The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Putin Warns on Bread Prices

By Olga Razumovskaya

August 15, 2010



The government on Friday conceded that bread prices have risen across Russia and unleashed the Federal Anti-Monopoly Service on "market participants" who used the drought as an excuse to inflate prices by as much as 20 percent.

Containing inflation to the official forecast of 6 percent to 7 percent for this year — which would be an all-time low for Russia — had been a main government goal. Analysts now say the target will be much harder to meet since a widespread drought has forced Moscow to ban grain exports — starting Sunday — to keep domestic prices in check.

"Dishonest market participants need to understand that they had better act within the boundaries of law, or the losses they will incur from fines will outstrip many times over whatever gains they are trying to get through the use of speculative instruments," Prime Minister Vladimir Putin said Friday at the meeting with Igor Artemyev, the anti-monopoly service's director.

Artemyev said the service had already opened cases against roughly a dozen companies in

Tatarstan and the Kursk and Magadan regions. Competition officials in Moscow have also been busy, bringing cases against three local bakeries, which the watchdog says inflated bread prices by as much as 20 percent.

In late July to early August, bread prices in Moscow rose 10 percent to 15 percent, the Moscow branch of the anti-monopoly service said Friday.

"Bread prices did not go up in chain stores, yet in independent convenience stores and government-subsidized stores accredited by the Moscow Mayor's Office, they grew by 10 to 15 percent," said Valentina Varfolomeyeva, interim head of Moscow's retail markets department.

A second City Hall official said prosecutors and competition officials had already been notified about the sudden rise.

"The mayor has turned to the Prosecutor General's Office and [the anti-monopoly service] with a request for them to look carefully into every instance of unlawful rises in bread prices," Olga Kozlova, deputy head of the city's science and industrial policy department, told reporters Friday.

Separately, First Deputy Prime Minister Viktor Zubkov addressed producers at a government working group combating the drought and pleaded with them to release the grain that had been locked up in stockpiles in hopes of future gains.

"There simply are no objective conditions for high prices currently," Zubkov said. "I would ask the companies that have grain in excess not to keep it but to actively work on the market with those who are experiencing an acute deficit."

Companies refusing to part with their grain will incur losses when the government "flips the 'on' switch to the intervention fund mechanism," which Zubkov said could happen at any time.

Artemyev also said that waiting for the government to lift its newly established grain embargo, set to last until at least the end of the year, is not the best strategy because the state is "unlikely" to resume exports earlier.

The watchdog will be enforcing sanctions in the form of hefty fines — anywhere from 1 percent to 15 percent of the company's yearly turnover — for violations, Artemyev said.

But in the long run, he said, introducing a grain exchange will help solve the problem. A commodities exchange would eliminate numerous intermediaries and shell companies that artificially inflate prices.

Putin encouraged Artemyev to work with the Economic Development Ministry and tax authorities to establish the exchange. Analysts, however, warned against treating the mechanism as a panacea for the country's inefficient markets.

"Creating a grain exchange is a long process, and under conditions in which decisions have to be made quickly, this measure will unlikely help," said Irina Vorobyova, an analyst at 2K Audit-Deloviye Konsultatsii/Morison International.

"At the same time, in the future it will be a good market instrument that will help effectively battle speculation," she said.

An exchange will provide both buyers and producers with a clearer ability to forecast prices, she said, suggesting in-depth market monitoring and punitive measures for those who raised prices and speculated on drought and wildfires.

Andrei Sizov Jr., managing director of SovEcon, was less categorical in his appraisal of the market situation.

"In theory, price collusion is possible, but proving it will be quite difficult. Now everybody will be shaken: the farmers; the millers and bread factories; the meat dealers; and retail, " Sizov said.

Higher bread prices, he said, may not be as groundless as they have been painted to be.

"Flour, which in early June cost 6,000 rubles [about $200], went up to 10,500 [rubles] per ton. That's 75 percent. Are there any preconditions for higher bread prices with this kind of growth in prices for flour, a key ingredient of bread making? Yes, there are," he said.

Food prices more generally are now likely to grow, spurring on inflation, Sizov said.

"We expect prices to continue growing for all foodstuffs because of price growth for grain. We predict that this year food inflation will go up to 10.2 percent to 13.7 percent, which is 1.5 or more times higher than in 2009."

Original url: https://www.themoscowtimes.com/2010/08/15/putin-warns-on-bread-prices-a659