

# Minister Declares Push for Milk Standards

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March 19, 2012

**The**  **Moscow Times**

The Agriculture Ministry has begun a dairy crackdown in an effort to wipe out unfair competition in the industry led by America's PepsiCo and France's Danone.

Agriculture Minister Yelena Skrynnik urged regional governors in a recent letter to do away with sales of substandard milk, she said Monday.

A lot of small dairy producers compete on the market by adding cheap palm oil to their milk instead of using the expensive butterfat prescribed by the state dairy standard.

"The use of tropical oils is unacceptable," Skrynnik said at a meeting with industry representatives. "The ministry will regularly monitor the situation."

Governors tend to look the other way in an effort to support local dairy producers from their competition outside the region, said Marina Balabanova, director for communications

and government relations at Danone's Russia arm, Danone Unimilk.

"We sometimes face unfair competition from the smaller players," she said at the meeting. "We have been losing our market share."

The law-abiding producers took an especially painful blow last year when butterfat rose in price on the back of the heatwave of summer 2010, while palm oil continued to cost little.

"There haven't been any positive dynamics since then," Balabanova said.

PepsiCo and Danone now account for 45 percent of the country's dairy market in terms of volume. It wasn't clear Monday how that proportion could rise if competition were fair.

Andrei Danilenko, chief of the National Union of Dairy Producers, sounded indignant about the producers of substandard milk.

"The time when they could get away with it is over," he said at the meeting. "We will clean the fakes off the store shelves."

Things could be looking up for the big-league dairy producers as milk prices are heading for a slump, providing for an easier cost-cutting exercise.

Andrei Yarovoi, chairman of the Meleuzovsky Dairy Plant, predicted that Russian milk production would grow by 1 million tons, or about 3 percent. Combined with an increase in imports from the European Union — a very likely development, according to Pawel Redzisz, country head for Singapore's OLAM that is investing in Russian dairy production — the greater supply will put downward pressure on prices and butterfat will become more inexpensive along with milk.

Skrynnik stated that milk production indeed rose about 4 percent in January and February, compared with the same period last year. Imports, on the other hand, declined in January and February by almost 18 percent from the same months last year, she said.

The government will not restrict grain shipments this marketing year that ends June 30, said First Deputy Prime Minister Viktor Zubkov.

The statement cancels previous warnings by the government that it could place these exports under an embargo after they reach 25 million tons.

Zubkov said Russia has enough grain to export 27 million tons this marketing year.

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