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Latvia

Retail Food Sector

Report

2002

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Report Highlights:
Successful economic development continued in 2001, as GDP surged 7.6 percent, the greatest growth among the Baltic countries. With consumer purchasing power on the rise and growing tourism, prospects for increased demand for high-value food imports are viewed as favorable. The rapid expansion of large Nordic/European retail chains into Latvia offer new opportunities for exporters who can successfully connect with them. Latvia hopes to finalize EU accession negotiations by the end of this year and join the European Union in 2004. Major current constraints to exports of U.S. products include the unfamiliarity of consumers with U.S. grocery products and tariff disadvantages vis-a-vis European suppliers and Latvia's partners of Free Trade Agreements.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report

TABLE OF CONTENTS

SECTION I. MARKET SUMMARY

Advantages and Challenges Facing U.S. Products

Advantages	Challenges
The general image of U.S. products is positive. They are considered to be safe and of good quality. Businesses are receptive to U.S. companies.	Low awareness of U.S. retail food products and few U.S. products on the supermarket shelves.
The restructuring of the retail sector is introducing larger volume purchases and demand for a wider variety of products.	Long-established consumer preference for domestic fresh products without additives and preservatives. Current veterinary certificate requirements impede imports of red meats.
Latvia joined the WTO in 1999, improving market access.	U.S. products face MFN duty rates compared to preferential tariffs and zero rates for exports from the EU and FTA partners
Increased purchasing power is creating consumer demand for greater diversity and convenience of food products.	Consumer demand remains very price sensitive.

Entry Strategy

Market entry strategies for U.S. food products should include:

1) Market research in order to assess product opportunities.
2) Advance 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 regulations, and labeling requirements. It is advisable to initiate personal contact in order to discuss marketing matters such as funding for advertising, slotting allowance, in-store promotions and tasting events. Suppliers may also want to consider trade fair participation to raise awareness of their products.
4) Explore the purchasing arrangements of the larger retail chains.
5) Explore the use of USDA's export credit programs such as the Supplier Credit Guarantee program to make credit terms more attractive to importers.

U.S. products traditionally have lower customer awareness in Latvia. Several constraints have contributed to the small market presence of U.S. foods:

– Trade terms for 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 Latvian market.
– A perception that persists among Latvian importers that landed costs of U.S. products will be higher compared to European products due to higher transportation costs.
– A perception that U.S. exporters are simply too far away to service the Latvian market.
– Only a few Latvian importers and buyers have been exposed to U.S. processed food products.

Distributors and processors provide direct deliveries with their own sales force and delivery trucks to service retail grocery stores and chains. This type of distributor provides credit terms of up to seven days. Small and medium-size companies mainly make their purchases through importers and wholesalers who have a direct relationship with foreign suppliers. Larger chains use their own distribution centers. Cash and carry operations are common too. Few wholesalers undertake nation-wide distribution, and almost none carries a complete range of products. In some instances, the choice of suppliers depends on a trading company's ownership, as part of the company's stock may belong to foreign investors who base their decisions on financial ties rather than on quality or price. As a result of the fast-developing consolidation of Latvia’s food market, perhaps the most effective strategy for U.S. exporters would be to connect with parent companies of the European food retail chains and processors (mainly Finnish, Swedish and Norwegian) that are expanding their outlets in the Baltics. These companies already have a degree of familiarity with U.S. products.

Customs authorities require the following documentation for imported products: 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 or quality certificates to assure safety to human health, and veterinary or phytosanitary certificates as appropriate. All applicable duties and taxes are collected by Customs authorities upon clearance of imported goods at the border, unless the cargo is forwarded to a bonded warehouse.

Latvian food control institutions include: the Veterinary and Food Service; Food Quality Inspection; Plant Products Inspection; and Sanitary Border Inspection. Compliance with EU veterinary and phytosanitary requirements are among the prerequisites for Latvia’s accession to the EU.

Labeling in the Latvian language which includes product name, the name of the manufacturer, the origin, a listing of ingredients, additives, net quantity, name and contact information for the importer, instructions of use, storage directions and expiration dates is required.

As of July, 2001, special labeling is required for food products and ingredients produced of or derived from genetically modified organizms (GMOs). A one percent threshold is permitted for accidental contamination. As of January, 2003, special permits will be required for distributing novel foods. With regard to bioengineered ingredients, Latvia will follow EU regulations and certification requirements. The importer should be consulted regarding packaging and labeling requirements, as Latvia has adopted EU regulations.

Imported food products are tested and approved by the Conformity Assessment Center. In Latvia, the following conformity assurances from the EU member states, Baltic FTA partners and EFTA countries are automatically recognized: testing and calibration reports, product certificates, and certificates of quality systems. Conformity of products from other countries is recognized by the Product Conformity Assessment Center (PCAC), through the following procedure:

1) The importer applies to the PCAC and presents product conformity documentation, certificates, producer's declaration, product samples, etc.;
2) PCAC evaluates the conformity of the product or processing technology, or process;
3) A certificate of conformity allowing for sales is issued by PCAC.

It is common that the importer or agent undertake product clearance and approval procedures. Those could be rather costly for US products - up to $300 per product or group of products.
PCAC recognizes conformity assurances issued for U.S. food products marketed in the EU member countries.

A. Supermarkets and Hypermarkets

The consolidation process of the retail market and the rapid inflow of Scandinavian/European retailers has increased the competition and contributed to the growth of the sector. In 2001, food sales by this subsector accounted for US$ 834,000, or 48 percent of total retail food sales in 2001. The growth for 2002 is estimated to be between 10-12 percent.

Since the Nordic investors entered the Latvian retail food market in the mid nineties, Swedish/Norwegian/Dutch ICA Ahold, with its daughter company ICA Baltic (Rimi chain), Lithuania's Vilnius Prekyba and Finland's Kesko have emerged as the leading newcomers. Each of these chains has opened stores in all 3 Baltic countries. By the end of 2002, two Finnish companies Stockman plc and Rautakirja Oyj built a multifunctional shopping center in the central part of the capital, and opened a new supermarket. The German "Sky" chain is also present in the market. In addition, Latvia may become the next target market for the German discount chain "Lidl". The largest Latvian owned chains are Mego, Nelda, Beta and Elvi. All of them plan to open new outlets and expand their market shares. Given the relatively small consumer base in the Baltic region as a whole (Latvia, Estonia and Lithuania have a combined populace of about 8 million), it is the emergence of Nordic/pan-Baltic retail chains with centralized purchasing and logistical operations which will bring the greatest economies and efficiencies to the Baltic markets.

Profiles of the Largest Chains

Rimi/Interpegro
In late 1999, the Swedish/Norwegian/Dutch ICA AHOLD, strengthened its presence in the Baltics by obtaining the Interpegro grocery chain and started to develop the Rimi supermarket chain, targeting the Latvian middle class buyer. ICA has a strong position in Latvia, where it is currently operating 34 Rimi outlets and holds a 15 percent market share. The majority of the stores are located in the Riga area. By 2004, the company expects to triple their sales in Latvia, to hold about 30 percent of the market, and to grow to about 75 stores. In November 2002, the second Maxi Rimi hypermarket was opened in Riga and the third hyper market is scheduled to open in December 2002. To handle the rapid

expansion, the company is currently building its own distribution center in Riga which is scheduled to be opened in 2003.

Vilnius Prekybos
The largest Lithuanian operator of supermarkets and trade centers Vilnius Prekybos entered Latvia in 2000, and quickly acquired a 15 percent share of the retail food market. VP operates 23 T-Markets, which are hard discount stores, and plans to grow to 86 stores. In October 2002, VP opened its second MAXIMA hypermarket. The company expects a US$ 78 million turnover for 2002.

Mego Chain
There are 32 stores in the Mego chain of supermarkets and smaller groceries. Some five or more stores are to be opened in the Riga metropolitan area in 2003, after which the company will move to the largest cities throughout Latvia, offering franchise in addition to their own operations. The Mego warehouse outlet was opened to service medium and small-size retailers and catering businesses. By opening the first 3 Mego Mini Markets, the Mego company has started a new store concept. The turnover of the Mego chain is expected to be US$ 66 million for 2002. At present, the company holds a 15 percent market share.

The *Nelda* grocery chain has grown significantly over the past five years, accounting for 5 percent of the retail sales. Nelda operates the stores that belong to the U.S. real estate company "A.P. of North America". Its business now includes 18 groceries, 13 fast food outlets, 4 bakeries and a meat processing line in the metropolitan area. The company announced the opening of its first store in Moscow in the fall of 2002.

Beta Grocery chain was founded in 1998. The company have developed rapidly outside of Riga, and in 2002 the number of shops reached 34. The expected turnover of US$ 32.6 million in 2002 will rank the *Beta* chain as the fifth largest food retailer on the Latvian market.

Kesko, a Finnish company, opened its first Citymarket in the outskirts of Riga, the capital of Latvia, in September 2001. In November 2002, the second store was opened. The plans are to add 5 Citymarkets and 20 discount stores under the Supernetto format throughout Latvia in 2003, the company is aiming at a 25 percent share of the Latvian retail food market. The Citymarket's products consist of 15,000 items which currently include a lot of fresh produce and a large assortment of wines. Kesko is presently purchasing locally, but may begin to use its distribution center in Estonia to offer more imported products in its Latvian stores when volumes increase.

SKY Supermarkets
There are two SKY supermarkets in Riga that were opened through a franchise agreement with the German company Schleswig-Holstein. Five more are expected to be opened over the next 3 years. SKY aims at the higher income level buyers of Riga and its nearest suburb, the resort town of Jurmala. The company's strategy is to attract customers through providing a wider selection. Some 50 percent of its assortment of products is supplied directly from Germany and the Netherlands.

Company profiles

Retailer Name, Market Type	Owner, country	2001 Turnover ($US Mil)	Number of Outlets (2002)	Location	Purchasing
RIMI chain of Supermarkets and Maxi Rimi Hypermarkets	ICA Baltic, Sweden, Norway, The Netherlands	104	34	Riga, Jurmala, Ventspils	Imports directly and through wholesalers
VP MARKET: T-Market chain and Maxi Markets	Lithuania	11	40	Riga, all country	Imports directly and through wholesalers
MEGO chain of supermarkets and Mego Maxi Hypermarkets	Latvia, Russia	28.8	32	Riga, other towns	Imports directly and through wholesalers
NELDA Chain of Groceries and Supermarkets	Latvian operator, U.S. real estate company	33.1	18	Riga (capital)	Imports directly and through wholesalers
BETA chain of groceries	Latvia	19.1	34	Riga, other towns	Imports directly and through wholesalers
Kesko: Citymarket chain and Supernetto discount stores	Kesko, Finland	3.7	1	Riga	Local suppliers/ wholesalers
SKY Supermarkets	Sky Baltija, Germany	14.8	2	Riga	Imports directly and through wholesalers

To emphasize convenience, supermarkets provide a variety of additional services to consumers such as deli-items, cafeterias, home-meal replacements and party trays. Increasingly, small businesses such as gift-, flower-, and currency exchange shops can be found in Latvian stores. Larger supermarkets offer dry-cleaning, shoe repair and cleaning, banking services, insurances, film developing, and video rental. Wholesale clubs have not yet appeared in the Latvian market.

B. Convenience stores, gas marts and kiosks

The total grocery product turnover of convenience stores, gas marts and kiosks is estimated to be about US$ 158 million divided 50/25/25 percent, respectively. The stores in this sector are operated by chains. Imported products are usually sourced by local wholesalers. This sector is expected to grow as a result of the general growth of the food market.

Recent market entrants with foreign capital are expected to push the development of kiosks and convenience stores through upgrading and consolidation. The leaders of this sector are Narvesen and Plus Punkt chains. Narvesen Baltija is jointly owned by Norwegian Reitan Narvesen and Finnish Rautakirja. The company currently runs 470 kiosks and about 20 convenience stores in Latvia. About 30 stores operate under franchise.

Convenience stores are increasingly popular and offer a large selection of imported food products. The largest sales by convenience stores belong to the Turiba Consumers Cooperative chain and the OKAY chain. They are situated in the metropolitan areas of the largest cities. Foreign companies/investors are increasing the total number of convenience stores by acquiring and upgrading the traditional independent stores through purchasing or franchising agreements.

On average, food retail generates up to 15 percent of total sales by gas stations. This sector has a stable demand from customers who are willing to pay an extra 10-15 percent for convenience, better service and high quality. The foreign-owned gas-mart chains in Latvia have a specialized supply system. Product choices, however, are limited. Norwegian Statoil led this sector in 2001 with a 30 percent market share. The attractiveness of shopping at the gas marts may decrease among buyers with the fast development of supermarkets and hypermarkets with easy parking and increased product varieties.

C. Independent Groceries and Wet Markets

Small, independent grocery stores are declining in number as the supermarket chain stores are emerging. However, this type of store will continue to operate in small towns and throughout the countryside, where almost one-third of the population resides. In general, these outlets attract low income customers with preferences for domestic products. Product lines differ greatly from location to location.

The retail food turnover was estimated US$ 276 million in 2001 for the independent groceries and wet markets subsector. The share of imported products in traditional groceries is small and declining. About 20 percent of all small grocery outlets belong to the Turiba Consumers Cooperative Association. Open-air markets mostly belong to municipalities and are considered as serious competitors to retail stores in suburbs, regional centers and small towns. Although supermarkets are considered to be the most convenient way to distribute merchandise, many customers cannot afford supermarket prices and prefer shopping at farmers' markets. The average customer of open markets is extremely price conscious and prefers domestic products. During the summer, almost all segments of the population prefer shopping at open-air markets for fresh domestic produce sold mainly by farmers. To add variety, produce, fresh vegetables and fruits are imported by a few large importers and distributed by smaller distributors/wholesalers. Processed vegetables and fruits, confectionary, bread products, dairy products, fish, meat, and poultry are sold at kiosk-type outlets in the traditional markets. This sector offers extremely limited opportunity for sales of food products imported from the U.S., except for frozen poultry. The chains have already begun to move customers from the open markets to supermarkets to weekly shopping at hypermarkets. They anticipate that with the high education level of the new generation and increasing income levels, this process will advance relatively quickly.

SECTION III. COMPETITION

Over the past 5-6 years, European suppliers of food products have gained significant market shares and have a strong market presence. The reasons for their success include proximity, historical ties, high quality products, competitive prices, marketing support and logistical advantages. These companies have also benefitted from their government's financial and marketing assistance. A number of constraints have contributed to the relatively small market share of U.S. foods:

-- Latvia has been modifying sanitary and phytosanitary standards in conjunction with its preparations for EU accession. Some of these have blocked once-existing U.S. trade, especially of pork and beef.

-- Due to preferential tariff duties and increased TRQs for agricultural and food products provided by Latvia’s Association Agreement with the European Union (1998) and trade liberalization agreements of 2000 (double-zero pact) and 2002 (double-profit pact), duties for EU imports are gradually declining vis-a-vis the MFN rates applied to imports from the U.S., while zero rate TRQs are increasing. In addition, consumers in Latvia are more familiar with grocery products of Scandinavian and German origin.

-- Under free trade agreements signed with its Baltic neighbors, EFTA and CEFTA countries, Latvia’s imports from the countries which are parties to these agreements have lower duties than the rates applied to imports from the U.S.. About 80 percent of Latvian agricultural exports and 80 percent of Latvian imports occur with the EU countries and countries with which Latvia has FTAs.

-- U.S. imports also face the constraints related to the conformity assessment procedures. Conformity assurances for food products from the EU member states, Baltic FTA partners and EFTA countries are recognized automatically for obtaining a retail permit, while those issued by authorities in other countries are recognized by the Conformity Assessment Center through a costly procedure of product clearance and approval.

-- Frequently, the choice of importer/supplier depends on a trading company's ownership, as part of the company's stock may belong to foreign investors who base their decisions on financial ties rather than on quality or price.

With wood products excluded, Latvia is a net importer of agricultural and food products. In 2001, imports of US$ 450.1 million far exceeded exports of US$ 176.6 million (excluding wood products). EU countries dominated in Latvia’s agricultural imports with a 44 percent share, followed by Latvia’s Baltic neighbors - Estonia and Lithuania (29 percent), and the central European countries (12 percent).

U.S. companies dominated in supplies of poultry (5,581 MT, or a 30 percent share of total imports of poultry into Latvia) and dried fruits and nuts (35 percent). The U.S. share of Latvia's agricultural product imports was 2.4 percent, or US$ 10.7 million. For the most part, U.S. suppliers have not been actively engaged in exploring opportunities in this market. Of total U.S. agricultural exports to Latvia in 2001, poultry products accounted for 29 percent, soybean meal 8.5 percent, coffee extracts and essences for 7 percent, pet food for 7 percent, frozen fish for 6.7 percent, corn for 5 percent, alcoholic beverages for 5 percent, and tobacco products for 23 percent.

In 2001, the U.S. imports of Latvian agricultural products were valued at US$ 18 million, of which US$ 15 million were tobacco products (83 percent). In addition, the U.S. imported US$ 7.1 million of wood products. Other U.S. imports included fish preserves, cheese, juices, frozen fish, beverages, and confectionery. For many basic products, domestic production meets the majority of the demand. The table below reflects the domestic capacity of certain basic food products.

Domestic Market Value (based on consumption estimate)

Product	Market value
Meat	354
Bakery products	178
Dairy products	194
Vegetables	146
Potatoes	75
Oils, fats	45
Soft drinks	29
Fruits, berries	88
Confectionery, Jams, Honey	34
Fish	50
Sugar	42
Spices, Condiments	22
Alcohol beverages	41
Total	844

SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS

A. Products Present on Market With Good Sales Potential

The following U.S. products are available in retail stores and have good market potential: frozen poultry products, rice, fish, pet foods, dried fruits and nuts, wine and fresh fruits. Some U.S. brands manufactured in other European Countries can be found, including chips, soft drinks, packaged snacks and candies.

B. Products Not Present in Significant Quantities but Have Good Sales Potential

Rather unfamiliar to Latvian consumers are low fat, low salt, sugar free, and cholesterol free products, as well as brown sugar, cake mixes, marshmallows, corn meal, graham crackers and chocolate chips. Potential U.S. export items include: snack foods with a long shelf life such as raisins, dried food products, nuts, peanut butter, jams, jellies, frozen yogurt, sherbets, soft drinks, drink mix powders, frozen juice, wine, frozen foods, pizzas, meat, pasta preparations, frozen and canned seafood, frozen and canned vegetables and fruits, maple syrup, and assorted convenience goods such as cheese, sauces, salad dressings and breakfast cereals.

C. Products Not Present Due to Significant Barriers

High value processed U.S. food products have good sales potential. However, imports are currently disadvantaged by the preferential and even zero tariff treatment of Latvia's free trade area agreement partners (mainly the EU). In addition, Latvia’s implementation of sanitary and phytosanitary standards in conjunction with its preparations for EU accession have blocked some once-existing U.S. trade, especially of pork and beef.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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To include your products in a regional Baltics "virtual trade fair" please visit http://baltic.trade-fair.com

The business center of the Latvian Development Agency has established a website http://lda.gov.lv/eksports/bizness to help match trade interests. Your cooperation and investment proposals can be sent to invest@lda.gov.lv , or to fax: 371 782 0458.

For general questions about product import into Latvia, please contact:

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For more information on exporting U.S. agricultural products to Latvia and other Nordic/Baltic countries, please visit the FAS/Stockholm regional headquarter office at www.usemb.se/Agriculture. For information on other countries, please visit the Foreign Agricultural website at www.fas.usda.gov

Key Economic Indicators

Agricultural Imports From All Countries	421/2
Consumer Food Imports From All Countries ($Mil)/U.S. Market Share (%)*	303/2
Edible Fishery Imports From All Countries ($Mil)/U.S. Market Share (%)*	27/2
Total Population (Millions)/Annual Growth Rate (%)	2.351/-0.8
Urban Population (Millions)/Annual Growth Rate (%)	0.9/-0.8
Number of Major Metropolitan Areas	1
Size of the Middle Class (Millions)	0.6
Per Capita Gross Domestic Product (U.S. $)	3210
Unemployment Rate (%)	7.7
Per Capita Food Expenditures (U.S. $), year	495
Percent of Female Population Employed	43
Average Exchange Rate US$ 1	0.628 Lats

* Source: UN Trade Data Base