

EPP CONGRESS 2012  
«Pig Production in the Baltic Region – Chances and Challenges»

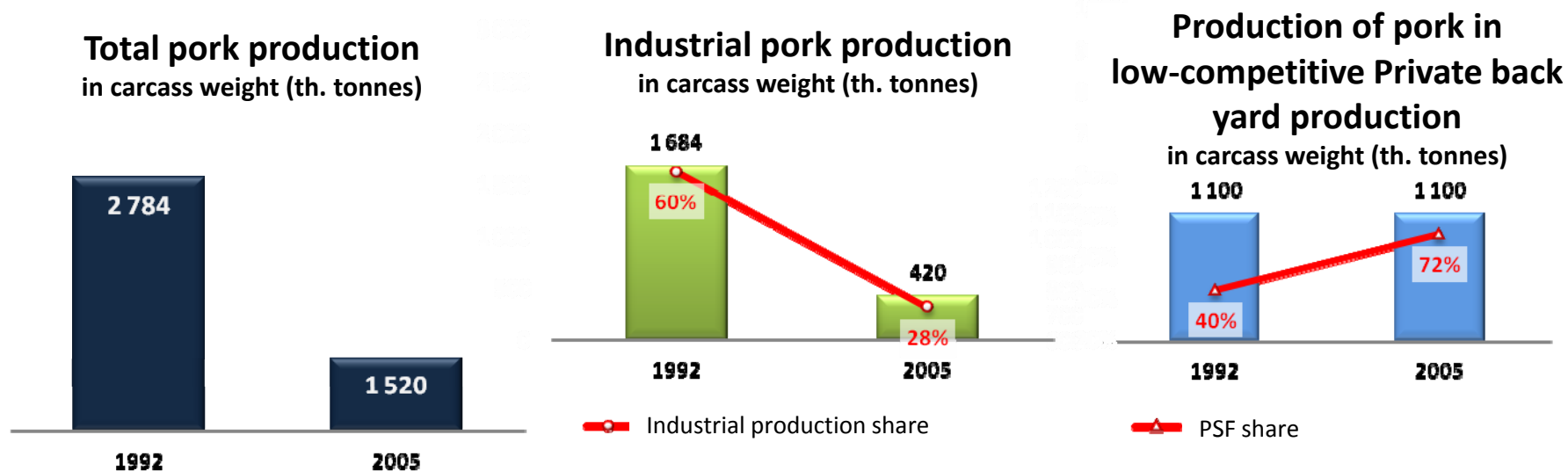
Vilnius, Lithuania,  
May 30 – June 1, 2012



# Pig Production in Russia

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# Russia's Pork Production Trends During 1992-2005



- For 15 years Russia's total pork production has decreased almost **2 times**.
- Industrial production has **reduced fourfold**, its share in the total output has dropped **from 60% to 28%**.
- Long degradation of the industry resulted in **destruction of production assets as well as technological, breeding, scientific potential and human resources**.

Full-scale modernization and recovery of the industry is impossible without 10-15 year transition period even with all-out support of the state.



## Russia's Basic Pork Production Indices Compared to the Countries with Developed Swine Breeding by the Beginning of 2005

Index	Unit of Measure	Europe, North America	Russia	
			Agricultural Enterprises	Private Subsidiary Farming
Pigs reared per sow per year	head	27	18	14
Meat production per sow per year	kg	2,190	1,400	1,082
Average daily gain of fatteners	g	778	520	334
Fattening feed conversion rate	kg	2.76	5.6	Up to 8
Preslaughter period	day	160	200	270
Slaughter meat yield	%	79	69	57
Lean meat yield	%	63	52	46-48



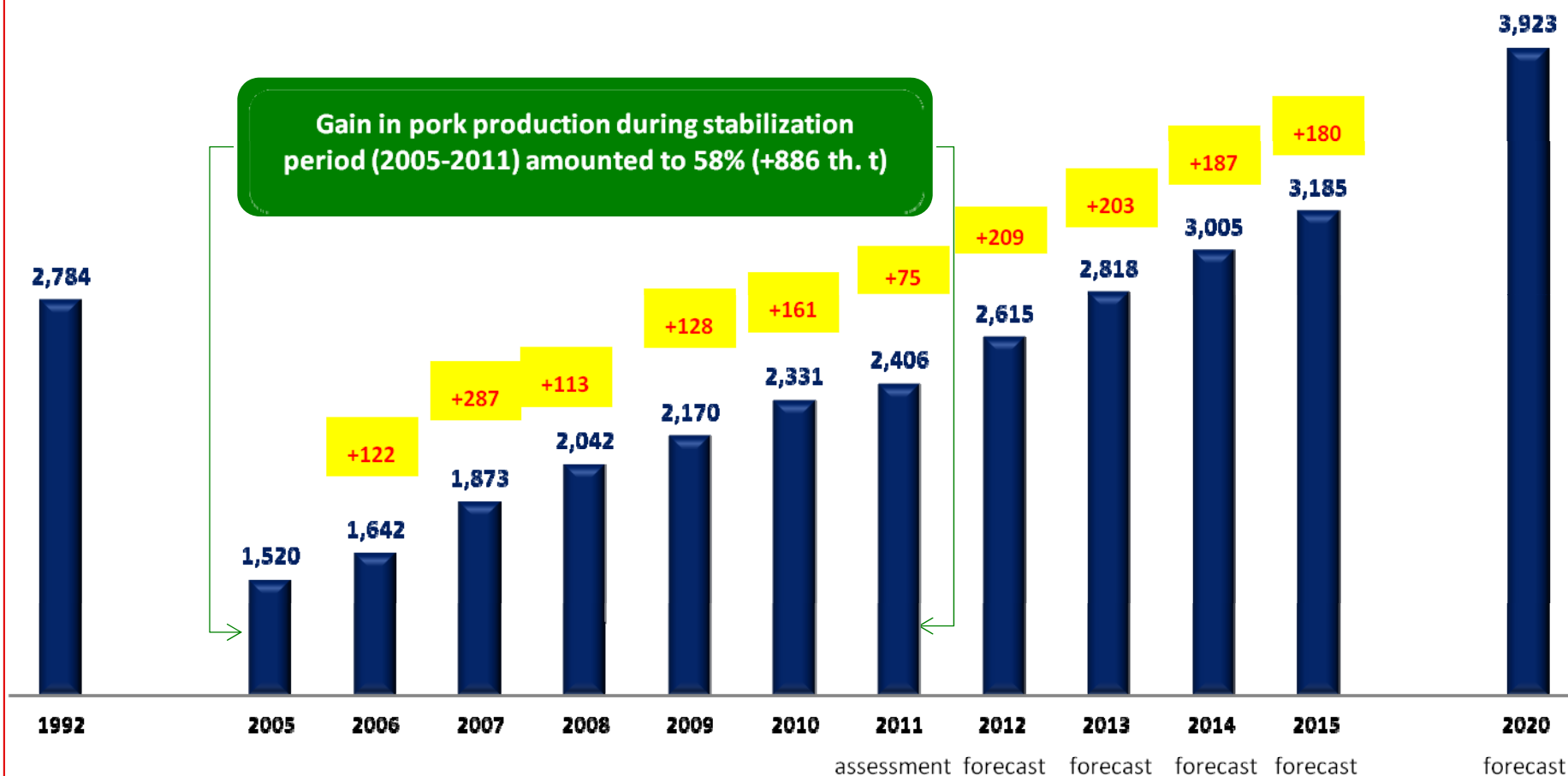
**Over \$8 billion was**  
**invested into the industry throughout 2006-2011 within**  
**the National Priority Project on Agricultural Sector Development (2006-2007)**  
**and**  
**the State Program of Agricultural Development (2008-2012).**

**This allowed to put into operation and reconstruct more than**  
**750 swine-breeding facilities.**



## Domestic Pork Production Under Current Conditions of State Support and Market Protection

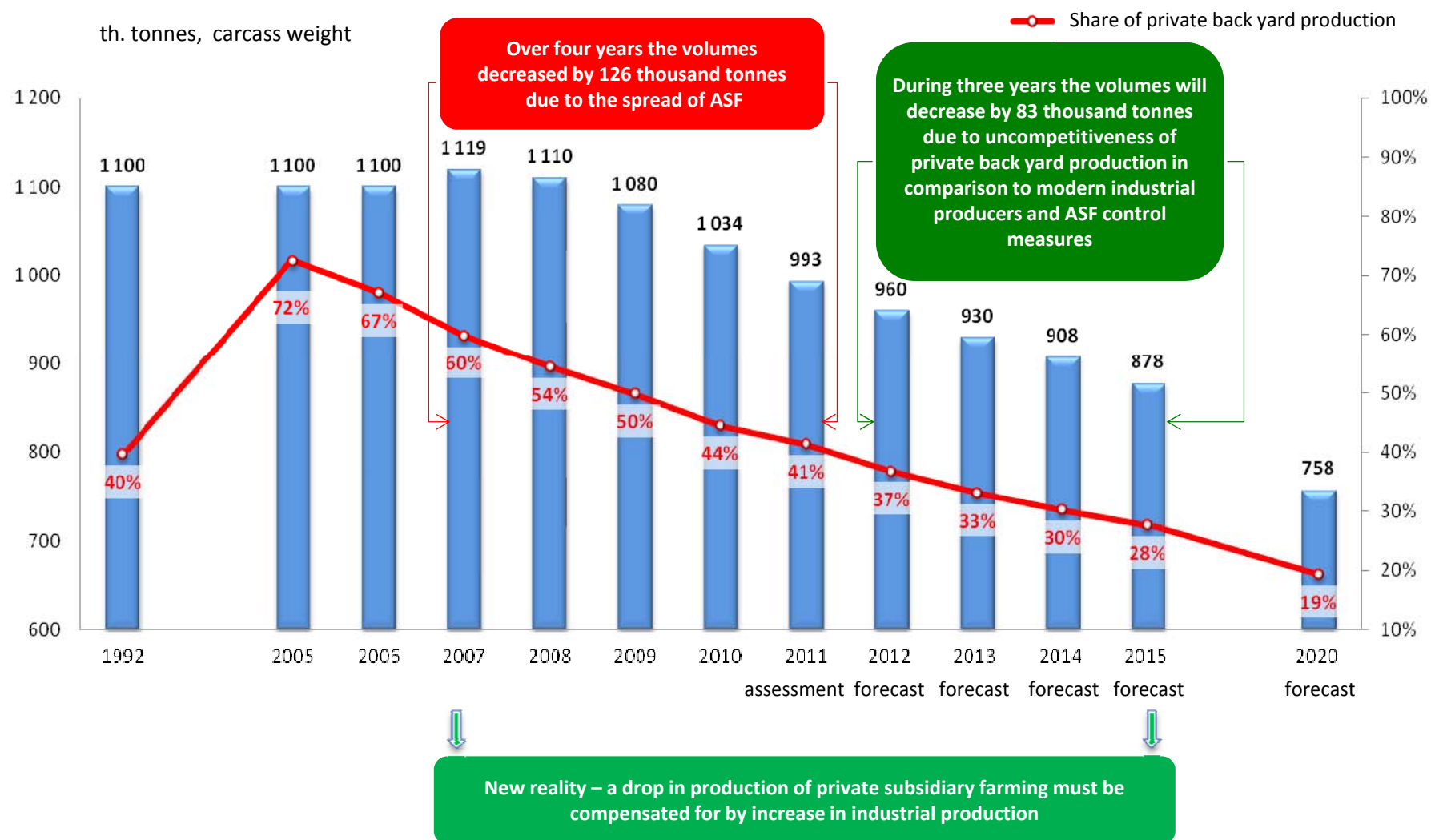
th. tonnes, carcass weight



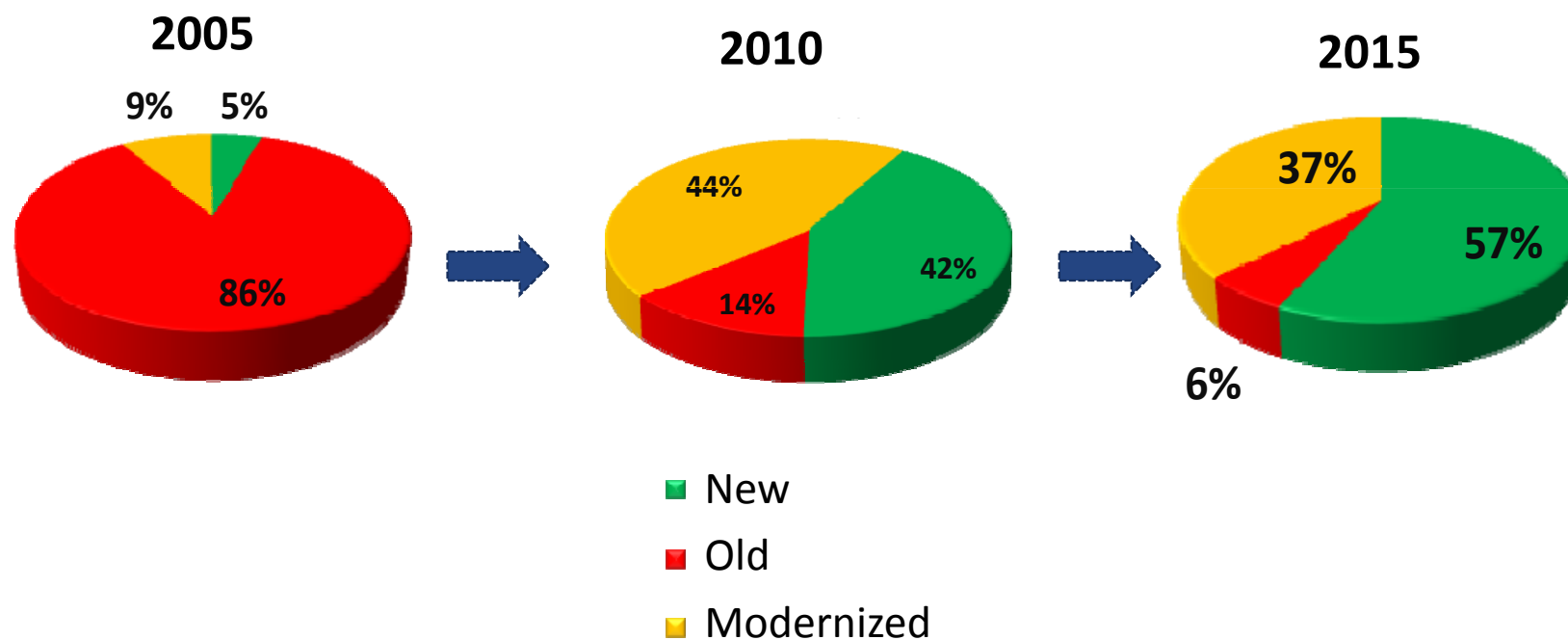
# Industrial Pork Production Under Current Conditions of State Support and Market Protection



# Production of Pork in Private back yard production



## Technical and Technological Segmentation Of Domestic Pork Producers (share of pork production volume in agricultural enterprises).



Over 90% of industrial pork will be produced from the breeds of new genetics after 2012.

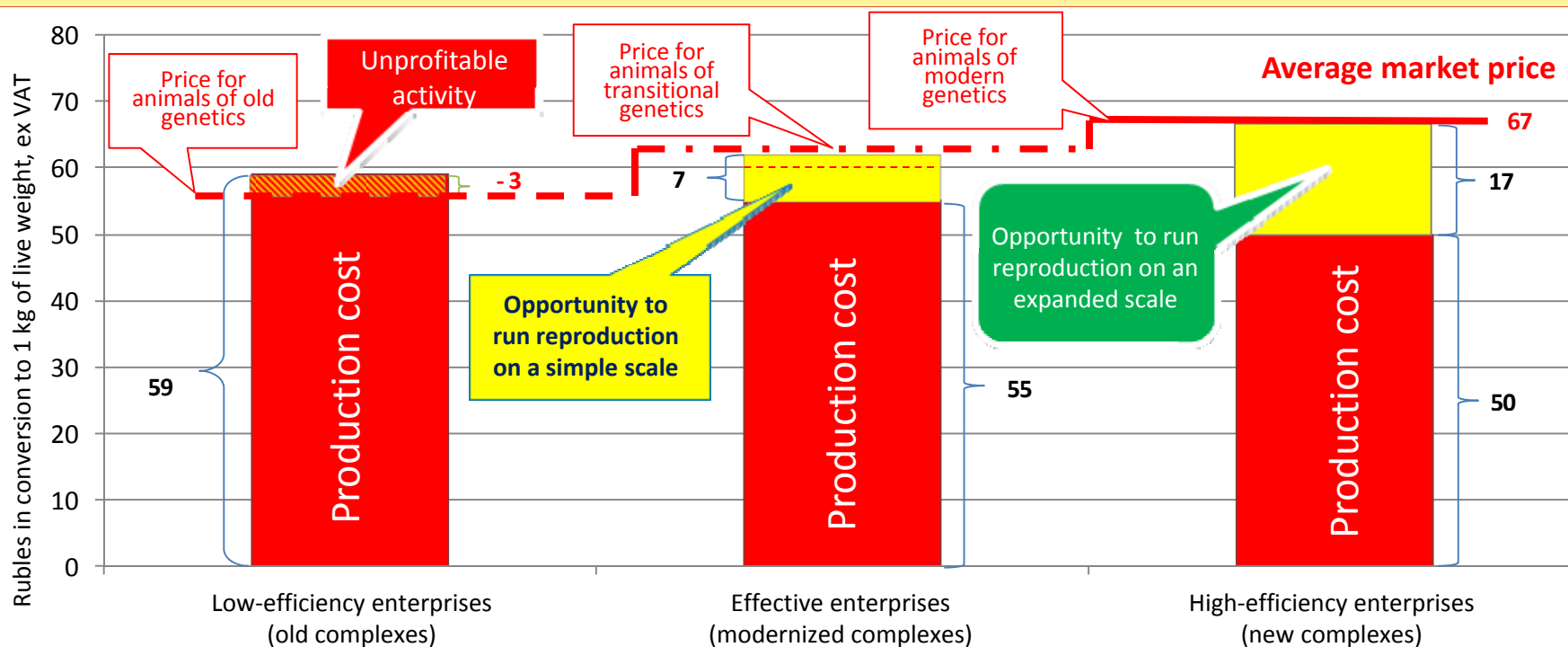


## Russia's Basic Pork Production Indices Compared to the Countries with Developed Swine Breeding in 2010

Index	Unit of Measure	Europe, North America	Russia		
			High-efficiency	Effective	Low-efficiency
Pigs reared per sow per year	head	27	25	24	18
Meat production per sow per year	kg	2,190	2,100	2,016	1,400
Average daily gain of fatteners	g	778	760	680	520
Fattening feed conversion rate	kg	2.76	3	3.6	5.6
Preslaughter period	day	160	168	175	200
Slaughter meat yield	%	79	75	73	69
Lean meat yield	%	63	60	58	52



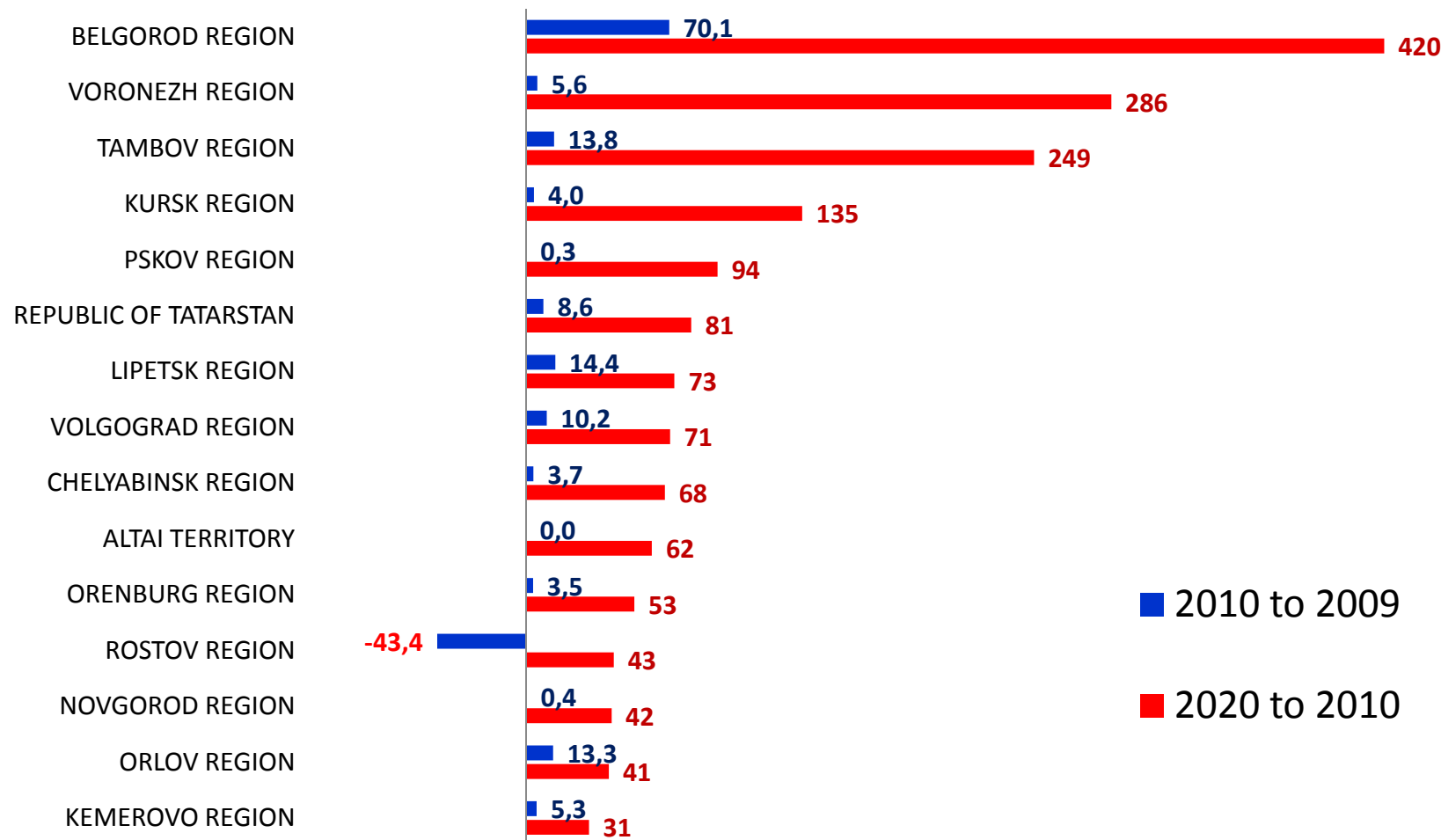
## Intra-industry Structure of Swine-breeding Sector Competitiveness



Level of enterprise efficiency	Average profitability		Interest in total number of enterprises
	Without investment component	With investment component	
High-efficiency enterprises	25%	3%	48%
Effective enterprises	10%	3%	42%
Ineffective enterprises	-4%	-4%	10%

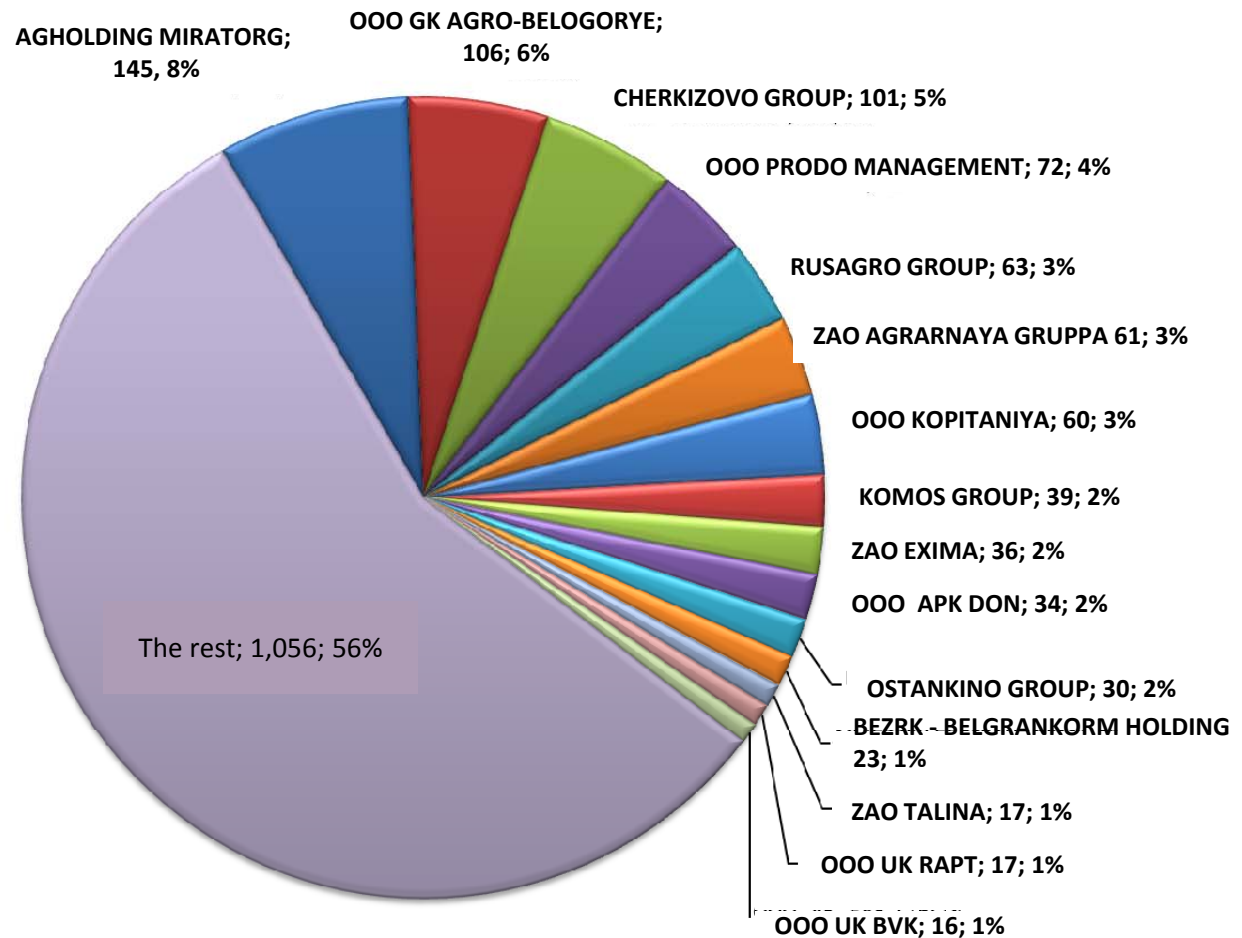


## 2009-2020 Rating of Russia's Regions on Annual Pork Production Gain in Enterprises of All Categories In 2009-2020, th. tonnes, live weight



# Rating of Large Industrial Pork Producing Enterprises in 2011

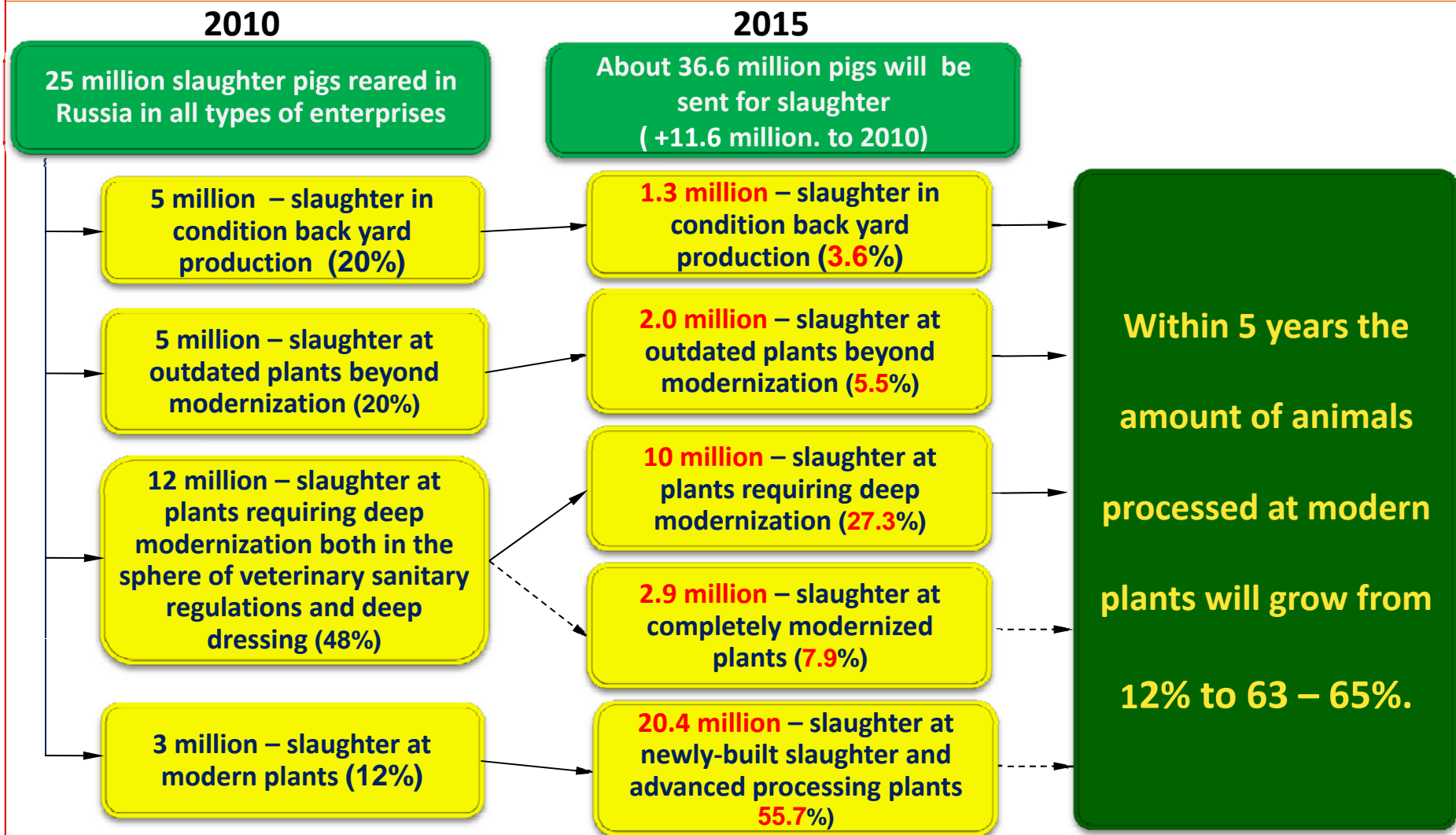
15 largest companies made only 44% of the market in 2011 that indicates its high fragmentation. Market consolidation will take place by 2015 and the share of 15 largest companies will grow to 65%.



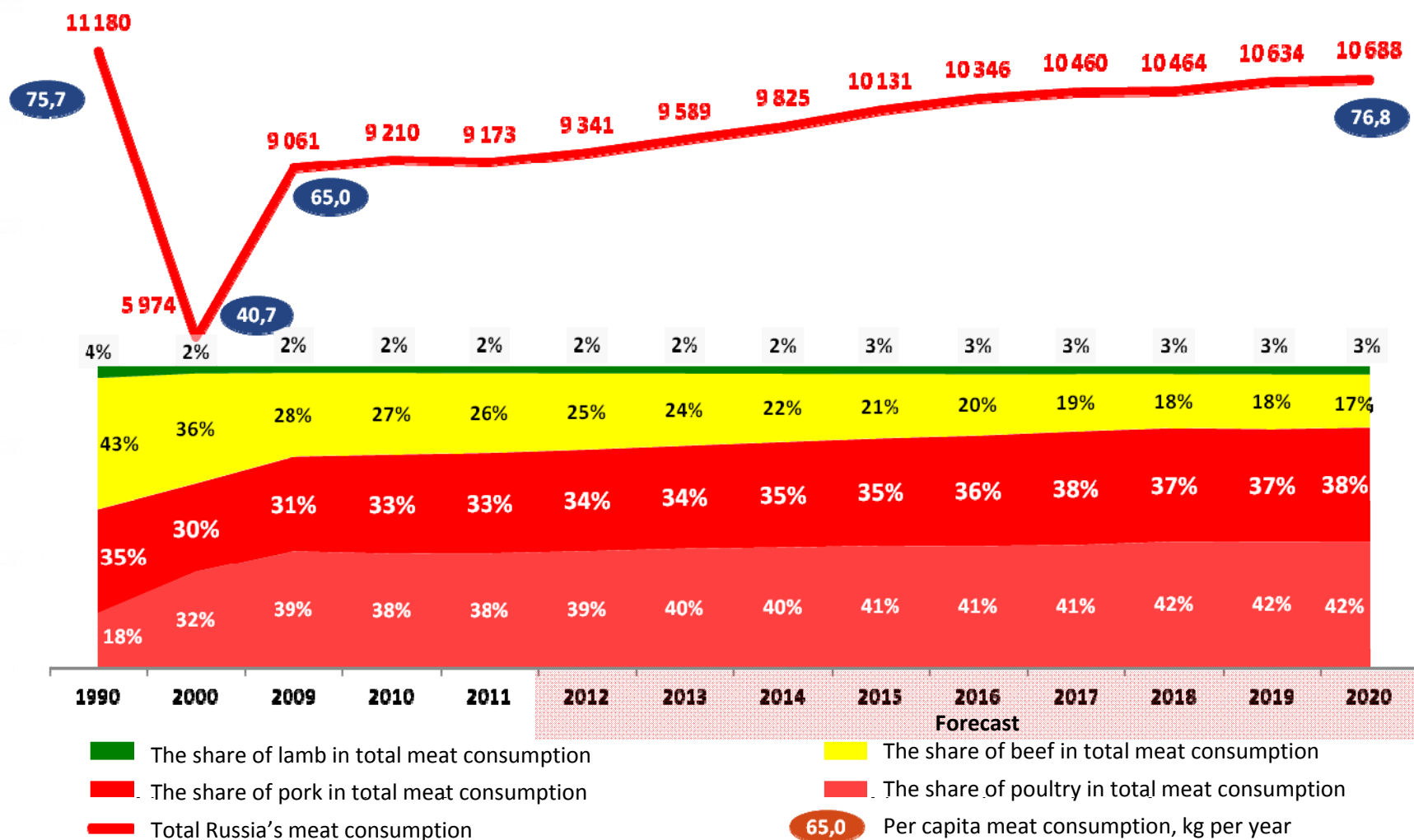
th. tonnes, live weight



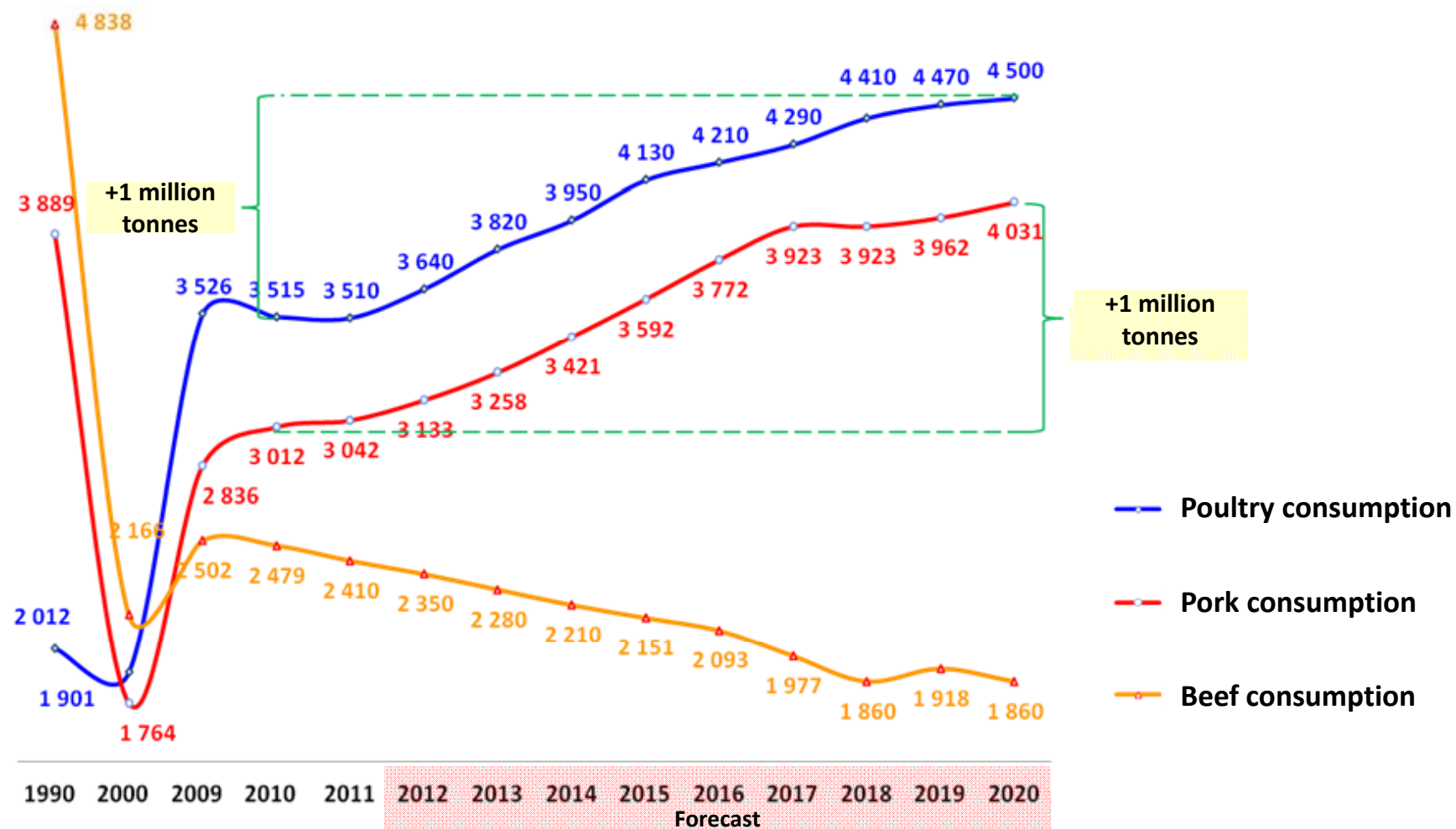
# The State and Prospects for Slaughter and First Dressing Capacity Expansion



# FORECAST OF RUSSIA'S MEAT MARKET DEVELOPMENT up to 2020 (thousand tonnes)

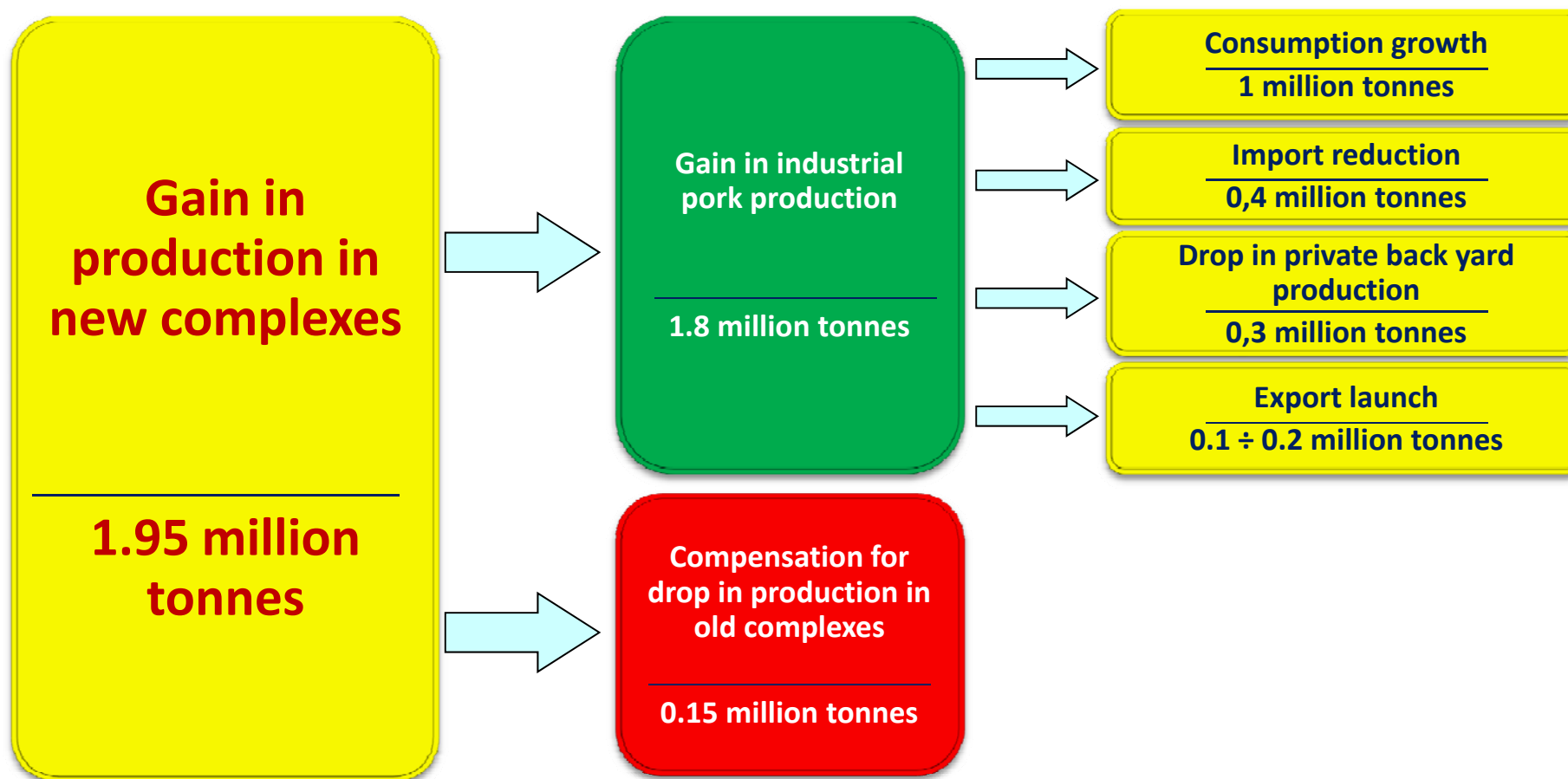


# FORECAST OF RUSSIA'S MEAT MARKET DEVELOPMENT up to 2020 (thosand tonnes, carcass weight)



## Distribution Channels of Additional Gain In Pork Production in Industrial Swine Breeding During 2012-2020

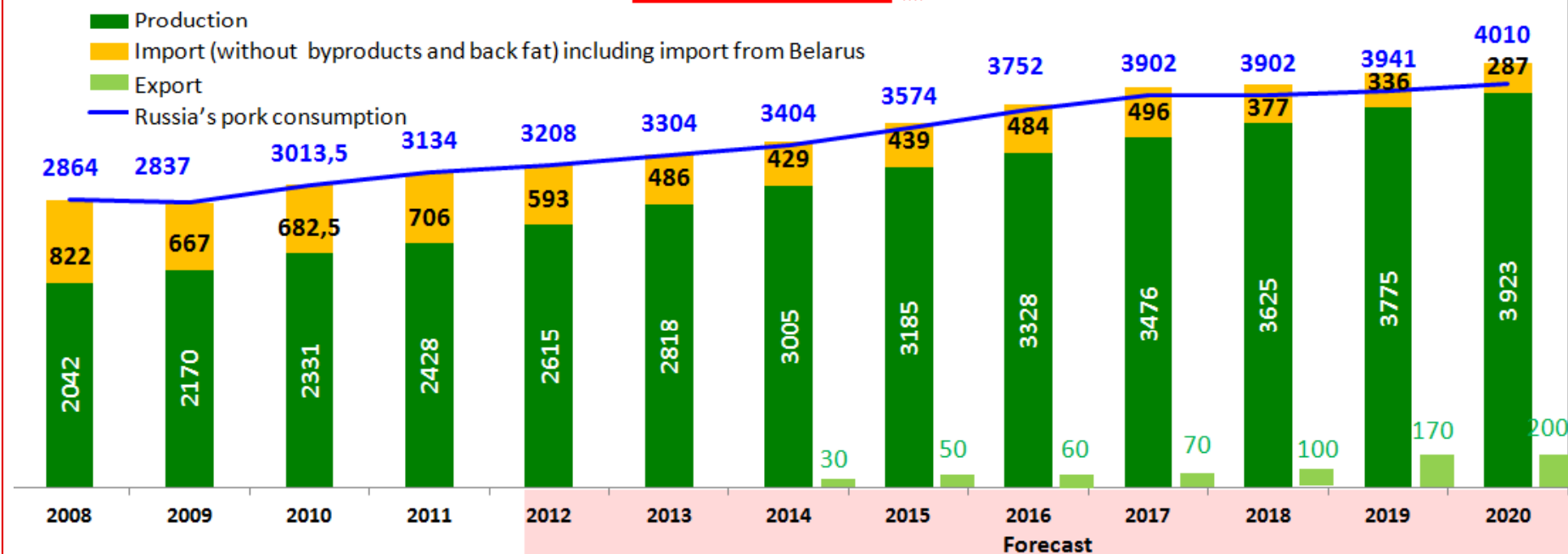
th. tonnes , carcass weight



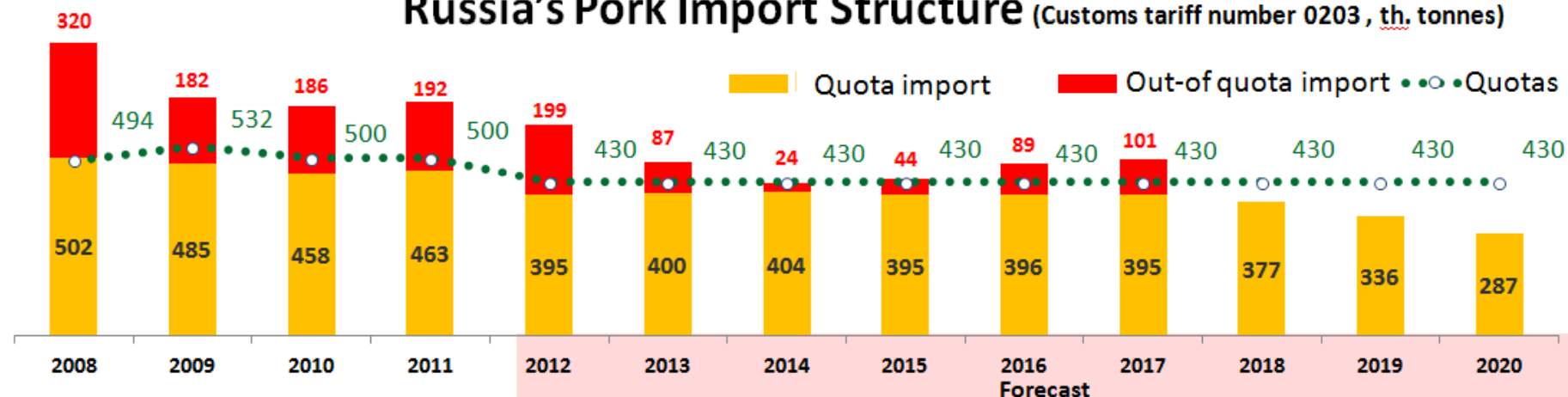


## Forecast of Russia's Pork Market Development in 2012-2020 Under

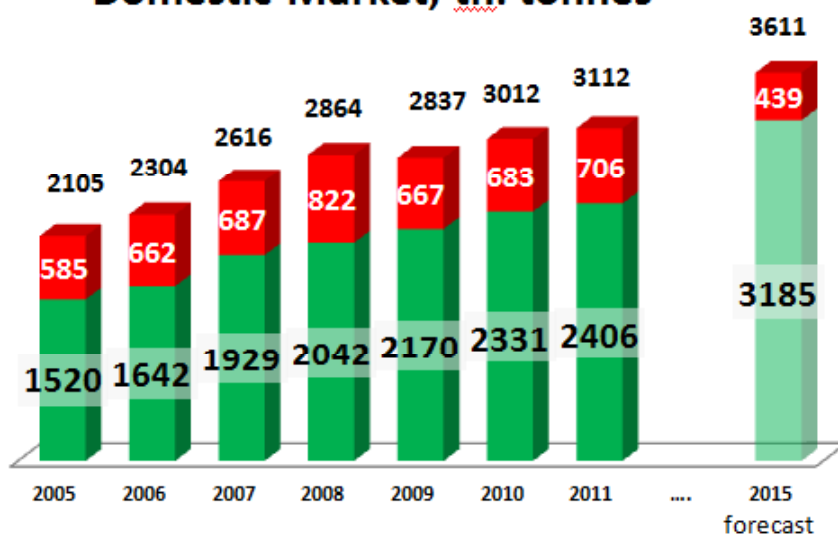
Current **TPP conditions** (th. tonnes)



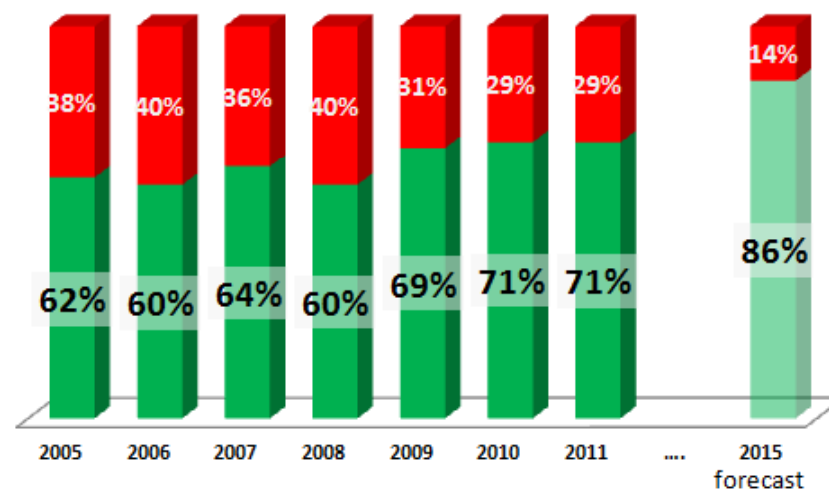
## Russia's Pork Import Structure (Customs tariff number 0203, th. tonnes)



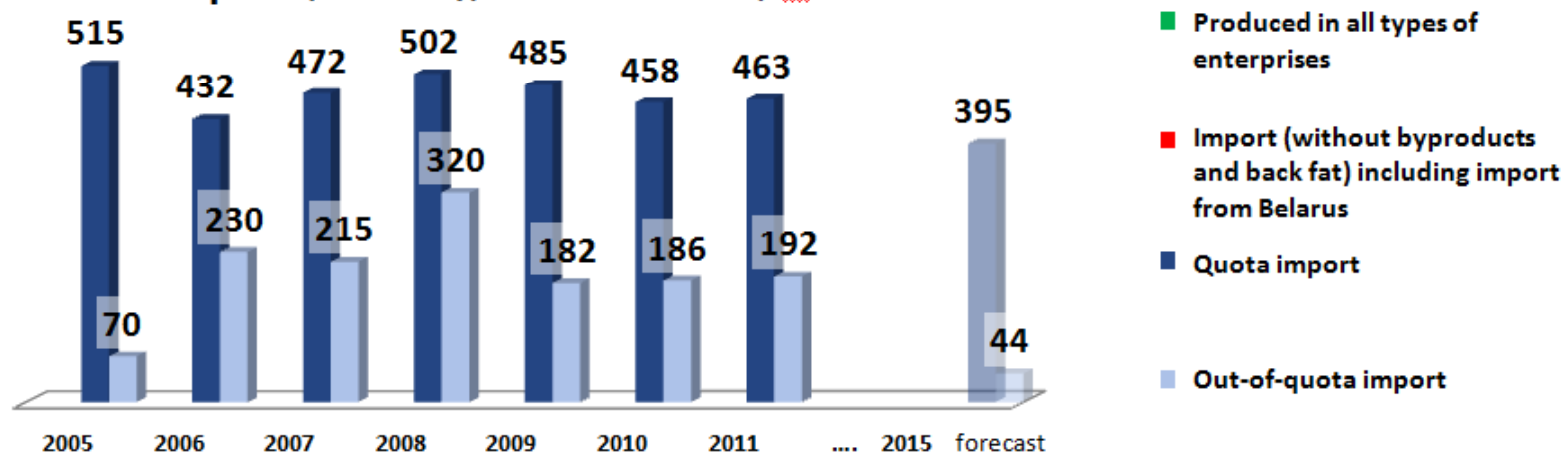
**Pork Resources in Russia's Domestic Market, th. tonnes**



**Pork Resources Structure in Russia's Domestic Market**



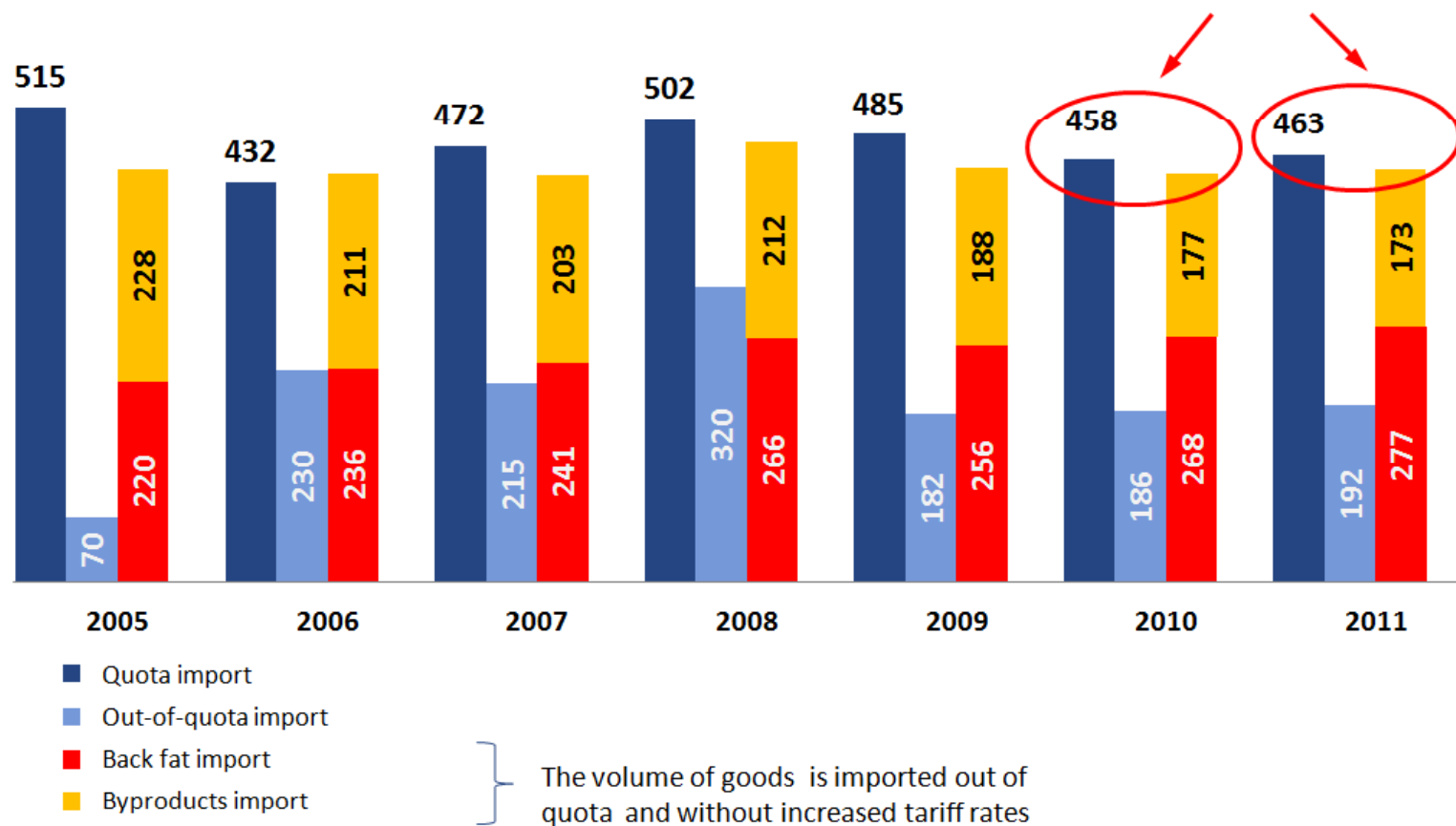
**Pork Import (without byproducts and back fat), th. tonnes**



# Import Structure of Pork, Back Fat and Byproducts

thousand tonnes

Back fat and byproducts are dropped out of pork products import volume control. Their amount is comparable with annual pork quota and this sharply decreases the efficiency of this control.



**CONSEQUENCES OF RUSSIA'S WTO JOINING  
ON DECLARED CONDITIONS AND  
MEASURES TO BE TAKEN TO MINIMIZE NEGATIVE  
EFFECTS ON SWINE-BREEDING DEVELOPMENT**

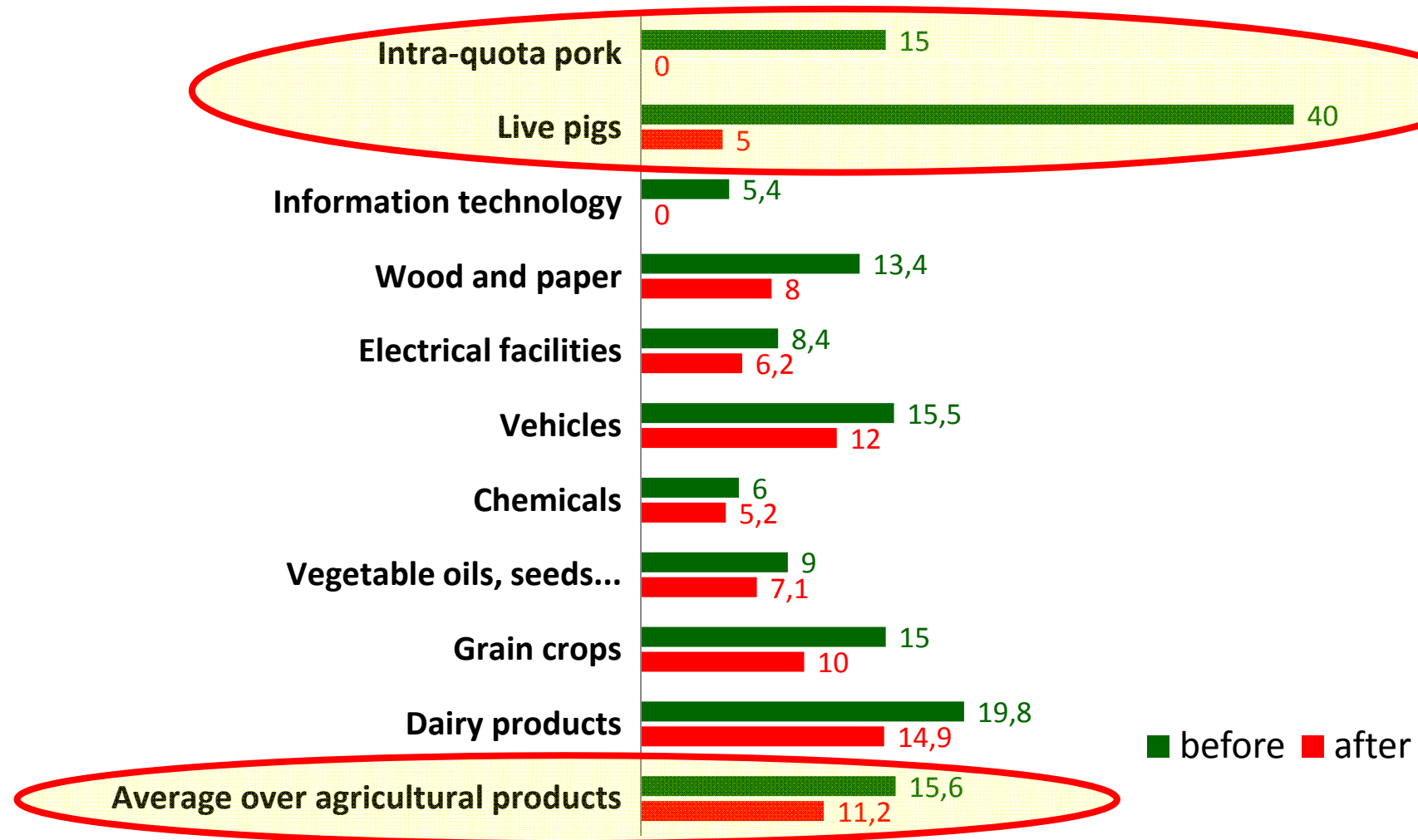


# Basic Russia's Concessions Concerning Meat Industry When Joining WTO

	Up to date	After WTO joining
Total quota for 2012, thousand tonnes	430	430
Intra-quota customs duty	15% but not less than 0.25 €/kg	0%
Over-quota customs duty	75% but not less than 1,5 €/kg	65%
Duty on live pigs for slaughter (out of quota basis)	40% but not less than 0.5 €/kg	5%
Duty on pork byproducts	25% but not less than 0.25 €/kg	15%
Lowest price for 'high-quality' BEEF (out of quota basis, liable to reduced 15% rate)	Increased from c 3 to 8 €/kg	The price criteria is not applied to USA, Canada and Argentine and to the rest of the countries in future.
Over 500,000 tonnes of pork products and their derivatives (fat back, byproducts, live pigs and etc.) is not included in quota basis.	Protected by increased customs duties from 2010	Duties are drawn back to 2006 level

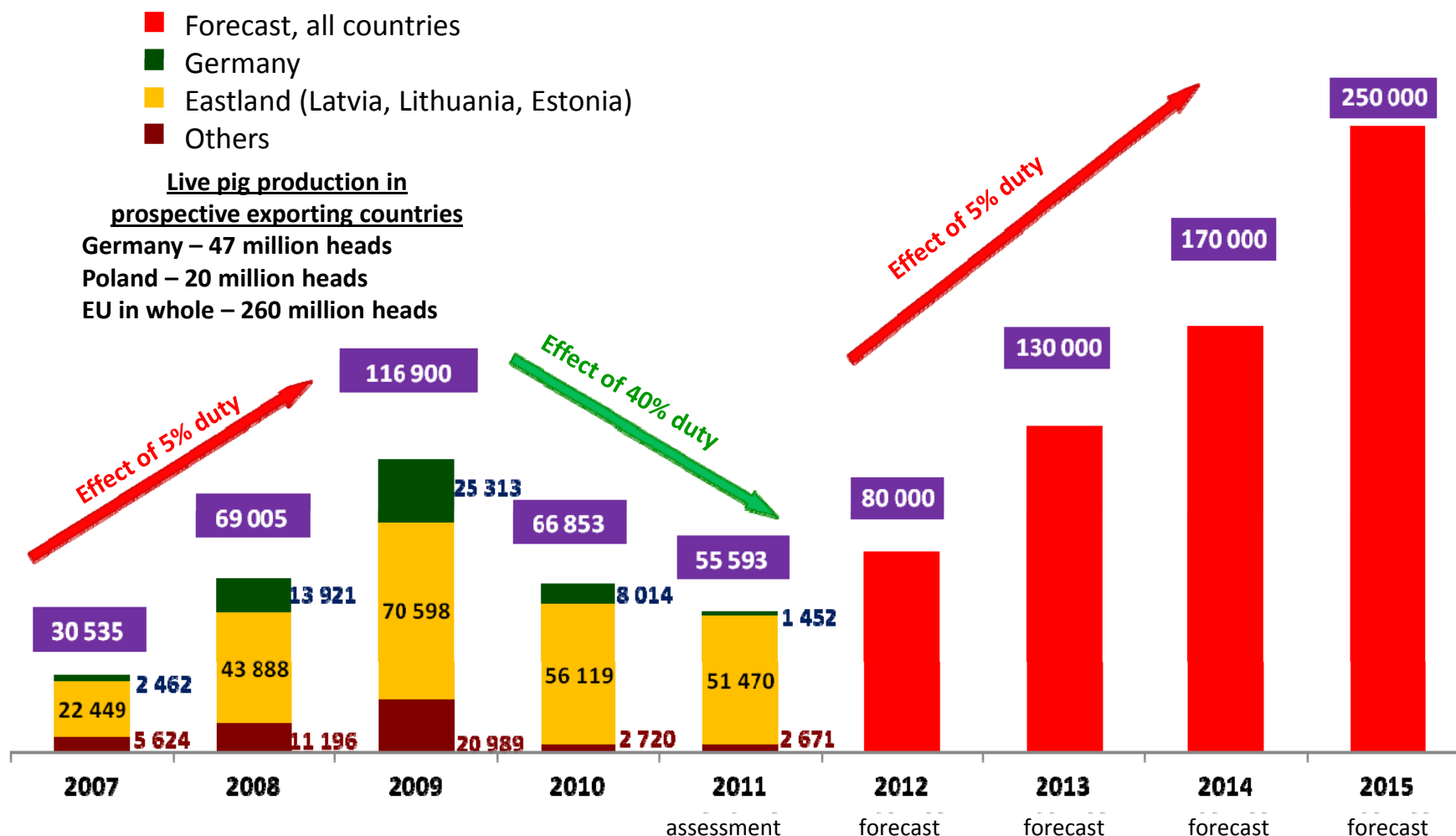


# Reduction of Import Customs After Russia's WTO Joining



# 2007-2011 Live Pigs Import and 2012-2015 Forecast

(Customs commodity codes 0103 91, 0103 92), in terms of carcass weight, thousand tonnes



Source: Federal Customs Service of Russia and National Union of Swine Breeders



## Combined Influence of Such Factors as:

1. Reduction of customs duties on live pigs from 40% to 5%
2. Lack of quota and country restrictions on live pigs import
3. Reduction of customs duties on pork import within quotas from 15% to 0%, over quotas from 75% to 65% (from 56,25% to 48,75% including preferences)
4. Lack of quota and country restrictions on back fat and byproducts import (total annual volume is about 500,000 tonnes), as well as reduction of duties on byproducts from 25% to 15 %.



will lead to reduction of prices for live pigs at least by **10 RUB/kg**.  
Minimum **annual losses of industrial pig production** will make up **RUB20 billion (about \$700 million)**.

(2000 thousand tonnes of live weight (forecast from 2012) x 10 RUB/kg = RUB20 billion)





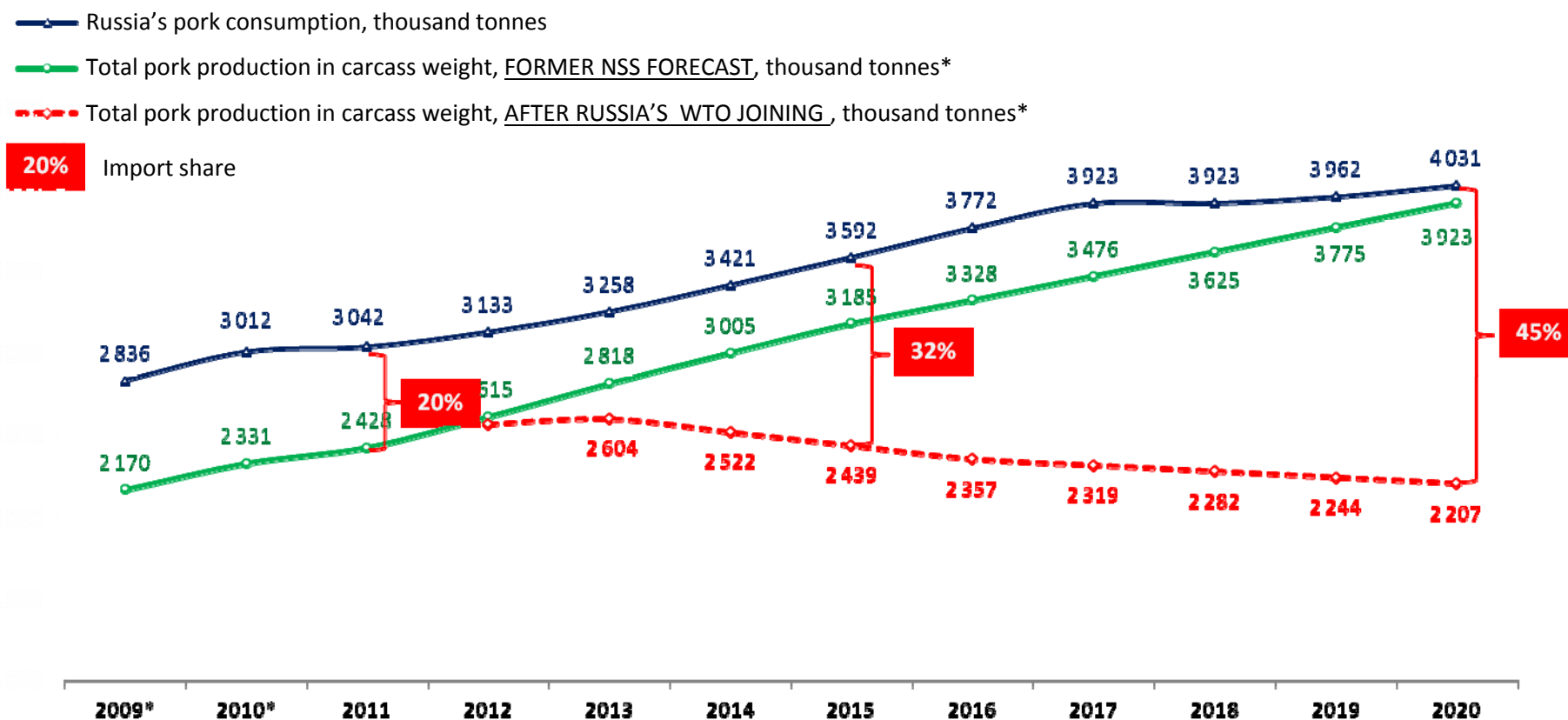
- Under current economic conditions after Russia's WTO joining on declared terms the enterprises of all categories with investment component taken into account (the necessity to return the principal) find themselves in a **loss-making zone**.
- It will **increase payback period** of investment projects on construction of new and complete modernization of operating facilities **from 8 to more than 12 years** (by 1.5-2 times depending on the enterprise category).
- Due to increased payback periods banks and companies will be forced to **revise current business plans**.
- The probability to start new investment projects after 2013 (when the launched projects will be completed) is **dramatically decreasing**.
- Starting from 2014 under such development scenario the Russia's pig industry will suffer **cutback or stagnation of pork production** caused by insufficient introduction of new projects with simultaneous production loss in old enterprises as well as in private back yard production because of low competitiveness.



**As a consequence, there is new risk of high import dependence as the share of import may again approach 35-45% of total consumption volume.**



## Russia's Pork Production Forecast up to 2020 Under Declared Conditions of Russia's WTO Joining (thousand tonnes) Without Adoption of Countervailing measures.



- Investment attractiveness of the industry will drastically go down after Russia's WTO joining on declared terms!
- The share of import in pork consumption after Russia's WTO joining will be increased from 20% in 2011 to 32% in 2015 and 45% in 2020.
- Cutback or stagnation of pork production in Russia starting from 2014 will be caused by insufficient introduction of new projects with simultaneous production loss in old agricultural enterprises as well as in private back yard production because of low competitiveness.



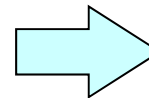
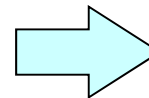
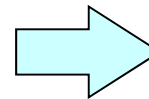
I. The adoption of countervailing measures by the Government of the Russian Federation to mitigate risks when joining WTO.

II. The use of legitimate methods under WTO to protect domestic market:

- a) Special safeguard measures (countervailing duties)
- a) Measures as part of the agreement on sanitary and phytosanitary measures, SPS
- b) Measures as part of the agreement on technical barriers, TB (Technical regulations)

III. Activation of swine-breeding business community towards cost reduction and deeper pork processing.

VI. Production loss in private back yard production together with simultaneous increase of pork consumption – new opportunities for growth of modern industrial production.



**The whole set and synergy of all these factors provide a reasonable expectation of saving the investment attractiveness of the industry after Russia's WTO joining.**



# Thanks For Your Time!

