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Russian Federation

Dairy and Products

Production Continues to Slump

2004

Approved by:

Allan Mustard
U.S. Embassy

Prepared by:

Mark Petry and Mikhail Maksimenko

Report Highlights:

Russian production of milk and dairy products continues to slump, with production decreasing in all major categories. A feed and fodder shortage has led to a further decrease in the dairy herd, which in turn sparked the fall in raw milk production. The shortage of raw milk for processing is forecast to lead to the decline in products such as cheese and butter. Imports of many dairy products are making up for the low domestic production, but causing increasing calls for greater protection of domestic producers.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Moscow [RS1]
[RS]

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Executive Summary

Russian production of dairy products continues to slump, with production decreasing in all major categories. Raw milk production is forecast to decrease in 2004 because of shortages of feed and fodder. Overall fodder stocks were significantly lower in the fall and winter of 2003/04 versus previous years. Gains in overall efficiency could not offset this feed and fodder decrease. Moreover, further decreases in the overall dairy herd are forecast as producers are forced to cull animals due to the lack or expense of feed. While the overall industry picture is bleak, several regions are seeing an increase in production and modernization of the dairy business.

Production

The Russian dairy herd is forecast to fall to 11.1 million head in 2004, five percent less than January 2003. Overall herd size is nine percent less than 2002. The decrease in Russia's milk production in 2004 is forecast to be partly offset by higher milk yields.

Production of other dairy products is also forecast to decrease in 2004. Cheese, butter, whole milk powder, and nonfat dry milk are forecast to drop one, two, nine, and three percent in 2004. These declines are expected due to the drop in milk production and strong competition from imports.

Regional governments are helping producers by subsidizing (by as much as 30 percent) the cost of purchasing of cooling tanks, creation of small milk purchasing cooperatives, equipped with cooling equipment.

However, the industry continues to suffer from inconsistent and inefficient management. An example of the varied quality of management is illustrated by the production in two neighboring regions, Leningrad and Novgorod Oblast. Leningrad oblast produces 15 liters of milk per day per cow on average, while neighboring Novgorod oblast produces only about 5 liters.

Consumption

Fluid milk consumption and use in processing is not growing due to the shortage of raw milk. Dairy products consumption is stable in those areas where lack of domestic product is being compensated by increasing imports, such as in butter sector.

Trade

Lack of competitively priced domestic dairy products continues to make Russia an attractive market for exporters. Exports of a wide range of dairy products are growing, mainly from the European Union and New Zealand.

PSD Table**Country****Russian
Federation****Commodity****Dairy,
Milk, Fluid**

Market Year Begin	2002	Revised	2003	Estimate	(1000 HEAD)(1000 MT)	Forecast	UOM
	USDA Official [Old]	Post Estimate [New] 01/2002	USDA Official [Old]	Post Estimate [New] 01/2003	2004 USDA Official [Old]	Post Estimate [New] 01/2004	MM/YYYY
Cows In Milk	12200	12200	11700	11700	11500	11100	(1000 HEAD)
Cows Milk Production	33500	33500	32500	33000	32700	32300	(1000 MT)
Other Milk Production	0	0	0	0	0	0	(1000 MT)
TOTAL Production	33500	33500	32500	33000	32700	32300	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	85	85	90	100	90	100	(1000 MT)
TOTAL Imports	85	85	90	100	90	100	(1000 MT)
TOTAL SUPPLY	33585	33585	32590	33100	32790	32400	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	5	5	5	5	5	5	(1000 MT)
TOTAL Exports	5	5	5	5	5	5	(1000 MT)
Fluid Use Dom. Consum.	14350	14350	13300	13350	13500	13300	(1000 MT)
Factory Use Consum.	16160	16160	16240	16700	16285	16095	(1000 MT)
Feed Use Dom. Consum.	3070	3070	3045	3045	3000	3000	(1000 MT)
TOTAL Dom. Consumption	33580	33580	32585	33095	32785	32395	(1000 MT)
TOTAL DISTRIBUTION	33585	33585	32590	33100	32790	32400	(1000 MT)

PSD Table

Country	Russian Federation		(1000 MT)				UOM
	2002	Revised	2003	Estimate	2004	Forecast	
Commodity	USDA Official [Old]	Post Estimate [New] 01/2002	USDA Official [Old]	Post Estimate [New] 01/2003	USDA Official [Old]	Post Estimate [New] 01/2004	MM/YYYY
Market Year Begin							
Beginning Stocks	8	8	8	8	10	10	(1000 MT)
Production	340	340	330	335	330	330	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	130	130	170	175	175	175	(1000 MT)
TOTAL Imports	130	130	170	175	175	175	(1000 MT)
TOTAL SUPPLY	478	478	508	518	515	515	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	5	5	10	10	10	10	(1000 MT)
TOTAL Exports	5	5	10	10	10	10	(1000 MT)
Human Dom. Consumption	465	465	488	498	505	505	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	465	465	488	498	505	505	(1000 MT)
TOTAL Use	470	470	498	508	515	515	(1000 MT)
Ending Stocks	8	8	10	10	0	0	(1000 MT)
TOTAL DISTRIBUTION	478	478	508	518	515	515	(1000 MT)
Calendar Yr. Imp. From U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table**Country****Russian
Federation****Commodity****Dairy,
Butter**(1000
MT)

Market Year Begin	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New] 01/2002	USDA Official [Old]	Post Estimate [New] 01/2003	USDA Official [Old]	Post Estimate [New] 01/2004	MM/YYYY
Beginning Stocks	27	27	22	22	17	17	(1000 MT)
Production	280	280	270	280	275	275	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	120	120	135	160	130	170	(1000 MT)
TOTAL Imports	120	120	135	160	130	170	(1000 MT)
TOTAL SUPPLY	427	427	427	462	422	462	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	5	5	5	5	5	5	(1000 MT)
TOTAL Exports	5	5	5	5	5	5	(1000 MT)
Domestic Consumption	400	400	405	440	400	440	(1000 MT)
TOTAL Use	405	405	410	445	405	445	(1000 MT)
Ending Stocks	22	22	17	17	17	17	(1000 MT)
TOTAL DISTRIBUTION	427	427	427	462	422	462	(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 Commodity	Russian Federation				(1000 MT)		UOM
	2002	Revised	2003	Estimate	2004	Forecast	
Dairy, Dry Whole Milk Powder	USDA Official [Old]	Post Estimate [New] 01/2002	USDA Official [Old]	Post Estimate [New] 01/2003	USDA Official [Old]	Post Estimate [New] 01/2004	MM/YYYY
Market Year Begin							
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	120	120	110	110	110	100	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	16	16	20	20	25	25	(1000 MT)
TOTAL Imports	16	16	20	20	25	25	(1000 MT)
TOTAL SUPPLY	136	136	130	130	135	125	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	6	6	6	6	6	6	(1000 MT)
TOTAL Exports	6	6	6	6	6	6	(1000 MT)
Human Dom. Consumption	130	130	124	124	129	119	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	130	130	124	124	129	119	(1000 MT)
TOTAL Use	136	136	130	130	135	125	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	136	136	130	130	135	125	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table

Country	Russian Federation	Commodity	Dairy, Milk, Nonfat Dry					(1000 MT)	UOM
				2002	Revised	2003	Estimate	2004	
Market Year Begin		USDA Official [Old]	Post Estimate [New] 01/2002	USDA Official [Old]	Post Estimate [New] 01/2003	USDA Official [Old]	Post Estimate [New] 01/2004	MM/YYYY	
	Beginning Stocks	0	0	0	0	0	0	(1000 MT)	
	Production	140	140	130	145	135	140	(1000 MT)	
	Intra EC Imports	0	0	0	0	0	0	(1000 MT)	
	Total Imports	50	50	60	60	55	65	(1000 MT)	
	TOTAL Imports	50	50	60	60	55	65	(1000 MT)	
	TOTAL SUPPLY	190	190	190	205	190	205	(1000 MT)	
	Intra EC Exports	0	0	0	0	0	0	(1000 MT)	
	Total Exports	20	20	25	25	25	25	(1000 MT)	
	TOTAL Exports	20	20	25	25	25	25	(1000 MT)	
	Human Dom. Consumption	170	170	165	180	165	180	(1000 MT)	
	Other Use, Losses	0	0	0	0	0	0	(1000 MT)	
	Total Dom. Consumption	170	170	165	180	165	180	(1000 MT)	
	TOTAL Use	190	190	190	205	190	205	(1000 MT)	
	Ending Stocks	0	0	0	0	0	0	(1000 MT)	
	TOTAL DISTRIBUTION	190	190	190	205	190	205	(1000 MT)	
	Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)	

Table 1. Russian Dairy Imports in 2002 and 2003, MT

HSC	Product	2002	2003
040310	Yogurt	8,900	6,798
040390	Other dairy products	26,741	19,511
040410	Whey	Na	23,805
040510	Butter	94,119	113,996
040520	Dairy spreads	10,266	10,231
040590	Other	5,581	10,473
040610	Fresh cheese	8,488	6,768
040630	Processed cheese	16,205	17,476
040690	Other cheese	103,332	152,196

Source: Russian State Customs Committee

Policy

Leaders of the Russian Ministry of Agriculture continue to insist that quotas should be applied to imports of dairy products, mainly butter and cheese, claiming that they are subsidized by exporting countries and dumped on the Russian market. Based on this, they claim that the Russian dairy industry cannot compete with imports and need protection

Though processors are interested in stable supplies of raw milk and claim they pay fair prices, most farmers complain that the raw milk price is not high enough to cover costs. In response, regional administrations have begun to provide more support to dairy farmers through the use of floor prices. One of the biggest milk producing regions in Russia, Belgorod, fixed minimum raw milk farm prices in January 2004 at the level of 6,000 ruble/MT.

Marketing

Improved efficiency of Russian milk producers is based on investments from dairies, many of which are foreign. The dairies provide technical assistance and financing for producers to provide milk on long-term contracts. The assistance is aimed at increasing the quality, and to a lesser extent the quantity, of the milk sold to the dairies.

The Hochland Group recently invested an estimated 35 million euros into cheese production in the Moscow region. The plant has a maximum capacity of 20,000 tons per year and may reach full capacity by 2005. Hochland now has six production lines running in the Moscow area and have reportedly virtually stopped importing.

Danone invested \$3.5 million into milk production in 2003 by purchasing milking equipment and other equipment for milk production for its raw milk supplying farms in the Moscow and Samara regions. Investment will reportedly be allocated into improvement of raw milk quality in 2004. Danone increased its production volume in Russia by 34 percent in 2003, to 89,900 MT.

Germany's Ehrmann, which has its own dairy products plant in Moscow region, is planning to invest an additional five million euros into the production of drinkable yogurt. Consumption of regular yogurts in Russia is falling due to the Russian preference for drinking milk, kefir, ryazhenka and other dairy beverages. Consumption of yogurt drinks, meanwhile, is growing rapidly, as it fits more easily into a modern, rapid lifestyle.