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Dairy and Products Annual

Milk Production Recovering but High Prices Remain in 2012

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Report Highlights:

Russia's dairy industry is recovering in the second half of 2011 and milk production is poised for 0.3 percent growth in 2012 while the dairy herd continues to shrink, albeit at a slower pace than historical rates. Milk production and herd sizes are and will be supported by foreseen strong milk prices through 2012. However, as a result, cheese and butter production is expected to slip as more factory use is likely destined for milk powder production. In turn, cheese and butter imports are forecast higher while milk powder imports are likely to be lower than 2011 levels.

Summary

Russia's dairy industry is recovering in the second half of 2011 and milk production is poised for 0.3 percent growth in 2012 while the dairy herd continues to shrink, albeit at a slower pace than historical rates. Milk production and herd sizes are and will be supported by foreseen strong milk prices through 2012. However, as a result, cheese and butter production is expected to slip as more factory use is likely destined for milk powder production. In turn, cheese and butter imports are forecast higher while milk powder imports are likely to be lower than 2011 levels.

Fluid Milk

Cows in milk inventories will decrease 0.2% in 2012 and fluid milk production should increase by 0.3%. Poor feed supplies reduced cow inventories and milk production in the last half of 2010 and the beginning of 2011. According to the Russian Statistic Agency (Rosstat), Russia increased milk production in January-August 2011 by 1.8% over the same period in 2010. Imports through July 2011 were 9.7% higher (Russian Union of Milk Producers). Milk production began to rebound strongly in August and growth should be maintained throughout the second half of 2011 and into 2012.

Table 1. Russia: Inventories, Fluid Milk Supply and Distribution, 1,000MT

Dairy, Milk, Fluid Russia	**2010**		**2011**		**2012**	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	USDA Official	New Post	USDA Official
Cows In Milk	9,000	8,450	8,820	8,405		8,390
Cows Milk Production	31,900	31,900	31,200	31,800		31,900
Other Milk Production	0	0	0	0		0
Total Production	31,900	31,900	31,200	31,800		31,900
Other Imports	190	190	210	210		220
Total Imports	190	190	210	210		220
Total Supply	32,090	32,090	31,410	32,010		32,120
Other Exports	10	10	5	5		5
Total Exports	10	10	5	5		5
Fluid Use Dom. Consum.	11,800	11,800	11,700	11,800		11,850
Factory Use Consum.	17,830	17,830	17,255	17,755		17,815
Feed Use Dom. Consum.	2,450	2,450	2,450	2,450		2,450
Total Dom. Consumption	32,080	32,080	31,405	32,005		32,115
Total Distribution	32,090	32,090	31,410	32,010		32,120

Dairy Products

Cheese production is forecast to decrease 1.2% in 2012, responding to decreased demand for domestic varieties and their prices. Imports are expected to grow 4.8 percent as they are competitively priced and are the dairy product perceived to be the most threatening to the Russian dairy industry. Estimates in 2011 reflect production through August 2011 and trade through July 2011. Belarus cheese trade is currently excluded as most is cottage cheese.

Table 2. Russia: Cheese Supply and Distribution, 1,000 MT

Dairy, Cheese Russia	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	USDA Official	New Post	USDA Official
Beginning Stocks	11	11	11	11		12
Production	435	435	440	425		420
Other Imports	305	305	335	315		330
Total Imports	305	305	335	315		330
Total Supply	751	751	786	751		762
Other Exports	20	20	7	7		7
Total Exports	20	20	7	7		7
Human Dom. Consumption	720	720	767	732		743
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	720	720	767	732		743
Total Use	740	740	774	739		750
Ending Stocks	11	11	12	12		12
Total Distribution	751	751	786	751		762

Lower butter production will be backfilled with imports to stabilize demand. Estimates in 2011 reflect production through August 2011 and trade (including Belarus) through July 2011.

Table 3. Russia: Butter Supply and Distribution, 1,000 MT (butter-equivalent)

Dairy, Butter Russia	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	12	12	7	7		7
Production	205	205	195	212		210
Other Imports	109	109	130	130		135
Total Imports	109	109	130	130		135
Total Supply	326	326	332	349		352
Other Exports	2	2	2	2		2
Total Exports	2	2	2	2		2
Domestic Consumption	317	317	323	340		343
Total Use	319	319	325	342		345
Ending Stocks	7	7	7	7		7
Total Distribution	326	326	332	349		352

Whole milk powder (WMP) and non-fat dry milk (NFDM) production are forecast to increase 4.6% and 5.9%, respectively, in 2012 as the food processing industry continues to grow and increase their utilization. They, along with cream, are the most likely products to increase production as a result of increased factory use fluid milk consumption. Estimates in 2011 reflect production through August 2011 and trade (including Belarus) through July 2011.

Table 4. Russia: Whole Milk Powder Supply and Distribution, 1,000 MT

Dairy, Dry Whole Milk Powder, Russia	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	USDA Official	New Post	USDA Official
Production	55	55	60	65		68
Other Imports	55	55	50	50		45
Total Imports	55	55	50	50		45
Total Supply	110	110	110	115		113
Other Exports	2	2	2	2		2
Total Exports	2	2	2	2		2
Human Dom. Consumption	108	108	108	113		111
Total Dom. Consumption	108	108	108	113		111
Total Use	110	110	110	115		113
Total Distribution	110	110	110	115		113

Table 5. Russia: Non-Fat Dry Milk Supply and Distribution, 1,000 MT

Dairy, Milk, Nonfat Dry Russia	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	USDA Official	New Post	USDA Official
Production	70	70	70	85		90
Other Imports	180	180	185	185		180
Total Imports	180	180	185	185		180
Total Supply	250	250	255	270		270
Human Dom. Consumption	250	250	255	270		270
Total Dom. Consumption	250	250	255	270		270
Total Use	250	250	255	270		270
Total Distribution	250	250	255	270		270

Production

FAS Moscow forecast cow inventories to decrease 0.2% in 2012 with fluid milk production increasing 0.3% on higher yields. Trending higher milk yields continue as a relatively smaller share of cows are located at private households. Agricultural enterprises specifically have relatively better and improving genetics, better management, and will have more available feed supplies than experienced mid-2010 to mid-2011. These entities were the hardest hit by feed shortages. Growth in the share of cow numbers are also being witnessed at private farms. Continued development of agricultural enterprises (as opposed to support for private households) is heavily supported by the Ministry of Agriculture. Support for private farms is also available but its impact to production is minimal.

Cow Inventory

FAS Moscow adjusted "cows in milk" numbers to reflect a definitional change on milking cows. Previously available data did not differentiate between dairy cows and milking dairy cows. According to Rosstat, cow inventories decreased 0.6 percent, compared to the same period of 2010.

The Ministry of Agriculture reported inventories of pedigree cattle in the dairy herd accounted for 12 percent in 2010 and are forecast to reach 13 percent in 2011.

Milk Production

Russia produced 22.2 MMT of fluid milk in January-August 2011, which is 1.8 percent less compared to 2010. Production started to rebound in August and will remain strong throughout the year to improve on this comparison, especially considering milk production suffered in the last half of 2010 as a result of short feed supplies that persisted through the first half of 2011.

The most recent Russian Government forecast for 2012 is 31.1 MMT, according to the Ministry of Economic Development (MED). However, such an estimate would require a significant reduction in cows and/or milk yield. The Ministry of Agriculture forecast, according to the Target Program for Dairy Development 2009-2012, is 37.0 MMT. MED's economic forecast through 2014 foresees milk production lower through 2013 and rebounding in 2014 (yet still ending lower than 2010 levels). According to the Ministry of Agriculture's new draft Federal Program for the Development of Agriculture until 2020, milk production should increase to 32.6 MMT by 2014.

Dairy Products Production

According to dairy industry experts, production of dairy products, including cheese and butter, will struggle in 2012 as processors battle high prices for raw milk. In exchange, industry sources indicate they will shift to produce more cream and milk powders.

Resulting from current high milk prices, during January-August 2011, production of cheese and whole milk products (milk, kefir, sour cream and other) decreased by 3.5% and 3.4%.

Consumption

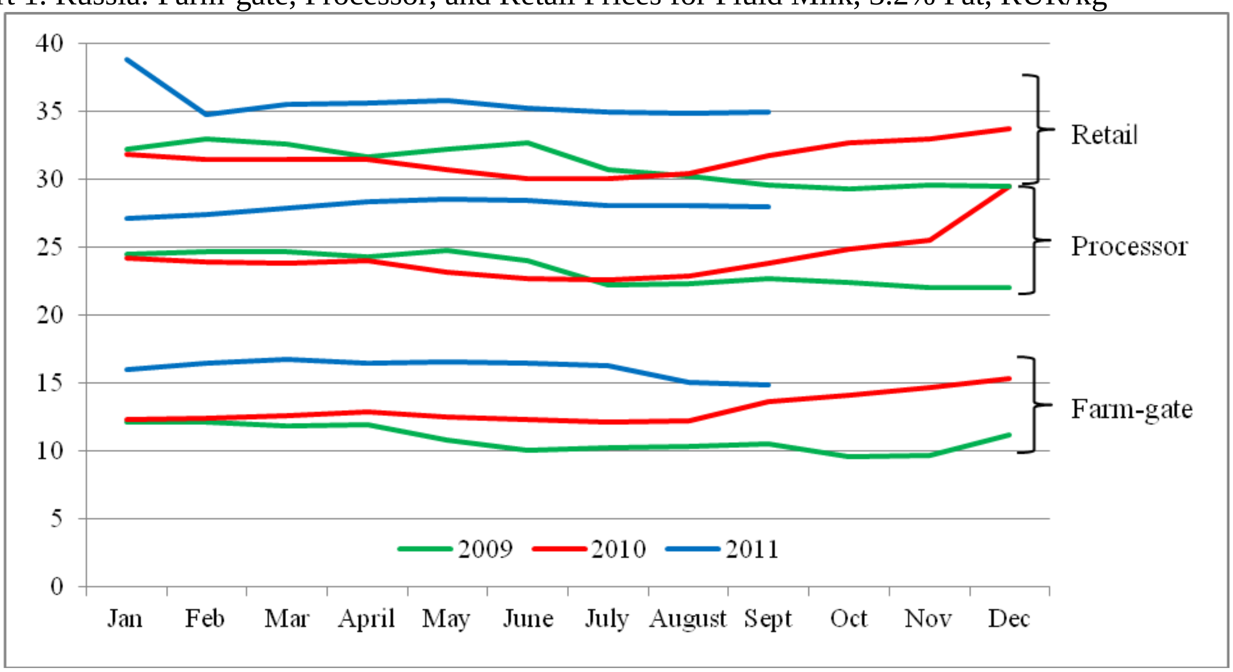
Consumption growth of dairy products remains largely constricted by high prices as well as import controls, which limit supply even while production is flat or declining.

According to an examination of dairy products in the retail market by the Russian Union of Milk Producers (Soyuzmoloko), many continue to include vegetable fats of tropical origin without indicating such contents on the product's label, in violation of Russia's dairy Technical Regulation. Inspections deemed more than 30 percent of butter samples, 50 percent of sweetened condensed milk, over 50 percent of sour cream, and 20 percent of cheese spread as "fake" products. According to Soyuzmoloko, such products "bring harm to dairy producers and consumers' health." While Soyuzmoloko underscored their point as unfair price competition, some retail chain representatives noted it was more important to ensure the product availability for the poorest citizens who cannot afford to buy expensive dairy products.

Milk Prices

Prices have remained steadily high for farm-gate, processor, and retail milk prices throughout 2011. To some extent, the situation of escalating prices was softened by an agreement among producers and processers that agreed mutually acceptable minimum and maximum price levels for raw milk. Lack of quality fluid milk will continue to make domestic dairy products less affordable for Russian customers.

Chart 1. Russia: Farm-gate, Processor, and Retail Prices for Fluid Milk, 3.2% Fat, RUR/kg



Source: Ministry of Agriculture www.mcx.ru

Trade

Imports of dairy products, especially cheese and butter, should remain steady with upside growth in 2012 until Russia again enhances border protection. Border protection has and will continue to be strengthened with the influence of Belarus in Russian dairy policy. Belarusian fluid milk and dairy products will continue to take a larger share of Russian market as they maximize bilateral preferences and an absent border control.

Policy

Development of Dairy Cattle Husbandry, 2009-2012

In line with the Program "Development of Dairy Cattle Husbandry in 2009-2012," the Ministry planned to allocate resources for 30 regional programs, valued at RUR1.55 billion ($48 million) in 2011. As published in July, the criteria for selecting regional programs to develop dairy are as follows: (1) two percent growth in milk production and (2) preservation of dairy cow numbers compared to the previous year. The GOR additionally allocated RUR5.0 billion ($166 million) to regions that suffered from heavy drought to preserve breeding cattle numbers.

Development of Family Dairy Farming, 2009-2011

The Ministry of Agriculture allocated RUR1.55 billion ($48.4 million) for a "Family Dairy Farming Project" for 2012 as an extension of the state program "Development of the Pilot Family Dairy Cattle Farms for 2009-2011." The program will co-finance 30 percent of all construction costs and intends to launch 150 family dairy farms. Since its launch in 2009, the Ministry reports 300 dairy farms have been created. Interest incurred on loans from the Russian Agricultural Bank (Rosselkhozbank) will be fully subsidized by the State. Rosselkhozbank will also provide the beginning farmer with the calculation of profitability and documents needed to start the project. Since 2009, the Rosselkhozbank has granted loans for RUR738 million ($25 million) for the creation of family dairy farms. The credit can be issued for a period of 2 years (to form the initial working capital) and 15 years for construction, renovation and modernization of a family farm.

The Draft Program "Development of Agriculture in 2012-2020"

The draft program "Development of Agriculture in 2012-2020" contains measures for the direct support of dairy cattle breeding, envisaged in the draft Order of the Ministry of Agriculture "On approval of rules for distribution and transferring subsidies from the federal budget for economically important regional agricultural programs" of July 28 2011 # 628. Subsidies from the federal budget will be transferred to the regions on the condition regional budgets cofinance 30 percent of the sum transferred by the federal budget. The Order applies two production-linked subsidies:

- RUR3.0 ($0.10) per liter of highest and the first grade milk for farms which do not reduce cow inventories and milk production;
- RUR3,000 ($100) of expenses per dairy cow in private households;

The program contains the following milk production and processing goals:

- stabilizing cow inventories at 8.9 million head,
- rational distribution of dairy herd through the territory of the Russia;
- improvement of farming and feeding technologies.
- to increase production of whole milk products to 13.5 MMT, of cheese and cheese products to 546,000 MT, and butter to 280,000 MT;
- to increase assortment, quality and competitiveness of dairy products
- to reach 85.3 percent self-sufficiency in dairy products by 2020.

The program envisages the following regulations in order to increase competitiveness of Russian dairy products:

- Import duties should compensate for foreign country government support for the production of milk and dairy products.
- Introduction of a traceability system for livestock products to promote Russian dairy products to foreign markets.
- Support for the certification of livestock and processing enterprises to increase exports to third countries outside the Customs Union.
- Application of government procurement and trade interventions in respect to dairy products (milk powder) as a mechanism of price regulation for the milk market. The list of products for government intervention to vary with changes in the production and consumption of milk and dairy products.
- Creation of a special financial fund to purchase products for the government intervention.
- Formation of logistics procurement for processing, storage, and sale of products for government intervention.
- Dates and amounts of government intervention to be determined based on the need for seasonal adjustment of prices in the domestic market.

MILK AND DAIRY PRODUCTION TABLES

Table 6. Russia: Dairy Cow and Heifer Inventories, Million Head

	2009	2010	10/09
All types of farms			
Cows, (excluding at fattening)	9,025.8	8,844.3	98.0
Heifers	1,289.5	1,327.7	103.0
Agricultural organizations			
Cows, (excluding at fattening)	3,767.6	3,713.6	98.6
Heifers	672.8	643.2	95.6
Private households			
Cows, (excluding at fattening)	4,962.5	4,411.8	95.4
Heifers	538.6	598.3	111.1
Private farms and entrepreneurs			
Cows, (excluding at fattening)	633.6	718.9	113.5
Heifers	78.1	86.2	110.5

Source: Rosstat

Table 7. Russia: Milk Production, Agricultural Establishments

	End of August		
	2010	2011	11/10
Cow inventory, million head	3,675.7	3,674.4	100
Milk Production MMT	1,0037.4	9,897.9	98.6
Per cow milking productivity, kilogram	3,203	3,240	101.2
Milking cow inventories, million head*	3,134	3,055	97.4

Source: Rosstat

*Calculated by FAS Moscow

Table 8. Russia: Per Cow Annual Milk Productivity, Kilogram

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Farms of all types	2,731	2,567	2,332	2,328	2,162	2,153	2,144	2,239	2,381	2,432	2,502	2,651	2,797	2,949	3,037	3,176	3,356	3,501	3,595	3,737	3,776
Agricultural establishments	2,783	2,574	2,243	2,246	2,033	2,016	1,965	2,074	2,242	2,282	2,341	2,551	2,802	2,976	3,065	3,280	3,564	3,758	3,892	4,089	4,189
Private farms	4,448	6,072	2,799	2,453	2,001	1,989	1,993	2,077	2,135	2,186	2,253	2,328	2,401	2,538	2,565	2,607	2,642	2,714	2,746	3,268	3,291
Private households	2,576	2,543	2,545	2,497	2,407	2,388	2,412	2,462	2,558	2,615	2,687	2,767	2,812	2,948	3,043	3,130	3,249	3,378	3,456	3,513	3,510

Source: Rosstat http://www.gks.ru/dbscripts/Cbsd/DBInet.cgi

Table 9. Russia: Production of Dairy Products, 1,000MT

	2009	2010	10/09 Percent	Jan-Aug 2010	Jan-Aug 2011	Jan-Aug 11/10

Processed milk, fluid	4,369	4,868	111,4	3,272	3,214	98,2
Kefir	902	1,009	111,9	732.0	707.9	96.7
Milk and cream in dry form	114	110	96,2	79.6	99.4	124.8
Butter and spread	217	207	95,3	145.4	149.5	102.8
Cheese and cottage cheese	988	1042	105,5	751.5	738.7	98.3
Ice cream and frozen deserts	326	387	118,6	317.2	279.1	88.0
Concentrated dairy products	650	590	97,4	513.4	522.2	101.7

Source: Rosstat

MILK AND DAIRY TRADE TABLES

Table 10. Russia: Imports of Dairy Products, 1,000 MT

Products	2008	2009	2010	Jan-Aug '10	Jan-Aug '11	YTD %Δ
Butter 040510	120.8	102.2	108.9	60,6	68,6	113,2
--from Belarus	45.6	50.4	40.8	28,0	29,1	103,9
Cheese and curd 0406	363.9	359.4	431.1	236,7	240,4	101,6
--from Belarus	101.7	119.9	127.2	71,5	78,6	109,9
Milk powder 0402	160.2	133.9	236.5	128,6	109,6	85,2
--from Belarus	141.4	120.7	157.6	96,5	85,9	89,0
Whole milk 0401	78.7	118.5	190.1	101,9	111,8	109,7
--from Belarus	65.1	104.7	162.4	90,7	97,6	107,6

Source: Russian Union of Milk Producers

Table 11. Russia: Import Quota for Belarus, 2011

	NFDM	Whole Milk Powder	Concentrated milk	Dry whey	Dairy Butter	Cheese and cottage cheese	Other dairy products
QI	16.0	5.0	12.5	2.0	17.5	31.0	75.0
QII	16.0	5.0	12.5	2.0	17.5	31.0	75.0
QIII	17.0	5.0	12.5	2.0	17.5	32.0	75.0
QIV	16.0	5.0	12.5	2.0	17.5	31.0	75.0
Total	65.0	20.0	50.0	8.0	70.0	125.0	300.0

Source: The Russian Union of Milk producers http://www.souzmoloko.ru/news/news_659.html

Table 12. Russia: Imports of Dairy Products, MT

	Description	Annual			Year To Date		
		2008	2009	2010	08/201	08/2011	% Change
Dairy Products	Ex 04, 21, 35	454,151	383,807	549,501	331,529	328,252	-0.99
040110	Milk And Cream, Nt Concntrd, Nt Sweetd, Nov 1% Fat	553	483	661	365	472	29.29
040120	Milk/Cream Nt Cnctrd/Swt, Fat Content Ov 1% Nov-6%	5,493	6,154	11,076	5,239	8,855	69.01
040130	Milk & Cream, Not Concntrd/Swtn, Fat Content Ov 6%	7,543	6,496	15,833	8,051	8,144	1.15
040210	Mlk & Crm,Cntd,Swt,Powdr,Gran/Solids,Nov 1.5% Fat	11,535	7,973	62,819	33,467	22,192	-33.69
040221	Mlk/Cream Cnctrd Nt Swtn Pwd/Oth Solids Ov 1.5% Fa	7,145	4,537	14,522	7,181	4,636	-35.44
040229	Mlk & Crm,Cntd,Swtnd,Powdr/Solids, Over 1.5% Fat	7	45	214	89	64	-27.68
040291	Milk And Cream, Concentrated, Not Sweetened, Nesoi	31	1	90	0	11	n/a
040299	Milk And Cream, Sweetened, Concen Or Not Nesoi	100	201	219	164	161	-1.94
040310	Yogurt, W/N Sweetened, Flavored Or Cntg Fruit/Coco	5,685	5,666	8,620	4,894	9,537	94.88
040390	Buttermilk/Kephir/Curdled Fermntd Acidfd Mlk & Crm	13,108	5,676	7,754	4,619	7,158	54.97
040410	Whey & Modfd Whey Whet/Nt Cncntrtd Cntg Add Sweetn	59,024	51,118	46,358	30,410	19,597	-35.56
040490	Products Of Natural Milk Constituents, Nesoi	1,435	868	1,892	1,110	997	-10.14
040510	Butter	75,191	50,103	66,728	36,023	44,198	22.69
040520	Dairy Spreads	4,433	5,244	4,940	3,320	4,513	35.95
040590	Fats And Oils Derived From Milk, N.E.S.O.I.	4,869	3,929	5,360	3,292	5,119	55.49
040610	Cheese (Unrpnd/Uncurd) Frsh Incl Whey Cheese Curd	29,669	23,237	29,840	18,655	25,784	38.21
040620	Cheese Of All Kinds, Grated Or Powdered	517	864	1,286	686	870	26.87
040630	Cheese, Processed, Not Grated Or Powdered	15,434	12,702	15,498	10,343	10,478	1.31

040640	Cheese, Blue-Veined, Nesoi	2,772	2,712	3,450	1,877	2,340	24.67
040690	Cheese, Nesoi, Including Cheddar And Colby	199,887	189,034	244,206	155,820	146,500	-5.98
210500	Ice Cream And Other Edible Ice, With Cocoa Or Not	7,910	5,111	6,282	4,707	5,624	19.47
350110	Casein	19	59	215	85	100	17.15
350190	Caseinates & Other Casein Derivatives; Casein Glue	1,227	1,096	1,199	797	783	-1.75
350220	Milk Albumin,Inc Concen Of 2 Or More Whey Proteins	523	461	376	290	71	-75.35
350710	Rennet And Concentrates Thereof	41	39	62	45	47	4.3

Source: GTIS

Note: Excluding Kazakhstan (since July 2010) and Belarus (entire time series)

Table 13. Russia: Imports of Butter and AMF (040510, 040590) by Country

Partner Country	Quantity (MT)					
	2008	2009	2010	Jan-Jul '10	Jan-Jul '11	% Change 2011/2010
World	80,060	54,033	72,088	34,666	46,955	35.45
EU-27	22,991	20,982	32,846	15,535	17,351	11.69
New Zealand	22,953	26,371	27,111	14,920	22,223	48.95
Argentina	10,855	3,150	3,044	573	1,512	163.89
Uruguay	2,125	879	2,033	377	1,211	221.27
United States	16,690	224	3,069	2,422	0	- 100.00

Source: GTIS
Note: Excluding Kazakhstan (since July 2010) and Belarus (entire time series)

Table 14. Russia: Imports of Cheese (040620, 040630, 040640, 040690) by Country

Partner Country	Quantity (MT)					
	2008	2009	2010	Jan-Jul '10	Jan-Jul '11	% Change 2011/2010
World	218,609	205,312	264,441	146,800	138,975	- 5.33
EU-27	138,866	136,350	189,962	103,363	96,024	- 7.10
Ukraine	62,470	61,567	66,408	39,483	38,280	- 3.05
Argentina	7,843	1,877	3,011	1,103	1,713	55.30
New Zealand	3,597	2,986	2,418	1,394	1,426	2.25

Source: GTIS
Note: Excluding Kazakhstan (since July 2010) and Belarus (entire time series)

Table 15. Russian: Imports of WMP (040221, 040229) by Country

Partner Country	Quantity (MT)				% Change 2011/2010
	2009	2010	Jan-Jul '10	Jan-Jul '11	
World	4,582	14,736	6,755	4,469	- 33.84
EU-27	3,944	6,460	3,328	2,184	- 34.38
Argentina	200	2,614	402	725	80.35
Ukraine	439	3,285	2,610	418	- 83.98
Australia	0	201	0	356	0.00

Source: GTIS
Note: Excluding Kazakhstan (since July 2010) and Belarus (entire time series)

Table 16. Russia: Imports of NFDM (040210) by Country

Partner Country	Quantity (MT)					
	2008	2009	2010	Jan-Jul '10	Jan-Jul '11	% Change 2011/2010
World	11,535	7,973	62,819	25,754	21,162	- 17.83
EU-27	5,691	7,198	50,745	21,751	14,291	- 34.30
Ukraine	4,299	0	1,498	1,062	4,434	317.60

Source: GTIS
Note: Excluding Kazakhstan (since July 2010) and Belarus (entire time series)