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An overview of the meat sector in the Russian and North-West Region 2017

Table of Contents

Sector Profile

Russian agriculture has been developing fast in recent years. The fast growth in agriculture has been supported by policy measures including import tariffs and governmental support. The Russian agricultural support system has been driven by a progressive policy focused on import substitution and self-sufficiency in meat and other food sectors.

Russia's meat sector has made a considerable contribution to the agricultural growth rate. Russian meat market is dominated by large integrated farms, namely agricultural holdings. Most of the operations are high-technology facilities distributed across Russia. The Russian poultry and pork industries are very consolidated and continue to increase their vertical integration and improve capacity. Medium- and small-size farms produce mainly mutton, rabbit and turkey meat.

Meat Production: Poultry, Pork, Beef, Turkey, Rabbit

Poultry and pig breeding are the most well-developed meat subsectors. Russia has become almost self-sufficient in poultry (self-sufficiency rate above 85%). That is why this subsector has not demonstrated a considerable increase over the last two years. Russia's leading producers of poultry and pork are listed below:

Table 1. Top-10 Poultry and Pork Producers of Russia (thousand tons, slaughter weight)

Company name	Profile	Production output	Website
Cherkizovo	Poultry, pig breeding, meat processing, vegetable growing	601,7	http://cherkizovo.com
Prioskolie	Poultry (market leader in poultry)	526, 6	http://www.prioskol.ru
Miratorg	Pig breading, cattle breeding (market leader in beef), poultry, meat processing	438,9	www.miratorg.ru
BEZRK-BelGranKorm	Poultry, pig breeding, cattle breeding, meat processing	295,7	http://jasnzori.ru/
Resurs	Poultry, vegetable growing, grain growing	270,6	www.gapresurs.ru
Charoen Pokphand Foods	Poultry, pig breeding, meat processing, fodder production	195	http://cpfrussia.ru
Belaya Ptitsa	Poultry, meat processing, fodder production, grain growing	193,5	http://belaya-ptica.ru/ru/
Prodo	Poultry, pig and cattle breeding, fodder production, grain growing	192,4	http://www.prodo.ru
Akashevo	Poultry, meat processing, fodder production	166,5	http://akashevo.ru
RusAgro	Pig breeding, meat processing, fodder production, oil and fat production, grain growing	165,0	www.rusagrogroup.ru

Source: www.agroinvestor.ru

According to meat experts, the TOP-3 meat producers are tough competitors and are hard to outpace. Only Resurs and Charoen Pokphand Foods which are planning to invest and increase production capacities can get closer the market leaders.

Meat producers are present in many areas of Russia; the largest meat producers cover several geographical regions. The table below includes the TOP 10 regions specialized in meat production.

Table 2. TOP-10 Meat Producing Regions of Russia (thousand tons)

Region	Production output	Federal District
Belgorod region	1 600	Central Federal District
Chelyabinsk region	540,2	Ural Federal District
Krasnodar region	495,6	Southern Federal District
Republic of Tatarstan	484,3	Volga Federal District
Stavropol region	479,7	North Caucasus Federal District
Kursk region	469,5	Central Federal District
Republic of Bashkiria	397,4	Volga Federal District
Bryansk region	392,8	Central Federal District
Voronezh region	382,1	Central Federal District
Leningrad region	362,8	North-Western Federal District

Source: www.agroinvestor.ru

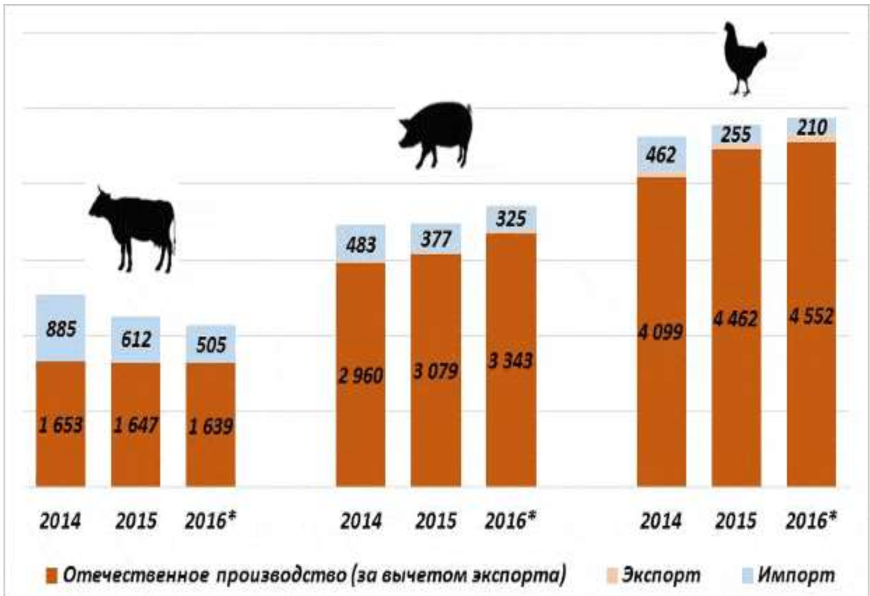
Russia's total production of meat increased by 3,4% in 2016. The production of meat reached 13,9 million tons compared to 13,5 million tons in 2015. Poultry accounted for 44% of the total production, while pork and beef production accounted for 31% and 20,5% respectively. In recent years, pig breeding has become the main driver of production growth in meat sector. Pork production increased by 9% reaching 3, 34 million tons last year while poultry production grew only by 3,4 %. Three years ago poultry showed the highest growth rate among all animal breeding sectors (see Table 3 below).

Table 3. Dynamics in Meat Production over 2014-2016 (million tons)

Year	Poultry Production	Pork Production	Beef Production
2014	4,1	2,96	1,65
2015	4,4	3,08	1,64
2016	4,5	3,34	1,63

Source: http://www.ikar.ru

Figure 1. Dynamics in Meat Production over 2014-2016



Source: http://www.ikar.ru

Now the poultry market is close to saturation while the pork market still has some growth potential (about 10%). Poultry producers try to compete with each other improving the quality of their products and production efficiency. The same is true for pork producers. Leading pig breeders and pork producers try to change from intensive to responsible pig breeding and farming promoting animal well-being and, thus, improving the quality of meat products. In general, continuous improvement and investment in meat safety and quality will be a key factor for local producers to gain market shares in the future.

Pig breeding is still very attractive for investors. Many new investment projects have been announced in Russia. In 2015, the Russian Ministry of Agriculture approved 61 projects with the total investment of 55,3 billion roubles and the total designed capacity of 600 thousand tons in live weight. Other projects with the total designed capacity of 500 thousand tons are still under consideration and approval.

Pig breeders of North-West Russia are also planning to increase their production capacity. OAO "Velikoluksky Meat Processing Plant" (http://www.vlmk.spb.ru), OOO "SvirAgro" (http://svagro.org/), OOO "Pulkovsky", Idavang Agro (http://www.idavang.ru/) are going to invest in further development and new capacities. Miratorg is going to take over OOO "Pulkovsky" buying 49% stake in the company. OOO "Pulkovsky" has three pig breeding farms in Leningrad region, and the total pig herd is 160 thousand pigs.

OOO "SvirAgro" is planning to invest 1,4 billion roubles in new production capacities. The investment project is supposed to be implemented in 3 phases:
phase 1 – production increase by 3 thousand tons
phase 2 – production increase by 6 thousand tons
phase 3 – new slaughter house and fodder production
As for beef production, it has been stagnating for the third year in a row. Throughout 2014–2016, its annual volume was fluctuating around 1,7 million tons.

Beef cow breeding is Russia's most difficult animal breeding subsector. It is not so profitable as poultry and very cost-intensive. In the 1990s, there was a tremendous decline in cattle inventories. The cattle herd declined from 59 million animals to 28 million animals in 2000 and then below 21 million animals in 2010. In those difficult times many breed herds were reduced or even eliminated. Beef cow breeding did not exist at all. Cattle breeding has been still recovering from that dramatic decline. Now the total cow herd count is only 8,4 million (see Table 4 below). The beef herd totals only 691 thousand animals.

Table 4. Livestock Inventory (mln heads)

Year	Cattle	Inc. cows	Hogs and pigs	Sheep and goats
2013	19,6	8,7	19,1	24,3
2014	19,3	8,5	19,5	24,7
2015	19,0	8,4	21,5	24,9

Source: Russia in figures 2016

Russia has a huge deficit in beef. To meet this deficit, Russia has to multiply its beef breed herd sevenfold reaching 5 million animals.

Main regions developing beef cow breeding:

- Bryansk region
- Chelyabinsk region
- Republic of Tatarstan
- Stavropol region
- Voronezh region.

Leading beef producers:

- Miratorg (www.miratorg.ru)
- Zeros Group (http://zeros-group.ru)
- Zarechnoe (http://zarechnoe.ru)

Miratorg is Russia's leading beef producer. Its beef breed herd totals 400 thousand animals. The company has a big cattle breeding farm in Bryansk region and is planning to increase its breed herd to 1 million animals within 10 years. Miratorg is also planning to sell commercial breeds to other cattle breeders.

Miratorg is developing export operations to other countries. The export business is focused on pork and poultry which are exported to Estonia, Italy, China, Japan and some African countries.

Russia is still dependent on meat imports. In 2016, the share of imported meat was estimated at 849,6 thousand tons compared to the estimate of 1 million tons a year before. The import of frozen beef decreased by 18,5% whilst the import of frozen and chilled pork decreased by 15%. The major meat suppliers to the Russian market are listed in Table 5.

Table 5. Major Meat Suppliers in 2016 (thousand tons)

Country	Import volume
Brazil	463,7
Belarus	252,7
Paraguay	76,6
Others	56,7

Source: Federal Customs Service

Figure 2. Major Meat Suppliers in 2016

Brazil ranks first in the total import of frozen beef and pork. As for poultry, most of it was imported from Belarus.

Table 6. Structure of Meat Import (thousand tons)

	2015	2016
Poultry	253,4	223,7
Pork	304,5	258,7
Beef	435,4	363,8

Source: Federal Customs Service

Figure 3. Structure of Meat Import

As for other kinds of meat, turkey is getting very popular among Russians because it is healthy and not so expensive. Russian turkey market is dominated by medium- and small-size farms that produce 205 thousand tons annually (see Table 7 below).

Table 7. Dynamics in Turkey Production over 2012-2015 (thousand tons)

Year	Production output	Import value	Growth rate
2012	85,0	18,5	12,8%
2013	100,0	11,9	8,1%
2014	142,0	9,0	28,7%
2015	205,0	6,1	39,8%

Source: https://agricons.ru

Leading turkey producers:

- Evrodon (http://eurodon.ru/) – market leader
- Damate (http://acdamate.com)
- Turkey Farm named after M. Gafury (http://индюшкин.рф).

Most of turkey producers have announced plans to further increase their production capacities. Investors from different regions have presented 50 turkey projects with a designed capacity of 500 thousand tons.

OOO "Trud" located in Leningrad region is planning to invest 5 billion roubles in further development. The company wants to build new farms for turkeys and increase production to 10 thousand tons annually. Turkey accounts for 3-5% of the total meat consumption in Russia. The demand for turkey and its consumption are rising every year by 5-10%.

China is the largest global producer of rabbit meat producing 660 thousand tons annually. Compared to China, Russia produces only 17,5 thousand tons of rabbit meat per year. The demand for rabbit meat is also rising, but the rabbit market is growing slowly.

Russian rabbit market is dominated by small-size farms that produce 13,5 thousand tons annually. Medium-size farms play a significant role in rabbit breeding, but they produce only 2,4 thousand tons annually.

Leading rabbit producers:

- Plemennoy Zavod Krolika (http://russianrabbit.ru/) – market leader
- Russian Rabbit (http://rus-krol.ru/)
- Roschinsky (https://vk.com/public46232045)
- Zayco (http://zayco.ru/).

In 2015, the rabbit farms of Leningrad region produced 600 tons of rabbit meat. The rabbit herd totals 200 thousand animals.

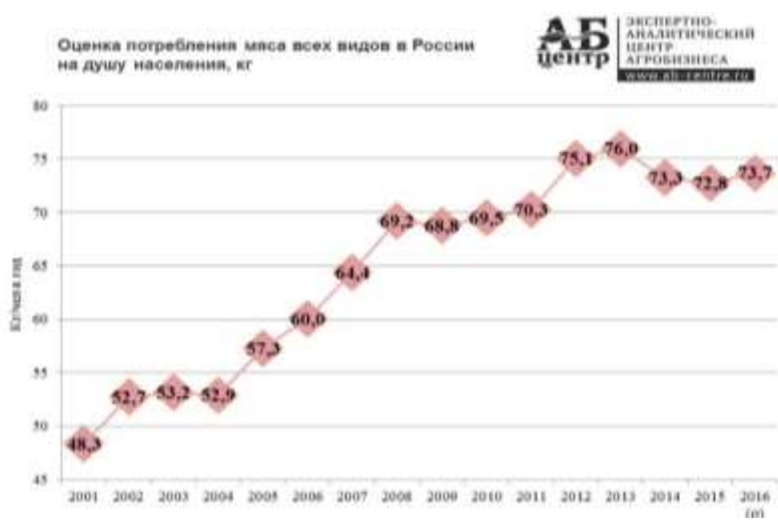
Recently, three investment projects in rabbit breeding have been announced in North-West Russia. Their total investment will be 3,5 billion roubles, and the total designed capacity will be 7,4 thousand tons per annum. AFG National (http://afg-n.ru) is planning to build two fully integrated rabbit farms: one in

Novgorod region, another in Leningrad region. The total production capacity of the two farms will be 2,4 thousand tons annually. OOO "Vesta" is planning to build a fully integrated rabbit farm with the total capacity of 5 thousand tons per annum. The new rabbit farm will be located in Leningrad region.

Per Capita Meat Consumption

As a result of higher consumer income, meat consumption in Russia has been on the rise since 2004 (See Figure 4 below). The per capita consumption of all kinds of meat reached 73,7 kg per person in 2016. The peak year for per capita meat consumption was 2013 when it reached 76,0 kg per person. The most popular kind of meat among Russians is chicken. An average Russian consumes about 25 kg per year. Pork consumption is also on the rise reaching 22 kg per capita whilst beef consumption reaches only 17,5 kg per capita. The per capita consumption of turkey is approximately 1,5 kg per person.

Figure 4. Per capita meat consumption in Russia

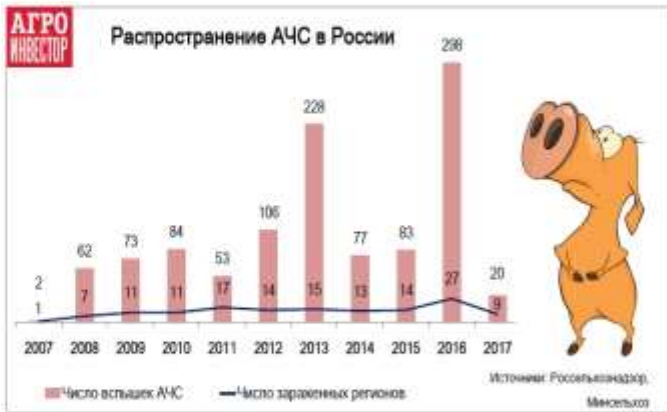


Source: http://ab-centre.ru

African swine fever and bird flu in Russia

Russia still has to combat African Swine Fever (ASF) and bird flu. Every year the Russian Federal Service for Veterinary and Phytosanitary Surveillance reports about ASF and bird flu. In 2016 there were outbreaks of bird flu in Moscow region and Rostov region. ASF occurs mainly in Central Federal District, Volga Federal District and the North Caucasus region. In 2016 there were 298 outbreaks of ASF in 27 regions of Russia.

Figure 5. Outbreaks of ASF in Russia over 2007-2017



Source: Rosselkhoznadzor

Import Substitution

Following Western sanctions, Russia's food ban introduced in August 2014 is prolonged till 31 December 2017. Russia is now pursuing the policy of import substitution which is aimed to boost Russian agriculture and ensure food self-sufficiency. The government actively supports local producers providing subsidies and preferences.

Summary

- Russia's poultry and pork sectors are very consolidated and will continue to experience a series of mergers and acquisitions to obtain modern cost-saving production technologies through new investment and management.
- Poultry market has reached saturation, while pork market will continue to grow.
- Beef market will continue to develop as a niche market limited to the demand of high-income consumers in big cities.
- Russia's meat import has declined over the recent years, but the country will continue to import high-quality beef and pork.
- Local meat is not yet competitive in terms of quality.
- Russia is trying to export meat, mainly chicken and pork products, and open up new markets.
- The per capita consumption of all kinds of meat in Russia is on the rise reaching 73,7 kg per person per year.
- The epizootic situation with African swine fever and bird flu in Russia is unfavourable.

Main Problems in Russian Meat Sector

Experts point out that Russian agricultural companies face many challenges including, but not limited to:

- Lack of expertise in animal feeding and nutrition
- Shortage of high-quality genetic material and breeds

- Low quality meat products
- Low competitiveness of export meat products compared to meat from the USA, EU countries
- Frequent outbreaks of ASF and bird flu.

Sources

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3. RBC Information and Marketing Agency (www.rbc.ru)
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5. Institute for Agricultural Market Studies (http://www.ikar.ru)
6. Consulting and marketing company Agriconsult (https://agricons.ru)
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