Russia’s Food Sector

Trends and Opportunities

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Europe Group, International Enterprise Singapore

30 September 2015
Executive Summary

1. Russia is a populous, middle income country, with a large food market

2. Countersanctions on food imports from EU by the Russian Government in Aug 2014 gave rise to opportunities to supply Russia’s food demand from other markets

3. This presentation discusses the arising market opportunities and ways to engage the Russian food market
Contents

1. Overview of Russia’s Food Sector
2. Market Opportunity Assessment
3. Market Entry Strategies
4. Challenges
5. Q&A
Overview of Russia’s Food Sector
Russia is Europe’s biggest consumer market and a net importer of food

- Population in excess of 140mn provides strong opportunities in the long term as food consumption is expected to grow considerably over the years
- High existing demand for premium products
  - Moscow
  - St Petersburg
- Considerable scope for growth in the regions
  - Russia Far East
  - Siberia
The Russian diet in urban areas is influenced by western preferences where fresh food is preferred.

**Consumption, kg (on average per person per year)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Consumption, kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk and dairy</td>
<td>270</td>
</tr>
<tr>
<td>Vegetables</td>
<td>97</td>
</tr>
<tr>
<td>Grain products</td>
<td>96</td>
</tr>
<tr>
<td>Meat products</td>
<td>85</td>
</tr>
<tr>
<td>Fruits and berries</td>
<td>77</td>
</tr>
<tr>
<td>Potatoes</td>
<td>61</td>
</tr>
<tr>
<td>Sugar and confectionery</td>
<td>32</td>
</tr>
<tr>
<td>Fish products</td>
<td>22</td>
</tr>
<tr>
<td>Oil and other fats</td>
<td>11</td>
</tr>
</tbody>
</table>

*Federal Statistics Service (Rosstat)*
Russia has a vibrant mass grocery retail industry targeting different income groups

- **Hypermarkets**
  - Selling both groceries and a large range of general merchandise goods
  - Typically more than 2,500m² in size

- **Supermarkets**
  - Original and still most globally prevalent form of self-service grocery retail outlet
  - More than 300m²,
  - Carries both fresh and processed food and a range of non-food items

- **Discount stores**
  - Typically smaller floor space than supermarket
  - No frills environment
  - Prevalence of low-priced and private label goods
  - High product turnover rate

- **Convenience stores**
  - Small outlets typically less than 300m² in size
  - Long opening hours and located in high footfall areas
  - Sell mainly fast moving food and drink products and non-food items
  - Typically stocking only two or three brand choices per item
  - Often carrying higher prices than other forms of grocery store
### Russia’s Top 10 key Mass Grocery Retailers

**KEY PLAYERS IN RUSSIA’S MASS GROCERY RETAIL INDUSTRY**

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of Origin</th>
<th>Sales (RUBmn)</th>
<th>Sales (USDmn)</th>
<th>Fiscal Year End</th>
<th>Fascia</th>
<th>Format</th>
<th>No of Outlets</th>
<th>Year Est.</th>
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</thead>
<tbody>
<tr>
<td>X-S Retail Holding</td>
<td>Russia</td>
<td>na</td>
<td>10.450</td>
<td>Dec-14</td>
<td>-</td>
<td>-</td>
<td>1.500e</td>
<td>1998</td>
</tr>
<tr>
<td>Magnit</td>
<td>Russia</td>
<td>na</td>
<td>19.872</td>
<td>Dec-14</td>
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<td>-</td>
<td>4.000e</td>
<td>1994</td>
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<tr>
<td>Auchan</td>
<td>France</td>
<td>na</td>
<td>7,000e</td>
<td>na</td>
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<td>Hypermarkets</td>
<td>500e</td>
<td>2002</td>
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<td>Metro</td>
<td>Germany</td>
<td>o</td>
<td>4,000e</td>
<td>na</td>
<td>-</td>
<td>Real Hypermarkets</td>
<td>500e</td>
<td>2001</td>
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<td>-</td>
<td></td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>-</td>
<td>-</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>Lenta</td>
<td>Russia</td>
<td>193,288</td>
<td>na</td>
<td>Dec-14</td>
<td>-</td>
<td>Hypermarkets/</td>
<td>500e</td>
<td>1993</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>supermarkets</td>
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<tr>
<td>Dixy Holding</td>
<td>Russia</td>
<td>na</td>
<td>2,000e</td>
<td>na</td>
<td>-</td>
<td>-</td>
<td>600e</td>
<td>1998</td>
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<tr>
<td>Viktoriya*</td>
<td>Russia</td>
<td>na</td>
<td>1,600e</td>
<td>na</td>
<td>-</td>
<td>-</td>
<td>250e</td>
<td>na</td>
</tr>
<tr>
<td>Sedmoi Kontinent</td>
<td>Russia</td>
<td>na</td>
<td>1,500e</td>
<td>na</td>
<td>-</td>
<td>-</td>
<td>150e</td>
<td>1994</td>
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<tr>
<td>O'Key</td>
<td>Russia</td>
<td>151,583</td>
<td>na</td>
<td>Dec-14</td>
<td>-</td>
<td>Supermarkets/</td>
<td>700e</td>
<td>2001</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>hypermarkets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*e = BMI estimate, na = not available. Source: Company information, trade press, BMI*

### RUSSIA TOP 10 FOOD RETAILERS - FY12

<table>
<thead>
<tr>
<th>Company</th>
<th>Net Sales FY2012, USDmn</th>
<th>% Market Share In Top 10</th>
<th>% Market Share Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xs</td>
<td>15.762</td>
<td>25.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Magnit</td>
<td>14.240</td>
<td>22.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Auchan</td>
<td>8.283</td>
<td>13.4</td>
<td>3</td>
</tr>
<tr>
<td>Metro</td>
<td>6.185</td>
<td>9.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Dixy</td>
<td>4.729</td>
<td>7.6</td>
<td>1.7</td>
</tr>
<tr>
<td>O'Key</td>
<td>3.728</td>
<td>6</td>
<td>1.3</td>
</tr>
<tr>
<td>Lenta</td>
<td>3.251</td>
<td>5.2</td>
<td>1.2</td>
</tr>
<tr>
<td>SPAR</td>
<td>2.750</td>
<td>4.4</td>
<td>1</td>
</tr>
<tr>
<td>7th Continent</td>
<td>2.006</td>
<td>3.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Monetia</td>
<td>1.394</td>
<td>2.2</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Xs
Market Opportunity Assessment
Russia’s counter sanctions to cut off staple food imports from the West presents an opportunity for Singapore

- August 2014: Russia imposed a food embargo on a wide range of food products from the US, EU, Canada, Australia and Norway for 1 year
- June 2015: Ban was extended for another year
- August 2015: Albania, Montenegro, Iceland and Liechtenstein added to the ban list

→ Russia will have to find import markets for about 40% of its agricultural imports

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Russia - % of Total Agricultural Imports at Risk

<table>
<thead>
<tr>
<th>Item</th>
<th>2012 Imports (USDmn)</th>
<th>Imports At Risk (USDmn)</th>
<th>Imports At Risk By Category (%)</th>
<th>Imports At Risk/Total Imports At Risk (%)</th>
<th>Imports At Risk/ Total 2012 Imports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat</td>
<td>6,724.2</td>
<td>2,834.4</td>
<td>42.2</td>
<td>20.8</td>
<td>8.6</td>
</tr>
<tr>
<td>Dairy products</td>
<td>4,319.2</td>
<td>1,918.7</td>
<td>44.4</td>
<td>14.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Fruit and nuts</td>
<td>6,396.2</td>
<td>1,771.2</td>
<td>27.7</td>
<td>13.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Fish</td>
<td>2,801.3</td>
<td>1,502.7</td>
<td>52.5</td>
<td>11.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Miscellaneous edible preparations</td>
<td>1,918.6</td>
<td>1,087.9</td>
<td>59.8</td>
<td>8.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Vegetables</td>
<td>2,872.6</td>
<td>926.6</td>
<td>32.3</td>
<td>6.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Preparations from cereals</td>
<td>1,225.7</td>
<td>609.7</td>
<td>50.4</td>
<td>5.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Preparations from vegetables, fruit and nuts</td>
<td>1,600.0</td>
<td>609.0</td>
<td>38.1</td>
<td>4.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Oil seeds</td>
<td>1,355.1</td>
<td>483.0</td>
<td>35.6</td>
<td>3.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Animal or vegetable fats</td>
<td>1,255.6</td>
<td>379.3</td>
<td>30.7</td>
<td>2.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Preparations of meat and fish</td>
<td>707.7</td>
<td>238.4</td>
<td>33.7</td>
<td>1.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Products of the milling industry</td>
<td>106.0</td>
<td>108.7</td>
<td>50.5</td>
<td>0.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Products of animal origin</td>
<td>101.4</td>
<td>53.8</td>
<td>52.0</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Total</td>
<td>32,950.1</td>
<td>13,605.0</td>
<td>41.3</td>
<td>100.0</td>
<td>41.3</td>
</tr>
</tbody>
</table>

Note: Imports At Risk By Category is Imports At Risk/ Total Imports (%). Some sub-categories are omitted from table. Source: Trade Map, BMI
Meat, especially pork, was hardest hit, with 72.1% (USD 2.1 bil) of imports lost

**Banned products**

- **Meat** (fresh, chilled, frozen, salted, dried or smoked) and **Sausage** (similar products made of meat, meat by-products or blood, as well as food preparations containing these products)
  - Beef
  - Veal
  - Pork
  - Poultry

Does not include lamb, goat, horse, donkey, rabbit or camel meat, or their meat by-products (liver), exotic varieties of meat (meat from monkeys, dolphins, snakes, turtles, whales, sea calves, pigeons and frog legs), game or salo

Does not include live animals or other meat products such as liver-based pâté, except sausage
Seafood was equally affected, with 52.5% (USD 2.9bil) of imports lost

- **Seafood**
  - All fish varieties (including live, fresh, cooled, frozen, dried, salted or smoked) and fish fillet
  - Prawns
  - Shellfish (mussels, oysters)
  - Other invertebrates

Does not include processed or canned fish, seafood and caviar
Manufactured dairy products – Cheese and butter suffered a significant shortage as Russia imports heavily from the EU

- **Milk & Dairy products**
  - Whole and condensed milk and cream
  - Yogurt and other fermented milk
  - Butter
  - Dairy spreads
  - Cheeses and cottage cheese
  - Food mixes and products containing over 15% milk fats
  - Cheese fondue

- Russia imports about a third of its butter consumption and half of its cheese consumption
- Liquid milk is supported by a very large domestic milk production surplus
  - Russia does import a little milk almost entirely from Belarus, hence there is little disruption
There was also an impact on vegetables as 32.3% (USD 2.9 bil) of imports was lost

- **Vegetables** (fresh, chilled, frozen, dried, sliced or cut)
  - All vegetables
  - Mushrooms
  - Tomatoes
  - Potatoes
  - Cucumbers
  - Onions
  - Cabbage
  - Sweet peppers
  - Spinach
  - Asparagus
  - Celery
  - Eggplant
  - Carrots, turnips, radishes and other root vegetables
  - Legumes
  - Vegetable mixes

Does not include processed mushroom or vegetable products such as canned tomatoes and cucumbers
Fruits such as apples, pears, apricots, cherries and peaches is in demand

- **Fruits, berries and nuts** (Except items packaged for further processing)
  - Fresh, frozen or dried bananas
  - Citrus
  - Apples
  - Pears
  - Grapes
  - Melons
  - Papayas
  - Apricots
  - Cherries
  - Peaches
  - Nectarines
  - Plums
  - Dates
  - Figs
  - Pineapples

Does not include processed or canned fruits and jams
Market Entry Strategies
Engaging both the Russian retail chains (top of the value-chain) and Importers/Distributors

**Importers Distributors**
- Australian Trade House (Austradehouse)
- Kovans (Magiya vkusa)
- La Maree
- AKRA
- Albatros
- Agent product
- East foods
- Fujisun
- Exim pacifics

**Retail chains Restaurants Hotels**

**Premium retail chains**
- Azbuka Vkusa,
- Globus Gurme
- Alye Parusa
- Bahetle
- Stockmann

**Mass market retail chains**
- Magnit
- X5 (Karusel Perekrestok, Pyaterochka)
- Auchan
- Lenta
- Dixy Holding
- Sedmoi Kontinent
- O’key
Targeting the high-end supermarket chain - Azbuka Vkusa

- High-end supermarket chain
- Offers gourmet food
- More than 60 supermarkets all over Moscow, Moscow region and St. Petersburg

SG companies should target Azbuka if they are able to supply high quality fresh food (chilled preferred over frozen)/fruit as Azbuka is very particular about quality

Interest areas
✓ Fresh fruits (pineapples, mangoes, bananas, kiwis, cherries, etc)

Requirements (for pineapples)
- Volumes are not huge as for now: 1-2 tonnes/month
- Preferred type of delivery: By plane
- Fruit should be approximately 2-2.5 kg each
- Ripeness level: 5-6
  - Brix% - 15-16%
  - Fruits should be insect free (very important)
Targeting the mass-market supermarket chain - Magnit

- Russia’s largest retailer and buyer
  - Sales (RUB 763mil, USD 11.1 bil, Dec 2014)
  - Store presence (10,728 stores as of June 30)

- Mass market low cost model (low to middle class) in cities and small locations
  - Hypermarket (201)
  - Convenience store (8,890)
  - "Magnit Family" store (110)
  - Cosmetics store (1,527)

- Started in southern city of Krasnodar, now geographically diversified across a number of regions
  - 2233 locations (Two-thirds of stores are located in towns with less than 500,000 people)

- Vertically integrated with highly efficient logistics capability
  - Has 29 distribution centres
  - Owns large fleet of 5,926 vehicles

SG companies should target Magnit if they are able to supply mass market food where price competitiveness is vital
Targeting the mass-market supermarket chain - Magnit

Interest areas
- Chilled/frozen meat and chicken
- Fish and seafood
- Fresh fruits
- Dried fruit and nuts
- Raw nuts (Magnit has own its processing facility to pack and sell under its own brand - Private label)

Requirements
- Information of Singapore company (size of production facilities, no. of employees, etc)
- Price list
- Product specifications (type, size, weight, etc)
- Type of packaging
- Possible volume
- Countries of origin
- Preferred shipment mode
- Preferred payment terms
- MOQ

Galitskiy Sergey Nikolaevich
Chairman of Management Board and CEO/Magnit
#15 (USD 8.3 bil) in Forbes rating
Most consumer-oriented food and beverage products enter through St. Petersburg customs clearance. Outside of Russia, imports are also delivered to Baltic ports and then shipped by truck or rail to St. Petersburg or Moscow. From Moscow or St. Petersburg, products are shipped further into the interior via truck or rail to cities in Siberia or the Russian Far East (RFE). Products destined for the RFE may enter through the ports of Vladivostok.

Sea route (40-45 days) is the normal way to export products from Singapore.
Russia’s Food Exhibitions

worldfood Moscow
• Held annually in September
• Attracts many foreign companies

• Prod Expo
• Held annually in February
• Mostly for local exhibitors

Moscow Halal Expo
• Held annually in May
IE will be leading a two-track business mission (O&G, Food) from 15-19 Nov 2015

Food Track

• Fly in to Moscow on 15 Nov (Sun)
  - Depart Singapore via SQ62 on 10 Nov at 02:35, arrive Moscow at 08:45 (11hrs 10mins)
• Fly out to Singapore on 18 Nov (Wed)
  - Depart Moscow via SQ61 on 18 Nov at 14:20, arrive Singapore on 19 Nov (Thu) at 05:50 (10hrs 30mins)

Programme

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Nov (Sun)</td>
<td>Visits to supermarket retail chains: Magnit/X5/7th Continent/Auchan/O’Key</td>
</tr>
<tr>
<td>16 Nov (Mon)</td>
<td>Meeting with Azbuka Vkusa</td>
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<tr>
<td></td>
<td>Meeting with Okey</td>
</tr>
<tr>
<td></td>
<td>Meeting with Dixy</td>
</tr>
<tr>
<td>17 Nov (Tue)</td>
<td>Krasnodar/Saint Petersburg to meet with Magnit/Lenta</td>
</tr>
<tr>
<td></td>
<td>Travel to Krasnodar/Saint Petersburg to meet with Magnit/Lenta</td>
</tr>
</tbody>
</table>
Challenges
Similar to the O&G industry, the Russian food sector is a highly opaque and close-knitted industry dominated by Oligarchs

- Oligarchs have close relations to both the government and supply chain players (importers, logistics and customs) which requires that foreigners play wholly by Russian rules

- Buyers are tight-lipped on who their importers are

- Finding reliable importers is a challenge as there is no official data base available

**Solution**

Reverse engineering the value chain

- Cultivating the Russian retail chains (top of the value-chain)

- Getting reliable importers through the retail chains (as owners of Russian retail chains are oligarchs and not easily accessible, this will take time)
Russia’s State Regulatory Body for Imported Food - Federal Service for Veterinary and Phytosanitary Surveillance (FSVPS) has to be engaged

- FSVPS approval has to be obtained BEFORE exporters are allowed to export to Russia
  - Meat
  - Fish/Seafood
  - Dairy products

1. SG companies send official requests to AVA
2. AVA send an official request to FSVPS to certify the SG facilities
3. FSVPS confirm the interest
4. FSVPS representatives travel to Singapore to inspect and approve the listed facilities

HOWEVER

- FSVPS needs a substantial import volume and number of plants to inspect before they are interested to make a trip to Singapore
- SG companies need to:
  - Meet the buyers to ascertain the volume
  - AVA will be able to engage FSVPS more effectively once consolidated figures are available
  - IE concurrently engaging FSVPS at G-G level
Thank You

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