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GAIN Report

Global Agricultural Information Network

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Development of Aquaculture Sector in Russia

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Report Highlights:

Development of the aquaculture sector in Russia is far below its potential. Current annual production is estimated at 160,000 MT, or three to four percent of total fish and seafood production in Russia. Russia's share of world aquaculture production is estimated at only 0.2 percent. Lack of government support, outdated equipment and production technologies, as well as a deficit in feed, are major constraints to further development of the sector.

General Information:

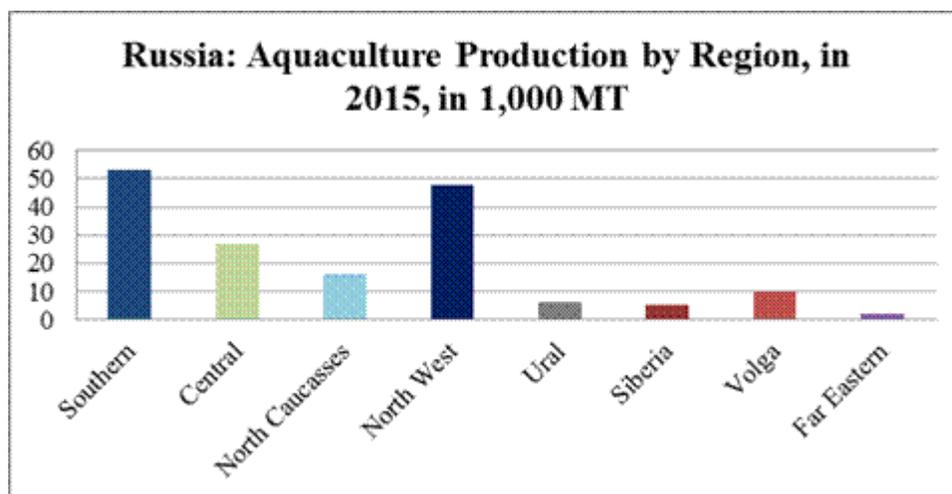
Summary

Development of the aquaculture sector in Russia is far below its potential. Current annual production is estimated at 160,000 MT, or three to four percent of total fish and seafood production in Russia. Russia's share of world aquaculture production is estimated at only 0.2 percent. Lack of government support, outdated equipment and production technologies, as well as a deficit in feed, are major constraints to further development of the sector.

Production

Russia has vast water resources that are suitable for aquaculture development. However, only a small part of these resources are currently utilized. Russia's water resources include: more than 20 million hectares of lakes, approximately 5 million hectares of water storage, nearly half a million hectares of offshore sea strips, more than 1 million hectares of agricultural ponds, and almost 150,000 hectares of fisheries waters. Significant water reservoirs are located in the Siberian, North-Western and Ural Federal Districts (FD). In addition, the total area of offshore strips in the Barents, White, Azov, Black, Caspian and Far Eastern seas is estimated at 38 million hectares. Currently fish farms occupy only about 110,000 hectares of fisheries ponds, and 25,000 hectares of offshore strips for production of aquatic organisms.

The three leading Russian regions for aquaculture production in 2015 were: the Southern Federal District – with total production of 53,200 MT of fish, followed by the North-Western FD – 47,800 MT and the Central FD – 27,000 MT. Aquaculture production in the Ural and Siberia Federal Districts, considered by the Federal Fisheries Agency (FFA) as the regions with the greatest potential, is currently estimated at only 6,100 MT and 5,500 MT respectively.

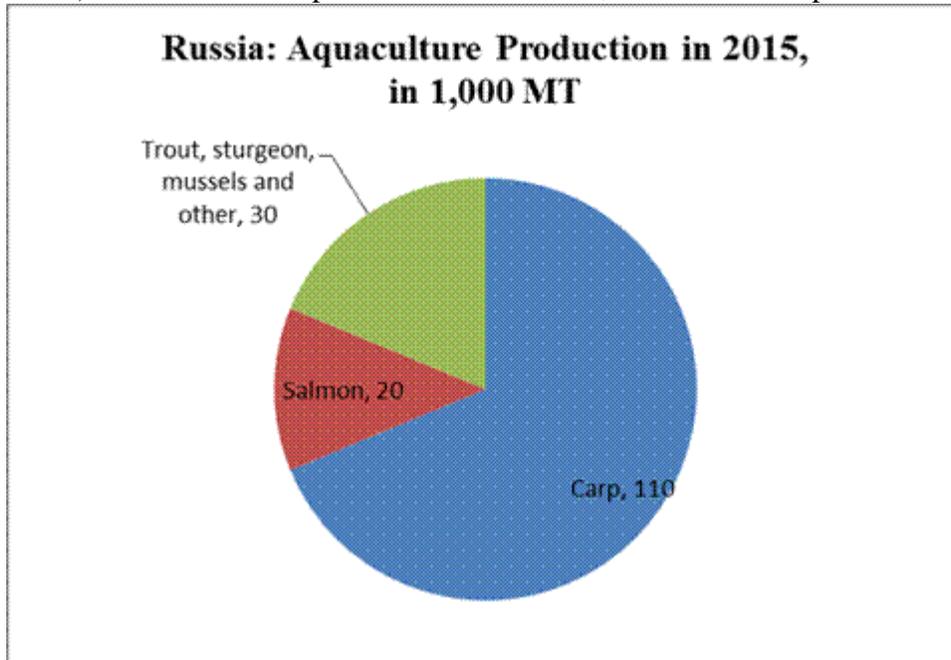


Source: Federal Fisheries Agency

According to the FFA, aquaculture production reached 160,000 MT in 2015 or 30,000 MT less than projected in the state program “On the Development of Fisheries Sector until 2020.” The Program sets an objective for aquaculture production to reach 315,000 MT by 2020. Reaching this goal would require a 97% increase over the remaining four years.

The FFA reports that during the 2004 to 2015 period, production of aquaculture fish increased from 109,000 MT to an estimated 160,000 MT. A 47% increase over 11 years. Carp (including Chinese and

silver) is the main fish species raised in Russia, with an annual production of 110,000 MT.



Source: Russian Federal Fisheries Agency

According to the FFA, aquaculture production increased significantly in the last 14 years, jumping from 3,800 MT in 2000 up to 20,900 MT in 2014. However, according to the Head of the Russian Association of Aquaculture Producers, RosRybKhoz, the forecasted boost in salmon production in 2015 was constrained by a lack of innovative technologies in salmon breeding and a lack of new or renovated farms. Moreover, businesses in the fisheries sector were skeptical about the 2015 Russian government proposals for development of the aquaculture sector, even after financial support was allocated from the federal budget. For sturgeon, annual production has been insignificant and flat for more than a decade, accounting for 2,000 MT in 2000 and 2,100 MT in 2014.

Currently, two major companies are making significant investments in the development of aquaculture: Russian Sea and Russian Salmon. The company Russian Sea started two salmon production facilities - one in the Barents Sea in 2012, and a trout farm in Karelia. Russia Sea is expected to produce 30,000 MT by 2018.

Recently, the company Russian Salmon signed an investment contract with the local Murmansk government for the investment in a number of fish hatcheries in the coastal areas of the Barents and White Seas. Russian Salmon management believes production capacity for Atlantic Salmon will reach 80,000 to 100,000 MT. However in the autumn of 2015, several Russian Salmon production facilities were affected by an infectious anemia and mycobacteriosis, reportedly causing the death of 187,000 salmon. The company's loss was estimated at 3.5 billion rubles and subsequently declared bankruptcy. Salmon stock of another large company, Russian Aquaculture, was also affected by the disease, but on a smaller scale. Russian Aquaculture intends to increase its production capacity by an additional 20,000 MT to offset the losses of Russian Salmon.

Most experts believe that given the current economic environment, development of the aquaculture sector can only be done with financial support from the government. They estimate that the initial capital needed for the sector is 1.5 billion, versus the 400 million ruble allocation made by the "Development of Fisheries Sector" program of the Russian government for the compensation of the

costs of investment. Profitability for the average aquaculture farm was between 20 and 25 percent in 2013. However in 2014, with the ruble devaluation and the introduction of Russia's food embargo, average profitability dropped to between 5 and 7 percent. Additionally, for the sector to grow, more investment is needed for feed, electricity, and brooding stock. Experts also believe that businesses are unlikely to invest in the aquaculture sector right now because it is viewed as very risky and complex. In 2015, the Russian government allocated 400 million rubles in subsidies to support the development of aquaculture. These subsidies are available for partially compensating for interest rate payments on credits for investment; and for construction, reconstruction and (or) modernization of aquaculture facilities; and for partial compensation of interest rate payments for the development of commercial sturgeon. The subsidies were allocated within the framework of the federal program "Development of Fisheries Sector" and under the subprogram "Development of Sturgeon Breeding." According to FFA officials, the government is planning to allocate 600 million rubles for the development of the aquaculture sector in CY 2016 and 2017.

During the International Conference "Aquaculture 2016" that took place during the ProdExpo food show in Moscow from February 8 to 11, 2016, most of the speakers identified the following problems as constraining the further development of the aquaculture sector in Russia:

- Lack of feed and raw material for aquaculture production;

Note: According to Vasilij Sokolov, Deputy Head of FFA, production of aquaculture feed in Russia in 2015 is estimated at about 100,000 MT, while currently the demand for feed is 250,000 MT. According to the objectives stated in the federal program "On Development of the Fisheries Sector," demand for feed will increase to between 400,000 MT and 450,000 MT by 2020.

- Ineffective feeding techniques;
- Weak atomization and low labor efficiency on aquaculture farms;

Note: According to the Ministry of Agriculture, annual productivity of aquaculture in Russia is estimated at 1.0 MT/ha, which is 2 to 3 times less than average, worldwide productivity in aquaculture.

- The Russian aquaculture regulatory framework is challenging due to an inconsistency in the rules developed at the federal level and the implementation at the regional levels.

During the "Aquaculture 2016" Conference a researcher from the All-Russian Scientific and Research Institute of Fish Breeding Irrigation, Yuriy L'vov, presented a study highlighting contradictions in the application of rules provided in the Russian "Water Code" and the "Land Code" for starting aquaculture business. He reported that there is a lack of transparent rules on the mechanism for concluding a contract with municipalities for land when there is a pond within the boundaries of that land. In addition, there are legal difficulties when applying to auction land for fish breeding plots.

On the other hand, the government developed measures to help attract small and medium businesses in the agricultural sector, including aquaculture. Such farms are subject to the 6% unified agricultural tax, which is significantly less than the average tax on income, and they are exempt from VAT and property taxes. In addition, there is a mechanism for aquaculture farms to receive financial support from state research institutes, if they are involved in the implementation of applied research projects.

- Lack of financial tools and high interest rates on credits for business.

According to the Conference speakers, the average profitability of a new aquaculture business is estimated between 5 to 7 percent, which is a very weak incentive for starting a new business. In addition, poor infrastructure in and around the regions where potential future aquaculture development

is likely is a serious constraint.

- Fifty percent of feed for aquaculture is imported. As a result of the ruble devaluation, expenses for feed increased significantly. The cost of feed accounts for 70 percent of aquaculture total costs of production. In addition, obsolete feed production equipment is an obstacle to efficient feed production in Russia.
- Mr. Sokolov also reported that there are 40 facilities in Russia that produce feed for aquaculture. However, only a few of these facilities have been renovated. Most plants are outdated and not equipped for production of highly advanced feeds.
- Traditionally, the main component for fish feed is fishmeal, but Russia produces only a small amount of fishmeal. Even though Russia does not produce enough fishmeal to meet domestic demand, they still export fishmeal to China. Additionally, current Russian fishmeal production technologies are not efficient.
- Russia does not produce starters and is therefore dependent on imports for 100% of its feeder stock.
- Producers cite a lack of public awareness to domestically produced fish and there are no efforts for the promotion of domestically produced fish.