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Report Highlights:

During the last two years, Russian milk production has been stable. Imports of some dairy products are reviving. Foot-and-mouth disease negatively influenced EU cheese exports, but opened the Russian market to new products from non-EU countries.

Includes PSD changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
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Executive Summary

Although the size of the Russian dairy herd continues to decline, Russian milk production is somewhat stable as a result of more feed availability and, therefore, increased milk productivity per head. Butter production is expected to grow, and remains competitive with other types of fats - vegetable oil and margarine. Imports of many dairy products have rebounded since the 1998 financial crisis. During early 2001, however, outbreaks of foot-and-mouth disease (FMD) negatively influenced cheese imports from Germany, France and the Netherlands, while countries not affected by Russia's FMD ban gained market share with new dairy products.

Production

As of April 1, 2001, Russia had 12.8 million cows, or 3.5 percent less than a year ago. Increased availability of feed supplies compensated for the reduction in cattle numbers, as milk production per cow increased marginally. Annual milk production decreased by only 1.0 percent between 1999 and 2000.

Table 1: Milk Productivity on Large Farms

	1995	1998	1999	2000
Milk productivity kilogram per cow	2,007	2,250	2,282	2,363
Milk production mln MT	45.4	33.3	32.3	31.9

Source: Russian State Statistic Committee

According to the Russian State Statistics Committee, there were 12 million tons of animal feed available as of April 1, 2001 (versus 8.6 million tons one year ago), including 3.3 million tons of concentrated feed. Consequently, a 1.0 percent increase in milk production is expected this year, as more tons of feed per head of cattle are available. Small individual household milk producers (with 1-3 cows) increased their share of milk production by 9 percent over the last 5 years. Conversely, the share of large farm milk production decreased by the same amount.

Table 2: Structure of Milk Production on Different Types of Farms

	1995	1998	1999	2000
Large farms	57.1	50.1	48.6	47.8
Private household plots	41.4	48.3	49.7	50.5
Registered small private farms	1.5	1.6	1.7	1.7

Source: Russian State Statistic Committee

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Fluid					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Cows in milk, 1,000 heads	13500	13500	13450	12900	13500	12300
Cows Milk Production	32000	32000	31900	31900	32000	32100
Other Milk Production	0	0	0	0	0	0
TOTAL Production	32000	32000	31900	31900	32000	32100
Intra E.C. Imports	0	0	0	0	0	0
Other Imports	20	20	14	14	20	20
TOTAL Imports	20	20	14	14	20	20
TOTAL SUPPLY	32020	32020	31914	31914	32020	32120
Intra E.C. Exports	0	0	0	0	0	0
Other Exports	5	5	5	5	5	5
TOTAL Exports	5	5	5	5	5	5
Fluid Use Dom. Consum.	14500	14500	14300	14100	14200	14080
Factory Use Consum.	14315	14315	14500	14609	14700	14900
Feed Use Dom. Consum.	3200	3200	3109	3200	3115	3135
TOTAL Dom. Consumption	32015	32015	31909	31909	32015	32115
TOTAL DISTRIBUTION	32020	32020	31914	31914	32020	32120

Output of butter increased by 2.0 percent in 2000 compared with 1999. Production of other types of inexpensive fats also increased, reflecting a low demand for more expensive types of dairy products. In 2001, a 4 percent increase in livestock butter production is expected, reflecting an expected increase in domestic milk output.

Table 3: Butter Production in 1998, 1999, and 2000

Commodity	1995	1998	1999	2000
Butter 1,000MT	421	276	262	265
Margarine 1,000MT	198	239	379	455
Vegetable Oil 1,000MT	802	782	881	1,354

Source: Russian State Statistic Committee

Cheese production has been stable over the last 3 years, and is expected to increase by 5 percent in 2001. Production of whole milk powder and non fat dry milk are also expected to increase.

Table 4: Production of Other Types of Dairy Products

Commodity	1997	1998	1999	2000
Cheese	174	185	185	213
Whole milk products (calculated as milk, 1,000MT)	36,926	37,046	37,076	36,927
Liquid and paste milk, baby products, in 1,000MT	63	143	180	177

Source: Russian State Statistic Committee

According to the State Statistics Committee, the index of butter produced in Russia during the first quarter of this year was 99.6 percent, as compared with the corresponding periods of last year; the vegetable oil index was 104.3 percent; margarine – 111.3 percent; whole-milk products (milk equivalent) – 107.3 percent; low-fat milk products (skim milk equivalent) – 67.9 percent; fat cheese (including feta) 105.7 percent. Conversely, ice cream and canned milk products experienced significant reductions in output during the first quarter of 2001 in comparison with the same period of 2000, 8 percent and 15 percent respectively, as other dairy products are more profitable.

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Butter					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	45	45	40	40	30	30
Production	260	260	275	265	290	275
Intra E.C. Imports	0	0	0	0	0	0
Other Imports	55	55	40	60	40	65
TOTAL Imports	55	55	40	60	40	65
TOTAL SUPPLY	360	360	355	365	360	370
Intra E.C. Exports	0	0	0	0	0	0
Other Exports	8	3	3	3	3	3
TOTAL Exports	8	3	3	3	3	3
Domestic Consumption	312	317	322	332	325	340
TOTAL Use	320	320	325	335	328	343
Ending Stocks	40	40	30	30	32	27
TOTAL DISTRIBUTION	360	360	355	365	360	370

PSD Table						
Country:	Russian Federation					
Commodity:	Dairy, Cheese		1,000 MT			
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	8	8	7	7	8	7
Production	185	185	220	220	230	230
Intra E.C. Imports	0	0	0	0	0	0
Other Imports	60	60	65	60	70	62
TOTAL Imports	60	60	65	60	70	62
TOTAL SUPPLY	253	253	292	287	308	299
Intra E.C. Exports	0	0	0	0	0	0
Other Exports	3	3	5	5	5	5
TOTAL Exports	3	3	5	5	5	5
Human Dom. Consumption	243	243	279	275	295	286
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	243	243	279	275	295	286
TOTAL Use	246	246	284	280	300	291
Ending Stocks	7	7	8	7	8	8
TOTAL DISTRIBUTION	253	253	292	287	308	299

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Dry Whole Milk Powder					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	0	0	0	0	0	0
Production	55	55	60	75	70	85
Intra E.C. Imports	0	0	0	0	0	0
Other Imports	35	35	40	30	50	40
TOTAL Imports	35	35	40	30	50	40
TOTAL SUPPLY	90	90	100	105	120	125
Intra E.C. Exports	0	0	0	0	0	0
Other Exports	3	3	5	5	6	6
TOTAL Exports	3	3	5	5	6	6
Human Dom. Consumption	87	87	95	100	114	119
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	87	87	95	100	114	119
TOTAL Use	90	90	100	105	120	125
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	90	90	100	105	120	125

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Nonfat Dry					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	0	0	10	0	0	0
Production	130	130	120	125	130	130
Intra E.C. Imports	0	0	0	0	0	0
Other Imports	90	90	30	30	30	40
TOTAL Imports	90	90	30	30	30	40
TOTAL SUPPLY	220	220	160	155	160	170
Intra E.C. Exports	0	0	0	0	0	0
Other Exports	0	0	10	10	10	10
TOTAL Exports	0	0	10	10	10	10
Human Dom. Consumption	210	210	150	145	150	160
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	210	210	150	145	150	160
TOTAL Use	210	210	160	155	160	170
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	210	210	160	155	160	170

Consumption

According to official Russian statistics, consumption of milk and dairy products among persons with incomes higher than the minimum wage was 157.9 kilograms per person during 2000, while it was 72.6 kilograms per person among those whose incomes were lower than the minimum wage.

Trade

When the 2001 FMD epidemic in Europe took place, imports of dairy products declined dramatically, and Russia began to live off its stocks. This trend is especially noticeable among imports of cheese and dry milk powder from the EU. Russia consumed its stocks of these products, and importers began to search for substitutes for traditional dairy imports like cheese from Germany and Holland. Polish and Hungarian cheeses gained popularity, but are relatively expensive for the market. The prohibition on EU dairy products afforded Russian importers the opportunity to try new products such as mozzarella cheese from Australia, Canadian cheddar, and Wisconsin colby. These products are carving out a permanent market niche in Russia, as Russian consumers are becoming familiar with them.

Table 5: Russian Imports of Concentrated Milk

04.02		1997		1998		1999		2000	
		MT	\$1,000	MT	\$1,000	MT	\$1,000	MT	\$1,000
TOTAL	QI	20.132	18.285	44.361	27.962	28.19	15.551	19.988	15.39
	QII	27.197	24.612	35.614	25.89	28.678	13.171	12.231	12.228
	QIII	20.931	17.348	22.299	16.604	39.88	27.164	4.512	3.644
	QIV	24.111	19.6	32.212	17.912	84.072	63.426	11.292	12.35
	Total	92.371	79.845	134.486	88.368	180.82	119.312	48.023	43.612

Source: Russian State Customs Committee

Stocks

Influence of Foot-and-Mouth Disease on Cheese Supplies

In March 2001, imports of dairy products from all European countries were prohibited as a result of an FMD epidemic in Europe. Cheese stocks declined as a result of the prohibition. However, on April 20, the ban was terminated for most European countries. Only countries still affected by FMD remain prohibited from exporting livestock products to Russia. Netherlands and France, major cheese exporters, remain banned although Germany is no longer banned from exporting to Russia. When domestically held stocks of cheese from Germany, the Netherlands, and France were exhausted in May 2001, traders began looking for other suppliers to cover demand. Hungarian and Polish cheeses have emerged as substitutes for cheeses traditionally imported by Russia. These imports have carved out a market niche and are expected to continue even after the ban on other cheeses from Europe is terminated.

Policy

As a result of the spread of foot-and-mouth disease in the EU, Russia issued a decree at the end of March prohibiting importation of milk and dairy products, including ready-for-use foodstuffs of all kinds, from all European countries (including the European Community, Eastern Europe, the Baltic states, but excluding the C.I.S. countries). On April 28, 2001, according to Order No. 13-8-01/3850, the decree was partially changed, terminating the ban from most European countries. However, the prohibition remained for importation of all types of livestock commodities from Great Britain, France, Ireland, Belgium, Netherlands, and Luxemburg. Recently, importation of all types of livestock products has been permitted from some French provinces. At the end of April, imports of all types of dairy products were also prohibited from Brazil. (See Stock section on FMD's impact on cheese supplies.)

Marketing

Prices

Prices for domestic dairy products grew in response to growth in raw milk prices. In December 2000, butter and cheese prices grew 2 and 17 percent, respectively, in comparison with December 1999 prices. Cheese prices increased faster than prices for other dairy products for several reasons:

1. The 1998 financial crisis still affects the Russian market, as foreign suppliers have found new markets for dairy products and are not anxious to return to Russia despite an improving situation.
2. Local processors are increasing production of high quality cheese to substitute for the reduction in imports.
3. Local producers can not easily increase milk production to cover the shortage of butter and cheese products.
4. High demand for dairy products in Europe led to a raw material shortage for processors.
5. Growth in consumption of dry milk powder in exporting countries precipitated a shortage of raw material for cheese production.
6. BSE and foot-and-mouth disease caused a reduction in the EU cow herd size and, consequently, dairy exports to Russia.
7. EU export subsidies were reduced.

Table 6: Average Retail Prices for Dairy Products (December; rubles / per kilogram)

Commodity	1995	1998	1999	2000
Butter	20.08	64.44	66.83	69.12
Whole milk pasturized, per liter	2.81	5.82	8	9.7
Cheese	22.51	56.33	74.32	87.15
Vegetable oil	10.46	23.43	25.74	23.2

Source: Russian State Statistic Committee

Dairy retailers made from 15 to 24 percent profit during April 2001. Milk and butter trade was the most profitable -- 23 and 24 percent profits respectively. Cheese profits were 20 percent and concentrated milk - 15 percent.

Table 7: Prices for Dairy Products in St-Petersburg, as of May 2001

Product	Small wholesale price		Retail price	
	Rubles	Dollars	Rubles	Dollars
Milk (3.2% fat content)	13.06	0.47	16.13	0.56
Concentrated milk with sugar (400 grams)	11.68	0.41	13.52	0.47
Butter, not packed	47.68	166	59.23	2.06
Sausage cheese	47.29	1.64	56.45	1.96

Source: Newspaper "Goods and Markets", April 28, 2001.