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Putin Reverses Grain Intervention Strategy

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The state will begin unloading grain from its stockpiles August 4 to help relief efforts in drought-stricken regions, Agriculture Minister Yelena Skrynnik said Wednesday, ending two years of stockpiling meant to support prices.

The government also has said it hopes to help farmers and is considering five-year subsidized loans to purchase grain from stockpiles among other bailout measures to lessen the impact of the drought.

Twenty-three regions across Russia have declared a state of emergency as weeks of record-breaking heat have ruined 9.6 million hectares of grain this season.

Three million tons of grain from the 2005 and 2008 harvests will be distributed among cattle and poultry breeders, flour mills and processing plants in the affected regions, Skrynnik said.

Some farmers had been slaughtering animals and rushing the meat to market because of the rising prices to feed their herds.

Prime Minister Vladimir Putin held a separate meeting Wednesday with First Deputy Prime Minister Viktor Zubkov, whom he ordered to head a working group that will coordinate the response among governors.

"I think the situation should be taken under much tighter control. I'm asking you to create a working group and monitor the situation daily," Putin told Zubkov, according to a transcript posted on the government web site.

Skrynnik said the state-run United Grain Company, created in March 2009 to regulate exports, would start accrediting organizations to participate in trading sessions at the National Mercantile Exchange on Monday.

The grain intervention fund currently has 9.5 million tons in storage. Since 2007, the last year Russia sold grain from its stockpile, Russia has only been intervening in the market to purchase grain.

In 2008 and 2009, the country spent a combined 50 billion rubles ($1.6 billion) to buy from farmers and prop up prices. But the plan began to backfire as the government found itself losing 1 billion rubles a month on storage costs and rotting grain.

In that regard, the drought has come as a blessing in disguise, as it will allow the government to dump its unwanted grain back onto the market, analysts said.

During a meeting with Zubkov in mid-May, well before the drought hit, Putin had already decided that it was time to start selling.

"We have big reserves, but these reserves are becoming quite expensive for us," Putin said at the time.

"We need to make steps that would match the reality that has formed today both in our economy and the global market," he said. "These decisions may be quite energetic, brave. The most important thing is that they are helpful."

Both domestic and global prices have surged since the drought began, in part because of a panic among traders that has made prices for grain more volatile.

"The price is still fluctuating," said Igor Vasilyev, head of the Zerno Online news agency.

"If you have followed the market carefully, you would see that over the past three trading days, the European market has started to cool off. The drought is real, and speculative tendencies are on the rise, but it is still too early to say at what level the prices will settle," he told The Moscow Times.

Although Russian stockpiles, as well as this year's forecast yield of 85 million tons, are more than enough to cover domestic demand for grain, exports are expected to decline.

"The government is using this intervention program to regulate the market price, which has

been going up for quite some time," Vasilyev said. "It will be knocking down the price domestically with the help of old grain, which in turn should affect the export price."

Wheat futures were up 2.3 percent at the open of Chicago trading after dropping for three straight sessions.

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