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Australian Export Grains Innovation Centre

FACTSHEET

Russia

Russia's wheat industry:
Implications for Australia

Summary of key findings

- Russian grain exports are projected to increase by 60 per cent from 2015 to 2030, with wheat exports during 2030 being 32.5mmt (up from 21.7mmt during 2015).
- Russia's government now sees its grains sector as an economic growth opportunity and has embarked on organisational research and development (R&D) reform to improve the efficiency and effectiveness of its agricultural R&D.
- Productivity gains in Russian farm production and upgrade of local grain supply chains is continuing, underpinning the export competitiveness of Russia's grains sector.
- Russia's desire for food self-sufficiency is encouraging domestic feed grain production. This requires Russian wheat breeders to focus principally on yield rather than grain functionality and quality.

Introduction

Russia, Ukraine and Kazakhstan have emerged to become important players in the global wheat market. For Russia, exchange rate movements, the gradual modernisation of agronomic practices and greater investment in farm machinery and logistics infrastructure have seen it become the world's largest exporter of wheat in 2015–16. Russia plans to grow its wheat production by as much as 25 million metric tonnes over the next decade — more than Australia's annual wheat crop.

Supply chain costs

- Russia's predominantly yield-driven growth in both production and exports will stimulate further investment in supply chain infrastructure, including local and foreign investment, attracted by accessing trade volumes and securing economies of scale benefits that lower the unit cost of rail and port infrastructure services. A greater proportion of grain will be moved by rail in coming years.
- Supply chain costs for moving grain to port from Russia's main wheat export regions typically form 32 per cent of wheat FOB prices.
- As at mid-2016, Russia's supply chain costs for wheat are estimated to be ~AU$56/t, with pre-farmgate production costs of ~AU$121/t. This gives Russia, along with its similarly competitive Black Sea neighbours, a powerful competitive advantage against Australia and North America when targeting price-driven markets.

Table 1 Total supply chain costs in Russia and Australia

	Russia	Australia
	(AU$/t)	(AU$/t)
Cartage to bin	3.46	7.80
Storage	5.13	9.00
Upcountry handling	9.21	18.40
Transport to port	15.52	26.70
Handling at port	22.19	13.10
Shipping	0.19	6.80
Levies	0.10	2.80
Supply chain cost	55.79	84.60
Production cost (wheat)	121.16	216.15
Total cost (AU$/t)	176.95	300.75

Source: AEGIC

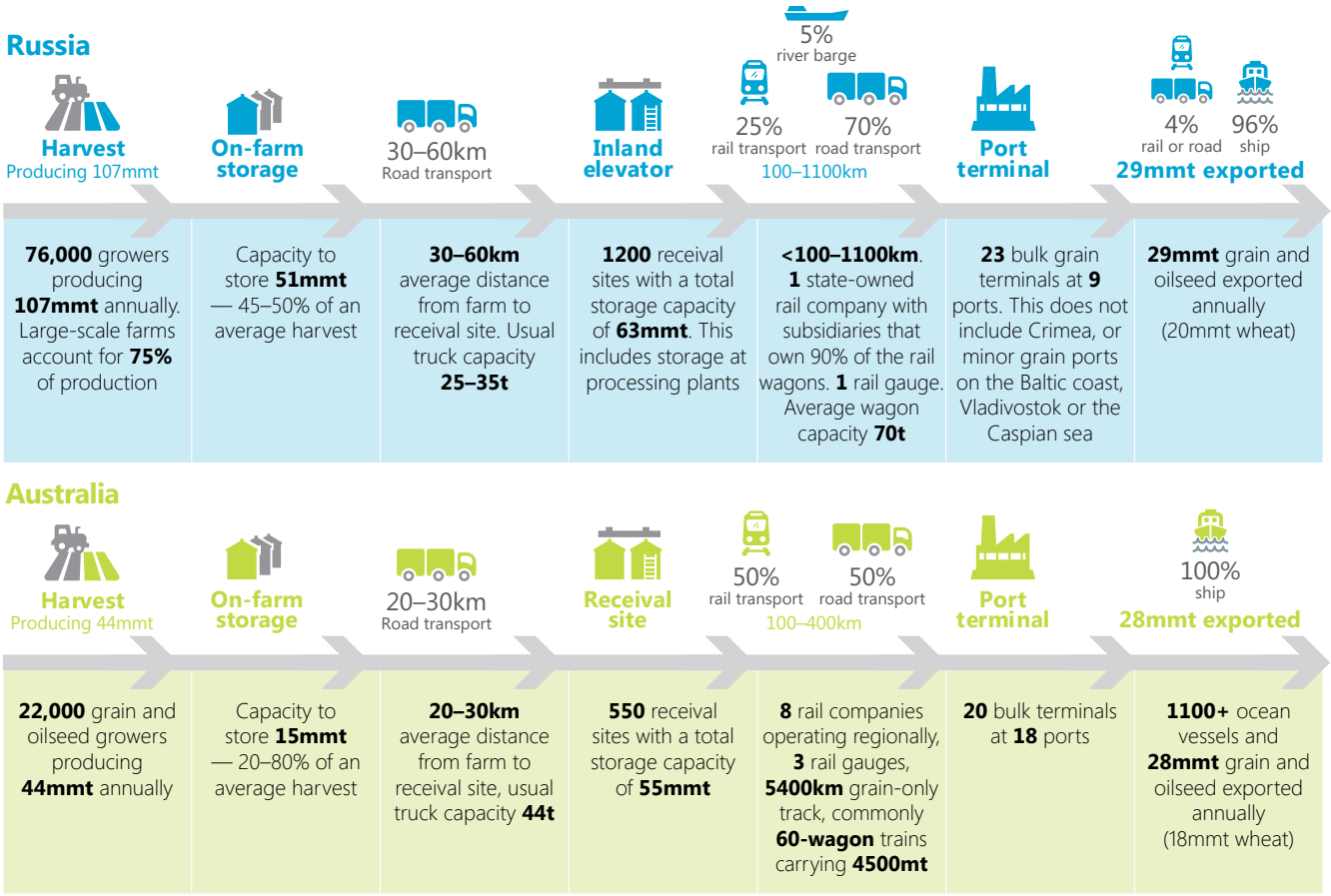

Figure 1 Comparison of the export grain supply chains of Russia and Australia

Source: AEGIC

Summary of Australia's required actions

1. Keep committing to Research & Development for farm-level innovation that drives down the unit cost of wheat production.
2. Quicken the pace at which supply chain infrastructure is upgraded and rationalised, to drive down supply chain costs.
3. Monitor and report the strategic importance of changes in the Black Sea region that affect grain markets.
4. Sustainably fund and coordinate intelligence about the requirements end users have for Australian wheat so we can provide a product they value more.
5. Don't panic: ensure our actions are well-considered, coordinated and strategic.

OR

Download the full report here.

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