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Product Brief

Prospects Increasing for U.S. Dairy Genetics in Russia

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Report Highlights:

The Russian market for dairy genetics is the hottest it has been in more than a decade. Renewed profitability of dairies and high demand for domestic dairy products are allowing milk producers to jump back into the international market in search of high quality genetic material. Now is the right time to begin establishing contacts with the key players in dairy breeding industry before other international competitors make serious inroads into the Russian market.

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Executive Summary

The dairy breeders of the Russian Federation are embarking on an ambitious program to reintroduce high yielding dairy genetics into a system that was severely degraded during the 1990's. Currently, a significant percentage of the dairy herd is still being bred with low quality genetics. However, private and governmental efforts are under way to support the improvement of the Russian dairy herd. While Russia imported only about \$27,000 of bovine semen in 2003 (January to November), almost 80 percent came from U.S. suppliers and this trade is expected to grow significantly in the near future. 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 dairy. 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, including dairy genetics. 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 (VHIRGZH). 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 Interregional Fund for the Development of Beef Cattle.

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 dairy 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, only the biggest farms and dairies 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 dairies to carry out the herd improvement programs. There are examples of big producers carrying out independent programs, even using directly imported genetic material.

Background

There are about 40 dairy breeds in Russia, 230 pedigree stock farms and 905 reproduction farms. The most important breed in the Russian white and black breed. Its share in Russian dairy herd is 52 percent and by 2010 is expected to reach 60 percent.

In the past, Holstein bulls were widely used to improve this breed. However, the current overall quality of bulls is poor in Russia. While there are 55,000 bulls in Russia, 40 percent of them were calved by cows with yields of less than 5,000 kilos annually. In 2002, only 20 percent of cows were inseminated with semen of sires considered to have upgraded the genetic quality of the calves. In 2001, only 1,217 bulls were proven and only 29 percent of these were considered to be of higher grade than previous generations.

According to the Ministry of Agriculture, the most important source of milk production growth in the near future is the introduction of better breeds through the improvement and development of pedigree cattle stock (not feed or technology improvement). In accordance with ministry plans, the network of reproducing farms needs to increase the percentage of pedigree cattle in the total dairy herd by 9-10 percent by 2010, versus 6-7 percent today. Moreover, the plan calls for a ten percent increase in the rate of artificial insemination. The table below shows current ministry projections using estimates for a moderate versus intensive implementation of plans for increase in dairy production through herd improvement.

Table 1. Russian Academy of Agricultural Sciences Projections under the Herd Improvement Plan

	1990	Actual 2000	Projection 2005		Projection 2010	
			Moderate/Intensive	Intensive	Moderate	Intensive
Cows	20.6	12.7	13.3	14.3	13.7	16.5
Milk production, kg/head/year	2,731	2,502	3,000	3,500	3,700	4,300

There are several steps being taken to achieve the goal of improved herd genetics: 1) creation of 10-12 regional centers of artificial insemination equipped with up-to-date technology, high quality bulls, and trained specialists; 2) creation of a single technology of cryogenic storage of semen in polypropylene straws; 3) establishment of a farm service to artificially inseminate cows; 4) provide greater public services for milk cow owners; and 5) cull substandard bulls.

Recommendations for Entering the Russian Dairy 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:
 - 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 of the industry in Russia 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.

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