

Chinese economics being the second in the world, will gain the lead at the nearest time. Chinese products are everywhere. Besides, Russian businessmen keep a good look-out for Chinese market as one of the promising export directions. In particular, the Beijing Program that has been implemented in the Omsk Region for two years was focused on building of the system of large scale production of malting barley and other cereal crops at the territory of the Siberian Federal District with further export to China and the countries of Shanghai Cooperation Organization.

It bears reminding that this project was created by Barley, Malt, Hops & Beer Union together with the Union of Grain Producers, supported by the Ministry of Agriculture of the RF, the Ministry for Economic Development, the Administration of the Omsk Region. The company – operator LLC “Omsk Grain Company” was established in order to implement the above mentioned project. The participants of the program are also 15 largest malt and brewing companies of China producing over three million ton of malt and 50 billion litres of beer correspondingly plus agricultural companies and producers from the Omsk Region and the Siberian Federal District. All interested are welcome.

By opinion of Vitaly Erlikh, the Minister of Agriculture of the Omsk Region, malting barley produced in Omsk meets international requirements, in particular needs of the local brewing company – the Omsk division of CJSC “Sun InBev”.

- Last year we produced 170 thousand tons of malting barley and the demand of Sun InBev is near 30 thousand tons. So, we have grain reserves and malting barley export is qualified as a promising direction. Our Siberian Agricultural Research and Scientific Institute is selecting malting barley carefully. But our aim is to sell not only malting barley but food grain and other agricultural products to the Chinese market. Also Omsk grain has some difficulties in reaching sea ports because of transport costs; moreover, preferential transportation railway rates were abolished. Also problems of veterinary standards, quality conformance of export products are not still resolved.

Nobody dispute about advantages and necessity of Russian supplies to Southeast Asia markets, especially in the light of the current economical sanctions of EU against the RF. Moreover, we have great export potential.

- By opinion of Pavel Skurikhin, the President of the Union of Grain Producers, in the Russian Federation, during pre-perestroika period, gross grain harvest was 120 million tons. For the last ten years this figure dropped to 85 million tons. But Russia has a potential to increase grain production to 130 million tons and export capacity can rise to 40-45 million tons with further improving of agricultural producers' position.

- But at present we have a problem that can be solved promptly. Debts of agricultural producers by the start of this year are near 2 trillion rub. Within the usual agricultural business this debt can not be repaid by the companies in the next few decades. Low financial resource capacity has a negative impact on farming equipment, as a result harvesting process is delayed that leads to crop loss (near 20%). Within the framework of plant industry development in the RF there was created a program focused on increasing of crop production as well as quality improvement. Due to poor financial position of agrarians, subsidies given by the Government are rather small. As a result, there is no possibility for technical re-equipping of agricultural enterprises, there is lack

of mineral fertilizers and plant protecting agents, storages and processing systems also need to be modernized.

- It is clear that the industry needs investments. And we believe that our investors can be not only Russian companies but also foreign units. All understand that in long-term prospects Russia is a guaranteed seed supplier. In August 22, 2012 Russia became a full-fledged member of WTO and it gives undeniable advantages to exporters. These advantages are created due to reducing of entry fees to the countries accepting our grain. Today only grain is a stable export product. Analyzing the current situation with Russian export, Skurikhin underlines that at present time the largest buyer of domestic wheat in the global market is Egypt and food barley – Saudi Arabia. Also grain is purchased by companies making flour and reselling products to the North Africa and Middle East. Many consuming countries of Russian grain subsidize prices for bread, id est, they sell cheaper than buy. So, they are interested in long-term contracts with fixed prices and are ready to pay bonus for a guaranty of stable supplies. For this delivery scheme, Russia support the creation of investment unions with consuming countries in order to form a vertically-integrated complex (private companies on a competitive basis) for production, storage and grain supplies. Besides, foreign investors have many advantages in case of investing money in the Russian agricultural complex. As an example, SberBank and investment company Invest AD as a part of the Sovereign Wealth Fund Abu Dhabi.

- The national Union of Grain Producers together with the Ministry of Agriculture of the RF and Invest AD took measures to attract interested investors from the following countries: Egypt, Arab Emirates, Sudan, Iraq, Saudi Arabia, Jordan, Bahrain, China and other countries of the South-East Asia. But for using the resources of the investment fund it's necessary to restructure debts of agricultural producers at first. It's a rather complex question and at present time it is actively discussed.

Within the conference in Stavropol, The Union of Grain Producers suggested their variant of restructuring. We offered to restructure debts of agricultural producers by issuing bonds and government bills for a period of 10 – 20 years. Our proposal was supported by the President. Also within the conference in the Ministry of Agriculture we proposed some ways for reduction of debt load of Russian farms. Our aim is to increase grain volumes as well as assure high marginal sales markets on the basis of long-term contracts with consuming countries in different regions of the world. So, in parallel with production increase, it's necessary to develop grain infrastructure.

It's worth noting that current transport logistical costs in Russia are by 40% higher than in other countries. This is due to long-distance transportation, in some regions exceeding 3,5 thousand km. as well as effective railway rates. For example, shipping costs for 1 ton of grain from Siberian regions and Ural can exceed 2 thousand rub. These tariffs can stop grain transportation to other federal districts and to export. Flow of exports directly depends on increasing of port capabilities, both in Azov-Black Sea Region and in Russian Far East. Absence of port terminal in Russia's Far East as well as high degree of grain carriers wear and high rent price lead to dampening of exports to Far East.

- And we realize, added Pavel Skurikhin, that for a fast delivery of barley to China, it's necessary to fix reasonable prices for transportation. Besides, our entry into the emerging grain markets of these countries will increase our export potential to 10 million tons. Moreover, many Asian partners are looking for possibilities to take Russian products and even make investments to the Russian agriculture. In particular, Japan takes targeted steps for joint construction of the grain terminal in the Far East. Besides, China expresses interest in barley production at the territory of Russia. Our Union together with Barley, Malt, Hops & Beer Union are cooperating with Chinese partners. So, there are the following stages for stabilization of grain production in Russia:

1. debts restructure
2. introduction of investment funds and attracting of new investors
3. building of a new trade model on the basis of signing of direct long-term contracts with grain-consuming countries.

Being aware of all above mentioned problems, Alexander Mordovin, The President of Barley, Malt, Hops & Beer Union in Russia estimated a Chinese market as a promising export direction even in 2008. As a result of researches, meetings, negotiations, a project "Beijing Program" has been created.

- Beijing Program is well-known in the Omsk Region, the RF and countries of Shanghai Cooperation Organization, in particular in China, A. Mordovin says. China produces over one fourth of the world beer production. 13% of world malt productions are located in PRC. Russia is also a very important market player though we continue to import malting barley and malt. According to the global macro-economic laws, 10% of feed barley croppage is malting barley in producing countries. Russian share in feed barley production is 10,6% and Chinese Share is only 1%. So, China is lacking malting barley. It means that it is supplied by other countries. By estimates, barley failure is expected this year and import of this crop can exceed 3 million tons but the total requirement is over 5 million tons. As in previous years, barley will be delivered by Canada, the USA, Australia, EU. In 2013 Ukraine got a permission to export barley to China and even received prepayment 3 billion dollars. According to Beijing Program, Siberian Region shall be the key supplier of barley to China and 10 million tons/year is only oriented figure.

As it was mentioned above, Beijing Program has been implemented for two years. The President of Barley, Malt, Hops & Beer Union is talking about Program success:

- Firstly, the Program is included in projects supported by the Russian-Chinese Intergovernmental Commission for Preparing Summit Conferences.
- Secondly, the Department of Presidential Affairs also approved the project
- Thirdly, there was created a Russian-Chinese Working Agricultural Group under Intergovernmental Commission for Preparing Summit Conferences. In October there will be the first meeting in Beijing.

- Fourthly, the Ministry of Agriculture of the RF and the General Administration of Quality Supervision, Inspection and Quarantine concluded a framework agreement for delivery of Russian grain.

- Fifthly, An application for accreditation of the Omsk Oblast as the first region –crop supplier to PRC has been filed. Also a preliminary agreement with the Vice-Minister of the General Administration of Quality Supervision, Inspection and Quarantine Wei Chuanzhong, concerning possible accreditation of the Omsk Region has been drawn.

Today we are ready to deliver first small shipment of malting barley to PRC. But it's necessary to solve political situation. We have done all government procedures and persuaded Chinese representatives of the quality of Russian barley.

- By opinion of A. Morodovin, now, we shall create a project infrastructure; relations between participants; systems of project promotion to PRC market plus elevators construction, grain terminals, a seed plant, improving of shipping logistics. It is necessary to develop an effective system for seed business in preference to Russian selection. Also the processes of being awarded the status of the Federal Program, settling the price and tariffs lie ahead. We shall do best to export not only an aquaculture (the share is 97% from all Russian export to PRC) but other products. Our Union supports the brewing industry and firstly, the domestic independent brewing business following to 3"K" rules created by our Union: Culture of Consumption, Product Quality, the State Control.

It is assumed that implementation of Beijing Program will give a new impulse and financial assets for effective development of agricultural science. Even today the Omsk scientists have many ideas for Chinese partners.

- Our current achievements include not only environmental conditions but professionalism of staff, responsible care, correctly chosen varieties and technologies. By words of Ivan Khramtsov, the Director of the Siberian Research and Scientific Institute, we get grain improving the production of bread products in some regions. Varieties of the Siberian Research and Scientific Institute and the Omsk State Agricultural University occupy an area of 10 mln. ha. None of regions can show these characteristics. We are also well-placed to grow malting barley. During recent researches we make special reference to varieties that will be in demand in the Omsk Region as well as in China. After two-year trials we got good results – quality characteristics of our varieties satisfied Chinese partners (protein, germination, germinating power etc.). This year we are planning to deliver a small commodity grain lot to China so as China representatives could carry out tests and brew some beer.

So, public and scientific institutes have been trying to open a window to China for two years but producers of malting barley and other crops will become more active when feel profit in practice. Until traffic load per 1 ton of grain is near 2000 rub. within or outside Russia, it's doubtful that agrarians will give preference to agreements in foreign currency rather than in rubles. And now small farmers and traders are waiting when large corporations will beat path to so desirable but unattainable Chinese market.