

Bread Industry in Trouble as Flour Prices Rise

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Producers believe that bread will not completely disappear from store shelves but its quality is likely to decline. **Maxim Stulov**

Bread prices in Russia are a historically touchy subject, one that politicians and businesses prefer to tread carefully.

So when bakers in the Moscow region declared this week that they might be forced to cut off supplies to stores because of rising production costs, the announcement sparked a flurry of worried talk.

"I wasn't expecting this," Yelena Sabatarova, head of the Moscow regions' Bakers Union, told The Moscow Times Wednesday. She added that she has had to field an onslaught of phone calls throughout the day. "If I am speaking to you so emotionally now it is because this is such a sore subject."

The union has filed an appeal to the Moscow region's branch of the Federal Anti-Monopoly Service. The bakers argued that they are producing bread at a loss or barely making ends meet because of increasing flour, energy and labor costs. Retailers refuse to raise the purchase prices for bread while themselves putting markups of up to 35 percent, Sabatarova said.

The union wants the government to force the retailers to increase bread prices.

"I wouldn't want the industry to collapse but the fact is we are in a deep crisis," she said. "Banks have stopped giving us loans [to buy flour]."

A top executive of Bread Factory No. 28 in Zelenograd estimated that flour prices increased by 50 percent over the past year, which experts say is due to a combination of droughts and strong domestic demand. The highest quality flour now costs up to 157,000 rubles (\$5,011) per ton.

Bread prices must increase by at least 10 percent for the factory to survive and by 20 percent to become profitable.

The bakers have presented their requests directly to retailers, asking to increase bread prices by 10 percent on average. Right now some bread is selling as low as 7.20 rubles per loaf, whereas the cost of production is 14.6 rubles, Sabatarova said.

Responses from retailers were mixed. Some cut off the supplies of specific producers while others agreed to small price increases. X5 Retail Group increased its buying price by 3 to 5 percent, RBC Daily reported.

Bakers said that bread will not completely disappear from store shelves, but its quality will decline as producers switch to lower-cost ingredients. Even now bakers are forced to scale down the quality of the flour they use, and they don't have the money to update their technology.

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