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Dairy and Products

Annual

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Report Highlights:
Raw milk production is forecast to rise by one percent in 2004 due to an increase in overall efficiency, though this follows a three percent decline in 2003 because of a reduction in the number of milk cows. Production of butter and nonfat dry milk is also forecast to increase in 2004, while cheese and dry whole milk powder production will remain unchanged. The general lack of industry development is forecast to lead to a decrease of two percent in Russian dairy herd in 2004.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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[RS]

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Executive Summary

Raw milk production is forecast to rise by one percent in 2004 due to an increase in overall efficiency. However, raw milk production decreased by three percent in 2003 because of a reduction in the number of milk cows due to short feed supplies. Production of butter is also forecast to increase in 2004 (by two percent), after falling by three percent in 2003. Cheese production and dry whole milk powder are forecast to remain steady in 2004, while nonfat dry milk (NFDM) is forecast to increase by four percent. A key question mark leading into the winter of 2003/2004 is the supplies of feed and fodder. Overall fodder stocks are lower in the fall of 2003 than in 2002, but gains in efficiency are expected to offset this decrease. Feedstocks will be the key to slowing the consistent decline in the milk herd in recent years. The number of milk cows is forecast to decrease by two percent in 2004, following a four percent decline in 2003.

Production

Raw milk production decreased by three percent in 2003 in comparison with 2002, but is forecast to rebound by one percent in 2004. The number of milk cows is forecast to drop by two percent in 2004, after a four percent fall in 2003. Short feed supplies caused the four percent reduction in the 2003 cow number. Higher per cow milk productivity could not compensate for the milk cow reduction, which resulted in the total fluid milk decrease in 2003. However, increasing yields in 2004 are expected to lead to an overall increase in fluid milk production, despite the loss in the dairy herd. This trend is partly resulting from regional governments more active support for milk farms in 2003. Most regions compensate for some raw milk production costs, from one to 2.5 rubles per liter of milk.

Russian butter production is forecast to increase by two percent in 2004. However, butter production is estimated to fall by more than three percent in 2003. Cheese production is forecast to remain steady in 2004 after growing slightly faster than expected in January-September 2003 (4.5 percent). Nonfat dry milk production is forecast to also remain stable in 2004, after falling by eight percent in 2003. Data for the first half of 2003 also shows that processors may be trying to use raw milk more evenly throughout the year, thereby creating a more stable production cycle.

PSD Table

Country	Russian Federation						
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)		
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Cows In Milk	12200	12200	11900	11700	0	11500	(1000 HEAD)
Cows Milk Production	33500	33500	33150	32500	0	32700	(1000 MT)
Other Milk Production	0	0	0	0	0	0	(1000 MT)
TOTAL Production	33500	33500	33150	32500	0	32700	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	85	85	90	90	0	90	(1000 MT)
TOTAL Imports	85	85	90	90	0	90	(1000 MT)
TOTAL SUPPLY	33585	33585	33240	32590	0	32790	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	5	5	5	5	0	5	(1000 MT)
TOTAL Exports	5	5	5	5	0	5	(1000 MT)
Fluid Use Dom. Consum.	14350	14350	14000	13300	0	13500	(1000 MT)
Factory Use Consum.	16160	16160	16190	16240	0	16285	(1000 MT)
Feed Use Dom. Consum.	3070	3070	3045	3045	0	3000	(1000 MT)
TOTAL Dom. Consumption	33580	33580	33235	32585	0	32785	(1000 MT)
TOTAL DISTRIBUTION	33585	33585	33240	32590	0	32790	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Production Subcategory

Table 1: Dynamics of Production of Dairy Products

Dairy Product Production	January-August 2003 as Percent of January-August 2002
Butter	96.6
Whole-milk products (milk equivalent)	103.5
Non-fat milk products (non-fat milk equivalent	104.9
Fat cheeses (including feta)	104.3
Ice cream	102.2

Canned milk, mln std cans	105.9

Source: Russian State Statistics Committee

Ice cream production

Per capita ice cream consumption in Russia is 2.6 kg per person. In 2003, Russian ice cream production grew by two percent, though production capacities remain at only 47 percent. There are more than 300 plants producing ice cream in Russia, of which 145 are dairies, 75 are cold storage production facilities, and more than 80 are commercial facilities. Imports of ice cream in 2002 were 4.1 times less than 1998 and now account for only 1.2 percent of consumption, almost exclusively high value varieties. Foreign ice cream producers such as Nestle, Mars, and Baskin Robbins started all switched to local production several years ago. The competition and modern technology introduced by these companies have significantly increased the overall development of this industry.

Feed supply

Poor weather conditions in the summer of 2003 did not allow farmers to prepare sufficient stocks of hay and silage for the upcoming winter of 2003/2004. Though many regions are reporting significant growth of feedstocks because of sufficient feed crops and appropriate harvesting conditions (relative to 2002/03), overall feedstocks are down and show reason for concern. Additionally, farmers are improving cattle feed production systems and efficiencies, in many cases using French technology (white clover + ryegrass) on cultivated pastures, and paying more attention on quality of compound feed.

Table 2: Feed Stocks at Large Farms, September 2002 versus September 2003.

	2003	**2002**	**2003 as % of 2002**
Cut planted and natural grasses, mln hectares	**17.2**	**18.0**	**95.4**
On board, mln tons			
Hay	**13.9**	**15.1**	**91.8**
Haylage	**24.0**	**22.9**	**104.6**
Straw	**4.1**	**7.7**	**52.9**
Silage	**23.6**	**25.1**	**94.3**
Total, mln tons feed units*	**18.9**	**20.4**	**92.6**
Equivalent to one conditional cattle, tons feed units	**1.52**	**1.53**	**99.3**

Source: Russian State Statistics Committee
*Feed unit is a Soviet unit of measure equivalent to one kilogram of oats;

Cattle heard improvement

Moscow region is the center of government and private efforts at dairy cattle improvement. There are 28 cattle pedigree stock farms and 48 pedigree stock reproducers in the region that work to improve efficiency. Average annual milking productivity of each of the 200,000 cows in the region was 4,200 liters in 2001 and 4,500 liter per cow in 2002. This is much higher than Russia's overall average and is a result of pilot project started in six years ago with cooperation from German specialists.

Consumption

Domestic consumption of fluid milk continues to fall, while industrial use of raw milk increases. This trend may change in the coming years as many experts forecast that fluid milk consumption will start to compete with industrial usage. High fluid milk retail prices, price increases for other food products (especially meat products), and low incomes will turn customers to the cheaper types and qualities of milk.

Trade

Trade is forecast to remain stable for most dairy products in 2004. Butter is forecast to decrease by four percent, while cheese is forecast to increase by three percent.

Retail Prices on Dairy products (Rubles per Kilo or Liter)

	Fluid milk	Butter	Margarine	Cheese	Sour milk
January 2002	11.51	72.86	34.31	104.47	43.97
July 2002	10.77	70.56	35.08	96.74	41.66
January 2003	12.16	81.61	35.72	105.5	46.17
February	12.27	83.04	35.97	108.71	46.60
March	12.32	83.64	36.24	110.43	46.60
April	12.26	83.05	36.34	110.91	46.45
May	12.14	81.29	36.46	110.07	45.94
June	11.98	79.64	36.54	108.49	45.46
July	11.93	79.41	36.82	106.28	45.42
August	12.00	80.48	37.28	105.70	45.63

Source: Newspaper "Torgovaya Gazeta"

Policy

New Pricing Policies Considered

Currently, about 42 percent of raw milk is still purchased by the State. The "Law on purchases and supplies of agricultural products for the state needs" envisages prepayment for the product up to no less than 50 percent, including 25 percent after the contract has been signed.

The Russian government is considering development of a law to regulate the process of price formation for milk throughout the entire chain from the farmer to the consumer, through the use of producer organizations**.** Prime Minister Kasyanov recently complained that processors and sellers of agricultural products are transferring all the risks onto the primary producer and that the GOR is going to fight against this. He noted that the entire chain should be clearly regulated so that producers do not find themselves under pressure from external subjective factors. Moreover, Deputy Prime Minister and Agriculture Minister Aleksey

Gordeyev said that such power should be given to self-regulating organizations. These organizations would forecast prices for the calendar year and market participants will use them as guidelines. It will make it possible to regulate local monopolies in the agricultural sector, as well as relations between producers and suppliers of agricultural commodities and processors. Though details are currently sketchy, Russian policy makers are examining the milk policies of other countries in order to develop a new domestic pricing strategy.

Quality requirements

A new standard on milk quality will be introduced beginning January 1, 2004. The new standard is significantly stricter than the old one. Total bacterial content should be not more than 50,000 in one cubic centimeter (versus 300,000 in the previous standard). New characteristics were added to new standards such as the content of somatic cells, chilling temperature (4 ± 2 degrees Centigrade), the thermal stability of milk, and the cooling of milk (not later than 20 minutes after milking). Though these requirements are stricter, experts believe that most farmers will not be able to comply with these requirements. Additionally, beginning January 1, 2004 it will be a mandatory labeling requirement to indicate on the label if the milk or any other dairy product was produced from dry milk.

Foreign Investment

Foreign companies began more actively participating in Russian livestock improvement in 2003. One notable project is that Sweden is cooperating with raw milk producing farms in North-West of Russia. According to the agreement, milk farms will be renovated so that the local dairy will manage to cover all its needs in raw milk.

A group of Nizhniy Novgorod farms created a Russian –Canadian Joint venture “Semex – Russia,” which is now also experiencing positive results. Twenty-two dairy cattle pedigree farms from five regions of the oblast participated in a show where young cattle and highly productive cows were exhibited and the five-year cooperation between Russian framers and Semex Company exhibited excellent results. Canada provided semen through Semex-Russia” and financed training of workers for cattle artificial insemination. Two hundred specialists were trained as a result.

PSD Table

Country	**Russian Federation**						
Commodity	**Dairy, Butter**				(1000 MT)		
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	27	27	22	22	17	17	(1000 MT)
Production	280	280	270	270	0	275	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	120	120	135	135	0	130	(1000 MT)
TOTAL Imports	120	120	135	135	0	130	(1000 MT)
TOTAL SUPPLY	427	427	427	427	17	422	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	5	5	5	5	0	5	(1000 MT)
TOTAL Exports	5	5	5	5	0	5	(1000 MT)
Domestic Consumption	400	400	405	405	0	400	(1000 MT)
TOTAL Use	405	405	410	410	0	405	(1000 MT)
Ending Stocks	22	22	17	17	0	17	(1000 MT)
TOTAL DISTRIBUTION	427	427	427	427	0	422	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table

Country	Russian Federation						
Commodity	Dairy, Cheese				(1000 MT)		
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	8	8	8	8	10	10	(1000 MT)
Production	340	340	320	330	0	330	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	140	130	160	170	0	175	(1000 MT)
TOTAL Imports	140	130	160	170	0	175	(1000 MT)
TOTAL SUPPLY	488	478	488	508	10	515	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	5	5	10	10	0	10	(1000 MT)
TOTAL Exports	5	5	10	10	0	10	(1000 MT)
Human Dom. Consumption	475	465	468	488	0	505	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	475	465	468	488	0	505	(1000 MT)
TOTAL Use	480	470	478	498	0	515	(1000 MT)
Ending Stocks	8	8	10	10	0	0	(1000 MT)
TOTAL DISTRIBUTION	488	478	488	508	0	515	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table

Country **Russian Federation**

Commodity **Dairy, Milk, Nonfat Dry** (1000 MT)

	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	140	140	130	130	0	135	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	50	50	60	60	0	55	(1000 MT)
TOTAL Imports	50	50	60	60	0	55	(1000 MT)
TOTAL SUPPLY	190	190	190	190	0	190	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	20	20	25	25	0	25	(1000 MT)
TOTAL Exports	20	20	25	25	0	25	(1000 MT)
Human Dom. Consumption	170	170	165	165	0	165	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	170	170	165	165	0	165	(1000 MT)
TOTAL Use	190	190	190	190	0	190	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	190	190	190	190	0	190	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table

Country	**Russian Federation**						
Commodity	**Dairy, Dry Whole Milk Powder**				(1000 MT)		
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	120	120	115	110	0	110	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	16	16	20	20	0	25	(1000 MT)
TOTAL Imports	16	16	20	20	0	25	(1000 MT)
TOTAL SUPPLY	136	136	135	130	0	135	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	6	6	6	6	0	6	(1000 MT)
TOTAL Exports	6	6	6	6	0	6	(1000 MT)
Human Dom. Consumption	130	130	129	124	0	129	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	130	130	129	124	0	129	(1000 MT)
TOTAL Use	136	136	135	130	0	135	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	136	136	135	130	0	135	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)