MARKET STUDY:
OUTCOME AND MAIN CONCLUSIONS

DAIRY SECTOR IN THE RUSSIAN FEDERATION

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Presentation of the speaker

Agriconsult Group:

LLC "Agriconsult"

LLC "Rusmarketconsulting"

Experience in consulting services in agriculture since 1994

Our services:

- Marketing
- Information Services
- Business plans

Area of business:

- Agriculture
- Food Processing Industry

International clients:

- Atria Group (Finland)
- Boston Consulting Group (USA)
- Delphy (NL)
- Euromonitor International (UK)
- Orrani Consulting (UK)
- Produkt&Markt (Germany)
- Raisio (Finland)
- and other

AIM OF THE STUDY

- to facilitate interested Dutch exporters and suppliers in a better understanding of the specifics and future potential of the dairy sector in the Russian Federation
- to provide relevant key contacts and outlining the necessary steps to be taken.

OBJECTIVES

- the structure and organization of the dairy sector and market;
- the quality level in the sector and technical/financial aspects of the market;
- SWOT analysis in the sector;
- an overview of customs and import regulations;
- latest dairy market statistics: local production, consumption, import, export;
- a practical guide to market entry, including a list of key contacts and exhibitions.

APPROACH

Product categories which presented in more detail (marked be red font on the next slide):

- Product categories with which Netherlands companies have already worked successfully and/or have prospects (potential);
- Product categories which are the most capacious in terms of value.

GEOGRAPHY OF THE STUDY

The Russian Federation. A similar study was prepared for Kazakhstan also.

STRUCTURE OF THE REPORT

1. **DAIRY PRODUCTION SITUATION**
   - 1.1. MILK PRODUCTION
   - 1.2. STRUCTURE OF MILK PRODUCTION
   - 1.3. QUALITY LEVEL IN THE SECTOR AND TECHNICAL ASPECTS
   - 1.4. MILK AND DAIRY PRODUCTS CONSUMPTION
   - 1.5. IMPORT AND EXPORT OF DAIRY PRODUCTS
   - 1.6. CUSTOMS AND IMPORT REGULATIONS
   - 1.7. GOVERNMENT SUPPORT
   - 1.8. INTERMEDIATE CONCLUSIONS
2. **PRODUCT CATEGORIES**
   - 2.1. STABLE AND MILKING EQUIPMENT
   - 2.2. FIELD MACHINERY
   - 2.3. GENETIC BREEDING MATERIAL
   - 2.4. FEED INGREDIENTS
   - 2.5. CONSULTING SERVICES
   - 2.6. PROCESSING AND PACKAGING LINES
   - 2.7. PACKAGING MATERIAL FOR DAIRY PRODUCTS
   - 2.8. DAIRY PRODUCTS
   - 2.9. INTERMEDIATE CONCLUSIONS
3. **CONCLUSIONS**
   - 3.1. SWOT – ANALYSIS FOR THE MOST PROMISING CATEGORIES
   - 3.2. GUIDE TO MARKET ENTRY

Local specific - types of milk producers in Russia.

Criteria	Types of agricultural producers		
	agricultural enterprises	**Family farms**	**rural population**
Characteristics	Professional farmers got most part of their income from sails of milk / dairy.		Production by rural population for own use or for receiving from milk production only an additional income.
Number, thousand units	**8**	24	more than 1 000
Average dairy herd, cows	**300 - 2000**	15 - 50	1 - 2
Milk cow productivity, thousand kg per year	**6.0**	4.5	3.5

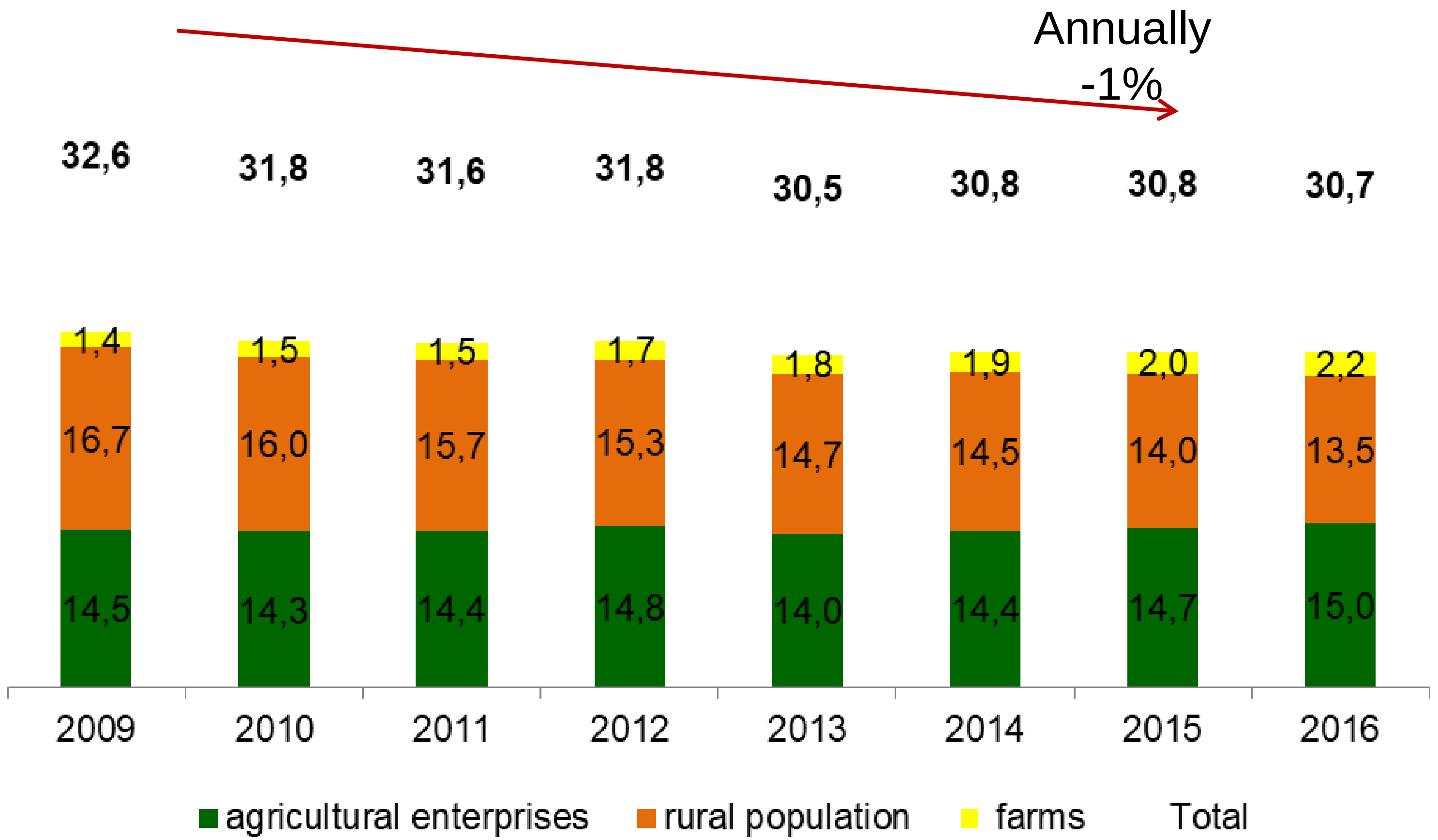
Agricultural enterprises could be subdivided for independent enterprises and **AGRICULTURAL HOLDINGS**. In large agricultural holdings there are 10-30 enterprises in each with total number of cows from 4.000 to 20.000 heads.

Management structure in different agricultural enterprises

Family farm	Agricultural enterprise	Agricultural holding
Head of dairy farm (= owner*)	Owner / Owners	Owner / Owners
↓	↓	↓
Employees	Director (can be an owner wholly or partially)	Management company
	↓	↓ several enterprises
	Chief specialists (chief agronomist / engineer / zootechnician etc.)	Director
	↓	↓
	Specialists (including lower level managers)	Chief specialists (chief agronomist / engineer / zootechnician etc.)
	↓	↓
	Workers	Specialists (including lower level managers)
		↓
		Workers

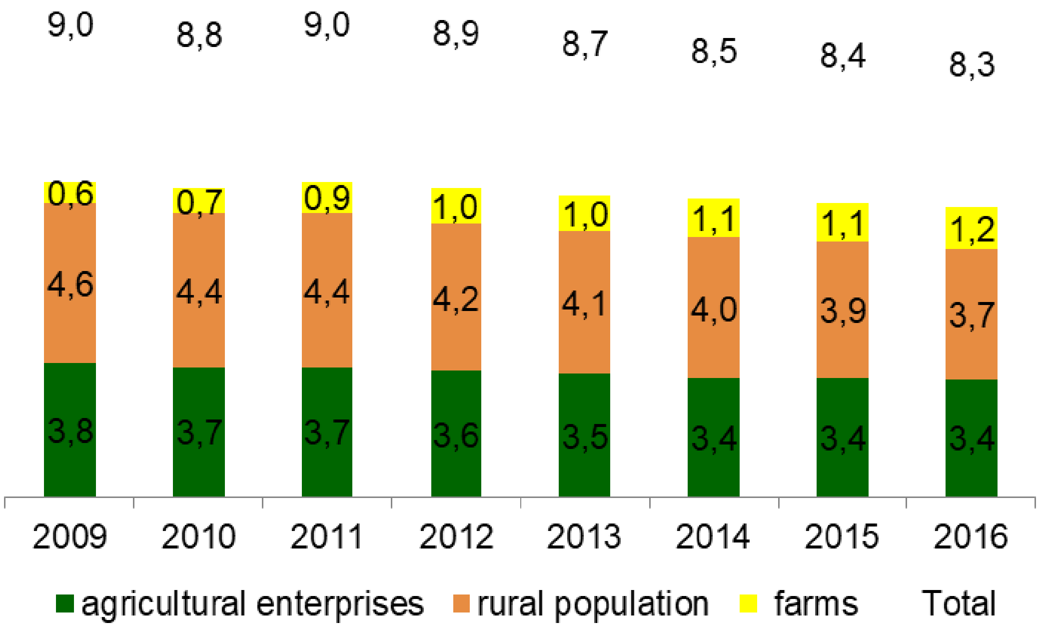
** in most cases*

Against the background of overall milk production stagnation, milk production in the large agricultural enterprises and (family) farms is growing

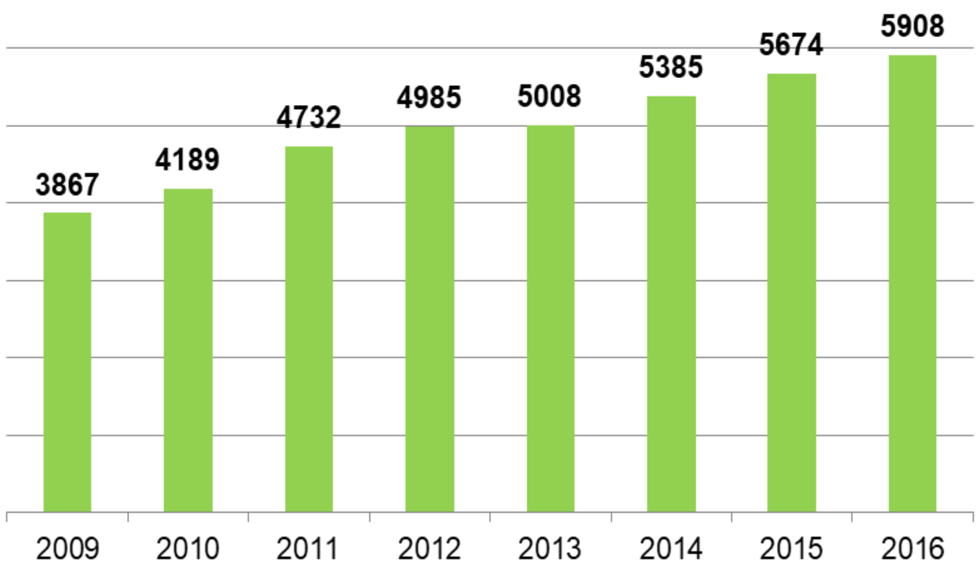


Milk production by types of farm enterprises, mln. tons

✓The dairy herd (mln. heads) is decreasing in all types of enterprises.



✓The milk productivity per cow is increasing at a fast rate (kg/year).

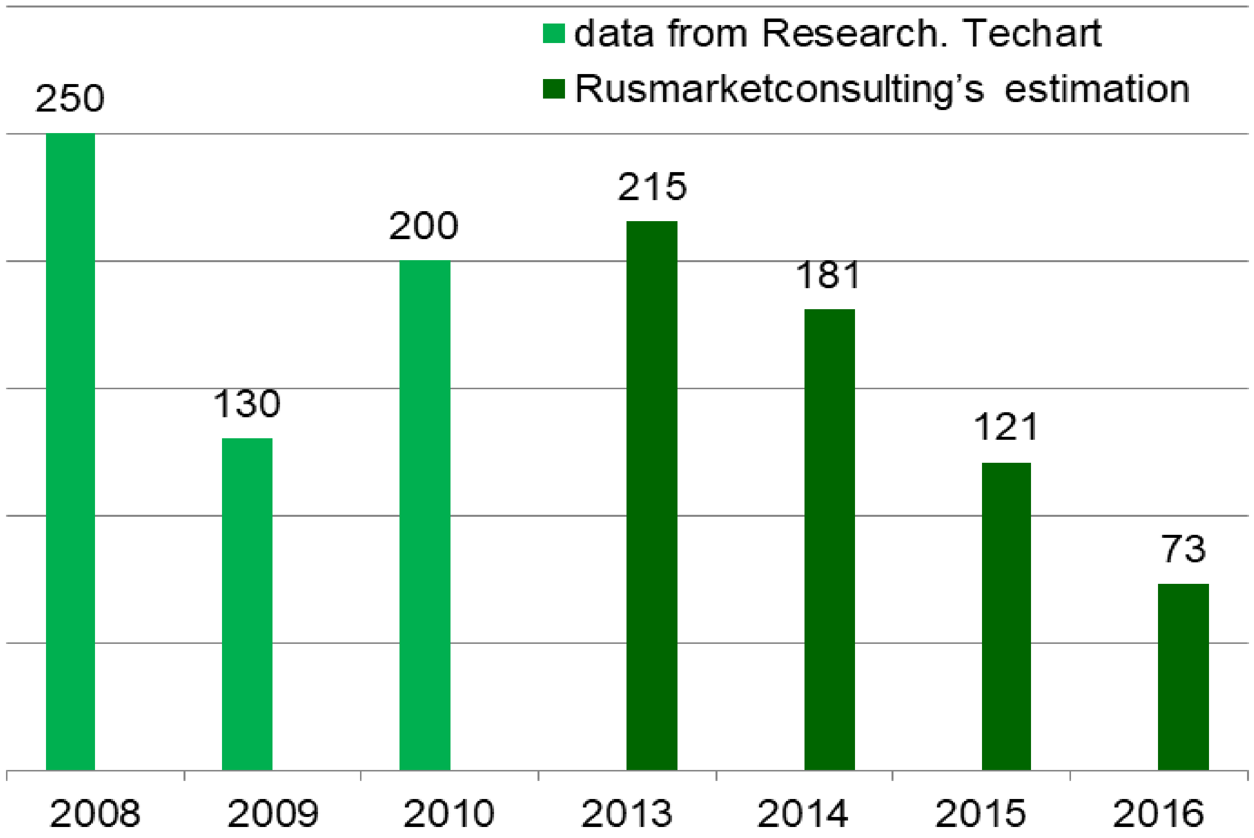


Examples of enterprises with different levels of technological modernization

New dairy complex with loose housing for 1000 heads

Farm with tie-up housing for 260 heads

Russian market value of equipment for dairy farms, mln. USD*



* the data are given in mln. USD because USD is the currency of import official statistics and its conversion to EUR can lead to data error due o the currency rate difference from year to year

Investment projects in the dairy sector are implemented and realized, however investors are still cautious because of:

- the long pay-back period of the investment,
- dependency on the government support and because no warranties in actually support can be given.

The large dairy investment projects, including green field projects, are mainly realized in the Central and Southern regions of the Russian Federation.

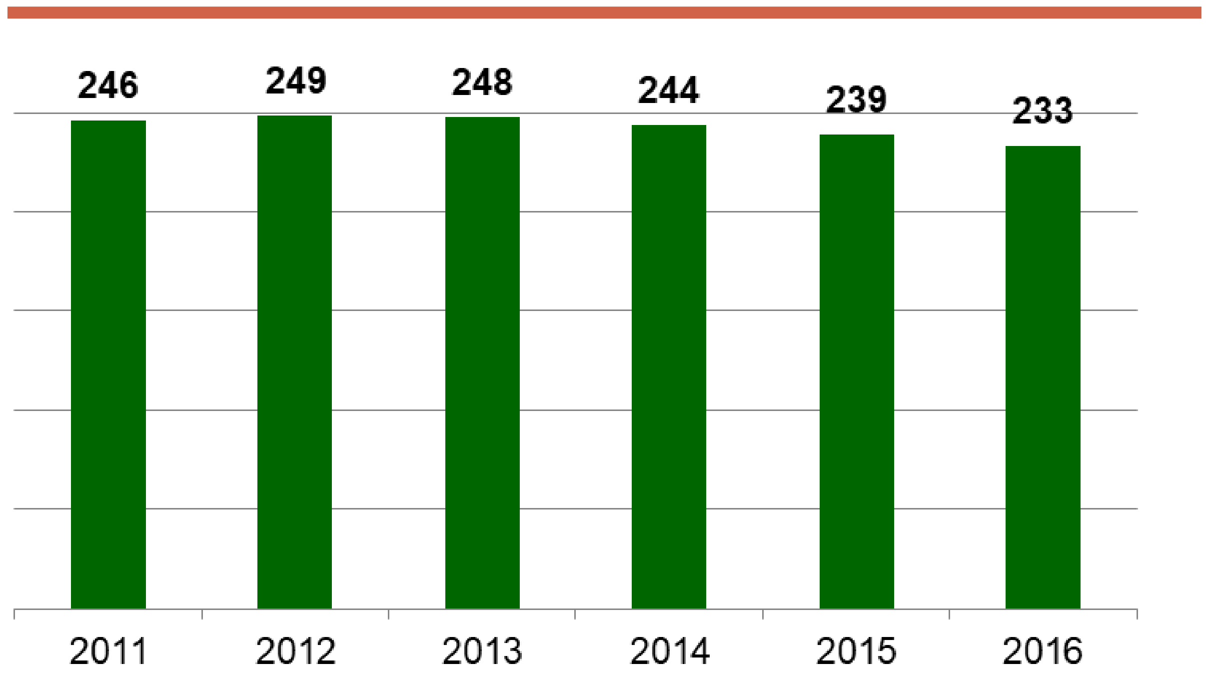
The deficiency of raw milk in Russia is estimated at about 7 mln. tones, while there is a high demand for raw milk.

Milk / dairy market value, mln. tones

	2015
Resources:	
Opening stocks	2.1
Production	30.8
Imports	7.9
Total resources	40.8
Usage:	
Industrial consumption	3.3
Wastage	0.03
Exports	0.6
Personal consumption	34.9
Closing stocks	1.9
Market value	**34.8**
Self-sufficiency, %	**79**

Consumption of dairy products in Russia, kg /cap/year

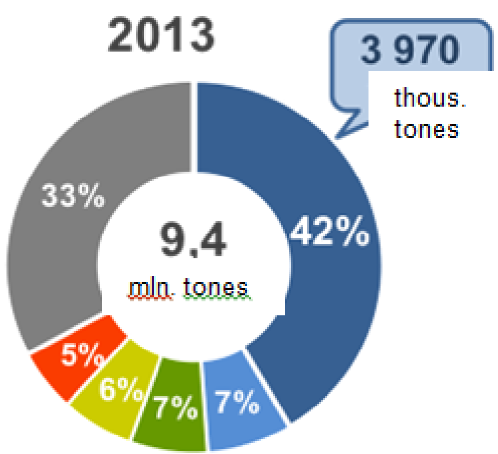
medical standard = 325 kg



The temporary reduction in milk consumption:

- rise in the price of milk,
- reduction in personal income,
- presence of falsified products.

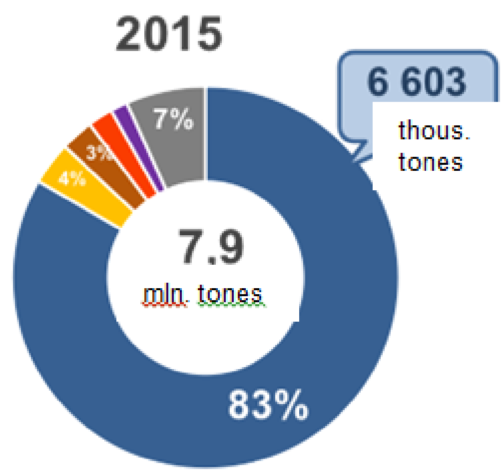
Structure of milk and dairy products import* to the Russian Federation



TOP-5 exporting countries

1. Belarus
2. Finland
3. Ukraine
4. The Netherlands
5. New Zealand

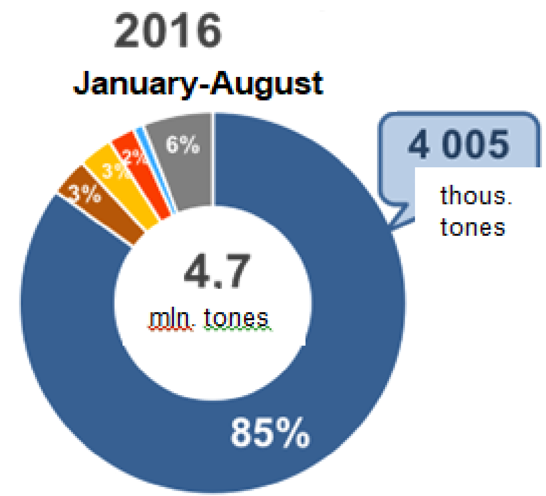
Others



TOP-5 exporting countries

1. Belarus
2. Uruguay
3. Argentina
4. New Zealand
5. Kazakhstan

Others



TOP-5 exporting countries

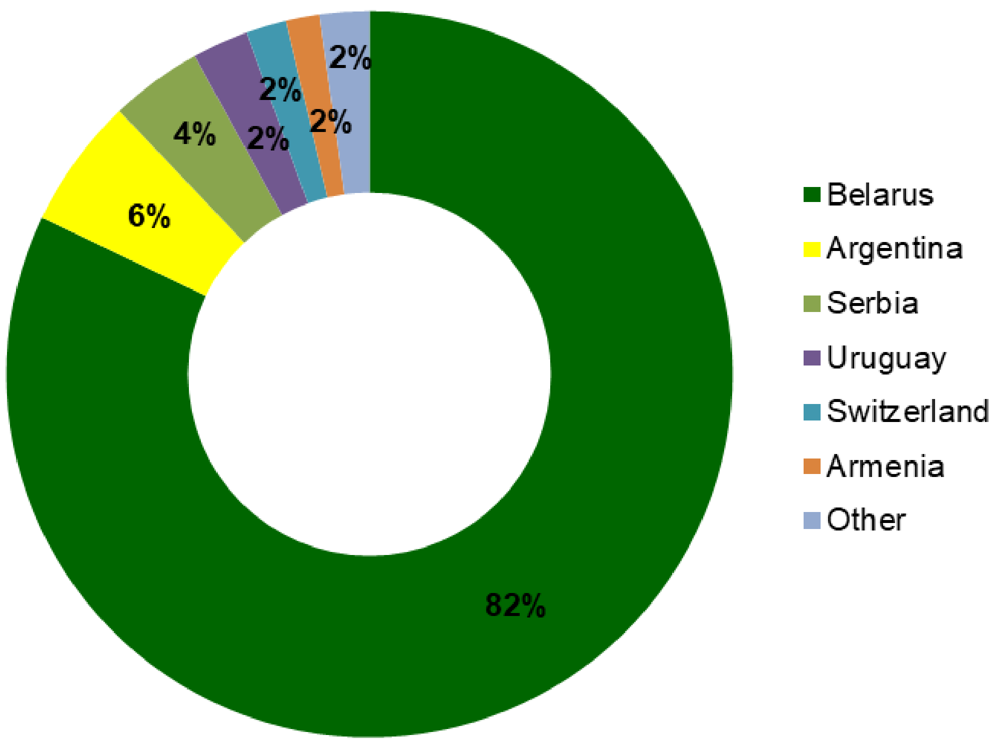
1. Belarus
2. Argentina
3. Uruguay
4. New Zealand
5. Switzerland

Others

** in milk equivalent*

The key dairy products for Russian import are cheese and butter (dry milk and whey are not taken into account – raw material).

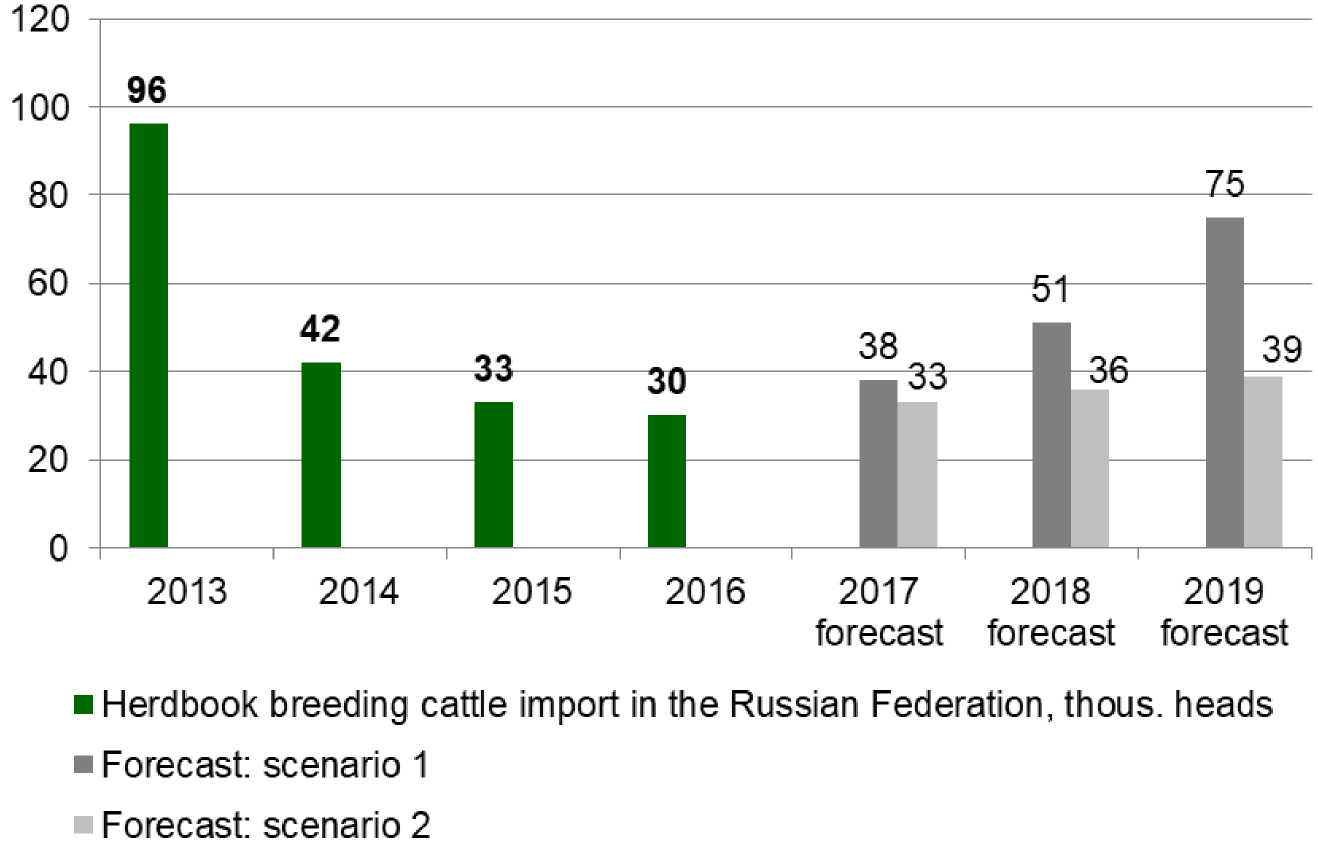
Structure of countries-exporters of cheese to the Russian Federation in 2016, %



PRODUCT CATEGORIES

for instance breeding cattle

Breeding cattle import to the Russian Federation in 2013-2016 and forecast for 2017-2018, thousand heads



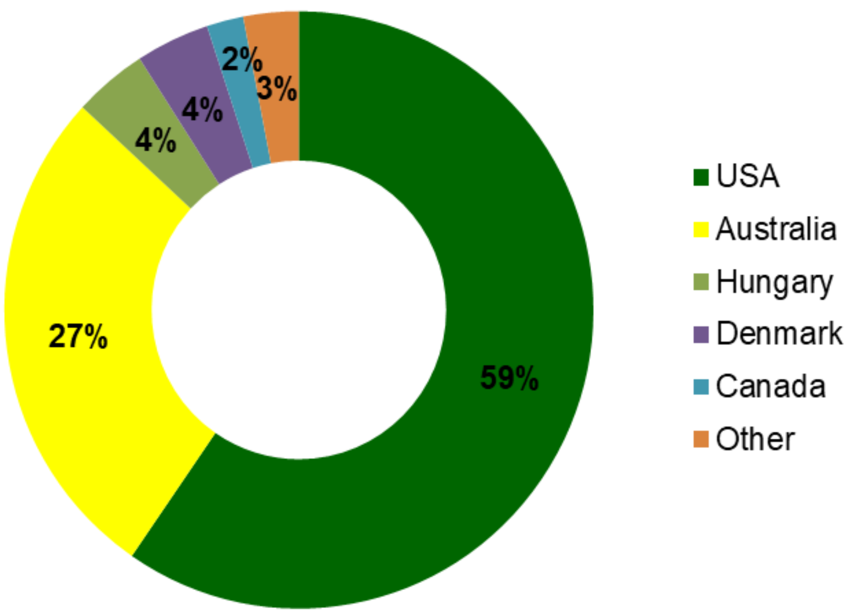
Forecast – evaluation of Rusmarketconsulting:

Scenario 1: Steady exchange-value of ruble

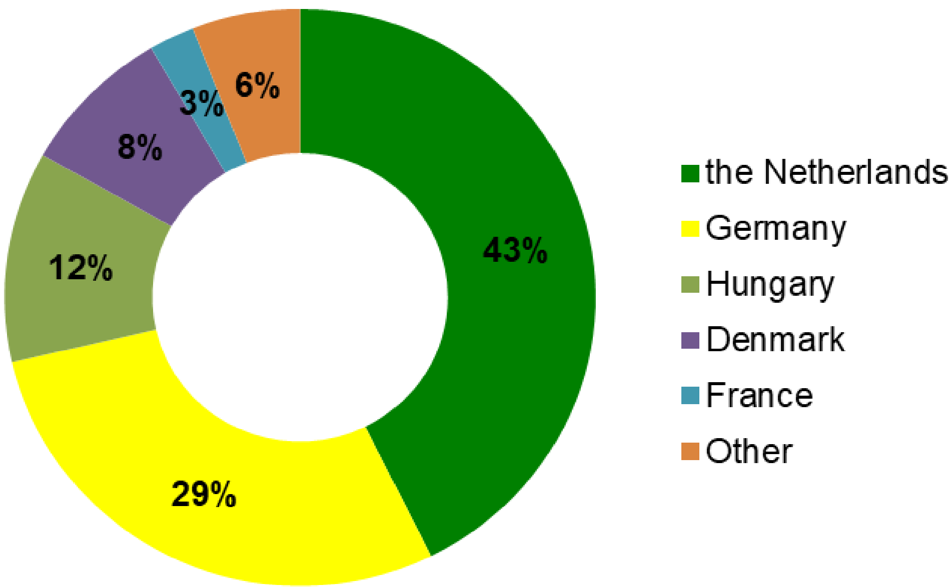
Scenario 2: Further depreciation of the ruble.

Breeding cattle import structure on cattle country of origin, %

2013



2016



In contrast the cattle import structure in 2013 is presented, when the European countries were closed because of Schmallenberg disease and deliveries imported from USA and Canada.

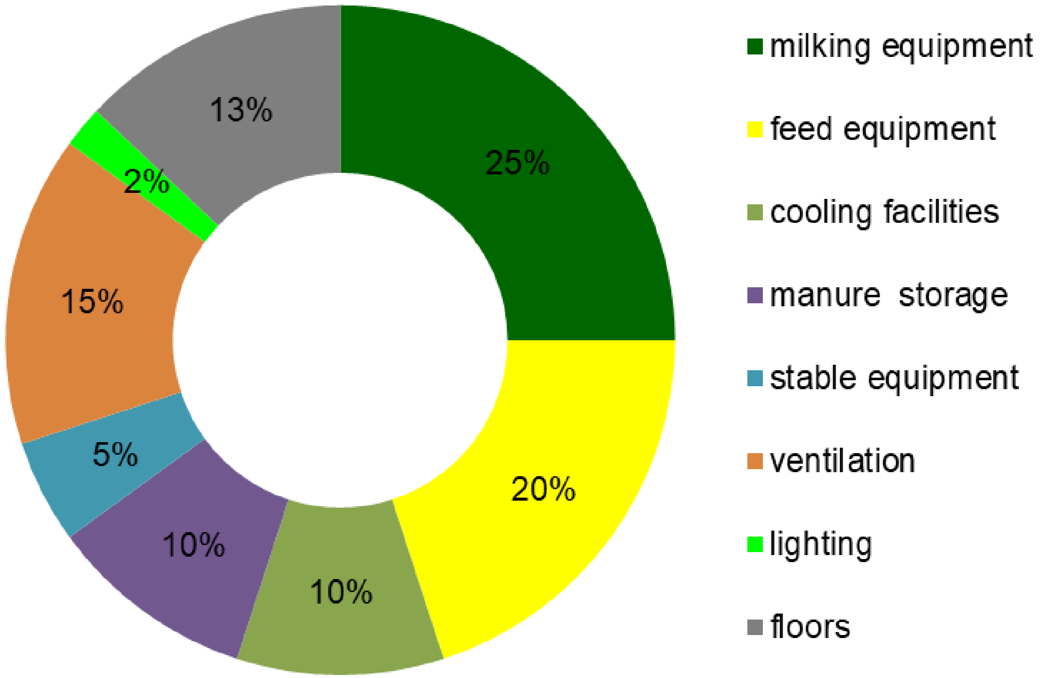
Breeding cattle market in Russia*, 2016, mln. EUR

Indicator	Value
Sales volume of Russian origin of breeding cattle, thousand heads	102
Average price for Russian origin breeding cattle, EUR/head	1774
Market value of Russian origin of breeding cattle, mln. EUR	**181**
Import of breeding cattle, thousand heads	30
Average price for imported breeding cattle, EUR /head	2188
Market value of imported of breeding cattle, mln. EUR	**66**
Total market value of breeding cattle, mln. EUR	**247**
of which Russian cattle, %	*73,0*
import, %	*27,0*

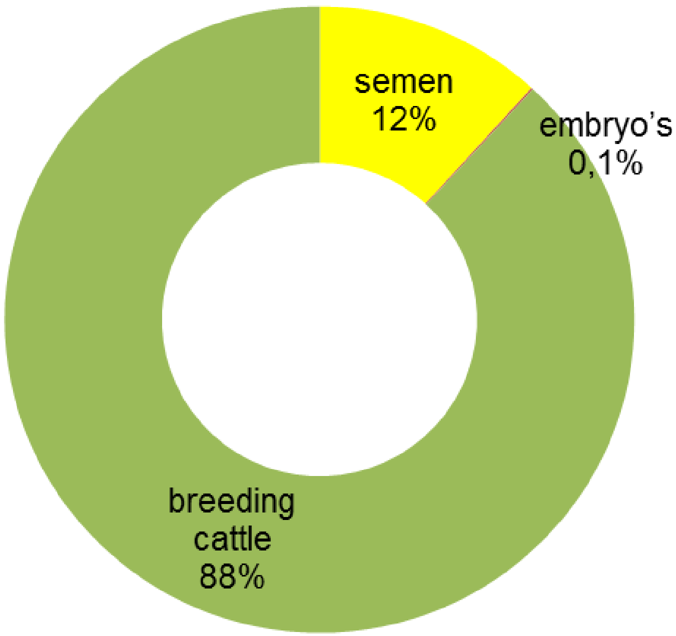
Summary table of market value and import share by main product categories

Product categories	Market value, million EUR	Including imports		Market prospects for 3-5 years
		%	million EUR	
Stable and milking equipment	**67**	**x**	**44**	Stagnation or insignificant growth
milking equipment	18	90	**16**	
feed equipment	17	70	**12**	
cooling facilities	7	80	**5**	
manure storage	7	70	**5**	
stable equipment	3	10	**0,3**	
ventilation	6	60	**4**	
lighting	1	10	**0,1**	
floors	5	40	**2**	
other	3	x	X	
Feed concentrates	**450**	**Insignif.**	**X**	Stagnation
Pre-mixes	**50**	**10**	**5**	Growth
Field machinery	**350**	**46**	**161**	Growth
Processing and packaging lines	**63**	**70**	**44**	Growth rate reduction
Genetic breeding material	**280**	**x**	**X**	Growth
semen	33	43	14	
embryo's	0.25	49	0.13	
breeding cattle	247	27	66	
Packaging material for dairy products	**574**	**15**	**86**	Stagnation
Dairy products	**25 500**	**20**	**5 100**	Growth

Segment structure of equipment for dairy farms



Segment structure of genetic breeding material



SWOT – analysis is presented for most perspective segments.

For example SWOT – analysis of breeding cattle market

Internal origin	
Strengths	**Weaknesses**
• High quality of breeding cattle, perception of Netherlands cattle as a premium brand. • Stable position as a breeding cattle market leader. • Convenient logistics of breeding cattle relative to USA and Canada.	• Dependence of sales volumes on currency rate. • Not flexible terms of delivery and price formation relative to main competitors. • Poor brand exposure on trade exhibitions. • Precedents on the side of unfair suppliers. • USA and Canada's semen and embryos resale or secondary generation from USA and Canada's genetics.

External origin	
Opportunities	**Threats**
• Growth of breeding cows share in total breeding stock. • Agricultural enterprises (dairy farms) commitment to milk productivity growth which make a claim for herd genetics improvement. • Increased demand of Russian farms in heifers, because cow useful lifetime has declined. • The Russian Federation dependence on imported genetic breeding material, particularly of breeding cattle for new dairy farms. • Subsidies for agricultural enterprises (dairy farms) for breeding cattle management. • Market transparency increase, exit from the market of poor quality production / unfair suppliers.	• Cancellation of imported breeding cattle purchase subsidizing. • Reduction of demand of breeding cattle on the back of reduced income of agricultural producers (development of deferred demand). • Increased competition on the part of Russian producers, among them due to building of breeding genetic centers under the program of 20% of expenses subsidizing for their development. • Veterinary risks, import restrictions of genetic breeding material.

GUIDE TO MARKET ENTRY

Includes:

- Consumers target segment
- Perspective regions
- Success stories of equipment / product implementation in existing enterprises
- Promotion tools
- Co-operation with dealers
- Possibilities for localization
- The main criteria of agricultural producers during company-supplier selection

Thank you for attention!

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