

Dairy seed money project RF

Identification of dairy business model in the Belgorod region, Russia

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Target Group & Objectives

- The target group are Dutch dairy companies and knowledge institutes willing to invest in building a position and improving Holland branding in RF, and in particular in the Belgorod region
 - Foundation Dutch Russian Livestock: > 20 Dutch small, medium-sized and larger companies active in RF <http://www.fdr1.nl>
- Objectives:
 - Get better insights into dairy supply chain in the Belgorod region
 - Examine the possibilities for better performance of the dairy sector
 - Determine the organizational setting, partnerships and business model for the potential joint project

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Background

- RF is a priority country for Top Sector Agro&Food International
- In 2013 (bilateral RF-NL year) agribusiness, knowledge institutes and governments aim to develop long-term strategic RF-NL cooperation
- Ambition of RF to be self-sufficient in its food supply by 2020, BUT there are still problems, mainly in the dairy sector
- Since RF's accession to the WTO and Customs Union:
 - imports of dairy products has grown significantly: total imports of skimmed milk powder increased by 27%; imports from the Customs Union increased by 50%
- A shortage of qualified managers-entrepreneurs and workers and a need for integrated knowledge

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Rationale behind choice of Belgorod region

- WLR/LEI focus on dairy in the Belgorod region through contact with Corporation "Razvitie" JSC, aiming to attract investments to the region
- Perspective region:
 - Leading agro-region with the ambition to stay the number 1 agro-region in RF and to feed not only the region, but also other regions, including Moscow (695 km from Moscow, federal highway M-2)
 - Presence of largest Russian agro-holdings: Miratorg-Belgorod; Agro-Belgorodie; BEZRKA-Belgrankorm, PromAgro-group; "Tommoloko"; Tommorovski myasokombinat BVK-group Priorskoliy-group
 - Dairy industry and milk processing is 2020 priority

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Description of the project

- In the Belgorod region; WLR/LEI explore how to build a successful dairy knowledge supplier position in Belgorod, by:
 - Improving the performance of the Belgorod dairy sector
 - Assisting in developing a Belgorod Expertise & Demonstration Center with a dairy farm and training facilities for dairy farm managers and the agro-business community as part of an Agro-businesspark
- Belgorod region seeks for multi annual mutual commitment by dairy companies and knowledge institutes whom are willing to invest in Russia
- WLR/LEI explore the interest and potential of the NL dairy industry to invest together in building a position in RF

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Meetings

- NL: February 2013
- RF/Belgorod: March 2013
- NL: June 2013
- RF/Belgorod: mission in 25-30 Augustus 2013



Interviews (1)

- Governments:
 - International Business Center Aurora, (Non-Profit Partnership for Advancement of Innovative Technologies, (in charge of attracting business partners for investment purposes): Y. Scherbinin (Director), N. Pushkina (Deputy Director), A. Manin, M. Nesmeyanova, M. Evsyukova
 - "Razvitie" Corporation" JSC: S. Yudin (General Director till September), I. Fedchenko (Head of the Analytical Division), N. Bodyu (Agro-businesspark Project Development)
 - Department of Agroindustrial Complex = regional Ministry of Agriculture: A. Khmirov (Deputy of the Department Head)



Interviews (2)

- Russian Dairy companies:
 - Green Dale (Group of Dairy Companies, incl. construction cheese processing plant): S. Altukhov (General Director), Sergey Krivopuskov, (Deputy Executive Director for Livestock Sector)
 - "Plemzavod Razumensky" JSC: N.V. Shulyakovsky (General Director)
 - "Samarinskoe" JSC: V.I. Kovalev (General Director)
- Dutch Dairy companies: FDRL
- Universities:
 - Belgorod State Agricultural Academy
 - Irish Research Institute



Points for consideration

- It seems difficult to get commitment from especially SME NL dairy livestock companies to multiannual invest in RF
 - The Foundation Dutch Russian Livestock primary interests are trade (sell their products and services) and they are reluctant to invest in the RF on a multiannual basis
- Economic opportunities are not only for NL. NL is not always in top of RF mind. Other countries-competitors are also active in RF and the RF's are looking for investors in products, services and knowledge all over the world:
 - Ireland, Israel, Italy, Germany, Spain



SWOT analysis (top 3)

STRENGTHS

- RF wants to be self-sufficient in 2020
- RF Agro Holdings and farms recognize their need for upgrading of management skills
- WUR can provide integrated knowledge required for good farm management practices in RF

OPPORTUNITIES

- RF's accession to WTO & Custom Union
- Shortage of quality agro managers and entrepreneurs in RF
- Belgorod wants to differentiate itself in the RF as agro region

WEAKNESSES

- Investments in RF agribusiness are not 'sexy' (no quick, high return)
- It's more difficulty to enthusiasm Dutch companies (Foundation Dutch Russian Livestock) than large enterprises (RFC)
- Short-term thinking in the RF

THREATS

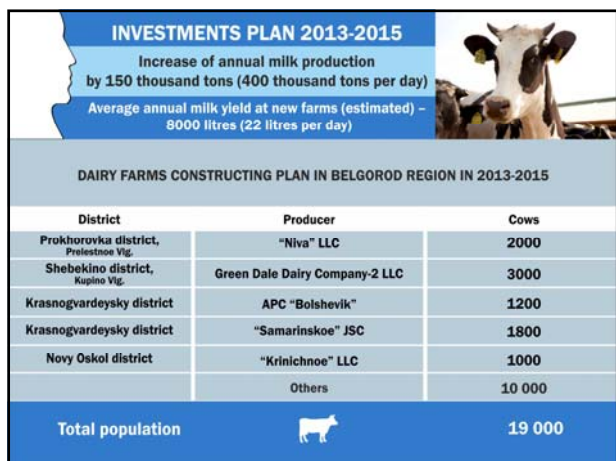
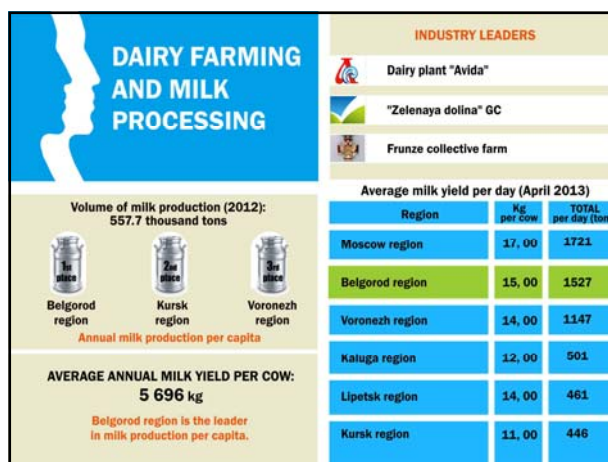
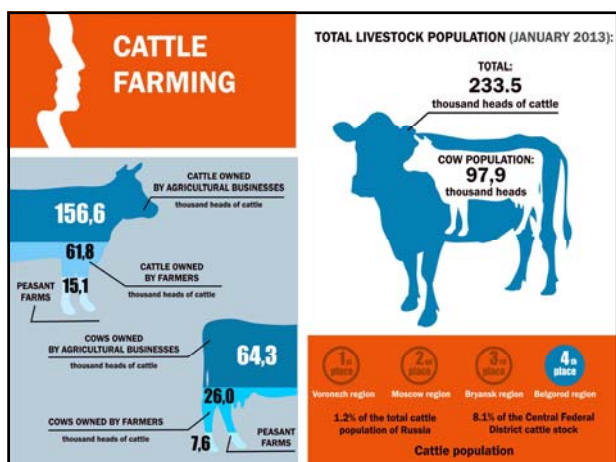
- NL agribusiness is reluctant to invest in RF on a multiannual base
- Established close relationship with Irish Dairy companies
- The Belgorod Ministry of Agriculture primarily supports building of new dairy farms, improvement of production on existing farms is not a priority



Dairy ambitions of Belgorod government

- Belgorod Ministry of Agriculture:
 - "75-80% of Belgorod State Agricultural University graduates work in agriculture"
 - "production in Belgorod region anno 2012: 5.577 tons milk (growth rate 103.5 %)" (& 13.275 tons meat)
- In 2020 Belgorod must be a leading region in dairy production and processing (610.000 tons milk, 30.000 tons cheese and 8.000 tons butter) => need for milk of high quality
- In 2020 milk must be produced by 10 brand new dairy cooperatives > 1200 cows with calf (yet to be funded and build) plus 78 "old" dairy cooperatives. Belgorod will mainly support new farms
- The Belgorod government also plans to financially support a "dairy training school", preferably as part of BSAA

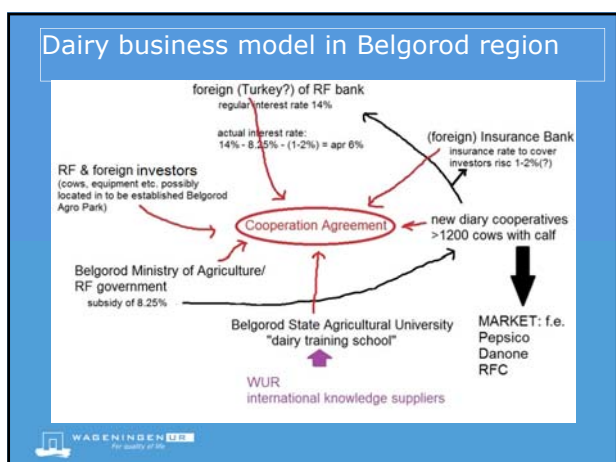




Knowledge required by Belgorod dairy sector & dairy business

- Science for impact: Combining scientific knowledge with innovations: practice, theory, excursions, latest development research, vocational courses, training of farmers and tailor made programs.
- On-farm "good farm management training": animal health, breeding techniques, animal housing, reduction of greenhouse gases, manure digestion, animal nutrition, chain management, product quality and food safety, system innovations, economy and farm management, integrated farm management (integration of the mentioned components)
- Knowledge intensive training: animal nutrition, genetic breeding, manure management, energy, farm management

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Cheese market Russia

- Forecast by 2022
 - Demand will increase up to 940.000 tons, with local (Russian) production of 580.000 tons
 - Production of hard and semi-hard cheeses is to be increased by 22%
- In 2012:
 - Russian cheese market: 810.000 tons, with 460.000 tons of local (Russian) production
- Consumption of cheese:
 - Low: 6 kg/capita/year (e.g., 26 kg in Denmark, 13 kg in Poland)

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Cheese (1): Green Dale group of companies

- By 2017: Profitable dairy production and processing of min 1.000 tons/day
- Now: 11 farms, 7.500 cows, 140 tons/day, 50.000 tons/year
- Plans:
 - Import of 1.200 heifers
 - Increase the herd up to 30.000
 - Average yield of min 8.000 kg/year
 - Construction of cheese factory – milk of high quality
 - Aug 2013: Ireland is to invest € 120 mln in concentrated feed factory; also collaboration in dairy (Crowley Engineering, ASDNMarketing Ltd.): 4 farms x 3 000 cows



Cheese (2): Tulchinka.RU

- Now: Dairy processing factory that processes 100 tons milk per day; 36.000 tons/ year of butter & spreads
- Plan (approved): New cheese production unit to be launched in 2015
 - To process 180 tons/day, cheese production 6.000 tons/year
- Current risk of stable high-quality milk supply is recognized
- Plans to be developed to increase milk production in the region
- Tulchinka.RU:
 - Part of the Ukrainian holding "Terra-Food"
 - <http://www.tulchinka.belnet.ru/WWW/>



Why can it be favorable for NL processors to produce cheese in the RF?

- A high demand for hard cheese of high quality in the RF
- Russian authorities like to see locally-produced hard cheese
 - Lower risks of "closed" borders, to avoid import duties by importing from NL to RF
- Lower milk price together with a potential to increase local milk production makes it attractive for the processing industry to build cheese factories in Russia
 - Advantages of low milk price: NL/Moscow 0.53€/l versus lower Ukrainian (boarder with the Belgorod region) milk prices 0.50€/l; and much lower Belorussian (main exporter of milk to Russia, also growing export to Ukraine) prices 0.35€/l : purchasing milk for cheese processing purposes is favorable
 - High milk production towards 8600 kg/cow and feed efficiency are favorable; investing in knowledge on management & chains in [old/existing farms](#)
- Ukraine: still cheaper but milk supply & quality is far from certain (and shortage of milk as well), and RF may introduce import restrictions in order to stimulate RF production
- Belorussia: cheap, but totally controllable (and highly subsidized) by the state, difficult to estimate the real cost-price
- AND opportunities for NL companies to contribute to guaranteeing stable high-quality milk supply



Conclusion

Dairy market demand is essential to make the Belgorod Dairy Business Model successful!

THANK YOU FOR YOUR ATTENTION!

