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Russian Ban on Grain Exports

The power of a single commodity producer to disrupt global supply was starkly demonstrated by Russia's recent ban on grain exports. Despite reports of a strong harvest in the US and high wheat inventories that should cover the reduction in Russian output, Prime Minister Vladimir Putin acted prematurely and the markets reacted swiftly with wheat prices rising to a 23-month high.

Putin's announcement cited droughts and fires as the causes of the depleted summer harvest, with expectations for a harvest of 60 million tonnes, down by 40 million tonnes on the bumper crop of 2009. The need to stave off food price inflation and ameliorate social discontent are the driving forces behind the ban. With parliamentary elections scheduled for 2011 and presidential elections for 2012, other protectionist, vote winning measures, may follow. This tactic is not new. During the previous election cycle of 2007-08, which coincide with global food price hikes and shortages, the government intervened to regulate the price of staple food stuffs.

Even if Russia's poor harvest is not replicated in other grain producing countries, and grain stock piles and lower demand prevents a repeat of the food price riots that shook 35 developing countries in 2007-08, it remains a stark indication of the power of commodity exporting nations over the world economy.

Of course it is possible to sympathise with a government's need to feed its people, yet the ban demonstrates that there are many governments which, for a mixture of political and economic necessity, are willing to renege on contractual obligations and adopt protectionist strategies. While the nature and source of risks may change, political and economic realities mean that the trading and investment environment will remain challenging for commodity traders.

Commodity traders with contracts to supply customers with Russian wheat may be able to declare "Force Majeure", as the inability to execute the contract is frustrated by government decree. Those commodity traders and their Lenders who have Political Risk Insurance (PRI) and do suffer a loss may be able to claim under such a policy.

Whilst there is extensive capacity within many organisations to manage risk, ultimately governments do take decisions that impact on business operations, irrespective of the best efforts of management teams. In those circumstances, when risk is well managed, PRI can and does provide a very effective safety net.

Your Key Contacts

Nick Robson
+ 44 207 558 3643
Nick_Robson@jltgroup.com

Elizabeth Stephens
+ 44 207 528 4312
Elizabeth_stephens@jltgroup.com

Jardine Lloyd Thompson Limited
6 Crutched Friars
London EC3N 2PH
Tel +44 (0)20 7528 4000
Fax +44 (0)20 7528 4500
www.jltgroup.com

Lloyd's Broker. Authorised and Regulated by the Financial Services Authority.
A member of the Jardine Lloyd Thompson Group. Registered Office:
6 Crutched Friars, London EC3N 2PH. Registered in England No. 01536540.
VAT No. 244 2321 96.