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Poultry and Products

Consumption Falling Despite Higher Domestic Production

2004

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Report Highlights:
Russian poultry production is forecast to expand for an eighth straight year in 2005, as broiler production grows by 13 percent. The poultry import quota and its poor implementation will play a decisive role in 2004 by restricting imports to about 70 percent of the quota level. The Russian import substitution policy and growing demand will continue to push prices significantly higher and simultaneously depress domestic consumption of poultry.

Includes PSD Changes: Yes
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Executive Summary

Russian poultry production is forecast to expand for an eighth straight year in 2005, as broiler production increases by 13 percent. Broiler production is forecast at 705,000 MT in 2005, 3.5 times higher than 1997. While the import quota has only been in place for two of the last eight years, the higher prices paid by consumers have supported greater investment in production facilities. The poultry import quota and its poor implementation are playing a big role in 2004 by pushing prices significantly higher and restricting imports to about 70 percent of the quota level. Poultry consumption is expected to fall by six percent in 2004 due to the quota problems, then to remain flat in 2005 as Russia's import substitution policy negatively affects consumer purchasing power.

Production

Russian broiler production is forecast to grow by 13 percent in 2005, following similar growth in 2004. Continued investment into the sector, mainly in renovating existing facilities, will drive growth in the medium term. Though direct competition with imports is limited, domestic producers are making significant profits due to the overall higher prices on the Russian market resulting from the quota. The production estimate for 2004 was revised upward slightly as producers continued to expand despite high feed prices in 2003/04. Higher Russian feed grain production is expected to increase feed available for poultry production and reduce prices beginning this fall.

Turkey production in Russia is also forecast to grow by 13 percent in 2005. The previous estimate for 2004 was revised upward by 25 percent due to the opening of a new production facility.

According to official Russian statistics, total poultry production (including broilers, spent hens, turkey, and other fowl) is expected to be approximately 900,000 MT, after a decline in the non-broiler production.

New Investment in Turkey Production

In 2004, an Israeli company and a Russian alcohol wholesaler began construction of a new turkey production facility. The investment is valued at $31 million and was supported by Vneshtorgbank and BNP Paribas. After completion, it will produce approximately 11,000 MT of meat annually and be the clear leader among Russia's six other turkey producers.

Consumption

Poultry meat consumption is forecast to remain flat in Russia in 2005, though there will be a slight increase in turkey consumption. Despite growing incomes, purchasing power, and demand for all fresh and frozen meats, consumption is forecast to be flat due to the high prices resulting from Russian protectionist measures. The consumption estimate for 2004 was reduced by seven percent mainly due to the poor implementation of the poultry quota in Q1 2004. Due to that reduction, Russian broiler consumption is forecast to decrease by six percent in 2004 instead of the previously forecast modest growth. Average per capita poultry meat consumption is forecast to decrease to roughly 11.5 kilos in 2004 and 2005 in comparison with 12.4 capita in 2003 due to higher prices.

Table 1. Compound Feed Production, MT

	2002	2003	2004
QI	2,038	2,199	2,219
QII	2,165	2,255	2,232
Total Jan. – June	4,203	4,454	4,451

Source: Russian State Statistics Committee

Trade / Policy

Russian broiler meat imports are forecast to decrease by 12 percent in 2005 due to continued problems with implementing the poultry quota and strict restrictions on avian influenza. The 2004 broiler import estimate was reduced to 850,000 MT, a ten percent reduction from the last estimate and 15 percent below 2003, due to the market issues described below.

As reported in several GAIN reports over the first half of 2004, market access for exporters of meat to Russia has deteriorated compared to 2003. (See GAIN reports: RS4013, RS4016, RS4029, RS4033, and RS4036). As noted in RS4029, Government actions to decrease market access for imports and high feed prices forced prices for meat higher in the Russian Federation since mid-2003. The single biggest factor was the intoduction of a 1.05 million metric ton quota on poultry meat and TRQ on beef and pork in 2003 (420,000 MT and 450,000 MT). Poor implementation of these measures has caused price swings due to traders' uncertainty about their ability to effectively cope with anticipated measures. Russian Customs data shows that January and February were fully disrupted and March partially disrupted by the poor implementation of the quota and TRQs. Expectations of a good crop year will likely bring some relief as domestic producers cope with high feed costs, but will not permit domestic producers to fully relieve the price/supply crunch. The Russian Government has actively been involving itself in the meat market over the past year and various actions it has taken have combined to reduce feed grain availability and drive overall meat prices higher. Below is a brief outline of the events that have been shaping the Russian market since 2003.

- *May/June 2003* – Introduction of quota on poultry meat and TRQs on beef and pork
- *Late Fall/Winter 2003* – Mediocre grain harvest and poor fodder crop plus significant Russian grain exports
- *Winter 2003/04* – Avian Influenza in Asia raises global poultry prices
- *December 2003* – Rush to fill 2003 quota and TRQ in anticipation of subsequent problems issuing initial 2004 import licenses
- *January/March 2004* – "Technical" problems allocating quota and TRQs leads to almost three months with significantly reduced meat and poultry imports
- *June 2-8, 2004* – Russia temporarily halts all EU imports due to unsuccessful negotiations over a unified veterinary certificate
- *Spring/Summer 2004* – Expectations of average crop production and little price relief for domestic feed grains as a strong poultry and swine sector maintain domestic demand growth.
- *May- September 2004* – Re-inspection of plants in ten new European Union members.

The forecast for 2004 Russian imports assumes incomplete fill of the poultry quota. The main reason for this is the above-mentioned delay in distributing TRQ licenses in the first quarter of 2004. Other factors likely to eliminate complete quota fill is the process of re-inspection of new EU member plants in the late summer and strict avian influenza requirements. Lastly, the dispute between EU and Russian veterinary authorities on the single veterinary certificate had some short-term effects in May. The avian influenza outbreak did not affect the Russian market to a great extent in terms of volume available, but did temporarily raise the prices offered by suppliers because of the sudden decrease in world supplies.

Table 2: Imports of Poultry Products into the Russian Federation, MT, 2002-2004.

						2004					
	Quantity (MT)	**2000**	**2001**	**2002**	**2003**	**Jan.**	**Feb.**	**Mar**	**Apr**	**May**	**YTD**
0207	**POULTRY MEAT,OFFAL**	687,898	1,375,025	1,375,039	1,188,379	34,936	54,813	66,361	97,849	80,397	334,356
020714	**CHCK CUT+ED OFL,FRZ**	558,539	1,147,949	1,056,599	981,664	25,927	45,545	56,274	79,641	65,036	272,423
020712	**CHICKEN,WHOLE,FROZN**	21,255	62,636	147,032	90,385	6,674	2,293	5,510	6,104	8,663	29,244
020727	**TRKY CUT+ED OFL,FRZ**	104,698	160,854	163,730	108,432	2,123	6,439	3,722	10,526	5,374	28,183
	OTHER	3,407	3,587	7,677	7,898	212	535	856	1,386	1,295	4,284

	Value (Million USD)	2000	2001	2002	2003	Jan.	Feb.	Mar	Apr	May	YTD
0207	**0207 POULTRY MEAT,OFFAL**	367	750	811	696	22	32	38	57	48	198
020714	**CHCK CUT+ED OFL,FRZ**	293	611	599	554	15	26	31	45	36	153
020712	**CHICKEN,WHOLE,FROZN**	15	48	115	75	6	2	5	5	8	26
020727	**TRKY CUT+ED OFL,FRZ**	57	88	91	62	1	4	2	6	3	17
	OTHER	3	3	6	5	0	0	0	1	1	2

0207	**POULTRY MEAT,OFFAL**	2000	2001	2002	2003	Jan.	Feb.	Mar	Apr	May	YTD
1	United States	504,275	1,062,943	748,949	735,318	22,513	39,528	43,550	65,950	52,359	223,900
2	Brazil	15,193	94,004	295,200	194,053	8,445	3,590	7,949	8,441	16,149	44,574
3	Germany	17,500	43,751	56,446	53,668	818	2,332	4,516	9,283	5,485	22,434
4	France	44,746	71,000	91,225	75,336	375	6,346	2,983	7,453	1,872	19,029
5	Poland	2,004	2,293	3,865	18,126	689	1,901	1,871	1,843	1,308	7,613
6	Belgium	23,299	40,766	47,864	16,445	660	365	1,416	1,844	1,134	5,420
7	Canada	2,687	6,410	21,945	16,390	98	0	151	250	781	1,280
8	United Kingdom	32,768	15,270	27,577	23,785	720	72	1,027	529	567	2,916
9	Spain	677	2,693	3,657	10,280	0	263	484	516	139	1,402
10	Denmark	2,326	983	2,385	1,264	50	24	453	93	135	755

0207	**Mkt. Share (% of Qty.)**	2000	2001	2002	2003	Jan.	Feb.	Mar	Apr	May	YTD
1	United States	73.3%	77.3%	54.5%	61.9%	64.4%	72.1%	65.6%	67.4%	65.1%	67.0%
2	Brazil	2.2%	6.8%	21.5%	16.3%	24.2%	6.5%	12.0%	8.6%	20.1%	13.3%
3	Germany	2.5%	3.2%	4.1%	4.5%	2.3%	4.3%	6.8%	9.5%	6.8%	6.7%
4	France	6.5%	5.2%	6.6%	6.3%	1.1%	11.6%	4.5%	7.6%	2.3%	5.7%
5	Poland	0.3%	0.2%	0.3%	1.5%	2.0%	3.5%	2.8%	1.9%	1.6%	2.3%
6	Belgium	3.4%	3.0%	3.5%	1.4%	1.9%	0.7%	2.1%	1.9%	1.4%	1.6%
7	Canada	0.4%	0.5%	1.6%	1.4%	0.3%	0.0%	0.2%	0.3%	1.0%	0.4%
8	United Kingdom	4.8%	1.1%	2.0%	2.0%	2.1%	0.1%	1.5%	0.5%	0.7%	0.9%
9	Spain	0.1%	0.2%	0.3%	0.9%	0.0%	0.5%	0.7%	0.5%	0.2%	0.4%
10	Denmark	0.3%	0.1%	0.2%	0.1%	0.1%	0.0%	0.7%	0.1%	0.2%	0.2%

Note: 2001 data is not available for certain small tariff codes, thus a summation of available data is taken. It is considered to be less than 1% trade.

Source: World Trade Atlas

While all importers holding a license have incentive to use it or lose it before the end of 2005, there are limitations in terms of storage space. There will also be difficulties because importers will all try to finalize shipments in December and this will push prices down. Importing a lot of product under these circumstances will likely be unprofitable and cause companies to forgo excessive late 2004 imports.

Trade Policy Issues With EU

Following the breakdown in negotiations over a single veterinary certificate, Rosselkhoznadzor has given the EU until September 1, 2004 to agree to a unified veterinary certificate for all member states. The Ministry of Agriculture has stated that trade will be halted without an agreement. One additional requirement is the re-inspection of all establishments that are supplying meat and dairy products from any of the ten new EU members. Russian Veterinary Service specialists have started checking enterprises in the Czech Republic, Hungary, Latvia, Lithuania, Estonia, and Poland. Only those enterprises that have been inspected by Russian specialists and fulfill Russian veterinary demands will have the right to export animal products after September 1. A list of exporters from the new EU member-countries will be made once the checks are completed. The list is currently made up of enterprises that have been certified by the European Commission.

The first results of inspection reportedly showed that Russian veterinarians included additional requirements regarding laboratory testing of water, raw material and the final products. Russian veterinarians recommended that the exported product be produced from local raw material and that the exporting plant be large enough to provide significant volumes of high-quality products.

Re-organization of Ministry of Agriculture

The Government of the Russian Federation passed a resolution on the Federal Veterinary and Phytosanitary Surveillance Service (Rosselkhoznadzor) on June 30, 2004. The resolution states that Rosselkhoznadzor is a Federal executive body that will have management and supervisory functions in veterinary services, quarantine, plant protection, the use of pesticides and agrochemicals, ensuring soil fertility, breeding, protection, replenishment, hunting, fish and other maritime species and protecting the population from diseases that affect people and animals. This service was formed from combining two separate departments, but remains within the Agriculture Ministry. It will be authorized to give out licenses for various types of activity in breeding, elite seed farming and permission (including the setting and lifting of restrictions) to import and export or transit products of animal origin, medicine, fodder and feed additives for animals and quarantine production. Rosselkhoznadzor will also make sure that Russian legislation is being adhered to at the Russian border and in transport, including requirements to protect the country’s territory from the spread of infectious animal diseases, pests, pathogens, and quarantine plants. Former First Deputy Agriculture Minister Sergey Dankvert was appointed to head the Federal Veterinary and Phytosanitary Surveillance Service. Former Chief Veterinary Officer Yevgeniy Nepoklonov is Mr. Dankvert’s deputy and serving concurrently as Chief Veterinary Officer.

Food Safety Issues

According to the Federal Service for the Protection of Consumer Rights, food poisoning rates have significantly increased in the Russian Federation. With regard to this, Russia's chief epidemiologist, Gennadiy Onishchenko, issued an order tightening control over companies engaged in producing and selling food products in the Russian Federation. According to the order, control in the Russian Federation should be strengthened over the production and sale of food products (including cream-filled confectionery, culinary products, meat, dairy and fish products) and special attention should be paid to the work of medium and small businesses. Food industry plants should not be opened without a program of production control and should have their own production laboratories. Consumers and processors generally agree that there needs to be greater oversight over food quality after several recent outbreaks related to poor sanitary control and unlicensed small producers.

Table 3: Share of Specified Poultry Products in Total Imports, %

	2002	2003	2004
0207	100	100	100
0207 14	77	82.6	81.4
0207 12	10.6	7.6	8.8
0207 27	12.0	9.1	8.4
OTHER	0.6	0.7	1.3

Source: World Trade Atlas

Price

The price for poultry in Russia has risen significantly since the introduction of quotas in 2003. It is expected to continue to rise as consumption is limited by the Russian import substitution policy. The most striking factor about the price growth is that Russian producers have increased their price premium over imports this term by raising their prices even faster than the overall market price (domestic plus imports) rise. The most dramatic increases have come in breast meat because of the stoppage of imports of Chinese and other Asian meat due to avian influenza. The price of imported frozen carcasses has fluctuated wildly due to the restrictions placed on Brazilian exports. The price of imported carcasses (primarily Brazilian whole birds) went down in spring as importers holding Brazilian import quotas used them rapidly as prices rose during the problems with license issuance in January and February. Frozen leg quarters (primarily U.S. product) have seen the smallest rise. The rush to fill the 2003 quota in December and the subsequent large stocks helped keep leg quarter prices down in early 2004.

Ever-changing Quota System?

Since the inception of the poultry quota (and the beef and pork TRQ), the meat industry has not stopped complaining. No one group got everything it wanted out of the quota, so every group continues to try to induce the government to introduce more changes. While there are many positions, they are generally broken into three categories:

- Poultry traders: Introduce two changes 1) take mechanically deboned meat (MDM) out of the overall quota and retain volume restrictions of both poultry meat and MDM and 2) use the last three years (and not the most recent year) in calculating the company distribution of licenses.
- Processors: Major processing plants think that MDM should be removed from the quota and not be subject to any limitation.
- National Meat Association: Prefers original proposal.

Table 4. Moscow Wholesale Poultry Meat Prices, January 2003 – July 2004.

Date	Exchange Rate, ruble/$	Domestic chicken			Imported chicken		
		Frozen carcasses	Frozen breast, boneless	Frozen leg quarters	Frozen carcasses	Frozen breast, boneless	Frozen leg Quarters
01/30/2003	31.80	42.81	58.28	47.05	38.55	55.47	34.69
02/28/2003	31.58	42.32	56.28	41.16	40.81	54.89	35.04
03/30/2003	31.38	41.68	55.17	42.27	42.15	54.15	34.92
04/30/2003	31.10	41.77	55.67	44.50	41.90	56.38	34.42
05/30/2003	30.67	43.93	57.62	45.00	43.76	62.17	39.55
06/30/2003	30.35	49.07	59.32	49.50	48.27	73.08	39.77
07/30/2003	30.25	53.55	78.00	50.83	55.78	81.69	41.76
08/30/2003	30.50	59.04	99.67	59.62	59.09	101.00	44.81
09/30/2003	30.61	59.96	108.00	61.09	58.58	107.77	45.45
10/30/2003	29.82	58.77	105.50	57.23	58.21	103.48	47.08
11/30/2003	29.74	57.96	101.00	61.13	56.42	95.08	47.11
12/30/2003	29.25	56.02	93.33	60.63	55.65	88.32	45.39
01/30/2004	28.49	54.96	92.67	57.88	53.98	82.58	45.85
02/29/2004	28.52	54.21	93.38	55.83	53.44	81.87	47.04
03/31/2004	28.49	54.07	84,50	52.50	52.51	80.30	44.96
04/30/2004	28.88	53.43	81.50	51.63	52.14	78.67	44.95
05/30/2004	28.99	53.55	83.00	51.63	51.21	79.70	44.27
06/30/2004	29.03	52.80	82.50	50.32	45.94	84.45	42.94
07/30/2004	29.09	51.43	82.50	50.60	43.51	89.22	43.51
July 2004 as % of May 2003		117.0	143.2	112.4	99.9	143.5	110.6

Source: Russian Institute for Agricultural Market Studies (IKAR)
Prices are in rubles per kilogram.

PSD Table

Country	**Russian Federation**					
Commodity	**Poultry, Meat, Broiler**				(1000 MT)(MIL HEAD)	
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2003		01/2004		01/2005
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	130	130	90	90	0	60
Production	560	560	620	625	0	705
Whole, Imports	0	92	50	80	0	70
Parts, Imports	1100	1000	940	850	0	800
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	1100	1092	990	930	0	870
TOTAL SUPPLY	1790	1782	1700	1645	0	1635
Whole, Exports	0	0	0	0	0	0
Parts, Exports	1	1	1	1	0	1
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	1	1	1	1	0	1
Human Consumption	1699	1672	1699	1584	0	1585
Other Use, Losses	0	19	0	0	0	0
Total Dom. Consumption	1699	1691	1699	1584	0	1585
TOTAL Use	1700	1692	1700	1585	0	1586
Ending Stocks	90	90	0	60	0	49
TOTAL DISTRIBUTION	1790	1782	1700	1645	0	1635
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

PSD Table

Country	**Russian Federation**						
Commodity	**Poultry, Meat, Turkey**				(1000 MT)(MIL HEAD)		
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	12	12	12	15	0	17	(1000 MT)
Whole, Imports	4	3	5	4	0	5	(1000 MT)
Parts, Imports	99	100	55	70	0	70	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	103	103	60	74	0	75	(1000 MT)
TOTAL SUPPLY	115	115	72	89	0	92	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	0	0	0	0	0	0	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Consumption	114	114	71	88	0	91	(1000 MT)
Other Use, Losses	1	1	1	1	0	1	(1000 MT)
Total Dom. Consumption	115	115	72	89	0	92	(1000 MT)
TOTAL Use	115	115	72	89	0	92	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	115	115	72	89	0	92	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)