

Will Russia become a major exporter on the world market?

A brief piece of recent history

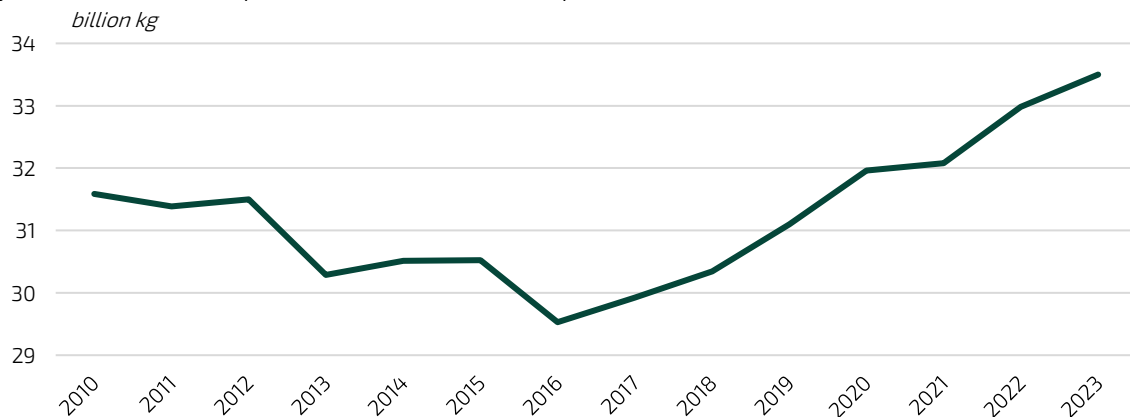
Due to the Russian sanctions in August 2014, the export of dairy products from many major dairy-exporting countries to Russia almost completely came to a standstill. The Russian import bans on dairy were a hard blow for European exporters among others. But the Russian consumers were also left in a tough spot, because a lot of dairy products (including cheese) were traditionally imported. Cheese from Belarus and South America couldn't compensate for the lost imports. In addition to these sanctions, the Russian consumer also experienced the consequences of a significant economic recession, the devaluation of the rouble (RUB), and high inflation.

The Russian government explained the import restrictions from August 2014 at that time as a matter of national security and a deliberate choice to move towards greater self-sufficiency. This provided the agriculture sector with the long-sought support to increase production. Various support measures have since become available for this purpose.

Local milk production benefitted

Data show that the Russian goal to bring self-sufficiency in dairy to a higher level provided a boost to local milk production. Initially, milk production slightly decreased, but since 2016 it has been on the rise on an annual basis (figure 1).

Figure 1. Annual development of the Russian milk production



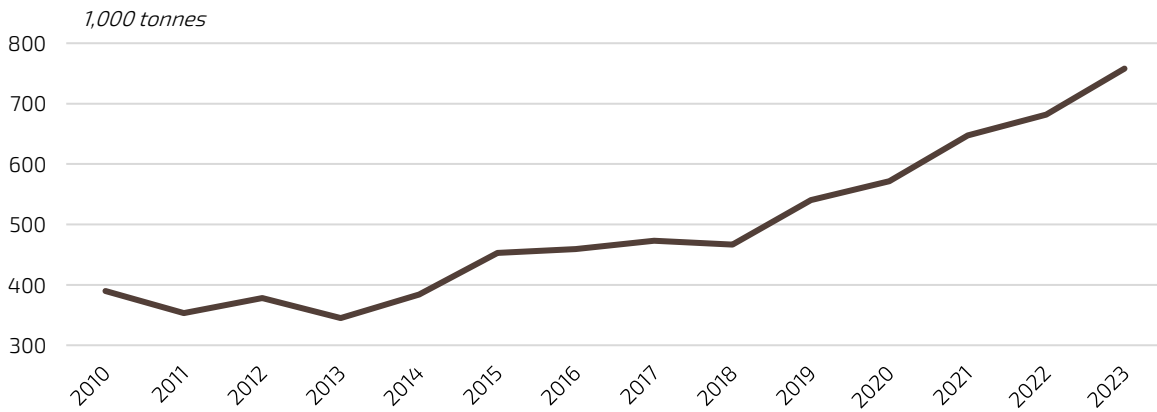
Source: Milknews

With the increase in milk production and the implementation of several major investment projects in the industry, the pace of growth of, among others, cheese production and skim milk powder (SMP) production has also accelerated in recent years (figure 2). Cheese production in 2023 amounted to 758 thousand tonnes. This implies an increase of almost 70% compared to 2015, when the import ban was effectuated.

The relative growth in the production of skimmed milk powder (figure 3) was even greater, from almost 66 thousand tonnes in 2015 to nearly 125 thousand tonnes in 2023. An increase of almost 90%.

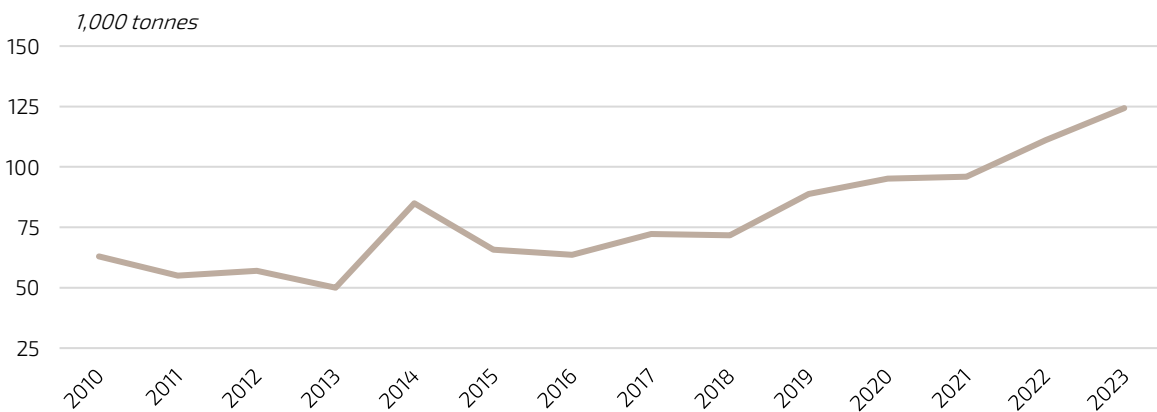
The production growth met the domestic demand, but this changed over the course of 2022.

Figure 2. Annual development cheese production by the Russian Federation



Source: Ministry of Agriculture of the Russian Federation/BusinesStat

Figure 3. Annual development of SMP production by the Russian Federation



Source: Milknews/IDF

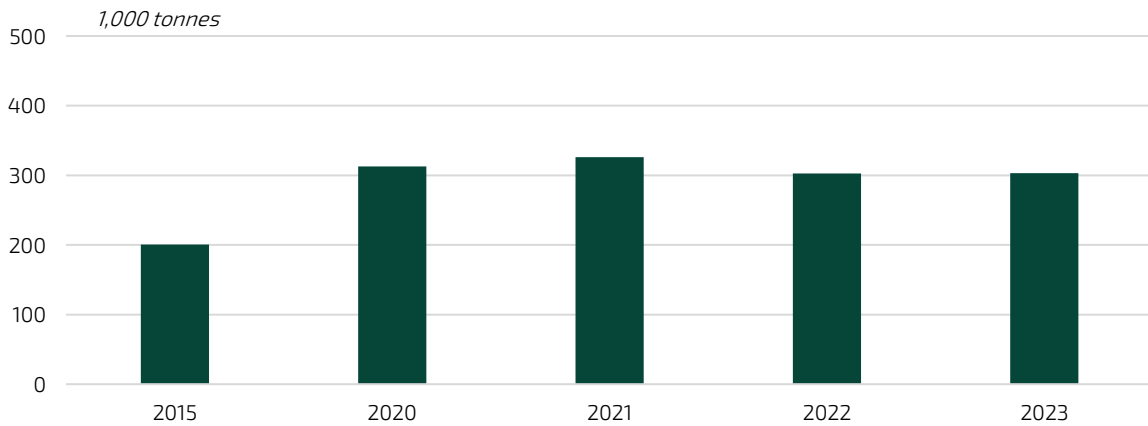
Rising costs and shrinking economy

Since Russia's invasion of Ukraine in February 2022, a large number of economic sanctions were implemented against Russia (and also Belarus). Partly related to the invasion, markets experienced also a global increase in raw materials and energy prices. The resulting economic downturn was thus accompanied by a significant rise in production costs. As a result, dairy prices increased and consumer spending decreased (a decline in demand).

The result was an imbalance in Russia's dairy market. Additionally, in the case of cheese, the import levels remained steady (figure 4). This was mainly due to the cheaper supply of cheese from Belarus (which also slightly increased in 2022 to over 283 thousand tons). This impacted the sales of domestically produced cheese, leading to an accumulation of stock. By mid-2023, the Russian cheese stock had increased to more than 60 thousand tons, an increase of 23% compared to 2022.

It is difficult for Russia to export this surplus. Global trade in cheese is mainly dominated by Cheddar, Mozzarella and other types of cheese that are hardly produced in Russia.

Figure 4. Import of cheese by the Russian Federation

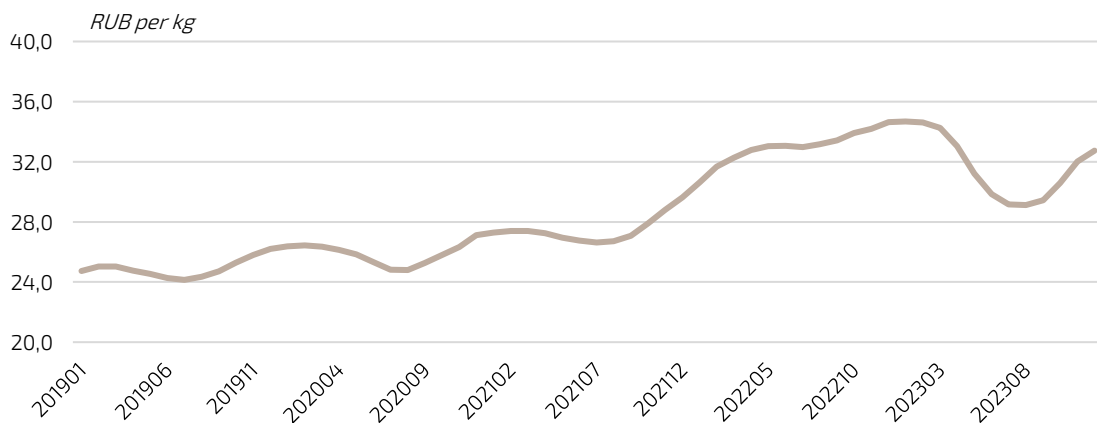


Source: TDM/Eurostat/National sources

Sharp decline in raw milk prices

Due to the relatively large surpluses of cheese, milk powder and butter, in combination with decreasing consumer demand, prices started falling. Consequently, the payout price for farm milk, started sliding as well (figure 5). After a fairly consistent upward trend, the price of raw milk sharply declined at the beginning of 2023.

Figure 5. Prices of raw milk in the Russian Federation



Source: ROSSTAT

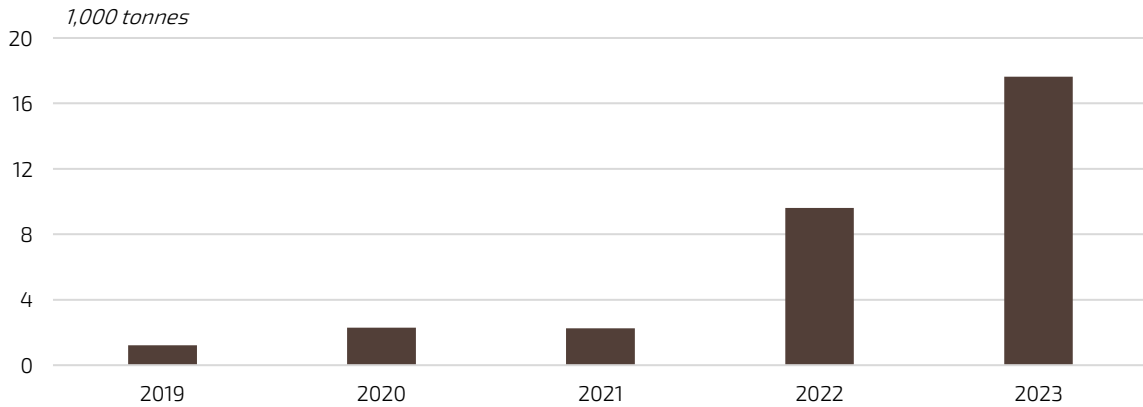
Because of various support programs for producers and consumer-targeted promotion campaigns, the price of raw milk began to increase slightly in the last months of 2023, but remained below 2022 levels.

Increasing export orientation towards nearby markets

The Russian Federation has been a modest exporter of dairy products for some time, with Kazakhstan, Armenia, Georgia, Uzbekistan and Azerbaijan as traditionally being the main partners. The disappointing domestic sales and growing surpluses have led to an increased

focus on exports to less traditional sales markets. This became evident in 2023, for skimmed milk powder especially (figure 6.)

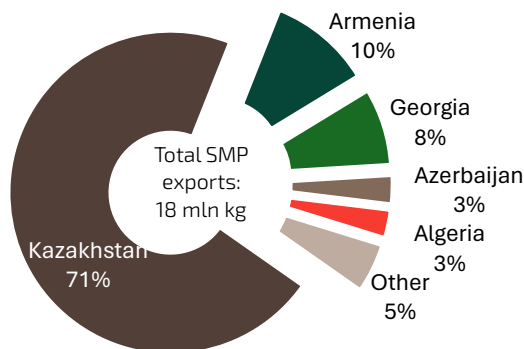
Figure 6. SMP exports by the Russian Federation



Source: ROSSTAT

Over the years, Kazakhstan has been the main export destination for skimmed milk powder (figure 7.), but the exports to this country have seen a massive increase from 850 tonnes in 2019 to nearly 13 thousand tonnes in 2023.

Figure 7. SMP: Main export partners of the Russian Federation (year 2023)



Source: TDM/Eurostat/National sources

It is noteworthy that Algeria was willing to purchase Russian skimmed milk powder in 2023 for the first time ever (500 tonnes). This delivery was a result of various trade missions that have taken place in the recent past. According to the Russian agricultural press, in 2023 there were also exports of whole milk powder to Tunisia and trial shipments of products to new markets such as the Philippines, the UAE, Saudi Arabia, Bangladesh, Vietnam and Oman. Contracts for shipments to Thailand, Malaysia, Singapore and Iraq are being further developed.

Furthermore, the government has implemented support programs to boost the production of whey powder and whey derivatives, with a growing focus on export.

It remains to be seen to what extent Russian dairy processors and exporters will be able to, with or without the help of various support programs, develop their exports to become a serious player on the world market. The recent developments, however, are remarkable. Moreover, some countries may opt for Russian imports for geopolitical reasons. It is therefore important to continue monitoring these developments, especially because Russia aims to sell dairy products in countries where the EU, among others, is also active.

If you are interested in our in-depth market insights or data underlying this analysis, please feel free to [contact us](#).