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## **Estonia**

## **Retail Food Sector**

## **Report**

## **2002**

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### **Report Highlights:**

**The fast developing consolidation of retail outlets and establishment of new large supermarkets and hypermarkets by large Nordic chains offers opportunities for exporters who can successfully connect with them. The Estonian food market holds considerable potential for a wide range of competitively priced packaged goods targeted at high/middle income groups.**

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## TABLE OF CONTENTS

|   |               |
|---|---------------|
| SECTION I. MARKET SUMMARY .....                       | Page 1 of 12  |
| Advantages and Challenges Facing U.S. Products .....  | Page 2 of 12  |
| SECTION II. ROAD MAP FOR MARKET ENTRY .....           | Page 3 of 12  |
| Consumer Profile .....                                | Page 3 of 12  |
| Entry Strategy .....                                  | Page 3 of 12  |
| Distribution .....                                    | Page 4 of 12  |
| Import and Inspection Procedures .....                | Page 4 of 12  |
| A. Supermarkets and Hypermarkets .....                | Page 5 of 12  |
| Company profiles .....                                | Page 7 of 12  |
| B. Independent Groceries, Convenience Stores .....    | Page 8 of 12  |
| C. Gas Marts, Kiosks, and Markets .....               | Page 8 of 12  |
| SECTION III. COMPETITION .....                        | Page 9 of 12  |
| SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS .....   | Page 10 of 12 |
| SECTION V. KEY CONTACTS AND FURTHER INFORMATION ..... | Page 10 of 12 |
| TABLE. KEY TRADE & DEMOGRAPHIC INFORMATION .....      | Page 12 of 12 |

## SECTION I. MARKET SUMMARY

The year 2000 was a good year for Estonian trade. The consolidation of retail chains and entrance of Scandinavian/European retailers increased competition and contributed to the fast growth of the retail sales of processed food products in an increasing number of new malls and shopping centers. Estonia's proximity to the Nordic countries has played a role in this development. Four Finnish companies are present at the Estonian market- Kesko, Rautakirja, S-group and Stockmann. In addition, Swedish ICA Baltic, Norwegian Baltic Food and Lithuanian VP-Market have established themselves in the country. Given the relatively small consumer base in individual Baltic countries, the emergence of pan-Baltic food retailers, with centralized distribution centers will help to achieve the economies of scale needed to make imports viable.

In 2000, Estonia's domestic retail sector trade amounted to US\$ 530 million, of which food products accounted for 76 percent. The remaining 24 percent consisted of alcoholic beverages and tobacco products. The growth of retail trade is forecast to be 7.8 percent in 2001. Imported foods added much to the variety of products on the market and accounted for nearly 35 percent of the value. Consumption patterns and demand for imported food products are being positively affected by the increased consumer purchasing power, an increase in the expatriate community, and the growth of tourism. In 2000, the 3.3 million tourists visiting Estonia generated revenues of roughly \$652 million.

Supermarkets have experienced growth, especially in the suburbs, at the expense of small shops and open-air markets, and the concentration of retail chains is evident. Opportunities exist for new-to-market products -- particularly for products marketed through the developing retail chains. In 2000, there were 2,664 retail food stores, including 88 supermarkets, 755 kiosks and 112 convenience stores. There were 38 retail food chains, of which the majority used their own wholesale system.

### Value of retail food sales by sub-sector, 2000

| Sub-sector                            | Food Sales (\$US Mil) |
|---------------------------------------|-----------------------|
| Supermarkets/Hypermarkets             | 254                   |
| Convenience Stores/Gas Marts/ Kiosks  | 170                   |
| Outdoor markets/Independent Groceries | 106                   |
| Total                                 | 530                   |

In 2000, Estonia was among the fastest growing economies in Europe. The Estonian economy experienced a 6.4 percent growth rate, which was supported mainly by external demand and the related growth in investments and household spending. The prices of goods and services in 2000 rose on average by 4 percent, indicating the recovery of domestic demand. However, the population has been on a declining trend due to lowered birth rates and migration of young non-Estonians. In mid 2000, the population of Estonia was 1.38 million people, which represents a decrease of almost 8 percent over the past decade. Incomes stabilized in the 90's and have continued to be able to meet

more of consumers' basic needs. However, Estonia's rapid economic reform has led to a distribution of income, which is skewed towards urban areas. Of the 700,000 people comprising the workforce, the official unemployment rate reached 13.7 percent.

Estonia is quickly moving towards EU membership and is implementing many of the EU's food safety, veterinary and phytosanitary standards. This has, in some instances, led to impediments of U.S. trade, for example, sales of beef and pork. Support for healthy trade and expanded investment has come from Estonia's WTO accession in late 1999, and in anticipation of Estonia's accession to the European Union (EU).

### **Advantages and Challenges Facing U.S. Products**

| <b>Advantages</b>   | <b>Challenges</b>  |
|---|--|
| <b>U.S. products are considered safe and of good quality. The general image of U.S. products is positive.</b>             | <b>Long-established consumer preference for domestic fresh products with no additives.</b>   |
| <b>The retail sector is looking for highly processed food imports. Purchasing power of the population is on the rise.</b> | <b>Strong competition on the local market between domestic producers and increasing imports from EU and Baltic FTA partners. High distribution and shipping costs.</b> |
| <b>Estonia joined the WTO in December 1999.</b>   | <b>Based on the newly effected import tariff schedule, U.S. exports are disadvantaged vis-a-vis products from European Union and FTA countries.</b>                    |
| <b>The country is viewed as a gateway to larger markets in Northwestern Russia, Ukraine and Belarus.</b>                  | <b>Estonia is a comparatively small target market for US products.</b>   |

## **SECTION II. ROAD MAP FOR MARKET ENTRY**

### Consumer Profile

Consumer preferences differ significantly among various income, age and ethnic groups. Preferences for new products are strong among the younger population, but a significant number of consumers remain at "the tasting level." About 30 percent of the population lives in rural areas, where income levels are generally lower. While economic growth has been strong in Estonia, there remains a significant segment of the population, including pensioners, whose income levels do not permit much variety in food purchases.

Estonians spend approximately 13 percent of their total food dollar on eating out. Prepared home meals are preferred to out-of-home dining in nearly half of the families. Women account for 48 percent of the workforce and contribute to the increased demand for meals consumed away from home. With a large proportion of two-income families, most Estonian customers prefer meals that are quick to prepare. Therefore, prepared, frozen and convenience food should be a key focus of US exporters. However, it should be noted that microwaves, refrigerators, and freezers have much more limited capacity than in the U.S. and Western Europe.

Consumer concern about the presence of GMO ingredients does exist and there is a growing interest in organic foods. According to surveys, about 80 percent of consumers prefer domestic food products that are fresh, are free from additives, are familiar in taste, and are low in price.

### Entry Strategy

As a result of the fast-developing consolidation process, perhaps the most effective strategy for U.S. exporters would be to connect with parent companies (mainly in Finland, Sweden and Norway) of the food retail chains that are expanding their outlets in the Baltics. These chains already have a degree of familiarity with U.S. products.

The market entry strategy for U.S. food products should include:

- 1) Market research in order to assess product opportunities.
- 2) Advanced calculation of the landed cost of a product in order to make price comparisons vis-a-vis competitors.
- 3) Locating an experienced distributor or independent reliable agent with strategic distribution channels to advise on import duties, sanitary and phytosanitary regulations, and labeling requirements. Personal contact should be initiated in order to discuss advertising, slotting allowance, in-store promotions and tasting events, and trade fair participation to raise product awareness.
- 4) Explore purchasing arrangements of the larger retail chains.

U.S. products traditionally have lower customer awareness due to fewer promotional activities than those of the domestic and European competitors. For many product categories, new market entrants will have to be aggressive to compete with the more established European suppliers, as their commercial relationships have been built over the past decade.

Several constraints have contributed to the small market presence of U.S. food:

- Trade terms from U.S. companies tend to require advance payment of up to two months.
- An aversion to the assumption of exchange rate risks.
- Minimum quantities offered have often been too large for the small Estonian market (e.g. full container shipments).
- A perception that persists among Estonian importers is that landed costs of U.S. products will be higher compared to European products due to higher transportation cost.
- A perception that U.S. exporters are simply too far away to service the Estonian market.

Supplier choice may depend on the retail or wholesale company's ownership, because part of the stock may belong to foreign investors who may influence decisions based on considerations other than quality or price.

### Distribution

Cash and carry operations are common, although distributors are moving toward direct deliveries with their own sales force and delivery trucks to service retail grocery stores and chains. This type of distributor provides up to seven days credit terms, which is popular among buyers. Small and medium-size companies mainly make their purchases through importers and wholesalers who have a direct relationship with foreign suppliers. Few wholesalers undertake nation-wide distribution, and almost none carries a complete range of products. As noted previously, however, the large, new grocery chains are developing their own distribution centers.

### Import and Inspection Procedures

In preparation for eventual EU accession, Estonia has been revising its sanitary, phytosanitary and food safety legislation to conform with those of the EU. Some of these changes have blocked once-existing U.S. trade (e.g., pork and beef). The Estonian Food Law was implemented in January 2000. It is based on EU directives, and regulates the production, trade and distribution of food products, as well as health issues, consumer protection and food control.

In 1998, Estonia introduced a licensing system for importers of food products and raw foodstuffs with the objective of ensuring the proper handling of food products and to address consumer concerns regarding the safety of imported foods.

If an imported products falls into a category which requires a special permit (as specified under Regulation No. 47 of the Ministry of Agriculture dated June, 2000), the importer must file an application/request for a special permit with the Veterinary and Food Board, providing the licence number, a recognition number for the manufacturer (if required), the planned import quantity, the planned arrival time and point of border entry, product preservation conditions and the purpose for importing the goods. The importer should be contacted for specific details.

Conformity assurances for products originating in EU member states, Baltic countries, and EFTA countries, are automatically recognized by Estonian Conformity Assessment Center, while those issued

by authorities in other countries are only recognized after a procedure of product testing and approval. However, the Conformity Assessment Center recognizes the conformity assurances issued for American food products approved for marketing in EU member countries.

The following required information should appear on labels of transport packaging and on accompanying documents (for packaged foodstuffs at the handling stage prior to sale at retail):

- name of the product, product expiration date and name, address and seal of the manufacturer or packager.

Retail-size food packages require labeling in the Estonian language stating the product name, manufacturer, origin, ingredients and additives, net weight, importer name and contact information, instructions for use, storage directions and the expiration date. Consult with the importer regarding packaging and labeling requirements.

Customs authorities require the following documentation: a copy of the contract, an invoice, a bill of lading, indication of the amount, weight and value of the goods and the original certificate of origin, producer's declaration, and a quality certificate. The 18 percent value added tax (VAT), the import duty, and excise and packaging taxes are collected by customs authorities upon clearance of the imported goods at the border unless the cargo is forwarded to a bonded warehouse. A state fee of 200 Estonian Kroons (about US\$ 12) per customs declaration must be paid for the customs clearance. Transit through Estonia is free of duty, excise tax, VAT and state fees. The importer should be consulted in advance for current information on all regulations and requirements for imported products.

The Estonian legal system have both trademark protection and licensing provisions. Franchising is increasingly being used for business expansion in Estonia.

### **A. Supermarkets and Hypermarkets**

The year 2000 was a favorable year for trade. Increased income of the population brought about growth of private consumption and raised demand for processed food products. In 2000, supermarkets and hypermarkets led food retail sector sales with a 45 percent share, accounting for a US\$ 254 million. Continued rapid growth is forecast for this sector. Nordic retail chains entered the Estonian retail market in the mid nineties and contributed to the consolidation of retail outlets. Supermarkets and hypermarkets have become more influential, at the expense of small shops and markets, and the concentration of supermarkets into chain networks is evident. Several large-self service shopping centers with supermarkets have emerged in the suburbs of Tallinn.

### Profiles of the Largest Chains

**ETK** (the Estonian Central Association of Consumer Societies) owns the Konsum supermarket chain of 4 outlets, the Edu grocery chain of 5 shops, and the A&O discounter chain which consists of 13 grocery stores located in rural areas. In addition, ETK runs about 450 smaller mom-and-pop style food stores throughout Estonia. In addition, ETK has entered into partnership with Finnish SOK and German Schleswig-Holstein

**Kesko**, the leading retail chain in Finland, has moved aggressively into Estonia. After its acquisition of the Estonian chain Säästumarket (Saving Market, or S-market) in 2001, the company has recently built its own distribution center in Tallinn. Presently, there are two SuperNetto stores operating in Tallinn, and one was recently opened in Tartu. Kesko plans to expand its chain of Säästumarkets, as well as start building the larger Citymarket stores. One Citymarket recently opened in Pärnu and another is scheduled to be opened in Tallinn in November, 2002. Kesko is aiming at a 20-25 percent market share of the total Baltic grocery market.

**SELVER** is a domestic chain of 5 shopping centers, owned by Estonian company Tallinna Kaubamaja. The company is planning to open two new SELVER outlets every year.

### **Prisma Supermarkets**

The Rocca al Mare Prisma supermarket and the Sikupilli Prisma hypermarket started to operate under Finnish Prisma trademark as of the fall of 2001, following the cooperation agreement signed between ETK (the Estonian Central Association of Consumer Societies) and Foodbaltic OY, a retail trade development firm, half owned by the German Consumer Society Coop, Schleswig-Holstein and the Finnish Consumer's Central Union, SOK (Suomen Osuuskaupan Keskuskunta). The Sikupilli Prisma hypermarket with a 10,000 square meter sales area, is considered the largest hypermarket in the Baltic States.

**ICA Baltic**, the Swedish company with joint Norwegian and Dutch ownership (ICA-Ahold), currently has only two Rimi supermarket stores in Estonia. However, during the first half of 2002, four new Rimi stores are scheduled to be opened.

**Baltic Food** operated a chain of 35 SPAR stores in 2000. The company is now largely owned by Norwegian interests. Norway's Rema has pulled out of ownership and Sweden's Axfood is following suit. The future of this once popular chain is uncertain at the moment.

**Stockmann**, a Finnish company, runs a large department store located in an attractive area of Estonian capital of Tallinn. The supermarket carries a wide selection of imported food items. Stockmann is popular among middle and high income buyers and tourists.



## Company profiles

| RetailerName,<br>Market Type    | O w n e r ,<br>country                                  | 2000 Sales<br>(\$US Mil) | Number<br>of Outlets | Location                       | Purchasing  |
|---------------------------------|---|--------------------------|----------------------|--------------------------------|---|
| Säästumarket,<br>Discount chain | Kesko,<br>Finland                                       | 40                       | 33                   | Tallinn,Pärnu,<br>Kohtla-Jarve | Direct<br>Imports, own<br>distribution,<br>wholesalers,<br>processors,<br>farms           |
| Supernetto,<br>Supermarkets     |   |                          | 2                    | Tallinn                        |   |
| Citymarket,<br>Hypermarket      |   | Just opened              | 1                    | Pärnu                          |   |
| Spar                            | Baltic Food,<br>Norway                                  | 35                       | 35                   | Tallinn, other towns           | Local<br>suppliers/<br>wholesalers  |
| R-Kiosk                         | Rautakirja,<br>Finland                                  | 20                       | 200                  | Towns, rural centers           | Direct imports,<br>wholesalers,<br>processors   |
| Stockmann                       | Stockmann,<br>Finland                                   | 25                       | 1                    | Tallinn                        | Direct imports,<br>own<br>distribution<br>center,<br>wholesalers,<br>processors,<br>farms |
| Selver                          | T a l l i n n<br>Kaubamaja,<br>Estonia                  | 25                       | 5                    | Tallinn                        | Direct imports,<br>wholesalers,<br>processors,<br>farms                                   |
| Rimi                            | ICA Baltic,<br>Sweden/<br>Norway/<br>The<br>Netherlands | N/A                      | 2                    | Tallinn                        | Direct imports,<br>own<br>distribution<br>center,<br>wholesalers,<br>processors,<br>farms |

|                                |   |           |           |                                 |  |
|--------------------------------|---|-----------|-----------|---------------------------------|--|
| <b>Edu</b>                     | <b>ETK,<br/>Estonia/<br/>SOK,<br/>Finland/<br/>Schleswig-<br/>Holstein,<br/>Germany</b> | <b>65</b> | <b>5</b>  | <b>Towns, rural<br/>centers</b> | <b>Direct imports,<br/>own<br/>distribution<br/>center,<br/>wholesalers,<br/>processors,<br/>farms</b> |
| <b>Konsum</b>                  |   |           | <b>4</b>  | <b>Towns, rural<br/>centers</b> |  |
| <b>A&amp;O</b>                 |   |           | <b>13</b> | <b>Towns, rural<br/>centers</b> |  |
| <b>Maksimarket</b>             |   |           | <b>1</b>  | <b>Tallinn</b>                  |  |
| <b>Prisma,<br/>Hypermarket</b> |   |           | <b>1</b>  | <b>Tallinn</b>                  |  |

### **B. Independent Groceries, Convenience Stores**

Traditional independent grocery stores are predominately located in smaller towns throughout the countryside. Competition between the small groceries is intense, and the emergence of niche stores is evident. Some independent stores are being converted to convenience stores or bought out by developing chains. However, it is still difficult to distinguish an independent grocery store from a convenience store. These stores are popular with customers and offer rather large selections of domestic and imported food products. The largest sales are reported by chain stores. This store sector offers opportunity for U.S. food products. Imported products are usually procured through wholesalers.

### **C. Gas Marts, Kiosks, and Wet Markets**

With the rapid development of supermarkets with easy parking and increased product varieties, the popularity of gas marts has decreased in Estonia. Kiosks, which were very popular in early 90's, now account for the lowest market share of the retail food sector. Eventhough the recent entry of foreign investment has pushed the upgrade and consolidation of kiosks. Finnish Rautakirja is a major foreign player in this sector. Today the company has about 200 kiosks (R-kiosk) which sell food products.

There are a number of traditional wet markets in the Tallinn metropolitan area as well as in regional cities. Most belong to municipalities. In general, they offer a wide range of products at prices which are attractive to low-income customers. Processed and fresh vegetables and fruits, confectionaries, bread products, dairy products, fish, meat and poultry are sold at kiosk-type outlets in traditional markets. During the summer, almost all segments of the population prefer shopping at open air markets for fresh domestic produce delivered by farmers. However, recent studies by the Estonian Market Research Institute (EMOR) showed a drop in the popularity of traditional wet markets. The open-air market share in food sales has been reduced to 20 percent. Customers are increasingly shopping at grocery stores and

supermarkets where heightened competition has either lowered prices or kept them down. The wet market sector offers very limited opportunities for imported food products from the U.S.

### SECTION III. COMPETITION

Until the end of 1999, no Estonian import duties were applied. However, as of January 1, 2000, the Estonian Parliament enacted a Custom Tariffs Law which imposed MFN rates on imported food products from countries which have not entered free trade agreements with Estonia.

The import tariff schedule puts some U.S. product categories at a disadvantage as tariffs for European Union countries and partners of FTA's are set at zero, while US imports face MFN rates. Given the current trade flows, these MFN custom tariffs presently apply to about 15 percent of all agricultural and food imports. The highest MFN duty rates include 25-33 percent for pork, 48 percent for certain types of poultry meat, 39 percent for sausages, 10 percent for chicken legs and wings, 59 percent for rye and 40-45 percent for barley and oats. Import tariff rates can be found at [www.vm.ee/eng/Tollitariifiseadus.htm](http://www.vm.ee/eng/Tollitariifiseadus.htm)

Estonia is a net importer of food, and in 2000, consumer-oriented agricultural imports worth US\$ 282 million surpassed exports valued US\$ 185 million. The largest import categories were beverages, meat products, fresh and canned fruits and vegetables, coffee and tea. The U.S. was the leading supplier of poultry with a 65 percent market share (12 thous. MT). Other major imports of U.S. products included fish, dried fruits, nuts, vegetable preserves and wines. For a number of basic food products, domestic production meets between 70-90 percent of demand. The table below contains the consumption data for certain basic food products.

#### Estonian food market value, 2000

| Product Groups             | US\$ Million |
|----------------------------|--------------|
| Red meat and poultry       | 160          |
| Bakery                     | 93           |
| Fats /Oils                 | 38           |
| Soft drinks                | 41           |
| Fruits/Berries             | 32           |
| Tobacco                    | 24           |
| Spices and condiments      | 12           |
| Vegetables                 | 82           |
| Alcohol Beverages          | 29           |
| Sugar                      | 19           |
| Jams, confectionary, honey | 33           |
| Fish                       | 32           |
| Total                      | 798          |

**SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS**

There are opportunities for dry, chilled, and frozen processed products. Rather unfamiliar to consumers are low fat, low salt, sugar free, and cholesterol free products. We recommend: candies, marshmallows, snack foods, pasta preparations, muffins, baking chocolate/chips, barbeque foods/sauces, fresh fruits, vegetables, seafood, wine, graham crackers.

**SECTION V. KEY CONTACTS AND FURTHER INFORMATION**

State Veterinary and Food Board  
Vaike Paala 3  
Tallinn 11415  
ESTONIA  
T: 372 638 0079  
F: 372 6211441  
[vet@vet.agri.ee](mailto:vet@vet.agri.ee)

Plant Products Inspectorate  
Teaduse 2  
Saku Harjumaa  
EE3400  
T: 372 671 2613  
F: 372 671 2604

Chamber of Agriculture and Commerce  
Vilmsi 53b  
10147 Tallinn  
Estonia  
T: 372 600 9349  
F: 372 600 9350  
[www.epkk.ee](http://www.epkk.ee)

Estonian Enterprise Register  
T: 372 6113841  
F: 372 6460165  
[www.eer.ee](http://www.eer.ee)

Estonian Chamber of Commerce and Industry  
Toom-Kooli 17  
T: 372 646 0244  
F: 372 646 0245

Estonian Investment Agency  
Roosikrantsi Street 11  
T: 372 627 94 00  
F: 372 627 9427  
[www.eia.ee](http://www.eia.ee)

Estonian Institute of Economic Research  
Ravala 6  
19080 Tallinn  
T: 372 646 6439  
F: 372 645 4450  
[www.ki.ee](http://www.ki.ee)

To include your product offers into the Baltics regional "virtual trade fair", visit:  
<http://www.food-fair.com>.

For general questions about import, please contact:

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U.S. Embassy Riga  
Raina Blvd. 7  
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**Formore information on exporting U.S. agricultural products, please visit the Foreign Agricultural Service home page: [www.fas.usda.gov](http://www.fas.usda.gov) and the FAS/Stockholm regional office at [www.usemb.se/agriculture](http://www.usemb.se/agriculture)**

**KEY TRADE & DEMOGRAPHIC INFORMATION**

|   |                 |
|---|-----------------|
| <b>Agricultural Imports From All Countries (\$Mil)<br/>/U.S. Market Share ( percent)*</b>   | <b>37003</b>    |
| <b>Consumer Food Imports From All Countries (\$Mil)<br/>/U.S. Market Share ( percent)*</b>  | <b>37067</b>    |
| <b>Edible Fishery Imports From All Countries (\$Mil)<br/>/U.S. Market Share ( percent)*</b> | <b>36979</b>    |
| <b>Total Population (Million)/Annual Growth Rate (percent)</b>                              | <b>1.4/-0.8</b> |
| <b>Urban Population (Million)/Annual Growth Rate (percent)</b>                              | <b>0.9/-0.8</b> |
| <b>Number of Major Metropolitan Areas</b>   | <b>1</b>        |
| <b>Size of the Middle Class (Million)/Growth Rate (percent)</b>                             | <b>0.6/N/A</b>  |
| <b>Per Capita Gross Domestic Product (U.S. Dollars)</b>                                     | <b>3,705</b>    |
| <b>Unemployment Rate ( percent)</b>   | <b>13.7</b>     |
| <b>Per Capita Food Expenditures (U.S. Dollars)/ year</b>                                    | <b>546</b>      |
| <b>Percent of Female Population Employed</b>  | <b>48</b>       |
| <b>Average Exchange Rate US\$1</b>  | <b>17EEK</b>    |

\*/ Data from United Nations database