

Russia seeks access to China's agricultural market

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On 17 October, the Novosibirsk-based Food Export Trade and the state-owned China Chengtong International Ltd signed a 12-year 'general contract' to supply China with 70 million tonnes of grain, legumes and oilseeds produced in the Urals, Siberia and the Far East. The contract's estimated total value is 2.5 trillion roubles (c. \$25.5 billion). The document was signed on the sidelines of the Belt and Road Forum in Beijing, which was attended by President Vladimir Putin and a large delegation of Russian businessmen.

China is the world's largest importer of grain and oilseed crops, but despite a robust increase in supplies from the Russian Federation since 2014, it has not so far become a significant market for Russian foodstuffs. In 2020–22, the Russian Federation exported just over two million tonnes of food products a year onto the Chinese market. However, 2023 has seen a surge in these supplies: four million tonnes were already delivered in the period from January to September, mainly rapeseed and barley. Wheat, Russia's most important agricultural export, accounted for only around 55,000 tonnes. By comparison, last season Russia exported a total of 60 million tonnes of cereals, primarily wheat, and around 6 million tonnes of vegetable oils.

The Novosibirsk-based company is owned by the New Land Grain Corridor Group, which has been implementing the Kremlin-backed programme to develop agriculture, including the logistics and storage infrastructure in the Asian part of Russia. One of the project's main objectives is to boost food exports, primarily to China, thanks to investments such as an onshore grain terminal that is under construction in the border city of Zabaykalsk and a network of elevators in the region. 65% of the group's shares are owned by the closed-end investment fund RWM Otrasleyov, whose shareholders are unknown.

China Chengtong is controlled by the State-owned Assets Supervision and Administration Commission of China's State Council and manages state-owned assets. It is a major shareholder in several state-owned enterprises, including the pipeline operator National Petroleum and Natural Gas Pipe Network Group Co. Ltd (PipeChina).

Commentary

- It is unclear whether the agreement signed is binding or just a framework document, as no details about its contents have been provided. Information about it has come from the Russian side, but Chinese officials have not commented on the matter. The agreement is the latest in a series of documents that have been signed over the past two years with the aim of increasing Russian agricultural exports to China. For example, in September the two sides agreed to develop the export infrastructure at the border crossing between

Nizhneleninskoye (in the Jewish Autonomous Oblast) and Tongjiang, but no specifics were agreed upon. It is likely that this business cooperation will receive state support in late November: the Russian side has announced that the two countries will sign an intergovernmental agreement on a 'new overland grain corridor'; this is expected to boost Russian agricultural exports to China to 8 million tonnes per year, with the prospect of a further increase to 16 million tonnes.

- The expansion of transport and border infrastructure is a prerequisite for Russia to achieve its ambitious goals of enhancing agricultural cooperation with China. So far, direct overland supplies of agricultural commodities to China have been modest; the bulk of these exports have been shipped by sea (mostly passing through Novorossiysk), which has limited their competitiveness. The onshore grain terminal that is under construction in Zabaykalsk will undoubtedly add to the region's export potential, but the limited capacity of the Trans-Siberian Railway, which has been heavily exploited since Russia's invasion of Ukraine in February 2022, remains a major problem. Following the outbreak of the war, Russia has redirected its trade to the east. Similar problems have affected the port infrastructure around Vladivostok. It is also doubtful whether Russia's Asian regions have sufficient production capacity to help realise these ambitious plans. According to industry estimates, they can currently export around 3–3.5 million tonnes of agricultural commodities; soya may account for up to a third of these supplies.
- Since 2006, the Russian side has been lobbying China to lift the numerous barriers that restrict access to the Chinese food market, which are related to sanitary and phytosanitary requirements as well as quotas for supplies: those that exceed the agreed quota are subject to a 65-percent duty. As a result of numerous inspections of both individual Russian farms and the entire logistics chain in Russia, China has been gradually phasing out these restrictions, although this mainly applies to production from the Asian part of Russia. For example, China finally allowed imports of Russian wheat from the country's European part in February 2022, but this approval only applied to spring cereals, which are mainly grown in the eastern part of Russia. The Chinese market is still closed to most Russian corn and rapeseed, as well as edible soybean meal and beans.
- Russia has been rapidly its developing economic cooperation with China over recent years, a process which clearly picked up speed following the invasion of Ukraine. China has consolidated its position as Russia's most important economic partner: most notably it has become a key supplier of goods, thus supporting the Kremlin in its efforts to circumvent Western sanctions. It has also stepped up its imports of Russian raw materials, which has provided Russia with regular cash inflows. Despite the convergence of the two countries' strategic interests, their ongoing economic cooperation has been marred by a number of contradictions. For example, despite Russia's years-long efforts to increase its gas supplies to China, the Chinese government has been dragging its feet on signing an agreement to build the new Power of Siberia-2 gas pipeline. Limited access to China's food market is another significant impediment to the intensification of bilateral economic relations; this is particularly important for Putin's elite, who are the main beneficiaries of Russia's agricultural exports.

- For China, food security is a top priority. The government has been trying to steadily increase local production, which mostly covers domestic food demand. In 2022, China produced nearly 700 million tonnes of cereals, soybeans and tubers, while imports of these reached 140 million tonnes. Therefore, deliveries under the new contract with Russia will initially account for only about 1% of China's consumption of these goods and about 4% of their imports, an amount which is unlikely to significantly affect production in China. China is becoming ever less self-sufficient in food production as a result of the limited area under cultivation, the outflow of the population to the cities and the growing consumption aspirations of the Chinese people: it plunged from 94% in 2000 to less than 66% a year ago. In recent years, the Chinese government's concerns have also been exacerbated by a spate of extreme weather events, including floods and droughts, which have taken a toll on agricultural production. Meanwhile, the main suppliers of agricultural products to China include companies from countries that are in direct competition with Beijing or their allies. The US is a global leader in corn sales and the second largest source of soybeans, while Australia and Canada are leading wheat suppliers. China has also been seeking to diversify its imports in the face of the war in Ukraine, a country which has been a major supplier of corn to China. The new contract with Russia will allow China to reduce its imports of agricultural products from other countries. However, as the domestic agricultural sector is of fundamental importance to China's food security, the government has not fully given up on protecting it from foreign competition, including Russia.