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Russian Federation

Food Processing Sector Report

2000

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Report Highlights:

In August 1998, the Russian Federation experienced a financial meltdown which slowed down the general economy but which gave new life to the domestic food processing sector. Russians who were used to buying foreign food products suddenly found these items priced out of reach due to the collapse of the ruble. Long suffering domestic processors found whatever they could produce to be in great demand. This report discusses and analyzes the current market situation, entry strategies and recommends the best product prospects in the food processing sector for U.S. exporters interested in the Russian market.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1], RS

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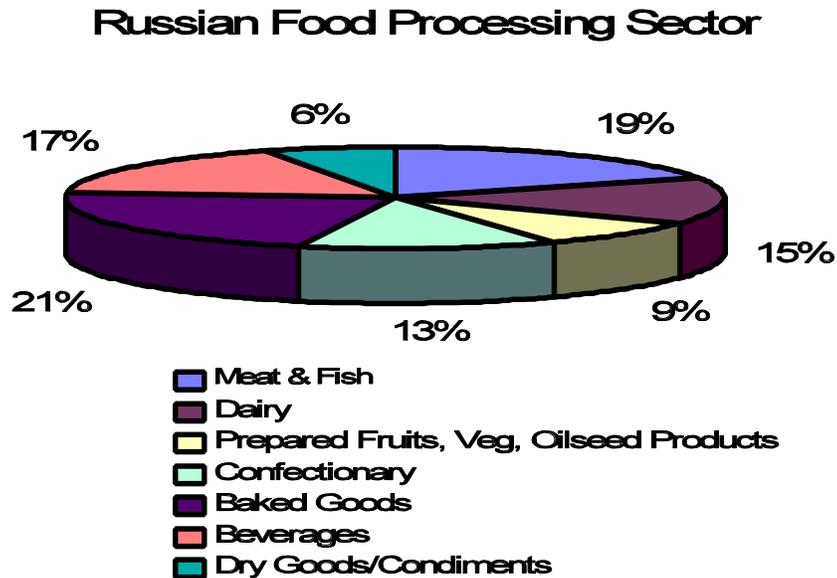
Acknowledgment

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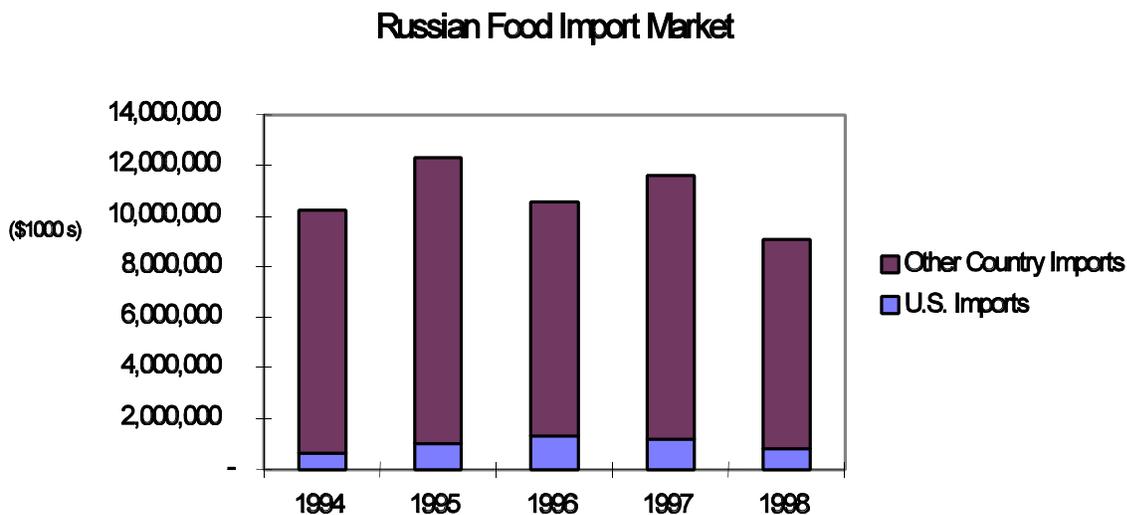
SECTION I. MARKET SUMMARY

There are at least 8,481 food processors in Russia, not counting on-farm primary processing of commodities.

The following pie-chart breaks down the food processors into major subsectors:



The following chart shows Russian food imports from 1994-1998 divided into U.S. origin and other country. Between 10 and 30 percent of these imports are inputs used by the processing sector.



Assuming that 20 percent of the total food imports were used as processing inputs, this market was worth \$2.4 billion dollars in 1998. In 1999 due to foreign food aid the percent of total food and ingredient imports used as processing inputs was higher, perhaps 50 percent. In 1999 therefore the food processing inputs import market is estimated to be worth from \$4.25 to \$4.5 billion.

Advantages

Processors rely on imports because they cannot purchase the type, quality and/or quantity to meet their input requirements.

Multinationals are increasing their presence in Russia.

Larger Russian processors are being formed through mergers and acquisitions.

Pay-in-advance is an accepted trade practice.

Processors are increasing the use of specialized food ingredients available only in west.

Challenges

Processors generally lack of access to credit.

Giving credit to processors in the current Russian financial environment is risky.

Processors who pay-in-advance prefer to purchase from suppliers who offer quick delivery i.e., geographically close, in order to turn cash faster.

There is a preference, whenever possible, to use low quality, low price inputs.

The devaluation of the ruble makes imported inputs expensive.

SECTION II. ROAD MAP FOR MARKET ENTRY

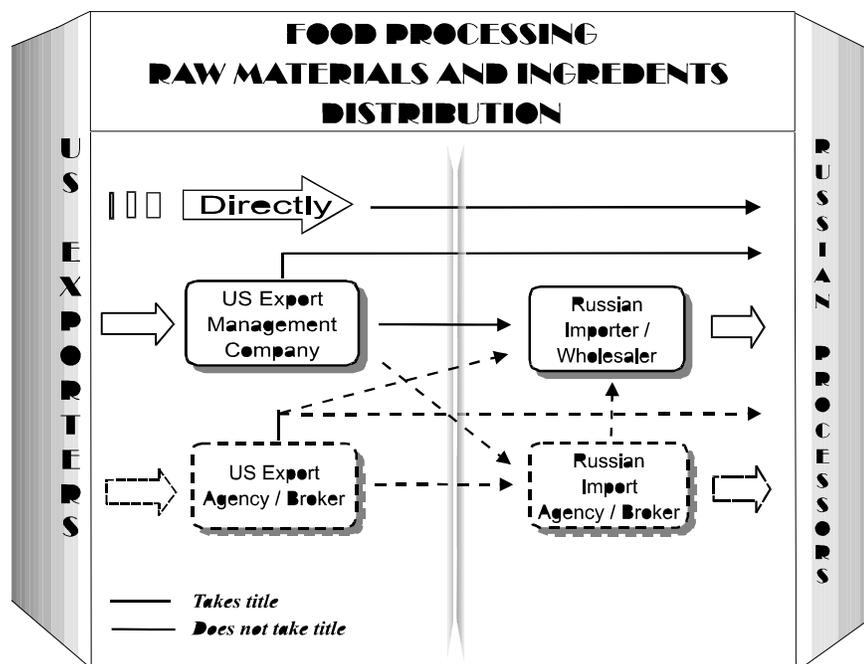
A. Entry Strategy

There is no one best entry strategy. However, if you decide you want to make Russia a key market then the best advice is to “get on the plane!” Despite the availability and increasing reliability of phone, fax and e-mail communication, dealing with Russian buyers is best done on a face-to-face basis.

One way to enter this market is to sell directly to the Russian processor or through a Russian importer/distributor, rather than through a U.S. intermediary or through a U.S. or Russian agent/broker. This requires more work on the U.S. exporter’s part but keeps you close to the market, allows you to deal with finance problems or quality claims quicker, and establishes a basis for a long term business relationship. However, choose your business partners carefully and only after a good deal of investigation of both the market and your potential partner. It could be that using a Russian-based U.S. intermediary is best for your products and export volume.

If significant business develops there is also the option of establishing a legal representative office in Russia, preferably in Moscow. An office in a respectable office building with an assistant, car and driver, including the salary and benefits of the representative, apartment, T&E expenses etc. would average \$150,000 - \$200,000 per year. Section 5 lists sources of information to identify potential business partners.

B. Market Structure



The biggest change since the August 1998 crisis is the consolidation taking place in the distribution system, with the stronger importer/distributors taking a bigger share of the market. There are no significant difference in distribution channels between imported and domestic product once the imported products cross the border. However, many processors are now working more closely with domestic producers, e.g., providing what financing they can, in order to secure processing inputs.

When the product leaves the processor it can take many paths to the final consumer. Most processors sell direct to retailers, as well as to wholesalers. Many processors, especially the larger ones, have or are developing their own retail store chains.

C. Company Profiles

Please note that in column three, "L" stands for the number of production location(s). Unless otherwise noted, all of these companies process only in Russia, they all purchase inputs directly and through importers, and they distribute their product both to the retail sector and the hotel, restaurant, institutional (HRI) sector. As almost all these companies are privately owned, in some cases sales and production figures are estimates.

Meats And Fish

Company Product Types	Est. Sales (Yr) and/or Est. Production (Yr)	L	Foreign Investor Country Investment Amount (if known)
Cherkizovsky Agroindustrial Complex Meat	\$500 million	16	
CampoMos Meat	50,000 tons (98)	1	Campofrio Spain
Samson Meat	21,336 tons (98)	1	
Ostankinsky Meat Processing Plant Dalemoreprodukt Fish	\$80 million (98) 230,000 tons	1	

Dairy Products

Company Product Types	Est. Sales (Yr) and/or Est. Production (Yr)	L	Foreign Investor Country Investment Amount (if known)
Wimm Bill Dann	\$800 million (98)	7	
Ostankinsky Dairy	119,114 tons (97)	1	
Ice-Fili	27,500 tons (98)	1	
Nestle-Zhukovskaya Ice Cream Plant	13,000 ton (98)	1	Nestle Switzerland

Prepared Fruit, Prepared Vegetables, Oilseed Products (i.e., sauces, oils and other frozen canned and dried products)

Company Product Types	Est. Sales (Yr) and/or Est. Production (Yr)	L	Foreign Investor Country
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			Investment Amount (if known)
Moscow Margarine Plant Margarine, Mayonnaise	80,000 tons	1	Unilever Anglo-Dutch
Nizhny Novgorod Oil and Fats Plant Margarine, Mayonnaise	55,160 tons (98)	1	
Moscow Fats Plant Margarine, Mayonnaise	52,000 tons (98)	1	
Irkutsk Fats Plant Margarine, Mayonnaise	21,621 tons (98)	1	

Confectionery Products

Company Product Types	Est. Sales (Yr) and/or Est. Production (Yr)	L	Foreign Investor Country Investment Amount (If known)
Babayevsky Confectionery Concern	130,000 tons (98)	5	
Krasny Oktyabr	83,300 tons (98)	8	Foreign corporate (39.9%)
Rossiia Confectionery Association	51,200 tons (98)	1	Nestle Switzerland
Mars	50,000 tons	1	Mars USA
Wrigley	7,000 tons	1	Wrigley USA
Dirol Chewing Gum Plant Stirol Chewing Gum Plant	10,000 tons combined	1	AO Dandy A/S, Danish Central & Eastern Investment Fund, Both Denmark. EBRD US\$50 million + DM175 million
Chupa Chups	180 million hard candies (98)	1	Spain

Baked Goods

Company Product Types	Est. Sales (Yr) and/or Est. Production (Yr)	L	Foreign Investor Country Investment Amount (If known)
Bolshevik	40,000 tons (97)	1	Danone (58%) France EBRD (19%)
Kraker	15,000 tons	1	

Beverages (including alcohol)

Company Product Types	Est. Sales (Yr) and/or Est. Production (Yr)	L	Foreign Investor Country Investment Amount (If known)
Coca-Cola		12	Coca-Cola USA/Turkey \$750 million
Pepsi Bottling Group		5	Pepsi USA

			\$500 million
Cristall Vodka & Liquor	43 million ltrs (98)	1	
Tulaspirit Vodka & Raw Spirits	32 million ltrs (98)	1	
Trading House of the Descendants of P. Smirnov Vodka	15 million ltrs (98)	1	
Baltica Beverage Holdings	\$203 million (97)	5	Hartwell Finland Pripps-Ringers Sweden-Norway
Sun-Interbrew	8 million hectoliters (proj.)	8	Sun Brewing India Interbrew Belgium The U.S. Russia Investment Fund \$15 million
Kaluga Brewing Company	\$20 million (proj.)	1	South African Brewing Company (SAB) South Africa
Knyaz Ryurik-Efes Brewery	125 million ltrs	1	Efes Turkey
Ochakovo Beer, Soft Drinks, Bottled Water, Low Alcohol Drinks, Wine & Vodka	\$169+ million (98)	1	
Wimm-Bill-Dann Juice	170 million ltrs (98)	3	

Dry Goods And Condiments (i.e., canned soup, dry mixes, pasta, pet food, seasonings)

Company	Est. Sales (Yr) and/or Product Types	Est. Production (Yr)	L	Foreign Investor Country Investment Amount (If known)
Ekstra-M Pasta (a)	33,800 tons (98)		1	
First St. Petersburg Macaroni Factory	13,700 tons (97)		1	
Mars Pet Foods	40,000 tons		1	Mars USA

Specialized Food Ingredients: (i.e. additives, preservatives, thickeners, sweeteners) A very fragmented subsector producing low quality products, primarily starch, on obsolete equipment. The one exception is Cargill's plant in the Tula Region which produces fructose corn syrup.

Prepared Meals: (mixed ingredient "ready-to-eat" or "ready-to-heat" retail and food service meals and entrees) Prepared meals are generally prepared by small industrial kitchens, with the exception of some traditional products such as frozen pelmini (cross between a ravioli and a dumpling) produced by the big meat plants.

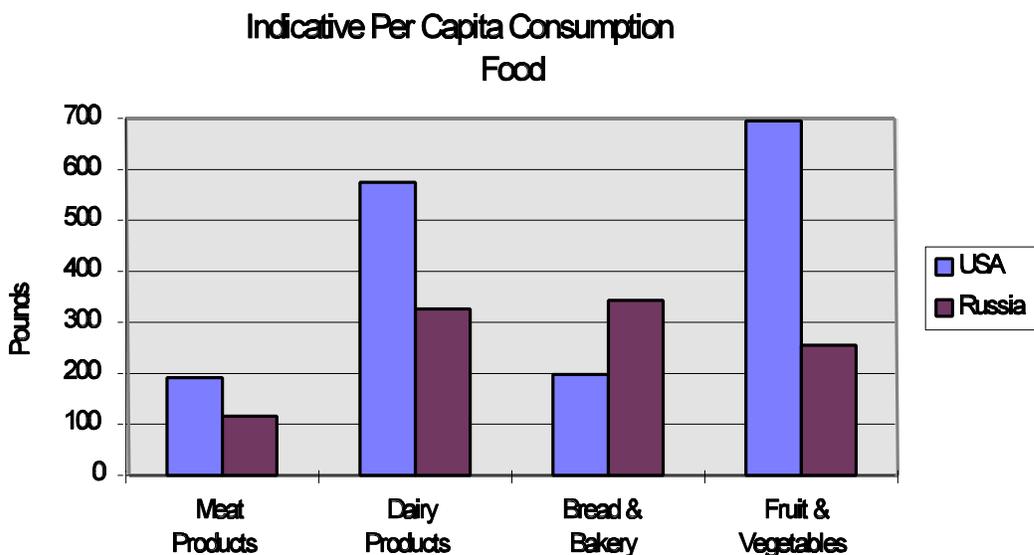
D. Sector Trends

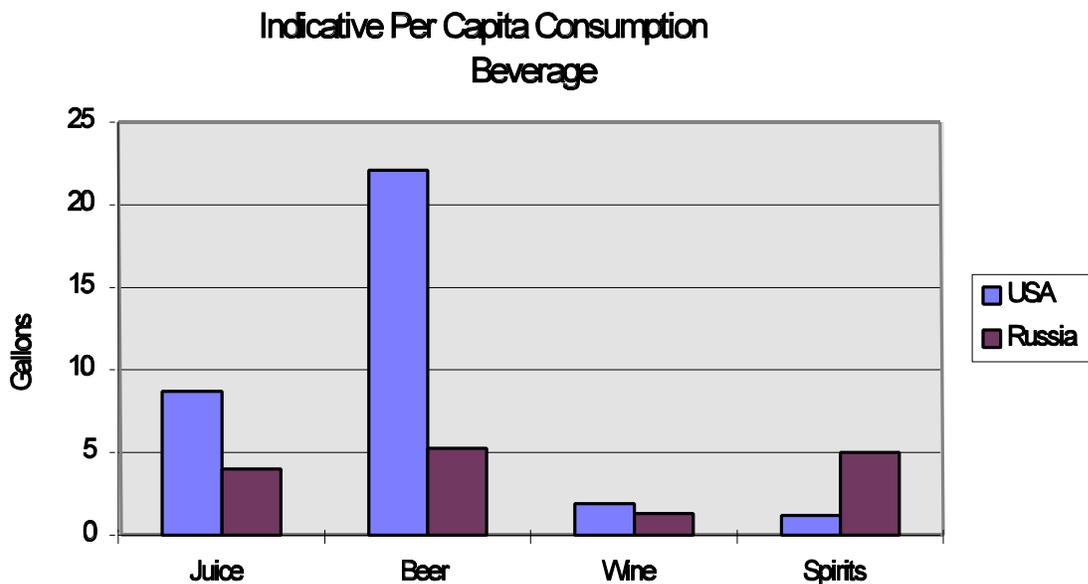
Processing Trends

- Increasing foreign direct investment as multinational food companies continue to move processing on-shore.
- Increasing consolidation among Russian food processors as the strong continue to acquire processing capacity and push production out of Moscow/St. Petersburg areas into the regions.
- Increasing vertical integration among Russian food processors--especially upstream as companies attempt to secure the quality and quantity of inputs they require.
- In the short to medium term, a continued reliance on imported inputs while at the same time mounting an aggressive push to develop domestic sources of inputs.
- A focus on providing low cost processed food items.
- Continued national brand building.
- Medium term development of time saving prepared meals marketed to working singles and couples.
- Increasing use of additives such as preservatives and stabilizers.
- Increasing use of the Internet for business-to-business transactions. Currently only trade offers are posted on the net on several sites. (See section 5)

Russia is not a major exporter of processed food products although this is changing. For example, Baltica Brewer now distributes Russian beer in England and is expanding distribution to France, Germany and the United States.

Consumption Trends





- Expect flat per capita consumption levels over the short term rising to developed country levels over the long term.
- The Russian consumer is very price sensitive and the vast majority buy raw materials to prepare meals at home.
- Those that can afford it, particularly the still emerging middle class, purchase products such as frozen pelmini.
- Russians are also very concerned with food safety and believe that Russian products are purer and contain less additives than foreign products contain.
- There is also a growing awareness of genetically modified products. In 2000, all products containing genetically modified ingredients be so marked.
- Russians have returned to Russian recipes. They demand familiar tasting products; the tastes that they grew up with.

While there is a small market for products such as diet powders or foods for diabetics, the demand for low-fat, sugar free products is not a significant trend at this time. However, products that can advertise themselves as organic would have a significant advantage over other products unless there is a price disadvantage.

SECTION III. COMPETITION

Pre-crisis, imported products accounted for 70 percent of the processed food available in the major cities and 40 percent in the regions. Post crisis, imported food is estimated to account for 40 percent in the major cities and 10-15 percent in the regions. The major comparative advantage of locally available food is price. As most Russians are used to preparing meals from raw materials, in the short term any advantage to be had by consumer-ready products in terms of convenience or quality are mute until the economic situation significantly improves.

As for the domestic processors themselves, the primary competitive advantage of imported inputs is availability. The Russian farming sector is in poor shape and a comeback is not foreseen anytime soon. Lack of mortgagable farm land, lack of farm credit, and lack of funding to purchase inputs or replace machinery have put Russian farmers in a very difficult position and has made it impossible for them to supply local processors with the inputs they need.

SECTION IV. BEST PRODUCT PROSPECTS

- Best product prospects for processing inputs include beef and pork. Due to insufficient feed, Russian cattle and pig weights are low. Farmers will slaughter the herds faster and in the short to medium term domestic meat production will be down. However, due to European Union subsidies expect margins to be thin.
- Ground poultry meat for use in sausage production.
- Sausage casings. Russia utilizes approximately 140 million meters of sausage casings per year versus domestic production of approximately 30 million meters.
- Milk powder and egg powder. The poor feed situation has also reduced fluid milk and fresh egg production. This, plus insufficient domestic drying capacity makes this sector attractive.
- Grape Must (juice for wine). Deteriorating vineyards from 200,000 hectares in 1985 to 72,300 hectares in 1999 has left Russia with insufficient supplies of raw material for wine production. Russia currently imports from France, Italy and Spain.
- Hops. There is only one region in Russia producing commercial quantities of hops, insufficient to supply the rapidly growing brewery subsector.
- Soy Concentrates. Decreasing Russian production, small and obsolete processing sector. Increasing demand by meat sector as domestic meat production falls and imported meat prices rise.
- Gluten powder. Rising domestic pasta production. Falling wheat quality.
- Lecithin

SECTION V. POST CONTACT AND FURTHER INFORMATION

The new-to-market exporter should use the following key resources to further study the market and to identify potential partners:

- The ATO office at the US Embassy. (Contact information is included at the end of this report)
- The Russian- American Chamber of Commerce in Moscow. USA Tel: (303) 745-0757, Fax: (303) 745-0776, Email: russia@rmi.net, Internet: <http://www.rmi.net/racc>

Of the many industry trade shows held in Russia each year these two are the best:

- Prodexpo-2000. Held annually in Moscow. Next show: February, 2001.
- World Food-2000. Held annually in Moscow. Next show: September 18-22, 2000.

Contact Expocenter: Russia Tel: +7 (095) 255-3733, Fax: +7 (095) 205-60-55, E-mail: centr@expocentr.ru, Internet: <http://www.expocentr.ru>.

Key trade news sources and journals:

- *Interfax Food and Agriculture Report* (Weekly, In English or in Russian): Interfax-America, Inc.: U.S.A. Tel: (303) 825-1510, Fax (303) 825-1513, Email: america@interfax-news.com,

Internet:<http://www.interfax-news.com>.

- *Vitrina* (Bimonthly, in Russian): Russia Tel: +7 (095) 232-3200, Fax: +7 (095) 150-3462
- *You and Your Store* (Monthly, in Russian): Russia Tel: +7 (095) 933-4078, Email: elena.romanova@william-reed.co.uk
- *Russian Food World* (Quarterly, in Russian with English Summaries): Russia Tel/Fax: +7 (812) 252-7785, Email: info@foodmarket.spb.ru
- The following trade journals are available only in Russian: *Food Processing Industry* (monthly); *Food Ingredients* (biannually); *Beer and Beverages* (quarterly); *Baking in Russia* (bimonthly); *Fat and Oil Processing Industry* (quarterly) and *Food, Taste and Aroma* (quarterly). Russia Tel: +7 (095) 207-1770, Fax: +7 (095) 207-2861, Email: foodprom@ropnet.ru

Internet

- www.aris.ru - official site of the Ministry of Agriculture and Food of the Russian Federation
- www.fadr.msu.ru - Foundation of Agrarian Development and Research
- www.agrorus.ru - collection of links

If you have any questions or comments regarding this report or need assistance exporting to Russia, please contact the U.S. Agricultural Trade Office in Moscow at the following address:

Embassy of the United States
Novinsky Bulvar, 19/23
121099, Moscow Russia
Tel: (7-095) 728-5560

(We are in the midst of changing over to a new phone system. Our new fax number is not available at this time. Please check our Web Site - www.agmoscow.post.ru - for updated numbers after May 9, 2000)

Please contact our home page for more information on exporting U.S. products to Russia, including “The Exporter Guide”, “The HRI Food Service Sector Report”, The Retail Food Sector Report.” Importer lists are available from our offices to exporters of U.S. Food Products.

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: <http://www.fas.usda.gov>.