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Poultry and Products Semi-annual

Poultry Semi-Annual Report

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Report Highlights:
FAS Moscow reduced the 2014 broiler production forecast for Russia to 3.1 MMT (from the previous forecast of 3.3 MMT) as a result of lower live bird inventories at the beginning of the year, near market saturation, high indebtedness coupled with low profitability at poultry establishments, as well as other factors. FAS Moscow's import estimate for Russian broiler imports for 2014 remains unchanged at 530,000 MT, in large part, as a result of unchanged Tariff Rate Quota volumes. Russian broiler exports, however, are forecast to increase in 2014 as the industry increasingly looks to foreign markets to further market domestic production.

General Information

Production

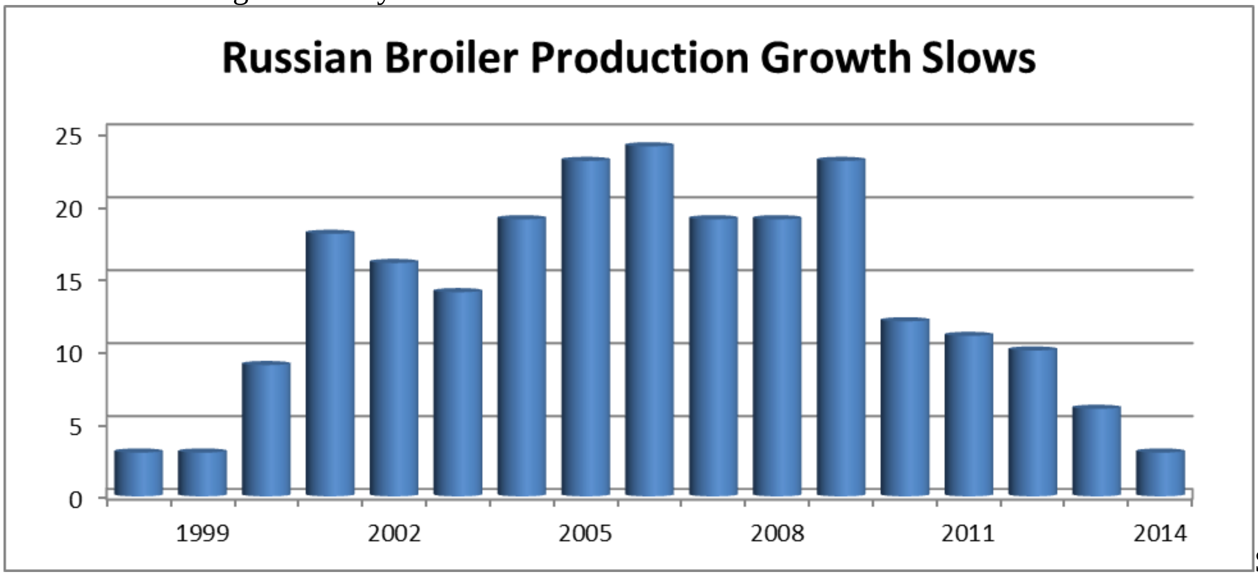
Table 1. Russia: Broiler Production, Supply & Demand, 1,000 MT (ready-to-cook)

Poultry, Meat, Broiler Russia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Production	2,830	2,830	3,050	3,010	3,300	3,100
Total Imports	560	560	540	530	530	530
Total Supply	3,390	3,390	3,590	3,540	3,830	3,630
Total Exports	69	25	60	30	65	40
Human Consumption	3,321	3,365	3,530	3,510	3,765	3,590
Total Dom. Consumption	3,321	3,365	3,530	3,510	3,765	3,590
Total Use	3,390	3,390	3,590	3,540	3,830	3,630
Total Distribution	3,390	3,390	3,590	3,540	3,830	3,630

<u>2014 Broiler Production</u>

FAS Moscow reduced its 2014 broiler production forecast for Russia to 3.1 MMT (from the previous forecast of 3.3 MMT). If realized this would still be 3 percent growth from 2013 production levels, but which is a slowdown in growth compared to the over six percent growth which occurred during 2012 and which would be the slowest annual growth rate since 1999 (see chart below).

Chart 1. Percentage of Yearly Growth in Russian Broiler Production



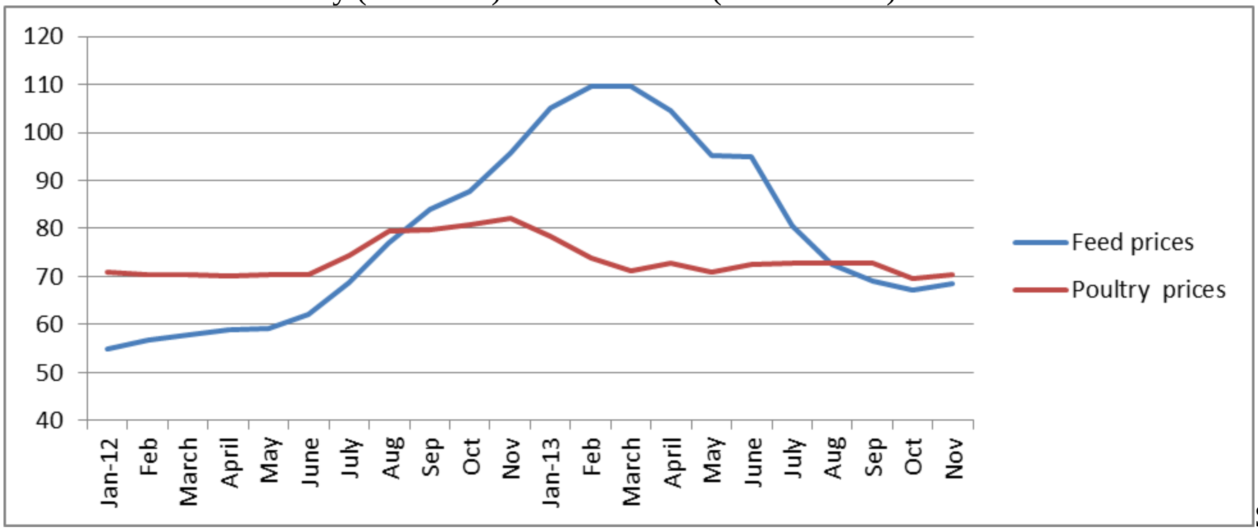
Source: FAS PSD Online (NOTE: FAS Moscow estimate for 2013 and forecast for 2014)

There are a number of reasons for this slowdown in growth and forecast revision, including:

- *Reduced poultry inventory numbers*: Although 2013 domestic poultry production growth was strong, end-of-the-year inventories for live birds in 2013 were down marginally - 0.3 percent (by comparison inventory numbers at the end of 2012 were up 6.7 percent from the previous year). These lower inventory numbers are likely to constrain production growth this year.
- *Near market saturation*: Domestic production is estimated to supply over 85 percent of domestic consumption in Russia. As a result, analysts report that the Russian market is nearly saturated and, in order to further market domestically produced products, poultry companies will have to look to export markets to further drive growth.
- *Reduced areas for productivity growth*: One of the key factors that has driven poultry production growth in Russia in the last two decades has been the shift of production from private household and small-scale operations to more modern agricultural enterprises with modern facilities and greatly improved efficiency. While a large proportion of production for some other meats remains in these smaller establishments (e.g., in 2013, according to Rosstat, only 40 percent of cattle were located at agricultural enterprises), the vast majority of poultry production has already shifted to these larger producers. For example, according to Rosstat, over 80 percent of total birds (including layers) are now located at agricultural establishments, and, for broilers specifically, the Russian Union of Poultry Producers (RUPP) estimates 91 percent are at these establishments. As a result, it is becoming increasingly more difficult to improve productivity efficiency as a means of increasing production.
- *High indebtedness and low profitability*: The combination of high feed prices during much of 2013, combined with continued low poultry prices (as a result of abundant supplies), sharply impacted profitability of poultry establishments and also increased their indebtedness (see chart 2 below). The RUPP also reported that delayed government support payments exacerbated this situation. According to RUPP's estimation, the combination of all these factors decreased poultry production profitability to 3.5 percent in 2013 (compared to 17.2 percent in 2012) which has decreased the

investment attractiveness of this sector. The RUPP also estimates that the percentage of unprofitable establishments increased to 44 percent in 2013, compared to 22 in 2012.

Chart 2. Prices for Poultry (RUR/kilo) and feed wheat (RUR/10 kilo)

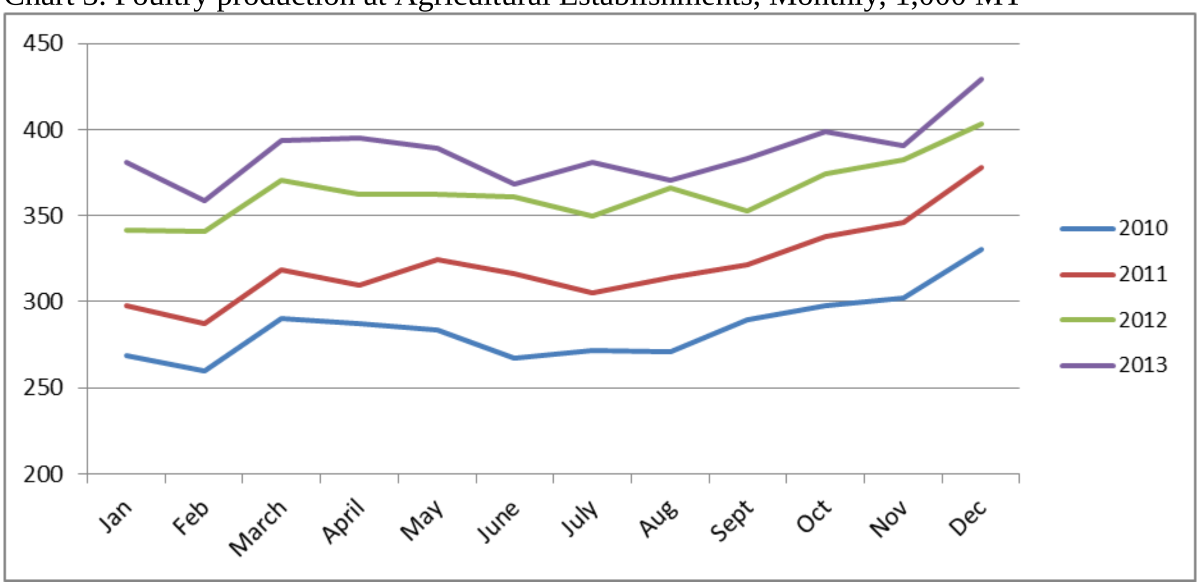


Source: RUPP

2013 Broiler Production

FAS Moscow's production estimate for 2013 was decreased by 40,000 MT to 3.01 MMT as a result of recently released year-end total poultry production statistics from Rosstat. Nevertheless, this amount is still a 6.3 percent increase from 2012.

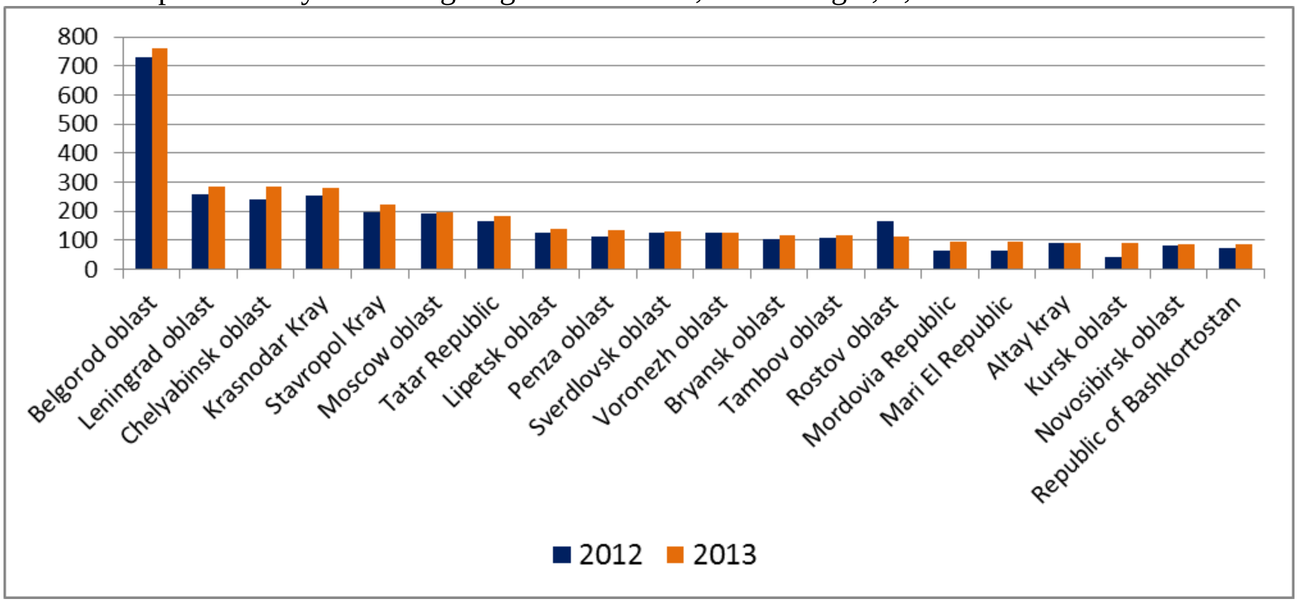
Chart 3. Poultry production at Agricultural Establishments, Monthly, 1,000 MT



Source: Rosstat

The concentration of broiler production in Russia in certain key regions has continued to increase. For example, the 20 largest poultry producing regions produced 71 percent of Russia's poultry production in 2013, an increase from 68 percent in 2012. The three largest producing regions were Belgorod, Leningrad and Chelyabinsk oblasts.   They produced 14.8 percent, 5.5 percent and 5.5 percent of the total production, respectively, in 2013.

Chart 4. Top 20 Poultry Producing Regions in Russia, Live Weight, 1,000 MT



Source: Rosstat

As previously noted, Russian domestic poultry production is dominated by large agricultural establishments. Specifically, in 2013, over 90 percent of domestic poultry production occurred at these facilities. Total poultry production on a live weight basis (as reported by Rosstat) in Russia was 5.122 MMT in 2013, compared to 4.864 MMT in 2012. At agricultural establishments, it reached 4.640 MMT in 2013, compared to 4.371 MMT in 2012.

Consumption

FAS Moscow reduces its 2014 broiler consumption forecast for Russia by 5 percent to 3.59 MMT (from the previous forecast of 3.765). This is primarily a result of a decrease in the production forecast and an expectation that imports will remain flat. Population growth in Russia is minimal and there does not seem to be any significant shifting between meat protein sources. Prices for beef and pork, although considerably higher, have remained largely steady vis-à-vis poultry prices.

Poultry Prices

Farm gate poultry prices decreased from 81.8 rubles/kilogram in December 2012 to 70.5 rubles in December 2013, with nearly this entire decline occurring in January and February 2013 as a result of the seasonal spike in production at the end of year.

Trade

Exports

The Russian poultry export forecast for 2014 is decreased to 40,000 MT as a result in a change in methodology. The lion's share of Russian broiler exports go to Kazakhstan, and the Customs Union (CU) has begun to publish data on intra-CU trade which are not reflected in Russian Customs data (Please see: http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/trade/vzaim_stat/Pages/default.aspx). As previously reported, some analysts have observed that CU data underreports trade. Nevertheless, due to a dearth of information that would allow quantification of this, FAS Moscow export estimates will include the official trade data for exports to CU Member States.

Russia's broiler exports are expected to grow in 2014 (by one-third) as poultry producers increasing look to foreign markets to spur continued production increases. Most likely these markets will initially be composed of the other CU Members States, but recently small export volumes have begun to move to Asian and African markets.

Consistent with estimates for 2014, Russia's 2013 exports were revised to 30,000 MT, based on Russian Customs data and CU statistics.

Imports

FAS Moscow's import estimate for Russian broiler imports for 2014 remains unchanged at 530,000 MT, which is flat from the revised 2013 estimate. Imports from non-CIS countries are controlled by a Tariff Rate Quota, the volumes for which remain unchanged in 2014 (i.e., 350,000 MT – see RS1379). Also imports from CIS countries are not expected to see dramatic shifts. One factor that could impact this forecast, however, is that if the Russian ruble further weakens over the course of 2014, it could yield increased market opportunities for domestically produced poultry at the expense of imports.

The 2013 broiler import estimate is revised down 10,000 MT to 530,000 MT as a result of final Russian Customs data, and Customs Union statistics. The United States remained the largest supplier, followed by Belarus, Brazil and Ukraine. Imports from Ukraine showed the strongest growth of any major supplier, rising 30 percent to nearly 40,000 MT in 2013.

Production Tables

Table 2. Prices for Feed Wheat, Monthly, Rubles/MT

	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov
2012	5,492	5,673	5,779	5,881	5,916	6,224	6,882	7,707	8,403	8,779	9,572
2013	10,503	10,950	10,961	10,465	9,530	9,504	8,061	7,250	6,916	6,713	6,863

Source: RUPP

Table 3. Poultry Inventories and Production

	2010	2011	2012	2013
Poultry Inventories, All Producers, 1,000 head	449,296	473,388	495,853	492,451
Agricultural Establishments, 1,000 head	348,066	371,141	395,921	394,581
Poultry production, slaughter weight, 1,000 MT All Producers	2,847	3,204	3,625	3,815*

Source: Rosstat

*FAS Estimations of slaughter weight derived from live weight data

Table 4. 20 Largest Poultry Producing Regions, 1,000 MT, Live Weight

	2012	2013	13/12, %	Share in total production, %
Belgorod oblast	728.5	759.5	4.3	14.8
Leningrad oblast	257.4	284.1	10.4	5.5
Chelyabinsk oblast	240.6	283.6	17.9	5.5
Krasnodar Kray	254.3	280.0	10.1	5.5
Stavropol Kray	197.0	222.8	13.1	4.4
Moscow oblast	192.0	194.8	1.5	3.8
Tatar Republic	164.4	180.7	9.9	3.5
Lipetsk oblast	125.6	140.0	11.5	2.7
Penza oblast	113.3	133.3	17.7	2.6
Sverdlovsk oblast	125.9	131.6	4.5	2.6
Voronezh oblast	126.6	127.2	0.5	2.5
Bryansk oblast	102.7	117.5	14.5	2.3
Tambov oblast	106.8	117.2	9.7	2.3
Rostov oblast	165.7	112.7	-32.0	2.2
Mordovia Republic	64.4	95.2	47.9	1.9
Mari El Republic	64.4	93.5	45.3	1.8
Altay Kray	88.5	89.6	1.3	1.8

Kursk oblast	39.9	88.1	120.9	1.7
Novosibirsk oblast	82.4	85.7	4.0	1.7
Republic of Bashkortostan	72.9	83.7	14.8	1.6
Total, 20 establishments	*3314*	*3621*	*N/A*	*70.7*
Total, all regions	**4,864**	**5,122**	**5.3**	**100**

Source: Rosstat

Table 5. Profitability of Broiler Establishments in 2012-2013 (Number of Establishments)

Profitability, %	number of establishments 2012	2013	
		number of establishments	share in total production, %
15 - 25	25	26	25
10 -15	13	9	10
Less than 10	68	59	52
Not profitable	22	44	13

Source: RUPP

Table 6. Farm Gate Prices for Poultry Meat, Rubles/Kilogram

	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
2012	70.94	70.39	70.26	70.19	70.47	70.52	74.33	79.52	79.68	80.67	82.25	81.84
2013	78.28	73.73	71.29	72.84	70.87	72.65	72.70	72.82	72.79	69.72	70.51	70.5

Source: RUPP

Trade Tables

Table 8: Quantity of Russian Broiler Meat Imports (MT) and Top Suppliers

Supplier	2011	2012	2013
World	389,989	456,610	424,771
United States	239,306	262,882	263,244
Brazil	64,446	61,847	47,771
Ukraine	5,171	30,440	39,284
France	23,430	32,107	16,053
Poland	2,806	4,555	9,220
Belgium	3,795	7,601	9,076
Netherlands	1,342	10,013	8,791
Argentina	4,745	14,026	8,161
Finland	3,251	5,092	4,915
Hungary	917	1,895	4,823

Source: Customs Committee of Russia (excludes Belarus)

Table 9: Quantity of Russian Imports from CU Member States - HS Code 0207 (MT)

Supplier	2011	2012	2013
Total	74,148	105,343	106,187
Belarus	74,138	103,924	104,992
Kazakhstan	10	1,419	1,195

Source: Customs Union Statistics

Table 10: Quantity of Russian Poultry Meat Exports, Including Sub-Products (MT), and Top Markets

Market	2011	2012	2013
World	19,102	15,751	24,819
Hong Kong	11,128	10,741	14,683
Thailand	0	325	2,447
Ghana	0	0	1,877
Liberia	0	54	1,519
Vietnam	6,424	2,650	1,421

Source: Customs Committee of Russia (excludes Belarus)
NOTE: Includes some products which are not reported in the PSD table (e.g., Chicken Paws)

Table 11: Quantity of Russian Exports to CU Member States - HS Code 0207 (MT)

Market	2011	2012	2013
Total	18,904	25,726	26,622
Belarus	498	188	451
Kazakhstan	18,406	25,538	26,171

Source: Customs Union Statistics