

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Russian Federation

Poultry and Products Annual

Russia 2018 Poultry and Products Annual

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Report Highlights:

In 2019, Russian chicken meat production is forecast to grow 1.2 percent to 4.78 MMT. Consolidation in the poultry industry continues to favor large companies that can access credit and can undertake major investments to improve productivity; however, overcapacity is squeezing profit margins.

Domestic demand for chicken meat remains stable, while exports continue to steadily grow despite high production costs and recurring challenges with Avian Influenza.

General Information

NOTE: USDA unofficial data excludes Crimean production and exports. As of June 2014, the Russian Federal State Statistics Service (Rosstat) began incorporating Crimean production and trade data into its official estimates. Where possible, data excludes information attributable to Crimea.

Notes Regarding Reporting Changes:

This report provides USDA chicken meat estimates and forecasts for 2017-2019. The data series for broiler meat has been discontinued, and officially ends with 2016 data. Broiler meat data will not be revised or updated in the future.

Official USDA data is available via the PSD database (<http://www.fas.usda.gov/psdonline>). The official October 11, 2018 data release will include historical data on chicken meat going back to 1999.

Chicken meat is defined as meat of domestic fowl (*Gallus gallus/Gallus domesticus*) including all chickens: broiler, layer, hybrid, domestic breeds, spent hens, ex-breeding stock, etc.

FAS/Moscow takes into account chicken meat produced by all types of farms including “agricultural organizations,” “small peasant farms,” “individual entrepreneurs,” and “backyard farms” (consistent with Rosstat’s definitions).

Executive Summary

In 2019, Russian chicken meat production is forecast to grow 1.2 percent to 4.78 MMT. New processing facilities are gradually replacing older less efficient operations. Consolidation in the poultry industry continues to favor large companies that can access credit and can undertake major investments to improve productivity.

Production overcapacity is squeezing profit margins, however domestic consumer demand for chicken meat remains stable, while exports continue to steadily grow. Chicken meat consumption is forecast at 4.8 MMT in 2018 and 2019. This forecast assumes no significant changes in macroeconomic conditions, however there are uncertainties heading into 2019. The Russian Government has announced an increase in the minimum retirement age. VAT taxes have also increased from 18 to 20 percent. Russia’s Central Bank is currently forecasting annual inflation in range of 4 to 4.5 percent for 2019. Animal feed costs are likely to remain high in the near future due to limited feed supplies and the Eurasian Economic Union (EAEU) tariff on key feed components. The increased tax burden, pressure on consumer income, combined with relatively expensive animal feed, will likely continue to challenge the Russian poultry industry in 2019.

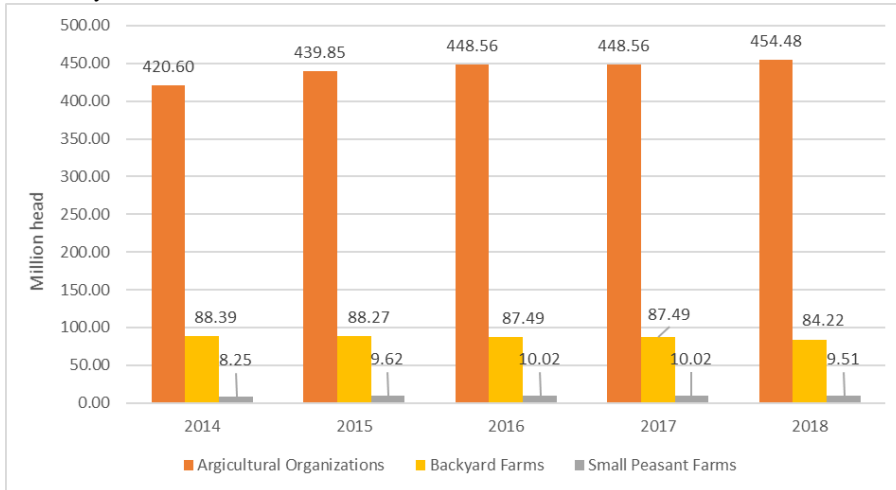
Russian chicken meat exports are forecast at 180,000 MT (RTC) in 2019, a 20 percent increase from the 150,000 MT (RTC) expected in 2018. Exports currently account for less than 4 percent of total production. The Russian poultry industry faces significant competition in terms of production costs, especially feed. Recurring challenges with Avian Influenza (AI) further restrict access to export markets. In June 2018, Russia’s AI situation took a turn for the worse following the discovery of High Pathogenic Avian Influenza (HPAI) in the Kurskaya and Penzenskaya oblasts. As of August 6, 2018, Russia’s veterinary service, VPSS, confirmed 76 outbreaks in 13 regions.

Russia's Poultry Industry in Numbers

Inventories

As of January 1st, 2018, total poultry inventories in Russia were 548,214 million head. Approximately 83 percent are raised in commercial farms, while the remaining 17 percent can be found on small peasant and backyard farms.

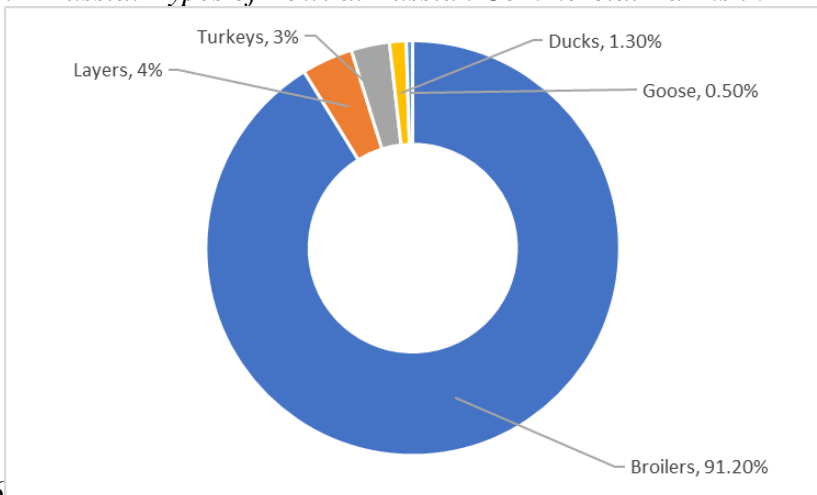
Chart 1. Russia: Distribution of poultry inventories by types of farms in 2014-2018, million head, as of January 1st.



Source: Rosstat

Broilers and layers account for approximately 95 percent of Russia's poultry inventories.

Chart 2 Russia: Types of Fowl at Russian Commercial Farms in



2016

Source: Rospticesouz

Total Poultry Meat Production

In 2017, Russian farms produced 6.607 MMT (live weight) of poultry meat. Commercial enterprises accounted for approximately 93 percent of total poultry production. Over the last 10 years, commercial production has grown at an annual average rate of 10.6 percent, from 2.268 MMT in 2007 to 6.196 MMT in 2017. The top ten companies accounted for 53 percent of total production. Chicken meat accounts for approximately 94 percent of total poultry meat production. Turkey accounts for 5.5 percent, while other poultry is around 0.5 percent.

Chicken Meat Production

Table 1. Russia: Chicken Meat Production, Supply and Demand, 1,000 (RTC¹), million head

Poultry, Meat, Chicken	2017	2018	2019
Market Begin Year	Jan 2017	Jan 2018	Jan 2019
Russia	New Post	New Post	New Post
Inventory (Reference)	430	460	0
Beginning Stocks	30	30	30
Production	4,658	4,725	4,780
Total Imports	225	225	200
Total Supply	4,913	4,980	5,010
Total Exports	124	150	180
Human Consumption	4,759	4,800	4,800
Other Use, Losses	0	0	0
Total Dom. Consumption	4,759	4,800	4,800
Total Use	4,883	4,950	4,980
Ending Stocks	30	30	30
Total Distribution	4,913	4,980	5,010
(MIL HEAD), (1,000 MT)			

NOTE: Not Official USDA data;

Official USDA data is available at <http://apps.fas.usda.gov/psdonline/>

Chicken meat production is forecast to grow 1.2 percent from 4.725 MMT (RTC) in 2018 to 4.780 MMT (RTC) in 2019. A 7.5 percent increase in chicken meat production in 2017 led to market oversupply and a corresponding decline in prices during the first quarter of 2018. In May 2018, Rosstat reported that the average retail price for chicken meat was 122.67 rubles per kg, 6.6 percent lower than in May 2017. At the end of the first quarter of 2018, “Emeat,” the meat market information agency, reported a 5.6 percent decrease in the average price for whole broiler carcass. Russia’s leading poultry producer, Cherkizovo, also reported an 11 percent drop in the average price of whole broilers from 92 rubles per kg to 82 rubles per kg. Retail prices generally dropped more than wholesale prices as producers tried to encourage consumption as consumer purchasing power shrank. Notwithstanding oversupply and downward pressure on producer margins, Russian chicken meat production is expected

¹ RTC or ready-to-cook equivalent means any slaughtered poultry free from protruding pinfeathers and vestigial feathers (hair or down), from which the head, feet, crop, oil gland, trachea, esophagus, entrails, and lungs have been removed, and from which the mature, and which is suitable for cooking without need of further processing.

to increase modestly in 2019. Russia currently exports less than 4 percent of its chicken meat production. Accordingly, profitability of the Russian poultry sector depends on domestic demand and internal macroeconomic conditions.

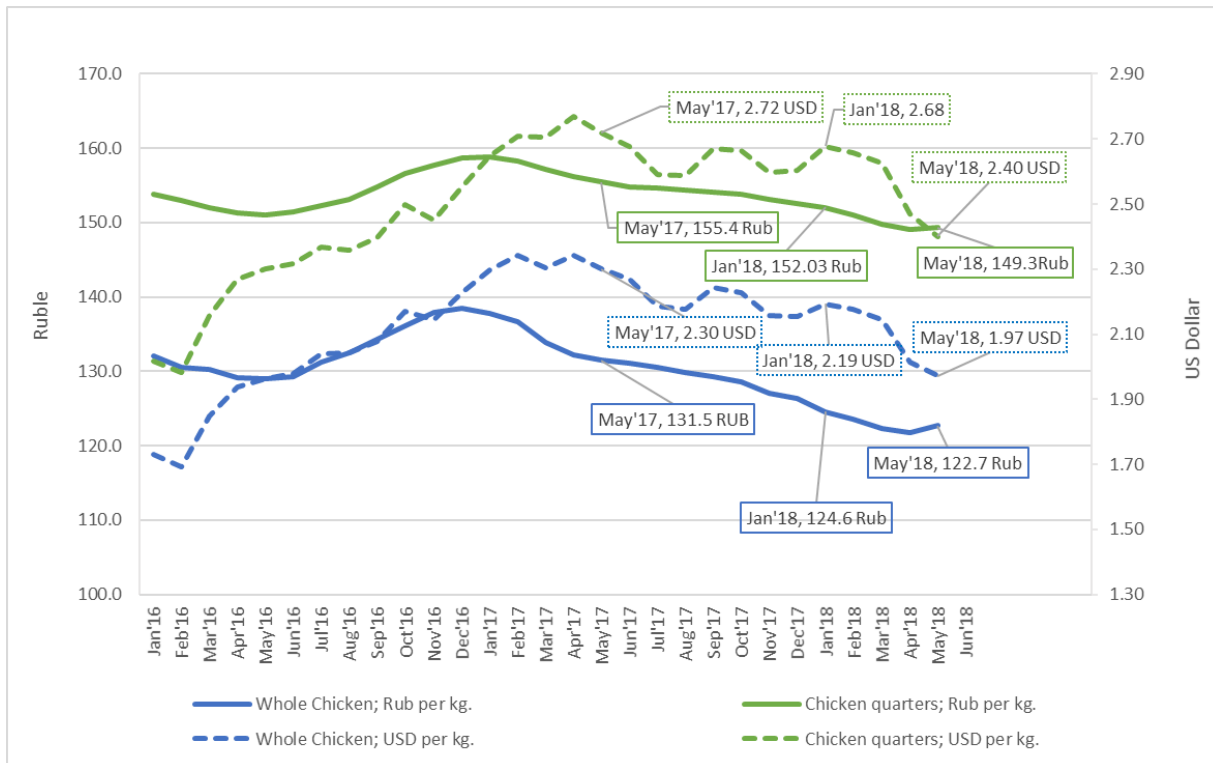
The USDA production forecast is based on the assumption of stable macroeconomic conditions. In 2017, the Russian economy gradually recovered from a recession that started in November 2014 and continued for nine quarters; Russia's GDP grew by 1.5 percent in 2017. GDP continued to grow at 2.1 percent during the period January-May 2018. Stabilization policies, including a gradual easing of monetary policy combined with relatively favorable exchange rates, contributed to the recovery. Modest GDP growth between 1.5 and 2.1 percent is forecast for 2019, however macroeconomic conditions could change. In June 2018, the Government of Russia announced a Value Added Tax increase from 18 to 20 percent and an increase in the retirement age; both changes are expected to take effect in 2019. Experts, including the Ministry of Economic Development of the Russian Federation are currently reviewing forecasts for 2018-2020: "The Bank of Russia reviewed the inflation forecast upwards considering the planned increase of the value added tax in 2019. This measure will influence the next year consumer prices dynamics and may affect this year's dynamics as well. The Bank of Russia forecasts annual inflation to be 3.5–4% in late 2018 and increase for a short-term period to 4–4.5% in 2019."² The increased tax burden and additional pressure on consumer disposable income are challenges the industry will face in 2019.

In 2018 and 2019, leading companies will continue to improve productivity, enhancing supply chains and strengthening distribution channels. The most efficient producers have potential and flexibility to meet domestic demand. Industry consolidation will continue into 2019 as larger and more efficient companies continue to gain market share at the expense of smaller and weaker players. Producer profitability in the first half of 2018 was lower compared to 2017. "Cherkizovo," for example, noted in its first quarter report that "the segment's revenue declined by 2.6 percent year-on-year ... higher sales volumes were negatively affected by the decline of the average selling price, despite an increased share of value-added branded products in the sales mix. Adjusted EBITDA declined 48.7 percent year-on-year, while adjusted EBITDA margin decreased to 9 percent from 17.1 percent a year ago." During the summer 2018, market dynamics changed substantially after the discovery of HPAI in some of the key producing regions. Wholesale and consumer prices for chicken increased significantly in the beginning of the third quarter of 2018. For example, Cherkizovo reported 12 percent growth of its average sale price for kg. of chicken in July 2018.³

Chart 3. Retail prices for chicken meat in Russia in 2016-May 2018 in Rubles and US Dollars

² Source: <https://www.cbr.ru/eng/press/keypr/>

³Source: <http://cherkizovo.com/en/press/company-news/10394/>



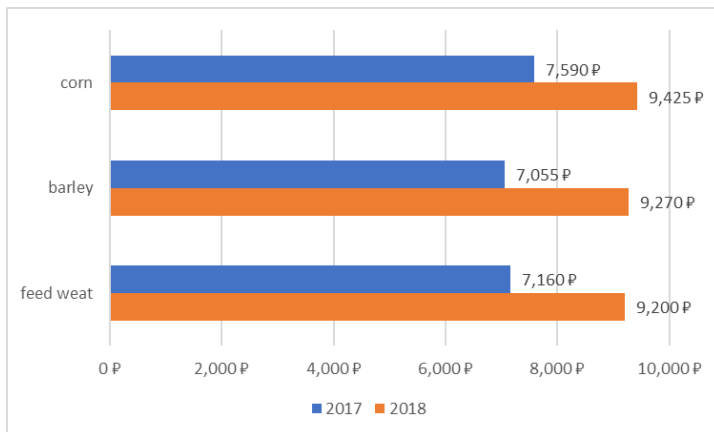
Source: Rosstat

Despite record grain crops in 2017/2018, the Russian poultry industry was unable to capitalize on the availability and low price of feed grains. In January 2018, prices for feed premixes increased significantly after a fire badly damaged the BASF vitamin A and vitamin E premix production facility in Germany. According to industry sources, this disruption in supply pushed premix to prices to levels that were 2.5 times higher than prices in the previous year. Also, a 10 percent depreciation in the Ruble – U.S. dollar exchange rate during the period January-May 2018⁴ increased not only the cost of imported feed components, but also of hatching eggs, and equipment maintenance. Speculation over the availability of soy from South America pushed feed prices higher. In June 2018, the price for feed wheat, west of the Ural Mountains, was around 9,200 rubles per MT (EXW), 28.5 percent higher than in June 2017. The price of barley also increased 31 percent year-on-year to 9,270 rubles per MT. The corn price increased 24 percent to 9,425 rubles per MT. For small and med-sized producers buying compound feeds, the market outlook has been particularly unfavorable. Larger companies maintain their own feed grain production and have been able to manage the supplies without relying on major purchases of expensive compound feed.⁵

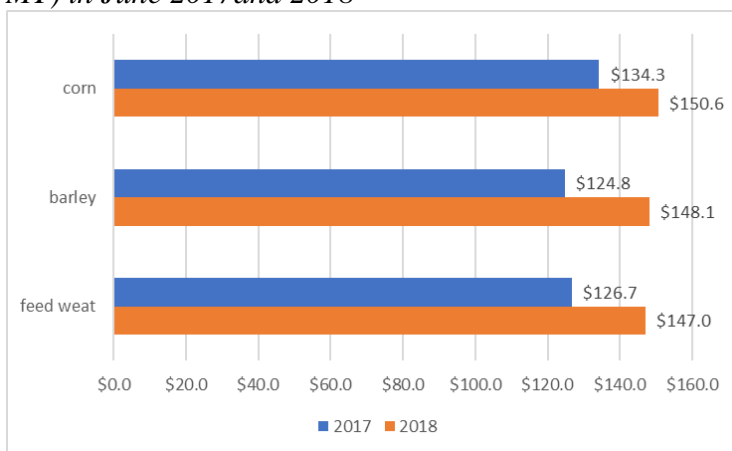
Chart 4. Feed Grain Prices in Rubles (European Russia, EXW, MT) in June 2017 and 2018

⁴ The Average nominal exchange rate was 56.78 Ruble per US Dollar in January 2018, and 62.21 Ruble per US Dollar in May 2018. Source: <https://www.cbr.ru/statistics/?PrfId=svs>

⁵ Article in Russian: “Top 20 feed producers” <http://www.agroinvestor.ru/rating/article/29787-top-20-po-kormam/full/> Source: “Agroinvestor” Magazine, May 2018



Source: RF Ministry of Agriculture Chart 5. Feed Grain Prices in US Dollars (European Russia, EXW, MT) in June 2017 and 2018



Source: RF Ministry of Agriculture; Central Bank of Russia

Many poultry producers, even some major companies, are currently facing financial challenges in maintaining business operations. Mergers and acquisitions, potentially even closures, could lead to some significant changes in the structure of the industry. Declining profitability from domestic retail sales has affected overall bird numbers. On June 1st 2018, Russia's total poultry inventory was approximately 4.8 million birds less than in 2017. Flocks declined in nine out of Russia's twenty biggest producing regions, which currently account for 77 percent of total chicken meat production.

Further reduction of the output at the financially struggling plants is possible in 2018. For example, in its recent release, Rosstat reports 6.9 percent decline of poultry meat production in Belgorod, the biggest broiler region and 5.7 percent decline in Kurskaya oblast, # 14 in the rating of the biggest broiler regions. The decrease most likely reflects the problems of "Belaya Ptitsa", the fourth biggest broiler company in the country. The company failed to refinance its loans, after the Central Bank of Russia announced the bailout of "Promsvyazbank", associated with Belaya Ptitsa, in December 2017. "Belaya Ptitsa" will likely go through the bankruptcy process, because several potential buyers stopped the negotiations on purchasing the company's assets in 2018. "Belaya Ptitsa" produced 300 thousand MT of chicken (live weight) in 2017, and possible reduction of this quantity will be a noticeable event in the market. Another industry leader "Prioskolie" is selling its assets located outside the Belgorod region. The company sold its grand-parent breeding facility to Cobb Germany, a distributor for Cobb-Vantress in 2017. GAP "Resurs" purchased the production facility in Tambov region from "Prioskolie" in the

beginning of 2018. In July 2018 “Priorskoliye” has sold its broiler plant in Altaiskii Krai with 67,000 MT of annual capacity to “Cherkizovo”..

Despite financial problems and production decline by 78,000 MT (live weight) at broiler plants in 39 regions, other 33 Russia’s regions continued growing in January-May 2018. Production increased in these regions by 158,000 MT (live weight). The growth is a result of the previous investments in the bigger capacity and better productivity. Another positive supporting the production growth in 2018 is the improved access to credit due to stabilized key macroeconomic factors: 7.25 percent CBR key rate, and the record low inflation that mean relatively cheap loans. Major investment projects by leading companies continue in Tambovskaya oblast, Penzenskaya oblast, the Republic of Mordovia, Marii-El, Tulsckaya and Kaluzhskaya oblast. “Rospticesouz” anticipates 100,000 MT of additional poultry meat in the market (including turkey, live weight) as cumulative result of the two opposite trends: expansion of the most efficient farms at the expense of their less efficient competitors.

Some regions, such as Rostov and Krasnodar, show significant increase in production year-on-year because they recover after the Avian Influenza (AI) outbreak that hit these regions in 2017. In 2018, AI epizootic situation in Russia was favorable until June, when the outbreaks of High Pathogenic Avian Influenza were first confirmed in Kurskaya and Penzenskaya oblast. By the beginning of August, the disease has spread dramatically. As of August 6, 2018, VPSS reported 76 outbreaks in 13 regions: Kurskaya Oblast – 6, Nizhegoroskaya – 2, Orlovskaya – 6, Penzenskaya – 9, Marij El – 1, Tatarstan – 16, Udmurtia – 3, Chuvashia – 10, Rostovskaya Oblast – 3, Samarskaya – 13, Saratovskaya - - 4, Smolemskaya – 2, Ulianovskaya – 1. The risks related to further spread of AI remain high. The disease will constrain the growth of exports and production in the second half of the year. For the most recent up-date on the diseases notifications and outbreaks reports please refer to the official web site of the Russian Federal Service for Veterinary and Phytosanitary Surveillance ([VPSS](#)) and [OIE](#). Several large producers have been impacted by the epidemic, movement of poultry products interrupted in the affected areas. Farm gate prices for live chickens grew to 67.44 rub per kg (live weight) in July 2018, 4.5percent increase from January 2018; consumer prices increased to 135.82 rubles per kg, 7.2 percent growth from January.

Chicken meat production is expected to grow by 1.4 percent, reaching 4.725 MMT (RCT) in 2018. This estimate is based on Rosstat data showing 3.2 percent growth of poultry meat production (including turkey) in January-May 2018 and 1.05 percent year-on-year decline of the poultry head count as of June 1st 2018.

Table 2. 20 Largest Poultry Producing Regions in Russia in 2016, 2017 and Jan-May 2018

#	Region	2016 1,000 MT Live weigh	2017 1,000 MT Live weigh	Chan ge Year- on- year	Jan- May 2017 1,000 MT	Jan- May 2018 1,000 MT	Chan ge 2018/ 17 MT;	Poultry herd as of June 1 st , 2017 1,000	Poultry herd as of June 1 st , 2018 1,000	Change of poultry herd; Jun 1st 2018/2017
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		t	t	2017/ 16 1,000 MT; % Live weigh t	Live weigh t	Live weight	% YTD (Jan- May)	head	head	1,000 head; %
1	Belgorod Oblast	798.5	841.6	43.1 5.3%	358.5	333.8	- 24.78 -6.9%	51382.4	47860.3	-3522.1 -6.85%
2	Chelyabins kya Oblast	349.8	347.5	-2.3 -0.6%	148.3	140.2	-8.1 - 5.47 %	24462.4	23638.9	-823.5 -3.37%
3	Stavropolsk ii Krai	301.3	305.8	4.5 1.5%	127.3	128.2	0.9 0.71 %	20447.5	20196.7	-250.8 -1.23%
4	Leningrads kaya Oblast	296.6	308.1	11.5 3.8%	131.3	128.5	-2.9 -2.2%	29963.7	30534.2	570.4 1.9%
5	Bryanskaya Oblast	261.1	273.8	12.7 4.8%	115.1	116.1	1.38 1.2%	13205.2	13051.3	-153.9 -1.17%
6	Tambovska ya Oblast	129.7	253.2	123.5 95%	79.2	130.3	51.1 64.5 %	13504.2	14715.6	1,211.4 8.97%
7	Krasnodars kii Krai	203.5	221.9	18.4 9%	90.3	87.9	-2.32 - 2.57 %	16229.0	15347.7	-881.3 -5.43%
8	Penzenskay a Oblast	212.2	224.3	12.1 5.7%	92.5	99.1	6.5 7%	9222.4	10313.3	1,090 11.8%
9	Moskovska ya Oblast	194.2	205.9	11.7 6%	87.7	86.6	-1.04 - 1.19 %	10890.2	9918.5	-971.6 -8.92%
10	Lipetskaya Oblast	174.8	184.8	10 5.7%	77.0	79.6	2.63 3.42 %	11658.6	11328.4	-330 -2.83%
11	The Republic of Mordovia	196.0	206.9	10.9 5.5%	87.4	92.3	4.9 5.64 %	16032.1	17501.9	1469.7 9.2%
12	The Republic of Marij El	163.1	192.9	29.8 18%	74.2	85.2	11.0 14.8 %	10800.0	9806.7	-993 -9.2%
13	The Republic of Tatarstan	183.2	186.5	3.3 1.8%	79.2	78.5	-0.67 - 0.85 %	12398.9	12938.6	539.65 4.35%
14	Kurskaya Oblast	143.5	152.6	9.1 6.3%	70.2	66.2	-3.9 - 5.69 %	7945.8	6594.7	-1351 -17%
15	Rostovskay a Oblast	136.8	141.6	4.8 3.5%	45.6	97.9	52.25 114%	9238.3	10392.0	1153.6 12.5%
16	Sverdlovsk ya Oblast	141.4	135.4	-6 -4.2%	56.9	58.8	1.9 3.4%	12266.9	13088.0	821 6.69%
17	Novgorodsk aya Oblast	115.3	120.0	4.7 4%	49.4	48.4	-1.08 -2.2%	6698.0	6918.0	220.0223.2 8%
18	Voronezhsk aya Oblast	113.9	115.7	1.8 1.5%	48.9	48.9	0	8495.0	8657.9	162.92 1.92%
19	Tulskaya	58.7	90.3	31.6	36.2	40.5	4.3	5567.5	6157.7	590.2

9	Oblast			53%			11.9%			10.6%
20	Altayskii Krai	64.7	63.1	-1.6 -2%	32.0	32.3	0.3 0.94%	6808.2	7117.5	309.3 4.54
	Top 20	4238.30	4571.90	333.60	1887.2	1979.3	92.1 4.8%	297216.3	296077.9	-1138.4
	Other regions	1379.70	1469.10	89.40	601.58	588.76	- 12.73 -2.1%	158760	155070.3	-3689.7
	total	5,618	6,041	423 7.5%	2488.78	2568.068	79 3.2%	455976.261	451148.165	-4828.1 -1.06%

Source: Rosstat; Agricultural organizations production (Excludes backyard farms and small peasant farms).

Table 3. Ten Largest Russia's Broiler Meat Producing Companies in 2016-17

# in 2017	Company Name / Location	Chicken Meat Production in 2016; live weight; 1,000 MT	Chicken Meat Production in 2017; live weight; 1,000 MT	Change in production; live weight; 1,000 MT(%)
1	“Prioskolie” Belgorod oblast, Altayskii Krai	630	642	12 (1.9%)
2	“Cherkizovo” Group Bryansk Oblast, Lipetsk Oblast, Moscow Oblast, Penza Oblast; Voronezh Oblast	592	615	23 (3.9%)
3	GAP “Resurs” The Republic of Adygeya; the Republic of Karachaevo-Cherkessia; Krasnodarskii Krai, Stavropolskii Kraj, Rostov Oblast; Tambovskaya Oblast	343	454	111 (32%)
4	“Belaya Ptitsa” Belgorodskaya Oblast	290	302	12 (4%)
5	“Belgrankorm” Belgorod Oblast, Novgorod Oblast	284	297	13 (4.5%)
6	“Agrokomplex named after N. Tkachyov” Krasnodarskiy Krai, Rostovskaya Oblast, Republic of Mari-El, Stavropolskii Krai.	247	278	31 (12.5%)
7	“Severnaya” poultry plant Leningradskaya Oblast	248	252	
8	“Prodo” Kaluga Oblast; Novosibirsk Oblast; Omsk	177.2	183.5	6.3 (3.5%)

	Oblast; Perm Oblast; Tyumen Oblast			
9	“Miratorg” Bryansk Oblast	133.8	140	6.2 (4.6%)
10	“Sfera” Republic of Mordovia	99	127	27 (28%)

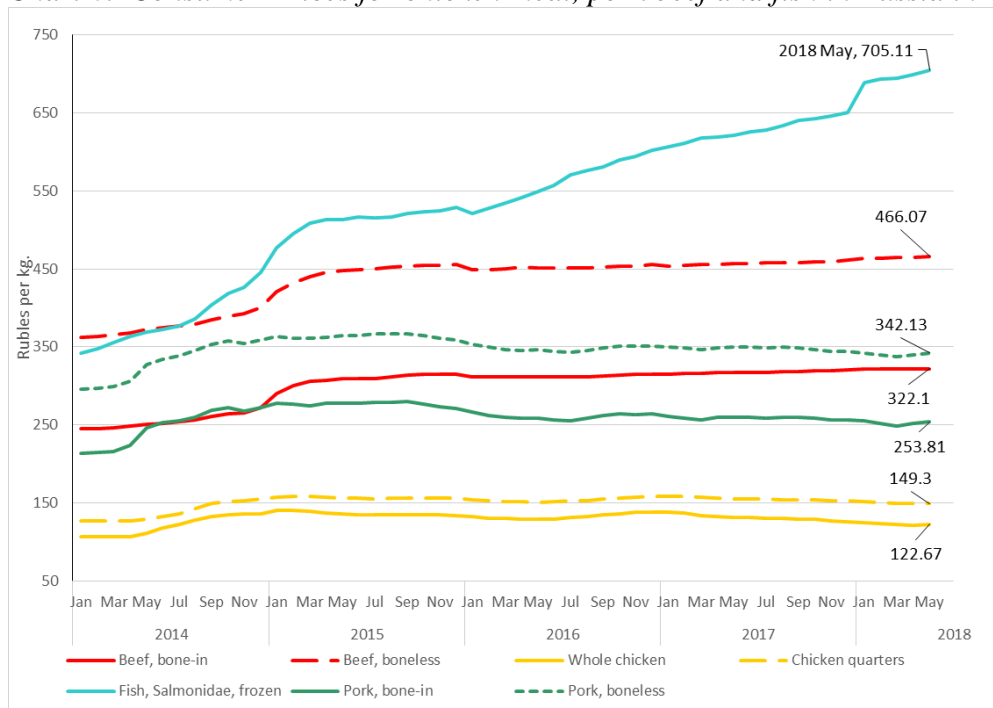
Source: Agroinvestor

Chicken Meat Consumption

The market remained favorable for chicken meat during the economic recession of 2014-2016 and the first year of recovery in 2017 because of the low price for chicken compared to red meats and fish. The broiler share in the retail sector grew, and in HoReCa, use of chicken also increased in the production of processed meats. Sales of chilled poultry via modern retail channels also expanded at the expense of frozen and processed red meats. However, stagnating retail sales, at a time of record low prices in the first quarter of 2018, signaled that the potential for further growth of chicken meat consumption is limited. After a decade of growth, chicken meat consumption is forecast to stabilize at 4.8 MMT in 2019, unchanged from 2018.

Chicken will remain the most popular type of meat in 2019, because consumers purchasing power remains weak, while broiler is competitively priced compared to red meats and fish. In 2018 the average retail price for the whole chicken remained 2 times lower than the price of bone-in pork. Bone in beef is on average 2.6 times more expensive than chicken. Boneless red meats cost 2.7-3.7 times more than chicken, while the price of frozen salmon is 5.7 percent higher.

Chart 6. Consumer Prices for chicken meat, pork beef and fish in Russia in 2014-May 2018



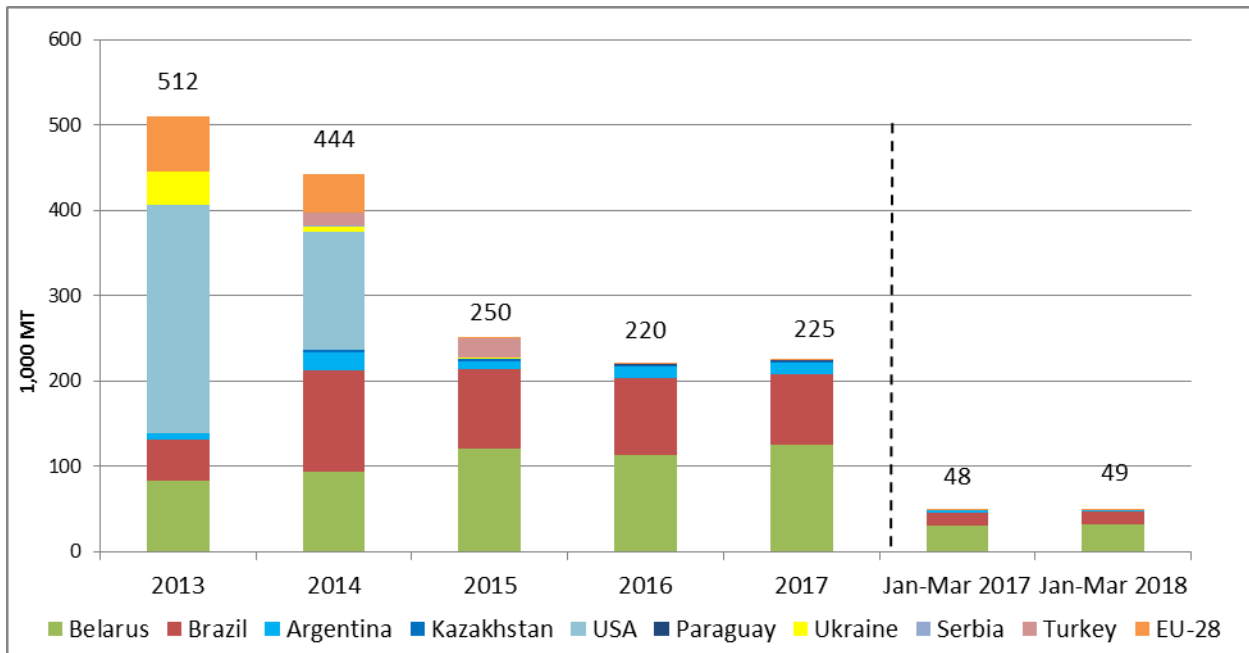
Source: Rosstat

CPI inflation in 2017 was at a record-low level 2.51, below the CBR's target of 4 percent. In May 2018, annual inflation was at 2.2 percent. Real wages started improving in the second half of 2017 and average growth reached 4.5 percent in the period July-December compared to the same period of 2016. While real wages increased due to low inflation, growth in real disposable incomes continued declining in 2017. The growth rate of pensions and wages did not compensate for the contraction of other components of household incomes. The poverty rates in 2017 remained at the levels close to 2016. At the beginning of 2018, real disposable income began to show signs of recovery. Disposable incomes in January 2018 were at the same level as in January 2017 and they grew at 3.2 percent during five months of 2018. However, consumer purchasing power is unlikely to increase significantly in 2019. The possible increase of the retirement age and the planned increase of VAT tax in 2019 will have a negative impact on the purchasing power of the consumers. The CBR forecasts inflation at 4.5 percent in 2019. At the same time, the chicken meat production costs are trending upwards, so there is a high probability that retail prices will increase.

The decline of poultry production in the key producing regions (please refer to Table 2 for details) resulted in a short-term imbalance in wholesale supply and demand in the second quarter of 2018. Demand for chicken meat for industrial processing was strong due to banned imports of frozen red meat from Brazil and on the expectations of the spike in consumption during the 2018 FIFA World Cup. Producers of ready to eat and half cooked products for HoReCa had to fulfill contract obligations and were ready to pay higher prices for chicken meat. At the same time the increased gasoline prices and rather pessimistic forecasts for the new grain and pulses crops both in Russia and Latin America motivated chicken producers to increase wholesale prices. As a result, average wholesale chicken prices increased from 82 rubles per kg. in February 2018 to 100 rubles per kg. at the end of May. Prices grew even stronger in July, 2018 due to HPAI and reduction of the output at several large plants. The spike of wholesale prices resulted in an increase of retail prices in the third quarter of 2018. The trend is anticipated to last through the beginning of 2019 and will constrain the consumption growth next year.

Chicken Meat Trade

Chart 7. Russia: Chicken Meat Imports, Major Suppliers in 2013-2017 and in Jan-Mar 2018



Source: Federal Customs Service of Russia

Chicken meat imports are expected to reach 200,000 MT (RTC) in 2019, a 25,000 MT (RTC) decrease from 225,000 MT expected in 2018. Imports accounted for only 4.7 percent of total chicken consumption in 2017, and the share will continue to decline in 2018 and 2019 under the growing pressure from local production.

Russia imported 48 thousand MT of chicken in the first quarter of 2018, the same quantity as in the first quarter of 2017. Belarus and Brazil remained the major suppliers and accounted for 65 and 30 percent of the shipments correspondently. Supply from Belarus grew 4.18 percent to 31,820 MT, while shipments from Brazil declined 3.7 percent to 14,723 MT in the first quarter of 2018.

In November 2017, Russia banned imports of red meat from Brazil, but the market remains open for chicken meat. Frozen chicken meat of consistent quality is in demand by producers of half cooked and ready to eat products for HoReCa in the regions distant from the key broiler production clusters. Despite the demand for consistent quality frozen chicken, Brazilian exports are expected to further decline by the end of 2018 due to enhanced food safety controls at the border.

Chicken meat exports are forecast at 180,000 MT (RTC), a 20 percent increase from 150,000 MT (RTC) exports expected in 2018. Anticipated turbulence in world chicken meat trade creates opportunities for Russian exporters seeking new markets due to oversupply in the domestic market. However, in absolute numbers the growth remains relatively slow, because the industry is struggling to compete with more efficient international players in terms of production costs. AI related trade restriction also constrain the faster growth of exports

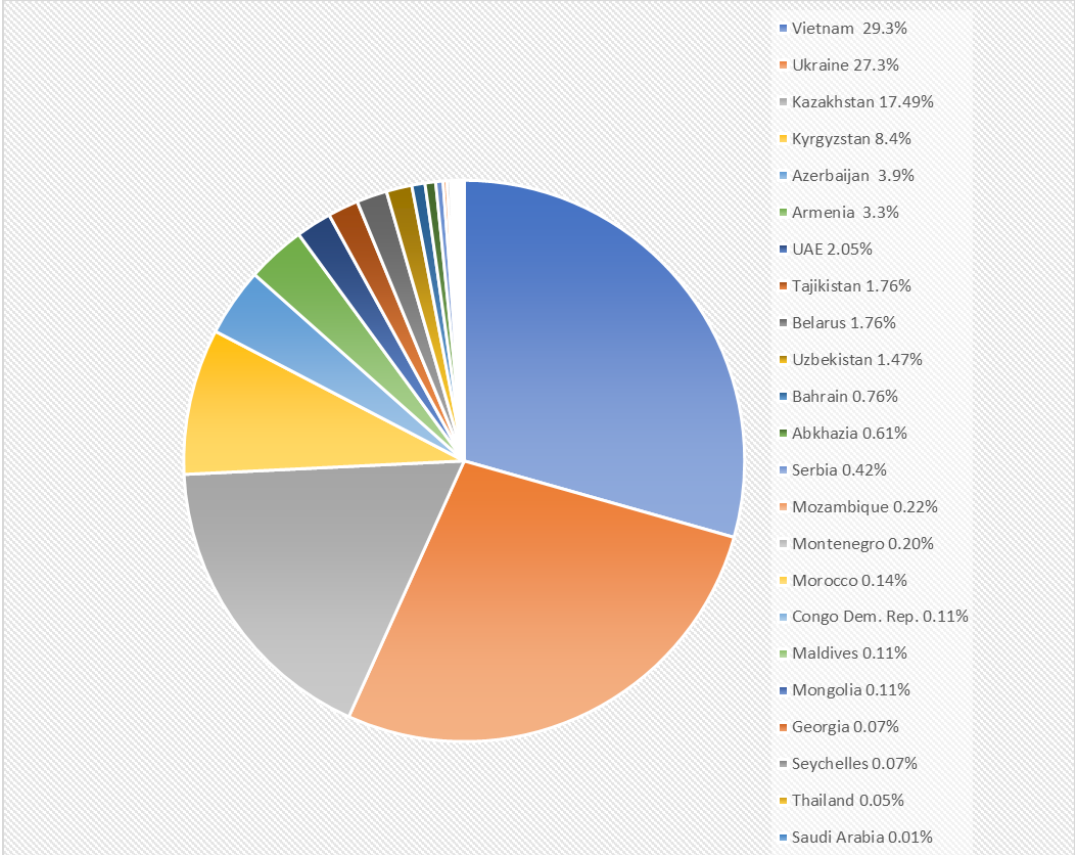
In the first quarter of 2018 Russia exported 34,337 MT (RTC) of chicken meat, a 44 percent increase compared to the same months of 2017. AI outbreaks in Kursk region will most likely constrain the growth of exports at the same pace in the third quarter of 2018.

Russia shipped 39 percent of chicken exports to Donetsk and Luhansk regions of Ukraine, and 25 percent to Kazakhstan. Despite the limitations, the number of new destinations has significantly increased over the recent years. According to Rosselkhoznadzor, Russia exported poultry products to 35 countries in 2017, an increase from the 23 countries in 2016.

According to Rosselkhoznadzor, 286 companies have received official permissions from foreign authorities for shipping meat and meat products. The largest meat exporters are “Cherkizovo”, “Miratorg”, and GAP “Resurs. These companies now have access to important centers of global trade in Hong-Kong and United Arab Emirates. Noteworthy to mention, that major meat producers reported beginning of meat and poultry shipments to Saudi Arabia in March 2018.

Government support for agricultural exports declined 18 percent compared to 2017, In 2018, the federal budget allocated 610 million rubles to supports food exports. Rosselkhoznadzor will receive 464 million rubles for activities related to improving the access to foreign markets. 146 million rubles will be spent on the creation of the analytical center for research of the potential markets.

Chart 8. Destinations of Chicken Meat Exports from Russia in January-Mar 2018



Source: Federal Customs Service of Russia. Includes items not reportable in PSD.

Agricultural Policy

The main principles of the current agricultural policy are determined in the State program of the development of Agriculture in 2013- 2020. The Program is now the subject to revision by the Ministry of Agriculture, led by the newly appointed Minister Dmitrii Patrushev. The primary goal of the old program is to attract investment to increase production capacity. The program has focused on improving

the access to credit for agricultural producers and limiting the imports of sensitive goods to the market. Subsidized loans and import quotas have successfully helped the Russian poultry industry reach capacity to fully satisfy domestic demand. The Ministry of Agriculture is currently drafting a new program, with new priorities, such as investments for innovations, productivity, and growth of agricultural exports. While the Government is drafting the new program, the old framework will continue through 2019. The Government initially allocated 242 billion rubles (US\$ 4.2 billion) for support for the agricultural sector in 2018, unchanged from 2017. The amount includes 52.2 billion rubles for subsidizing the interest rate on investment loans, 49.7 billion rubles for subsidizing the short-term credit, 39 billion rubles for regional subsidies, 2 billion rubles to support replacement of agricultural equipment. In February 2018, the Government added 7 billion rubles (122 million US dollars) to the agricultural budget, including 5 billion rubles (87 million US dollars) for investment subsidies. State support motivates banks provide credits to farmers at a five percent interest rate. Some poultry projects will continue to receive the subsidies related to their previous investment projects, but state won't support any new investment in increased chicken meat production capacity.