



# Increasing the Effectiveness of the Russian Grain Market

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## Abstract

Considering the current upward drift in farm use all over the world, the Russian agro-food market has immense possibilities to create such economic conditions under which the farming sector could develop dynamically. The increase in the grain production is of crucial importance for all agricultural branches. In this respect, the grain sector is Russia's strategically significant economic segment. This paper presents both potential possibilities and risk insurance in the Russian grain market. The purpose of the article is to provide an economic appraisal and a holistic analysis of this industrial sector along with elaboration of guidelines, aimed at adjustment in this area and commercial process optimization with the view to speeding up the grain production in the Russian Federation. The practical implications of the paper lie in the fact that if the currently important problems are solved, there is a possibility of ensuring food security, stabilization and sustainable development in the agribusiness.

### Keywords:

Grain market, Grain export, Agro-industrial sector, Agro-industrial sector risks, Grain exchange, Agro-industrial market efficiency

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## INTRODUCTION

The basic sector of both Russian and embracing agro-food market is the grain market. The run of the market is an important quality indicator of a country's economic reforms, of how efficiently the agro-industrial policy is being implemented. In practice, the grain market includes all the exchange relations elements. The grain market development involves not only a wide range of issues, related to the grain farm-out performance, but also a country's overall agribusiness.

Agricultural development with its most essential elements – the grain production and its processing – makes it possible for the country to achieve a more stable economic and political position on the world stage as the grain industry currently influences the food processing industry to a large scale. Consequently, the same influence will concern the energy industry.

The fact is that without the existence of highly-developed grain production, it is impossible to have economic areas specializing in the animal production or to develop the technical crops production and other agricultural branches. At the same time, owing to different factors, globally there is a reduction in cultivation, which is suitable for agricultural cropping, resulting in a food deficit. In addition, mining operations, such as oil extraction and natural gas production, are in full swing. Depletion of resources leads to their shortages, so bio-fuel crops can make good for this deficit.

With due regard for the scale and fullness of economy-related elements, the grain market can be considered a peculiar development model for agricultural, primary commodity and food markets. Along with this, the grain economy, as a complex multi-functional and dynamic system with a wide array of activities, demands top-priority attention for its development from government, so that the Russian Federation might gain a foothold both in the grain and bio-energetic world markets. This requires solving a number of domestic problems such as land, production and product quality, and export that prevent the grain industry from developing on a consistent basis. The following problems, such as the problems related to grain sale, limited possibilities of risk insurance, a lack of an actual grain ex-

change, add to the above issues.

The Russian grain market is still at a development stage. Thus, its economic characteristics considerably differ from those of highly-developed market economies. The grain market specific features in Russia are as follows: irregular, unstable meeting demand for wheat throughout regions.

Unregulated delivery of grain lots from grain-growing regions, a lack of information towards bodies of executive power that are responsible for predicting quantity demanded, and transport logistics at the regional market result in excitement. Moreover, they trigger inadequate administrative action.

The first-level wholesale market (where farmers are the main sellers of wheat) consists of a great number of backyarders or sole traders, whose relations between themselves and wholesale intermediary firms, are characterized as highly-competitive. As a rule, the geographical boundaries of such markets are the same as administrative border-lines. The first-level wholesale market is low-concentrated, and its entities' shares are balanced. The second-level wholesale market (of wholesale intermediary firms) embraces the territory of the Russian Federation. Buyers are processing companies and other wholesale consumers, while sellers are wholesale intermediary firms. The market is moderately-concentrated, and its entities' shares are balanced.

The state of the grain market is described in terms of planted acreage sizes, gross grain yield and structural changes of certain agricultural produce. The Russian Federation possesses 115 million hectares of arable land and 78 million hectares of area under crops (Wegren, 2011).

The gross grain yield varies significantly from year to year, which occurs due to climatic conditions, influencing the production of grain crops to a certain extent. The provision of farms with inventory and mineral fertilizers is insufficient. On average, the gross grain yield and leguminous crops in Russia from 1991 to 1995 amounted to 87.9 million tons, and in 1996-2000, fell to 65.2 million tons, in 2001-2010 the average harvest amounted to 82.17 million tons. The lowest volumes of grain production over the past decade, due to droughts, occurred in

2010, and the highest yield was in 2008 and this was 86 million tons. In 2011 the yield amounted to 93.5 million tons (Wegren, 2011; World Grain Statistics, 2012).

Figure 1 presents an illustration of the dynamics of gross grain yield in all categories of farms of the Russian Federation from 1991 to 2011 (Wegren, 2011; World Grain Statistics, 2012).

The decrease in gross yield of grain in the Russian Federation and the lack of provision of staple foods to the population, under conditions of market relations transition (1996 - 2000), led to significant foreign purchases of food and fodder grain, coupled with livestock products.

Currently, the Russian Federation can be called a truly grain power, however, despite a gradual recovery of the market, there is a large number of recurring problems, complicating and sometimes deterring the grain market from further development.

In the conditions of promotion of competition in the agro-industrial complex and entrepreneurial activities, grain distribution channels have greatly changed. In the foreground there are urban land market channels of selling products instead of their rigid centralized distribution. New distribution channels have emerged, such as delivery of grain by means of tied credit, barter, exchange sale, auctions, and others. Possibly, one can claim that Russia's grain sector has already gone through a sore trial: the most difficult years of transition from the planned

economy to the market economy. So far, there has been a restoration of the country's grain market, which helped minimize the import of grain crops and establish robust exports.

Russian grain is a great success in the international arena, with the highest demand for it in the Arab countries. The greatest progress in grain export occurred in the agricultural season of 2011-2012. It was the time of outlining a country's steady aspiration to be a leader in grain deliveries to the world markets, which changed the correlation of forces among grain-exporting countries. The total export volume of Russian grain in that season was a record year and amounted to about 26.5 million tons, including 21.5 million tons of wheat and 4.7 million tons of barley (World Customs Organization, 2012).

Presently, the world grain market is increasingly and considerably reshaping, e.g. in the season of 2011-2012, the USA, Russia and Australia became the largest exporters in the global grain market, while several years ago the market was under total control of five exporting countries: the USA, Canada, Australia, Argentina and the EU (World Grain Statistics, 2012).

The total export supply of grain from the top three exporters is over 70% of the total world trade volume. The key indicators determining the degree of impact of the country in the world market are: firstly, the share in the global trad-

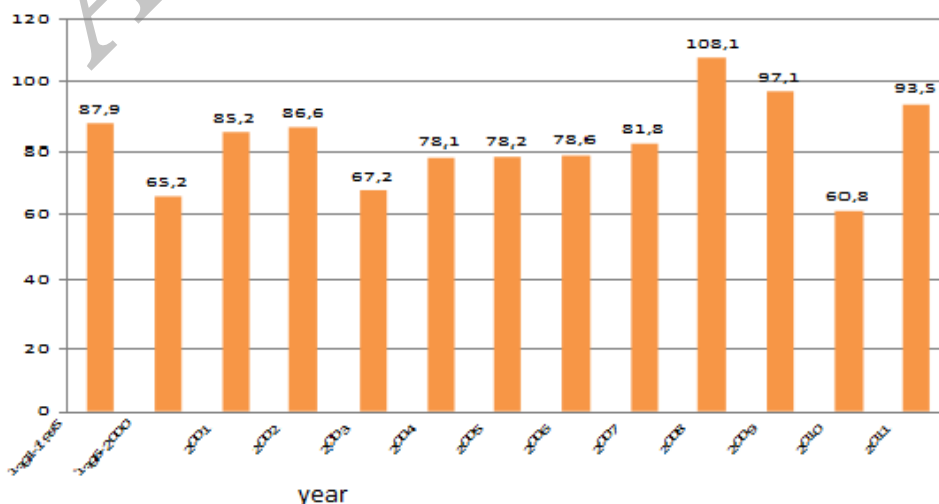


Figure1: Dynamics of gross grain yield in all categories of farms of the Russian Federation from 1991 to 2011(in millions of tons)

Table 1: The largest countries, importing Russia's grain (2011-2012)

Country	Share
Egypt	25%
Turkey	13%
Saudi Arabia	7%
Israel	4%
Kenya	4%
Italy	4%
Yemen	3%
Spain	2%
Azerbaijan	2%
Tunisia	2%
Ethiopia	2%
Georgia	2%
Djibouti	2%
Jordan	2%
Lebanon	2%
Others	25%

ing; secondly, a country's carry-over stocks - average annual domestic consumption ratio. According to both indicators, the USA is today's leader. The main grain-consumers are still APAC countries, such as China, Japan, Korea, Indonesia, and the Philippines (World Grain Organization, 2012).

A steady specialization has come about in the world grain market: the grain production is localized mainly in developed countries, whereas many emerging economies are not able to solve their grain problems and are bound to import grain widely. Hence, the world grain trade is booming. In addition, experts from the Organization for Economic Cooperation and Development (OECD) make it clear that amid the world's sufficient grain production, the problem of grain deficit will be particularly pointed at the poorest countries, which live on air and are unable to finance grain imports.

At the present point in time, there are great changes in the world grain market, implying the following: the crops plantings in the USA and Canada have reduced; carry-over in major exporting countries has diminished; there is a steady rise in prices; new exporting countries, such as Russia, Ukraine, Kazakhstan and Argentina have entered the market and are going to win it actively. Likewise, Argentina, having quickly responded to the favorable world market opportunities, increased wheat plantings by 10% (World Customs Organization, 2012).

Various factors influence the global grain market. There is a reduction in sown areas in developed countries as well as in the United States; and massive soil erosion may be observed in many Third World countries. The world population is growing, resulting in an increase in grain consumption. The role of wheat as a food crop is rising in the Third World countries (the Middle East, Africa, Latin America); wheat consumption is growing in traditional rice-growing countries, in particular in China, due to urbanization and a significant shift to Western dietary.

In the past decade there was a process of intensification of grain production in the embracing market. With the reduction in cultivated areas by 5.5%, the gross grain harvest increased by 2.4%. On average, crop yield increased by 9% (Site Institute for Agricultural Market conjuncture, 2013). Both consumption growth and the increase in the world grain trade (5% and 8% respectively) have triggered a step-up in production.

Table 1 shows the list of ten countries of Russia's largest grain-importers (according to the data for 2011-2012).

Thus, from 2002 to 2011 the world wheat market developed under the influence of the following factors:

- production decreased by 1%, or 11.2 million tons;
- total of world trade increased by 3.3%, or 3.4 million tons;
- at the year end, residues of wheat decreased by 17%, or 26.8 million tons (World Customs Organization, 2012; World Grain Organization, 2012).

As wheat is a dominant crop in the world grain market, the reduction in wheat residues implies a reduction in the amount of grain of the total world grain market.

The main factor that influences the state of the world market balance is the increase in grain consumption by 2.1% (Trading platform IDK, 2013), which led to a significant reduction in grain residues under conditions of a decrease in the world production. In addition, the increase-decrease ratio has the greatest influence on price changes in the world grain market. The increase in residues led to a decrease in prices, while their reduction resulted in price development. In



principle, price performance evolves under the influence of residues variations at the end of the agricultural year. All indicators make it possible to forecast the consolidation of global wheat prices. On the assumption of mathematical relationship, the growth in mid-year wheat prices is likely to reach 12-15% (World Customs Organization, 2012).

The world grain sector is of great interest to agricultural producers and investment funds. This is due to the prospects of food price advances in consequence of population growth and intense consumption-production balance of agricultural products. In New York, at the conference on Agro-Investments in May 2011, the world analysts and representatives of funds claimed that 25-30 billion US dollars would be injected in the agricultural sector of the global economy from pension, health care and private funds on an annual basis. It would happen if only the agricultural sector was ready to accept those investments. For funds, such financial assets are considered to be a distribution of risks in the investment portfolio, in accordance with geography, cultural diversity, and profitability. They are the following regions worth investing in today: South America, Africa, Australia. Russia is also investment-attractive, especially its land resources and technological breakthrough opportunities, but the country itself seems to be obscure and unpredictable. Russia has sound reasons for taking a leading position in the world grain market, though it is necessary to resolve serious internal problems.

### **The land question**

In the Russian Federation, farmers are constantly facing problems related to the management of agricultural land. First of all, the owner is not sure that his land title is protected. Unfortunately, the secondary agricultural land market has still not been built up. Less than 10% of agricultural land has certificates of ownership. Vast areas are not surveyed and have no cadastral numbers. The processes of primary clearance of land are going in accordance with vague and ambiguous legislation, with the use of schemes that can be often put in issue. Completion of paperwork can crawl for many years on end.

The term 'Land under control' has been

widely practised. This is the land cultivated by farmers who have agreements with local authorities about the use of land, but by virtue of law, farmers have neither a right to own this land nor a land rental agreement. It concerns practically all farmers, however, some of them have not been assigned a plot of land at all.

'The land under control' carries great risks for the farmer, on the grounds that it may be confiscated at any time. Besides, this land is not supposed to be mortgageable at the bank.

The legislative amendments to farmland transaction rules came into force on July 1, 2011. Some problems concerning transfer of farmland have been resolved. The legislative act leaves many questions for officials' final explanation, though. They are officials of different levels whose role is reinforced. Thus, there is room for corruption, raiding, doubts on the part of investors. All of these stumbling blocks do not contribute to the fact that the farming industry will have a great appeal for investors. Also, it is essential to understand that farmers are reluctant to invest heavily in qualitative tillage. Instead, they minimize fertilizing, whereupon soil may be impoverished, which leads to a considerable diminution in yield.

It is required that amendments to legislative acts, regarding transfer of farmland, should be drafted in the shortest possible time, with the view to simplifying land registration procedures alongside with rigid regulation of this process, and minimizing the role of officials therein.

### **Grain market and risk insurance**

One of the main sticking points for Russian farmers is demand for their produce. In the grain industry, farmers face the challenge of excess supply, which happens every year.

It is commonly known that the "grain year" begins on July 1st - the beginning of the grain harvesting. From mid-September till mid-October the largest quantity of yield is delivered to the market, which ultimately causes the lowest prices for grain. Afterwards, prices begin to rise steadily, which lasts up to the end of the "grain year".

Farms, which are not burdened with debts and with garners in possession, are able to resist price fluctuations. They affect the sale of grain

as far as demand and supply stabilize (from winter to spring). The farms with debts and without garners have to sell grain at a very low price, which occasionally forces them into bankruptcy.

Sizable enterprises, as a rule, have marketing outlets as well as possibilities of exporting and selling grain by the agency of their own mills and bakery plants, whereby making grain prices go up. Conversely, small-scale farming units need to seek help from middlemen. So, grain is sometimes sold under cost.

For the past decade, government has played a key role in rendering help to small farmers in the matter of grain procurement. Government intervention in the grain market has contributed to financial backing and fair grain pricing.

In case of grain intervention, private companies fixed their purchase prices, being guided by state purchase prices. It means that they fixed prices at a little bit higher rate. In this respect, if state purchase prices rose, it made market prices increase.

The state, with the help of interventions, solved the task of updating the state resources of grain food to ensure food security of the country.

However, this instrument of regulation of the market is rather limited and has some negative sides. So, in the high-yield years state-owned grain elevators were working at full capacity, with enormous costs for their maintenance and doubts about where to use the purchased grain in an appropriate way. It should also be considered that in the face of rising energy costs, the increase in purchase prices for grain leads to higher costs of flour and bakery products, which will have an adverse effect on the poor.

It is necessary to develop a mechanism for adjusting prices for raw materials and products in order to ensure producers' profitability, which is necessary for its further reproduction. The establishment of an efficient grain exchange and auction sites is likely to play an undeniable role in the process of organizing sales of products both from large and small producers. So, there will be an opportunity for market participants to insure risks and take action against monopolism in the grain industry.

### Problems of grain export

Another deterrent in the growth of the grain market in the Russian Federation is the insufficient level of infrastructure development aimed at grain exports, which causes a monopoly in the export grain market.

Expansion of grain exports is one of the conditions for sustainable development of the agrarian sector of the country. Indeed, in recent years, Russia has shown itself as one of the most prominent players in the world grain market, expanding the volume and geography of deliveries. In consequence of the budget support, a number of new grain export terminals have been brought up to date, offering exporters a possibility of being actively involved in the preparation of exports.

For a dynamic increase in exports, it is necessary to push aside some obstacles, which will support internal prices and farmers' income. Therefore, it will give motivation to the expansion of grain production without large budget expenditures. The following measures may help to establish and step up exports:

- Special attention should be paid to combating the practice of informal regulation of not only exports, but also of the market turnover of grain in some regions, which consistently manifests itself in the form of prohibitions on the export and extralegal collection requirements for different permits and certificates.

- There must be an increase in information transparency of the governmental attitude to the problems related to production, consumption and regulation of the grain market. A lack of information creates a wide field for various speculative statements, gives rise to rumors. As a consequence, it hinders farmers, exporters, and other market participants from making rational decisions.

- Subsidy assistance is a very popular measure of export support, which is actively used by 35 member countries of the WTO. The use of various export subsidies will increase competitiveness and expand the export of Russian grain.

- While implementing export-related plans, it is suggested that the maximum amount of subsidy should come to 15-20 dollars per ton. This being said, different directions of export subsidies must be taken into consideration: compen-

Table 2: List of the basic problems of the grain market of the Russian Federation and ways of their solution

Problem	Possible solution
Land question	<ul style="list-style-type: none"> <li>• Elaboration of amendments to the legislative acts regarding the land turnover with the purpose of simplifying procedures for the certification of land and rigid regulation of this process;</li> <li>• minimization of the role of officials in this process.</li> </ul>
Problem of grain marketing and risk insurance	<ul style="list-style-type: none"> <li>• Establishment of an efficient grain exchange and auction sites.</li> </ul>
Export problems	<ul style="list-style-type: none"> <li>• Reduction in political risks and increase in the transparency of the state;</li> <li>• export operations registration based on the principle of «single window»;</li> <li>• development of transport infrastructure;</li> <li>• promotional subsidy.</li> </ul>
Problems of WTO entry	<ul style="list-style-type: none"> <li>• State support by means of subsidies for farmers in the Russian Federation.</li> </ul>

sation of a part of expenses incurred by the exporter due to the underdeveloped infrastructure (collection of various documents in state bodies, transportation, transshipment, demurrage of vessel, and others); the provision of state guarantee and insurance support; loans with subsidized interest rate payments in advance purchases of grain from agricultural manufacturers.

### The quality of grain

A lot of attention should be paid to the quality of grain, as in recent years the requirements at the external markets have increased significantly. In a fierce competitive battle, only the producers, growing environmentally-friendly grain of high quality, will get the upper hand. The problem of quality of Russian grain is quite serious now, which mainly occurs due to lack of government control.

In accordance with the adoption of a number of Federal laws (No 248-FA No 242-FA) in July 2011 in Russia, some innovations were introduced: the legal framework of the system of state supervision and control in the sphere of turnover of grain and products of its processing was liquidated; the unitary procedure of grain control (in such key grain industry infrastructure facilities as: elevators and grain warehouses) was discredited, and the state certificate of quality was abolished.

So far, the Russian Federation has turned out to be the only country, among the largest grain producers, that refused the state control over the quality of grain and products of its processing. This creates serious risks for the development of the domestic agro-industrial complex and the economy of the country as a whole with the view to ensuring the food security of the Russian

Federation and maintaining the status of our country as one of the main suppliers of grain in the world market. The idea of cancellation of grain quality control (with the aid of the administrative reform) was designed to get rid of a large number of control organizations, whose services are both expensive and time-consuming for market participants. However, such intentions can lead to negative consequences. At the time being, the lack of government control is likely to increase deliveries of substandard and hazardous grain on the part of dishonest exporters to foreign countries. For this reason, Russia may be driven out of the world grain market.

Bearing in mind the high social significance of ensuring food security of the country, the President and the Government of the Russian Federation gave a number of instructions to the Ministry of Agriculture, aimed at the revival of the system of public control over quality and safety of grain and products of its processing, preparation of legislative acts, including a new edition of the corn law.

To preserve the quality of grain products, as well as its increase in Russia, it is firstly significant to restore the state control over grain quality. Secondly, it is necessary to make use of new technologies at all stages of production. Thirdly, it is needed to introduce certifications according to international standards ISO.

### Consequences of Russia's entry into the World Trade Organization

In the nearest time, Russian farmers may face new challenges associated with Russia's entry into the WTO. It will increase competition in the Russian food market; therefore, it may lead to a

Table 3: Five major exporting countries with their projected exports of grain for the 2012-2013 agricultural year

No	Exporting country	Volume Million tons
1	USA	74
2	Russia	26.5
3	Australia	20.4
4	Argentina	19.5
5	EU	16

Table 4: Five major exporting countries with their the volume of export deliveries of grain in 2010-2009

No	Exporting country	Volume Million tons
1	USA	83.6
2	EU	27.2
3	Argentina	25.4
4	Australia	20.4
5	Canada	20

Table 5: Five major exporting countries with their the volume of export deliveries of grain for the 2009-2010 agricultural season

No	Exporting country	Volume Million tons
1	USA	81
2	EU	24
3	Russia, Ukraine	21.2
4	Argentina	19.4
5	Australia	18.9

reduction in the demand for domestic agricultural products, which at present cannot fully compete with foreign ones.

The ambiguousness of WTO entry conditions affects market development adversely; or rather, it is a failure to understand the role of state backing towards farmers that is more uncertain than the vagueness of the entry into the WTO. In principle, domestic food producers have a possibility of competing with foreign companies on equal terms, however, the lack of capabilities to predict market conditions for a 3-5-year period of time does not allow market participants to plan their activities in the mid-term period, which negatively affects the investment attractiveness of the industry.

According to the calculations of the Russian Agricultural Academy, the entry into the WTO, in terms of the current conditions, will lead to a reduction in Russia's share in the world exports from 1.3% to 1%, with a simultaneous increase in the share of imports from 1.9% to 2.3% [6].

After entering the WTO, the total risk of a decline in competitiveness in the agricultural sector of the Russian Federation will amount to 4 billion dollars.

The experience of other countries shows that before entering the WTO, any country needs to protect the agricultural market to a large extent, in order to avoid negative economic consequences after the entry. These effects are associated with the opening of the domestic market for imported products. Food markets of developed countries manifest a higher sustainability in comparison with the Russian market, as they are rigidly regulated and supported by the state. It is also important to mention that WTO member countries have gained considerable experience (actively used by them) in applying protective measures in the framework of this international organization (Aslund, 2010).

A generalized list of the main issues of Russia's grain market and the ways of their solution are provided in table 2.

One can observe that there are many problems regarding the Russian grain market, however, there are no unsolvable tasks. It should be emphasized that the political will is the most crucial factor to solve many of these problems in the mid-term period.

One of the urgent tasks should be the solution to marketing and risk insurance problems of domestic grain market participants. This is a burning question due to the fact that the above issues are of vital importance especially, for the country's farmers.

As is known, the USSR used to be a grain importing country. For the recent years Russia has evolved into a grain exporting country, and in the 2011-2012 agricultural season it became the second largest exporting country, falling behind the USA only. And even the drought in the 2010-2011 agricultural season did not prevent Russia from restoring its export position in the international grain market the next year, moreover - it enabled to reach new heights, despite the fact that the government had imposed a ban on grain exports (World Grain Statistic, 2012).

Table 3 presents five major exporting countries with their projected grain exports rates for the 2011-2012 agricultural season.

Table 4 provides information about five major



exporting countries with the volume of grain export deliveries for the 2010-2011 agricultural season.

Table 5 shows five largest exporting countries with the volume of grain export deliveries for the 2009-2010 agricultural season.

Export turnover of the grain market of the Russian Federation can be compared with the export turnover of Russian timber and arms. According to the results of the agricultural season of 2009-2010, which preceded the drought 2010-2011 season, when the export of grain was closed, Russian grain exporters' proceeds came to about \$5 billion for the exports of 21.2 million tons of grain. Exports of timber totaled \$7.3 billion, arms- \$8 billion. Basing on the results of 2012-2013, it was planned to increase revenue for the exported grain by 15-20% (Wegren, 2011; World Customs Organization, 2012; World Grain Statistic, 2012). There is a developed infrastructure for cultivation, transportation, and storage of grain. The infrastructure still grows and increases the production of crops. At the beginning of 2012, the total storage capacity of grain in the country exceeded 118 million tons. In 2011, the yields accounted for 93,5 million tons. 26.5 million tons were supposed to be exported, while 67 million tons of grain had to be used for domestic needs (Portal of the grain market, 2013; Site Agro-site review, 2013).

A completely different situation exists with the port infrastructure. The operational capacity limits the increase in the export potential. But that is where a positive dynamics is observed. In 2010 a major terminal for transshipment of grain was put into operation in the port of Tupase. In 2011 - in the ports of Taman and Astrakhan region. A possibility of developing a port infrastructure in the Far East is being considered.

Russia's agricultural market has a significant growth potential as, judging by the level of per capita consumption of staple foods (excluding bread), Russia lags far behind the developed countries. Moreover, a stable rise in incomes of the population creates prerequisites for further expansion of the domestic agro-food market. The external grain market is very promising due to the increase in food prices on the grounds that the population is growing, and the con-

sumption-production balance of agricultural produce is intense.

Russia has a great potential for the development of grain production and land resources and yield capacity, let alone technologies. It implies that 120 and 150 million tons of grain are far from being unreal, which makes it possible to export about 50 - 80 million tons of grain. The fact is that grain producers should benefit from it. Besides, grain prices must cover the costs, risks and technological development (World Grain Organization, 2012).

With respect to the availability of ready-made infrastructure, we can say that within the shortest possible period of time, the production of grain crops in the Russian Federation is likely to increase by 25% at least (up to 120-135 million tons of grain per year), which will make it possible to boost exports of grain (while preserving the current volumes of internal consumption) at a rate of 50 - 65 million tons of grain per year (increasing it 2-2,5 times) (World Customs Organization, 2012; Portal of the grain market, 2013).

However, it should be taken into account that the availability of infrastructure does not fully guarantee the grain market development. The main problems lie in the fact that the majority of producers cannot enter sales markets, which occasionally makes grain production economically irrational. In this connection, it is necessary to develop market-based trading tools for grain (both exchange and off exchange), which virtually remain unused at present.

The exchange is a special kind of an organized grain market, a sort of tool, determining prices by means of exchange transactions. They contribute to the formation of civilized corn market, specify the level of market prices, promote transparency, link prices with grain quality, insure producers and consumers against price fluctuations. Therefore, specialized grain exchanges or commodity exchanges, equipped with grain platforms, should certainly be on hand in the grain distribution system.

It is needed to expand sales of grain by producers by means of exchanges to such an extent that enterprises of the grain processing industry, procurement and sales organizations could become regular customers, so that commodity ex-

changes should be able to quote market prices. Only then will the open corn market actually participate in grain market pricing, while average prices will become guideposts for negotiating contracts.

Nowadays, grain trade on the exchange is an intrinsic market demand. For example, if an agricultural enterprise has been a blue-chip producing and exporting company in the region for the past decade, it should be able to influence the price, at which it exports one or another kind of grain products, and also provide affiliates with a more accurate price indicator for the planning of its economic activities, and, first of all, for operational costs planning. World commodity markets adhere to such principles.

The main problems that Russian grain market participants face, entering the stock exchange, is a lack of both right promotion of this market instrument and security of payment (payment on deals), and also guarantees of physical grain deliveries (in case they are required.) If the exchange does not provide a guarantee of delivery of physical goods on open (expose) positions, the grain market operator supposes that there is no point in going to such an exchange. It is a well-known fact – so far, there is no exchange in Russia to furnish rigid guarantees of such a delivery. As a matter of fact, the unavailability of supply guarantees on the part of agricultural producers stultified futures transactions. In this regard, it is necessary to adjust enforcement mechanisms of fulfillment of obligations on the deals. The solution to the existing problems of exchange and off-exchange trading platforms, together with their promotion, aimed at grain market participants, will give the country an option of coping with the problems related to grain pricing, marketing, as well as risk hedging.

### CONCLUSION

In the sphere of the grain market development, emphasis is put on promoting the infrastructure development of market exchange and off-exchange trading and promotion; ensuring efficient foreign economic and foreign policy support towards exporters; state financing aimed at the modernization of the system of technical regulation of the grain production; simplifying the procedures of registration of export opera-

tions, basing on the principle of «single window»; creating a perfect and stable legislative base, regulating the grain market; implementing the certification of grain in accordance with international requirements, solving the land issue. In view of the problems regarding grain marketing, which many farmers face, as well as the lack of effective levers of risk insurance in the grain industry, we can say that an effectively operating grain exchange should become one of the most important elements of transparent grain market.

In the mid-term period, the creation of efficient work instruments in the form of grain exchanges, auctions, and also promotion, together with the development of infrastructure, will enable the Russian Federation to become a leader in terms of grain exports (Trading platform IDK, 2013).

### RESULTS

The research reveals the following results:

Firstly, theoretical and methodological background to the grain market performance has been established. Its main difference is that the consideration of the problem of an increase in the grain quantity and the improvement of selected grain quality should be related to grain production/processing, whereas the cross-industry exchange of products inside/outside the grain industry should be related to the grain market.

Secondly, development strategy of the grain production/market has been substantiated, with due regard to regional food provision. The strategy includes objectives, tasks and development priorities aimed at the competitive growth in the grain production, accelerated implementation of resource-recovery technologies, and technical modernization. In addition, there should be appropriate conditions for an efficient system of agricultural marketing, a rational geographical distribution and specialization of the grain industry.

Thirdly, a grain market development mechanism has been elaborated on an organizational and economic basis. By this mechanism we imply action framework, i.e. a system of organizational, economic, social and legal measures based on priority guidelines. These top-priority goals are: arrangement of general operating procedures, maintenance of fiscal sustainability

and economic stability in the grain economy, and increased sales, which allowed using the multipronged approach to the implementation of a special-purpose program of managing the grain industry.

Fourthly, methodological procedures, dealing with grain cluster generation, have been improved and amended. A grain cluster is a market institution for realizing the development strategy of the grain industry and the grain market with the view to:

- coordinating its participants' performance;
- enhancing their investment appeal;
- reducing transaction expenses;
- reaching a synergistic effect.

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