



Food and beverage to Russia.

Trends and opportunities

The market

The fast-growing food and wine market demonstrates the extent of Russia's economic boom. The Russian food industry consists of more than 25,000 enterprises employing 1.5 million people. Food sales amount to approximately US\$70 billion and this value is growing rapidly, reflecting burgeoning household incomes. Contributing 11-12 per cent of gross national manufacture, the food sector is Russia's fourth largest industry.

Return on investment in the food industry is much shorter than other sectors, with strong dividends available in as little one to two years. Food production and catering is an important area of foreign investment in Russia. Numerous multinational food companies such as Nestlé, Hochland, Lactalis, Danone, Mars and others now have plant and production facilities in Russia.

Imported foodstuffs make up a large proportion of Russia's food market – up to 80 per cent in some categories.

Meat products: growing demand, changing tastes

Meat and meat products are a staple of the Russian food market. According to recent data, overall meat consumption in Russia is around 7.3 million tonnes a year, equivalent to roughly 50kg per capita. The Russian Meat Association forecasts meat consumption to reach 10 million tonnes by 2010. This growth can be attributed to rising disposable incomes and a growing trend toward the consumption of meat and meat products.

Domestic production capacity currently stands at 4.7 million tonnes. Russia's cattle and sheep herd has shrunk dramatically since the break-up of the Soviet Union and animal numbers are still declining by about 10 per cent per year. In the short to medium term, **local production is expected to continue shrinking, providing further opportunities for Australian meat exporters.**

Supply of meat and meat products is currently well below demand. Meat is subject to import quotas and domestic production is unable to keep pace with the market. Traditionally, domestic meat producers have been small, personal farm holdings, although since 2002 there has been some movement towards state supply. In 2005, 57 per cent of the domestic meat market was supplied by personal farm holdings with 42 per cent supplied by the state sector.

Traditionally, beef and pork were the two most popular meats in Russia, while consumption of lamb and mutton was rare. This is reflected in domestic production priorities. **Growing disposable incomes and an emerging high-end restaurant culture are now leading many Russians to enjoy rarer meat delicacies**, such as imported marbled beef, beef fillets, lamb and veal. **Demand for imported meats currently outstrips supply.**

Subject to import quotas, there are **significant market opportunities for Australian meat producers to fill this demand**, particularly in beef, lamb and mutton. Imported meats from Australia, New Zealand and the United States are of great popularity in Russia. For example, the Finnish-owned premium supermarket chain Stockmann sources the bulk of the beef and lamb for its Russian stores from Australia. Australia's total meat exports to Russia currently stand at approximately A\$60 million.

Russia's restaurant market is developing at an impressive pace. Sharp increases in consumer incomes and an expanding tourism sector have created a boom in this sector. Sales in mid-level restaurants are growing by as much as 30 per cent per year. In addition, up-scale restaurants continue to prosper; these elite dining facilities offer outstanding prospects for Australian wine, meat, dairy and specialty seafood products.

To boost awareness about Australian meat products, Meat and Livestock Australia (MLA) and Austrade have organised educational and marketing seminars in Russia. Austrade and MLA also hosted Russian meat and veterinary experts in Australia to demonstrate first-hand the high quality of Australian meat products.

Kangaroo meat hops into Russian market

Another important area of opportunity is kangaroo meat. **Russia is the major market for Australia's kangaroo meat exports and demand continues to grow.** The bulk of this unique meat goes to the Russian Far East, where its popularity is growing. Many meat-processing plants in the Russian Far East have developed technical conditions and recipes specifically for kangaroo meat.

To maintain and further expand kangaroo meat promotion, Austrade conducted a number of successful seminars in conjunction with Meat and Livestock Australia (MLA) and local importers in the Russian Far East regions of Kamchatka, Khabarovsk and Vladivostok. These seminars targeted meat processors, veterinary officers, technologists and local mec

Currently Austrade is assisting kangaroo exporters to expand their business into European Russia through presentations, sampling and certification with relevant Russian authorities.

Milk products: steady growth, established import culture

Consumption of milk and dairy products in Russia has been steadily increasing since the late 1990s. According to expert from the Milk Alliance, market growth fluctuates between four per cent and five per cent annually.

The Russian dairy market can be divided between **natural milk and processed -milk products** such as sour cream, cream, yoghurt, vitamin-enriched dairy, cottage cheese, milk desserts and butter. Market research by the Milk Alliance estimates consumption of milk-based products to be around 230 litres per person per year. This research also shows th 93 per cent of Russians regularly buy milk. Some 80 per cent prefer to buy Russian milk and processed products (such : *kefir*) while more than 50 per cent frequently purchase yoghurt, cottage cheese and chocolate bars. On average, dairy products constitute 16 per cent of all groceries found in consumer shopping baskets.

Processed-milk products, preservative-free yoghurts, milk desserts and puddings are all gaining in populari Between September 2003 and May 2004, sales in this area increased between 25 per cent and 45 per cent, depending the product.

Figures from the State Committee for Statistics (GosComStat) show that **imports of milk and processed-milk products are increasing**. According to the Milk Alliance, 15 per cent of all processed-milk products are currently imported. Condensed milk and cream (3 per cent), natural milk (3.8 per cent) and butter (39 per cent) are the most significant imports. Butter is imported from New Zealand (40 per cent), Finland (17 per cent) and Ukraine (11 per cent), such significant quantities that there are few butter production plants in Russia.

Cheese is also contributing to the market's development. However, compared to other countries, Russia's cheese consumption is quite low, at around 4kg per person per year. As household incomes increase, consumption is expected grow. Various estimates place the value of the cheese market at around US\$800 million, most of which comes from imports (approximately 50,000 tonnes per year). Foreign companies are already capitalising on rising demand in the Russian market, with German cheese makers Hochland and Lactalis opening new production facilities in the Moscow are

WimmBillDann and Yunimilk are the two largest milk-processing companies in Russia. Their main competitors are multinationals such as Campina, Danone, Ehrmann and Parmalat, each of which has made large investments in the Russian market and boasts their own processing facilities.

Experts predict **consumer demand for milk and dairy products will continue to rise**. Increased demand is being driven by regional market expansion, consumption growth and the introduction of new products such as vitamin-enriched low-fat and preservative-free dairy products. The Russian milk and dairy market therefore presents **substantial opportunities for Australian exporters**.

Fresh fruit and vegetables

The Russian **market for fruit and vegetables is expanding**. Over the last five years, the share of fruit in the Russian consumer basket has grown considerably, especially in urban areas. According to some sources, fruit consumption per capita in Russia stands at 45.6kg during the May-October summer season and 27.7kg from November to April.

Fruit imports are dominated by three types of products: bananas (27 per cent), apples (22 per cent) and oranges (14 per cent). Pears account for around seven per cent and grapes around five per cent. Most imported fruit is supplied to Russia via fruit exchanges in the Netherlands. Some large fruit importers with proper storage facilities in Russia import direct from the supplier.

At present, the largest suppliers of fruit to Russia are South Africa (which supplied US\$60 million in 2004), Turkey, Isra, Egypt, Chile and Iran (mainly exotic fruit such as figs, pomegranate and persimmon).

With fruit and vegetable consumption expanding, there is a real opportunity for Australian exporters.

Wine

Russia's wine market is growing fast, providing fantastic opportunities for Australian wine producers. See the wine profi for more detailed information.

Opportunities

In the Russian Federation, the following product areas offer significant opportunities for Australian exporters in the food and beverage sector:

- ✍ meat
- ✍ dairy products and cheese
- ✍ seafood
- ✍ counter-seasonal and exotic fruits
- ✍ vegetables and nuts
- ✍ organic and health foods (especially healthy snacks)
- ✍ convenience foods
- ✍ wine

Ausbay International

One example of success in the Russian meat industry is Ausbay International, a supplier of high-quality meat such as Angus beef, lamb, bobby veal, grain-fed beef and pork. Its clients include high-end restaurants, hotels and supermarkets. The company is one of the largest suppliers of chilled meat in Moscow.

Ausbay doubled its sales in Russia during 2004. It currently supplies about 50 tonnes of meat per month. The company is now working to expand its geographical coverage and diversify its product range to include butter, marinated vegetables, frozen cakes, fruit cheeses, rice and other products. Ausbay is also planning to take up promotion and distribution of Australian wines in the near future.

More information

For further information please contact Austrade on 13 28 78 or email moscow@austrade.gov.au