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Dairy and Products

Annual

2000

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Report Highlights:

Russia's dairy sector continues in decline, as a result of low profitability, poor animal genetics, and a lack of modern management practices. Without a major overhaul, the situation will worsen, and Russia will remain reliant upon imported dairy products.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Moscow[RS1], RS

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Executive Summary

Despite Russian consumers' strong acceptance of dairy products, milk production has declined dramatically during the past decade. Consequently, between 1992 and 1998 Russian manufacturing became increasingly reliant upon imported dairy inputs. Since 1998, foreign companies have been investing in Russia's domestic dairy processing sector, but further expansion is limited by a lack of raw milk supplies. The current focus for the dairy product import market is on dry milk powder and inexpensive items. Until fundamental change occurs in the dairy industry, Russia will continue to rely upon imported dairy products.

Production

The Russian dairy herd size continues to decrease as more farmers go out of business. The disparity between costs of inputs and prices for dairy products makes business unprofitable. Furthermore, outdated machinery and management practices burden the industry.

Almost all Russian milk producers operate with inefficient facilities and equipment, and utilize outdated management practices. Furthermore, the low profitability of dairy production undermines incentives for improvement, as inflation has weakened consumer demand. Dairy enterprises are extremely underfinanced. The financial state of the industry is characterized by increasing insolvency and growing signs of bankruptcy. Production activities are carried out on borrowed money. As a result, Russia's dairy sector tends to concentrate on short term profits. These factors substantially limit the ability of enterprises to develop a long term production perspective.

Over the past several years, the dairy herd has suffered from low feed availability. The prices for feed barley, oats, and wheat have remained too high to support domestic production. Despite a better grain harvest in 2000, available fodder contains insufficient amounts of protein and amino acids to significantly affect milk production. In addition, there is a shortage of supplementary feeds such as soybean and corn, which help boost production. Similarly, poor genetics in the dairy herd negatively affect output. Therefore, domestic cattle producing below their genetic milking capacity continue to be culled from herds to be sold as beef.

In 2000, the Russian dairy herd numbers and raw milk output are expected to slide downward, although increased feed availability will moderate the decline.

Table 1: Feed Availability, August 1999 and August 2000

	1999	2000
Feed units, million MT	11	13
Per head, feed units, MT	1	1

Source: Russian State Statistics Committee

Raw milk shortages also affect the processing industry. Despite huge investments by world class yogurt processors, including Danone (France), Campina (Holland) and Ehrmann(Germany) during 2000, processors continue operating at less than one third of their capacity.

Russian dairy producers responded to rising prices for dry milk powder on the world market by significantly increasing output of milk powder along with butter and cheese, as indicated in Tables 2 and 3 below.

Table 2: Russian Production of Processed Dairy Products, January - July 1999 and 2000

Year	1999	2000
Butter (MT)	150,000	180,000
Cheese (MT)	107,000	130,000

Source: Russian State Statistics Committee

Table 3: Russian Food Processing, 1999 - 2000

	1999 (1,000 MT)	2000 (1,000 MT)	2000 as percent of 1999
Whole milk products 1,000 MT	4,237	4,679	111
Meat (including offal) 1,000 MT	352	418	119
Sausage, 1,000 MT	756	884	117
Sugar, 1,000 MT	6,777	6,590	84
Bread and bakeries 1,000 MT	6,888	6,737	98
Flour, 1,000MT	10,051	9,458	94

Source: Russian Newspaper Economic Life

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Fluid					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Cows in milk, 1,000 heads	13500	13500	12900	13450	0	13500
Cows Milk Production	32000	32000	31000	31900	0	32000
Other Milk Production	0	0	0	0	0	0
TOTAL Production	32000	32000	31000	31900	0	32000
Intra EC Imports	0	0	0	0	0	0
Other Imports	20	20	18	14	0	20
TOTAL Imports	20	20	18	14	0	20
TOTAL SUPPLY	32020	32020	31018	31914	0	32020
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	5	5	5	0	5
TOTAL Exports	5	5	5	5	0	5
Fluid Use Dom. Consum.	14500	14500	14000	14300	0	14200
Factory Use Consum.	14315	14315	13913	14500	0	14700
Feed Use Dom. Consum.	3200	3200	3100	3109	0	3115
TOTAL Dom. Consumption	32015	32015	31013	31909	0	32015
TOTAL DISTRIBUTION	32020	32020	31018	31914	0	32020

Consumption

Russian consumers are turning toward cheaper domestic dairy products, such as 72 percent fat butter instead of 85 percent fat butter. This reflects a trend toward consumption of less expensive dairy products and substitutes. In 2000, Russia is expected to produce some 400,000 MT of margarine, about 6 percent more than during 1999. Since the 1998 financial collapse, consumption of margarine and mayonnaise have increased, as these products are inexpensive compared to butter and sour cream. In addition, the abundance of sunflower oil this year favored margarine and mayonnaise production at low prices.

Marketing

Since it first appeared on the Russian market in the early 1990s, yogurt's popularity continues to increase. Today, local producers supply 75 percent of the Moscow yogurt market, and 60 percent of regional markets. Most experts believe that there is still plenty of room for the market to expand, as per capita consumption of yogurt remains low (about 1.0 kg per year). In comparison, most Europeans consume some 15 - 20 kg per year. Live yogurt with fruit additives, such as peaches, apricots and strawberries, are the most popularly consumed items.

European companies have recognized the rapidly growing popularity of yogurt in Russia, and are making significant investments in the market. There are about 150 foreign yogurt brands in the Russian market today. German and Dutch companies introduced milk puddings and curd mousse to the Russian consumer. An increasing number of French, German, and Dutch companies began producing dairy products locally following the 1998 financial crisis. The growing popularity of these new and inexpensive dairy products indicates that there is excellent potential for the further introduction of dairy-based desserts to the Russian diet. Consumption of these types of products is expected to grow in the near future. Production is currently constrained by difficulties in sourcing adequate volumes and qualities of milk domestically.

Trade

As a result of the 1998 financial crisis domestic cheese and butter production grew. In addition, the balance of cheese and butter exported to Russia shifted to Ukraine, Belarus, and other former Soviet countries, as more expensive imports from Western Europe lost ground. New Zealand also is achieving notable success in exporting butter, as well as milk and whey concentrate protein – inexpensive substitutes for dry milk powder -- to Russia.

Table 4: Russian Butter Imports, by quarter and by supplier

		1998		1999		2000	
		MT	\$1,000	MT	\$1,000	MT	\$1,000
Total	QI	38,684	69,687	11,010	20,053	6,591	9,374
	QII	14,987	24,893	8,798	13,860	8,781	13,565
	QIII	12,856	23,252	9,697	14,917		
	QIV	15,564	27,366	8,394	12,670		
	Total	82,091	145,198	37,899	61,500	15,372	22,939
New Zealand							
	QI	21,702	40,912	7,316	14,160	3,054	4,519
	QII	5,288	9,057	4,577	7,050	1,715	2,599
	QIII	6,466	11,920	1,601	2,557		
	QIV	6,111	12,143	3,435	5,025		
	Total	39,567	74,032	16,929	28,792	4,769	7,118
Ireland							
	QI	3,579	6,135	700	1,025		
	QII	694	1,034	N.D.		ND	
	QIII	171	353	21	33	ND	
	QIV	465	721	49	45		
	Total	4,909	8,243	770	1,103	0	0
Finland							
	QI	2,504	4,090	301	499	347	508
	QII	1,681	2,351	235	433	989	1,345
	QIII	679	1,066	243	427		
	QIV	756	1,187	288	491		
	Total	5,620	8,694	1,067	1,850	1,336	1,853
US							
	QI	2,214	2,960	1	1	23	36
	QII	884	1,264	18	29	38	61
	QIII	62	103	75	123		
	QIV	223	214	14	21		
	Total	3,383	4,541	108	174	61	97
Australia							
	QI	1,494	2,576	435	858	277	395
	QII	691	1,365	479	863	881	1,369
	QIII	625	1,238	50	84		
	QIV	222	440	591	756		
	Total	3,032	5,619	1,555	2,561	1,158	1,764
Czech Republic							
	QI	1,020	2,032	173	238	49	93
	QII	968	1,467	550	825	253	413
	QIII	168	232	861	1,265		
	QIV	533	806	64	119		

	Total	2,689	4,537	1,648	2,447	302	506
Germany							
	QI	720	1,296	352	434	200	250
	QII	413	862	23	40	390	526
	QIII	196	380	165	257		
	QIV	213	267	357	465		
	Total	1,542	2,805	897	1,196	590	776
Ukraine							
	QI	1,053	2,725	327	698	2,295	3,038
	QII	732	1,829	1,680	2,642	4,865	6,272
	QIII	2,132	4,572	5,167	7,739		
	QIV	5,201	8,692	2,155	3,644		
	Total	9,118	17,818	9,329	14,723	7,160	9,310

Source: Russian State Custom Committee

Table 5: Russian Cheese Trade by quarter, 1999 - 2000

	1999				2000			
	Exports		Imports		Exports		Imports	
	MT	\$	MT	\$	MT	\$	MT	\$
QI	120	248	6,021	11,197	262	414	6,811	12,236
QII	369	480	3,828	6,973	893	1,101	8,011	14,175
QIII	602	653	4,113	7,433	N.D.	N.D.	N.D.	N.D.
QIV	359	523	5,773	10,711	N.D.	N.D.	N.D.	N.D.
Total	1,450	1,904	19,735	36,314	1,155	1,515	14,822	26,411

Source: Russian State Customs Committee Statistics

Table 6: Total Dairy Product Monthly Imports, 2000

Tariff code	04.02		04.03		04.05		04.06	
	Concentrated Milk		Fermented Products		Butter		Cheese	
	MT	\$1,000	MT	\$1,000	MT	\$1,000	MT	\$1,000
Jan	3,880	2,471	2,189	1,778	2,984	4,368	2,307	4,416
Feb	7,930	4,880	4,284	3,265	1,314	1,909	2,055	3,749
March	5,436	5,053	4,797	3,543	1,913	2,674	2,207	3,619
April	7,930	8,715	2,359	1,803	2,910	4,272	2,016	3,598
May	1,079	618	3,041	2,209	3,618	5,148	2,947	5,068
June	2,454	2,221	3,905	2,896	3,219	4,163	2,905	5,090
July	2,120	2,540	3,792	2,820	5,265	7,002	2,856	5,323
August	1,019	495	1,992	1,536	5,049	6,661	2,402	4,365
Sept	1,375	616	4,294	2,930	6,013	7,895	2,921	4,845
Oct	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Nov	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Dec	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Total	33,223	27,609	30,653	22,780	32,285	44,092	22,616	40,073

Source: Russia State Customs Committee Import Statistics

Stocks

There are no significant stocks of dairy products in Russia.

Policy

Tariffs

On November 29, GOR Decree #148, "On partial changes to GOR, Decree No. 886" issued February 22, 2000, was officially published. New tariffs for thousands of items will be applied beginning January 1, 2001, and remain in force for nine months. As a result, new import tariff rates of 5 percent, 10 percent, 15 percent, and 20 percent will be established in place of the current 0 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, and 30 percent rates. Among dairy products, duties on dry powder milk and yogurt rose from 10 to 15 percent, whereas the tariff for butter fell from 20 to 15 percent, as outlined in table 7 below.

Table 7: New Partial Tariff Changes on Dairy Products, December, 2000

Custom Tariff Code	Commodity	New tariffs, percent or not less than EURO per kilo	Previous Tariff
402	Milk and cream, concentrated, or containing added sugar, or other sweetening matter,		
40210	In powder, granules, or other solid forms, of a fat content, by weight, not exceeding 1.5 percent		
402101100	In initial packs, net weight not exceeding 2.5 kilo	15	10
402101900	Other	15	10
402109100	In initial packs, net weight exceeding 2.5 kilo	15	10
402109900	Other	15	10
402211100	In initial packs, net weight not exceeding 2.5 kilo	15	10
402211700	Fat content not exceeding 11 % by weight	15	10
402211900	Fat content exceeding 11% by weight, but not exceeding 27% by weight	15	10
402219100	In initial packs, net weight not exceeding 2.5 kilo	15	10
402219900	Other	15	10
402291100	Specialized milk..., baby food	5	10
402291500	In initial packs, net weight not exceeding 2.5 kilo	15	10
402291900	Other	15	10
402299100	In initial packs, net weight not exceeding 2.5 kilo	15	10
402299900	Other	15	10
403	Buttermilk, curdled milk and cream, yogurt, kephir and other ...		

0403 10 110 0 through 0403 10 990 0	Yogurt	15, but not less than 0.18 EURO per kilo	10, but not less than 0.12 per kilo
0403 90 110 0 through 0403 90 990 0	Other	15, but not less than 0.18 EURO per kilo	10, but not less than 0.12 EURO per kilo
0405 10 110 0 through 0405 10 900 0	Butter	15, but not less than 0.22 EURO per kilo	20, but not less than 0.3 EURO per kilo
0405 20 100 0 through 0405 20 900 0	Dairy spreads	15, but not less than 0.22 EURO per kilo	20, but not less than 0.3 EURO per kilo
0405 90 100 0 through 0405 90 900 0	Other	15, but not less than 0.22 EURO per kilo	20, but not less than 0.3 EURO per kilo

Marketing

Throughout 2000, prices for most dairy products have remained stable, in contrast to prices for other food products which have risen. However, domestic prices for milk powder increased dramatically from about \$ 0.96 to \$ 1.92 from March to October.

Table 8: Dairy Product Retail Prices, Rubles

	1999		2000	
	Milk (1 liter)	Butter (1 kg)	Milk (1 liter)	Butter (1 kg)
January	6.58	65.73	7.50	66.82
February	6.70	65.70	6.60	66.80
March	6.76	65.67	6.58	65.42
April	6.83	65.25	6.30	64.40

May	6,82	63,70	7.90	63.27
June	6.69	61.01	7.81	62.14
July	6.70	59.41	7.75	61.19
August	6.80	61.00	7.75	61.10
September	7.06	63.80	7.93	63.10
October	7.30	65.24	N.D.	N.D.
November	7.64	66.04	N.D.	N.D.
December	8.00	66.83	N.D.	N.D.

Source: Russian Trade Magazine

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Butter					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	45	45	40	40	0	30
Production	260	260	270	275	0	290
Intra EC Imports	0	0	0	0	0	0
Other Imports	55	55	60	40	0	40
TOTAL Imports	55	55	60	40	0	40
TOTAL SUPPLY	360	360	370	355	0	360
Intra EC Exports	0	0	0	0	0	0
Other Exports	8	3	8	3	0	3
TOTAL Exports	8	3	8	3	0	3
Domestic Consumption	312	317	322	322	0	325
TOTAL Use	320	320	330	325	0	328
Ending Stocks	40	40	40	30	0	32
TOTAL DISTRIBUTION	360	360	370	355	0	360

PSD Table						
Country:	Russian Federation					
Commodity:	Dairy, Cheese	1,000 MT				
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	8	8	7	7	0	8
Production	185	185	190	220	0	230
Intra EC Imports	0	0	0	0	0	0
Other Imports	40	60	35	65	0	70
TOTAL Imports	40	60	35	65	0	70
TOTAL SUPPLY	233	253	232	292	0	308
Intra EC Exports	0	0	0	0	0	0
Other Exports	3	3	3	5	0	5
TOTAL Exports	3	3	3	5	0	5
Human Dom. Consumption	223	243	223	279	0	295
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	223	243	223	279	0	295
TOTAL Use	226	246	226	284	0	300
Ending Stocks	7	7	6	8	0	8
TOTAL DISTRIBUTION	233	253	232	292	0	308

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Dry Whole Milk Powder					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	0	0	0	0	0	0
Production	55	55	70	60	0	70
Intra EC Imports	0	0	0	0	0	0
Other Imports	35	35	50	40	0	50
TOTAL Imports	35	35	50	40	0	50
TOTAL SUPPLY	90	90	120	100	0	120
Intra EC Exports	0	0	0	0	0	0
Other Exports	3	3	5	1	0	6
TOTAL Exports	3	3	5	1	0	6
Human Dom. Consumption	87	87	115	95	0	114
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	87	87	115	95	0	114
TOTAL Use	90	90	120	96	0	120
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	90	90	120	96	0	120

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Nonfat Dry					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	0	0	0	0	0	0
Production	130	130	130	120	0	130
Intra EC Imports	0	0	0	0	0	0
Other Imports	90	90	30	30	0	30
TOTAL Imports	90	90	30	30	0	30
TOTAL SUPPLY	220	220	160	150	0	160
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	10	10	0	10
TOTAL Exports	0	0	10	10	0	10
Human Dom. Consumption	210	210	150	140	0	150
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	210	210	150	140	0	150
TOTAL Use	210	210	160	150	0	160
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	210	210	160	150	0	160