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Dairy and Products

Dairy semi-annual report

2007

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Report Highlights:
Milk production is expected to increase by three percent in 2007. The total number of dairy cattle will remain flat, and the Ministry of Agriculture states, that an increase in herds is not necessary. Management improvement is needed, as per-cow efficiency is low. Milk consumption in 2006 lagged behind the recommended level as milk supplies are lower than demand. Dairy imports were not sufficient to close the gap between demand and domestically produced dairy products.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

In January-March 2007, Russian milk production increased by two percent over the same period last year. Private households were responsible for 44.2 percent of the total production. Milk production is forecast to grow to 32 million metric tons (MMT) in 2007 from 31.1 MMT in 2006 (an increase of three percent). The number of productive cattle will slightly increase to 9.91 million heads in 2007 from 9.90 million heads in 2006. Productivity per cow rose in 2006 to 3.60 kilos from 3.32 kilos in 2005. The calf crop rose 4 percent, but losses also increased to 2.4 percent.

The National Priority Project for Agriculture is taking credit for much of the growth. Minister of Agriculture Aleksey Gordeyev predicts that milk production will increase by 20 percent on household farms within two years. The VPSS is now permitting imports of Canadian and Polish pedigreed cattle.

Production

Milk production in Russia is forecast to grow 3 percent in 2007 to 32.0 million metric tons (MMT), up from 31.1 mmt in 2006. The number of cows in milk production will increase slightly from 9.90 million heads in 2006 to 9.91 million heads in 2007.

The Russian Ministry of Agriculture stated that Russia has no need to increase the size of its dairy herds, and instead should concentrate on increasing milk productivity per cow. It is estimated that Russian dairy cattle are producing at 50 percent of their genetic potential. While per cow productivity is increasing (from 3,320 kilos in 2005 to 3,603 kilos in 2006), the Ministry of Agriculture reports that milk productivity should be at least 4,000 liters per cow for the industry to be competitive. The calf crop is 75 percent, one of the lowest in the world. The crop increased by 4 percent in 2006 and amounted to 78 calves per 100 cows, but losses simultaneously increased by 2.4 percent negating much of the gain.

A long service period, the low calf crop and seasonal milk production are the major problems in the Russian dairy livestock industry. The Ministry of Agriculture is investing heavily in this sector, and increased their funding for animal improvement by 60 percent in 2007. They plan an additional 20 percent increase for 2008. Subsidies from the Russian federal budget average RUR 3,000 (US$118)/ per cow for 2007, and in some cases regional subsidies provide additional funding. Local and regional subsidies often take the form of direct payments per liter of milk. The Ministry of Agriculture is developing new mechanisms of state support for animal improvement to replace the per-cow system. The per cow payments are not yielding significant results as imported cattle are often of low-quality from Europe, not adapted to the local climate and have different nutritional needs. The resulting veterinary problems increase the cost of production, and lead to losses of expensive cattle.

Table 1. Number of Livestock 2004-2007, as of January 1 (1,000 head)

	2004	2005	2006	2007
Cattle	24,935	23,067	21,400	21,000
Including cows	11,089	10,279	9,500	9,200
Pigs	15,980	14,211	13,300	15,200
Sheep and goats	17,037	16,986	17,300	19,000

Source: Russian State Statistics Committee

The National Priority Project for Agriculture is taking credit for much of the growth. Minister of Agriculture Aleksey Gordeyev predicts that milk production will increase by 20 percent on household farms within two years.

A study of the sector's performance conducted by the Agrarian Market Institute (IKAR) in the first quarter of 2007 concluded that the National Priority Project for Agriculture has increased Russia's milk production. Gross milk production increased 2 percent (year-on-year) to 6.087 million tons in the first quarter. Production grew on all types of farms. IKAR reported that these results, " are the first results since the implementation of the National Priority Project. It has facilitated the production of top quality milk, which the nation's dairy companies sorely need."

As industrial milk production still falls short of total demand, household farms help fill the gap in milk and dairy products and subsistence consumption is expected to have a role in the Russian dairy market for the near future. Federal support for household milk production has reversed the decline of cattle head on household plots, and increased milk production by about 1 percent. Households produced 44.2 percent (2.688 million tons) of the country's milk in the first quarter.

Penza oblast increased its livestock production by 12 percent in 2006, while increasing milk production by 2.4 percent. Yaroslavl oblast also boasts higher than average production numbers in 2006. Out of 26 dairy farms, only four farms produced less than 4,000 liters per cow while ten farms saw production levels greater than 4,000 liters per cow. Nine farms saw average production greater than 5,000 liters per cow, and the highest producing farm averaged 6,135 liters per cow (an increase of 1,130 liters over 2005). Simple improvements in management are credited with these improvements rather than increased investment in the sector.

Table 2 The biggest and most efficient dairy farms, 2003-2005

##	Farm	Region	Head number	Per cow milk annual productivity, kg	Profitability level, %
1"	ZAO "Agrocompleks	Krasnodar	5,950	5,015	36.4
2	ZAO "Irmen"	Novosibirsk	2,372	7,577	77.1
3	ZAO "Nazarovskoye"	"Kranoyarsk"	3,097	6,533	88.1
4	ZAO "Baribino"	Moscow	3,350	6,612	39.4
5	ZAO "Povadino"	Moscow	2,632	6,920	57
6	ZAO "Zarya"	Vologda	2,660	7,049	29.9
7	AOZT "Pobeda"	Krasnodar	2,670	6,372	65.3
8	OAO"Belorechensk"	Irkutsk	3,718	3,931	24.4
9	ZAO "Agro-Balt"	Leningrad	1,311	8,622	32.2
10	Kolkhoz "Lenina"	Kaluga	1,550	6,243	62.4

PSD Table

Country	Russian Federation									
Commodity	Dairy, Milk, Fluid						(1000 HEAD)(1000 MT)			
	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New	UOM
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008	MM/YYYY
Cows In Milk	9900	9900	9900	9950	9950	9910	0	0	9920	(1000 HEAD)
Cows Milk Production	32200	32200	31100	32800	32800	32000	0	0	32100	(1000 MT)
Other Milk Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Production	32200	32200	31100	32800	32800	32000	0	0	32100	(1000 MT)
Other Imports	120	120	120	120	120	120	0	0	120	(1000 MT)
Total Imports	120	120	120	120	120	120	0	0	1200	(1000 MT)
Total Supply	32320	32320	31220	32920	32920	32120	0	0	32220	(1000 MT)
Other Exports	5	5	5	5	5	5	0	0	0	(1000 MT)
Total Exports	5	5	5	5	5	5	0	0	0	(1000 MT)
Fluid Use Dom. Consum.	12400	12400	12000	12330	12330	12000	0	0	12100	(1000 MT)
Factory Use Consum.	17055	17055	16355	17885	17885	17415	0	0	17415	(1000 MT)
Feed Use Dom. Consum.	2860	2860	2860	2700	2700	2700	0	0	2705	(1000 MT)
Total Dom. Consumption	32315	32315	31215	32915	32915	32115	0	0	32220	(1000 MT)
Total Distribution	32320	32320	31220	32920	32920	32120	0	0	32220	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

Production of Milk Products

In 2006, Russia increased its production of whole milk products (calculated as fluid milk), butter and cheese. Production of non-fat dairy products (calculated as non fat fluid milk) and whole milk dry powder decreased slightly from 2005

Russia's cheese market is forecast to grow 8.5 percent from an estimated 561,100 tons in 2006 to 609,200 tons in 2007 according to Euromonitor. The market is further expected to grow in volume in 2008 to 662,800 tons. The value of the Russian cheese market is also expected to grow, and is expected to increase 20 percent in 2007 to US $2.512 billion dollars. An additional 16 percent increase is forecast for 2008, bringing the total expected value of the market to US $2.927 billion. The largest players in the Russian cheese market (as of 2005) were Valio (9.3 percent market share), Karat (5.3 percent), Hochland Reich Summer and Co (3.9 percent), Wimm-Bill-Dann Foods (3 percent), Cherkizovo Dairy Plant (3 percent), Ostankino Dairy Plant (2.3 percent), Belaya Reka (1.8 percent) and Groupe Lactilic

(1.3 percent). Oltermanni (Valio), Viola, Cherkizovosky, and Hochland are the leading brand names in the market (source: Euromonitor).

Table 3. Production of Dairy products, 2002, 2005, and 2006, 1,000MT

	2000	2005	2006
Whole milk products (calculated as fluid milk)	6,214	9,741	10,000
Non fat dairy products (calculated as non fat fluid milk)	534	458	448
Whole dry milk	74.5	79.7	75.7
Butter	267.2	253.9	274
Cheese	221	378	405
Vegetable oil	1,375	2,193	2,566
Margarine products	462	641	677

Source: Russian State Statistics Committee

PSD Table

Country **Russian Federation**

Commodity **Dairy, Cheese** (1000 MT)

	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New	UOM
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008	MM/YYYY
Beginning Stocks	12	12	12	12	12	12	12	12	12	(1000 MT)
Production	385	385	405	395	395	420	0	0	430	(1000 MT)
Other Imports	230	230	230	250	250	250	0	0	260	(1000 MT)
Total Imports	230	230	230	250	250	250	0	0	260	(1000 MT)
Total Supply	627	627	647	657	657	682	12	12	702	(1000 MT)
Other Exports	10	10	10	10	10	10	0	0	10	(1000 MT)
Total Exports	10	10	10	10	10	10	0	0	10	(1000 MT)
Human Dom. Consumption	605	605	625	635	635	660	0	0	680	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	605	605	625	635	635	660	0	0	680	(1000 MT)
Total Use	615	615	635	645	645	670	0	0	690	(1000 MT)
Ending Stocks	12	12	12	12	12	12	0	0	12	(1000 MT)
Total Distribution	627	627	647	657	657	682	0	0	702	(1000 MT)

PSD Table

Country **Russian Federation**

Commodity **Dairy, Butter** (1000 MT)

	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New	UOM
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008	MM/YYYY
Beginning Stocks	10	10	10	10	10	10	15	15	15	(1000 MT)
Production	290	290	290	300	300	300	0	0	310	(1000 MT)
Other Imports	110	110	115	120	120	130	0	0	135	(1000 MT)
Total Imports	110	110	115	120	120	130	0	0	135	(1000 MT)
Total Supply	410	410	415	430	430	440	15	15	460	(1000 MT)
Other Exports	5	5	5	5	5	5	0	0	5	(1000 MT)
Total Exports	5	5	5	5	5	5	0	0	5	(1000 MT)
Domestic Consumption	395	395	400	410	410	420	0	0	440	(1000 MT)
Total Use	400	400	405	415	415	425	0	0	445	(1000 MT)
Ending Stocks	10	10	10	15	15	15	0	0	15	(1000 MT)
Total Distribution	410	410	415	430	430	440	0	0	460	(1000 MT)

PSD Table

Country **Russian Federation**

Commodity **Dairy, Dry Whole Milk Powder** (1000 MT)

	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New	UOM
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Production	90	90	90	95	95	95	0	0	95	(1000 MT)
Other Imports	30	30	15	30	30	25	0	0	30	(1000 MT)
Total Imports	30	30	15	30	30	25	0	0	30	(1000 MT)
Total Supply	120	120	105	125	125	120	0	0	125	(1000 MT)
Other Exports	5	5	5	5	5	5	0	0	5	(1000 MT)
Total Exports	5	5	5	5	5	5	0	0	5	(1000 MT)
Human Dom. Consumption	115	115	100	120	120	115	0	0	120	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	115	115	100	120	120	115	0	0	120	(1000 MT)
Total Use	120	120	105	125	125	120	0	0	125	(1000 MT)
Ending Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	120	120	105	125	125	120	0	0	125	(1000 MT)

PSD Table

Country	**Russian Federation**									
Commodity	**Dairy, Milk, Nonfat Dry**							(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Production	120	120	110	125	125	115	0	0	120	(1000 MT)
Other Imports	60	60	45	65	65	50	0	0	55	(1000 MT)
Total Imports	60	60	45	65	65	50	0	0	55	(1000 MT)
Total Supply	180	180	155	190	190	165	0	0	175	(1000 MT)
Other Exports	15	15	15	15	15	15	0	0	15	(1000 MT)
Total Exports	15	15	15	15	15	15	0	0	15	(1000 MT)
Human Dom. Consumption	165	165	140	175	175	150	0	0	160	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	165	165	140	175	175	150	0	0	160	(1000 MT)
Total Use	180	180	155	190	190	165	0	0	175	(1000 MT)
Ending Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	180	180	155	190	190	165	0	0	175	(1000 MT)

Consumption

In 2006, annual per capita milk consumption (including dairy products) was 250 kilos, 3.7 percent higher than 2005 consumption. These numbers are still considerably below the 392 kilos the Russian government considers as its nutritional target. According to a recent study of Moscow's dairy markets conducted by CVS consulting, milk demand is gradually shifting in favor of pasteurized products, and increasingly prefer pasteurized products to sterilized milk. Roughly 33 percent of Muscovites purchase milk on a daily basis.

Trade

Imports of most dairy products, excluding butter, decreased in 2006. Trade restrictions on Ukrainian products and higher import duties on certain cheeses are responsible for this decline. Dairy imports are expected to increase in 2007 as the restrictions on Ukrainian imports were lifted at the end of 2006.

Table 4: Russian Dairy imports January – December, MT

HS	Description	2004	2005	2006 -	06/05 -
0406	Cheese And Curd	212,862	259,794	218,442	-15,92
0405	Butter,Oils From Milk	101,289	82,579	112,041	35,68
0404	Whey,Other Milk Prods	45,264	68,275	47,588	-30,3
0403	Buttermlk,Yogurt,Etc	27,981	15,957	13,378	-16,16
0402	Milk,Cream Conc,Sweet	35,907	35,511	8,209	-76,88
0401	Milk,Cream,N Swt/Conc	10,277	10,464	10,641	1,69

Source: World Trade Atlas

The Russian Dairy Union strongly favors the introduction of a 15 percent customs duty on Belarussian dairy imports. They assert that this will create fair competition in the Russian market and will prevent dumping and re-exportation. Belarus is the second largest exporter of dairy products to Russia after Ukraine, and supplies five percent of the butter (20,000 MT), seven percent of the cheese (45,000 MT), and 20 percent of the dry powdered milk imported into the Russian Federation.

In March, the Russian veterinary service (VPSS) threatened to ban several Ukrainian dairies from supplying cheese after E. coli bacteria was found in a cheese shipment. Beginning February 5, 2007, shipments from the Ukraine were limited to two border crossings.

Policy

The Russian Dairy Union is creating a government program "School Milk" that is designed for future inclusion in the National Priority Project for Agriculture. In the program, all students will get a daily glass of milk at government expense. The intent is to stimulate milk demand and support the domestic dairy industry. The larger dairies are interested in the long-term contracts that such a program would provide, but smaller producers fear that their expenditures on quality improvement would not be recuperated under such a program.

The Russian Service for Veterinary and Phytosanitary Surveillance (VPSS) permitted imports of Canadian and Polish pedigree cattle for implementation of the Agriculture National Priority Project.

Marketing

Both the Ministry of Agriculture and the Ministry of Public Health are in favor of labels for reconstituted milk. This labeling would assist consumers by more easily identifying pasteurized and reconstituted products.

Dairy Packaging

Long shelf-life milk demand is expected to grow by 5-6 percent over the next three years. In 2006, 890 million liters of milk was packaged in this way. This figure should reach 1.06 billion liters by 2009. Roughly 96 percent of all long shelf-life products are packaged in cartons. PET packaging does not exceed 3 percent, and is not expected to grow. Roughly 80 percent of milk is packaged into 1-liter containers.

The Russian market for dairy packaging has the potential to grow by 40 percent over the next five years, according to CVS Consulting forecasts. The dairy and packaging markets have correlated growth patterns and prospects, however, the dairy industry is somewhat dependent on packaging companies for promotion and processing. Most packaging firms in

Russia have a clearly delineated, vertically integrated structure, and control the processing as well as the packaging. This creates greater consistency in quality, and also relieves dairy producers of promotional duties. Dairy products are largely packaged in cardboard boxes and plastic containers. International manufacturers now provide 80 percent of the cardboard used in packaging and include Tetra-Pak, Elopak, and SIG Combibloc. Russian companies include Lambumiz and Molopak, both of which are based in Moscow. Ten companies provide plastic packaging, and produce approximately 2 billion containers for the dairy industry annually. CVS Consulting expects some consolidation in the plastic industry will likely result in fewer companies providing plastics to the dairy industry. Entry into the plastic container market is costly (averaging 20-30 million Euros), thus the number of new companies is likely to be very small.

Table 5: Russian Imports of Concentrated Milk, Quantity, January–December

HS	Description	2004	2005	2006	% Change - 06/05 -
040210	Not Over 1.5% Fat	15,233	19,437	5,394	-72,25
040221	Concentrat>1.5%Fat	7,415	7,750	2,375	-69,35
040229	Cntd,Swtnd >1,5%Fat	4	55	20	-63,63
040291	Ot Concntr Nt Sweet	275	132	240	82,16
040299	Other	12,979	814	179	-97,8

Source: World Trade Atlas

Table 6: Russian Imports of Cheese, by Countries Quantity, MT, January–December

Rank	Country	2004	2005	2006	% Change - 06/05 -
0	--The World--	212,862	259,793	218,442	-15,92
1	Germany	51,123	55,834	66,865	19,76
2	Ukraine	90,162	114,168	39,080	-65,77
3	Lithuania	15,795	22,165	35,364	59,54
4	Finland	12,255	14,729	17,883	21,41
5	Netherlands	9,664	11,449	16,373	43,01
6	Argentina	4,570	7,165	12,243	70,85
7	France	3,832	5,905	5,658	-4,19
8	Poland	12,342	8,721	4,774	-45,25
9	Estonia	509	1,391	3,763	170,55
10	Uruguay	300	3,152	1,926	-38,87
34	United States	11	15	6,8	-55,55

Source: World Trade Atlas

Table 7: Russian Imports of Butter, by Countries Quantity, MT January–December

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Rank	Country	2004	2005	2006
0	--The World--	101,289	82,579	112,041
1	New Zealand	24,688	24,921	37,858
2	Finland	16,552	15,910	16,554
3	Poland	8,722	1,544	10,969
4	Argentina	200	245	7,851
5	Australia	2,596	2,041	6,061
6	Germany	6,623	5,133	5,564
7	Uruguay	1,293	350	4,799
8	Ukraine	32,972	20,764	4,664
9	Netherlands	2,828	877	3,072
10	Belgium	4,278	2,369	2,763

Source: World Trade Atlas

Table 8: Russian Imports of 0404 Whey Butter, by Countries, Quantity, MT January–December

Rank	Country	2004	2005	2006	% Change - 06/05 -
0	--The World--	45,264	68,275	47,588	-30,3
1	Lithuania	8,509	9,351	10,945	17,04
2	France	6,685	16,265	10,685	-34,3
3	Estonia	257	3,702	5,091	37,53
4	Poland	15,647	8,202	4,614	-43,74
5	Germany	5,187	11,720	4,282	-63,46
6	Czech Republic	4,162	3,799	3,180	-16,29
7	United States	199	2,747	2,082	-24,21
8	Netherlands	436	2,175	1,810	-16,81
9	Ukraine	37,546	7,941	1,805	-77,27
10	Denmark	151	113	819	622,09

Source: World Trade Atlas