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Deripaska Farm Ready for Grain Exports

By The Moscow Times

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Kuban AgroHolding now works 75,000 hectares of land near the farm where future billionaire Deripaska grew up.

Oleg Deripaska's farm in southern Russia is preparing to join the surge in grain exports that will come a month from now as the government lifts a ban on shipments that contributed to a doubling of wheat prices.

The 75,000-hectare Kuban AgroHolding farming company in the Krasnodar region stored about half of last year's harvest and will sell it to trading companies, said Andrei Oleinik, managing director of the agribusiness at Deripaska's Basic Element holding company. The current crop is doing well after rain last month, he said.

"Our winter wheat is doing very well," Oleinik said in an interview by phone, forecasting a 4.3 percent increase in the crop. "It went through the winter very well, and rains in May provided additional moisture."

The prospect of Russian exports and a bigger harvest is helping contain grain prices as

droughts in parts of Europe, the United States and China threaten to drain global stockpiles for a second year. While wheat traded on the Chicago Board of Trade, a global benchmark, is 59 percent above the 10-year average, it would have to rise another 75 percent to match the high seen in 2008. That was in the middle of a three-year period when more than 60 food riots erupted worldwide.

Russia banned shipments in August as its worst drought in more than a half century ruined crops. The ban will expire July 1, Prime Minister Vladimir Putin said May 28.

Russian wheat production will rise to 53 million tons this year, compared with 41.5 million tons in 2010, the U.S. Department of Agriculture estimates. Exports will jump to 10 million tons from 4 million tons, the USDA says.

The country may harvest about 70 million tons of grain this year, Oleinik said. The Agriculture Ministry estimates the harvest at 85 million tons to 90 million tons, up from 60.9 million tons last year. That forecast is too optimistic because soil in central Russia was dry when farmers planted winter grains last year, Oleinik said.

Wheat prices in Russia rose 11 percent last week as traders anticipated that the ban will be lifted and may climb 20 percent more this month before easing as the next harvest begins, Oleinik said. The farm sold half of the 141,000 tons of wheat and barley it reaped last year in the domestic market, more than the 20 percent it normally supplies locally, he said.

Based on prices at silos in southern Russia, fourth-grade milling wheat will cost 6,000 rubles ($215) a ton in Novorossiisk, the main southern export hub, Oleinik said. That's less than the $328 being traded in New Orleans and 252 euros ($363) in Rouen, France.

The resumption of exports may drive international wheat prices 5 percent to 7 percent lower, while boosting domestic prices 15 percent to 20 percent, according to Alexander Korbut, vice president of Russia's Grain Union, the largest lobby group for cereal exporters. Russian ports can handle as much as 3.5 million tons a month, he said.

A jump in Russian prices may spur the government to curb sales again later in the year, Andrei Sizov Jr., managing director of agricultural researcher SovEcon, said May 28.

The resumption of Russian exports won't be enough to drive wheat prices lower, said Erin FitzPatrick, part of a team of analysts at Rabobank in London who correctly predicted this year's surge in food costs. Wheat traded in Chicago will average $8 a bushel in the third quarter, compared with $7.90 in the previous three months, Rabobank forecasts.

"The weather risks that are developing in other producing regions will be more than enough to offset any type of exports coming out of Russia," FitzPatrick said.

European farmers are contending with the driest growing conditions in more than three decades. The European Union warned this month that soil moisture is now "critical" in at least six countries after some places had their driest March on record. France's soft-wheat crop, the EU's largest, will drop 12 percent, and German output will slide 7.2 percent, local forecasters said May 18.

Farmers worldwide will reap 667 million tons of wheat in 2011-12, trailing demand at 669

million tons, the International Grains Council said May 26. The agency pared its production estimate from 672 million tons in April, cutting stockpiles to 185 million tons, the lowest since 2008-09.

Kuban AgroHolding, founded in 2002, was intended partly as a "social project" to bring jobs and improve living conditions in the area, according to Oleinik, who has led the business since 2006. Besides Kuban AgroHolding, the agribusiness unit of Basic Element also includes a stud farm for horses and a manufacturer of nonalcoholic beverages.

Deripaska is worth $16.8 billion, making him Russia's sixth-richest man, according to Forbes magazine. He grew up in Krasnodar on his grandparents' farm, where he rode horses and tended chickens, pigs and cows as a child, and most of the land his Kuban AgroHolding owns today is nearby. He is chief executive officer and the biggest shareholder of United Company RusAl, the world's biggest aluminum producer.

Kuban AgroHolding plans to at least double the amount of land it farms in the next several years to 150,000 to 200,000 hectares, mostly in the south, Oleinik said. The company is also expanding in the western Mordovia and Nizhny Novgorod regions, where it will cultivate grain for flour mills. Kuban is also building a slaughter house and a soy processing plant in southern Russia.

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