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GAIN Report

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New Terms to Milk Price Agreement and Belarusian Trade

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Policy and Program Announcements

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Report Highlights:

In response to pleas from Russia's National Union of Milk Producers (NUMP), the Russia's Ministry of Agriculture recently reached new terms of dairy trade and cooperation with Belarus as well as supported a new milk price agreement reached between NUMP and Russia's largest milk processor, Wimm-Bill-Dann.

Background

On May 16, the Russian National Union of Milk Producers (NUMP) sent an appeal for help to the Russian government, which stated that raw materials from Belarus cause serious problems on the Russian dairy market after Belarus' currency devaluated by 70 percent and claimed the devaluation could reach 200-300 percent in the coming month. As a result of the stated inability of Russia to compete with Belarus on price, NUMP projected that the Russian farm-gate milk price may fall to a level equal to Russian production costs. In response to repeated requests for intervention, the Russian Ministry of Agriculture negotiated new terms of bilateral trade with Belarus as well as supported a new milk price agreement.

Russia and Belarus Adjust Bilateral Dairy Policy

On May 18 and 20, the Belarusian and Russian Agriculture Ministries announced further measures to regulate the Russian-Belarusian dairy market. Agriculture Minister Elena Skrynnik said, "In order to support Russian milk producers, an agreement was reached with the Republic of Belarus, aimed at stabilizing farm-gate milk prices and ready-to-eat dairy products." Details of the agreement follow.

- The Ministries agreed to coordinate indicative prices for dairy products on a weekly basis as well as changes to the supply and demand forecast for milk and dairy products in 2011.
- The Belarusian Agriculture Ministry will also reportedly ensure dry whey and dry whole milk deliveries to Russia are temporary suspended. A source at the Russian Ministry of Agriculture expects supplies from Belarus will resume in August. However, private market participants indicate such suspension has yet to take effect.
- As reported, the agreement will prevent exports of dairy products to Russia at prices that deviate from the indicative prices. In case of detecting cheese exports to Russia below the indicative level, the Belarusian Ministry agrees to suspend deliveries of this product from the particular company.
- The Belarusian Agriculture Ministry, Belarusian suppliers of dairy products, and NUMP plan to develop a mechanism of dry milk, cheese, and butter supply from Belarus to Russia with the possible use of trading on Russian exchanges. However, previous plans have failed to precipitate and private market participants indicate the lack of sufficient quantity could inhibit a functioning exchange.
- The Ministries plan to create a joint Russian-Belarusian dairy company.
- The Ministry of Belarus will consider increasing funds allocated to conduct inspection audits of foreign facilities supplying livestock products to the Customs Union.

Russian Milk Price Agreement Revised

The Russian Ministry of Agriculture reported that NUMP and the largest Russian milk processing company, Wimm-Bill-Dann (WBD), signed an agreement on monitoring farm-gate milk prices on May 20, 2011. The parties stated that the document is an additional measure to ensure stability in the dairy industry and a positive signal, which in the long run will help to alleviate seasonal price fluctuations for milk and dairy products. WBD considers the average reference prices for raw milk in 2011 offered by NUMP as objective, which, according to experts, should be not less than 12 rubles and not more than 16 rubles per kilogram for grade-one fluid milk at the farm (with 3.4% fat content and 3.0% protein content), excluding VAT. As noted, the base price may deviate in either direction, depending on the seasonality of milk production, the supply and demand balance in the region, and milk component

levels. The Minister Skrynnik commented that the agreement would have a positive impact on the Russian dairy market, would make the Russian dairy industry more attractive for investments, and will increase the availability of dairy products for customers.