Pig Production in Russia

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Russia’s Pork Production Trends During 1992-2005

**Total pork production in carcass weight (th. tonnes)**

- 1992: 2,784
- 2005: 1,520

**Industrial pork production in carcass weight (th. tonnes)**

- 1992: 1,684 (60%)
- 2005: 420 (28%)

**Production of pork in low-competitive Private back yard production in carcass weight (th. tonnes)**

- 1992: 1,100
- 2005: 1,100

- **Industrial production share**
- **PSF share**

- 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 a 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

<table>
<thead>
<tr>
<th>Index</th>
<th>Unit of Measure</th>
<th>Europe, North America</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Agricultural Enterprises</td>
<td>Private Subsidiary Farming</td>
</tr>
<tr>
<td>Pigs reared per sow per year</td>
<td>head</td>
<td>27</td>
<td>18</td>
</tr>
<tr>
<td>Meat production per sow per year</td>
<td>kg</td>
<td>2,190</td>
<td>1,400</td>
</tr>
<tr>
<td>Average daily gain of fatteners</td>
<td>g</td>
<td>778</td>
<td>520</td>
</tr>
<tr>
<td>Fattening feed conversion rate</td>
<td>kg</td>
<td>2.76</td>
<td>5.6</td>
</tr>
<tr>
<td>Preslaughter period</td>
<td>day</td>
<td>160</td>
<td>200</td>
</tr>
<tr>
<td>Slaughter meat yield</td>
<td>%</td>
<td>79</td>
<td>69</td>
</tr>
<tr>
<td>Lean meat yield</td>
<td>%</td>
<td>63</td>
<td>52</td>
</tr>
</tbody>
</table>
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

Gain in pork production during stabilization period (2005-2011) amounted to 58% (+886 th. t)
Industrial Pork Production Under Current Conditions of State Support and Market Protection

- Fourfold decrease in production from 1992 to 2005 nearly wrecked industrial swine breeding.

- Industrial pork production increased more than three times (+993 th. t) from 2005 to 2011.

- In the next 7-8 years industrial swine breeding will grow more than twofold.
Production of Pork in Private back yard production

Over four years the volumes decreased by 126 thousand tonnes due to the spread of ASF.

During three years the volumes will decrease by 83 thousand tonnes due to uncompetitiveness of private back yard production in comparison to modern industrial producers and ASF control measures.

New reality – a drop in production of private subsidiary farming must be compensated for by increase in industrial production.
Technical and Technological Segmentation Of Domestic Pork Producers (share of pork production volume in agricultural enterprises).

- **2005**: 86% New, 9% Old, 5% Modernized
- **2010**: 42% New, 14% Old, 44% Modernized
- **2015**: 57% New, 6% Old, 37% Modernized

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

<table>
<thead>
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<th>Unit of Measure</th>
<th>Europe, North America</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>High-efficiency</td>
<td>Effective</td>
</tr>
<tr>
<td>Pigs reared per sow per year</td>
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<td>778</td>
<td>760</td>
</tr>
<tr>
<td>Fattening feed conversion rate</td>
<td>kg</td>
<td>2.76</td>
<td>3</td>
</tr>
<tr>
<td>Preslaughter period</td>
<td>day</td>
<td>160</td>
<td>168</td>
</tr>
<tr>
<td>Slaughter meat yield</td>
<td>%</td>
<td>79</td>
<td>75</td>
</tr>
<tr>
<td>Lean meat yield</td>
<td>%</td>
<td>63</td>
<td>60</td>
</tr>
</tbody>
</table>
Intra-industry Structure of Swine-breeding Sector Competitiveness

**Level of enterprise efficiency**

<table>
<thead>
<tr>
<th></th>
<th>Average profitability</th>
<th>Interest in total number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Without investment component</td>
<td>With investment component</td>
</tr>
<tr>
<td>High-efficiency enterprises</td>
<td>25%</td>
<td>3%</td>
</tr>
<tr>
<td>Effective enterprises</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>Ineffective enterprises</td>
<td>-4%</td>
<td>-4%</td>
</tr>
</tbody>
</table>

*National Union of Swine Breeders*
<table>
<thead>
<tr>
<th>Region</th>
<th>2010-2009 Gain</th>
<th>2020-2010 Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>BELGOROD REGION</td>
<td>70.1</td>
<td>420</td>
</tr>
<tr>
<td>VORONEZH REGION</td>
<td>5.6</td>
<td>286</td>
</tr>
<tr>
<td>TAMBOV REGION</td>
<td>13.8</td>
<td>249</td>
</tr>
<tr>
<td>KURSK REGION</td>
<td>4.0</td>
<td>135</td>
</tr>
<tr>
<td>PSKOV REGION</td>
<td>0.3</td>
<td>94</td>
</tr>
<tr>
<td>REPUBLIC OF TATARSTAN</td>
<td>8.6</td>
<td>81</td>
</tr>
<tr>
<td>LIPETSK REGION</td>
<td>14.4</td>
<td>73</td>
</tr>
<tr>
<td>VOLGOGRAD REGION</td>
<td>10.2</td>
<td>71</td>
</tr>
<tr>
<td>CHELYABINSK REGION</td>
<td>3.7</td>
<td>68</td>
</tr>
<tr>
<td>ALTAI TERRITORY</td>
<td>0.0</td>
<td>62</td>
</tr>
<tr>
<td>ORENBURG REGION</td>
<td>3.5</td>
<td>53</td>
</tr>
<tr>
<td>ROSTOV REGION</td>
<td>-43.4</td>
<td>43</td>
</tr>
<tr>
<td>NOVGOROD REGION</td>
<td>0.4</td>
<td>42</td>
</tr>
<tr>
<td>ORLOV REGION</td>
<td>13.3</td>
<td>41</td>
</tr>
<tr>
<td>KEMEROVO REGION</td>
<td>5.3</td>
<td>31</td>
</tr>
</tbody>
</table>

National Union of Swine Breeders
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%.
The State and Prospects for Slaughter and First Dressing Capacity Expansion

2010

- 25 million slaughter pigs reared in Russia in all types of enterprises
- 5 million – slaughter in condition back yard production (20%)
- 5 million – slaughter at outdated plants beyond modernization (20%)
- 12 million – slaughter at plants requiring deep modernization both in the sphere of veterinary sanitary regulations and deep dressing (48%)
- 3 million – slaughter at modern plants (12%)

2015

- About 36.6 million pigs will be sent for slaughter (+11.6 million. to 2010)
- 1.3 million – slaughter in condition back yard production (3.6%)
- 2.0 million – slaughter at outdated plants beyond modernization (5.5%)
- 10 million – slaughter at plants requiring deep modernization (27.3%)
- 2.9 million – slaughter at completely modernized plants (7.9%)
- 20.4 million – slaughter at newly-built slaughter and advanced processing plants (55.7%)

Within 5 years the amount of animals processed at modern plants will grow from 12% to 63 – 65%.
FORECAST OF RUSSIA’S MEAT MARKET DEVELOPMENT up to 2020 (thousand tonnes)

- The share of lamb in total meat consumption
- The share of pork in total meat consumption
- The share of beef in total meat consumption
- The share of poultry in total meat consumption
- Total Russia’s meat consumption

Per capita meat consumption, kg per year

National Union of Swine Breeders
FORECAST OF RUSSIA’S MEAT MARKET DEVELOPMENT up to 2020 (thousand tonnes, carcass weight)

- Poultry consumption
- Pork consumption
- Beef consumption

+1 million tonnes
### Distribution Channels of Additional Gain in Pork Production in Industrial Swine Breeding During 2012-2020

- **Gain in production in new complexes**: 1.95 million tonnes
- **Gain in industrial pork production**: 1.8 million tonnes
- **Compensation for drop in production in old complexes**: 0.15 million tonnes

#### Contribution Sources:

- **Consumption growth**: 1 million tonnes
- **Import reduction**: 0.4 million tonnes
- **Drop in private back yard production**: 0.3 million tonnes
- **Export launch**: 0.1 ÷ 0.2 million tonnes

*Note: All values are in thousand tonnes, carcass weight.*
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

<table>
<thead>
<tr>
<th></th>
<th>Up to date</th>
<th>After WTO joining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total quota for 2012, thousand tonnes</td>
<td>430</td>
<td>430</td>
</tr>
<tr>
<td>Intra-quota customs duty</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>but not less than 0.25 €/kg</td>
<td></td>
</tr>
<tr>
<td>Over-quota customs duty</td>
<td>75%</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>but not less than 1.5 €/kg</td>
<td></td>
</tr>
<tr>
<td>Duty on live pigs for slaughter (out of quota basis)</td>
<td>40%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>but not less than 0.5 €/kg</td>
<td></td>
</tr>
<tr>
<td>Duty on pork byproducts</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>but not less than 0.25 €/kg</td>
<td></td>
</tr>
<tr>
<td>Lowest price for ‘high-quality’ BEEF (out of quota basis, liable to reduced 15% rate)</td>
<td>Increased from c 3 to 8 €/kg</td>
<td>The price criteria is not applied to USA, Canada and Argentine and to the rest of the countries in future.</td>
</tr>
<tr>
<td>Over 500,000 tonnes of pork products and their derivatives (fat back, byproducts, live pigs and etc.) is not included in quota basis.</td>
<td>Protected by increased customs duties from 2010</td>
<td>Duties are drawn back to 2006 level</td>
</tr>
</tbody>
</table>
Reduction of Import Customs After Russia’s WTO Joining

- **Intra-quota pork**
  - Before: 0
  - After: 15

- **Live pigs**
  - Before: 5
  - After: 40

- **Information technology**
  - Before: 0
  - After: 5,4

- **Wood and paper**
  - Before: 8
  - After: 13,4

- **Electrical facilities**
  - Before: 6,2
  - After: 8,4

- **Vehicles**
  - Before: 12
  - After: 15,5

- **Chemicals**
  - Before: 6
  - After: 5,2

- **Vegetable oils, seeds...**
  - Before: 9
  - After: 7,1

- **Grain crops**
  - Before: 10
  - After: 15

- **Dairy products**
  - Before: 14,9
  - After: 19,8

- **Average over agricultural products**
  - Before: 11,2
  - After: 15,6

- **Average over all products**
  - Before: 11,2
  - After: 15,6

- **Notes:**
  - Green bars represent the percentage before joining the WTO.
  - Red bars represent the percentage after joining the WTO.

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

- Forecast, all countries
- Germany
- Eastland (Latvia, Lithuania, Estonia)
- Others

**Live pig production in prospective exporting countries**
- Germany – 47 million heads
- Poland – 20 million heads
- EU in whole – 260 million heads

**Effect of 5% duty**

**Effect of 40% duty**

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

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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.

- Russia’s pork consumption, thousand tonnes
- Total pork production in carcass weight, FORMER NSS FORECAST, thousand tonnes*
- Total pork production in carcass weight, AFTER RUSSIA’S WTO JOINING, thousand tonnes*

- **20%** Import share

- **20%** 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.

National Union of Swine Breeders
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)
   b) Measures as part of the agreement on sanitary and phytosanitary measures, SPS
   c) 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!