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## Russian Federation

### Agricultural Situation

### Feed Subsidies

### 2008

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**Report Highlights:**

On September 22, 2008, the Russian ministry of Agriculture issued legislation for feed subsidies to swine and poultry breeders. 10 billion rubles will be allocated to compensate for feed expenses from the fall 2007 through spring 2008. Swine breeders will receive 10 rubles per 1 kilogram of live weight of swine, and poultry breeders will receive 5 rubles per 1 kilogram of live weight of poultry.

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Includes PSD Changes: No  
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Trade Report  
Moscow [RS1]  
[RS]

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## Executive Summary

In summer 2008 the Russian Government increased the budget for agriculture CY 2008 by almost 40 billion rubles (\$1.5 billion). This money will be allocated for the sustainable development of agricultural territories, and for support of agricultural producers.

On October 6, 2008, one of the first programs, Order #437, was published by the Russian Agricultural Ministry under these additional allocations. [http://www.mcx.ru/dep\\_doc.html?he\\_id=797&doc\\_id=21856](http://www.mcx.ru/dep_doc.html?he_id=797&doc_id=21856). Order #437 adds a paragraph for feed subsidies to the list of federal budget subsidies to the subjects of the federation<sup>1</sup> for the state support of the major agricultural industries<sup>2</sup>. Mass media reports that 10 billion rubles (approximately \$390 million) will be spent in new subsidies for feed.

The swine breeders will receive 10 rubles' compensation for each kilogram of live weight of pigs produced and shipped for slaughter in January – June 2008, and poultry breeders will receive 5 rubles' compensation for each kilogram of live weight of poultry produced and shipped for slaughter in January – June 2008. The total amount of subsidies shall be distributed equally between poultry and swine producers: each category shall receive 5 billion rubles. The federal budget subsidies will be distributed to farmers through the subjects of the Russian Federation. Mass media reported that the Russian Ministry of Agriculture has no plans to extend these feed subsidies for the second half of 2008 or further.

The Federal State Statistics Service (Rosstat) reported that as of July 1, 2008, there were 17.4 million hogs, 1% fewer than in 2007. Rising input prices significantly affect small Russian hog producers as they have limited ability to pass on higher costs to consumers. Total profits in the Russian pork industry are falling, and competition is becoming fiercer. More-profitable, vertically integrated companies are increasing their market share as they absorb less-efficient producers.

Market analysts have stated that the Russian poultry industry is much more efficient today compared to any other time in recent history due mostly to competition with foreign producers. However, rising grain prices have revealed significant inefficiencies in domestic poultry production which is causing many domestic poultry facilities to bleed profits. Poultry plants that produce 40 percent of total domestic poultry meat are far behind in terms of modern technologies, equipment, genetics efficient management systems. The disparity between poultry prices and input costs for production are preventing speedy improvements at most of these facilities. Meantime, the Russian Union of Poultry Producers (RUPP), the Russian Poultry Union and other such organizations continue lobbying for additional government support such as new price controls on animal feed, subsidized credits, and trade restriction on imported poultry.

The Ministry of Agriculture intends to announce the programming for the remainder of these funds later this year.

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<sup>1</sup> The phrase "subjects of the federation" refers to provincial political subdivisions (oblasts, krays, titular republics, autonomous okrugs, and so on).

<sup>2</sup> The MinAg's Order #23 was issued in implementation of the Resolution of the Government of the Russian Federation #997 of December 29, 2007 "On Approval of the Rules of Allocation in 2008-2010 of Subsidies from the Federal Budget to the Subjects of the Russian Federation for the State Support of the Major Spheres of Agricultural Production". The GOR Resolution #997 was published on January 16, 2008. This Resolution determines the major directions of the federal subsidizing of agriculture, but does not provide any data on the amount of these subsidies. The volumes of subsidies are determined by the federal budget allocations to agriculture, and the amendments to this federal budget made in 2008.

### Calculation of Feed Subsidies

The feed subsidies will compensate portion of increased cost of feeds for swine and poultry breeders in the fall 2007, and winter and spring 2008.

The Order #437 determines the subsidy rates for compensation of poultry and swine producers (Table 1) and provides forms of report documents that producers (agricultural enterprises and private farmers) shall submit for receiving the subsidies. The subsidy will be calculated as following: "subsidy"="volume of produced slaughter swine/poultry, in live weight, in the first half of 2008"x"subsidy rate". In order to receive the subsidies, the producers shall confirm "realization"<sup>3</sup> of the products by appropriate documents.

**Table 1. Rates of Feed Subsidies for 2008**

	Measure Unit	Subsidy Rate, Rubles
1	2	3
Feed Subsidies		
Per 1 kilogram of live weight of pigs produced for slaughter in the first half of 2008	kg of live weight	10
Per 1 kilogram of live weight of poultry produced for slaughter in the first half of 2008	kg of live weight	5

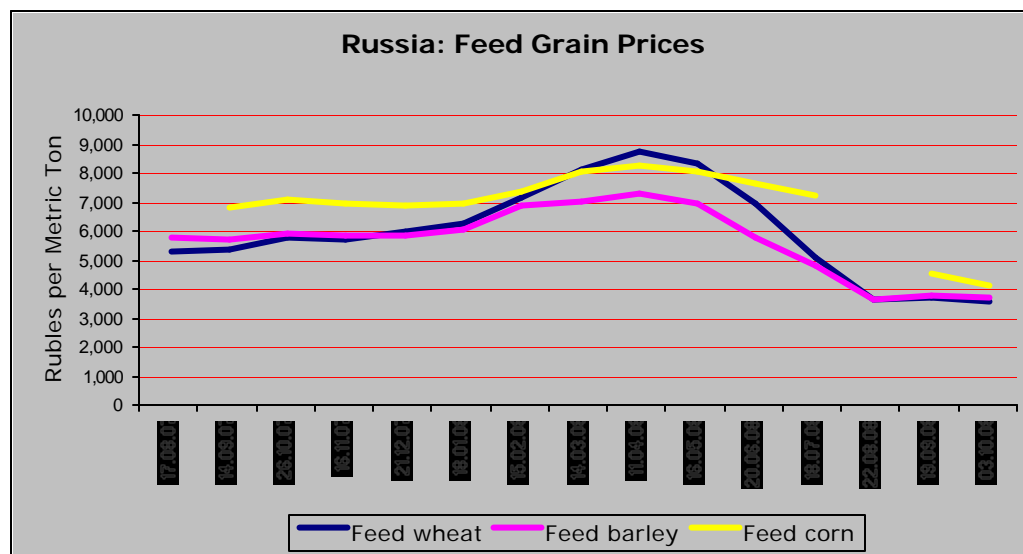
Source: Attachment #1 to the Order of the Russian Ministry of Agriculture #437 of September 22, 2008

### Feed Prices

Prices of feeds and feed ingredients were increasing rapidly in the fall 2007 and through spring 2008. Given that the average grain-to-meat conversion rate in Russian swine breeding farms is 6-7 kilograms of grain per 1 kilogram of meat, two times higher than in Europe, and in the poultry farms the conversion rate averages 2-3 kilograms, also 20-30 percent higher than in Europe and the U.S., the increase in grain prices in MY 2007 seriously affected cost of poultry and pig production in Russia. From August 17, 2007, to April 11, 2008, in European Russia feed wheat price increased by 3,440 Ru/MT to 8,590 Ru/MT, feed barley prices increased by 1,570 Ru/MT to 7,195 Ru/MT. Beginning April 2008 feed grain prices decreased, and by November 3, 2008, dropped by more than 40 percent from the fall 2007's level. Changes in the feed prices are shown in the Graph 1.

<sup>3</sup> Russian term "realization of product" is an approximate equivalent of out loading of a product from the producer to processor or distributor. In case of live poultry and pigs "realization" most likely means shipments to slaughter points.

Graph 1. Feed Grain Prices, European Russia, EXW, Rubles per Metric Ton



Source: WJ ProZerno

## Comments

Analysts consider that the current feed subsidies will compensate only a portion of increased farmers' feed expenses. These compensations are calculated per kilogram of the produced meat. Farmers who produced more meat and have better grain-to-meat conversion rates will receive bigger subsidies. Given that the current feed prices afford efficient poultry and pig farmers decrease cost of production, the emergency feed subsidies will not be extended. In general, experts consider that these "emergency" subsidies will not influence Russia's poultry and pig production in the future, and will not resolve the problem of shortage of operating capital, growing cost of meat production, instability of meat markets, and relations between animal and poultry producers, slaughter companies and wholesale and retail chains, whose share in the retail price of meat products is un-proportionally high.

## Relevant Reports

RS8075- Grain and Feed / October Monthly Update  
<http://www.fas.usda.gov/gainfiles/200809/146295928.pdf>

RS8071 Poultry and Products / Poultry Annual report  
<http://www.fas.usda.gov/gainfiles/200809/146295900.pdf>

RS8067 Livestock and Products / Livestock Annual Report  
<http://www.fas.usda.gov/gainfiles/200809/146295694.pdf>

RS8066 Grain and Feed / September Monthly Update  
<http://www.fas.usda.gov/gainfiles/200808/146295659.pdf>