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Russian Far East Ag Policy and Situation Update

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Report Highlights:

Primorye Governor to Discuss Creation of Fishery Cluster with President Putin... Russian Federal Fishing Agency to Understand Tricks of Railway Transportation of Far Eastern Fish... Russian Embargo to Hit Primorye... Primorye Producers of Crab Sticks In No Hurry to Use Russian Raw Materials... Primorye Department of Agriculture Plans to Increase the Share of Domestic Production of Vegetables up to 80%... Businessmen from Korea Plan to Develop Agricultural Sector in Primorye... Port Zarubino in Primorye to Transfer Chinese Grain... Hokkaido Farmers to Supply Apples to Sakhalin... Japanese Businessmen Interested in Cooperating with Sakhalin Oblast... Agricultural Enterprise in Sakhalin to Get Pedigree Hereford from Altai Region.

General Information:

Post introduces the Russian Far East Agricultural Policy and Situation Update, a summary of issues of interest to the U.S. agricultural community. The report includes information reported in the local media and offered by Russian federal and regional officials. Press articles are included and summarized in the report. Significant issues will be expanded upon in subsequent reports from the office.

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Primorye Governor to Discuss Creation of Fishery Cluster with President Putin.

The issue of creating a fishery cluster in Primorye was raised during the bilateral meeting of Russian President Vladimir Putin and Primorye Governor Vladimir Miklushevsky on November 12 in Vladivostok. The governor stressed that the industry still faces a number of issues including old fishing vessels and low development of the coastal fish processing. The program to subsidize the purchase of equipment for fish processing on shore has been developed, which is one of the steps in developing the direction of coastal fish processing. Another subject of the meeting was the creation of fishery cluster in Primorye. Vladimir Miklushevsky noted that last year the government commission had decided to set up a cluster, but the decision on financing sources for the project is still pending at the Government level. The Ministry of Agriculture agreed that the program for fish industry development in Primorye should be included into the program of the Far East development. The President stressed that funding issue should be discussed on the level of the relevant departments and Deputy Prime Minister Arkady Dvorkovich. The creation of a fishery cluster in Primorye is carried out at the initiative of Governor Vladimir Miklushevsky who is convinced that a fishery cluster is necessary not only for Primorye, but for the whole Russia. One of the main objectives of the project is improving fish processing on shore. "Nomura" Japanese Research Institute is attracted for developing the concept of the cluster.

http://zrpress.ru/politics/primorje_12.11.2014_69504_vladimir-miklushevskij-obsudil-s-prezidentom-sozdanie-rybnogo-klastera-v-primorje.html

Russian Federal Fishing Agency Looks to Better Understand Railway Transportation of Far Eastern Fish.

On November 11, 2014, the Deputy Minister of Agriculture and the Head Russian Federal Fishing Agency Ilya Shestakov held a video conference devoted to shipping Far Eastern fish to the central regions of Russia. The meeting was attended by representatives of JSC "Russian Railways", federal agencies, regional authorities and fishermen associations. Despite all the government's decisions to impose sanctions on imported fish products, the tariffs for transportation of fish products from the Far East again shot up in August and September of this year. During the peak period of salmon shipments, the regional administrations and regional offices of the Fishing Agency had to manually operate with ports and carriers to overcome the shortage of rolling stock. Currently, cold storage facilities in Primorsky Krai are filled at 85 percent. According to the general director of JSC "Refservice", there is now a sufficient number of rolling stock in the Far East for fish products transportation. Starting from November 1, 2014, transportation of fish is permitted not only in refrigerator cars and reefer containers, but also in insulated cars. The representatives of JSC "Russian Railways" explain the most of the failures in rolling stock operations by the actions of Federal Veterinary and Phytosanitary Service (Rosselkhoz nadzor) officials. In October veterinarians detained dozens of cars with fish. Currently used

technology of fish consignment shipments inspections makes the “board-car” shipment technology practically impossible. Tariff disparity for universal containers and reefer containers transportation is another issue: the cost of refrigerated containers transportation of (160,000 rubles) is more than twice expensive than a standard container transportation (77,000 rubles) though the expenses for both types of containers transportation for railroaders are the same. As Ilya Shestakov noted, changes in tariff system of fish products transportation will promote competition in the sector and increase the availability of fish. The meeting participants discussed the draft resolution of Russian Federation Government "On granting subsidies from federal budget to "Russian Railways " JSC for compensation of income losses associated with shipment of frozen herring from the Far Eastern Federal District in domestic direction in 2015". Carriers' representatives explained the verification plan of cargo destined for subsidies and corresponding control. Currently, the draft decree is not supported by the Ministry of Finance, the Federal Antimonopoly Service of Russia and the Federal Tariff Service.

<http://deita.ru/news/economy/12.11.2014/4776920-trudnosti-perevoza/>

Russian Embargo to Hit Primorye.

The benefits from the Chinese shipments of meat products are not obvious for the consumers. First, the number of “windows” for import into Russia is extremely small - border crossings and logistics infrastructure in the Russian territory currently are not ready for a dramatic increase in turnover with China. It would seem that there are very favorable conditions to supply Chinese meat to Russia, taking into account that vegetables and fruits from China have been successfully exported to Russia for a long time. Representatives from the Chinese side expressed readiness to supply about 20,000-25,000 metric tons of meat per year to the Russian Far East. The participants at the meeting in Suifenhe voiced the opinion that there is no difference what transport will be used for meat products shipments from China. However, there are questions to paperwork related to truck shipments. Trucks departures from China take two hours. Veterinarians who are at the factory must send the information about the products and the enterprise to Moscow. Moscow needs to follow up by sending confirmation to Primorye veterinarians. Because of time difference, days off, and other reasons, a truck can lose a lot of time at the border during the process. More issues can be caused by the underdeveloped logistics infrastructure on the Russian side, which will not let for sharp increase of the products stored in warehouses. However, despite the current difficulties with meat supplies from China, it looks like there is no other way out, according to the Primorsky Territory Administration. The consumer market only receives about 54 percent of its meat and meat products from local producers. Imported meat totaled 90 percent in processing; approximately a half of it came from the countries which are now under the food embargo. According to the President of the Association of Meat Processing Enterprises of Primorye, “The opening of the Chinese direction allows to solve the problem of raw material shortage and simplify logistics. This will reflect on reduction of transportation costs and lead to lower cost of production in general, but one should consider that the final price of goods is formed taking into account the global prices.” Doctor of Economics and Professor of Far East Federal University Victor Belkin agrees with the opinion that the Chinese meat will not stop the rise in prices for meat products: “While the number of pigs can significantly boost within two or three years, the reproduction of cattle herds takes about eight years. Therefore, in the coming years, the region will remain dependent on external supplies of beef and mutton, and to a lesser extent - the pork. The prices growth will not stop. Meat suppliers from China understand that there are no alternatives to them, and will take the opportunity to increase price. Moreover, in recent months the ruble has lost about a third of the cost to all foreign currencies, which doesn't contribute to stop inflation.”

http://zrpress.ru/markets/primorje_28.10.2014_69193_rossijskoe-embargo-udarilo-po-primorju.html

Primorye Producers of Crab Sticks In No Hurry to Use Russian Raw Materials.

Large Primorye fish processing enterprise JSC "Quen" doubled its production thanks to subsidies from the regional budget. The company is a participant of Primorsky Krai state program "Development of fishery complex in 2013 - 2017" which made it possible for the enterprise to get subsidy for covering the interests on loans for purchasing new technological equipment. Thanks to funds received (\$3.7 million) and significant own investment, the company installed a new Japanese line with the productive capacity almost twice as higher as the previous one. However, the company continues to buy raw materials from countries that previously imposed sanctions against Russia, and almost do not use Russian analogues. JSC "Quen" produces crab sticks, imitation crab meat and fish sausage widely known in Primorye and beyond it. The enterprise is one of the few coastal fish processing plants in Primorye whose operations were influenced by introduced sanctions. Crab sticks are produced of surimi minced pollock. Earlier the enterprise used the raw materials supplied from the United States.

Currently, the company refocused on delivery of surimi from Japan. Despite the difficulties with the supply of raw materials, production performance of the enterprise increased compared to last year. Since the beginning of 2014, it has produced 1,200 metric tons. Though Japan also introduced its package of sanctions against Russia, the retaliatory sanctions of Russian Federation do not apply to Japan. Based on the results of 2013, the main suppliers of surimi were the United States, China and Vietnam having roughly equal shares of 20 percent on the world market. They are followed by Thailand, and slightly less shares are sent by Japan, India and Chile. The corresponding raw material is produced in Russia. In 2013, the Far East fishing enterprises produced more than 2 million metric tons of surimi.

<http://deita.ru/news/economy/07.11.2014/4773717-primorskije-proizvoditeli-krabovykh-palochek-ne-speshat-rasprobovat-rossiyskoe-syre/>

Primorye Department of Agriculture Plans to Increase the Share of Domestic Production of Vegetables up to 80%.

In the interview to RIA Prima Media, Deputy Director of Primorye Department of Agriculture and Food of the Primorsky Territory explained about the measures taken by the Department to reach full import substitution in the region. Now the vegetable market of the region is dependent on China, especially in winter season. The first task for agricultural sector is to provide the population with fresh vegetables in winter, particularly with greens, lettuce, tomatoes, and cucumbers. The share of domestic production of vegetables in Primorye is projected to reach 80 percent of total demand. With this purpose the region is building modern winter greenhouses and vegetable storage facilities. Last year 4 hectares of greenhouses were launched. The second task is storage of carrots, onions, beets and cabbage in winter. At the moment there are not enough storage facilities to meet the needs of the market all year round. One of the solutions helping to increase the share of domestically produced vegetables in the Primorye market is construction of three vegetable stores which will be shortly completed. The facilities will be equipped with modern climate control systems and a line for washing and packing vegetables. Another short term goal for the regional agricultural sector under conditions of import substitution, is to meet the needs of Primorsky Territory in poultry meat with domestic products and then to increase production to supply the neighboring regions. The mid-term goal is Primorye market saturation with pork produced locally. The long term goal is providing customers in the region with beef and milk. However, due to climatic conditions of the region, only 50% of the populations needs can be met with the beef of local production. The full import substitution for different types of products will take from 1.5 to 8 years. As for fruits, Primorye historically buys them from other countries and will not be able to provide locally

with fruits in the short-term outlook.

<http://primamedia.ru/news/economics/31.10.2014/397575/mi-planiruem-dovesti-dolyu-sobstvennogo-proizvodstva-ovoschey-v-primore-do-80---b.html>

Businessmen from Korea Plan to Develop Agricultural Sector in Primorye.

Businessmen from the Republic of Korea plan to develop agriculture in the Primorye Territory, the President of "Hyundai Heavy Industries" said during a meeting with the Governor of Primorye Vladimir Miklushevsky. The Republic of Korea is one of major countries investing in Primorye. As of January 1, 2014, foreign investment in Primorye reached \$111 million of which \$24 million came from Korea. The Governor of Primorye noted that cooperation with Korea in the field of agriculture is productive. The priority areas of agricultural activities are the production of cereals, vegetables, potatoes, soybeans, and meat and milk.

<http://primamedia.ru/news/economics/30.10.2014/397562/biznesmeni-iz-korei-planiruyut-razvivat-selskoe-hozyaystvo-v-primore.html>

Port Zarubino in Primorye to Transfer Chinese Grain.

"Summa" Group of Companies, the owner of Zarubino port in Primorye, plans to apply to the National Welfare Fund for financing of "Big Port of Zarubino" project. The Group of Companies may need up to 46 billion rubles (\$1 billion) of outside investments for the project implementation. Zarubino project is estimated to the amount equivalent to \$ 3 billion, 1.2-1.3 billion dollars of which is the fixed assets of "Summa" group. According to "Summa" principal shareholder, the agreements on transshipment of Chinese grain, water, and auto components through the port have already been reached. Jilin Grain Company intends to handle 10 million tons of grain (wheat, corn, soybeans) per year. "Henda" Company is ready to handle at least five million tons of water per year starting from 2018 with possible growth by eight times by 2025. Zarubino port is located in Khasan district of Primorye; total capacity of the port is 100 million tons of cargo annually. The project will combine grain terminal (40 million tons), the container terminal (2 million TEU), Ro-Ro terminal (1.5 million units per year), the terminal for general cargo transshipment (more than 25 million tons) and several others. Zarubino port and near-by territory is considered as a promising site for the creation of the territory of priority development. The Draft of "Zarubino" project as the territory of priority development was approved by the Russian government and included into the bill on the territories of priority development in the Far East, which is currently considered by the State Duma of the Russian Federation.

<http://primamedia.ru/news/economics/10.11.2014/399522/port-zarubino-v-primore-zaymetsya-perevalkoy-kitayskogo-zerna-avtozapchastey-i-v.html>

Hokkaido Farmers to Supply Apples to Sakhalin.

The Head of Yuzhno-Sakhalinsk Sergei Nadsadin met with the delegation from the city of Hirosaki (Aomori Prefecture, Honshu Island) representing the administration of the Japanese city and heads of the companies engaged in production and sales of vegetables and fruits. Hirosaki is the city located in Aomori Prefecture which is famous for growing unique apples. Representatives of the Japanese delegation expressed interest in supplying Sakhalin regional center with this fruit. Preliminary work with Yuzhno-Sakhalinsk companies has been already done; the retail chain for the fruit logistical implementation has been chosen. The mayor noted that one of the proofs of serious premises for economic relations development between Yuzhno-Sakhalinsk and Japanese cities is the Fair of food products manufactured in Japan. <http://sakhalinmedia.ru/news/economics/31.10.2014/397919/fermeri-hokkaydo-budut-postavlyat-yabloki-na-sahalin.html>

Japanese Businessmen Interested in Cooperating with Sakhalin Oblast.

Two meetings of the Sakhalin Oblast administration with business representatives of Japan took place on one day. Deputy Minister of Investments and Foreign Affairs of the region Elena Sudakova held a meeting with the leadership of Sojits Building Corporation showing the interest in purchasing Sakhalin forest. The guests had visited the facilities of woodworking production organized in the framework of the regional investment project in the north of Sakhalin Island. Japanese businessmen had inspected the harvesting areas and products and liked the wood quality and strength. The main consumers of Sakhalin forests in Japan can be the plywood producers. Japanese industry doesn't have enough own raw materials to produce quality products. The port of Alexandrovsk-Sakhalinskiy will be probably used for forest shipments to Japan. The representatives of large Japanese companies JFE Engineering and Hokko arrived in Sakhalin with a proposal to develop "smart agriculture". JFE Engineering has a positive experience in greenhouse agriculture in particular; last year the company launched the enterprise growing tomatoes and eight varieties of salads. The production is based on using natural gas and tri-generation principle - simultaneous generation of electricity, heat and cold, which lets significantly reduce costs. With this technology, the plants receive all the necessary elements for photosynthesis, and the enterprise gets its profit. The planned annual yield is 150 tons of tomatoes and 115 tons of lettuce. This is nearly three times higher yield which can be grown in the open field. This method can be used in Sakhalin, the region which is rich with gas.

<http://sakhlinmedia.ru/news/economics/24.10.2014/395758/yaponskie-predprinimateli-zainteresovani-v-sotrudnichestve-s-sahalinskoy-oblastyu.html>

Agricultural Enterprise in Sakhalin to Get Pedigree Hereford from the Altai Region.

As a part of the inter-regional agreement between the Government of the Sakhalin Oblast and Altai Krai Administration, 112 heads of pedigree cattle beef (Hereford), including five steers, have been delivered to Buyukly village of Smirnykhovsky district from Altai Territory pedigree breeders. For the first time the transportation of cattle carried by road. The animals spent 10 days in transit including ferrying, according to news agency Sakhalin Media with reference to the press service of the regional Ministry of Agriculture. On October 25, six specialized vehicles brought the cattle to "APIS" Co., a specialized enterprise for breeding Hereford in the Sakhalin region. The first batch of beef cattle arrived to this enterprise in 2009; before the current supply, the farm had 175 heads of Hereford cattle, including 75 cows. The farm plans to increase the herd twice next year and then up to 400 cows. In accordance with the regional state Agriculture Development Program approved by the governor of the Sakhalin region, the Ministry of Agriculture and Food refunds up to 90% of breeding animals cost.

<http://sakhlinmedia.ru/news/economics/28.10.2014/396600/selhozpredpriyatie-na-sahaline-poluchilo-plemennih-gerefordov-iz-altayskogo-kрая.html>