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Russian Feed Sector Update

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Report Highlights:

Since 2008, the Russian feed sector has experienced an annual growth between 7 to 10 percent. This surge in the feed sector has been supported by strong growth in the livestock and poultry sectors, the introduction of new technologies and improvements in the quality of the feed produced in Russia. However, major weaknesses continue to plague the sector including a lack of regulation, outdated facilities and technologies, and insufficient domestic production of acids and vitamins. At the "Russian Feed Industry" Conference in April 2017, presenters from the Ministry of Agriculture and the Russian feed industry discussed opportunities and constraints for the Russian feed sector.

Executive Summary:
Overview

On April 14, 2017, the Conference "Russian Feed Industry 2017" was held in Moscow, organized by the AgroInvestor Magazine with the support of the Russian Ministry of Agriculture, the Russian Feed Union, and the All-Russian Scientific Feed Institute. The conference brought together businesses, agricultural producers, grain and food processors, farmers, officials from the Ministry of Agriculture and representatives from scientific and research institutes.

Speakers at the conference presented on the current state and future prospects of feed production in Russia and the impact on the sector from developments in the poultry and meat sectors. Both the general tone of the conference and the message of the presenters emphasized the positive trends and recent, significant improvement in the pace of development in the feed sector in Russia. It was noted that the initial growth in the sector was driven by the National Agricultural Development Program 2008-2012 and the follow-up State Program on Agricultural Development till 2020, which spurred strong growth in poultry and pork production. Conference participants estimated that since 2008, the average annual feed production demonstrated sustained growth between seven and ten percent per annum. In 2016, feed production in Russia was estimated at 25.8 MMT, a four percent increase over production in CY 2015. While the Ministry of Agriculture and the Russian Feed Union forecast that feed production in Russia will continue to increase by three to four percent annually, some experts including "ProZerno" forecast a more moderate annual between one and two percent.

Presentations

Ministry of Agriculture

Kharon Amerkhanov, Director of the Livestock and Breeding Department of the Russian Ministry of Agriculture, provided a brief overview of the development of livestock sector in Russia. He stated that the sector demonstrated a continued positive trend in CY2016, with a total increase in meat and poultry production of 464,000 MT, for a total of almost 14 MMT. Mr. Amerkhanov forecasts that with the current pace of production in the poultry and meat sectors, 1 MMT growth in these sectors is expected by 2020. He also stated that the dairy sector is currently stagnant, with total annual production of 30.7 MMT. On the bright side, milk production at agricultural organizations and small farms has recently been increasing. If this trend continues, milk production is forecasted to reach 31.9 MMT by 2020. Please refer to FAS GAIN Report for more information on dairy sector.

The Ministry official also reported that feed production in CY2016 increased four percent over CY2015 feed production, reaching 25.8 MMT (see Table 1). The Central Federal District (FD) holds the leading position for feed production with annual production of more than 10 MMT, followed by Volga Valley with over 5 MMT of feed production, and Ural FD with 2.5 MMT of feed production (see Chart 1 below). Most feed production facilities are located in close proximity to poultry and pork production facilities. The Ministry of Agriculture estimates Russia's current production capacity for feed at 38.0 MMT. Amerkhanov also noted that the government is supportive of the development of the feed sector and that in the current budget the Ministry of Agriculture is co-financing 77 feed production projects. The total cost of these projects is estimated at 22.3 billion rubles. The share of state support for these projects is projected to be nearly five billion rubles. The leading territory in implementation of these new feed production projects is Belgorod province with 40 percent of the new feed sector projects, followed by the Republic of Tatarstan with 29 percent, and Voronezh province with 19 percent.

Table 1. Russia: Dynamics of Feed Production in 2009-2016.

Product Title	**Production of Compound Feeds, MMT**				
	2009	**2011**	**2013**	**2015**	**2016**
Compound Feed, total	14.7	17.9	21.7	24.8	25.8
Including:					
Poultry	8.6	10.6	12.6	14.0	14.1
Pork	3.8	5.1	7.1	8.5	9.3
Livestock	1.9	2.2	2.0	1.9	2.0
Other types of ag animals	0.4	0.057	0.087	0.3	0.4

Source : Rosstat

Russian Feed Union

A report on the current developments of the feed sector in Russia was presented by Valeriy Afanasyev, President of the Russian Feed Union. According to the Union's data, the feed sector's average annual growth in production, between 2008 and 2014, was 12 percent. This growth was driven primarily by the steady development of both the poultry and the pork industries. However, in CY 2015, the annual increase in production of feeds (compared to CY 2014) slowed to 4.7 percent. Most experts attributed this decrease in the annual growth trend to a stabilization in consumer demand for poultry and a resultant slowdown in the development of poultry industry. In CY 2016, Russia's production of compound feeds was estimated at 25.8 MMT, about a four percent increase over feed production in CY 2015 (see Table 1). This estimate represents official data published by the Russian Statistical Agency (Rosstat). Mr. Afanasyev forecasts that over the next ten years the annual growth in feed production will average between three and four percent, driven by feed demand from the pork, livestock and aquaculture sectors and by 2025, the total production of compound feed is forecast at 38.0 MMT.

The Russian Feed Union forecasts that by 2025, production of feed for poultry will reach 18.0 MMT, an increase of 29 percent over production of feed for poultry in 2016. Feed for pork is forecast to demonstrate the most significant increase of 61 percent to 15 MMT, while feed for livestock is forecast to reach 2 MMT, a 50 percent increase over production in CY 2016 (please see Chart 3 below).

Afanasyev also noted that production of feed for aquaculture has a strong potential. The Feed Union estimates feed production for aquaculture in Russia at 150,000 MT in CY2016, where the share of feed for carp species (the dominant species produced in Russian aquaculture) accounted for 120,000 MT, while only 30,000 MT of feed was for valuable fish species, such as trout and sturgeon. Currently 90 percent of feed for valuable species is imported. Please refer to FAS GAIN Report for more information.

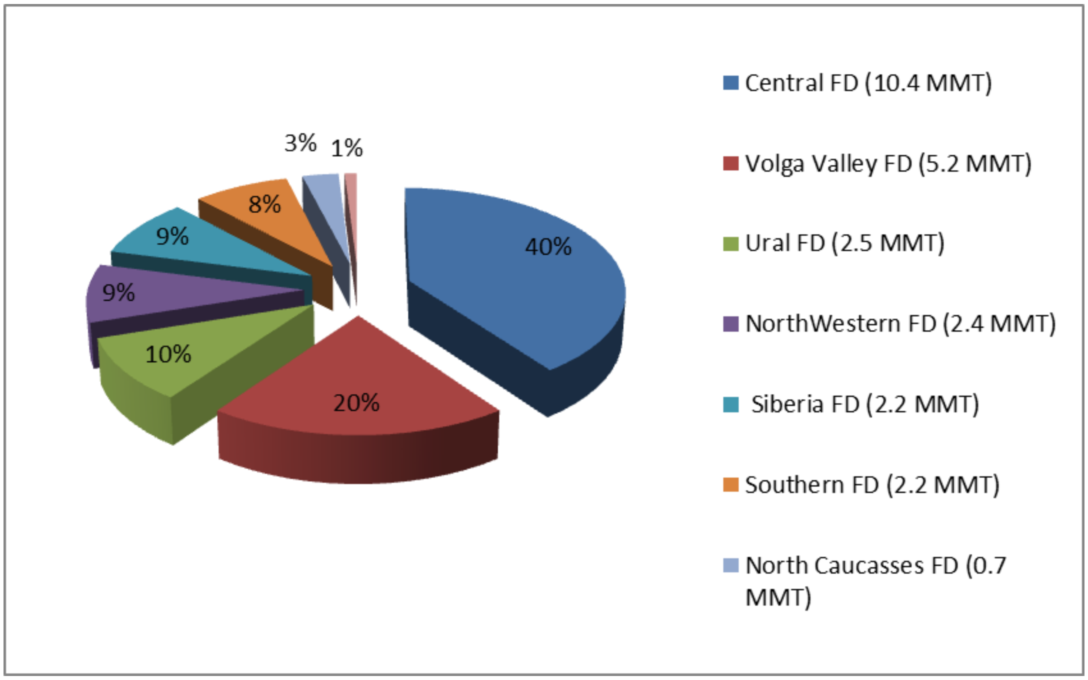
Mr. Afanasyev highlighted some particular problems faced by the feed sector in Russia. He emphasized that as a result of the use of non-balanced feed ratios (in terms of proteins and amino acids) animals in Russia often have to consume twice the amount of feed (by volume) compared with the prescribed norms in other countries. He emphasized the importance of developing a more balanced feed ratio in Russia, incorporating by-products from the food industry in the production of feed, such as corn gluten, molasses, dried sugar beet chips, brewers waste and distillers dried grains. Currently, the Feed Union estimates the share of grain in animal feed in Russia is 70 percent, compared to only 40 to 45 percent, on average, in the European Union.

Because of the higher percentage of grain in feed rations, large fluctuations in grain prices can severely impact feed prices. For some poultry producers, the price of ingredients becomes the major factor in choosing a feeding formula. In MY 2015/16 and 2016/17, the supply of fodder grains increased and, as a result, prices for fodder grains decreased. However, the cost for other ingredients, such as soy, vitamins and minerals, as well as the cost of production of compound feed, may increase in MY 2017/18, and poultry producers may continue using more grain in feed than is prescribed by optimal feeding formulas. According to the recent FAS/Moscow report on poultry production[1], on average in 2015 and 2016 Russian poultry producers increased the portion of grain in mixed feeds. However, poultry sector industry leaders continue to use feed according to the best feeding practices. Such industry leaders tend to have their own feed mills and produce feeds from raw materials that they grow themselves.

Feed for poultry accounted for 56 percent of the total compound feed production in 2016. This was, followed by feed for pork, accounting for 35 percent of compound feed production and livestock with just over 8 percent of the total. The Union forecasts that by 2025, the share of total feed production consumed by the poultry sector will decrease 27 percent while the share going to pork production will see a 10 percent increase, reaching consumption of 39 percent of total compound feed production. Feed for livestock is expected to more than double and will account for 17 percent of total feed production. This increase will be attributable to the expanstion of the livestock sector and the implementation of improved feeding ratios (please see Chart 5 and 6).

Chart 1. Russia: Feed Production by Federal Districts

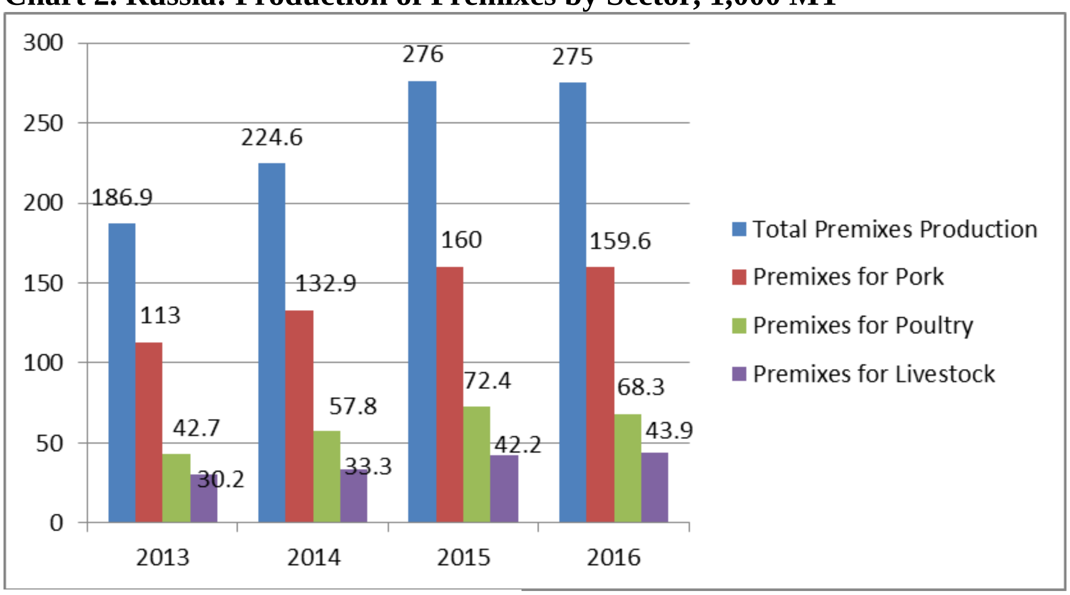
[1] https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Semi-annual_Moscow_Russian%20Federation_2-16-2017.pdf



Source: Ministry of Agriculture

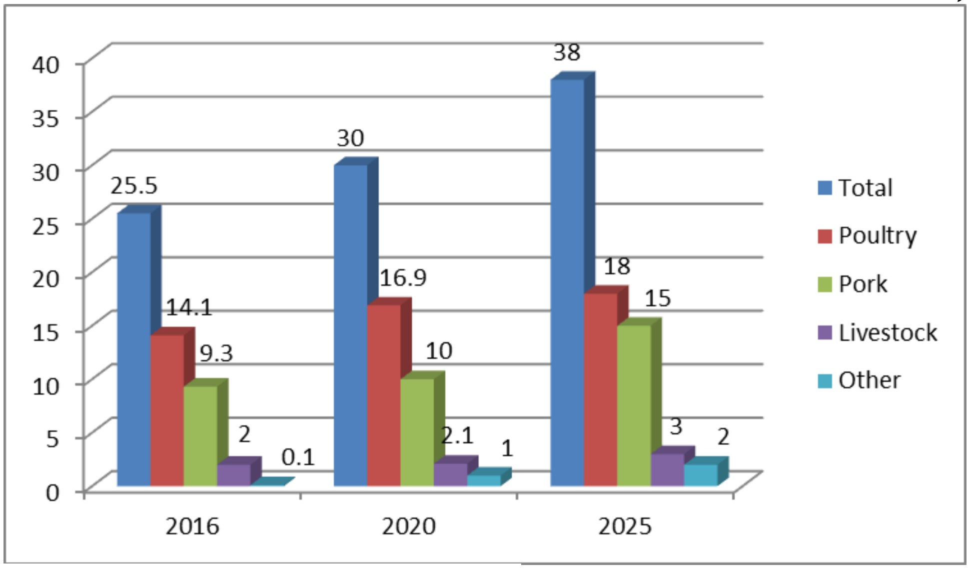
Mr. Afanasyev also reported that the total production of premixes jumped significantly (68 percent) going from 186,900 MT in 2013 to 275,000 MT in 2016. The largest increase in premixes during this period was seen in the poultry sector, with a 70 percent increase, followed by the pork sector with a 68 percent increase. The Feed Union forecasts production of premixes to reach 400,000 MT by 2025, primarily as a result of the steady development of both the pork and livestock sectors and the use of better feeding ratios.

Chart 2. Russia: Production of Premixes by Sector, 1,000 MT



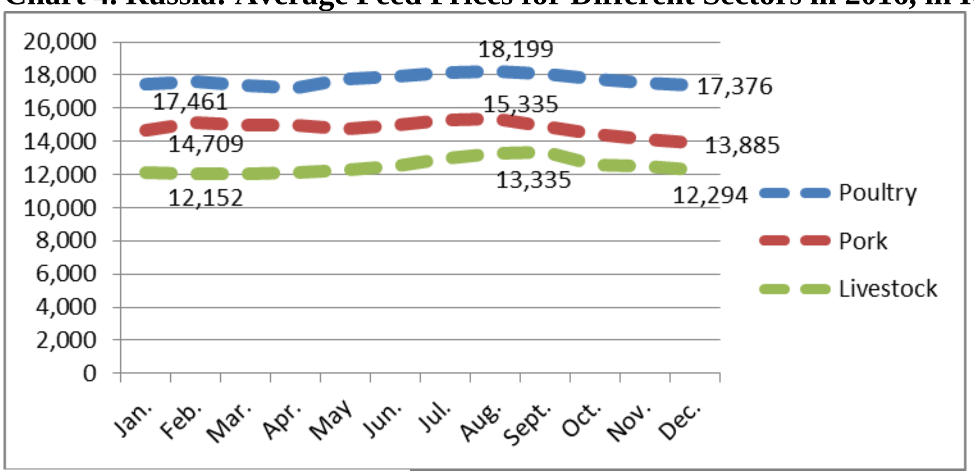
Source: Russian Compound Feed Union

Chart 3. Russia: Outlook for Feed Production in Russia for 2016-2025, MMT



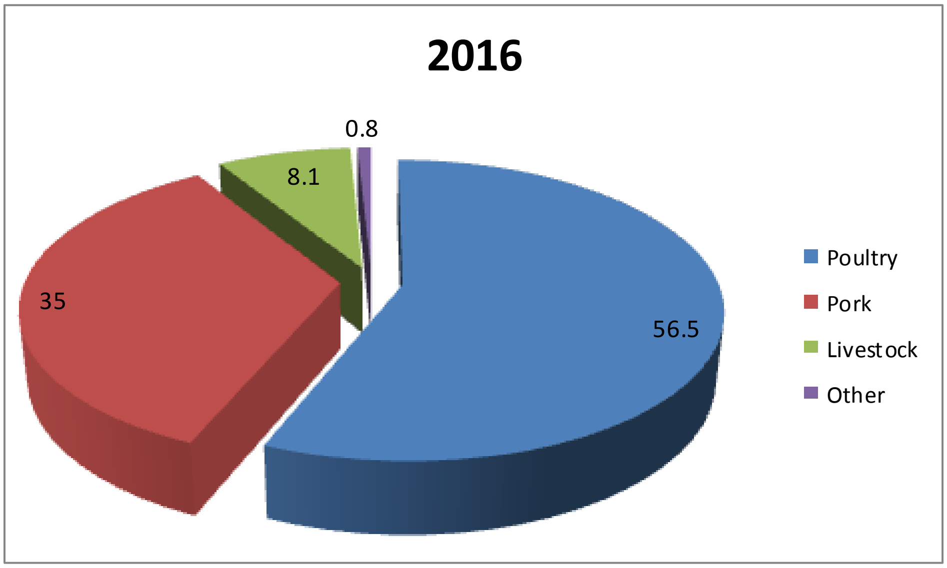
Source: Russian Compound Feed Union

Chart 4. Russia: Average Feed Prices for Different Sectors in 2016, in Rubles



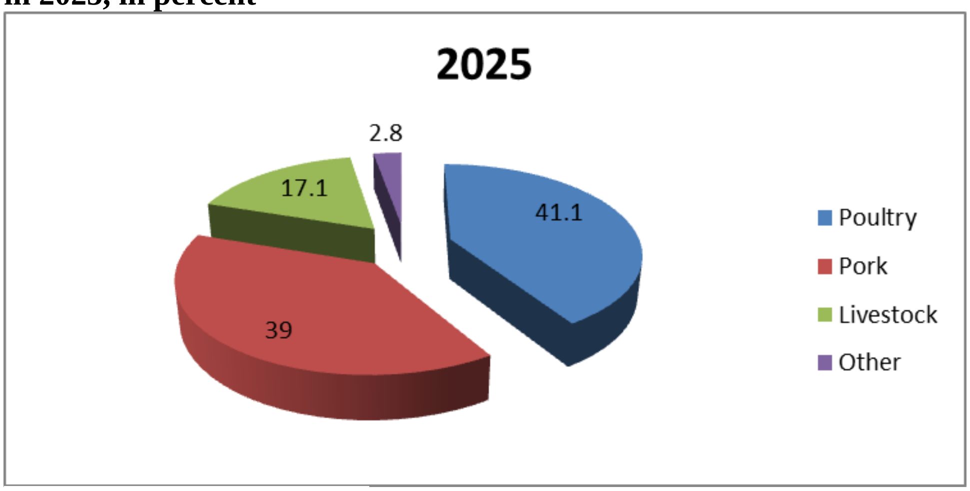
Source: Ministry of Agriculture

Chart 5: Russia: Production Structure of Compound Feeds by Sectors in 2016, in percent



Source: Russian Feed Union

Chart 6. Russia: Outlook for Production Structure of Compound Feeds by Sector in 2025, in percent

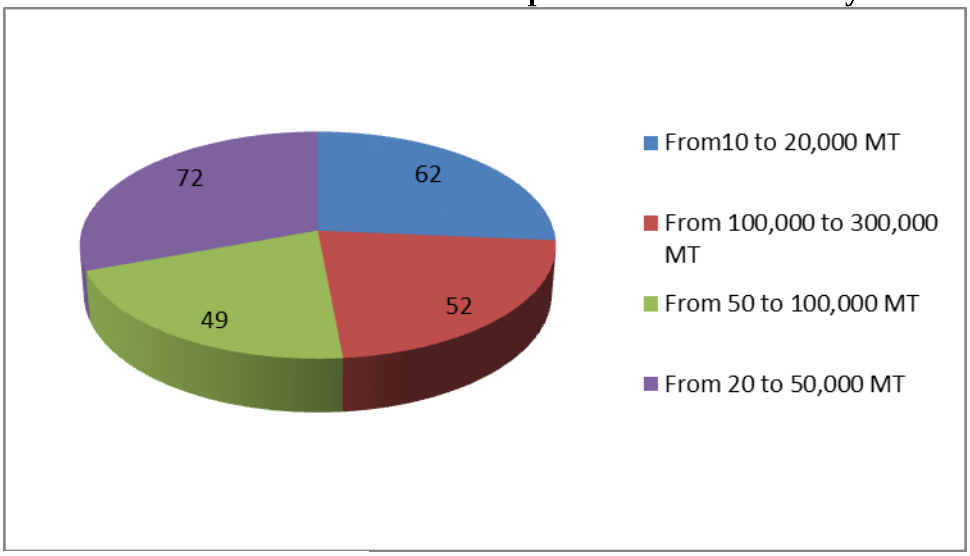


Source: Russian Feed Union

In 2016 there were 235 feed facilities operating in Russia. This number includes 134 facilities with an annual production capacity between 10,000 MT and 50,000 MT. Reportedly, there is a trend toward the construction of facilities with a larger production capacity. The Russian Feed Union forecasts that the number of feed facilities with an annual production capacity between 100,000 MT and 300,000 MT will increase from 52 in 2016 to 70 in 2025. On the other hand, no forecasted increase in the number of feed production facilities with a production capacity between 10,000 MT and 20,000 MT (please see Charts 7 and 8).

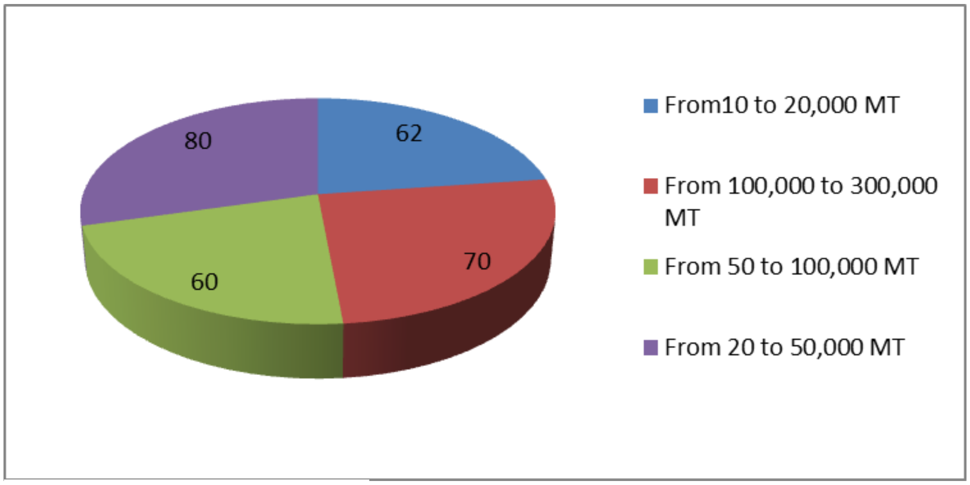
Mr. Afanasyev said that the major challenge for the sector is the trend toward vertical integration among the large agricultural holdings, where feed production facilities are part of the holding. As a result the feed sector is not developing as an independent industry. Moreover, with less competition in the sector, there is a decline in feed quality. Finally, Afanasyev also commented on the need for improvement of regulation in the feed sector. The Technical Regulation "For Safety of Feed and Feed Additives" still have not been approved. The public hearing on the draft technical regulation closed in August 2011. To date, no amended draft has been released for public comment.

Chart 7. Russia: Classification of Compound Feed Facilities by Production Capacity in 2016



Source: Russian Feed Union

Chart 8. Russia: Outlook of Compound Feed Facilities by Production Capacity in 2025



Source: Russian Feed Union

Presentations and Forecasts of Researchers and Analysts

Nadezhda Orlova, General Director of the research company “Abercade,” provided estimates and challenges for the development of the feed industry in Russia. According to their research, the 2016 annual Russian feed production was 25.9 MMT, or $9.7 billion in value (consistent with Rosstat data). However, Abercade believes that the actual production of feed could more accurately be estimated between 39.0 and 40.0 MMT because about 15 MMT are underreported by official statistics. Orlova also discussed the high ratio of grain in Russian feed – also using the 70 percent figure for Russia, contrasted with the average EU ratio estimated at 45-50 percent. Orlova noted that while Russian production of premixes and biological mineral concentrates continues to climb rapidly, the country is still dependent on imports of raw materials, mainly vitamins, amino-acids, and ferment preparations. This need for imported inputs tends to increase the overall cost of feed in Russia. Nearly 100 percent of feed vitamins are imported, 85-95 percent of feed antibiotics are imported, 80 percent of amino-acids are imported, and between 70-80 percent of probiotics and prebiotics are imported.

Abercade forecasted that by 2021, total feed production will increase by 22 percent, or by 5.6 MMT. Production of feed for poultry will increase by 18 percent and reach 16.7 MMT, feed for pork increase 32 percent to 12.4 MMT, and feed for livestock will increase 4 percent, to 2.2 MMT.

During the conference discussions, following the presentations, a number of participants, including Vladimir Petrichenko from ProZerno, were less optimistic about the production forecasts presented by the Russian Feed Union and Abercade. Mr. Petrichenko noted that starting in 2017 the feed sectors growth has stabilized with an expected average annual growth rate between 0.5-1.0 MMT. He attributed this lower trend to a lower demand from consumers and specific dynamics in the livestock and poultry sectors that are both forecast to develop without major escalation. Petrichenko believes that declining prices for feeds in CY 2016, as a result of the good harvest of forage grains and the ruble appreciation, will not spur production in the feed sector because Russia has “reached a certain plato for consumption of forage grains.” (please see chart 4). For more information on grain and feed production in Russia please see the most recent GAIN Report on Russian grain production.

Another interesting presentation was a study conducted by specialists of *AgroInvestor magazine* who compiled a rating of the Top-20 feed producers in Russia in CY2016. According to the research, these

20 companies own 56 feed production facilities and their total feed production is estimated at 12.6 MMT, almost 49 percent of Russia's total feed production.

According to the research, the leader in feed production in CY2016, the "Cherkizovo Group," increased feed production in CY2016 by almost 100,000 MT compared to CY2015. Cherkizovo's increase in production is attributed to the expansion of its pork and pork segments. The company has a goal to produce 1.7 MMT in CY2017.

The second largest agricultural holding,"Miratorg," increased its 2016 feed production by approximately 200,000 MT over its feed production CY2015. Miratorg's upward trend in feed production is attributed to continued expansion of the holding's meat business. Thus, in CY 2016 the company increased pork production by 6.2 percent, up to 409,000 MT, broiler production by 37 percent to 102,200 MT, and beef production by 53 percent, to 62,100 MT. The third place in rating is taken by "Prioskolye" group. The feed facilities of this group slowed feed production in CY2016 versus 2015. However, the Prioskolye group continues to be a leader in poultry production in Russia. In CY2016, the group's poultry production was estimated at 627,300 MT.

Table 2. Russia: Rating of the Largest Compound Feed Producers in 2016 versus 2015

	Company Name	**Production, 1,000 MT in 2016**	**2015**
1.	"Cherkizovo"	1,600	1,495
2.	"Miratorg"	1,550	1,337
3.	"Prioskolye"	1,262	1,288
4.	"Cargill"	850 (est.)	850 (est.)
5.	"BEZRK-Belgrankorm"	752	781
6.	GAP "Resurs"	710	702
7.	"Belaya Ptitsa"	650	285
8.	"RusAgro"	598	579
9.	"Charoen Pokpand Foods"	550	550
10.	"Agro-Belogorye"	473	459
11.	"Prodo"	465	593
12.	"Comos Group"	458	400
13.	"Agrocomplex" named after N. Tkachyov *(note: owned by relatives of current AgMinister Tkachyov)*	450	399
14.	""Agrosila"	395	361
15.	"Zdorovaya Ferma"	380	N/A
16	"VelikoLukskiy Sk"	340	N/A
17.	"AgroPromKomplektatsiaya"	307	272
18.	Bogdanovichskiy Compound Feed Facility (Note: the only facility in this rating that is independent, its production decreased despite the fact that it was renovated).	298	313
19.	"Kopitaniya"	270	N/A

20	"Khoroshee Delo"	262	N/A

Source: AgroInvestor Magazine