

# Global Traders Cautiously Take Russian Infrastructure Stakes

By [The Moscow Times](#)

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LONDON — International trade houses are buying into Russian grain port facilities to try to counter high handling costs from one of the world's top producers of cereals, making smaller players fear they will lose out.

Even with erratic harvests in recent years, Russia normally ranks among the top five global wheat exporters. But a lack of investment in export infrastructure and little competition among terminals owners has vastly inflated grain handling costs.

To tackle this, major traders including Glencore and, more recently, Cargill, have bought stakes in Russian grain terminals at Black Sea deep-water ports, which have the largest capacity and service major importers including North Africa and the Middle East.

The deals indicate Russia's willingness to welcome foreign investment into infrastructure supporting ports, while ports themselves remain owned by the government.

Glencore has a stake in grain terminal in Taman since 2012, while Cargill invested in a grain terminal in Novorossiysk in December, 2013.

Three grain terminals in Novorossiysk covered 27 percent of Russia's July to November grain exports, ProZerno consultancy said.

"If you have got a business model whereby you have investments in origination but you do not have a foothold in the port then you can be beholden to other competing entities. It is a bigger problem in Russia because there are not all that many export terminals in the Black Sea," a European trader said.

## **Return on Investment**

A lack of infrastructure for grain exports means margins at Russian ports can be attractive compared with other commodities including metals and oil, allowing investments into grain terminals to pay off within a few years.

"Grain handling costs are lower this season than two years ago, but remain one of the world's highest," said the head of Russia's Grain Union Arkady Zlochevsky. The costs are \$24 to \$26 per ton in 2013/14 so far, compared to \$37 in 2011/12, he added.

In nearby Ukraine and Romania, wheat exporters where a lack of terminal capacity is less critical, FOB, or grain handling rates are about \$10 cheaper than in Russia, one trader said.

Zlochevsky estimates that planned investment, mainly by Russian companies, would take the capacity of Russian grain terminals to about 50 million tons by 2020, up from 30 million tons now. However, many of these projects will only be executed if grain prices are attractive, he said.

Last year, prices fell due to a rise in global output thanks to favorable weather; the price of wheat slipped by about 20 percent.

Russia harvested 90 million tons of grain, including 50 million tons of wheat, in 2013 and is officially expected to export 20 million tons of grain.

Russian President Vladimir Putin aims to increase annual grain output to 120 to 125 million tons by 2020, boosting potential exports to 35 to 40 million tons.

"If it is a good crop and there are intensive exports at the start of the campaign through October to November, there is a bottleneck," a second European trader said.

## **Top Tier Buys In**

Cargill, one of four so-called "ABCD" companies that dominate the flow of agricultural goods around the world, bought 25 percent plus one share of the grain terminal Kombinat Stroykomplekt, or KSK, based in Novorossiysk in December.

The investment opens an important channel for connecting Cargill's Russian grain origination to customers in North Africa, the Middle East and beyond, the company said in its latest earnings statement last week.

"If you have port elevation then you have the key to the exports," said James Dunsterville, analyst at Geneva-based AgFlow.

Some small and mid-size traders said the move by Cargill could reduce the export volumes of competitors who do not have their own terminal capacity.

"We have been working actively through that terminal so whether we will get the access that we have in the past, because 25 percent will be now Cargill, presumably to use for themselves ... that means less volumes for everyone else," said a trader.

Cargill was 7th in the league table of Russian grain exporters in the 2012/13 marketing season, said Vladimir Petrichenko, the head of the ProZerno consultancy.

The KSK terminal can handle 3.5 million tons of grain a year. Cargill plans to use a portion of that capacity, while the remaining volume will be available to the market, it said in December.

"Cargill will be in a much better position. This could put them amongst the first three if they want to do it. I do not think you invest in a port silo or port facility if you are not interested in enlarging your exports," a second European trader said.

Cargill declined to comment on its market share.

The other ABCD companies are Archer Daniels Midland, Bunge, and Louis Dreyfus. Bunge owns a grain terminal at Russia's shallow-water port in Rostov.

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