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## Russian Federation

### Product Brief

## Russian Swine Genetics Moves Forward

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**Report Highlights:**

The Russian market for swine genetics is the biggest and most competitive of all the livestock genetics segments. While many North American and European companies already work in this field, opportunities still exist for U.S. companies wanting to initiate or increase contacts with Russian genetics importers and pork producers. Solid medium term growth for the Russian pork industry means that time still remains for establishing strong ties in Russia.

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## Executive Summary

The swine breeders of the Russian Federation are embarking on an ambitious program to increase the use of high yielding swine genetics into an industry that has started to take off since the ruble devaluation of 1998. Though use of quality genetics is on the rise, a significant percentage of the swine herd is still being bred with low quality genetics. However, private and governmental efforts are under way to support the continued improvement of the Russian swine herd. While trade data on swine genetics imports by Russia is unavailable, it is well known that Russia has been importing for several years from North America and Europe. An important strategy for breaking into the Russian market is knowing how the supply network is structured and approaching the right organizations in order to begin establishing relationships.

## Market Players and Structure

The Government of the Russian Federation directly and indirectly plays a big role the livestock genetics, including swine. The government plays the determining role in Russia through four main structures and programs: 1) Central genetics repository, 2) federal and regional Ministries of Agriculture (Livestock Departments), 3) quasi-government organizations, and 4) the government lending program for genetics improvement.

Central Genetics Repository (All-Russian Scientific and Research Institute of the Livestock Breeding (VNIIPlem): This organization is the storehouse of genetic material for Russia. Though it is under the control of the Ministry of Agriculture, VNIIPlem acts as the intermediary between the government research establishment and the quasi-government producer organizations that work directly with producers. VNIIPlem physically stores the genetic material, distributes it to regional pedigree livestock producers (public and private), and plays an important role in providing advice and information about the how to maintain effective and efficient breeding operations. Though VNIIPlem focuses mainly on Russian research and breeds, it does have extensive international contacts and imports genetic material.

Ministry of Agriculture: The Livestock Husbandry and Breeding Department of the Ministry of Agriculture implements federal government policies on livestock breeding and oversees regional Pedigree Livestock Breeding Services. The regional Pedigree Livestock Breeding Services are very important in that they are the local branches responsible for the practical work in running the pedigree livestock farms and reproducing farms that work with and through quasi-government producers organizations to form an "extension" service for Russian livestock producers. They use the store of genetic material on reproduction farms and supply pork producers directly or indirectly (through the producer organizations) with animals. The type and quality of these services vary by region.

The Ministry of Agriculture also directs animal husbandry research in Russia through agricultural universities and also two key research institutes (the Russian Institute of Livestock Management (RAMZh) and Central Station for Artificial Insemination (TsSIO)). All of these institutions closely cooperate with the research institutes of the Russian Academy of the Agricultural Science (RASKHN), which conducts broader research in parallel with the above-mentioned institutes. The following institutions carry out the work of RASKHN: the Russian Scientific and Research Institute of the Livestock Husbandry (VIZh) and the Russian Scientific and Research Institute of Livestock Breeding and Genetics (VHIIRGZH). The research establishment conducts the primary research into animal breeding and feeds its information back to producers through VNIIPlem and the quasi-government organizations.

Quasi-governmental (producer) Organizations: There are several quasi-government, voluntary producer organizations dedicated to livestock breeding. These organizations are closely linked to the work of the government, but act as a mechanism for putting scientific knowledge and research into practice. They are the linchpins to the whole system because they are a clearinghouse of information from the Russian public research institutions of the Ministry of Agriculture and also act as conduits for interaction with foreign producers/breeders.

These groups have the closest ties with producers and try to use all available information and genetics to suit the needs of the clients. Producers come to the livestock genetics groups to get advice, buy or locate genetics, and design breeding programs. While the regional breeding centers have a bias toward Russian technology, the producer groups are generally more likely to use foreign suppliers because they have a greater commercial interest in selling consulting services and developing a long-term genetics program that produces the highest results. These groups run some independent pedigree livestock and reproduction farms, but mainly source the genetic material from VNIIPlem and abroad.

These organizations are: the Union of Russian Livestock Breeding (Rosplembedinenniye), the Agrarian Livestock Breeding Union (Agroplemsoyuz), and the Association of Russian Swine Raising Farms (Rossvinoprom). In the swine genetics field, Rossvinoprom plays the biggest role and is most active on the farm level.

Government Leasing Program: While the budget of the Russian Federation does not have many direct farm support programs, it does have one directed to genetics. The budget allocates money for farmers to let them buy highly productive livestock through leasing. In essence, the federal budget subsidizes the purchase of pedigree livestock by paying 2/3 of the interest rate on a loan used to buy the animals, semen, or embryos. Usually, the producer associations would act as the facilitator and holder of the loan, facilitate the acquisition and delivery of the animals, and work with the farm to include the animals into the farm's breeding program. The farm would be financially responsible for paying back the state bank authorized under the leasing program.

However, in practice, even after the 2/3 interest rate subsidy the remaining 1/3 interest rate is too high for most farms. The farms that can pay the 1/3 interest are usually financially stable enough to obtain commercial credit at roughly the same level or have close connections to processors that will offer credit in return for supply/contract guarantees. Thus, the program is not that widely used.

Producer Approach to Genetic Improvement: Russian producers naturally rely on the structures described above when working to develop better swine genetics. The approach is generally to work with the producer organization to identify and purchase the appropriate material for dairy herd improvement. The quality of services offered by the regional Agriculture Ministries differs from region to region, so the producer groups either act in coordination with regional government services or as a supplement when regional public services are poor.

At the current time, most of the biggest farms are independently working without any help from the established "extension" system. These farms usually have economies of scale (single farms or supply networks) and rely on financing from the processor (or processing side of the business) to carry out the herd improvement programs. There are several examples of big producers carrying out independent programs, even using directly imported genetic material. Compared to dairy and beef cattle breeding, a much larger (though still too small) percentage of the largest swine farms operate genetics programs at a world-class level. Regardless of the sophistication of the operation, there are often very close contacts

with the quasi-government organizations at a minimum in terms of information exchange, especially with Rossvinoprom.

## Background

There are 64 pedigree swine farms and 262 reproducing farms in Russia. Currently, five percent of boars are judged. The Big White Breed is the most widespread in Russia (88 percent of the total swine herd), while other breeds occupy from one to three percent (Russian Early Maturing Meat breed, Landrace, Hampshire, Large Black, and Durok). Pig farmers often cross the Big White Breed with imported breeds like Landrace, Durok, Hampshire, and Big Black. The best results in Russia have been received when Big White stock was crossed with Yorkshire and Durok breeds. Farms capable of buying imported breeds are crossing them with local pedigree stock to select for high weight gain, increased meat content, and consistency. However, most experts realize that there is more to be done to improve the overall Russian herd.

Russia produces approximately 5.5 million of mixed breed piglets, about 45 percent of all piglets produced in 2002. These piglets are of mixed breed of high production characteristics, bred to be suitable to this environment. The government/industry plan is to improve this number to 80 percent. The regional centers of hybridization trying to accomplish the goal. The main centers are ZAO Pedigree Farm Jubileiny in Tumen oblast (West Siberian region), ZAO Agrofirma Doronochi in Kirov oblast (Higher Volga region), and OAO Lasarevskoye in Tula oblast (south of Moscow).

## Russian International Contacts

Various European countries have a strong presence on the Russian market. France, Denmark, and the Netherlands all have particularly strong ties. For example, the Netherlands subsidized the construction of pig farm (about 1,000 head) with a closed cycle in 2000. This farm remains a training center. The Dutch government subsidizes purchases of equipment and pedigree piglets for the farm and provides for training of local farmers. European countries have had success in penetrating the market by developing the complete production units in a package (i.e. genetics, equipment, financing). However, most of these projects are on a small scale. Some Russian genetics importers are also working closely with Canadian suppliers of Yorkshire and Durok breeds.

## Recommendations for Entering the Russian Swine Genetics Market

- **Contacts:** Business in Russia is still best established through personal contact. It is important that American companies come to Russia to get to know the important players in the market and understand the complex relationships that extend through this extension style system. Without these contacts and the establishment of credentials within the relatively small network of professionals in this field in Russia, the larger private businesses will be less likely to take a chance on an unproven supplier from abroad. The essential stops for any organization interested in establishing contacts in Russia:
  - Rossvinoprom
  - All-Russian Scientific and Research Institute of Livestock Breeding (VNIIPlem)
  - Russian Pedigree Stock Union (Rosplembedinenniye)
- **Presentation:** The U.S. system of livestock genetics is sometimes awkward for some Russian specialists to understand. A description (in the form of a presentation, written material, or personal contact) of the types of services the U.S. firm offers, clear explanations of the specific animal qualities and traits, and technical assistance

offered is essential in helping potential customers understand all facets of a U.S. supplier. Don't assume your Russian colleagues are experts in the U.S. agriculture system. Expect to translate at least some of this material into Russian.

- **Long-Term Relationships:** Russian production is just starting to develop and producers are looking at a long-term process of herd improvement. Most Russian producers have a long and hard road ahead to achieve the results they think are reachable. Ensure potential customers understand your commitment to the market.
- **Extras:** The contraction and then expansion of the industry in Russia since the Soviet period means that industry improvements, from the most basic to most complex, are going on simultaneously. Thus, farms are interested in equipment, training, and expertise in many sectors in addition to specific support with the genetics supply. Be willing to work with U.S. equipment suppliers or offer contacts to help with other issues, such as feed or efficiency issues, because many Russian companies are interested in help with information or services outside of narrow confines. Firms offering an integrated solution to the customers' problems will find a warmer reception than those merely selling a single line of products.
- **Implementation:** Russian specialists are very educated in the genetics field. However, historically the problem has not been the lack of knowledge, but the lack of implementation and execution. Be careful not to over-explain and appear condescending. However, useful and practical tips on swine management, labor issues, and production consistency are common issues in which Russian producers are interested. This approach can also prevent disappointment when farms see that improved genetics can't solve every production problem, but it is one piece of a profitable farm. Frank and open discussions of how genetics fits into an overall production regime are valuable.

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### The Most Efficient Swine Farms of Russia, as an average of 1998-2002

Farm	Number of swine	Production cost, rubles per 100 kilos	Farm meat price, rubles per 100 kilos	Profitability of sold meat, % *
OAQ" Omskiy Bekon", Omsk	211,281	1,762	2,857	62.1
SVKh"Permskiy", Perm	128,993	2,140	2,299	7.4
ZAO "Volzhskoye", Tver	67,057	2,235	2,609	16.7
KPH, "Frunze", Belgorod	30,498	1,074	2,060	91.7
ZAO SK "Industrial'niy" Krasnodar	67,001	1,687	2,149	27.4
ZAO"Krasnodonskoye", Volgograd	55,803	1,707	2,095	22.7
SkhPK "Usolskii Pork Farm", Irkutsk	63,515	2,019	2,289	13.4
State Farm "Zvenigovskiy", Mariy-El, Rep.	19,618	1,685	2,570	52.5
State Farm "Roshchinskiy", Bashkortostan	38,552	2,088	2,259	8.2
Pedigree Farm "Yubileyniy", Tumen	44,833	1,275	2,301	80.4

Source: Krestiyanskiye Vedomosti, January 2002.

\* Ratio between profits from meat sold and average number of head.