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Poultry and Products

Annual Report

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Report Highlights:

From January-July 2006, Russian poultry imports dropped to 691,300 MT compared to 702,600 MT during the same period in 2005. Domestic poultry production will increase 20 percent in 2006 and is expected to grow another 18 percent in 2007. Consumption of poultry meat is now on rise after a substantial drop following several outbreaks of avian influenza. Poultry prices stabilized with consumption growth but are still lower than a year ago. Domestic poultry producers continue to call for import restrictions reduce competition.

Includes PSD Changes: Yes
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Annual Report
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Executive Summary

In the first seven months of 2006, poultry imports dropped to 691,300 tons from 702,600 tons, compared to the same period last year. However, due to higher prices, the value of imports in the first seven months of 2006 totaled \$467 million, up from \$441.1 million a year earlier.

Meat and poultry production increased 3.9 percent to 3.7 million metric tons from January - July 2006, in comparison with the same period in 2005. Broiler production in 2005 was adjusted in accordance with new poultry production statistics. Production in 2006 will increase 20 percent, and is expected to grow 18 percent in 2007. Turkey production is also growing as new turkey facilities are being constructed.

No avian influenza cases have been reported in Russia for more than four weeks, according to Russian Service for Veterinary and Phytosanitary Surveillance officials.

Consumption of poultry meat in Russia is on the rise after a drop following much-publicized outbreaks of avian influenza at the end of 2005 and in the beginning of 2006. Poultry meat consumption increased 4 percent in June 2006 compared to the previous month.

Production

Meat and poultry production increased 3.9 percent to 3.7 million metric tons from January - July 2006, compared to the same time period last year. Egg production increased 2.8 percent to 22.6 billion eggs.

Broiler production in 2005 was adjusted in accordance with new poultry production statistics. Production in 2006 is expected to increase 20 percent and will continue to grow an additional 18 percent in 2007. Turkey production is also growing as new turkey facilities are being built and because turkey meat prices are much higher than broiler prices in Russia.

A new system of poultry production has been introduced in some regions of the Russian Federation to overcome growing agrarian crises in those regions. Currently, a mini-poultry facility equipped with the up-to-date European equipment is being constructed in Uliyanovsk oblast. One person is servicing the mini-farm as it is completely automated and computerized beginning from climate support to manure removal. It is expected to produce about 700 metric tons of poultry meat annually. Broilers will be slaughtered at 42 days of age weighing in at an average of 2.5 kilograms. The expected weight gain is 60 grams per day. Twenty-five sets of such mini-farms will be built in the region. The Ministry of Agriculture is planning to apply this approach throughout Russia.

Consumption

Consumption of poultry meat in Russia is on the rise after a drop following much-publicized outbreaks of avian influenza at the end of 2005 and in the beginning of 2006. Poultry meat consumption increased 4 percent in June 2006 compared to the previous month. According to the International Poultry Development Program and the Russian Poultry Union, 94 percent of Russians regularly consume poultry. According to their research, only 12 percent of Russians reduced consumption of poultry meat following avian influenza outbreaks and only 3 percent stopped eating poultry altogether. At the same time, 6 percent of Russians said they had increased poultry intake over the last year. An overwhelming number of those polled said they were fully confident in the safety of poultry meat sold in Russian stores. A total of 69 percent of the respondents said they had begun paying more attention to

preventive measures against avian influenza while 40 percent said they closely observed the necessary procedures for preparing and storing poultry meat.

Avian influenza outbreaks took place in Russia in July 2005, which led to a significant reduction in poultry meat consumption. The main reason for the sharp drop in consumption following these outbreaks was the way that the Russian media ran with it. Some 80 percent of those polled said Russian newspapers, radio stations and television networks devoted too much attention to the outbreaks. Positive trends have returned to the poultry meat market as a result of perceived strengthening of veterinary control and a significant drop in the number of publications devoted to avian influenza. The number of media reports on avian influenza in June 2006 had dropped dramatically compared to March 2006, which is considered to be the "peak period" of the avian influenza scare. Rosptitseysoyuz President Vladimir Fisinin, who also serves as First Vice President of the Russian Agriculture Academy, is quoted as saying that, "the data received proves that the crisis caused by avian influenza has been overcome and the situation has been fully resolved."

Russian consumers are not used to eating turkey meat since there was no domestic production until recently. Many companies started raising turkeys and they have been advertising their product heavily in order to attract customers. This advertising campaign has been a success. Turkey meat prices are high (250 rubles/kg of turkey breast vs. 130 rubles/kilo of broiler breast) compared to chicken prices, but local producers are doing very well selling their products.

Trade

According to the Russian Federal Customs Service (FTS), in the first seven months of 2006 compared to the same period last year, poultry imports dropped to 691,300 tons from 702,600 tons. However, due to higher prices the value of imports in the first seven months of 2006 totaled \$467 million, up from \$441.1 million a year earlier. Russia imported 10.9 percent more red meat in the first seven months of 2006 compared to the same period in 2005. According to FTS figures, 681,700 tons of meat valued at \$1.214 billion were imported during the first seven months of 2006, compared to 557,600 tons worth \$778.1 million a year earlier.

Poultry prices

Wholesale poultry prices decreased year-on-year basis in August 2006 for both domestic and imported product, down 3 percent for domestic frozen breasts to almost 30 percent on imported frozen carcasses. After the Russian Federation took counter measures (see below), prices started rising in May 2006 before once again going down in August. Recently, domestic producers have been competing more and more with each other instead of with their traditional adversaries, poultry importers.

Table 1. Moscow Wholesale Poultry Meat Prices, April 2003 –August 2006

Date	Exch. Rate, RU/\$	Domestic chicken			Imported chicken		
		Frozen carcasses	Frozen breast, boneless	Frozen leg quarters	Frozen carcasses	Frozen breast, boneless	Frozen leg Quarters
04/30/2003	31.10	41.77	55.67	44.50	41.90	56.38	34.42
06/30/2003	30.35	49.07	59.32	49.50	48.27	73.08	39.77
09/30/2003	30.61	59.96	108.00	61.09	58.58	107.77	45.45
12/30/2003	29.25	56.02	93.33	60.63	55.65	88.32	45.39
03/31/2004	28.49	54.07	84.50	52.50	52.51	80.30	44.96
06/30/2004	29.03	52.80	82.50	50.32	45.94	84.45	42.94
09/30/2004	29.22	49.62	90.25	47.82	44.20	89.77	43.76
12/29/2004	27.78	50.17	90.08	52.24	49.34	89.98	42.28
03/30/2005	27.83	61.42	85.00	56.10	63.17	87.33	54.66
06/30/2005	28.67	69.35	93.00	67.13	68.56	93.75	56.60
09/30/2005	28.50	65.19	98.00	63.07	66.64	107.38	60.14
10/30/2005	28.42	62.90	96.75	65.52	62.76	103.17	55.67
11/30/2005	28.73	59.97	96.50	58.91	60.81	98.60	51.08
12/30/2005	28.75	53.64	95.00	57.50	56.27	97.08	48.93
01/30/2006	28.02	52.90	94.92	54.57	60.86	98.21	46.08
02/28/2006	28.16	49.39	94.82	57.00	57.29	100.51	42.88
03/30/2006	27.76	48.56	91.82	53.42	52.54	102.38	43.23
04/30/2006	27.47	46.71	94.77	52.03	46.88	100.79	44.74
05/30/2006	27.07	47.01	94.02	55.50	49.09	100.84	46.80
06/30/2006	27.08	47.51	95.60	56.33	46.51	94.83	46.21
08/03/2006	26.76	51.16	96.80	56.00	46.50	91.42	43.36
08/31/2006	26.74	54.94	94.82	53.33	48.08	90.60	43.10

Source: Institute of Agrarian Market Research (IKAR)

Prices on the U.S. chicken leg quarters

April, 2006 – RUR 42.93/kilo

May, 2006 - RUR 44.54/kilo

June, 2006 - RUR 44.50/kilo

July, 2006 RUR 40.60/kilo

August, 2006 RUR 39.90/kilo

Stocks

Poultry stocks this spring were large due to a sharp reduction in consumption caused by avian influenza outbreaks. As a result, the Ministry of Agriculture began supporting poultry

shipment restrictions – cancellation of poultry veterinary import permits and pressuring poultry importers to “voluntarily” cut their imports by 30 percent.

Policy

The Russian official newspaper, Rossiiskaya Gazeta, published on 09.12.2006 a Resolution of the Government of the Russian Federation #533 of September 8, 2006 “On Introduction of Changes to the Resolution of the Government of the Russian Federation #733 of December 5, 2005.” This new Resolution calls for reallocating quotas of those countries with quota if/when they experience disease outbreaks and/or when countries with quota do not have enough product to export to Russia. Resolution #533 decrees to add to Paragraphs 1 and 3 of the Resolution “On additional measures to regulate the import of beef, pork and poultry in 2006-2009” the following: After wording “due to unfavorable epizootic situation the following wording, “as well as in the case of continuation for more than 3 months in a year of restrictions for exports introduced previously by a country-supplier (union of countries) and (or) absence of required volume of a commodity at a market of the country-supplier (union of countries). The present resolution enters into force within one month following its official publication.

The Resolution may have two side effects;

- It gives more reasons to change TRQ country allocation (Ref RS6018) because of the epizootic situation in the exporting country;
- Leaves it up to the Russian government to decide when an exporting country does not have enough volume.

The above mentioned Resolution was developed in a working group session that is part of an interagency commission on Protective Measures in Foreign Trade that provides recommendations to Russia's customs and tariffs policy. The first step will be redistributing a large part of the European Union's quota in 2006 to other countries, mainly Brazil. The reason for this move was that poultry diseases were registered in a number of European countries. In addition, the European quota for poultry meat was never filled and companies had to import poultry from other countries (i.e. Brazil) at high duties set above the quota for imports. About 50,000 metric tons of Brazilian poultry meat has been imported to Russia at higher duties in the first half of 2006 alone.

The group also discussed a proposal on the method for distributing quotas on poultry meat in 2007. The decision is stipulating that the volume of meat imported in 2005 (not 2006) should be used to determine the share quotas given to importing companies. It was also recommended not to use the volume of poultry imported outside of the quota as has been done in previous years. Meat market analysts have stated that Russia is reacting to the current market situation and is looking to support domestic producers. When demand for poultry meat fell in spring 2006 due to avian influenza outbreaks, importing companies voluntarily decided to reduce imports by 30 percent. The Ministry of Agriculture loudly supported this move because it enabled the market to remain relatively stable and kept a number of Russian poultry plants from going bankrupt.

The distribution of poultry import quotas in Russia is currently done on the basis of the so-called historical principle, that is, a company's share in the quota is determined in proportion to its share in imports over the previous year. Therefore, the reduction in imports by companies that voluntarily cut deliveries led to a drop in their share in the quota for 2007. According to Minister of Agriculture Gordeyev, “An agreement was reached that stipulates

that the share of importing companies in the quota for 2007 will be retained regardless of the volume they actually import this year." Thus, support will be provided to companies that voluntarily reduced poultry meat imports by 30 percent in the spring of 2006 to lessen the pressure on the Russian market and to protect domestic producers.

To date, the methodology for calculating poultry import quotas for 2007 has not been officially announced. Market analysts are concerned that whatever methodology used could seriously complicate the situation of the Russian meat market toward the end of this year and lead to a collapse in prices. The delay could encourage companies (who are afraid that their share of the 2007 quota will decrease) to use up the full quota for this year, which could sharply increase supply and push down prices. Domestic producers would be the first to suffer.

According to some government sources, the draft resolution changing the methodology for calculating poultry quotas in 2007 is now being cleared by government agencies and should be submitted to the government by the end of September for final approval. Under the resolution regulating poultry imports in 2006, the quota for 2007 will be 1.131 million tons, including 841,300 tons for the United States, 220,600 tons for the European Union, 5,000 tons for Paraguay and 63,900 tons for other countries.

Cancellation of all existing permits for poultry imports

On April 27 the Russian Veterinary and Phytosanitary Surveillance Service (VPSS) issued a resolution that canceled all existing permits for poultry imports and established a new licensing scheme due to claims of "repeated violations of Russian import regulations by exporters." The new mechanism also consolidated the offices authorized to issue new permits from the regional level to so-called zone offices. In addition, VPSS set a deadline of May 8 for product being shipped from the originating country using the old permits. This Resolution created uncertainty in the market, which led to a decrease in poultry imports.

Voluntary decision to reduce poultry meat imports by 30 percent

On April 11, 2006, Russian importers decided to voluntarily reduce imports of poultry meat by 30 percent, due to reduced demand for poultry meat caused by avian influenza fears. At that time, demand for poultry meat in Russia declined 20-25 percent compared to six months earlier. The Ministry of Agriculture stated that the reduction in supplies of imported poultry meat would not disrupt the balance in the domestic market. The decision of the private sector to restrict purchases of imported poultry meat was meant to support domestic producers. On September 15, 2006, the Ministry of Economy Development and Trade (MEDT) officials distributed leftover volumes of beef, pork and poultry quotas as of August 1, 2006, on the bases of requests by companies that got their licenses to import beef, pork and poultry. In accordance with the data, the leftover poultry quota was only 4,400 metric tons between 143 companies proportional to their 2005-year statistics. This "leftover" is much less than the 30 percent voluntary cut in poultry meat imports.

Draft of a new technical regulation may ban production of food products (cutlets, sausage, MDM) from frozen poultry

The Russian government is currently reviewing a draft of a new technical regulation, which would significantly elevate import requirements of poultry meat and processed poultry products. The Russian Poultry Union (RPU) insists that Russia should ban production of all food products (cutlets, sausage, MDM) made from (imported) frozen poultry. The RPU is comprised of domestic poultry factories that produce mostly fresh/chilled poultry. The text of the draft will soon be passed to the Ministry of Industry and Energy for review. The draft

technical regulation allows only chilled meat to be used for processing. If approved, the change would affect poultry storage conditions at factories, feeding facilities, meat storage and processing. Market players believe this would have a strong impact on poultry meat imports leading to an immediate 10 percent increase in poultry prices. According to meat processing experts, frozen meat accounts for about 95 percent of all raw material used by meat processors. Domestic chilled poultry is much more expensive than imported frozen poultry so the new requirement if approved would significantly increase production costs.

Marketing

Transnational company Ideal Poultry House (IPH) plans to invest 875 million rubles to build a large poultry facility in Uliyanovsk oblast. The Belgian Fortee Bank will finance the project. Ideal Poultry House was founded in Belgium with shareholders from Hungary, Belgium, Denmark, Holland, Luxemburg and France.

German company Lomann Tierzucht GMBH (LT) that supplied one-day chicks for many Ural region poultry farms refused to cooperate with state-owned farms. The company lost 8.8 million rubles after their joint venture with a state-owned Russian partner fell apart after the Russian partner filed for bankruptcy. They will have stated that they will only do business with private companies in the future.

Eurodon Company is building turkey farm operations in Rostov-on-Don (Lower Volga region). Roughly 63,000 metric tons of turkey meat will be produced and processed there according to recent reports. An Israeli company, M.A.D. Developing Agricultural Projects Limited, will provide the technology for production and processing.

Russia banned imports of poultry meat from the Netherlands in early August 2006 after low-pathogenic bird flu virus H7 was discovered. In accordance with a Memorandum on Veterinary Cooperation between Russia and the EU, the Netherlands cut off exports of chicken meat to Russia and sent an official notification about the discovery of the disease and measures being taken to eliminate it. Russia agreed to accept imports of poultry meat and other poultry products shipped from the Netherlands before August 21. Products shipped after that date would not be allowed into Russia. The restrictions concern live birds, incubator eggs, poultry meat and all types of poultry-related equipment.

Domestic producers lobby poultry import restriction

Domestic producers continue to push the Russian government to limit competition by applying import restrictions. The Russian Poultry Union organized a rally in the center of Moscow this past summer demanding protective measures be enacted by the Russian government. It prepared an open letter to Russian President Putin that was signed at the rally and later published in Russian newspapers. Below is the content of the letter:

Dear Mr. Putin,

The most scientific and technologically advanced sector of Russia's agriculture, poultry production, is currently facing the threat of extinction. This may be a serious blow to the food safety of the country and can shed doubt on the implementation of the national project "Development of the Agro-Industrial Complex."

This situation was the result of:

- An unjustified annual increase in imports of chicken meat in spite of the rapid growth in domestic production. Poultry producers are the only people in Russia's agriculture that managed to double output in 1998! The annual increase in 2005 came to 17%

(184,000 tons). In first quarter of this year it has already exceeded 53,000 tons! We have much to be proud of.

- Frightening coverage in the mass media, including government-run editions, of the artificial threat of avian influenza, which is leading to a decline in demand on poultry and eggs in the country.
- Growing illegal imports of chicken through the Special Economic Zone in Kaliningrad region.
- Dumping of imports.

All this is leading to overstocking of unsold products, a reduction in factory prices (by 25 percent) and as a result to losses and smaller output volumes as well as unemployment.

Therefore, the market is cleared for low-quality and often health threatening imported leg quarters and protein substitutes like soy beans, social tension is built up because millions of rural residents involved in agriculture and adjacent sectors are made redundant.

There is no appealing climate in Russia's agriculture for investments!

Continues concessions and the betrayal of domestic agricultural interests at WTO accession talks are becoming a serious threat to the industry. We, producers, people who are involved in poultry production in Russia appeal to you, the guarantor of Russian Federation Constitution and request your assistance in averting the demise of an entire agricultural sector in Russia and in protection national interests! End Letter.

VPSS - no avian influenza in Russia

No avian influenza cases have been reported in Russia in more than four weeks, according to VPSS. On August 7, 2006 the last quarantine restriction was lifted. In all, 93 localities in eleven districts of the Southern Federal District and five in the Siberian Federal District have been affected by the disease this year. The situation remains under the State Veterinary Service's permanent control, VPSS concluded.

PS&D Tables

PSD Table								
Country	Russian Federation	(1000 mt) (Mil Head)						
Commodity	Poultry, Meat, Broiler	2005	Revised Post	2006	Estimate Post	2007	Forecast Post	UOM
Market Year	USDA	Estimate[New]	Official [Old]	Estimate[New]	Official [Old]	Estimate [New]	Official [Old]	MM/YYYY
Begin	Official [Old]	01/2005		01/2006		01/2007		
Inventory (Reference)	0	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	80	80	60	59	44	48		(1000 MT)
Production	740	900	840	1080	0	1260		(1000 MT)
Whole, Imports	90	90	90	90	0	100		(1000 MT)
Parts, Imports	1100	1100	1150	1150	0	1050		(1000 MT)
Intra EC Imports	0	0	0	0	0	0		(1000 MT)
Other Imports	0	0	0	0	0	0		(1000 MT)
TOTAL Imports	1190	1190	1240	1240	0	1150		(1000 MT)
TOTAL SUPPLY	2010	2170	2140	2379	44	2458		(1000 MT)
Whole, Exports	0	0	0	0	0	0		(1000 MT)
Parts, Exports	1	1	1	1	0	1		(1000 MT)
Intra EC Exports	0	0	0	0	0	0		(1000 MT)
Other Exports	0	0	0	0	0	0		(1000 MT)
TOTAL Exports	1	1	1	1	0	1		(1000 MT)
Human Consumption	1949	2110	2095	2330	0	2400		(1000 MT)
Other Use, Losses	0	0	0	0	0	0		(1000 MT)
Total Dom. Consumption	1949	2110	2095	2330	0	2400		(1000 MT)
TOTAL Use	1950	2111	2096	2331	0	2401		(1000 MT)
Ending Stocks	60	59	44	48	0	57		(1000 MT)
TOTAL DISTRIBUTION	2010	2170	2140	2379	0	2458		(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0		(1000 MT)

PSD Table

Commodity	Poultry		(1000 mt)						
	Meat, Turkey		(Mil Head)						
Market Year Begin	2005 USDA Official [Old]	Revised Post Estimate [New] 01/2005	New Post Estimate [New] 01/2005	2006 USDA Official [Old]	Estimate Post Estimate [New] 01/2006	New Post Estimate [New] 01/2006	2007 USDA Official [Old]	Forecast Post Estimate [New] 01/2007	New Post Estimate [New] 01/2007
Inventory (Reference)	0	0	0	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	17	17	17	18	18	19	0	0	21
Whole, Imports	1	1	1	1	1	1	0	0	1
Parts, Imports	99	80	99	99	85	95	0	0	100
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0	0	0	0
Total Imports	100	81	100	100	86	96	0	0	101
Total Supply	117	98	117	118	104	115	0	0	122
Whole, Exports	0	0	0	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0	0	0	0
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Human Consumption	116	97	116	117	103	114	0	0	121
Other Use, Losses	1	1	1	1	1	1	0	0	1
Total Dom. Consumption	117	98	117	118	104	115	0	0	122
Total Use	117	98	117	118	104	115	0	0	122
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	117	98	117	118	104	115	0	0	122
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0	0	0
Production Change	0	0	0	0	0	0	0	0	0
Import Change	0	0	0	0	0	0	0	0	0
Export Change	0	0	0	0	0	0	0	0	0
Trade Balance	-100	-81	-100	-100	-86	-96	0	0	-101
Consumption Change	0	0	0	0	0	0	0	0	0