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Dairy and Products

Annual Report

2006

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Report Highlights:

Milk production is forecast to increase 1.8 percent in 2006. The number of cows in milk production remains steady and per cow productivity is growing slightly. Market development is attributed to the Agriculture National Priority Project. The Value Added Tax (VAT) on imported pedigree livestock was cancelled for three years beginning January 1, 2007. A ban on Ukrainian dairy and meat products over the first half of the year was only partially covered by imports from Germany and Lithuania.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Moscow [RS1]
[RS]

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Executive Summary

Milk production in Russia is forecast to increase 1.8 percent to 32.8 million metric tons (mmt) in 2006 from 32.2 mmt in 2005. The number of cows in milk production increased 0.5 percent to 9.95 million heads in 2006 from 9.90 million heads. Per cow productivity rose, although it has slowed since 2005. Russia's Agriculture National Priority Project is given credit for much of this year's growth. Minister of Agriculture Aleksey Gordeyev predicted that milk production would increase 20 percent in rural household farms in two years. Domestic producers are concerned that they will default on loans obtained from the Priority Project if imports continue to depress dairy prices. Russia repealed the VAT on imported pedigree livestock, semen, and embryos for three years beginning January 1, 2007. The Canadian Ministry of Agriculture's press service said that Russia has agreed to lift the ban on Canadian pedigree cattle and boneless beef.

Production

Milk production in Russia is forecast to increase 1.8 percent to 32.8 mmt in 2006 from 32.2 mmt in 2005. The number of cows in milk production increased 0.5 percent to 9.95 million heads in 2006 from 9.90 million heads. Per cow productivity increased from 3,250 kilos to 3,290 kilos. However, the rate of increase slowed from 5.8 percent during the previous year.

The Russian Ministry of Agriculture recently released its data for the nine-month period from January to October 2006 (Table 1). It reports a 0.5 percent decline in the number of cows to 9.5 million heads, whereas total cattle decreased 4.2 percent. The rate of decline in cow inventory has slowed substantially. During the same nine-month period in 2005, it was three percent. In comparison, this year's trend is virtually flat. Minister Gordeyev stated that milk production would increase 20 percent in rural household farms in two years. He also noted that 55 percent of milk production is from rural household farms. Milk will be collected through the system of newly created cooperatives, whose equipment and transportation expenses are supported by local governments.

Table 1. Number of Livestock 2004-2006, as of January 1 (1,000 head)

	2004	2005	2006	As of October 1, 2006
Cattle	24,935	23,067	21,400	22,300
Including cows	11,089	10,279	9,500	9,450
Pigs	15,980	14,211	13,300	16,300
Sheep and goats	17,037	16,986	17,300	20,300

Source: Russian State Statistics Committee

Dairy Industry

Fluid milk production grew more slowly (1.2 percent) than other dairy sectors in 2006, including cheese at 2.6 percent, butter at 3.4 percent, whole-milk powder at 5 percent and non-fat dry milk at 4 percent. Domestic growth lagged despite a ban imposed on Ukrainian dairy products.

Feed Production

Hay production decreased 14.9 percent during the first seven months of 2006 in comparison with 2005. Haylage and silage production decreased 6 percent and 5.8 percent, respectively. Taken in total, feed production decreased 10 percent. Growth of feed consumption by the pork and poultry industries, a decrease in feed stocks due to lower hay and grain yield this

season, and potentially high grain export demand may create a feed shortage next year. This could place upward pressure on grain and meat prices beginning late fall 2006.

Consumption

Producers of pasteurized milk, most of which are small and medium-sized regional companies, have substantial potential for growth and entrance into the Moscow market as demand for pasteurized milk with a shorter shelf life is growing in Russia. However, insufficient refrigeration equipment makes storage and transport of such milk problematic.

Currently, labels on milk in Russia do not distinguish natural milk and re-hydrated dry milk. As such, consumers do not trust its quality and view it as an inferior good. Dairy analysts predict that the Priority Project will boost consumer demand by ensuring more natural milk reaches the market.

Trade

Russian imports of food and agricultural products from non-Commonwealth of Independent State (CIS) countries over a seven-month period soared to \$67.3 billion, 40.5 percent more than the same period last year. Imports of dairy products increased 15.2 percent. The Federal Customs Service reported that Russia imported 65,400 tons of butter valued at \$114.6 million in seven months, compared to 43,500 tons worth \$81.1 million a year earlier; 5,900 tons of condensed milk for \$11.6 million compared to 18,100 tons for \$30.2 million. Imports of cheese decreased in the first half of 2006 due to a ban on Ukrainian dairy and meat products. To some extent the difference was made up by cheese imports from Germany and Lithuania. Russia lifted the ban for six Ukrainian dairy plants after performing new inspections. Russian producers are worried that imports will depress domestic prices and cause defaults on loans obtained from the Priority Project.

Preliminary data suggests that cheese producers in Belarus have benefited the most from the Ukrainian ban. Minister Gordeyev stated that Russia and Belarus need to reach an agreement on the volume of raw agricultural and food products crossing borders. Dairy imports from Belarus have been increasing on account of the significant disparity in government support, he said. "Despite the fact that we have a unified economic space and there are no borders, equivalent approaches need to be ensured in the economic policy, in particular in the budget and tax policies," stated Gordeyev. "These measures should be correctly implemented and synchronized in both Russia and Belarus, but this isn't happening," he added. A Belarus official said that they regularly export cheeses, butter and other dairy products based on Russian demand and capabilities of Belarus producers.

Stocks

Stocks of dairy products decreased due to the ban on Ukrainian dairy products.

Policy

"The main problem with Russian agriculture is weak management rather than a lack of budget financing," the chief of the Russian Presidential Council said at a October 4 press conference held by the Russo-British Chamber of Commerce in Moscow. "As soon as agricultural enterprises start being managed properly, a positive result will arise immediately. The lack of a normal land market is hindering the creation of efficient agricultural production," he said. "It isn't simple to turn Soviet collective farms into large agricultural enterprises," he added.

National Priority Project

The Russian Federation continues to pay close attention to the implementation of the Agriculture National Priority Project which began last fall (RS5086, RS6004, RS6049). Livestock operations have entered close to 1,200 loan agreements valued at 107 billion rubles (US\$4 billion) under the project.

Rosagroleasing, the state agricultural leasing company, had signed contracts for the delivery of 50,000 cows, worth 6 billion rubles (US\$225 million) in 2006-2007. The company supplied agricultural producers with more than 6,000 head of cattle in 2005. To date, 18,400 head have already been delivered. The State Duma approved amendments to the Tax Code repealing the VAT for imports of pedigree livestock, semen, and embryos for three years beginning January 1, 2007. Currently, importers are paying 10 percent VAT on these commodities, which is substantial given that average prices range from \$2,000-2,500 per head.

Pedigree Livestock

Russia has begun importing pedigree livestock from Australia, as the Priority Project spurs demand in the Russian Far East. The first consignment of pedigree livestock to Primorye territory was delivered in September. Russia's Ministry of Agriculture favors Australia's high quality livestock and means of air and sea transportation. Livestock cannot be imported from the United States since cows tested positive for bovine spongiform encephalopathy (BSE) in the past. Russia recently lifted its BSE-related ban on Canadian pedigree cattle and boneless beef (RS6057). The ban had been in place for three years.

In September 2006, a National Priority Project working group began discussing the situation of livestock breeding and potential limitations on shipments from the CIS.

Marketing

The Russian government signed Resolution No. 456 on July 25, 2006, which increases the customs duties of certain types of cheese beginning September 25, 2006 (RS6042). If the declared value of cheese varieties is below 1.65 Euro/per kilogram (kg), the customs duty will increase by 0.7 Euro/kg. The more expensive cheeses, with a value between 1.65 - 2 Euro/kg, will face an increase of 0.65 Euro/kg. For the remaining cheeses, the customs duties will not change. At the present time, the only existing customs duty for cheese in Russia is 15 percent but not less than 0.3 Euro/kg.

Market analysts believe that the resolution will not only increase the price of imported cheese by 20 percent, but will substantially increase the price of domestically produced cheese products as well. Ukrainian and Belarusian producers stand to benefit since CIS countries are not required to pay import duties on shipments to the Russian market.

A French company plans to start production of gourmet cheese in Mordovia in the wake of increased fluid milk production in Russia. The companies will supply the necessary equipment and technologies and provide training for local cheese producers.

PS&D Tables

PSD Table										
Country	Russia									
Commodity	Dairy, Milk, Fluid						(1000 HEAD) (1000 MT)			
	2005	Revised		2006	Estimate		2007	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		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007	
Cows In Milk	10400	10400	10400	9770	9770	9900	0	0	9950	(1000 Head)
Cows Milk Production	32000	32000	32000	32200	32200	32200	0	0	32800	(1000 MT)
Other Milk Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Production	32000	32000	32000	32200	32200	32200	0	0	32800	(1000 MT)
Other Imports	110	110	110	120	120	120	0	0	120	(1000 MT)
Total Imports	110	110	110	120	120	120	0	0	120	(1000 MT)
Total Supply	32110	32110	32110	32320	32320	32320	0	0	32920	(1000 MT)
Other Exports	0	0	0	5	5	5	0	0	5	(1000 MT)
Total Exports	0	0	0	5	5	5	0	0	5	(1000 MT)
Fluid Use Dom. Consum.	12850	12850	12850	12400	12400	12400	0	0	12330	(1000 MT)
Factory Use Consum.	16360	16360	16360	17055	17055	17055	0	0	17885	(1000 MT)
Feed Use Dom. Consum.	2900	2900	2900	2860	2860	2860	0	0	2700	(1000 MT)
Total Dom. Consumption	32110	32110	32110	32315	32315	32315	0	0	32915	(1000 MT)
Total Distribution	32110	32110	32110	32320	32320	32320	0	0	32920	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

PSD Table										
Country	Russia									
Commodity	Dairy, Cheese						(1000 MT)			
	2005	Revised		2006	Estimate		2007	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		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007	
Beginning Stocks	12	12	12	12	12	12	17	17	12	(1000 MT)
Production	375	375	375	380	380	385	0	0	395	(1000 MT)
Other Imports	250	250	250	260	260	230	0	0	250	(1000 MT)
Total Imports	250	250	250	260	260	230	0	0	250	(1000 MT)
Total Supply	637	637	637	652	652	627	17	17	657	(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	615	615	615	625	625	605	0	0	635	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	615	615	615	625	625	605	0	0	635	(1000 MT)
Total Use	625	625	625	635	635	615	0	0	645	(1000 MT)
Ending Stocks	12	12	12	17	17	12	0	0	12	(1000 MT)
Total Distribution	637	637	637	652	652	627	0	0	657	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

PSD Table										
Country	Russia									
Commodity	Dairy, Butter						(1000 MT)			
	2005	Revised		2006	Estimate		2007	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		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007	
Beginning Stocks	15	15	15	10	10	10	15	15	10	(1000 MT)
Production	275	275	275	280	280	290	0	0	300	(1000 MT)
Other Imports	110	110	110	140	140	110	0	0	120	(1000 MT)
Total Imports	110	110	110	140	140	110	0	0	120	(1000 MT)
Total Supply	400	400	400	430	430	410	15	15	430	(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	385	385	385	410	410	395	0	0	410	(1000 MT)
Total Use	390	390	390	415	415	400	0	0	415	(1000 MT)
Ending Stocks	10	10	10	15	15	10	0	0	15	(1000 MT)
Total Distribution	400	400	400	430	430	410	0	0	430	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

PSD Table										
Country	Russia									
Commodity	Dairy, Dry Whole Milk Powder									
	2005	Revised		2006	Estimate		2007	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		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007	
Beginning Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Production	85	85	85	90	90	90	0	0	95	(1000 MT)
Other Imports	30	30	30	30	30	30	0	0	30	(1000 MT)
Total Imports	30	30	30	30	30	30	0	0	30	(1000 MT)
Total Supply	115	115	115	120	120	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	110	110	110	115	115	115	0	0	120	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	110	110	110	115	115	115	0	0	120	(1000 MT)
Total Use	115	115	115	120	120	120	0	0	125	(1000 MT)
Ending Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	115	115	115	120	120	120	0	0	125	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

PSD Table										
Country	Russia									
Commodity	Dairy, Milk, Nonfat Dry						(1000 MT)			
	2005	Revised		2006	Estimate		2007	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		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007	
Beginning Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Production	110	110	110	120	120	120	0	0	125	(1000 MT)
Other Imports	70	70	70	75	75	60	0	0	65	(1000 MT)
Total Imports	70	70	70	75	75	60	0	0	65	(1000 MT)
Total Supply	180	180	180	195	195	180	0	0	190	(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	165	180	180	180	0	0	175	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	165	165	165	180	180	165	0	0	175	(1000 MT)
Total Use	180	180	180	195	195	180	0	0	190	(1000 MT)
Ending Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	180	180	180	195	195	180	0	0	190	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)

Trade Data

World Trade Atlas Russia - Imports from --The World Quantity January - December, MT

					% Change
HS CODE	Description	2003	2004	2005	- 05/04 -
04 DAIRY, EGGS, HONEY, ETC					
0406	CHEESE AND CURD	176,288	212,861	259,793	22.05
0405	BUTTER, OILS FROM MILK	133,796	101,288	82,579	-18.47
0404	WHEY, OTHER MILK PRODS	24,386	45,263	68,274	50.84
0402	MILK, CREAM CONC, SWEET	26,177	35,906	35,511	-1.1
0403	BUTTERMLK, YOGURT, ETC	26,252	27,981	15,956	-42.97
0401	MILK, CREAM, N SWT/CONC	10,277	10,277	10,464	1.82

World Trade Atlas Russia - Imports HS CODE 0406 CHEESE AND CURD Quantity, MT

		January - June			% Change
Rank	Country	2004	2005	2006	- 06/05 -
0--The World--		95,308	112,359	91,477	-18.58
1	Germany	24,626	25,658	30,071	17.2
2	Lithuania	7,172	9,029	15,326	69.74
3	Ukraine	35,907	47,911	14,960	-68.77
4	Finland	5,277	6,702	7,651	14.16
5	Netherlands	4,676	4,333	6,553	51.22
6	Argentina	964	4,247	4,516	6.34
7	Poland	8,635	3,723	2,278	-38.8
8	France	1,680	3,109	2,241	-27.89
9	Estonia	135	482	1,625	236.77
10	Austria	747	619	873	41.15

World Trade Atlas Russia - Imports HS CODE 0404 WHEY, OTHER MILK PRODS Quantity

		January - June			% Change
Rank	Country	- KG - 2004	- KG - 2005	- KG - 2006	- 06/05 -
0--The World--		19,606,085	30,306,273	22,259,851	-26.55
1	France	1,150,000	6,821,135	5,310,025	-22.15
2	Lithuania	2,910,004	2,933,003	3,910,020	33.31
3	Poland	9,607,750	2,697,100	2,252,000	-16.5
4	Germany	1,030,525	6,587,087	1,974,220	-70.03
5	Estonia	180,000	1,362,000	1,935,280	42.09
6	Czech Republic	2,669,750	1,960,000	1,558,000	-20.51
7	Netherlands	64,198	707,231	1,384,364	95.74
8	Ukraine	1,873,000	4,526,000	1,365,000	-69.84
9	United States	0	1,765,020	874,000	-50.48
10	EU 15 (Cty Unidentified)	0	10,000	438,200	4,282

World Trade Atlas Russia – Imports HS CODE 0402 MILK, CREAM CONC, SWEET Quantity

January - June

Rank Country	- KG - 2004	- KG - 2005	- KG - 2006	% Change - 06/05 -
0--The World--	22,325,207	15,361,276	5,018,679	-67.33
1 Ukraine	21,008,357	13,642,204	3,580,000	-73.76
2 Lithuania	386,506	20,000	248,515	1,142.58
3 France	30,452	60,000	214,500	257.5
4 Finland	21,337	94,940	191,092	101.28
5 Germany	139,697	460,880	172,544	-62.56
6 Netherlands	82,382	415,033	99,196	-76.1
7 New Zealand	0	396,200	85,000	-78.55
8 Latvia	59,900	40,000	77,100	92.75
9 Belgium	0	0	60,000	0
10 Estonia	0	0	58,800	0

World Trade Atlas Russia – Imports HS CODE 0403 BUTTERMLK, YOGURT, ETC Quantity

January - June

Rank Country	- KG - 2004	- KG - 2005	- KG - 2006	% Change - 06/05 -
0--The World--	15,375,259	10,877,986	6,046,867	-44.41
1 Poland	10,194,522	3,344,931	2,233,942	-33.21
2 Finland	866,007	935,118	1,377,839	47.34
3 Slovakia	0	400,497	737,895	84.24
4 Germany	1,725,418	1,760,501	570,524	-67.59
5 France	138,354	239,870	314,746	31.22
6 Latvia	178,219	168,331	307,484	82.67
7 Lithuania	391,705	307,397	212,462	-30.88
8 Estonia	0	2000	94,029	4,601.45
9 Kazakhstan	11,000	85,564	58,961	-31.09
10 Canada	0	0	50,000	0

World Trade Atlas Russia – Imports HS CODE 0405 BUTTER,OILS FROM MILK Quantity, MT

January – June					
Rank	Country	2004	2005	2006	% Change - 06/05 -
0	--The World--	58,923	37,573,369	58,046,363	54.49
1	New Zealand	11,837	11,874,898	19,506,913	64.27
2	Finland	8,339	7,466,735	8,236,874	10.31
3	Poland	735	447,000	5,233,550	1,070.82
4	Germany	5,148	3,169,087	4,013,789	26.65
5	Argentina	0	69,500	3,636,500	5,132.37
6	Ukraine	16,947	8,186,610	3,539,600	-56.76
7	Australia	2,369	632,795	2,588,960	309.13
8	Netherlands	2,770	313,935	2,110,621	572.31
9	Belgium	2,941	1,121,700	1,613,864	43.88
10	Sweden	2,140	484,608	1,381,028	184.98

World Trade Atlas Russia – Imports HS CODE 0401 MILK, CREAM, N SWT/CONC Quantity

January – June					
				% Change	
Rank	Country	- KG - 2004	- KG - 2005	- KG - 2006	- 06/05 -
0	--The World--	5,057,120	4,968,121	4,215,352	-15.15
1	Finland	3,028,488	2,649,317	2,171,164	-18.05
2	Germany	400,161	719,424	601,825	-16.35
3	Belgium	422,117	448,053	421,986	-5.82
4	France	196,360	240,636	369,262	53.45
5	Latvia	59,241	131,304	258,340	96.75
6	Lithuania	118,260	171,295	153,757	-10.24
7	Hungary	461,852	480,180	121,193	-74.76
8	Australia	56,000	34,000	72,000	111.76
9	Denmark	22,247	43,794	45,607	4.14
10	United States	0	0	218	0