export of other Western European countries was also growing. In the 1980th years considerable breakthrough in the sphere of international trade was made by Japan. By the end of the 1980th years Japan began to be beaten out into leaders in competitiveness factors. During the same period "the new industrial countries" of Asia - Singapore, Hong Kong, Taiwan had joined this list. However to the middle of the 1990th years the USA came to the leading positions in the world by competitiveness again. It was followed by Singapore, Hong Kong and also Japan, which earlier had been on the first place for six years.

Now developing countries are still being suppliers of raw materials, food and rather simple products of finished goods on the world market. However growth rates of trade in raw materials considerably lag behind the general growth rates of world trade. Such lag is caused by production of substitutes of raw materials and its more economical use. Industrialized countries have almost completely occupied the market of the knowledge-intensive production. At the same time, certain developing countries, first of all "the new industrial countries", have managed to achieve essential shifts in restructuring of the export, increase of a share of finished goods and industrial products in it, including cars and the equipment. So, the share of industrial export of developing countries in the total world amount has in the early nineties reached 16.3%. Now this indicator already approaches 25%. [2]

## 3.3. Main indicators of world trade

Foreign trade of all countries in total forms international trade, the base of which is the international division of labor. In the theory the world trade is characterized by such main indicators:

- the foreign trade turnover of the countries, which is represented by the sum of export and import;
- import – goods and services brought from abroad to the country. Import of material values for their realization in domestic market is called visible. Import of components, prefabrications, etc. is called indirect. Expenses in foreign currency for transshipment of freight, passengers, travel insurance, technologies and other services, and also transfers of the companies and individuals abroad are so-called invisible import;
- re-import – domestic goods purchased and brought back to the country from abroad, which were exposed to processing there (goods, which aren't sold at auctions, returned from consignment warehouses, rejected etc.)
- export – goods and services sold to the foreign buyers for realization in a foreign market, or for processing in another country;
- re-export – transportations of goods by transit through the third country, export of the goods for sale brought from other countries for sale in the third country.

Besides, international trade is characterized by such indicators:

- growth rates in general;
- growth rates concerning increase in production;
- rates of a gain of world trade concerning previous years.

The first one is defined by the relation of an indicator of international trade volumes of the considered year to an indicator of the base year. With its help it is possible to characterize a percentage ratio of changes in volumes of international trade for a certain period of time.

The ratio of growth rates of international trade volumes to growth rates of production is the starting point for determining several characteristics, which are important for the description of international trade dynamics. First, this indicator characterizes production productivity in the country (the quantity of goods and services, which this country can provide to the world market for a certain period). Secondly, with its help it is possible to estimate in general the level of development of states productive forces.

The last indicator represents the ratio of international trade volume in the current year to the value of the base year. The year preceding the current year is always taken as base year.

## 3.4. Types of foreign trade

### 3.4.1. Wholesale

The main organizational form in wholesale of the countries with the developed market economy – the independent firms occupied actually with trade. But after the industrial firms were penetrated into wholesale they started to create their own trade device. Wholesale branches of industrial firms in the USA are: the wholesale offices occupied with information service of various clients and wholesale bases. Major companies of Germany have own supply divisions, special bureaus or sale offices, wholesale warehouses. The industrial companies create subsidiaries for sale of products to the firms and can have the wholesale network.

A specific place in wholesale is held by commodity exchanges. They are similar to trading houses, where the various goods are both wholesale and retail. Generally commodity exchanges have the specialization. Public exchange trade is based on the principles of double auction when the increasing proposals of buyers meet the decreasing proposals of sellers. If the prices of buyer’s and seller’s proposals are coincide, the bargain will be concluded. Each concluded contract is publicly registered and this action is spread out through communication channels.

In the developed countries real good's markets almost didn't remain. But during the separate periods, when the other forms of market organization are absent, real good's markets can play a noticeable role. The stock exchange hasn't lost the value in foreign trade because of transformation of real good's markets into the futures exchange.

### 3.4.2. Stock exchanges

Securities exchange is conducted on the international monetary markets at the exchanges of such large financial centers as New York, London, Paris, Tokyo and Zurich. Securities exchange is made at so-called exchange time. Only brokers can act as sellers and buyers at the exchanges and receive a certain percent from it. For the securities exchange (trade of stocks and bonds) there are exist so-called broker firms.

Nowadays the securities exchange gains huge value for development of world trade on both internal and external markets. Turnover volumes within this type of foreign trade steadily increase even though it has the most large-scale dependence on the foreign policy factors.

### 3.4.3. Fairs

One of the best ways of searching the contact between the producer and the consumer are fairs and exhibitions. At the thematic fairs producers expose the goods on exhibition areas. The consumer has an opportunity to choose, buy or order goods he needs right there. The fair represents an extensive exhibition where the stands with goods and services are distributed according to subject, branch, appointments, etc.

## 3.5. General Agreement on Tariffs and Trade (GATT)

General Agreement on Tariffs and Trade is the multilateral treaty establishing the general rules of implementation of the international trade agreements adopted by more than 100 states.

The objective requirement of trade international regulation using norms and rules has appeared during the post-war period. It has developed into signing of the interim agreement about questions of tariffs and trade (GATT) which has come into force on January 1, 1948.

It is possible to allocate several basic principles making GATT's basis:

1) the role of tariffs in market economy is the main regulator of export and import;
2) second principle is directed on elimination of discrimination in trade and increase in volumes of commodity turnover. At the same time it is supposed that the volume and structure of foreign trade is defined by its direct participants, and the government regulates export-import transactions only using the tariffs;
3) third principle is presented by the national treatment, which provides that for goods of a foreign origin will be provided the same mode as for national good. The special attention

in this article is put on using of internal taxes and fees. It is about the creation of equal competition conditions for import and domestic goods.

4) other important principle is to recognize that protection of national economy has to be carried out mainly by means of customs tariffs. At the same time the use of quantitative restrictions is forbidden.

The agreement also forbids the use of import quotas, except the cases connected with need of elimination of negative balance of the balance of payments.

## 3.6. World Trade Organization (WTO)

The World Trade Organization (WTO) was created in 1995 and replaced the General agreement on tariffs and trade (GATT) as the only international authority, which regulates the rules of trade between the states. It isn't specialized institution, but it has mechanisms and practice of cooperation with the United Nations.

Tasks of the WTO are represented by assistance in streamlining of trade process within the system based on certain rules; fair settlement of trade disputes between the governments; organizations of trade negotiations. There are 60 agreements of the WTO including the main law precepts of the international commerce and trade policy. The principles, on which these agreements are based, include lack of discrimination (the mode of the most favored nation and the provision about a national treatment), more free terms of trade, encouragement of the competition and additional provisions for the least developed countries. One of the purposes of the WTO is fight against protectionism.

Since the WTO was created it has been serving as a forum for successful negotiations about opening of the markets in the field of telecommunications, info-technological equipment and financial services. The WTO participated in settlement of more than 200 trade disputes and continues to observe implementation of the agreements reached during the Uruguayan round of the world trade negotiations in 1986-1994. In 2001 in Doha (Qatar) the WTO has begun a new round of the multilateral trade negotiations known as the Agenda in the field of development accepted in Doha.

The governing body of the WTO — Ministerial Conference, which is gathered once per two years.

## 3.7. Main problems of foreign trade

Foreign trade represents the process of a purchase and sale which is carried out between buyers, sellers and intermediaries in the different countries. He is connected with a set of practical and financial difficulties for the firms participating in it. Along with usual problems of trade and commerce, which arise in any types of business, in foreign trade there are some additional problems:

- time and distance – credit risk and time of contract implementation;
- change in exchange rate – foreign exchange risk;
- distinctions in laws and rules;
- governmental decrees – currency control and also sovereign risk and country risk.

The main consequence of exchange rates fluctuation for international trade is the risk for the exporter or the importer. It represents that the cost of foreign currency, which they apply in the trade turnovers, will differ from the cost they relied on.

Foreign exchange risk can make additional profit, not just losses. The enterprises find ways of minimizing or total elimination of exchange risk to plan business operations and to predict the profit more authentically. Importers seek to minimize exchange risk for the same reasons. But, as well as in a case with the exporter, importers prefer to know precisely how much they should pay in their currency.

In foreign trade the exporter has to make out a bill to the buyer in a foreign currency (for example, in currency of the buyer’s country), or the buyer has to pay goods in foreign currency (for example, in currency of the exporter’s country). It is also possible that the payment currency was currency of the third country (for example, the firm in Ukraine can sell goods to the buyer in Australia and ask to pay for them in US dollars). Therefore one of the importer’s problems is need of receiving the foreign currency for payment performance, and the exporter can have a problem of exchange of received foreign currency on currency of his country.

The cost of import goods for the buyer or cost of export goods for the seller can be increased or reduced because of change in exchange rates. Therefore the firm, which makes payments or gaining income in foreign currency, has potential "foreign exchange risk" because of adverse changes in exchange rates.

The time risk can appear when the period between submitting the application to the foreign supplier and receiving goods takes a lot of time. When the goods are transmitted on a long distance, the majority of delivery delays are connected with duration of transportation period. Delays can also be caused by need of preparation for transportation documentation. Time and distance create the credit risk for exporters. The exporter usually has to grant the loan for payment for a longer time, than it would be required in case he was selling goods within the country. If there is a large number of foreign debtors, the need of receiving of additional working capital for their financing will appear.

The insufficient knowledge and understanding of rules, customs and laws of the importer or exporter country results the mistrust between the buyer and the seller. It can be overcome only after long and successful business relationship. One of ways of overcoming the difficulties represents the standardization of foreign trade procedures.

The sovereign risk arises when the sovereign government of the country:

- obtains the loan from the foreign creditor;
- becomes the debtor of the foreign supplier;
- gives a guarantee for the loan on behalf of the third party in the country, but then the government or the third party refuses to repay the loan and declares about the immunity from legal prosecution. The creditor or the exporter will be powerless to recover a debt as he will be forbidden to carry out the requirement through the court.

The country risk arises when the buyer does everything that in his forces to pay off the debt he got from the exporter, but when he needs to receive this foreign currency, the authorities of his country refuse to provide him this currency or can't make it.

The government resolutions concerning import and export can be a serious obstacle in the foreign trade. There are exist the following resolutions and restrictions [3]:

1) resolutions about currency regulation;

2) export licensing;

3) import licensing;

4) trade embargo;

5) import quotas;

6) the government resolutions concerning legislative standards of safety, quality or specifications on all goods sold in this country, legislative standards on health care and hygiene, especially on foodstuff; patents and trademarks; packages of goods and volume of information given on packages;

7) documentation, which is necessary for customs clearing of the imported goods, can be very volume. Delays at customs clearing can be an essential factor in a common problem of delays in the foreign trade;

8) duties on import or other taxes for payment of imported goods.

Resolutions about currency regulation (i.e. about the system of control of inflow and outflow of foreign currency) belong usually to the extraordinary measures taken by the government of the country for protection of the currency.

Thus, at the moment the world trade still meets a set of obstacles on its way. But at the same time the various of states trade and economic associations are created for simplification of international trade implementation.

# 4. Practical part

## 4.1. Grain market of the Russian Federation: assessment and dynamics

Production of grain is a basis of all agricultural production. Development of all other agriculture branches in many respects depends on a level of a grain farm development. The grain farm makes fundamentals of plant growing and all agricultural production. It is defined by multilateral communications of grain production with adjacent branches of agriculture and the industry.

Practice shows that without the developed grain production it is impossible to specialize the economic region on production of animal husbandry, to develop production of industrial crops and other branches of agriculture. Grain is not only a food product for the population, but also an irreplaceable forage for cattle and poultry. Grain is an important source of raw materials for the brewing, alcohol and feed mill industries, and in the long term and bio-fuel industry. As agricultural production grain has a number of advantages. It is well stored in a dry form, easily transported on long distances and has high degree of flow ability.

If to consider grain as food and energy minerals, it should be noted that now the population of the planet grows very fast and it leads to the increase in consumption of food products. It is known that grain and products of his processing are the main food for people around the world. Grain is a constant and universal source of receiving the protein necessary for activity of the person.

At the same time, there is a reduction of the land grounds suitable for cultivation of crops, which causes a deficiency of food. Also there is an active mineral extraction (oil, gas) and in process of a subsoil exhaustion appears a deficiency, which can be filled by the fuel made from grain crops.

The Russian Federation as the producer of raw material products for food and also as the producer of raw materials for the bio-energy has significant resources allowing to take dominant positions on the food market as well as on bio-energy market.

The Russian Federation is the leader by quantity of cultivated areas and the majority of these areas belongs to high-fertile. Climatic conditions in places of acreages and lack of fresh water deficiency make the plant growing very favorable kind of activity.

But despite of the big area of the country, the population of Russia is insignificant and that makes able to realize a large volume of export.

The grain farm requires from the state to put the priority attention on its development. For the Russian Federation it is necessary to solve a number of the internal problems which don't allow to develop this sector of economy. These problems are: land question, problems of production and its quality, export problem. All these problems are aggravated by the problems connected with the realization of grain and with limited opportunities of risks insurance.

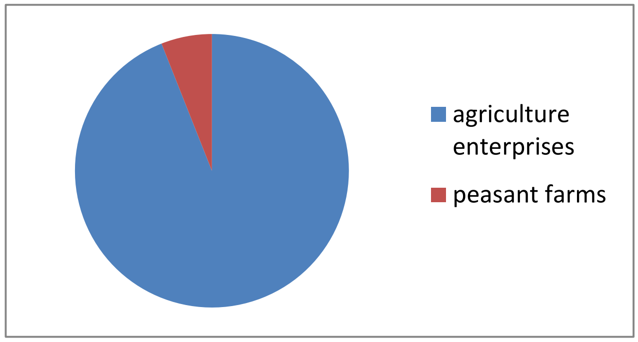
The Russian grain market is still on a formation stage. Its economic characteristics significantly differ from characteristics of grain markets in the countries with developed market economy. Characteristic indicators of the Russian grain market are:

- unstable satisfaction of demand for wheat by regions;
- unregulated grain deliveries from the regions of grain production.

The wholesale of the first level (the market, at which agricultural producers act as the main sellers of wheat) consists of a large number of small producers. It is characterized by the highly competitive relations between them. Geographical boundaries of those markets, as a rule, coincide with administrative borders of the region. The wholesale of the first level is low concentrated shares of its subjects are balanced. The wholesale of the second level (the market of wholesale intermediaries) covers the territory of the Russian Federation. Buyers on this market are the overworking enterprises and other wholesale consumers. Sellers on this market are wholesale and intermediary structures. Wholesale market is moderately concentrated and shares of its subjects are balanced.

The main producers of grain crops in Russia are the agricultural enterprises of various forms of managing. They make nearly 94% of the total amount of grain's gross yield in the country. Peasant farms grow up about 6% of grain crops.

**Figure No. 2: Market structure of grain producers in the Russian Federation**




Source: Federal Customs Service of Russia, own representation

Among the grain producers the enterprises, which are based on the concurrent estate, prevail. There are about 44% of such enterprises. The small-scale enterprises, which are based on a private property, are presented at the grain market by peasant farms. The choice of these or those forms of ownership and managing is caused by regional conditions. If earlier much attention was paid to development of farms, now the process of farms organization was slowed down because of weak financial support, so the part of farmers has refused from the allocated areas.

The condition of a grain farm is characterized by the sizes of acreages and grain gross yield. The Russian Federation has 115 million hectares of arable land and 78 million hectares of cultivated areas.

All grain and legume crops grown up in the Russian Federation are grouped by destination: food and fodder. As a part of food crops are allocated as bread cereals (wheat and rye) and groats (buckwheat, panicgrass and rice). Include barley, oats, corn on grain, and also leguminous cultures in fodder. Fodder crops consist of barley, oats, corn grain, etc.

In the structure of sown areas of grain crops the largest specific weight is occupied by winter and summer wheat. Nearly a half of all sown grain crops falls to its share. The areas under wheat in the year 2011 in comparison with the year 1991 have increased almost by 12%. It is connected with the fact that this crop is characterized by high nutritious properties, good comprehensibility, and it is widely used for preparation of grain products. Among fodder crops the largest areas are reserved for sowing of barley and oats. The corn in farms of the Russian Federation occupies the insignificant spaces. Only 2% in the acreage of grain crops fall to her share.

On the Figure No3 is represented the dynamics of gross yield of grain crops for all categories of farms of the Russian Federation.

On the Table No3 is represented the ratio of acreage and gross yield of grain crops given for all categories of farms of the Russian Federation during the years 1991-2011.

From this Figure and the Table it is possible to see that the gross yield of grain considerably fluctuates. It is connected with mineral fertilizers, natural and climatic conditions of grain crops production and insufficient organization of ensuring supply of farms with financially technical resources. So, the gross yield of grain and leguminous crops in Russia during the years 1991-1995 reached 87.9 million t, and then during the years 1996-2000 has decreased to 65.2 million t. In the period of 2001-2010 the average gross yield was 82.17 million t. The lowest volumes of grain production over the last 10 years in view of a drought were observed in 2010. The year 2008 was the richest in a harvest. In 2011 the gross yield reached about 93.5 million t. Decrease in gross yield of grain crops in the Russian Federation and the lack of food during the transition to the market relations (1996-2000 years) have led to considerable purchases of food, fodder grain and production of animal husbandry abroad.

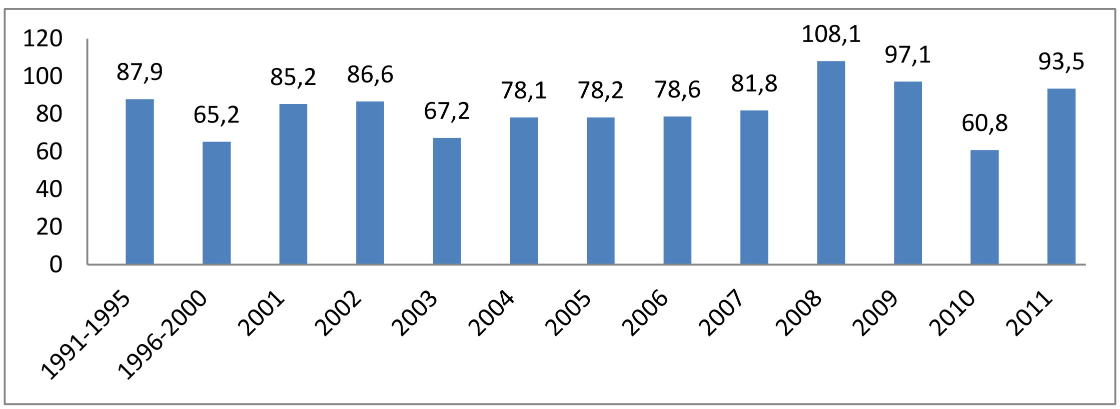
**Table No. 3: The ratio of acreage and gross yield of grain crops**

| | **1991-1995** | **1996-2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Grain after processing (million tons)** | 87,9 | 65,2 | 85,2 | 86,6 | 67,2 | 78,1 | 78,2 | 78,6 | 81,8 | 108 | 97,1 | 60,8 | 93,5 |
| **Grain crops cultivated area, million hectares** | 54,705 | 45,636 | 47,241 | 47,474 | 42,195 | 43,745 | 43,785 | 43,357 | 44,43 | 46,742 | 47,553 | 43,194 | 45,162 |

Source: Analytical material of company “ProZerno” URL: http://prozerno.ru, own representation

It is possible to say that the grain sector of the Russian Federation has already passed the most difficult years of transition from the planned economy to the market economy. Nowadays there was a restoration of the grain market of the country that allowed to minimize import of grain crops and to adjust steady export. The Russian grain has great success on the international scene. The demand of it is especially big in the Arab countries. The greatest progress in export of grain had happened in a period of 2011-2012. Exactly during this period was outlined the steady aspiration of the country to the leadership in grain deliveries to the world markets. The total amount of export of the Russian grain during the years 2011-2012 became record and reached about 26,5 million t, including 21,5 million t of wheat and 4,7 million t of barley.

**Figure No. 3: The dynamics of gross yield of grain crops for all categories of farms of the Russian Federation (million tons)**




Source: Analytical material of company "ProZerno" URL: http://prozerno.ru, own representation

It should be noted that during an agricultural season of 2010-2011 in view of droughty summer in Russia was harvested very small volume of yield covering only internal needs of the country. Because of a deficiency risk, the government imposed a ban on export, which was imposed since August 15, 2010 and withdrawn only on July 1, 2011. Despite alerted and negative attitude from the market participants to the Russian grain after removal of the export ban, Russia restored its positions and set new export records by taking the second place after the USA in a period of 2011-2012.

**Table No. 4: The largest importers of the Russian grain (2011-2012 years)**

| *Country* | *Share* |
|---|---|
| Egypt | 25% |
| Turkey | 13% |
| Saudi Arabia | 7% |
| Israel | 4% |
| Kenya | 4% |
| Italy | 4% |
| Yemen | 3% |
| Spain | 2% |
| Azerbaijan | 2% |
| Tunisia | 2% |
| Ethiopia | 2% |
| Georgia | 2% |
| Djibouti | 2% |
| Jordan | 2% |
| Lebanon | 2% |
| Others | 25% |

Source: A.P. Golyakova. World trade and international economic relations. Simferopol, own representation

Now it is possible to call the Russian Federation as the grain power. However, despite of the market restoration, there was a large number of the unresolved problems after transition to the market economy, which sometimes were even interfering the further development of the grain market in our country.

Now the world market of grain significantly changes. During the years 2011-2012 the largest exporters on the world market were the USA, Russia and Australia while several years ago the market was completely controlled by five leading export countries: the USA, Canada, Australia, Argentina and EU. Total export offers of grain from the main three exporters reached over 70% of all world trade volume. The main indicators defining extent of influence of the country on the world market are:

- share in the world trade;
- the ratio of the residual inventories to an average annual internal consumption in the country.

Nowadays the USA is the leader by both indicators. The countries of the Pacific Rim, such as China, Japan, Korea, Indonesia and Philippines remain to be the main consumers of grain. In the world market of grain there was made a steady specialization: production of grain concentrates generally in the developed countries, but the majority of them isn't able to solve the grain problems and has to go make a broad import of grain. Therefore world trade of grain grows as the result. Besides, experts of the Organization for Economic Cooperation and Development (OECD) note that in the conditions of sufficient world grain production the problems of providing with grain will be particularly concern the poorest countries, which don't have funds for financing of import supply of grain.

Now on the world market of grain there are some changes, and it is possible to observe the following consequences:

- crops in the USA and Canada were reduced;
- the residual inventories in the largest export countries have decreased;
- stable increase in prices;
- on the market have been entered the new export countries, such as Russia, Ukraine and Kazakhstan. Argentina also had quickly reacted to a favorable environment of the world market and increased crops of wheat by 10%.

There are various factors, which impact on the world market of grain. There is a reduction of acreage in the developed countries of USA and mass erosion of soils in many Third World countries. The population of Earth grows, and grain consumption increases. Wheat role as food crop increases in the Third World countries (the Middle East, Africa and Latin America). Consumption of wheat in traditional rice sowing countries, especially in China, increases because of an urbanization and considerable transition to the western type of food. In the last decade on the world market there is a process of an intensification of grain production. At reduction of acreage by 5.5% gross yield of grain has grown by 2.4%. Yield of grain crops has on average increased for 9%. Growth of volumes of consumption by 5% and growth of volumes of trading by grain by 8% became the stimulus for increase in production.

The analysis of development tendencies of the world grain market allows to note that world production of grain in the short and long term is capable to satisfy the demand of grain products even at the annual increase in the population of the planet by 80 million people expected for the next 20 years. In these conditions the gain of grain crops will occur generally due to its development in those countries, where there are favorable conditions for this purpose. As the negative tendency capable to constrain further strengthening of world grain production can be taken the limitation of the acreage suitable for grain sowing. It is connected with high urban saturation, the need of forests preservation, ecological complications due to further involvement of uninvolved lands, limitation of water resources and financing reduction of agricultural production.

World production of grain in 2011-2012 is estimated at 2357 million t (including wheat – 681.2 million t), world consumption of grain – 2343 million t (including wheat – 658 million t). The volume of world trade by grain was at the level of 233 million t (including wheat – 132.07 million t) [4].

On the world grain market about 40% of world production and 52% of world trade by grain fall to the share of wheat. It is obvious that the situation on the wheat market actually defines the development of the whole grain market.

As well as on the market of grain in general, the peak of wheat production had fallen on 1997-1998 years. The situation of the greatest decline in wheat production was observed in 1994-1995 as well, as during the years 2005-2010. This decrease is connected, as it noticed above, with reduction of acreage, limitation of water resources, and also with problems of financing of agricultural sector.

So, the world market of wheat in 2002-2011 was developing under the influence of the following factors:

- production has decreased by 11,2 million t, or by 1%;
- the volume of world trade has increased by 3,4 million t, or by 3,3%;
- wheat remains by the end of the year were reduced by 26,8 million t, or by 17%.

As wheat is the dominating grain crop on the world market of grain, the reduction of wheat remains means reduction of grain remains of the whole world grain market.

The major factor, which influences a condition of the world market balance, is increase in use of grain by 2,1%, which in the conditions of decrease in world production leads to essential reduction of the remains. Besides, the indicator of increase or reduction of the remains has the greatest influence on the change in price of the world grain market. Increase in the remains leads to decrease, and their reduction leads to increase in prices.

Price dynamics is formed generally under the influence of remains change by the end of agricultural year. All indicators allow to predict the strengthening of the world prices for wheat. Proceeding from mathematical dependences, the growth of average annual grain prices can reach 12–15%.

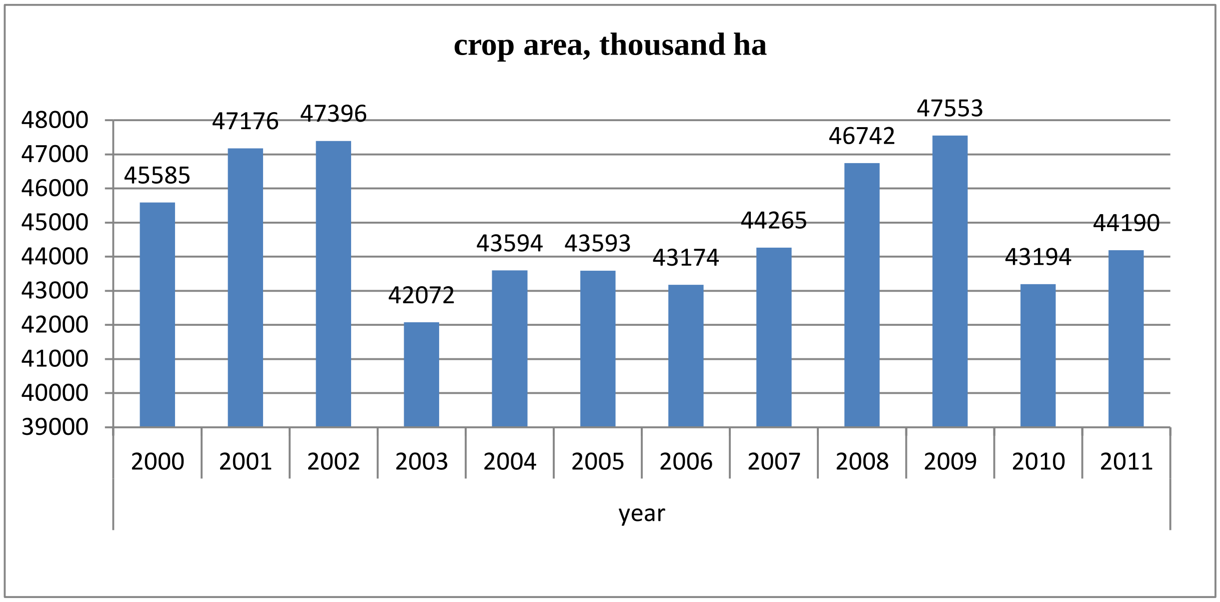
In the structure of world trade by wheat it is possible to predict some changes since there appeared new serious players on the world market– Russia, Ukraine and Kazakhstan, which as a result of increase in internal production of grain will significantly increase the export potential. Totally these countries will be able to offer up to 25% of world export of grain to the world market. Russia, Ukraine and Kazakhstan have no traditional niches of grain sale, so they have to pursue aggressive pricing strategies, i.e. to offer grain at lower prices that can slow down growth rates of the world prices of grain to 10–12% per year. But in general the level of the world prices will depend on export policy of the USA (31% of world export fall to its share).

Apparently, the Russian grain market has many problems, but all of them are solvable. The solution of the problem of sale and insurance of participant’s risks of the domestic grain market has to become one of the major tasks. This problem has immediate character in view of the fact that problems of sale and a problem with insurance of risks bear especially acuity for agricultural producers of the country.

## 4.2. The main data about acreage, gross yield and productivity in Russia

In the year 2011 about 58% of total area for the harvesting in Russia fell to the share of grain sowing, in comparison with last year the situation hasn't changed. The main grown up grain on acreage are wheat and barley (more than 75%).

**Figure No. 4: Dynamics of total areas for grain sowing in Russia for the period of 2000-2011, thousand ha**




Source: Federal Customs Service of Russia, own representation

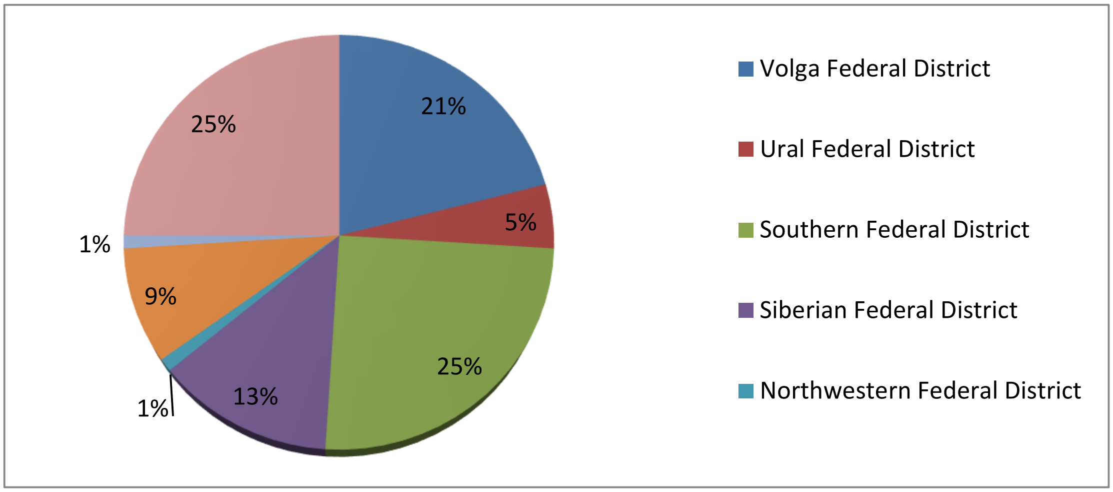
## 4.3. Dynamics of grain crop yield during the years 2000-2010

In 2011 a share of area for wheat sowing in total area for grain sowing changed slightly. The decrease in wheat indicator reached 4%, the increase of barley indicator was 10%.

It is possible to note the following tendencies about other grain: annual decrease in acreage under oats, systematic growth of rice sowing, despite an insignificant share in the general result. Growth of acreage for corn in 2011 reached 24%, for a buckwheat is recorded 12%decrease in an indicator.

The regional structure of crops grain over the last 10 years has practically not changed. It is possible to note the small systematic growth of a share of the Southern Federal District in crops grain. In general, more than a half of all acreage under grain is placed in the Siberian and Volga federal districts. Acreage grain in 2011 have grown in all districts except Ural and Volga.

**Figure No. 5: Regional structure of crops grain in 2011**




Source: Federal Customs Service of Russia, own representation

Dynamics of gross yield of grain in the last 5 years had a positive trend, except the indicators of 2010, which was unsuccessful for agriculture year in view of weather conditions. In the year 2011 by a preliminary estimate of the Ministry of Agriculture the level of gross yield of grain was expected to reach 90 million t (according to the Russian grain union-93 of one million).So, the consequences of a drought was almost overcome.

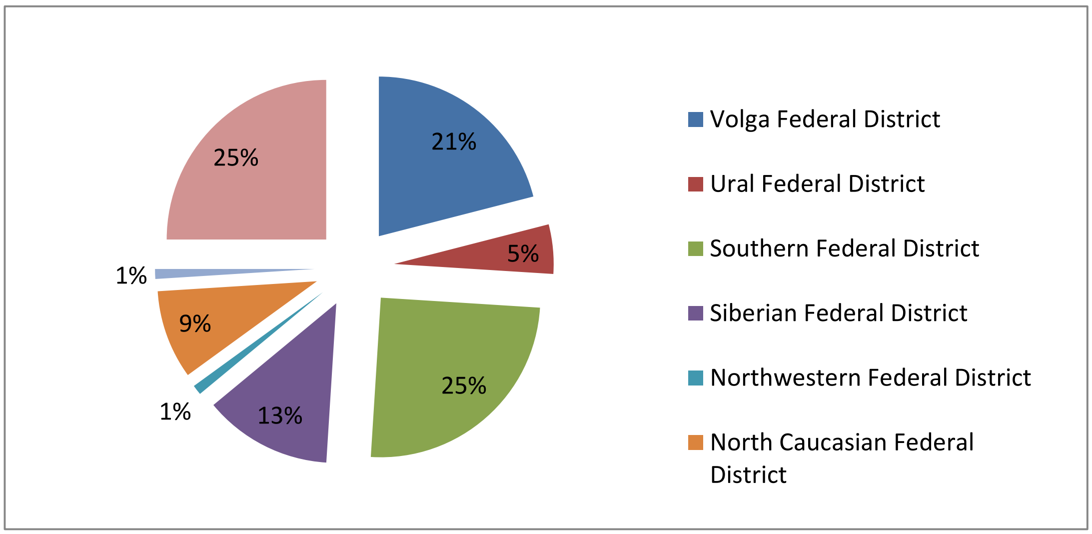
Gross yield of rice grew annually, including droughty 2010. Harvests of rye have in recent years decreased in comparison with the beginning of 21 century. Positive dynamics is observed on corn, a buckwheat harvests of 2009-2010 rather low in comparison with the previous record indicators for ten years.

Considering regional structure of cultures harvesting in 2010, it is possible to note the following features:

- a third of all wheat harvest is collected in farms of the Southern Federal District, 23% of the general indicator – in Siberian Federal District, in total with North Caucasus federal district – more than 70% of wheat in Russia were brought together from farms of three districts;
- bulk of a rye harvest in the country falls on Volga Federal District (64%), another 16% of a crop are reaped in Central Federal District;

- about 70% of barley harvest is reaped in three federal districts: Central, Southern and Siberian;
- more than a half of gross yield of oats was harvested from farms of Siberian Federal District;
- North Caucasus region is the leader in cultivation of corn in Russia, the share in 2010 was about 70% of the general indicator;
- in the same district was harvested the biggest share of panicgrass (31%), another 30% and 23% were harvested in the Siberian and Volga districts respectively;
- the biggest share of a buckwheat and rice harvest has been received thanks to grounds of the Southern Federal District, which traditionally is considered as a storage of Russia. In 2010 74% of a buckwheat and 91% of rice have been harvested from farms of this district.

**Figure No. 6: Regional structure of grain gross yield in Russia in 2010**




Source: Federal Customs Service of Russia, own representation

The regional structure of grain harvesting is connected with their yield, which in general has a positive tendency for the country.

In 2011 according to operational data on 4$^{th}$ of October the yield of grain and leguminous crops reached 23 centners per hectare, in comparison with 2010 growth of an indicator reached 22%. However, the level of previous years isn't reached yet. So, in 2008 the yield was 23.8 centners per hectare, which was a peak for the last 20 years. Wholly, it is possible to note the general growing trend of grain yield since 1998, when the indicator was extremely low – 9.4 centners per hectare.

Since 2005 the yield growth was outlined practically for all grain crops (except corn and panicgrass). Only in 2010 in view of a drought the yield of all crops was much lower than average.

According to data of the Ministries of Agriculture (October, 4$^{th}$) the yield of wheat in 2011 reached 24.1 centners per hectare, which is above a similar indicator of 2010- 22%. Growth by 32% is noted for summer and winter barley, 46% - for a buckwheat, 60% - for corn. However, estimating growth rates, it is necessary to consider features of droughty summer in 2009. Against indicators of 2009 growth rates of yield of the main grain crops is not such considerable, and in wheat yield is noted decrease by hectare.

From crops having the highest yield among grain it is possible to note rice. Rice harvests from 2003 to 2010 have grown almost twice, yield has positive growth rates from year to year, including rather poor gross yield in 2010. The record indicators reached in recent years in rice branch of the country were promoted by the state policy directed to support and protect domestic producer.

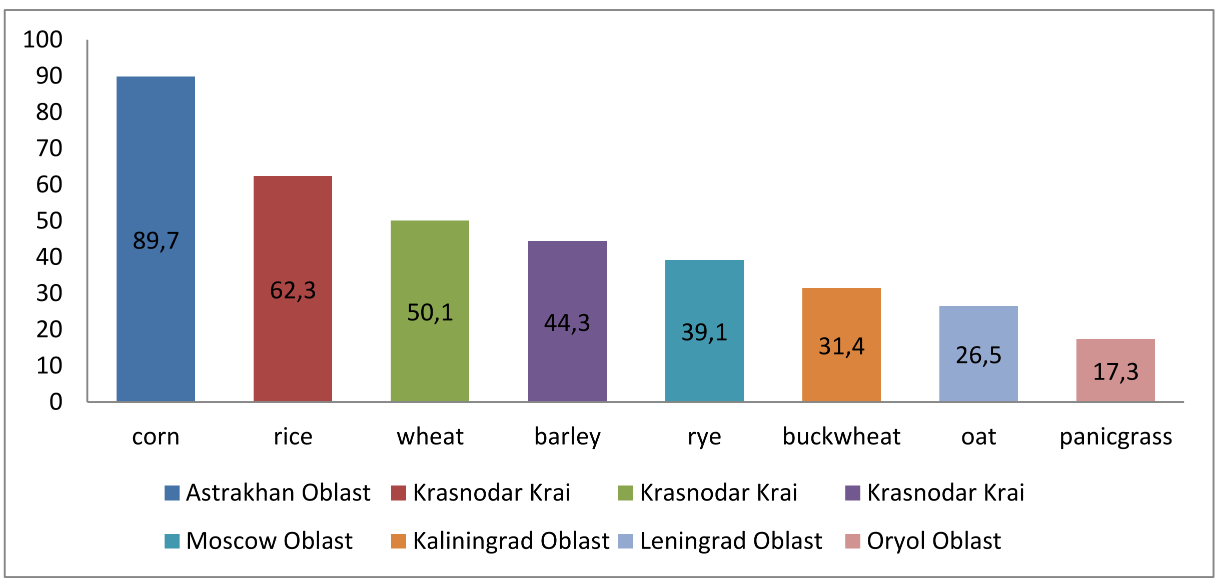
Considering regional features of crop yield in 2010 it is possible to note:

- leaders in yield of summer and winter wheat became the Republic of Adygea and Krasnodar Krai, the indicator reached 50 and 40 centners per hectare at an average country level of 19,1 centners. The same regions take the first and second place yield of summer and winter barley, the indicator is 2.5 times higher than an average. The three of leaders by both crops yield also includes the Kaliningrad region;
- the highest rye yield reached in the Moscow region 39,1 centners per hectare, which exceeds the average level of the country by three times, in the three of leaders bythis indicator enters also Krasnodar Krai and the Republic of Kabardino-Balkaria;
- the greatest yield of oats is reached in the Leningrad region – the average Russian level is exceeded practically by two times;

- records of corn yield in 2010 were set up in the Astrakhan region in spite of the fact that in previous years this region had quite ferial results from this crop yield, on the second place was the Novgorod region, where the corn isn't traditional culture;
- the Oryol Oblast, Belgorod Oblast and Krasnodar Krai – have reached the highest efficiency in panicgrass cultivation – in all three regions the average level of yield across Russia is exceeded twice;
- the highest buckwheat yield in Russia per hectare of the cleaned area is recorded in Kaliningrad Oblast. It is 5 times higher than an average of the country. In the three of leaders with a big separation are also Kabardino-Balkaria and Altai Republic.

As it was already noticed earlier, the main territory for rice cultivation in Russia is located in the Southern Federal District. The highest yield of this crop is also noted in farms of this district (in particular, in Krasnodar Krai- 62.3 centners per hectare).

**Figure No. 7: Leading Regions of crop yield in 2010, centners per hectare**




Source: Federal Customs Service of Russia, own representation

The significant contribution in growth of crops yield resulted the expansion of use of mineral fertilizers for the last years. During the period since 2010 volumes of additional fertilizers by hectare of acreage have grown twice. Within the program for increasing the fertility of soils financing of purchase of fertilizers by agricultural enterprises is carried out. So, in particular, 2.300.000 tons of mineral fertilizers have been brought (+4.5% to the plan).

According to governing bodies of Agrarian and Industrial Complex of territorial subjects of the Russian Federation, from January 1st to October 3rd in 2011 agricultural producers have got 1999,1 thousand tons of mineral fertilizers, which is on 20,4 thousand tons more, than for the year 2010. The saved-up resources of mineral fertilizers (taking into account the remains of 2010) reached 2162.7 thousand tons, which is on 61.6 thousand tons of more, than in 2010.

According to official statistics of the Ministry of Agriculture of the Russian Federation by April 1, 2013 in the agricultural, procuring and processing organizations there were 17 million 978 thousand tons of grain, which is for 30,2% lower, than the previous year for similar date. In comparison with previous months stocks were reduced by 12%. Volumes of grain are distributed actually equally: about 49% (or 8.9 million tons) are in the agricultural organizations, and 51% (or 9.1 million tons) - in the procuring and processing organizations. Negative dynamics was noted in all organizations – in agricultural an indicator for April 1st, 2013 was lower for 28,4% or for 3,5 million tons than 2012 year's level, in procuring and processing - for 32% or for 4,3 million tons. In general negative dynamics in this case is quite appropriate, because grain is regularly consumed.

It is explained by a heat of last summer, which not only destroys crops, but also worsens quality of grain. The following by the volume of stocks in the procuring and processing organizations is barley - 12% or 1 million 084 thousand tons. In comparison to an indicator for April 1st, 2012, the indicator for the year 2013 is 15% lower. Also negative dynamics at the level of 15% for one year is recorded for corn, which share was 11% or 957 thousand tons. About 6% (or 527 thousand tons) are the share of rye. Its reserves in the processing and procuring organizations are by 9% lower than the previous year by 4.5%. The share of other grain crops was 4.5%.

Prices of corn in Russia during the year 2013 have decreased by more than 11%. It has been partly reached in view of a seasonality factor and partly due to commodity interventions. In March the average production price of grain crops in a month was reduced in 4 districts: in the Far East Federal District for 23%, in Ural Federal District for 15%, in North Caucasus Federal District for 6%, in the Northwest federal district for 2%. Concerning February of the year 2013, prices of grain crops in Siberian Federal District rose for 11%. Positive dynamics increased from 1% to 5%. In 2012 considerably grew prices of grain in Siberian Federal District - by 2.2 times. "So, in the European part of Russia average grain prices per a week (from April 15 to April 21) were reduced by 2.8%", - it was noted in the message of the Ministry of Agriculture of the Russian Federation. [6]

According to the Ministry of Agriculture of the Russian Federation, carrying out of commodity interventions and low demand from the flour-grinding enterprises lead to reduction of prices. And the Ministry of Agriculture is completely right, because according to the data published by Russian Federal State Statistics Service, demand on grain for production of compound feeds in March has fallen in Russia to a 6-month minimum. It is explained by a set of factors including the fact, that against increase in grain prices farmers have decided to hammer part of a livestock. At the same time, there was no special accident in it, because at the falling of corn prices there was also a reduction in cost of compound feeds. As a result the lost livestock was able to be restored almost by itself.

## 4.4. Export of grain

Wheat export has significantly decreased after the year 2013 by 31.7% (to 8,697 million tons), import significantly increased by 3 times (to 619.6 thousand tons). In terms of money deliveries were reduced by 37.4% and reached 2,164 billion dollars.

Export of the Russian grain also increased from July, 2013 to July, 2014 – from 19.1 million tons to 19.6 million tons. It is necessary to note that last year export in Russia reached 15.5 million tons.

Estimates for a harvest and export of wheat remained at the level of 2012 and reached 50.5 million tons and 14.5 million tons in 2013.

In spite of the fact that the harvest of wheat in 2013 in Russia was much more than last year's, nevertheless, its import was growing in the country.

## 4.5. Import of grain

The active growth of wheat import from Kazakhstan is recorded in October, 2013, but, in general, it started to grow since July. During this time import ha practically doubled. 320 thousand tons instead of 170 thousand were imported by Russia for the similar period of last year.

The main deliveries of grain by means of railway tracks (more than a half) went to the Urals. Besides the number of deliveries to this region grew twice in comparison with previous year. Import to the Moscow region reached 16.5% in 2013, which practically coincided with numbers of last year. Increase in the Volga region was also recorded. Here were imported 20 thousand tons instead of 6 thousand last year.

Low qualities of the grain harvested in the Urals and the Volga region, especially in Bashkiria, was considered as the reason of import continuation at increase in a harvest. "Gross yield of wheat in Ural Federal District has increased almost to 2,8 million tons against 2,15 million tons in last year, but because of rains after drought the quality of grain has decreased, - Igor Pavensky has explained (Igor Pavensky is the head of the markets analysis department). - If in previous years the share of wheat was 45%, then this year it will be up to standard 30% and below". According to assurances of experts, in Russia increase in prices is observed practically for all grain crops.

In the year 2013 at favorable external factors nothing interfered landowners to return the former level of 90 million tons of grain. In the conditions of decrease in demand of grain such harvest gave additional relief to the market and reduced the prices of grains.

## 4.6. Export and import of grain in Russia for last two years

Russia began to hand over positions in export of grain to the world market. In recent years the branch showed stable growth thanks to the state support and the established low export duties on grain, but crisis has gradually reached both of them. The official statistics demonstrates it. From July, 1$^{st}$to July, 29$^{th}$in the year 2015 the country exported 1 million 598 thousand tons of grain, which is 43.5% less, than for the similar period of last year (2 million 827 thousand tons). It was reported by the Ministry of Agriculture with reference to operational data of Federal Customs Service of Russia.

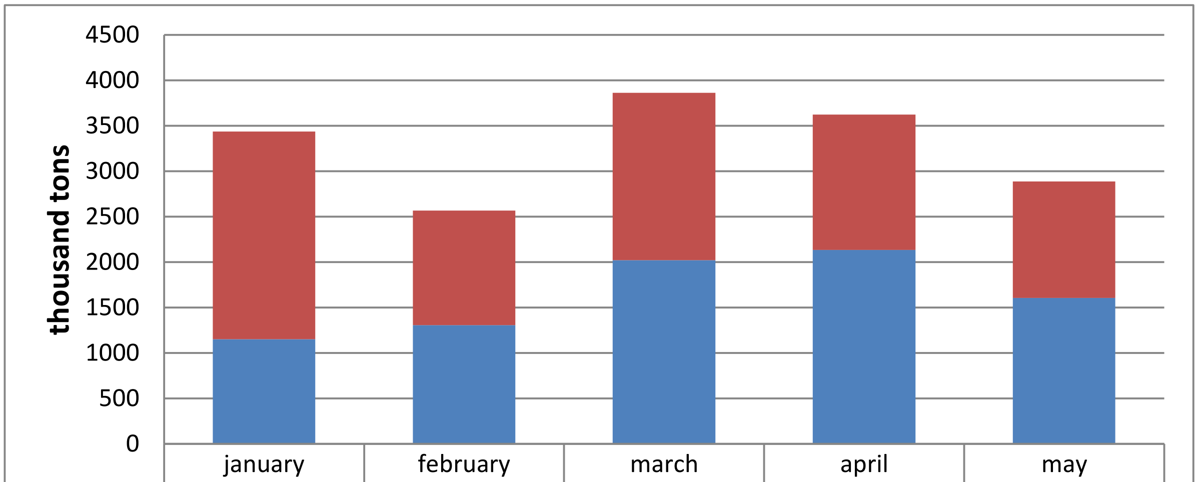
The export basis – 1 million 167 thousand tons – was reached by wheat. It has occurred in spite of the fact that since July, 1$^{st}$wheat is affected by export duty (50% of customs cost minus 5.5 thousand rubles, but not less than 50 rubles per ton).

Besides, in July have been exported 306 thousand tons of corn, 99 thousand tons of barley and 26 thousand tons of other crops.

Earlier, according to the Federal Customs Service, for January – May, 2015 export grain has reached 8.15 million tons, being reduced by 1% in comparison with the similar period of last year. It was the period of protecting duty action from February to May, which has been entered for food security.

Cost volumes have also decreased: in the period of January – May grains for the sum of 1.7 billion dollars were exported, while last year grains were exported for the sum of 2.1 billion dollars (decrease honor for 20%).

**Figure No. 8: Dynamics of cereals export**




| | january | february | march | april | may |
|---|---|---|---|---|---|
| 2015 | 2285,5 | 1258,26 | 1838,69 | 1491,68 | 1279,71 |
| 2014 | 1151,3 | 1307,09 | 2022,51 | 2132,61 | 1606,62 |

Source: Federal Customs Service of Russia, own representation

From February, 1st the size of duty on wheat export reached 15% of customs valuation, but not less than 35 euros for 1 ton. As the reason of its introduction served sharp export growth of grain after events in Ukraine, when the Russian producers began to occupy its niche in trade with foreign countries. Expectations of foreign buyers have also influenced on dynamics, in the summer of 2014 there was a probability that grain will appear under the influence of a ban. So, the demand of grain has increased from the countries of Europe. At last, by the end of the year rates of export have increased even more because of sharply risen dollar exchange rate to ruble and because of the operating high world prices of grain. According to the Ministry of Agriculture the price for 1 ton of wheat on the world market was about 14 thousand rubles, while on internal market it was bought for

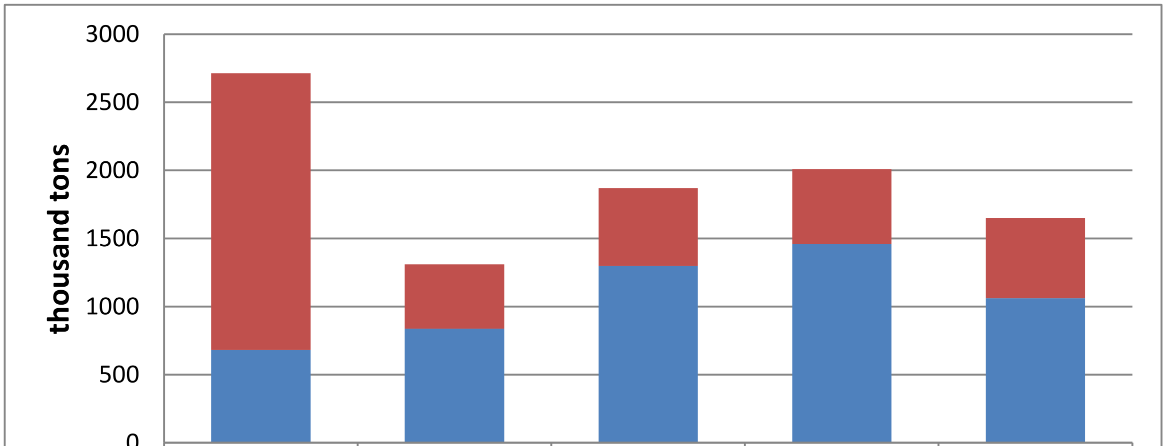
9-10 thousand rubles. For not taking out all reserves of grain from the country it was necessary to establish duty.

The objectives have been achieved, and in the spring of 2015 decrease in volumes of grain supply abroad was monthly observed. In parallel with it the prices of the cereals delivered from Russia were decreasing on the world market. According to the Ministry of Agriculture of the USA, average grain prices reached 195 dollars for ton against 242 dollars in July of last year in Russia.

Foreign sanctions, increase in prices of raw materials and reduction of acreage have also reduced needs of exporters.

Thus, deliveries of cereals began to be reduced. Export of wheat has decreased in January-May, 2015 by 19% to 4.3 million tons. Export cost volume was also reduced (980.8 million dollars in 2015 against 1.5 billion dollars in five months of the year 2014).

**Figure No. 9: Dynamics of wheat export**




| | january | february | march | april | may |
|---|---|---|---|---|---|
| 2015 | 2033,4 | 472,6 | 570,3 | 553,5 | 589,9 |
| 2014 | 680,8 | 838,7 | 1298 | 1457 | 1060,9 |

Source: Federal Customs Service of Russia, own representation

Traditionally Russia delivers to the world market wheat of 3rd and 4th class, which is used in the baking purposes (99% of all export volume). Its deliveries have decreased by 23%. At the same time, despite action of duty, export of durum wheat, which is used for production of pasta, has increased for 271%.Volumes of seed wheat export were also increased by 15%, besides that exactly these types of grain are traditionally imported to Russia.

For not losing the possible profit in the conditions of high dollar exchange rate, producers have increased barley export - the second by export volumes crop. In total 494 thousand tons were taken out in 2015. It is 4 times more, than last year.

**Table No. 5: The structure of grain export during the period from January, 2015 to May 2015 (thousand tons)**

| Crop | Export (thousand tons) |
|---|---|
| wheat | 4328,95 |
| barley | 1978,06 |
| corn | 1600,65 |
| rice | 99,38 |
| rye | 69,01 |
| Sorghum bicolor | 35,72 |
| buckwheat and panicgrass | 35,28 |
| oats | 6,84 |

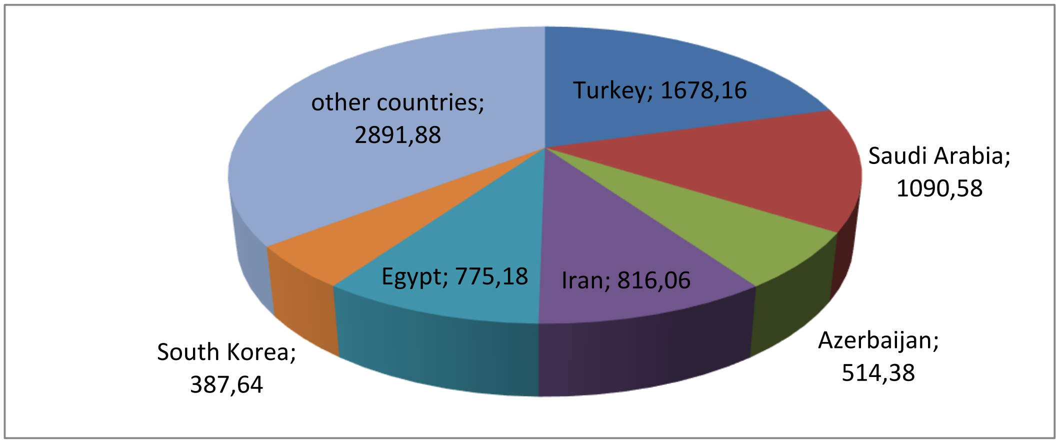
Source: World grain statistics, International grain council, London, 2005, own representation

Russia delivered barley generally to the countries of the Middle East - Jordan, Saudi Arabia, Turkey, Israel, Iran, etc. The high volume of export is connected also with a growing demand of barley because of reduction of its production in the main exporting countries – the USA, Australia and Ukraine.

At the same time, indicators of corn export, on the contrary, have decreased by 19% to 1601 thousand tons because of reduction of demand from the countries of Africa, and also because of decrease in the world prices.

In view of sanctions and complication of the relations between the countries in January-May, 2015 the geography of the Russian grain export has changed. Despite the general recession, trade with Turkey for the specified period has increased by 10.5% up to 1678 thousand tons (generally due to growth of supply of wheat and barley), and export to Saudi Arabia has increased by 15 times, therefore it took to the second place in the Russian export grain. Deliveries of grain to Iran have increased by 2.35 times. Thus, the main decrease has touched Europe and some countries of Africa.

**Figure No. 10: The structure of grain export in 2015 by countries (thousand tons)**

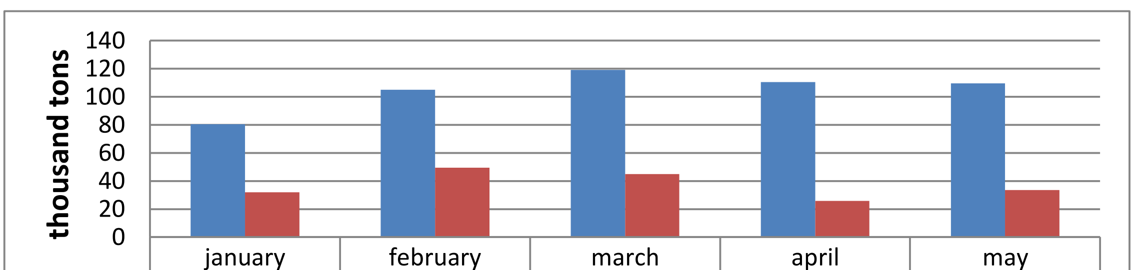



Source: Federal Customs Service of Russia, own representation

Import deliveries grain to Russia were also reduced. In January-May, 2015 only 0.2 million tons of grain have been imported. It is less than last year for 60%.

Because of ruble decline in January-May it became unprofitable to buy cereals from abroad, but in Russia were saved the large volumes of grain, which were prepared for last two years, and there were enough stocks for satisfaction of domestic demand.

**Figure No. 11: Dynamics of cereals import**




| | january | february | march | april | may |
|---|---|---|---|---|---|
| 2014 | 80,53 | 105,01 | 119,04 | 110,39 | 109,57 |
| 2015 | 32,02 | 49,56 | 45,03 | 25,75 | 33,53 |

Source: Federal Customs Service of Russia, own representation

A half of grain import to Russia was the share of rice supplied from the countries of Southeast Asia and Kazakhstan, and costs of their transportation became much higher because of low rate of national currency. Recession has affected practically all types of the delivered production. Rice supply (it was imported from Spain, India, and Thailand) were reduced by 31%. Import of wheat has dropped by 75% because of deliveries reduction from Kazakhstan. The most insignificant recession has affected the corn, which export was reduced only by 1%.

**Table No. 6: The structure of grain import in 2015 (thousand tons)**

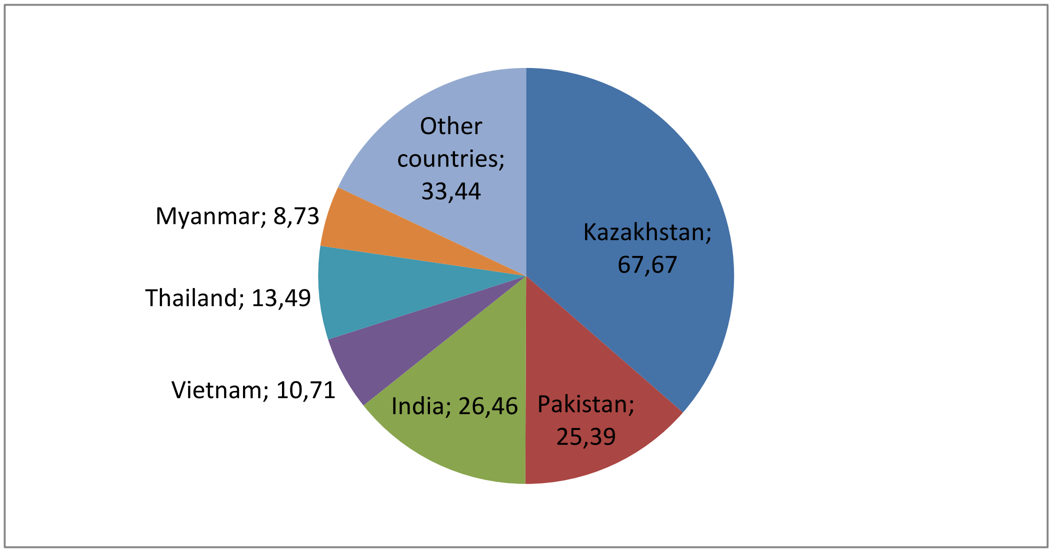
| Crop | Import (thousand tons) |
|---|---|
| rice | 93,23 |
| wheat | 62,52 |
| corn | 27,76 |
| barley | 1,18 |
| oats | 0,51 |
| sorghum bicolor | 0,26 |

Source: World grain statistics, International grain council, London, 2005, own representation

Besides the reasons connected with ruble volatility, many countries, which traditionally delivered cereals to Russia, in general have limited the export because of internal problems or bad climatic conditions of the year 2015.

For example, import from Kazakhstan, which is the main trade partner of Russia on the grain market, was reduced by 79% to 67.67 thousand tons. Kazakhstan delivers the wide list of grain: rice, barley, wheat (besides soft grades of wheat, Kazakhstan is one of the main suppliers of durum wheat used for pasta). However, at the beginning of the year 2015 the Ministry of Agriculture of the country took the decision to limit acreage, and bad weather conditions considerably affected the quality of the Kazakh grain this year. Import of rice from India decreased for 50% and by 46% from Thailand because of falling of productivity in view of a drought. As a result of this the cost of rice grain around the world was growing.

**Figure No. 12: The structure of grains in 2015 by countries (thousand tons)**




Source: Federal Customs Service of Russia, own representation

It is possible to claim that 2014 year's results in foreign trade of grain weren't achieved. Despite of cancellation of the protecting customs duty on export, May and June still were showing low volumes of export. Devaluation of ruble and restriction of deliveries grain of the countries of Asia didn't allow to increase import. However, consumers shouldn't worry, because in Russia there were enough stocks of grain for flour production. At the same time the probability of increase in prices for production from import cereals - first of all, on macaroni and rice.

## The forecast for the future

Vladimir Petrichenko, the head of analytical agency "Prozerno", has declared the forecasts for a grain yield of the year 2016 in Russia. According to its data, in the Russian Federation in 2016 will be collected about 100-101 million tons of grain.

The Ministry of Agriculture in Russia has sent for approval the project of development strategy of the grain market till 2030. The president of Russia Vladimir Putin has charged to prepare the document in October to the Ministry of Agriculture.

The basic scenario of strategy provides growth of grain yield by the year 2030 for 24.9% (or to 130.3 million tons). It will occur because of increases in the area of farmlands, and productivity increases. Internal consumption will grow by 17.5% to 81.1 million tons, export – for 61% to 48.3

million tons. The share of Russia in the world market of grain in 15 years will be 10.4%. The population of Earth in 15 years will grow by 16.4% to 8.5 billion people. And here in Russia population almost won’t increase. It will grow from 146.5 million people to 147.8 million. The gain of internal grain consumption will be provided by animal husbandry and deep processing (in starch, syrups, organic acids, bio-ethanol etc.).

The largest exporter of grain–the Rostov RIF Trading house, has also plans for increase of grain yield. But the company doesn't hurry with their realization, because at any time “rules of the game” can change – in particular, the size of export duty can be reconsidered (now its rate changes according to contract prices of wheat). The state should cancel duty or, at least, to record it at one level and to extend to all crops. Then harvests will start growing. If by the next years Russia is able to offer the lower price including delivery, than its main competitors in the world export market, then the gain of any export markets will be possible.

## 5. Conclusion

As it was noted before, foreign trade is an integral part of world economic relations. There are no countries in the world, which could create economy without participation in foreign trade. In modern conditions active participation of the country in world trade is connected with considerable advantages: it allows to use more effectively the resources, which are available in the country, to join world achievements of science and technology, to carry out restructuring of the economy in more short time, and also to satisfy requirements of the population.

Foreign trade is a consequence of the international division of labor and the international specialization. Besides, world trade promotes deepening internationalization of production, the international economic integration and globalization. Proceeding from it, the studying of its modern situation and consideration of prospects of its development is necessary for creation of the external economic strategy both on macro and micro level. It means that not only the states have to have the program of behavior on the international market of commodities and services, but also the enterprises and the organizations working at this market have to have strategic concepts of functioning and behavior in the changing conditions.

The main objective of the work was to analyze the development of trade on the example of grain export and import in Russia during the years 2000-2015. The latest events in the world, such as situation in Ukraine and duties introduction, have been also considered.

Summing up the results, it is possible to say that export of grain over the past few years in Russia was very successful. The record harvest of grain gave a chance to receive a maximum benefit for the country. As a result export of crops reached the maximum for the last 25 years on the present stage in Russia. However, introduction of export duties hasn't allowed to develop exports even more.

There were a lot of changes on grain market during its development. In dynamics the prompt growth of international trade volumes is observed, and the share of finished goods it steadily increases. The structure of international trade, both geographical and commodity, constantly changes, representing the system from two elements at present: the developed countries trading generally among themselves and developing countries delivering the production to the developed countries.

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## 7. List of Tables



## 8. List of Figures