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### **Impact of Russian Wheat Export Ban**

**Report Categories:**

Grain and Feed

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**Report Highlights:**

Russia's ban on wheat exports through the end of CY 2010 has created new opportunities for U.S. sales to both the Egyptian private and public sector. Post estimates the private sector has already purchased 300-400 TMT of U.S. wheat, predominately HRW. Egypt's overall food security is not jeopardized by the Russian ban, as the General Authority for Supply Commodities (GASC) has about 3.0 MMT of stocks, 4-5 months consumption of subsidized bread. The major impact of the Russian ban is likely to be on the GASC budget and on the private sector. Currently, the Government of Egypt is considering an increase of LE 2.5 to 4.0 billion (\$440-700 million) in GASC's budget to make up any shortfalls. Prices of 72% flour produced by private sector flour mills for pasta, biscuits, cookies and the food industry are expected to increase. The Government has said that subsidized flour (82% and 76%) prices will not increase.

**General Information:**

Russia's ban on wheat exports through the end of CY 2010 has created new opportunities for U.S. sales to both the Egyptian private and public sector. Post estimates the private sector has already purchased 300-400 TMT of U.S. wheat, predominately HRW. Egypt's overall food security is not jeopardized by the Russian ban, as the General Authority for Supply Commodities (GASC) has approximately 3.0 MMT of stocks, for 4-5 months consumption of subsidized bread, including the recently purchased Egyptian harvest. The major impact of the Russian ban is likely to be on the GASC budget and on the price of non-subsidized wheat flour (72% extraction). Both GASC and private sector importers will have to purchase non-Russian wheat at significantly higher prices than those prevailing even a week ago. As world wheat markets adjust to the absence of Russia and the still substantial stocks available in the U.S. and elsewhere, prices may come down somewhat, limiting the budget impact. Currently, the Government of Egypt is considering an increase of LE 2.5 to 4.0 billion (\$440-700 million) in GASC's budget to make up any shortfalls. Private sector importers and flour millers producing 72% extraction flour will have to pass the higher wheat costs to their customers, primarily pasta, cookie and biscuit makers.

GASC is moving aggressively to replace the 540 TMT of contracts cancelled by the export ban, including a purchase of 240 TMT of French wheat at approximately \$280/MT FOB plus \$30/MT freight. A week ago, GASC purchased 180 TMT from Russia at an average price of \$239/ton, CIF. GASC has temporarily suspended consideration of imports from Kazakhstan until that country clarifies its import policy. This policy also applies to the Ukraine, although imports from the Ukraine have not been allowed for over one year due to detection of heavy metals in wheat shipments.

As GASC is accepting bids on a FOB basis, U.S. wheat may be increasingly competitive on the Egyptian market. However, certain GASC requirements add risk premiums for exporters, including those dealing with Ambrosia/ragweed (see below) and subplot discounts, leading to potential rejection of shipments.

The Minister of Trade and Industry (MOTI) has met with the Russian officials in Egypt and sent a letter to the Russian Trade Minister urging them to reschedule delivery of the 540 TMT of wheat Egypt purchased before Russia banned the exports. The Minister also called for forming a joint committee with its Russian counterpart to discuss the signed contracts and request that agreed-upon wheat prices be upheld. However, rumors current in the trade press indicate that Russian exporters requested the export ban to avoid losses caused by the run up in Russian wheat prices caused by the poor harvest. With the ban, they can declare Force Majeure on their contracts.

The government imports 5-6 MMT of wheat per year compared to 3-4 MMT for the private sector. The Ministry of Trade and Industry and Ministry of Social Solidarity said that the Russian export ban will not affect wheat supplies in Egypt. However this may be relatively true in the short run (4-5 months), but could affect wheat supplies starting CY 2011. Monthly, GASC provides about 675 TMT used for the subsidized bread to produce 230-250 million loaves per day in 22,000 bakeries for baladi (82% extraction rate) and Tabaki (76% extraction rate) bread.

The ban is expected to have more impact on prices of 72% flour produced by the private sector and sold freely in the market. It is also expected to affect the prices of pasta made out of 72% flour, biscuits, cookies, and other food industries. The demand for flour is expected to increase in the month of Ramadan (starts August 11), but supplies are adequate. The private sector typically only holds one month's stock, depending on quick sailing times and smaller vessels from the Black Sea origins. The private sector companies have already started to buy from other countries, mainly the U.S., with an estimated 300-400 TMT of sales contracted in last 2-3 weeks.

GASC procurement was only 2.3 MMT this marketing year, rather than the normal 3.0 TMT, attributed partly to a crackdown on illicit sales of imported wheat as domestic wheat and increased consumption in rural areas. Sources indicate increased rural consumption was due to fewer new job opportunities in the cities with slower economic growth.

The Minister of Trade and Industry has formed a committee from the concerned ministries and organizations to prepare a detailed report about GASC tender conditions and method of purchasing. There are many much needed changes as GASC's tender requirements do often increase the risk to exporters and therefore prices. Of immediate note, is that the committee rescinded the requirement for imports to come from the current crop year, which is difficult, if not impossible for exporters to honestly guarantee.

The Central Administration of Plant Quarantine has adjusted its requirement that imported wheat be from the last crop and allowed it to be from the previous years' crop. This change allowed the GASC tender requirement change.

A requirement that shipments be free from Ambrosia (ragweed) still causes concern among exporters, as all major origins have Ambrosia. However, this is better than the recent "zero tolerance" requirement that would be impossible for at least some grain inspection services to attest to, including the Federal Grain Inspection Service. Typically, importing countries recognize that milling wheat does not represent a significant quarantine risk and only place requirements on Ambrosia and other weed seeds in imported seeds for planting.

The GASC tender (IFB - Invitation for Bid) also contains a clause on discounts for sublots that do not meet specifications, with rejection of the shipment if more than six sublots of 2500 MT do not meet specs. Apparently designed for Russian cargos which are often of poor quality, the requirement directly impacts U.S. exporters, where the FGIS Cu-Sum or Average system accounts for some variance in individual sublots.

The Ministry of Social Solidarity announced that there is no intention to increase the prices of the subsidized bread but— if needed- they will request an increase of the amount allocated for subsidy if the rate of wheat prices continues to increase. The government is considering an increase of LE 2.5 to 4.0 billion (\$440-700 million) in its 2010/11 Fiscal year budget allocated for purchasing wheat used for subsidized bread. This amount will depend on how much wheat GASC needs to import over the remainder of the June-May fiscal year, as well as the prevailing prices in the world market.

Ministry of Agriculture in cooperation with Ministries of Trade, Social Solidarity, and Investment are building silos to reduce the losses in wheat storage, estimated at about 15%. The Ministry of

Agriculture is conducting research to develop high yielding varieties. The Ministry of Agriculture is also considering an increase of area cultivated with wheat from 2.9 to 3.5 million acres to face the repercussions of the Russian decision to ban wheat exports.