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GAIN Report

Global Agricultural Information Network

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Report Highlights:

Russia will experience a shortage of feed supplies in 2011 due to the severe drought in the Central, Volga, and Ural districts in 2010. The shortage of feed grain may reach 2.5-3.0 million metric ton (MT) by April-May 2010. This situation presents a threat to Russia's expanding poultry and swine industries, and may stimulate imports of feeds in 2011. According to official statistics, production of compound feeds in Russia in CY 2009 is estimated at 14.7 million MT, however, trade sources estimate that actual production of feed varies from 23-24 million MT.

Executive Summary:

Russia will experience a shortage of feed in 2011 due to the severe drought in the Central, Volga, and Ural districts in 2010. Grain production in 2010 dropped by more than 30 percent from last year to 60 million metric tons (MMT), and will be the lowest since 1999. The shortage of feed grain may reach 2.5-3.0 MMT by April-May 2011^[1]. This shortage will not be compensated by other feeds, such as pea-type crops, meals of oilseeds, products of sugar refining, etc., because production of these crops were also affected by drought. Moreover, decreased winter grain sowing may adversely impact the 2011 crop. This situation presents a threat to Russia's expanding poultry and swine industries, and may stimulate imports of feeds in 2011.

The Russian government envisages emergency measures to provide livestock and poultry farms with feeds in 2011, including distribution of grain from the State Intervention Stocks. However, these measures will only be a band-aid and not a cure for Russia's inefficient feed industry.

Demand for feed in Russia is only expected to grow as its food security doctrine envisages self-sufficiency in poultry, meat and dairy production by 2020. Imports of compound feeds, and especially feed ingredients might continue and expand even after Russia's domestic grain production recovers in 2011-2012.

^[1] Interfax, Dec. 1, 2010: <http://www.agronews.ru/Obzor.php?ObzorId=2778>

**General Information:
Feeds Supply in Russia**

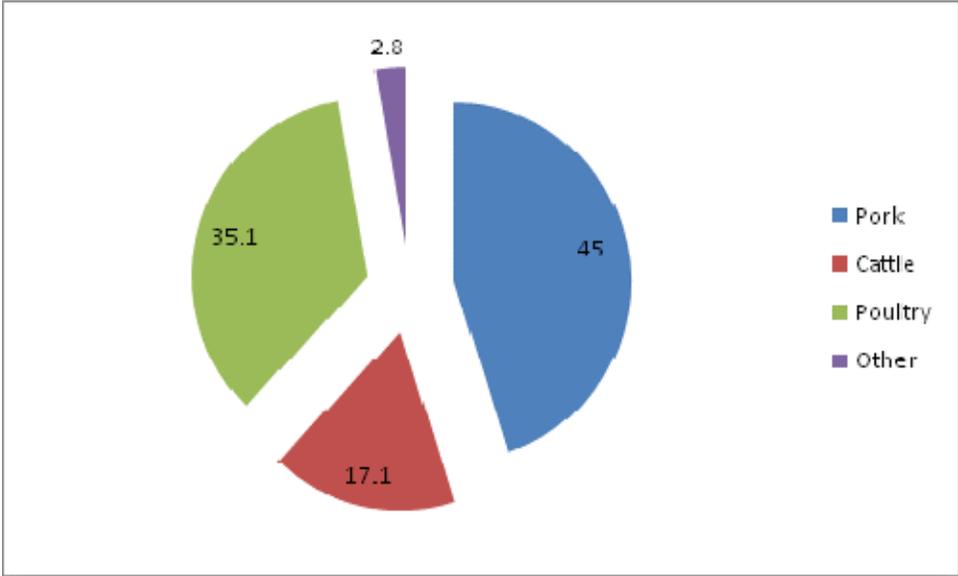
According to sources, many Russian farmers still feed their livestock with their own grain supplemented with minerals. Wheat, Russia's major grain crop, dominates most feed rations. Outdated transportation, storage, and milling infrastructure sometimes result in feeding food quality wheat to poultry and pigs. FAS Moscow estimates feed grain consumption in MY 2010 (marketing year for Russia's major grain crops begins on July 1, and ends on June 30 the next year) at 35 MMT, almost 10 percent less than the previous year due to drought. In the meantime, Russia's Food Security Doctrine envisages that by 2020 Russia shall reach 85-90 percent self-sufficiency in meat products, and beginning 2008 Russia significantly increased interest rate subsidies for loans to livestock and poultry producers^[1]. These loans helped to modernize some portion of Russian farms and feedlots, to purchase pedigree stocks, to construct new barns, and even to modernize their own feed-mills, although the latter is not directly covered by interest rate subsidies. With such intensive investment, it is not a surprise that compound feeds is lagging behind the development of Russia's poultry and meat production.

According to official statistics, production of compound feeds in Russia in CY 2009 is estimated at 14.7 million MT, however, trade sources estimate that actual production of feed varies from 23-24 million MT. The reason for this discrepancy is that most poultry and pork facilities operate their own feedlots and production of feed for internal use is not registered. Between 2007 and 2009,

production of compound feeds increased by 10-15 percent as a result of the construction of new poultry and pork facilities. In this case, feed producers are not included in the list of agricultural producers and are not subject for any preferences including credits on favorable terms. Despite this increase in compound feeds production, the level is still lower than 50 MMT's production reported by Russian statistics in the 1990s.

The share of feed pre-starters was 2 million MT. Production forecast for 2012 calls for an increase of pre-starters up to 1.2 million MT. The grain component in pre-starters is 55 percent of barley and wheat. Currently, production volume of pre-starters in the total production of compound feeds in Russia is insignificant and estimated at 211,000 MT, with local demand estimated at 750,000 MT.

Chart 1: Russia: Production Structure of Compound feed in 1990, (%)



Source: National Feed Union of Russia

According to Russian statistics, total feed production in 2009 increased by 9 percent in comparison with 2008 and is estimated at 14.7 million MT. Production increased during January-June of 2010 and is estimated at 11.4 million MT, 9 percent over the same period in 2009. According to the data provided by the National Feed Union, Russia's current demand for feeds is estimated at 40-45 million MT annually; demand for biological vitamin additives 1.5 million MT and 400,000 MT for premixes. The share of full ration feed in the total feed production is 55 percent.

Rosstat reports a downward trend in feed to farms and agricultural holdings in Russia. As of October 1, 2008, agricultural farm stocks accounted for 20.3 million MT of feed units, at the same time in 2009 it accounted for 18.3 million MT of feed units. Feed supply continued to decrease and by October 1, 2010, it was estimated at 15 million MT of feed units. Feed stocks for livestock units are estimated at 9.4 MT of feed units in 2010 which is 17 percent down in comparison with 2009.

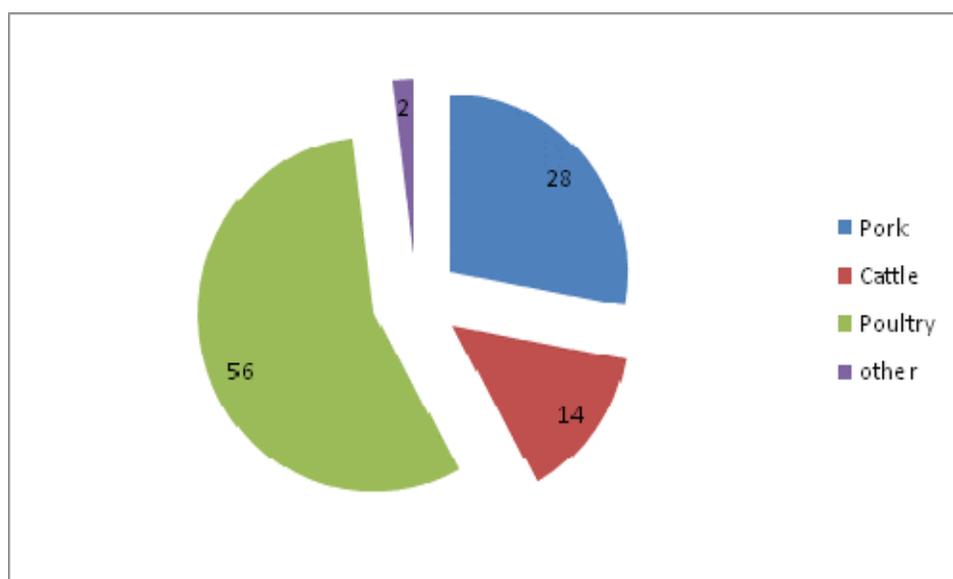
According to the Russian Feed Union an average 28-33 million MT of grain is used for feed production. The weight of grain component in the total compound feed production is over 70 percent. Russia produces only 50 percent of compound high quality feed, the other 50 percent is

presented as feed additives.

Experts estimate the demand for concentrated feeds to increase by 30-35 percent as a result of intensive cattle breeding and growing imports of breeding cattle and milk production.

According to the head of the National Feed Union, current production capacity of feed mills in Russia could grow up to 37 million MT annually. The Union believes that the main obstacles for inefficient development of local capacities are attributed to the lack of government support to feed producers and high demand for protein components including corn, soybean and peas.

Chart 2: Russia: Production Structure of Compound Feeds in 2009, (%)



Source: National Feed Union of Russia

Poultry

According to the draft program, “On the Development of Feed Production,” poultry’s share of compound feed consumption is set to grow from 31 to 34 percent between 2009 and 2012. Poultry establishments currently produce/manufacture 70 percent of their own feed demands, but some of them still purchase grain and other feed components.

Pork

Higher feed prices and therefore higher slaughter rates in the second half of 2010 will increase pork production by 8.8 percent in 2010 but only 4.9 percent in 2011. The larger slaughter numbers will slow the pace of herd expansion from 3.4 percent in January 2010 to 2.4 percent in January 2011.

Livestock

Beef production continues to be the least developed animal protein sector in Russia. Animal

husbandry concerns as well as economic returns, in particular start-up costs for new entrants, will continue to present challenges. In the short-term, economic returns will be further eroded by high feed costs causing the cattle inventory to undergo further challenges. The shrinking dairy cow herd continues to be the leading long-term indicator of beef production. However, in 2010, increased slaughtering of the herd due to feed costs/shortages is further accelerating its decline. This will lead to the first, albeit short-term, growth in beef production in more than a decade. Regions impacted by the drought represent 47 percent of the total cattle herd in 2010. As shortages and higher prices are already being felt by livestock producers, information from the regions indicate the situation will only worsen in the future.

Therefore, inventory and production expectations for 2011 remain similar to 2010 as feed shortages will again present financial challenges for producers to maintain inventory. Yelena Skrynnik, Agriculture Minister, said that she expected the drought and feed shortage to further reduce beef production. USDA Moscow feels these reductions are reserved for 2012, when feed supplies recover, and after the herd has been dramatically reduced in number.

Estimated Russia's Needs in Feeds

In course of drafting "Feeds Development Program," Russian specialists estimated Russia's needs in feeds for growing livestock and poultry sectors. These estimates are given in Tables 1 and 2. Russian specialists usually calculate needs based on projected livestock and poultry numbers and estimated feed consumption rates. These estimates do not count availability of funds for purchase of these feeds. Table 2 in the attachment 2 provides additional calculation for the needs of feed by sectors prepared by experts from the Ministry of Agriculture, Russian Academy of Sciences and National Feed Union, in an effort to ensure implementation of government programs on dairy and livestock.

Feed Industry Development Program

Industry sources believe that implementation of the "Program for the Development of Feed Production in Russia 2010-2012" could improve the situation in the feed industry as the Program foresees increase in feed production by 4 million MT by the end of 2012. However, these sources are not very optimistic that the program will be approved by the government, since it has been postponed more than once before.

Constraints in Developing the Feed Sector in Russia

The 5th International Conference on the current state of the Russian and world feed industry took place at the International Industrial Academy in Moscow in November. It was organized with the support of the Ministry of Agriculture, National Feed Union, and industry representatives. The main objective of the activity was to address the problems of the Russian feed sector and seek ways to make the industry more efficient and responsive to the needs of current development of the agricultural sector.

Major constraints for efficient development of the feed sector in Russia include:

- Lack of proper balance in protein, and amino acids in feed for cattle, poultry, and fish;
- Insufficient domestic production of oilseeds, corn and soybean meal, and major sources of proteins;
- Lack of government support measures, including financial, aimed at stimulating production of corn, rapeseed, and soybeans;
- Lack of incentives for businesses to attract new technologies in development of the feed sector, such as using agricultural wastes for substitution of higher cost components with lower cost as corn gluten, molasses, and dried beet chips. For example, Russia produces 12,000 MT of beet pulps annually, plus 1.3 million MT of brewing waste and 500,000 MT of DDGS. According to analysts, this could have substituted 2.5 million MT of fodder grain annually.

According to the reports from the government and the industry, Russia is heavily dependent on imports of chemical substances and vitamins for feed production. Imports of these categories increased from \$250 million in 2008, to \$300 million in 2009. The outlook for 2010 calls for further increase in imports of vitamins for feeds as the result of the lack of production facilities for domestic chemical production.

The head of the National Feed Union reported that in an effort to develop the feed sector domestically it is important that the government reconsider the sowing structure. More area is needed for sowing with fodder, giving more preference to rapeseed and soybeans. Current Russian demand for soybeans is estimated at 3.5 million MT, with a deficit of 3 million MT. Russian industry believes that lupine could be a good alternative to soybeans as it can grow in a colder climate and contains protein level that is not far below in comparison with soybeans. Current lupine production in Russia is very insignificant and is estimated at 90 MT.

Another reason for the slow development of the feed sector is that feed facilities do not have a good marketing policy towards smaller farms and household private farms. The reasons for smaller share of compound feeds (1-2 percent of the total feed production) to these categories of farms are growing prices for feed, lack of smaller volume availability, lack of delivery channels, and lack of reasonable credit lines for individual producers. According to specialists, the total feed consumption of grain is inadequately high compared with the results of the meat and animal products output.

Most analysts also point out the lack of government policy and interest from the Ministry of Agriculture to establish a department within the Ministry aimed at developing policy guidelines for the feed sector.

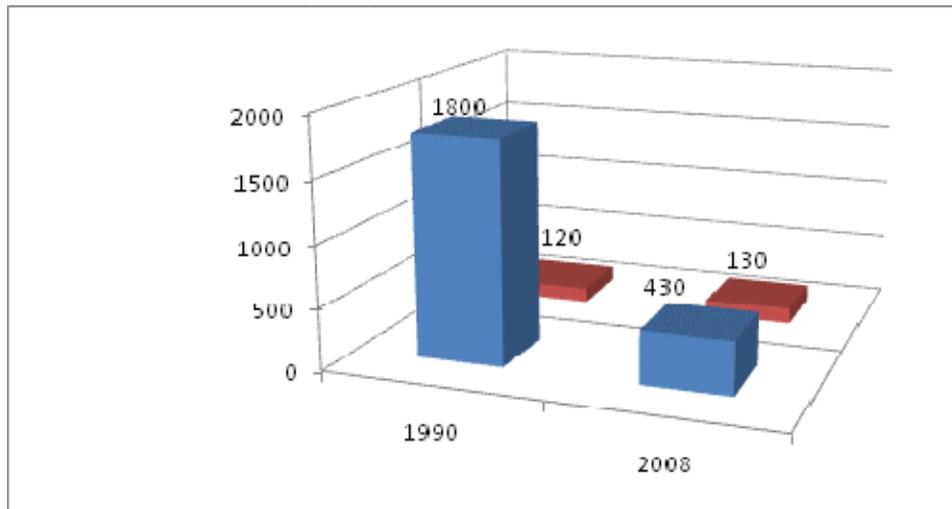
Currently 30 percent of all feed facilities are able to compete with foreign suppliers, other require renovation and modernization, as the majority of feed facilities were constructed in late 1960's.

The average cost efficiency of feed mills currently is estimated at 6 percent, as a result of growing prices for feeds, increasing electricity costs, as well as prices for raw material. Russia's production of bio chemicals, amine acids, vitamins, and ferments are very insignificant as it has not been efficiently operating for recent decades. However, due to intensive pork and poultry industry development the production of biological vitamins and mineral additives increased from 63,905 MT in 2008 to 117,911 MT in 2009. The major production growth occurred in Central Federal District with 24,415 MT, followed by Northwestern Federal District with 33,785 MT, and Southern Federal

District with 20,505 MT.

The Russian Feed Union envisions increasing production of protein mineral concentrates and premixes in larger feed production facilities, for further processing of compound feeds in individual feed lots.

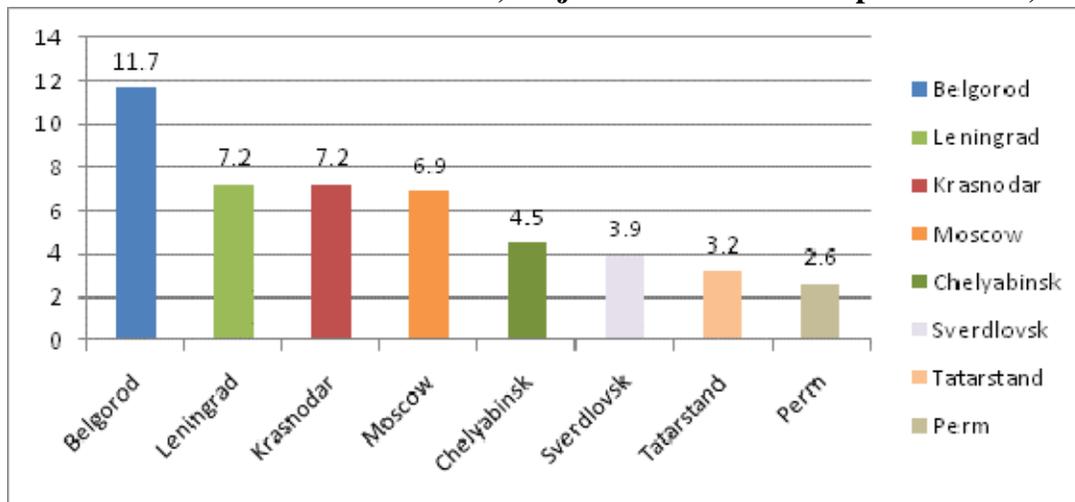
Comparative Chart 3: Russia: Production of Protein Mineral Concentrates and Premixes in Russia, 1990 and 2008, in 1,000 MT



Source: National Feed Union of Russia

Currently, further development of the feed sector in Russia is reflected by increases in cattle breeding. The distribution of feed production by the region is quite spotted:

Chart 4: Russia: Share of Provinces, Major Producers of Compound Feeds, 2009, in %.



Source: National Feed Union of Russia

Trade and Trade Opportunities

U.S. suppliers have potential to export amine acids and lysine to Russia since domestic production is very low. Potential shipments may include lysine, methionine, and tryptophane.

According to the Russian Feed Union, there is only one facility in Russia that produces lysine, however, 70 percent of its shares belongs to the Chinese. As a result, high quality natural lysine is being exported to China while demand in Russia continues to be very high. According to the head of the Feed Union, Russia imports almost 100 percent of lower quality synthetic lysine.

Table 3: Russia: Import of Feed and Fodders (exc. Pet food), 2007-2009.

Partner Country	2007		2008		2009	
	USD	Quantity, 1,000 MT	USD	Quantity, 1,000 MT	USD	Quantity, 1,000 MT
World	311,200	329	421,830	347	403,319	320
Netherlands	86,606	94	120,388	103	94,400	75
Germany	43,014	41	57,088	36	52,534	35
Belgium	35,749	37	39,473	37	47,288	35
France	21,441	18	28,857	17	33,884	19
Lithuania	12,172	21	24,896	35	28,617	38
United States	25,495	44	34,011	38	24,331	35
Finland	22,194	21	27,659	23	23,806	19
Hungary	9,541	8	19,250	15	17,812	12
Denmark	9,131	6	13,818	7	14,126	8

Source: Global Trade Atlas

Table 3: Russia: Import of Feeds and Fodders (Exc Pet Food), Jan-Aug. 2008-2010.

Partner Country	2008		2009		2010	
	USD	Quantity	USD	Quantity	USD	Quantity
World	265,497	220	225,856	187	299,412	234
Netherlands	78,997	68	55,862	47	68,400	56
Germany	32,345	21	28,451	20	41,884	30
France	18,356	11	20,062	12	28,437	18
Belgium	22,774	21	25,469	19	24,475	21
United States	24,366	26	13,486	20	23,453	22
Lithuania	15,770	23	16,070	22	17,711	25
Finland	18,361	14	16,625	13	13,922	12

Major Feed Facilities and Their Production Volumes

There are a total of 400 feed facilities throughout Russia, most of the facilities were built in late 60's and require major modernization. This is another significant constraint to the development of the sector. Since 2005, 10 facilities for production of premixes and concentrates have started operation in Russia. However, according to a survey, if not for the shortage of raw material, the Russian feed sector has a capacity to produce 37 million MT of feeds.

Attachment 1

Table 1: Russia: Calculated Needs in Raw Material for Compound Feed Production in Russia in 2008-2009, 1,000 MT

Raw Material	2008	2009 (est.)
Wheat	10,152.58	10,752.56
Barley	8,293.1	8,735.62
Corn	5,473.57	5,957.8
Oats	2,798.88	2,913.0
Rye	426	466.62
Total feed grains	27,144.13	28,825.6
Peas	1,922.99	2,009.98
Soybeans	258.18	282.8
Vetch	90.36	98.98
Chick-peas	77.45	84.84
Total legumes	2,348.98	2,476.6
TOTAL FEED GRAINS and LEGUMES	29,493.11	31,302.2
Bran	3,610.9	3,722
Soybean meal	2,998	3,244.4
Sunflower meal	3,367.63	3,459.46
Fish meal	455.97	505.6
Yeast	495.84	510.94
Meat and bone meal	185.62	195.16
Molasses	465	459.6
Sunflower oil	291	318.4
Limestone	426.3	441
Other (including premixes, salt, calcined phosphate etc.)	1,169.63	1,221.24
TOTAL	42,959	45,380

Source: National Program for the Development of Feed Production in Russia in 2010-2012

Attachment 2

Table 2: Calculated Need in Compound Feeds in Russia by Sectors, 2010-2012

Years	Production	Needs in Compound Feeds, 1,000 MT
CATTLE BREEDING		
	Milk Production, 1,000 MT	
2010	32,700	7,800
2011	33,700	7,900
2012	33,300	8,000

	Meat Production, in live weight, 1,000 MT	
2010	3,080	7,700
2011	3,100	7,700
2012	3,200	8,800
	Compound Feeds for Cattle, Total	47,100
PIG BREEDING		
	Pork Production 1,000 MT in Live Weight, 1,000 MT	
2010	3,300	16,500
2011	3,500	17,500
2012	3,700	18,500
	Compound Feeds for Pig, Total	52,500
POULTRY INDUSTRY		
	Poultry Production, Live Weight, 1,000 MT	
2010	4,000	8,800
2011	4,400	9,700
2012	4,800	10,500
	Eggs Production, mln. pcs	
2010	39,850	5,500
2011	40,350	5,600
2012	40,850	5,700
	Compound Feeds for Poultry, Total	45,800

Source: Extracts from the National Feed Union Report, published in the magazine "Tsenovik" at www.tsenovik.ru.

Attachment 3

Top 10 Russian Feed Production Facilities for Poultry

Name of the Facility and Address	Full Name and the Title of the Head of the Facility	Feed Production, MT	
		Total	Feeds for Poultry
JSC "Poultry Facility Severnaya" 187322, Leningrad oblast, Kirovskiy rayon, settlement Sinyavino	Van Den Brink Villeke – General Director	264,844	264,844
JSC "Belgorod Experimental Facility of Fishery feeds" 309300, Belgorod oblast, Rakityanskiy rayon, settlement Proletarskiy, Borisovskoye shosse, 1	Aleksandr Vasilyevich Kharaman – General Director	338,919	237,229
ZAO "Novooskolskiy Feed Facility" 309560, Belgorod oblast, City Noviy Oskol, Bondareva str., 2	N/A	199,529	199,529

Affiliated of ZAO “Novooskolskiy Feed Facility” 309560, Belgorod oblast, settl. “Volokonovka”	N/A	189,499	189,499
JSC “Poultry Kingdom” 398531, Lipetskaya oblast, Lipetskiy rayon, settlement Lenino	Aleksandr Viktorovich Mukhortov – General Director	178,007	178,007
ZAO “Gatchinskiy KKZ” 188350 Leningradskaya oblast, Gatchinskiy rayo, village Maliye Kolpany, Zapadnaya str., 31	Nikolay Mikhaylovich Chistyakov – General Director	268,643	172,994
JSC “Ufimskiy Bread Products Facility” 450018, Republic of Bashkortostan, Ufa , Elevatornaya str., 1	Igor Zinovyevich Fridburg – General Director	169,184	168,756
JSC “Belgorod Facility of Bread Products” 308013 Belgorod oblast, Belgorod, Makarenko str., 14	Aleksandr Aleksandrovich Gabidulin	161,646	161,496
OOO “Kamarchagskiy Feed Facility” 663500 Krasnoyarskiy kray, Manskiy rayon, settl. Kamarchaga, Oktyabr’skaya str., 39	Anatoliy Andreyvich Tabakov – General Director	146,572	146,572
JSC “Ozherel’evskiy Feed Facility” 142900, Moscow oblast, Kashira, P/O “Tsentrolit”	Aleksandr Nikolayevich Savenko – General Director	169,562	137,694

Top 10 Russia Facilities for Feed Production for Pigs

Name of the Facility and Legal Address	Full Name and the Title of the Head of the Facility	Feed Production, MT	
		Total	Feeds for Pigs
JSC “Luzinskiy Feed Facility” 644504, Omskaya oblast, Omskiy rayon, settlement Luzino, Transportnaya str., 19	General Director OOO “Prodo-management” Viktor Yevgeniyevich Sukhinov	213,240	173,120
ZAO “AleyskZernoProdukt” named after S.N. Starovoytov 658130, Altaysk kray, Aleysk city, Pervomayskaya str., 81	Anna Petrovna Starovoytova – General Director	181,683	120,730
OOO “Labaz” 309990, Belgorod oblast, Valuyki city, Surzhikova str., 88	Aleksandr Georgiyevich Komanov – General Director	198,594	119,687
JSC “Facility “Feed and Premixes” 143340, Moscow oblast, Narofominskiy rayon, village Kuznetsovo	Renat Nail’yevich Belyandinov – General Director	109,578	100,465
JSC “Belgorod Experimental of fishery feed” 309300, Belgorod oblast,	Aleksandr Vasilyevich Kharaman – General	338,919	92,137

Rakityanskiy rayon, RP Proletarskiy, Borisovskoye shosse, 1	Director		
JSC “Agrofirma Ariant” 457011, Chelyabinskaya oblast, Uvel’skiy rayon, settlement Rozhdestvenka, Sovkhoznaya str., 2	Adnrey Mikhaylovich Skidnov General Director	93,769	86,170
FGUP “Perm Pork Facility” 617077, Permskiy kray, Krasnokamsk, settlement Mayskiy, Tsentral’naya str., 3		85,233	85,233
ZAO “Sorochinskiy Facility Khleboproduct” 461902 Orenburg oblast, Sorochinsk, Zelenaya str., 5	Gocha Zaridze General Director	82,958	82,358

Top 10 Facilities for Feed Production for Livestock

Name of the Facility and Legal Address	Full Name and the Title of the Head of the Facility	Feed Production, MT	
		Total	Feeds for livestock
ZAO “BelCom” 309110, Belgorod oblast, RP Ivnya, Shosseynaya str., 25	Yuriy Vladimirovich Yemel’yanov General Director	140,738	140,738
JSC “Facility Khleboproduct named after Kirov” 192019, Leningrad oblast, St-Petersburg, prospect Obukhovskoy oborony, 45	Sergey Vytsekh – General Director	178,185	124,145
ZAO “Stavropol Broiler” representation office “Ryzdvyanenskiy” 356110 Stavropolskiy kray, Izobil’nenskiy rayon, RP “Ryzdvyaniy”	Vladimir Ivanovich Tyurin General Director	118,292	1198,292
JSC “Istra-Khleboproduct” 143517, Moscow oblast, Istrinskiy district, territory of JSC “Istra-Khleboproduct” building 1	Oleg Yevgenyevich Gortovanov – General director	196,835	113,262
JSC “Luzhskiy KKZ” 188255, Leningrad oblast, settlement Tolmachevo	Valeriy Tatkalo – General Director	111,275	61,398
ZAO “Gatchinskiy KKZ” 188350, Gatchinskiy district, village Maliye Ko;pany, Zapadnaya str., 31	Nikolay Mikhaylovich Chistyakov General Director	268,643	60,088
JSC “Ramenskiy Facility of Khlebproduct after V. Pechenov” 140152, Moscow oblast, Ramenskiy rayon, settlement Druzhba	ALeksandr Mikhaylovich Lyalyakin – General Director	109,557	40,331
JSC “Facility of Khleboproduct Starooskol’sliy” 309506, Belgorod oblast, Stariy Oskol city, 1 st Konnoy armii str.,		110,334	38,088

PromKomZone			
JSC “Bogdanovichskiy Feed Facility” 623530, Sverdlov oblast, Bogdanovich City, Stepan Razin str., 64	Anatoliy Vladimirovich Sizikov – General Director	191,205	36,879
ZAO “Tosnenskiy Feed Facility” 187029, Leningrad oblast, Tosnenskiy region, village Nurma	Nikolay Dmitriyevich Surushkin – General Director	556,947	36,532

Source: Tsenovik Magazin, 2009. www.tsenovik.ru

^[i] For more information see FAS Moscow GAIN reports