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Report Highlights:

Pork production in Russia is forecast to grow significantly in 2003, while beef production is expected to continue its fall. Total red meat production grew in 2002 due to more efficient pig husbandry. Imports of red meat are forecast to remain stable in 2003 after growing in 2002, thanks to a significant increase in pork coming from Brazil.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Meat production has increased for the last two years in Russia and is forecast to do so again in 2003. This increase is due to rapid growth in pork production, which will offset declining beef production. In the first half of 2002, pork from Brazil seized more than 50 percent of the import market, though EU exports also increased. The structure of pork imports into Russia made an important shift towards frozen carcasses (from 34% in 2001 to 40% in 2002) at the expense of bone-in cuts, due to the low prices of Brazilian carcasses. Germany and Ukraine continue to be the dominant suppliers of beef.

Production

The shift from beef to pork production can be partially explained by changes in profitability and time needed to recoup investment. By the first of July, 2002, in Russia there were 29.2 million head of cattle (0.3 percent fewer than in 2001), including 12.3 million cows (3.2 percent fewer). The number of swine increased by 6.2 percent (to 17.9 million) and the number of sheep and goats grew by 4.4 percent (to 18.2 million). In 2002, small farms owned 41.6 percent of the cattle (up 1.5 percent from 2001), 47.2 percent of the hogs (down 1.5 percent), and 61.1 percent of the sheep and goats (down 0.6 percent). The trend shows that small farms are producing a greater percentage of cattle, while agribusiness continues to increase its share of hogs raised in Russia.

A three percent reduction in beef and veal production is forecast in 2003, to 1.67 million metric tons (MMT), as farmers are now slaughtering cattle as a result of competition from low priced imported product. **This response is also reflected by a decrease in cattle beginning stocks and calf production, which are forecast to be four percent and two percent lower in 2003, respectively. Imports are forecast to be stable in 2003, after a four percent rise in 2002.**

The 2002 and 2003 pig crops are expected to increase significantly (eight percent) as farmers increase sow numbers (three percent) to take advantage of the large volumes of available feed in the last few years. At the same time, according to Russian statistics, the weaning average also rose significantly. This can be attributed to better feed and management practices. These factors lead to a forecast increase in pork production in 2003 to 1.73 MMT, a **seven percent gain**.

Table 1. Efficiency of the Livestock Industry in 1996 – 2001

	1996	1997	1998	1999	2000	2001
Average weight gain, kilo/head/year of:						
Cattle	62	68	73	78	79	85
Swine	47	54	63	63	62	79

Source: Russian State Statistic Committee

The efficiency of raising cattle and swine increased in 1996 -2001, as measured by the rate of gain. However, 1999 and 2000 showed comparatively slower growth in comparison to the other years in that time period because of insufficient feed supplies.

Efficiency of Beef Production

Sufficient amounts of feed grain production in the two successive years suggest another increase in weight gain efficiency and thus, livestock production in Russia. However, farmers indicate that overall beef industry efficiency remains low. The most successful region, Belgorod oblast, had a 300 million ruble profit in 2001 while from January-June 2002, it lost 90 million rubles. According to local officials in several regions, the paradox is that meat production volumes are increasing, but sales are falling. Farmers complain that all meat processing plants are overloaded with cheap imported meat and local producers can't sell their product at favorable prices. Thus, total livestock numbers decreased by eight percent in January-June 2002 as Russian farmers slaughtered their cattle in the face of increasing imports of lower priced meat. During this same period, prices for imported meat declined by 20 percent.

The governors of the Central Chernozem Zone of Russia have complained to the Ministry of Agriculture that the agricultural leadership was not prepared for the growth of grain production and haven't taken measures to protect local animal husbandry. These complaints were made in support of an investigation request by the Russian livestock producers for relief from allegedly unfair foreign trade practices relating to meat exports to the Russian market. The Commission on Protective Measures in Foreign Trade recommended that the Government of Russia (GOR) limit meat imports and increase tariffs, but so far there has been no reaction regarding the recommendation. A decision to increase import duties on imported food products does not have support in all areas of the government and an agreement with other sections of the economy may be difficult to reach on this issue. A decision regarding possible additional tariffs could be made at any time during the later half of 2002. Additionally, at the beginning of September, government discussions were held regarding the investigation and other agricultural issues, including different means of protecting the livestock sector.

Efficiency of Pork Production

Russian pig farms continue to differ significantly in pork production efficiency. Several of Russia's best pork producers are presented in the table below, according to the Top 100 rating of private firms by the Russian State Statistic Committee.

OA Omskii becon" from Omsk oblast is the largest Russian pork producer, but not the most efficient. AOZT "Pobeda", from Krasnodar oblast was 17 times smaller, but with costs of production almost three times lower. This large variance in cost and efficiency is accounted for by farm to farm differences in input cost and availability, technology, investment, and modern management techniques.

Table 2. The Most Efficient Swine Farms of Russia, as an average of 1998-2002

Farm	Number of swine	live weight gain, MT	Production cost, rubles per 100 kilo	Farm meat price, rubles per 100 kilo
OAO" Omskii becon", Omsk oblast	204,677	34,949	1,437	1,930
ZAO "Volzhskoye", Tver obl.	65,666	9,674	1,525	1,698
AOZT "Pobeda", Krasnodar obl.	12,139	1,639	508	1,436
KPH, "Frunze", Belgorod obl.	26,417	6,945	815	1,393
ZAO"Nazarovskoye", Krasnoyarsk obl	22,492	2,502	802	1,606
ZAO"Yubileiniy", Tyumen obl.	44,250	6,796	1,014	1,380
OAO" Chapaeva', Krasnodar	14,593	2,033	771	1,363

Source: Krestiyanskiye Vedomosty, January 2002

Meat Processing Industry

In the first half of 2002, Russian food industry enterprises increased **processed beef** output by 15.9 percent (to 166,900 MT), processed pork by 15.4 percent (to 146,500 MT), and poultry meat by 20.8 percent (to 301,600 MT). In January-June 2002, semi-finished meat product production grew by 12.2 percent (to 157,100 MT) and sausage production by 14.6 percent (to 669,200 MT).

Feed supplies

For the second straight year, Russia will have relatively high grain production. As a result, feed prices have fallen sharply and animal feed is cheap and of better quality. Additionally, it is expected that stocks of hay and silage in "conditional units" (or c.u., one c.u. equals one kilo of oats by energy value) will increase to 2.8 MT of c.u. per each animal head in 2002.

Table 3. Stocks of Feed in Agricultural Organizations, as of July 1, 2002

	2001	2002	2002 as percent of 2001
Cut hay, hectares	3.3	4.4	133.3
Stocks, MMT			
Hay	1.9	2.8	147.3
Chopped hay	3.3	5.0	151.5
Silage	1.2	2.9	241.7

Source: Russian State Statistics Committee

Investment in the Russian Meat Industry

Since the end of the Soviet Union, meat consumption has fallen dramatically. But, with the hope that meat consumption will grow and provide good returns on investment as disposable income grows, investors are now coming into livestock husbandry and the meat processing industry. The wealthiest Russian businesses (fuel, metals, gas, grain trade, meat processors, and other industries) have started significant investments into livestock production and **sources indicate that** this has been strongly encouraged by the country's leadership. In their turn, these investors seem to be joining traditional producers in requesting government protection against imported meat and poultry. While the largest producer, Cherkizovskii, remains focused on meat production, many of the emerging holdings are coming from other sectors. Cherkizovskii owns nine meat processing plants, seven poultry farms, two pork farms, and more than 20 trading houses. The following are two examples of new participants in the developing meat sector.

Among the biggest new participants are APK "Agros" and Rusagrocapital. APK Agros was founded by the fuel company Interross at the end of last year, while Rusagrocapital is expanding from its base in the grain business. APK "Agros" owns nine poultry farms, three processing facilities, a feed plant, and plans to invest in four more hog farms in various regions. Rusagrocapital owns six grain-processing companies, three elevators, a poultry farm and recently acquired the hog producer Smolmyaso, which has 51,000 hogs and plans to double production in the near future. Russian specialists state that the new players face two problems in the initial stage of their investments: renovation of the plant/equipment, and hiring new managers. Until the last few years, the issue of capital had been the major constraint, but the recent influx of investment has revealed these new challenges to the continued rapid development of the sector.

Beef Cattle Improvement

The Russian government, in accordance with the Federal Law regarding pedigreed livestock husbandry, has announced the new terms for licensing pedigree livestock and use of products from these animals. The regulation states that each farm that produces pedigree animals for sale must obtain a license from the government. The relevant governmental resolution (#497) was signed on July 4, 2002 and stipulates that the licensing agency (the Agriculture Ministry) shall issue licenses to individual producers for five years. A planned review of compliance with the licensing requirements and conditions will be done no more frequently than once every two years. Importantly, the regulations do not envision licensing pedigreed animal husbandry activities if undertaken only to meet the internal needs of individual enterprises.

Due the long term required to regain the investment and the lack of long term financing for most farms, many Russian regional governments are developing programs to assist in developing better quality beef herds. One such region is Moscow oblast. According to the Minister of Agriculture of Moscow oblast, beef cattle production in the region can be profitable 7-8 years after the initial investment and thus governmental support is warranted in assisting farms. Two farms in Moscow oblast are cooperating with Belgian farmers in the production of projects of beef cattle reproduction and the Moscow oblast government plans to invest 7.6 billion rubles from 2003-2007. The develop of such joint projects could be a vehicle for U.S. genetics exporters to gain a foothold in this market.

Consumption

Meat consumption in Russia has grown by 15-20 percent in the first half of 2002, versus the same period in 2001, and stands at 23 kg per capita. According to the Russian statistics, Russians consumed 1.4 MMT of beef, 1.25 MMT of pork, 1.35 MMT of poultry meat, 70,000 MT of sheep and goat meat, and less than 20,000 MT of other meat (rabbits and horse meat). Beef continues to take the greatest share of consumption (40 percent), while pork and poultry make up 35 and 22 percent of total meat consumption, respectively.

Russian consumers prefer meat, meat products, and sausage to poultry and fish products. Consequently, meat and meat products are the main source of protein for the population. However, income remains a significant factor in limiting meat consumption. ~~Recent data shows~~ that 71 percent of Russian customers limit their meat consumption because of low incomes. Low income allows only 29 percent of Russian customers to buy meat and meat products on regular basis, 37 percent from time to time, 15 percent very seldom, and 19 percent never purchase those products. However, the industry expects that the growth in disposable incomes will slowly minimize the frequency with which income limits meat purchases.

Trade

Local trade

According to recent press information, 70 percent of Muscovites buy products at one of the 174 open air markets in the capitol. These markets make up about 30 percent of all trade turnover in Moscow, including food. However, these traders generally do not pay rent and hide a majority of their profits to avoid taxes. Nevertheless, customers are attracted by low prices. For many years, consumers have bought food products at these markets because they can't afford buying it in any other place. To improve the situation with the retail markets, the Moscow government is supporting the development of a network of wholesale and retail stores. The city government is taking this step to increase its ability to regulate and supervise the marketing of food and to ensure greater collection of taxes. Many of these new retail centers (Metro, Ramstor, Perekrestok, Kopeika, and others) are open and expanding. However, prices are from 30 percent to 40 percent higher than in the open air markets. The increase in retail prices may have some dampening effect on consumption in Moscow. However, at this time their share is still too small to discern their influence on overall local consumption because their customers represent the higher income consumers, who are less affected by an increase in the price of food.

Imports

Higher incomes through increases in pension and salary allow customers to buy more meat. Consumption growth was accompanied by simultaneous growth of meat production and meat imports.

Table 4: Russian Imports of Beef

Import Trade Matrix		Meat	
Country:	Russian Federation		Units: 1,000MT
Commodity:	Cattle, meat		
Imports for:	2001		2002
U.S.	1	U.S.	2
Others		Others	
Germany	210	Germany	230
Ukraine	110	Ukraine	115
Spain	33	Spain	40
Ireland	41	Ireland	42
Poland	15	Poland	18
Netherlands	20	Netherlands	20
Australia	10	Australia	12
Denmark	22	Denmark	25
Italy	30	Italy	30
France	22	France	27
Belarus	28	Belarus	30
Belgium	12	Belgium	14
Mongolia	11	Mongolia	5
Moldova	5	Moldova	5
Paraguay	4	Paraguay	5
Total for Others	573	Total for Others	618
Others not listed	76	Others not listed	80
Grand Total	675	Grand Total	700

Table 5. Russian Imports of Pork

Import Trade Matrix		Meat		
Country:			Units:	1000 MT PWE
Commodity:	Pork Meat			
Imports for:	2001		2002	
U.S.	40	U.S.	25	
Others		Others		
Brazil	155	Brazil	245	
China	11	China	15	
Denmark	60	Denmark	45	
Germany	50	Germany	70	
France	20	France	22	
Poland	30	Poland	33	
Hungary	10	Hungary	12	
Canada	25	Canada	29	
Netherlands	25	Netherlands	31	
Moldova	7	Moldova	5	
Finland	10	Finland	15	
Spain	4	Spain	4	
Belarus	28	Belarus	29	
Total for Others	435	Total for Others	555	
Others not listed	85	Others not listed	70	
Grand total	560	Grand total	650	

Table 6. Share of Different Pork and Beef Cuts in Total Imports (percent).

Customs Code	2001	2002 (January - June)
Beef - Total	100%	100%
0201	8.1	6.8
0202.10	18.5	17.0
0202.20	20.2	17.0
0202.30	53.0	59.1
Pork - Total	100%	100%
0203.21	77.0	76
0203.22	22.9	23.7

Source: Russian State Statistic Committee

Note: Numbers may not add due to rounding.

Prices

A comparison of farm and retail prices on different types of meat products indicate that the livestock industry can be a profitable business. Nevertheless, meat farmers are complaining that they can not compete with imported meat because of Europe's export subsidies.

Table 7. Average Farm Prices of Meat (live weight, rubles per MT)

	1996	1997	1998	1999	2000	2001
Cattle	3,287	3,972	4,933	11,729	14,142	19,775
Swine	5,674	7,272	8,769	16,247	20,152	31,310
Poultry	5,636	7,111	8,694	16,507	20,481	26,868

Source: Russian State Statistic Committee

Table 8. Average Retail Prices of Meat (rubles per kilo, end of the year)

	1996	1997	1998	1999	2000	2001
Beef	14.14	15.79	30.04	42.01	52.72	70.33
Pork	16.81	19.06	33.99	43.37	58.45	79.22
Poultry	13.82	16.06	30.74	39.28	48.80	56.92

Source: Russian State Statistic Committee

Stocks

According to the Russian State Statistic Committee, the overall trend is toward holding less meat stocks as Russian companies are increasing efficiency of storage and purchasing.

Table 9. Stocks of Meat, 1,000MT

	1996	1997	1998	1999	2000	2001
Meat stocks, end of the year, 1,000MT	617	953	766	560	431	453

Source: Russian State Statistic Committee

Policy

Ban on imports of meat from Mongolia

Russia banned imports of meat from Mongolia in June 2002 because of FMD in that country. Russia's veterinary services at border-crossings with Mongolia are taking extra steps to prevent the entry of the disease. Starting July 24, imports of livestock or products from animal husbandry have been banned. The ban is traditional for this time of the year. However, it will shift the plan of grain for meat exchange between Altaiskii Kry (bordering Mongolia) and Mongolia. According to the agreement, Mongolia was to supply live cattle for fattening in Russia. This is a formal arrangement as Mongolia's debts to Russia were passed to Altaiskii Kry from the central government and Mongolia was to again pay the debt with live cattle. Obviously, this plan will be halted because of the ban.

In the past few springs, all five border areas in Altaiskii Kry vaccinated all livestock and this procedure will be repeated this fall due to the continued presence of FMD in Mongolia. Affected regions have already received an additional consignment of vaccine, but it will most likely be needed only in the autumn. Local veterinarians stated that the situation is normal and that the cattle have been moved a safe distance from the border. While some areas that lack vaccine moved livestock to pasturage further from the Mongolian border, another regions, like Chita oblast, have urgently ordered anti-foot-and-mouth vaccine for vaccinating all cattle. The last time foot-and-mouth occurred in Russia was in April of 2000 in Primorye and the outbreak was contained early and eradicated.

Creation of Unions

The Creation of an Agro-Industrial Union ("Soyuzagro) is considered by the CIS.

The Executive Committee of the CIS plans to create an International agro-industrial Union "Soyuzagro." The documents will be signed in November 2002 at the meeting of Intergovernmental Council of the CIS on the agricultural complex. Members of "Soyuzagro" will be non-commercial and non-governmental unions. Soyuzagro will coordinate joint activities to protect the interests of agricultural structures in the entire region. Additionally, this organization will try to facilitate the creation of a common agricultural market on the territory of the CIS. Russia, Armenia, Belorussia, Kazakhstan, Tajikistan and Ukraine will be the members of the group.

Creation of Union of Livestock Producers

At the beginning of September, 2002, the Russian Union of Livestock Producers was created. Officials of the Ministry of Agriculture participated in the 1st congress of the Union. The Union is expected to act as a mechanism to influence state support of animal husbandry and distribution of subsidies for development of the pedigree livestock sector. Officials from the Russian Ministry of Agriculture stated at the congress, that the Ministry is in favor of limiting meat, butter and dairy imports into Russia in order to protect the local producers.

Table 10. Production, Supply, and Distribution of Cattle

PSD Table						
Country:	Russian Federation					
Commodity:	Cattle, numbers					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Total Cattle Beg. Stks	25500	25500	24437	24510	23637	23630
Dairy Cows Beg. Stocks	12500	12500	12480	12300	0	12000
Beef Cows Beg. Stocks	0	0	0	0	0	0
Production (Calf Crop)	9450	9450	9390	9300	0	9100
Intra EC Imports	0	0	0	0	0	0
Other Imports	9	10	12	12	0	14
TOTAL Imports	9	10	12	12	0	14
TOTAL SUPPLY	34959	34960	33839	33822	23637	32744
Intra EC Exports	0	0	0	0	0	
Other Exports	0	3	0	4	0	4
TOTAL Exports	0	3	0	4	0	4
Cow Slaughter	1850	1820	1680	1780	0	1660
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	8200	8150	8050	8000	0	7830
Total Slaughter	10050	9970	9730	9780	0	9490
Loss	472	480	472	412	0	400
Ending Inventories	24437	24510	23637	23630	0	22850
TOTAL DISTRIBUTION	34959	34963	33839	33826	0	32744

Table 11. Production, Supply, and Distribution of Beef and Veal

PSD Table						
Country:	Russian Federation				<-Conversion factor for CWE	
Commodity:	Cattle	Meat, Beef&Veal				
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	10050	9970	9730	9780	0	9490
Beginning Stocks	0	0	0	0	0	0
Production	1770	1760	1710	1730	0	1670
Intra EC Imports	0	0	0	0	0	0
Other Imports	675	675	750	700	0	700
TOTAL Imports	675	675	750	700	0	700
TOTAL SUPPLY	2445	2435	2460	2430	0	2370
Intra EC Exports	0	0	0	0	0	0
Other Exports	8	6	8	5	0	5
TOTAL Exports	8	6	8	5	0	5
Human Dom. Consumption	2372	2364	2387	2360	0	2310
Other Use, Losses	65	65	65	65	0	55
TOTAL Dom. Consumption	2437	2429	2452	2425	0	2365
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2445	2435	2460	2430	0	2370
Calendar Yr. Imp. from U.S.	0		0	0	0	
Calendar Yr. Exp. to U.S.	0		0	0	0	

Table 12. Production, Supply, and Distribution of Swine

PSD Table						
Country:						
Commodity:	Animal number, swine					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
TOTAL Beginning Stocks	15780	15780	16070	16570	16140	18000
Sow Beginning Stocks	3070	3070	3090	3200	0	3300
Production (Pig Crop)	31150	32150	31200	35200	0	37900
Intra EC Imports	0	0	0	0	0	0
Other Imports	35	35	35	35	0	35
TOTAL Imports	35	35	35	35	0	35
TOTAL SUPPLY	46965	47965	47305	51805	16140	55935
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	1	1	1	1	1
TOTAL Exports	1	1	1	1	1	1
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	27690	28190	27760	29000	0	31000
Total Slaughter	27690	28190	27760	29000	0	31000
Loss	3204	3204	3404	4804	0	5534
Ending Inventories	16070	16570	16140	18000	0	19400
TOTAL DISTRIBUTION	46965	47965	47305	51805	1	55935
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Table 13. Production, Supply, and Distribution of Swine Meat

PSD Table						
Country:	Russian Federation				<-Conversion factor for CWE	
Commodity:	Meat, Swine					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	27690	28190	27760	29000	0	31000
Beginning Stocks	0	0	0	0	0	0
Production	1530	1560	1550	1620	0	1730
Intra EC Imports	0	0	0	0	0	0
Other Imports	550	560	630	650	0	650
TOTAL Imports	550	560	630	650	0	650
TOTAL SUPPLY	2080	2120	2180	2270	0	2380
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	1	1	1	0	1
TOTAL Exports	1	1	1	1	0	1
Human Dom. Consumption	1990	2030	2090	2180	0	2290
Other Use, Losses	89	89	89	89	0	89
TOTAL Dom. Consumption	2079	2119	2179	2269	0	2379
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2080	2120	2180	2270	0	2380
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0