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Russian Federation

Product Brief

Beef Cattle Genetics Getting a Second Look 2004

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Report Highlights:

The Russian market for beef genetics is beginning to generate interest for the first time. A recent ban placed on imports of live cattle ended what had been the main Russian strategy used for cattle herd improvement. This ban has opened the way for increased genetics imports. Now is the right time to begin establishing contacts with the key players in the cattle breeding industry before other international competitors make the switch from live animal exports to genetics.

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

The cattle breeders of the Russian Federation are embarking on a program to reintroduce better beef cattle genetics into a system that degraded since the fall of Communism. Currently, a majority of the beef cattle herd is still being bred with low-quality genetics. However, private and governmental efforts are under way to support the improvement of the Russian 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 due in part to a ban on the import of live animals. 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 beef cattle, 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 Livestock Breeding (VNIIPlem): This organization is the storehouse of genetic material for Russia, including beef cattle 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 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 breeding 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 cattle 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 Livestock Husbandry (VIZh) and the Russian Scientific and Research Institute of Livestock Breeding and Genetics (VHIIRGZH). 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 or genetics by paying 2/3 of the interest rate on the loan. Usually, the producer associations would act as the facilitator and holder of the loan, facilitate the acquisition and delivery of the genetic material, and work with the farm to include this 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 (current interest rates are about 12-14 percent). 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 beef herds. The approach is generally to work with the producer organization to identify and purchase the appropriate material for beef 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 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 meat processors to carry out the herd improvement programs. There are examples of big producers carrying out independent programs, even using directly imported genetic material. However, beef cattle production is generally in worse financial shape than all other livestock sectors, so the number of "independent" producers is very small.

Background

One important recent development was the ban on imports of all live animals from countries that have experienced BSE cases. As GAIN Report RS4025 notes, on April 17, 2004, the Russian Federation officially announced that it was immediately initiating a ban on the import of all live cattle from any country that has registered a case of BSE. The Ministry of Agriculture cited the increasing number of countries finding multiple or isolated cases of BSE as the reason for this measure. This ban would affect the United States, Canada, the European Union, and other suppliers.

Russia has had significant bilateral relationships with European countries over the past ten years in the sphere of cattle breeding. As a result, Russia has imported thousands of beef and dairy pedigree cattle over that time, mostly from France and Germany. At this point, it is difficult to determine the impact of this ban on Russian cattle breeding programs as imports of bovine semen and embryos are still permitted. However, it is clear that any further work with foreign countries and companies will be exclusively in the field of genetics. This ban has essentially eliminated the sole route that Russia has used for the last decade for improvement of the beef herd. This means that opportunities only remain for exporters of genetic material and not live animal exporters.

Recommendations for Entering the Russian Beef Cattle 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 (Rosplemobedinenniye)
 - Interregional Fund for the Development of Beef Cattle
- **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 information or services outside of narrow confines of genetics. 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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