SUMMARY OF THE RUSSIAN AGRIBUSINESS SURVEY

Peja International B.V.
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1 Summary of the analysis of the Russian agro industry

Introduction
The Russian agro industry (agriculture and food processing) is an important part of the Russian industry. The share of the food processing industry in the total output of the Russian industry is about 12%.

In the period after the 1998 crisis, the Russian agro industry has started to recover. This has mostly been the result of the increasing purchasing capacity of the population and, in turn, the increasing demand for foodstuffs. The recovery of the agro industry was also caused by the devaluation of rouble in August 1998, which led to a significant increase in the prices of imported foodstuffs, making domestic foodstuffs more competitive.

Main trends in the agro industry
1. The output of both Russian agriculture and food processing industry is increasing;
2. According to the forecast of Goskomstat, the output of Russian agriculture will increase by 3-4% in the period 2003-2007;
3. In the medium-term, the development of the agro industry will be influenced by the expected growth in the GDP (4-5% in the period 2003-2005) and the increasing demand for foodstuffs. However, the demand for foodstuffs will continue to be limited by the fact that one-fourth of Russian population has income lower than the subsistence minimum;
4. There has been a shift of the production of agricultural products (e.g. livestock and agricultural crops) from the agricultural enterprises to the household farms during the last decade;
5. Recently, large integrated holdings or so-called agro-holdings have appeared and started to develop in the Russian agro industry.

Regional aspect
The main Federal districts where Russian agriculture and food processing industry are concentrated are the Central Federal district and the Privolzhskiy Federal district. The share of the Central FD is about 33% in the total output of the Russian food processing industry and about 22% in the total output of the Russian agriculture. The share of the Privolzhskiy FD is about 17% in the total output of the Russian food processing industry and about 27% in the total output of the Russian agriculture.

There are large differences in the consumption of foodstuffs between urban and rural areas of Russia due to the large differences in the purchasing capacity of the population between these areas.

Market situation
The markets of almost all agricultural products and processed food products are growing. This is due to the growth of the demand, domestic production and imports of these products. However, the consumption of agricultural products and processed food products is still at a low level compared to developed countries. On the whole, there is a large potential for the further growth of Russian markets of agricultural products and processed food products.
**Imports/exports**
Russia is a net importer of foodstuffs due to the inefficiency of the agricultural production, food processing and distribution, as well as the administrative barriers. Imported raw materials continue to be essential for the development of the agro industry, as the food processing industry uses a large amount of imported raw materials (especially the meat processing industry).

The exports of agricultural products and processed food products from Russia are insignificant. The only exception is grains, which Russia exports in large amounts and will continue to export in future. There are obstacles for the exports of agricultural products and processed food products from Russia, such as local export bans and limitations and arbitrary acts by the local administrations.

**Government policy**
There is presently no well-elaborated government policy towards the agro industry, which addresses the needs of all participants in the agro industry. The policy accent towards the agro industry in the last few years has been on the promotion of agro-holdings. The idea is the integration of a number of large-scale agricultural enterprises with improved management and high investment potential. This continues to be the policy of the government in the medium-term.

**Banking sector**
The Russian banking sector has not adjusted to the needs of the market economy for long-term and medium-term investments. As a result, the Russian agro industry lacks bank credits. In particular, in Russia there is currently no well-functioning agricultural or commercial bank that is capable of offering financing to the agriculture. The difficulties in financing the Russian agriculture are a serious threat to its future growth.

**WTO accession and EU enlargement**
It is argued that Russia would benefit in general from its accession to the WTO. The most important benefit for the Russian agro industry would be strengthening individual property rights on land and rules for land transactions, as well as rules for leasing, as this would most likely make it easier for Russian enterprises to have access to credit. WTO membership will also favor Russian export in the long run.

Russia will benefit in economic and trade terms from EU enlargement, as it will give Russia direct access to the large European market with a single set of trade rules, a single tariff and a single set of administrative procedures that will apply across the enlarged EU.

**Investments in the agro industry**
The investment activity in the Russian agro industry is presently increasing as a result of the increasing investment attractiveness of the agro industry, which, in turn, is mainly caused by the growth of the demand for foodstuffs. However, the investment attractiveness of the Russian agro industry is still quite low compared to other former communist countries. There are certain factors that limit opportunities for investments in the Russian agro industry. Among these factors are financial constraints related to limited retained earnings and access to credits for investments, the human factor (lack of experience and knowledge of most private producers regarding commercial activities, as well as management and marketing) and other factors.
It is estimated that the Russian agro industry needs approximately 25-30 billion USD of investments. The most promising sectors of the Russian agro industry for investments are: the dairy sector, the meat (pork) sector, the poultry sector and the fruit and vegetables sector.
2 Brief overview of the meat sector

2.1 Summary of the analysis of the Russian Meat sector

Introduction
The Russian meat sector is one of the largest sectors of the Russian agro industry. The share of the meat processing industry in the total volume of output of the food processing industry is 16%. The Russian meat processing industry is growing. Its growth is caused by an increase in the demand for meat products. The growth of the market of meat products constitutes 7-10% per year, according to the experts of the Russian Meat Union. At the same time, domestic livestock breeding is still in a difficult situation. The main reasons for this difficult situation are the lack of funds and the poor financial situation of the livestock breeders and the large share of cheap imported raw meat.

Main trends in the meat sector
1. The demand for domestic raw meat and processed meat products is growing. The main reason for the growth of the demand is the increase of the purchasing capacity of the population.
2. Influenced by the increasing demand, the production of processed meat products is also increasing.
3. The main purchasing criterion of Russian consumers is price of processed meat products. In spite of this fact, the increasing purchasing capacity of the population will lead to the growth of the demand for meat products of a higher quality. Thus, quality of meat products will soon become the second main purchasing criterion of the Russian population.
4. The growth of the demand for domestic meat products causes the increase in the demand of the meat processing enterprises for raw meat. At the same time, the production of raw meat will continue to be influenced by the import of raw meat from the world market in the short term.
5. The negative trend in livestock breeding in Russia over the past ten years has recently slowed down. While the head of cattle continues to decline, the head of pigs has started increasing. There is no strong evidence that there will be a significant increase in the head of cattle in the near future. There is some evidence that the head of pigs will continue to grow due to the switch of the demand of the population from beef to cheaper pork.
6. The profitability of cattle-breeding continues to be negative (-22% in 2002), whereas the profitability of pig-breeding is positive, but at a low level (1% in 2002).

Regional aspect
In 2000-2002 livestock breeding was concentrated in the Central, Privolzhskiy, Southern and Siberian Federal districts. The main areas where livestock breeding is concentrated are Tatarstan republic, Bashkortostan republic, Krasnodar kray and Altay kray (4% and 4%, respectively). However, the production of processed meat products is mainly concentrated in the Central Federal district. The main areas of production of processed meat products are Moscow and Moscow oblast. The share of these areas in different segments of production of processed meat products amounts from 20 to 50%.
**Market situation**
The Russian market of meat products has a large volume that amounts to approximately 8-11 billion USD. The Russian market of meat products is characterized by strong price competition and a large share of the “grey” sector that consists of a substantial number of small meat processing enterprises.

The growth of the Russian market of meat products is accompanied by an increase of investment activity in the meat sector. Large Russian agro-holdings have started to acquire the most prospective and profitable meat processing and agricultural enterprises. However, despite the active processes of integration and acquisitions in the market, only few brands of sausages, semi-finished meat products and canned meat are promoted in the market. Large producers in the market have just started to create their brands.

**Main meat processing companies**
The main Russian meat processing companies are as follows: APK Cherkizovsky, Mikoyanovsky meat processing plant, OAO “Tsarytsino”, KampoMos, “Planeta Management” (The Planeta Group), APK Agros, Omsky Bekon, Parnas-M. These companies are described in the chapter 1.5 “Description of the main Russian meat processing companies”.

**Imports/exports**
Russia is one of the largest meat importers in the world. As mentioned, the share of imported raw meat in the total volume of the market of raw meat is about 40%. At the same time, the share of imported processed meat products is only 2% of the market. This is due to the high prices for these products compared to domestic processed meat products and the switch of the consumer preferences to domestic processed meat products. The export of raw meat and processed meat products is insignificant and accounts for less than 1% of the production of raw meat and processed meat products. Russia exports its processed meat products mainly to CIS countries.

**Investments in the meat sector**
The meat sector is characterized by a moderate investment activity. The investments in the meat sector are only made in the framework of integration of the enterprises into vertically integrated agro-holdings and as a result of acquisitions. Large Russian agricultural holdings invest in the modernization of the enterprises included into these holdings. Apart from large agro-holdings, large Russian companies of the metallurgy and oil industries (for example, Renova/Access – a large oil and metallurgy holding) have also started to invest in the Russian meat processing industry in order to establish their own agro-holdings.

At the same time, the volume of foreign investments in the meat processing industry is insignificant. This volume only constitutes 0.18% of the total foreign investments in the Russian food processing industry. Germany is the main investor in the Russian meat sector.

The volume of state subsidies to the agricultural enterprises is increasing. However, the volume of state subsidies is not sufficient for Russian agricultural enterprises. The volume of state subsidies of livestock breeding in Russia was only about 33 mln USD in 2002.

In spite of the increasing investment activity in the meat sector, it should be noted that the volume of investments and state subsidies in the meat sector is practically non-existent,
and the lack of funds remains one of the main problems of the sector. The further growth of the Russian meat sector is hindered by a large number of problems that require substantial efforts to be solved. These problems are also the main barriers to the business of foreign companies in the Russian meat sector.

Problems of the Russian meat sector
This study has identified the following main problems of the meat sector:
1. Lack of funds and the poor financial situation of raw meat producers and processing enterprises;
2. Low professional skill of the staff at agricultural enterprises and meat processing enterprises;
3. Obsolete equipment and technologies; lack of equipment for initial raw meat processing at raw meat producers;
4. Fodder problems: low quality and high prices, seasonal availability, lack of concentrated and enriched fodder;
5. Strong dependence of meat processing enterprises on imported raw meat.
6. Inefficiency of production (livestock losses during breeding, losses of raw meat, by-products (waste products) and resources at the processing stage as a result of obsolete equipment and technologies);
7. Poor quality of raw and retail meat, especially the quality of raw and retail meat produced by enterprises located in the rural areas of Russia;
8. Distribution problems at all stages of the meat value chain (lack of special transport, obsolete refrigerating chambers and lack of refrigerating chambers, poor condition of storage facilities, absence of control of the quality and hygienic condition of distributed end products);
9. Poor advertising and market promotion of produced products by meat processing enterprises, strong price competition in the Russian market of meat products;
10. Growth of energy tariffs against the background of energy and heat supplies interruptions.

The large market and the growth of the demand for meat products make the meat processing industry attractive for investments and cooperation with foreign companies. This study has identified the most attractive business opportunities that are the most promising directions for investments for foreign companies that are searching for possibilities to start or expand their business in Russia.

Business opportunities
1. Production of new high-quality processed meat products;
2. Acquisition of existing meat processing enterprises in the areas with the highest level of consumption of processed meat products;
3. Establishment of new vertically integrated enterprises in the areas with the highest level of consumption of processed meat products;
4. Establishment of intermediary companies between meat processing enterprises and raw meat producers;
5. Collection and distribution of raw meat from the household farms and private farms to processing companies;
6. Import of fodder additives and concentrates, vitamins used in livestock feeding and veterinary materials, investments in production of enriched fodder in Russia.
7. Other opportunities:
   7.1 Imports and leasing of pedigree livestock;
7.2 Leasing of equipment (equipment for breeding, slaughtering, processing, refrigerating, transport vehicles; energy equipment);
7.3 Construction of new storage facilities for the distribution of raw meat to processing enterprises and processed meat products to the market.

However, the existence of the problems and the difficult situation in the production of raw meat make the participation of foreign companies in the Russian meat sector difficult. The absence of significant investments in the meat sector leads to the aggravation of the problems. Together with the analysis of the sector and the identification of the main problems, this study was directed at a determination of possible solutions to these problems. To solve these problems, the resources of the large international financial institutions are required. The possible solutions were divided into investment solutions and TA solutions:

**Investment solutions**

1. Establishment of a special fund for allocation of long-term credits to meat processing enterprises and agricultural enterprises and for micro-crediting household farms, private farms.
   1.1 Allocation of long-term credits for:
      1.1.1 Modernization of existing meat processing enterprises (purchasing and replacement of equipment at the existing enterprises, installation of new equipment for breeding, slaughtering, processing, refrigerating; transport vehicles; energy equipment) for:
         • Increase of the production capacity of the meat processing enterprises;
         • Improvement of the quality of processed meat products;
         • Increase of the efficiency of the meat processing enterprises.
      1.1.2 Establishment of initial meat processing directly at agricultural enterprises – raw meat producers;
      1.1.3 Vertical integration between meat processing enterprises, livestock breeders, distributors of processed meat products and retailers into vertically integrated companies;
      1.1.4 Development of a distribution system of meat processing enterprises (development of transport and logistics departments at meat processing enterprises, enlargement of the distribution network);
      1.1.5 Installation of equipment and technologies for by-products (waste products) processing;
      1.1.6 Investments in domestic mixed fodder production (through vertical integration).
   1.2 Establishment of a guarantee scheme for:
      1.2.1 Raw meat producers - to improve the situation in the payments for delivered raw meat to the meat processing enterprises and to ensure payments for delivered raw meat;
      1.2.2 Fodder producers – to improve the situation in the payments for fodder delivered to the agricultural enterprises and to ensure payments for delivered fodder;
      1.2.3 A leasing company – to ensure payments for the equipment leased.

2. Leasing of equipment through the existing “Agro-industrial finance company”

3. Establishment of a leasing scheme for foreign companies that supply equipment for meat processing and livestock breeding to the Russian market.
TA solutions
1. Training of personnel of all levels; TA for the creation of a system of personnel motivation;
2. TA for corporate governance, financial management and marketing (especially in advertising and product’s promotion);
3. TA in livestock breeding, raw meat production and processing;
4. TA in the introduction of a contracting system between the meat processing enterprises and the household farms that breed livestock;
5. TA for the introduction of modern standards for quality control; TA for training on ISO/HACCP;
6. TA for the development of the transport departments of meat processing enterprises or contracting between the meat processing enterprises and transport companies.
2.2 Schematic overview of the Russian Meat sector

- **Fodder**
  - Domestic fodder production
  - Imported fodder

- **Livestock breeding**
  - Pigs
  - Cattle
  - Raw meat
    - Beef
    - Pork
  - Pedigree livestock
  - By-products
    - Dung (fertilizer)

- **Distribution** to meat processing enterprises
  - Trading companies
  - Collection points
  - Direct distribution

- **Import** of raw meat (over 30% of the market)
  - Trading companies

- **Direct Sales** of raw meat on local markets (mostly from personal households)

- **Distribution** of finished meat products to the market (through trading companies or own distribution network)

- **Processing of raw meat**
  - Slaughter of livestock
  - Processing
  - Products
    - Retail meat
    - Sausages
    - Canned meat
    - Semi-finished products
    - By-products
      - Leather
      - Bones
      - Other (legs, tails, etc.)
    - Package
    - Storage

- **Market of meat products** (7-10% annually)
  - Domestic (98% of the market)
  - Imported (2% of the market)

- **Supply**
  - Prices

- **Demand**
  - Number of consumers with medium and low income
  - Number of consumers with high income

- **Investment opportunities**
  - Rise
  - Fall

- **Problems**
## 2.3 Problems and solutions by stages of the meat value chain

<table>
<thead>
<tr>
<th>STAGE</th>
<th>PROBLEMS</th>
<th>SOLUTIONS</th>
</tr>
</thead>
</table>
| Fodder | • Domestic fodder production  
          • Imported fodder | Distribution of fodder:  
          • Transportation |
| Distribution of fodder | Livestock breeding:  
          • Breeding  
          • Pigs  
          • Cattle  
          • Pedigree livestock  
          • Raw meat  
          • Beef (53%)  
          • Pork (44%)  
          • By-products (waste products)  
          • Manure (fertilizer) |
| Processing of raw meat | Slaughter of livestock Processing Products:  
          • Retail meat  
          • Sausages  
          • Canned meat  
          • Semi-finished products  
          • By-products (waste products)  
          • Leather  
          • Bones  
          • Other (legs, tails, etc.) |
| Distribution of raw meat to market (trading enterprises):  
          • Trading companies  
          • Collection points |
| Direct sales of raw meat on local markets (mostly from household farms) |
| Packaging and Storing of raw meat |
| Import of raw meat:  
          • Trading companies |
| Distribution of finished meat products to the market (trading companies) |
| Market of retail meat, sausages and semi-finished meat products (rise 7-10% annually):  
          • Domestic - 98%, imported - 2%, rise of prices and demand |
| Market of canned meat (fall):  
          • Domestic - 98%, imported - 2%, rise of prices and fall of demand |
| 1. Low quality and high prices of fodder | 1. Import of enriched fodder  
          2. Development of domestic production of fodder  
          3. Supply of fodder from foreign companies to Russian livestock breeders  
          4. Good planning of the supply of fodder  
          5. Ensuring good conditions of fodder storage |
| 1. Delays in deliveries of fodder  
          2. Delays in payments for delivered fodder because of lack of funds and low quality of management  
          3. Barter trade | 1. Vertical integration of raw meat producers with fodder producers:  
          2. Credits for working capital |
| 1. Lack of funds and large debts  
          2. Lack of high-quality cheap fodder  
          3. Inefficient use of resources; losses; rise of prices for resources  
          4. Obsolete equipment and technologies  
          5. Uneven regional distribution of livestock breeders  
          6. Intermittent supplies of electricity and heat  
          7. Poorly qualified management and staff at regional producers  
          8. Low salaries in the regions outside the urban centres of Moscow and St.Petersburg | 1. Modernization of livestock breeders (introduction of new breeding technologies and modernization of equipment)  
          2. Personnel training  
          3. Improvement of selection of livestock  
          4. Installation of independent power sources  
          5. Vertical integration with fodder producers  
          6. Reduction of losses  
          7. Import of pedigree livestock  
          8. Introduction of resource-saving technologies |
| 1. Collapse of traditional links between raw meat producers and meat processing enterprises  
          2. Lack of transport with refrigerating facilities  
          3. Lack of equipment for slaughter at collection points  
          4. Delays in deliveries of raw meat and payments for delivered raw meat | 1. Development of livestock and/or raw meat collection from household farms (contracting)  
          2. Vertical integration of raw meat producers and processors  
          3. Investments in transport facilities and raw meat collection points  
          4. Leasing of new slaughter equipment for collection points |
| 1. Large dependence on cheap imported raw meat  
          2. Lack of funds  
          3. Obsolete equipment and technologies at meat processing enterprises, especially in the regions outside the urban centers of Moscow and St.Petersburg  
          2. Lack of transport with refrigerating facilities  
          3. Lack of equipment for slaughter at collection points  
          4. Delays in deliveries of raw meat and payments for delivered raw meat | 1. Improvement of work of existing enterprises through:  
          • Vertical integration with livestock breeders  
          • Development of a contracting system with raw meat producers and providing them with micro-credits  
          • New slaughter and refrigerating equipment, production lines  
          • Introduction of resource-saving technologies  
          • Personnel training or replacement  
          • Technologies and equipment for by-products processing  
          • Development of sales of by-products |
| 1. Small area of distribution limited to the region around meat processing enterprises  
          2. Lack of funds to improve distribution  
          3. Lack of refrigerating equipment at storage facilities  
          4. Dependence of small meat processing enterprises on wholesalers’ choice of products  
          5. Delays in payments for delivered products | 1. Weak brand promotion and advertising  
          2. Strong price competition and influence of price on consumer’s choice  
          3. Lack of refrigerating equipment at retail trading enterprises (esp. in rural areas)  
          4. Poor development of regional markets |
### 2.4 Description of the main Russian meat processing companies

<table>
<thead>
<tr>
<th>N</th>
<th>Company name</th>
<th>Company description</th>
<th>Present and planned investment and business activity of the company</th>
<th>Contact data</th>
<th>Annual turnover, mln USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>APK Cherkizovsky</td>
<td>The leader in the market of meat products is APK Cherkizovsky. Presently, the Cherkizovsky meat processing enterprise manufactures up to 500 tons of meat products per day. Since the beginning of the 1990-s, the Cherkizovsky meat processing enterprise has been widening its base of production and sales. Presently, the holding manufactures the complete assortment of agricultural output. The basis of this company’s strategy is development of its own raw-material base, which is divided into two directions: poultry breeding and cattle-breeding. The holding considers its poultry breeding as the main direction. According to the rating of the Expert magazine, APK Cherkizovsky is among the 200 largest companies of Russia and is the largest meat processing enterprise. It occupies 46th place in the rating.</td>
<td>APK Cherkizovsky is the largest borrower among all Russian meat processing enterprises. Presently, the volume of funds raised by the holding is about 350 million USD. APK Cherkizovsky intends to further increase the volume of investment attracted. For this, the company plans to place its shares in Western security markets. The volume of investment required is estimated by the management of the company at 150 million USD. APK Cherkizovsky plans to increase its annual turnover up to USD 1 billion in the next few years.</td>
<td>OAO “Finance-Economic Centre APK Cherkizovsky” Zhavoronky, Odincovo district, Moscow area, Russia 143020 Phone: +7 (095) 162-32-70. Fax: +7 (095) 162-32-89</td>
<td>365 mln</td>
</tr>
<tr>
<td>2</td>
<td>Mikoyanovsky meat processing plant</td>
<td>Presently, the “Mikoyanovsky” meat processing enterprise is among the 10 largest meat processing companies of Russia. Its workshops have modern equipment and automated production lines. The owner of the enterprise is a large trade company “Exima” that has joined the processing enterprise, livestock-breeding farms and distribution network into one holding. The products of this processor are popular not only in Moscow, but also far more than its bounds. The output of the processor has repeatedly been awarded medals and prizes for its high quality. The holding of the Exima Company is also among the 200 largest Russian companies, according to the Expert magazine. The place is 120th.</td>
<td>The company intends to increase its production capacities and to further develop its own raw-material base. For this, the management of the company plans to raise additional funds from credit institutions interested. The company also plans to establish a joint venture with Basarabia Nord – a large producer of canned meat and half-fabricates in Moldova.</td>
<td>ul. Talalihina, 41, building 14, Moscow, Russia 09316 Phone: (095) 911-94-21 Fax: (095) 912-08-00</td>
<td>142 mln</td>
</tr>
<tr>
<td>3</td>
<td>OAO “Tsarytsino”</td>
<td>The “Tsarytsino” public corporation has modern, highly efficient and competitive production. Its assortment includes more than 300 products (high-quality sausages, delicacies and meat half-fabricates). For the recent years, the production of all types of this company’s products has been equipped with modern domestic and foreign equipment. In the main production premises of the processor, there are 5 plants connected by a single vertical technological process: sausage production (boiled, half-smoked sausages, meat delicacies, frankfurters and others), a workshop of meat half-fabricates (culinary), a workshop of raw materials, a refrigerator and a distributor of the products. The sausages and delicacies of “Tsarytsino” are distributed to 350 Russian cities. OAO “Tsarytsino” occupies the 134th place among the 200 largest Russian companies, according to the Expert magazine.</td>
<td>Within the next few years, the group of companies “Tsarytsino” expects to increase its production volume by installation of new production capacities.</td>
<td>Proletarskyi prospect, 30, Moscow, Russia 115516 Phone: +7 (095) 3255173</td>
<td>129 mln</td>
</tr>
<tr>
<td>4</td>
<td>KampoMos</td>
<td>The KampoMos meat processing plant is a daughter enterprise of the Spanish company Kampofrio. The KampoMos meat processing enterprise includes several meat processing companies located in Moscow. The company is characterized by high growth rates. For the last 10 years, KampoMos has increased its production volume by 30 times. Presently, KampoMos has 1500 employees. The assortment of products manufactured numbers 150 products. The enterprise has repeatedly been awarded medals and prizes for the high quality of its products. KampoMos is included in the rating of the 200 largest Russian companies. It occupies 140th place.</td>
<td>The company intends to further extend its production, increase the production volume and improve the quality of its products. Further plans include establishing a meat processing plant in St. Petersburg. It will provide an opportunity to compete on the market of the North-West Federal district and also, according to the president of KampoMos, to export to the European market.</td>
<td>ul. Ryabinovaya, 32, Moscow, Russia 121471 Phone: +7 (095) 488-67-04 Fax: +7095-488-45-03</td>
<td>123 mln</td>
</tr>
<tr>
<td>No.</td>
<td>Company Name</td>
<td>Details</td>
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<tr>
<td>5</td>
<td>“Planeta Management” (The Planeta Group)</td>
<td>The “Planeta Management” public corporation is a large holding active in different sectors. The company is owned by the former managers of the Russian oil company “Sibneft”. It controls 6 large Russian meat processing enterprises. Planeta Management plans to increase the turnover of the enterprises of its meat group from 280 mln USD in 2002 to 400 mln USD in 2003. By the words of representatives of Planeta Management, its share in the Russian market of meat products is the second after APK Cherkizovsky.</td>
<td>Planeta Management has announced its plans to bond almost USD 100 million, which are going to be guaranteed by several meat processing companies of the Group. The bond is going to be put at MICEX. The funds are going to be invested in the modernization of the purchased plants and in the acquisition of new plants. Further plans of Planeta Management also include its split into 3 parts – meat, dairy and wholesaling.</td>
<td>280 mln USD</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>APK Agros</td>
<td>The meat direction of APK Agros includes 4 meat processing enterprises located in the cities of Moscow and Novosibirsk and Stavropol kray. Within the next 2-3 years, the holding intends to invest USD 37 mln in the poultry and meat industries of Stavropol kray.</td>
<td>120 mln</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Omsky Bekon</td>
<td>Presently, Omsky Bekon is a part of a holding established by the Planeta Management Company. The “Omsky Bekon” public corporation is a vertically integrated group that includes 3 companies. The volume of sales of meat products is 40 thousand tons per year. During the last two years, the products of all the three companies of the group have been included into the prestigious list “100 best goods of Russia”. “Omsky Bekon” is one of the few Russian agro-industrial enterprises that completely provide themselves with raw materials and manufacture sausages not from imported frozen meat, but from own cooled. After the “Tsarytsinsky” meat processor, “Omsky Bekon” had its products certified according to the international standards ISO 9000. Thus, this company has achieved high and stable quality of its products given its quite a wide assortment – 450 sausages and delicacies. The “Omsky Bekon” public corporation is also included in the rating of the 200 largest Russian companies. It occupies 140th place.</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Parnas-M</td>
<td>“Parnas-M” is the largest meat processing enterprise of the North-West Federal district. Its market share in this district is the largest (30%). Presently, the enterprise produces about 100 various types of sausages. The assortment of its products is constantly widening. “Parnas-M” is a large, dynamically developing, multiple-profile holding. Meat processing remains the main direction of the holding’s activity. Its meat processing department includes: 1. The parent enterprise - “Parnas-M” public corporation; 2. Processing enterprises in Leningrad oblast – Luzhsky, Tikhvinsky, Volkhovsky; 3. The “Tverskoy” meat processing company; 4. The livestock-breeding company “Rassvet” in “Luzhskoi” region of Leningrad oblast; 5. A trade house selling the output of the processing enterprises. “Parnas-M” occupied the 16th place in the rating of the 100 largest companies of the North-West Federal district, which was made up by the “Business Petersburg” magazine in 2000. The holding intends to extend its activity and to establish a complete technological chain of production – from breeding of cattle at the agricultural enterprises supported to the sale of finished products in the company’s shops. In the near future, Parnas-M is going to acquire at least two meat processing plants – in Tula oblast and Mordovia Republic. Moreover, the management of the company also names the meat processing industry of Bashkortostan Republic and Stavropol kray as a promising direction for investments. Parnas-M plans to increase its share in the Russian market of meat products to 3-4% in the near future.</td>
<td>42 mln (2000)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3 Brief overview of the dairy sector

3.1 Summary of the analysis of the Russian Dairy sector

Introduction
The Russian dairy sector is one of the largest sectors of the Russian agro industry. The share of the dairy processing industry in the total volume of output of the Russian food processing industry is second after the share of the meat processing industry and amounts to 15%.

The Russian dairy sector has a high potential for investments. The potential for investments of the Russian dairy sector is related to two main factors: the expected future growth in the purchasing capacity of the population and the strong preferences of Russian consumers for dairy products. There is an opportunity to expand the market of dairy products to the local and rural markets, in addition to the large urban markets of Moscow and St Petersburg. There is also a potential to expand the assortment of dairy products and export dairy products to CIS countries.

The growth of the dairy sector in the last few years has been caused, to a large extent, by an increase in the volume of investments in this sector. This positive trend will continue to influence the future development of the dairy sector.

Main trends in the dairy sector
1. The head of dairy cattle is decreasing and is not expected to increase in the near future;
2. Despite the decline in the head of dairy cattle, the volume of raw milk production is increasing due to the increase in the milk yield per cow (the productivity of dairy cattle);
3. The output of the dairy processing industry is increasing due to an increase of the demand for dairy products and the raw milk production;
4. The assortment of dairy products present on the market is expanding;
5. The supply of dairy products is large in the urban centers and not sufficient in the rural areas;
6. The efficiency and profitability of the milk processing enterprises and agricultural enterprises continue to be low;
7. The vertical integration of the agricultural enterprises, the milk processing enterprises and the trading companies into agro-holdings is taking place in the dairy sector;
8. The demand for dairy products is increasing due to the growth of the purchasing capacity of the population and the domestic production of dairy products.

Regional aspect
The raw milk production in 2000-2001 was concentrated in the Central and Privolzhskiy Federal districts that accounted for around 23% and 30% of the total volume of raw milk production in Russia in 2001, respectively. The share of the Siberian Federal district was also significant – about 17%. The main areas with raw milk production in 2000-2001 were: Bashkortostan republic, Tatarstan republic, Krasnodar kray and Altay kray.

The dairy processing industry is mostly concentrated in the Federal districts where the raw milk production is concentrated – the Central and Privolzhskiy Federal districts. Together,
they accounted for about 50% of the total output of the dairy processing industry in 2000-2001. These areas have the biggest markets of dairy products and the most developed milk processing enterprises.

**Market situation**
The demand for dairy products is increasing due to the growth in the purchasing capacity of the population. The increase in the demand for dairy products is one of the main factors stimulating the development of the dairy sector.

The consumption of dairy products in Russia has traditionally been high. Most Russians (73.3%) consume dairy products everyday. This is due to the consumption habits of Russians and the relatively low prices for these products.

**Main companies active in the dairy sector**
In contrast to other sectors of the Russian agro industry, several foreign companies are active in the Russian dairy sector. These companies are also potential partners for collaboration with foreign companies that want to start business in the Russian dairy sector. The main companies operating in the Russian dairy sector are as follows: Wimm-Bill-Dann, Danone, Parmalat, Campina, Ehrmann, Petmol and Ostankinsky molochny kombinat (Ostankinsky milk processing enterprise). These companies are described in the chapter 1.5 “Description of the main companies active in the Russian dairy sector”.

**Imports/exports**
Russia is a large importer of dairy products, for the domestic production does not satisfy the demand of the population. Imported products account for 12.8% of the total supply of dairy products to the Russian market of dairy products. The main exporters of dairy products into Russia are EU, US and Ukraine.

The export of dairy products from Russia is insignificant and has little influence on the development of the Russian dairy sector.

**Investments in the dairy sector**
There is presently a significant investment activity in the Russian dairy sector. Large Russian agro-holdings (“Wimm-Bill-Dann” and “Planeta Management”) are acquiring the milk processing enterprises and the agricultural enterprises and investing in their modernization. The volume of foreign investments in the Russian dairy sector is also increasing. The major countries investing in the Russian dairy sector are Germany, the Netherlands and Switzerland. The main foreign companies investing in the Russian dairy sector are the Dutch company Campina, the French companies Danone and Lactalis, the German companies Ehrmann and Onken, the Spanish company Leche Pascual, the Italian company Parmalat and the Latvian company RMK (“Rizhsky” milk processor).

The analysis of the dairy sector has revealed a number of problems that hinder the development of this sector.

**Problems of the Russian dairy sector**
1. Lack of funds and poor financial situation of milk processing enterprises and raw milk producers;
2. Obsolete equipment and technologies at milk processing enterprises, raw milk producers and trading companies; lack of equipment for initial raw milk processing at raw milk producers and collection points;
3. Lack of professional skills of staff and low quality of management;
4. Distribution problems: lack of equipment and technologies for long-term storage of raw milk, lack of refrigerated milk tank trucks and refrigerating equipment at collection points, undeveloped distribution network of milk processing enterprises (limited to a small region around the enterprise), dependence of milk processing enterprises on wholesalers’ choice of products, delays in payments for delivered finished products, problems with butter distribution related to a seasonal effect, undeveloped contracting;
5. Low quality of fodder, low milk yield per cow, interruptions in electricity and heat supplies, low quality of raw milk, narrow assortment and low quality of finished products, seasonal effect of raw milk availability.

Despite the large number of problems, there are the following promising opportunities for investments (business opportunities) for foreign companies that look for possibilities to start or expand their business in the Russian dairy sector:
1. Acquisition of the existing milk processing enterprises;
2. Production of the most promising dairy products:
   2.1 Pasteurized and sterilized milk (especially processed by the UHT technology);
   2.2 Yoghurt;
   2.3 “Healthy” dairy products (enriched with vitamins, mineral substances and sour milk bacteria);
   2.4 Dairy products with fruit additives;
   2.5 Cheese;
   2.6 Baby food;

The problems of the Russian dairy sector mentioned above hinder the realization of these business opportunities. This study has identified solutions to the problems of the dairy sector, which are divided into investment solutions and technical assistance solutions.

Investment solutions
1. Establishment of a special fund for allocation of long-term credits to milk processing enterprises and agricultural enterprises and for micro-crediting household farms and private farms;
1.1 Allocation of long-term credits for:
   1.1.1 Modernization of existing milk processing enterprises and agricultural enterprises (purchasing and replacement of equipment at the existing enterprises, installation of new equipment for milking, processing of raw milk, storage and transportation of raw milk and finished products; energy equipment) for:
      • Increase of the production capacity of milk processing and agricultural enterprises;
      • Improvement of the quality of processed dairy products;
      • Increase of the efficiency of milk processing and agricultural enterprises.
   1.1.2 Establishment of initial processing of raw milk directly at agricultural enterprises – raw milk producers;
   1.1.3 Vertical integration between milk processing enterprises, agricultural enterprises, distributors of dairy products and retailers into vertically integrated companies;
1.1.4 Development of a distribution system of milk processing enterprises (development of transport and logistics departments at milk processing enterprises, enlargement of the distribution network of milk processing enterprises);
1.1.5 Installation of equipment and introduction of technologies for by-products (waste products) processing;
1.1.6 Investments in domestic mixed fodder production (through vertical integration).
1.2 Establishment of a guarantee scheme for:
1.2.1 Raw milk producers - to improve the situation in the payments for raw milk deliveries to the milk processing enterprises and to ensure payments for delivered raw milk;
1.2.2 Fodder producers – to improve the situation in the payments for fodder delivered to the agricultural enterprises and to ensure payments for delivered fodder;
1.2.3 Leasing companies – to ensure payments for the equipment leased.

2. Leasing of equipment through the existing “Agro-industrial finance company”;
3. Leasing of highly productive pedigree dairy cattle to the agricultural enterprises;
4. Establishment of a leasing scheme for trading companies.

**TA solutions**
1. TA for introduction of modern technologies for laying-in of fodder, breeding and milking (at raw milk producers) and processing of raw milk (at milk processing enterprises);
2. TA in training of the personnel and management (or their replacement) at milk processing enterprises; TA in training of financial personnel and managers;
3. TA for improvement of brand development, advertising and promotion;
4. TA in the vertical integration and in the development of a contracting system (e.g. contracting between milk processing enterprises and household farms);
5. TA in introduction of modern standards for quality control;
6. TA for improvement of sanitary conditions of milking and raw milk transportation.
3.2 Schematic overview of the Russian Dairy sector

Dairy Sector

- Production of raw milk
  - Breeding of dairy cattle
  - Milking of dairy cattle

- Direct distribution of raw milk on local markets (mostly from household farms)

- Distribution to milk processing enterprises
  - Trading companies
  - Collection points
  - Direct distribution

- Processing of raw milk
  - Pasteurization
  - Sterilization (including the UHT Technology)

- Main dairy products:
  - Full-fat milk and cream
  - Cheese
  - Butter
  - Yoghurt
  - By-products (whey, skim milk, raw milk sugars)

- Import of milk powder

- Rise $ Invest profit
- Fall $ TD - TA

Dairy Products Market
1. Market of full-fat milk and cream
   - Domestic (99% of the market)
   - Price:
     - Supply
     - Domestic (99% of the market)
     - Imported (1% of the market)

2. Butter market
   - Domestic (71% of the market)
   - Price:
     - Supply
     - Domestic (71% of the market)
     - Imported (29% of the market)

3. Cheese market
   - Domestic (30% of the market), low prices
   - Price:
     - Supply
     - Domestic (30% of the market), low prices
     - Imported (70% of the market), high prices

4. Yoghurt market
   - Domestic (urban)
   - Price:
     - Supply
     - Domestic (urban)
     - Imported (urban)

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### 3.3 Problems and solutions by stages of the dairy value chain

<table>
<thead>
<tr>
<th>STAGE</th>
<th>PROBLEMS</th>
<th>SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fodder</td>
<td>• Natural fodder during the pasture period • Laid-in fodder during the stalled keeping of cattle</td>
<td>1. Increase of the milk yield per cow through: • New technologies of breeding • Improvement of selection • Improvement of the fodder quality and increase of the provision with fodder 2. Increase of the head of dairy cattle at agricultural enterprises (e.g. imports of pedigree dairy cattle) 3. Re-equipment of agricultural enterprises 4. Micro-credits to producers of raw milk</td>
</tr>
<tr>
<td>Distribution of raw milk to milk processing enterprises</td>
<td>1. Transportation • Directly to milk processing enterprises • Through trading companies • Through collection points</td>
<td>1. Establishment of strong economic links with raw milk producers and investments in their development (contracting system, micro-credits to raw milk producers) 2. Processing of by-products and development of the sales of corresponding output • Development of sales of unprocessed by-products 3. Re-equipment and technological modernization of milk processing enterprises</td>
</tr>
<tr>
<td>Processing of raw milk</td>
<td>• Pasteurisation • Sterilization (the UHT Technology)</td>
<td>1. Integration of milk processing enterprises with trading enterprises 2. Improvement and enlargement of the distribution network of milk processing enterprises (e.g. establishment of own distribution network for large milk processing enterprises) 3. Improvement of transport with refrigerating facilities and storage facilities of milk processing enterprises and trading companies</td>
</tr>
<tr>
<td>Distribution of processed dairy products to the market (trading companies)</td>
<td>• Raw milk • Milk powder (imported or domestic)</td>
<td>1. Market of milk and cream (growth): domestic - 99%, imported - 1%; increase in prices, supply and demand 2. Market of butter (annual growth by 3-4%): domestic - 71%, imported - 29%; increase in supply and demand 3. Cheese market (growth): domestic - 70%, imported - 30%; increase in supply and demand 4. Market of yoghurt (growth): increase in supply and demand</td>
</tr>
</tbody>
</table>

- **Direct sales** of raw milk on local markets (mostly from household farms)
### 3.4 Description of the main companies active in the Russian dairy sector

<table>
<thead>
<tr>
<th>N</th>
<th>Company name</th>
<th>Company description</th>
<th>Present and planned investment and business activity of the company</th>
<th>Contact data</th>
<th>Economic indexes in 2001, mln USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wimm-Bill-Dann</td>
<td>The largest player on the Russian market of dairy products is the Wimm-Bill-Dann Company. This is a holding that includes 14 enterprises (including 11 milk processing enterprises) in Russia and the CIS. The company has the largest production capacity among milk processing enterprises in Russia. The annual turnover of the holding exceeds USD 500 million. Apart from dairy products, the holding is the largest Russian producer of juices. The share of WBD in the dairy products market in 2001 was 8.1%, almost 4 times larger than the share of its nearest competitor. The company produces 1100 different items of dairy products.</td>
<td>In 2001, the total volume of production of the company increased by 30%, and the sales by 39%. The company has a program of support of agricultural enterprises and a wide distribution network. WBD intends to extend its operations to certain strategically important regions of Russia and seeks to move its production closer to raw milk production. The company plans to spend USD 50 million on acquisition of new businesses. USD 40 million will be invested in modernization of the existing businesses. Wimm-Bill-Dann has decided to issue $100 million to $250 million worth of five-year Eurobonds in order to modernize its enterprises and expand. UBS Luxemburg S.A. will lead-manage the issue.</td>
<td>Address of the head enterprise of WBD (OAO “Lianozovsky” milk processor): 108 Dmitrovskoe shosse, Moscow, Russia 127591 Phone: +7 (095) 484-6847 Fax: +7 (095) 483-0047</td>
<td>Turnover in 2002: 824,7</td>
</tr>
<tr>
<td>2</td>
<td>Danone</td>
<td>The French company Danone operates on the Russian market since 1992. It started its own production in 1995 in the city of Tolyatti (Samara oblast). Another milk processing enterprise in the city of Chekhov (Moscow oblast) was established in the end of 2000. It produces yoghurts and curds. Most dairy products that Danone sells in Russia are produced at the Russian milk processing enterprises of Danone.</td>
<td>Danone doubled its milk production in 2001. The volume of investments in the Chekhov enterprise amounted to USD 45 million. Danone invested USD 4 million in the development of its milk suppliers and intends to invest about USD 1 million annually in its milk suppliers. Danone intends to invest USD 100 million in development of its production in Russia in the long-term. Danone has recently increased its share of stock of “Wimm-Bill-Dann” from 4% to 6.7%.</td>
<td>Moscow phones: +7 (095) 777 90 40, 777 90 41</td>
<td>Net profit (3 quarters of 2002): 39,8</td>
</tr>
<tr>
<td>3</td>
<td>Parmalat</td>
<td>The Italian company Parmalat operates in the Russian market since 1991. It has 2 enterprises in Russia: in the city of Belgorod (a milk processing enterprise) and in Sverdlov oblast (milk processing and production of juices). Parmalat also holds shares of the “Progress” Company located in Lipetzk city, which produces “Santal” juices. Parmalat also imports its products into Russia from Italy.</td>
<td>Further plans of Parmalat include expansion of the production capacity of its Belgorod milk processing enterprise.</td>
<td>Central office: OOO “Parmalat MK” Address: 6 corp.3 Miusskaya st., Moscow, Russia 125267 Phone: +7 (095) 961-2939, +7 (505) 961-2939 Fax: +7 (095) 961-2933, +7 (505) 961-2933 E-mail: <a href="mailto:mail@parmalat.ru">mail@parmalat.ru</a></td>
<td>Turnover in 2001: 7 801 million Euro (the world total)</td>
</tr>
<tr>
<td>4</td>
<td>Campina</td>
<td>The Dutch company Campina established a milk processing enterprise in the city of Stupino (Moscow oblast) in 2000. It produces milk and yoghurts. The production capacity of this enterprise is 65 thousand tons of output per year, of which 28 thousand tons is yoghurt. The main supplier of raw milk to this enterprise is the “Malino” corporation. Apart from that, Campina has a sterilized milk production line with a capacity of 20 million litres per year.</td>
<td>The volume of investments in the Stupino enterprise amounted to USD 50 million. Presently, Campina is investing additional USD 10 million in order to increase the production capacity of this enterprise. Campina has also invested USD 350 thousand in the modernization of “Malino” and USD 2.5 million in its sterilized milk production line. In the near future, Campina Russia plans to double its production capacities in the near future. It also plans to invest additional 23 million Euros in its production of yoghurt in</td>
<td>N/A</td>
<td>Turnover: about 550 million Euro (the world total)</td>
</tr>
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</table>
The Ehrmann company (Germany) established its own milk processing enterprise in the city of Ramenskoe (Moscow oblast) in 2000. Its production capacity is 300 tons of output per day. The specialization of Ehrmann is dairy products with fruit additives. The content of fruit in its dairy products is 12-13%.

Ehrmann invested USD 45.5 million in its Ramenskoe enterprise and plans to invest additional 15 million Euro in the modernization of its infrastructure and production of yoghurt. Ehrmann intends to invest a large amount of funds in its raw milk suppliers.

The agro-holding “Planeta Management” includes 6 milk processing enterprises in Russia. The largest of these enterprises is the Petmol milk processing enterprise (St.Petersburg).

“Planeta Management” plans to invest 6 million USD in the purchase of new equipment from Germany, the Netherlands and Denmark for the Petmol milk processing enterprise.

Ostankinsky molochny kombinat, which is located in Moscow, is one of the oldest milk processing enterprises in Russia. Its share in the dairy products market of Moscow is 6%. The annual increase in its production volume is approximately 20%.

Ostankinsky molochny kombinat has contracts with Nestle on production of several types of dairy products.
4 Brief overview of the poultry sector

4.1 Summary of the analysis of the Russian Poultry sector

Introduction
The poultry sector is one of the most quickly developing sectors of the Russian agro industry. The rate of its yearly growth is 10-15%, according to different estimations. The growth of the poultry sector exceeds the growth of different other sectors of the Russian agro industry. The poultry sector can be characterized by a better situation than in other sectors of the agro industry. The number of positive factors influencing the poultry sector exceeds that of negative factors, and the influence of positive factors is stronger. The main factor causing the poultry sector growth is an increase in the demand for poultry products. In turn, the increase in the demand is caused by an increase in the income of population and the fact that Russian consumers are starting to purchase poultry products instead of beef due to the lower prices of poultry products compared to beef.

Main trends in the poultry breeding
1. There is an increase of the head of poultry and the growth of raw poultry production;
2. The eggs production is slightly increasing due to the growth of the demand for eggs and increasing yield of egg-layers;
3. During the last three years, there was high harvest of grains in Russia (fodder grain is fodder for poultry). As a result, the prices for grain are presently low, and it enables the poultry factories to increase their provision with fodder;
4. The poultry factories are integrating with fodder-producing enterprises in order to solve their problems with fodder;
5. In certain Russian regions, the volume of breeding of turkey, goose and duck is increasing. The production of these kinds of raw poultry is insignificant at the moment in Russia, but it may become important in the future, depending on the demand for these types of poultry and their competitiveness.

Main trends in the poultry processing industry
1. The main positive factor influencing the poultry industry is the stable growth in the consumer demand for poultry products during recent years;
2. Since 1999, the production of processed poultry products has started to increase;
3. The share of processed and deeply processed poultry products in the total volume of production of poultry factories is increasing (only 65% of the whole and parted poultry in 1997 was sold eviscerated, whereas presently all the whole and parted poultry is sold eviscerated);
4. The poultry industry is becoming more attractive for investors. Several large grain market companies, oil companies and foreign investors have purchased controlling interest in several poultry factories;
5. Vertically integrated agro-holdings are emerging in the poultry sector;
6. Strong competition is taking place in the sector;
7. The poultry processing industry is widening its structure by large meat processors, small private companies, specialized enterprises and production facilities attached to shops;
8. The leading poultry factories are implementing modern technologies of poultry breeding and resource-saving, which allows them to increase the efficiency of production;
9. There is concentration of production in the poultry industry, as 40% of the total poultry meat production volume is attributed to 40 poultry factories (out of 166 existing broiler-breeding factories). The average profitability of these 40 factories is 17%, compared to the industry average of 8%.

10. The imports of poultry products are expected to decline by 30% as a result of the import quota on poultry products. Hence, domestic poultry factories will have an opportunity to increase their volume of production;

11. The distribution network of most Russian poultry factories is not well-developed, but has started to develop;

12. The prices for poultry products are increasing.

Regional aspect
Breeding of poultry has minor dependence on climate and is rather evenly developed in all the Russian Federal districts. However, the main Federal districts where the production of raw poultry is concentrated are the Central and Privolzhskiy Federal districts, accounting for 29% and 22% of the total raw poultry production, respectively.

The main Federal districts where the production of raw poultry is concentrated are at the same time the main Federal districts where the poultry processing industry is concentrated. This is consistent with the fact that the poultry factories often combine production and processing of raw poultry. The main Federal districts that produce processed poultry products are the Central and Privolzhskiy Federal districts. Together, they accounted for approximately 51% of the total production volume in 2002.

Market situation
The Russian poultry market (the Russian market of poultry products) is growing fast. The rates of growth of the Russian market of poultry products amount to 10 – 15% annually. The volume of the Russian market of poultry products was 2.3 mln tons in 2002. The market of poultry products is characterized by strong price competition due to the fact that price is the main purchasing criterion for Russian population. Quality is the second main purchasing criterion for the population of large urban centres. The market of poultry products is also characterized by unfair competition. The share of the grey sector is large, especially in the sector of imported poultry products.

The processes of integration and acquisitions are taking place in the market of poultry products - large agro-holdings acquire profitable poultry factories. The active process of acquisitions indicates that large investors consider the Russian market of poultry products attractive for investments due to the large and growing demand for poultry products. Brand promotion has only started to develop in the market of poultry products. Brand promotion of poultry products is carried out mostly in large cities – Moscow, St.Petersburg, Novosibirsk, Samara, Nizhniy Novgorod, but is almost absent in the rural areas. The consumers of poultry products have weak brand loyalty and base their choice on price.

Main poultry processing companies
The main Russian poultry processing companies are as follows: OAO “GK Agro-holding”, Zarya-OGO, “Planeta Management”, Elinar-broiler, APK Mikhailovskiy, APK Agros, AO “Lenpticeprom”, OOO “Permppticprom”, “BEZRK-Belgrankorm”, “Agrofirma Krasnodonskaya”, Group “Razgulay-UKRROS”. These companies are described in the chapter 1.5 “Description of the main Russian poultry processing companies”.

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Imports/exports
The volume of imports of poultry products into Russia is large (about 58% of the total supply of poultry products in the Russian market), and imported poultry products are more competitive in the Russian market than domestic poultry products due to their lower prices. The large share of imported poultry products in the market and their lower prices are one of the most important obstacles to development of the Russian poultry industry. There are 5 main exporters of poultry products into Russia: the USA (approximately 61% of the total imports), Brazil (appr. 15%), France (appr. 8%), Germany (appr. 4%) and Belgium (appr. 4%). The exports of poultry products from Russia are insignificant.

Investments in the poultry sector
The Russian poultry sector is characterized by a high investment activity as a result of its high investment attractiveness. There are presently a substantial number of agro-holdings investing in production and acquisition of Russian poultry factories. In addition, a number of foreign companies have invested in the poultry sector. Several Russian banks have given loans to Russian poultry factories, for example, the Russian Savings Bank and Oneximbank. Russian enterprises trading grain and bread (for example, “Makfa”) have also started investing in the poultry industry.

The investments needs of the Russian poultry sector amount to 630 mln USD, according to the Russian Poultry Union. These funds are mostly required for the re-equipment of the poultry factories and the modernization of their production facilities.

The analysis of the poultry sector has identified a number of problems that are caused by the crisis of this sector in the middle of the 1990-s. These problems are as follows.

Problems of the Russian poultry sector
1. Lack of funds and the poor financial situation at the poultry factories;
2. Low professional skill of the staff at poultry factories;
3. Obsolete equipment and technologies (only 3% of the poultry factories have modern equipment);
4. Low quality and the narrow assortment of processed products;
5. Fodder problems: low quality and high prices, seasonal availability, lack of concentrated and enriched fodder;
6. Distribution problems (lack of special transport, obsolete refrigerating chambers and lack of refrigerating chambers, poor condition of storage facilities, absence of control of the quality and hygienic condition of distributed end products);
7. Inefficient use of resources and large losses of live poultry, raw poultry meat, by-products and resources;
8. Poor advertising and market promotion of products manufactured by the poultry factories, strong price competition in the Russian poultry market;
9. Growth of the energy tariffs against the background of energy and heat supplies interruptions.

Despite these problems, there are the following promising opportunities for investments (business opportunities) for foreign companies that want to start or expand their business in the Russian poultry sector:
1. Establishment of production of deeply processed poultry products;
2. Import of enriched concentrated fodder;
3. Installation of autonomous energy sources;
4. Other opportunities:

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4.1. Leasing of equipment (equipment for breeding, slaughtering, processing, refrigerating; transport vehicles; energy equipment);
4.2. Construction of new storage facilities for distribution of raw poultry to processing enterprises and processed poultry products to the market;
5. Breeding of ostrich and production of processed products made of this kind of poultry (as a new promising direction in the poultry sector).

The realization of these business opportunities is hindered by the problems of the poultry sector mentioned above. This study has identified solutions to these problems. The solutions are divided into investment solutions and technical assistance solutions.

**Investment solutions**
1. Establishment of a special fund for allocation of long-term credits to poultry factories;
   1.1 Allocation of long-term credits for:
      1.1.1 Modernization of existing enterprises (purchasing and replacement of equipment at the existing enterprises, introduction of new equipment for poultry breeding, slaughtering, processing, refrigerating, transport vehicles; energy equipment) for:
      • Increase of the production capacity of the poultry factories enterprises;
      • Improvement of the quality of processed poultry products;
      • Increase of the efficiency of production;
      1.1.2 Vertical integration between poultry factories, fodder producers, distributors and retailers into vertically integrated companies;
      1.1.3 Development of a distribution network of poultry factories (development of transport and logistics departments at poultry factories, enlargement of the distribution network);
      1.1.4 Installation of equipment and technologies for by-products (waste products) processing;
      1.1.5 Investments in domestic fodder production (through vertical integration).
   1.2 Establishment of a guarantee scheme for:
      1.2.1 Poultry factories - to improve the situation in the payments for delivered poultry products to trading companies and to ensure payments for delivered products;
      1.2.2 Fodder producers – to improve the situation in the payments for fodder delivered to the poultry factories and to ensure payments for delivered fodder;
      1.2.3 A leasing company – to ensure payments for the equipment leased.
2. Leasing of equipment through the existing “Agro-industrial finance company”;
3. Establishment of a leasing scheme for foreign companies that supply equipment for poultry factories to the Russian market.

**TA solutions**
1. Training of personnel of all levels; TA for creation of a system of personnel motivation;
2. TA for corporate governance, financial management, marketing (especially advertising and brand promotion);
3. TA in the modern technologies of poultry breeding and processing;
4. TA in introduction of modern standards for quality control; TA in the development of the transporting departments of poultry factories or contracting between the poultry factories and transport companies.
4.2 Schematic overview of the Russian Poultry sector
## 4.3 Problems and solutions by stages of the poultry value chain

<table>
<thead>
<tr>
<th>STAGE</th>
<th>FODDER</th>
<th>DISTRIBUTION OF FODDER</th>
<th>POUltRY BREEDING</th>
<th>DISTRIBUTION OF RAW POULTRY TO MEAT/POULTRY PROCESSING ENTERPRISES</th>
<th>PROCESSING OF RAW POULTRY AND EGGS</th>
<th>DISTRIBUTION OF PROCESSED POULTRY PRODUCTS TO THE MARKET (TRADING COMPANIES)</th>
<th>MARKET OF POULTRY (RISE 10-15% ANNUALLY): DOMESTIC - 37%, IMPORTED - 68%; RISE OF PRICES AND DEMAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOLUTIONS</td>
<td>1. Import of enriched fodder 2. Development of domestic production of fodder 3. Accurate dosing of imported fodder components with bulk domestic fodder 4. Supply of fodder by foreign companies</td>
<td>1. Integration of poultry factories with transport companies 2. Integration of poultry factories with transport companies 3. Integration of poultry factories with transport companies 4. Integration of poultry factories with transport companies</td>
<td>1. Integration of poultry factories with transport companies 2. Integration of poultry factories with transport companies 3. Integration of poultry factories with transport companies 4. Integration of poultry factories with transport companies</td>
<td>1. Investment in transport facilities</td>
<td>1. Investment in transport facilities</td>
<td>1. Modernization of existing poultry factories (new slaughter and refrigerating equipment, production lines). Introduction of new western technologies of poultry processing (and resource-saving technologies) 2. Installation of additional equipment for processing and packaging 3. Personnel training or replacement 4. Technologies and equipment for by-products processing 5. Development of by-products sales 1. Integration of poultry factories with transport companies 2. Integration of poultry factories with transport companies 3. Integration of poultry factories with transport companies 4. Integration of poultry factories with transport companies 1. Modernization of existing poultry factories (new slaughter and refrigerating equipment, production lines). Introduction of new western technologies of poultry processing (and resource-saving technologies) 2. Installation of additional equipment for processing and packaging 3. Personnel training or replacement 4. Technologies and equipment for by-products processing 5. Development of by-products sales 1. Integration of poultry factories with transport companies 2. Integration of poultry factories with transport companies 3. Integration of poultry factories with transport companies 4. Integration of poultry factories with transport companies</td>
<td>1. Improvement and enlargement of the distribution and retail network of poultry factories 2. Integration with retail traders 3. Improvement of the work of marketing departments; active advertising and brand promotion 4. Improvement of the storing facilities of retail traders 1. Improvement and enlargement of the distribution and retail network of poultry factories 2. Integration with retail traders 3. Improvement of the work of marketing departments; active advertising and brand promotion 4. Improvement of the storing facilities of retail traders</td>
</tr>
</tbody>
</table>
### 4.4 Description of the main Russian poultry processing companies

<table>
<thead>
<tr>
<th>N</th>
<th>Company name</th>
<th>Company description</th>
<th>Present and planned investment and business activity of the company</th>
<th>Contact data</th>
<th>Annual turnover, mln USD, 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OAO “GK Agro-holding”</td>
<td>The largest agro-holding producing poultry products in Russia. Its share in the Russian market of poultry products is about 7%.</td>
<td>The holding intends to increase its production of chicken products by 80% in the next 2 years. The holding modernizes the poultry factories that belong to it.</td>
<td>158, Kulakova prospect, Kursk, 305018 Phone: (0712) 37-80-27</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>Zarya-OGO</td>
<td>Zarya-OGO holding includes 12 poultry factories (3 of them are egg-producing factories). It has its own brand “Domashniaia kurochka”.</td>
<td>The company intends to increase its eggs production. According to representatives of the company, it plans to increase the volume of its eggs production by 80% in the next 2-3 years.</td>
<td>Central office: Moscow, Gagarinski per., 33/5/ Phone: +7 (095) 246-24-29, 241-94-32 E-mail: <a href="mailto:zarya-ogo@narod.ru">zarya-ogo@narod.ru</a></td>
<td>N/A</td>
</tr>
<tr>
<td>3</td>
<td>“Planeta Management”</td>
<td>“Planeta Management” is one of the largest Russian agro-holdings. Its poultry direction includes 9 poultry factories owned by the holding. Presently the holding is restructuring its assets, and it intends to establish 3 independent holdings. The first will be engaged in production of meat products, the second in production of dairy products, and the third in wholesale trade.</td>
<td>The holding intends to issue bonds to the amount of about 100 million USD. The holding plans to invest part of the funds in the development of the poultry factories owned by the holding and the acquisition of new poultry factories. The holding plans to place the bonds at the Moscow Interbank Currency Exchange. The “Troika-Dialog” Company is expected to be the underwriter, and the expected interest rate is 14-15%. “Planeta Management” has recently acquired OAO “Ptizeprom” that includes 4 poultry factories. According to the information from the “Agros” agro-holding, the costs of the acquisition of OAO “Ptizeprom” amounted to about 330 thousand USD. Two of the poultry factories acquired (“Kaluzhskaya” and “Erdenesvskaya”) are located near each other, and “Planeta Management” has shared the tasks between these poultry factories: “Erdenesvskaya” presently specializes in poultry breeding, and “Kaluzhskaya” presently specializes in poultry processing. “Planeta Management” intends to invest 20 million USD in the modernization of the “Kaluzhskaya” poultry factory. “Planeta Management” plans to launch a brand, under which all its poultry products will be sold.</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>4</td>
<td>Elinar-broiler</td>
<td>Elinar-broiler is a joint venture of USAPEEC and the Russian holding “Elinar”. The Elinar holding is mainly active in the production of insulation materials, but it also includes two large agricultural enterprises. These are “AO Elinar” and “Elinar-broiler”. The “Elinar-broiler” company produces more than 100 different types of products. The share of Elinar-broiler in the poultry market of Moscow is 10%.</td>
<td>The company intends to invest USD 2 million in reconstruction of the “Zhilino-Gorkovskaya” poultry factory (Moscow oblast), which the company has recently acquired. The reconstruction program is directed at an increase of production of incubative eggs by 3 times – from 7 million to 21 million per year. This will completely satisfy the demand of the company for chicks. 14 hen houses of this poultry factory are planned to be recovered (4 of them are already recovered). Elinar-broiler has increased its production of poultry meat by 30% in the first quarter of 2003 and is expected to increase it by about 40% in 2003 compared to 2002 - from 10,4 thousand tons up to 14 thousand tons. In the long-term, the company plans to increase it up to 22-24 thousand tons per year.</td>
<td>Address: 143325, Russia, Moscow oblast, Naro-Fominski district, set. Novaya Olhovka Phone: +7 (095) 745-5950 Fax: (095) 745-5951 E-mail: <a href="mailto:info@elinar-broiler.ru">info@elinar-broiler.ru</a> Internet: <a href="http://www.elinar-broiler.ru">www.elinar-broiler.ru</a></td>
<td>N/A</td>
</tr>
<tr>
<td>5</td>
<td>APK Mikhailovskiy</td>
<td>APK Mikhailovskiy is part of the Cherkizovsky meat processing Company. The Petelinskaya poultry factory, which is owned by Mikhailovskiy, is the leader in the poultry market of Moscow oblast. Its market share is 40%.</td>
<td>The latest investment made by Cherkizovsky has been the installation of new poultry processing equipment at its Petelinskaya poultry factory. According to information from APK Cherkizovsky, the intended volume of investments in APK Mikhailovskiy in 2002 was 25 million USD. About 20 million USD were invested in it before. In the next few years, the volume of production of APK Mikhailovskiy will be</td>
<td>Address: Moscow oblast, Odintsovski district, set. Zhavoronki, ul. Sadovaya, 5 Phone: +7 (995) 933-24-11, 933-24-14 E-mail: <a href="mailto:apkm@horse.sovintel.ru">apkm@horse.sovintel.ru</a></td>
<td>N/A</td>
</tr>
<tr>
<td>#</td>
<td>Company Name</td>
<td>Description</td>
<td>Key Activities</td>
<td>Address</td>
<td>Phone/Fax</td>
</tr>
<tr>
<td>----</td>
<td>--------------</td>
<td>-------------</td>
<td>----------------</td>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>6</td>
<td>APK Agros</td>
<td>The “Agros” holding is one of the largest investors in the Russian poultry industry and agriculture. It includes 40 companies. The owner of APK Agros is the Interros holding.</td>
<td>The key activity of APK Agros, like most of the agricultural holdings, is search for the most promising companies in order to purchase their controlling interest, with subsequent modernization of these companies. APK Agros includes 9 poultry factories in Stavropol kray. Within the next 2-3 years, the holding intends to invest 37 mln USD in the poultry industry of Stavropol kray.</td>
<td>Address: Krzhizhanovskogo st., 6, Moscow, Russia 117292. Phone: +7 (095) 995 2222.</td>
<td>N/A</td>
</tr>
<tr>
<td>7</td>
<td>AO “Lenpticeprom”</td>
<td>AO “Lenpticeprom” is located in the North-West Federal district, near St. Petersburg. Currently, the holding includes 5 enterprises.</td>
<td>The key activity of APK Agros, like most of the agricultural holdings, is search for the most promising companies in order to purchase their controlling interest, with subsequent modernization of these companies. APK Agros includes 9 poultry factories in Stavropol kray. Within the next 2-3 years, the holding intends to invest 37 mln USD in the poultry industry of Stavropol kray.</td>
<td>Address: 193171, St. Petersburg, Sedova st., 70 korp. 2, Russia Phone: (812) 568 0278 Fax: (812) 560 8285</td>
<td>N/A</td>
</tr>
<tr>
<td>8</td>
<td>OOO “Perpticeprom”</td>
<td>Since 1965, 13 poultry factories have been included in this holding. The holding produces more than 150 poultry products. OOO “Perpticeprom” is modernizing the equipment used at its poultry factories.</td>
<td>One of the latest developments of the holding has been installation of new slaughter equipment at one of the holding’s poultry factories (this equipment enables to slaughter 6 thousand units of live poultry per hour).</td>
<td>Address: 35, Sibirskaya str., Perm, 614000 Phone: (342) 12-63-66 Fax: (342) 12-90-66</td>
<td>N/A</td>
</tr>
<tr>
<td>9</td>
<td>“BEZRK-Belgrankorm”</td>
<td>A medium-sized agricultural holding located in Belgorod oblast. The main direction is production of poultry products. The gross production per one hectare of space is almost USD 1 thousand. The profitability was 62% by the beginning of 2002. One of the latest developments of the holding has been installation of new slaughter equipment at one of the holding’s poultry factories (this equipment enables to slaughter 6 thousand units of live poultry per hour).</td>
<td></td>
<td>Address: 31, Mikhailovskoe shosse, Belgorod, 308017 Phone: (0722) 21-11-04 Phone/Fax: (0722) 21-10-69</td>
<td>N/A</td>
</tr>
<tr>
<td>10</td>
<td>“Agrofirma Krasnodonskaya”</td>
<td>The main direction of the holding is processing of raw pork and poultry. The holding includes 21 enterprises. Among these enterprises is an ostrich-breeding enterprise in Ilovlinski rayon. This enterprise is supported by American ostrich breeders from Alabama. Presently, the head of ostrich at the enterprise is almost 300. The holding has the whole cycle of production and distribution – from fodder production to distribution of finished products to the market. The head of pigs at the 2 pig-breeding enterprises of the holding is almost 110 thousand.</td>
<td></td>
<td>Ilovlia, Volgograd region, 403070 Phone: (84467) 51-88-0 Phone/Fax: (84467) 51303</td>
<td>4,609 (2000)</td>
</tr>
<tr>
<td>11</td>
<td>Group “Razgulay-UKRROS”</td>
<td>The Group “Razgulay-UKRROS” is one of the largest Russian agroholdings. The main area of business of “Razgulay-UKRROS” is grain production. In addition, the holding is developing its activity in other sectors of the Russian agriculture and food processing. In the poultry sector, the holding owns the poultry factory “Orenburgsky broiler”.</td>
<td>In 2003, the Group “Razgulay-UKRROS” has invested 4 million USD in the complete modernization of the production of poultry meat at the poultry factory “Orenburgsky broiler”.</td>
<td>61/4, Ryazanskiy prospect, Moscow, 109468 Phone: (095) 171-32-46</td>
<td>N/A</td>
</tr>
</tbody>
</table>
5 Brief overview of the fish sector

5.1 Summary of the analysis of the Russian Fish sector

The Russian fish sector is one of the important sectors of the Russian agro industry. Its share in the total food processing industry production is about 11%.

The large natural reserves of fish form a good basis for future development of fish processing, provided that serious structural changes in the sector take place.

The Russian fish processing industry, like the fish sector in general, is in a difficult situation. After a sharp decline in the output of the fish processing industry, which was primarily due to the sharp fall in the commercial fishing, which decreased by 50% during the last ten years, the total production of fish products started to increase only in 1998. However, according to the latest available statistics, the level of production in the year 2002 decreased and constituted only 98% of the previous year volume.

One of the key obstacles of the fish sector development is the absence of basic legislation, which can regulate legal relations in the sphere of fish catching industry and saving water biological resources.

The unreported export remains a difficult issue in Russia due to the lack of transparency in the sector. The high scale of unreported export is conditioned by the specifics of the fish catching industry in the open sea (where traditional customs control is impossible) and lack of proper legislative base.

Currently the investment activity in the fish sector has been mostly financed by the enterprises’ own financial resources. The fish sector remains the one with the most insignificant volume of private and foreign investments. The volume of foreign investments in the Russian fish sector is low. Recently a tendency of attracting of foreign investments has appeared. The investments in the fish sector in 2002 accounted for about 6% of the total investments in food processing industry.

The main Russian fish processing companies are as follows: OAO "NBAMR", JSC "Okeanrybflot", "Akros" OAO, ZAO "Super", OAO "Murmansk Traloviy Flot", ZAO "Sakhalin Lizing Flot", OAO “Preobrazhenskaya Baza Tralovogo Flota", Arkhangelskaya baza tralovogo Flota, OAO "Turnif", “ROK 1”. These companies are described in the chapter 1.5 “Description of the main Russian fish processing companies”.

Introduced two years ago, the system of distribution of quotas through auction is changing continuously, which makes impossible to have a perspective provision of quotas as well as business development planning.

A number of factors hinder the recovery of the fish processing industry, especially the lack of funds at the fish processing enterprises and the obsolete equipment and undeveloped distribution systems. For further development, the Russian fish sector needs a new legislative base as a primary condition for attracting investments. In order to improve the investment prospects of the Russian fish sector and establish conditions for private
investments, a combination of improvements in the state regulation, financial and technical assistance is necessary.

This study has identified the most attractive business opportunities that are the most promising directions for investments for foreign companies that are searching for possibilities to start or expand their business in the Russian fish sector. While the state regulation and legislative acts are under development and could only be influenced via a lobbying activity, the financial and technical activities could be used in the following ways.

**Business opportunities**

1. Production of new high-quality fish products;
2. Acquisition of existing fish processing enterprises and establishment of new vertically integrated enterprises in the areas with the highest level of consumption of fish products;
3. Establishment of joint companies with the enterprises of the Russian fish sector;
4. Establishment of domestic/joint production of fish processing equipment;
5. Import and/or investments in domestic production of catch tools and fishing tackles used in fish catching industry;
6. Other opportunities:
   6.1 Investments and leasing of fishing vessels (there is a high demand for vessels equipped with refrigerating holds, ice generators and isothermal containers);
   6.2 Leasing of equipment (equipment for fish catching, processing, refrigerating, packaging, transporting and energy equipment);
   6.3 Construction of new storage facilities for the distribution of raw fish to processing enterprises and fish products to the market.

The business opportunities are also directions for investments of the large international financial institutions. However, the further growth of the Russian fish sector is hindered by a large number of problems that require substantial efforts to be solved.

**Problems of the Russian fish sector**

Apart from the legislative aspects, which have to be solved at the federal governmental level, there are the following most important problems of the fish sector:

1. Lack of funds and the poor financial situation of raw fish suppliers and processing enterprises;
2. Low professional skills of the management and quality control staff at fish processing enterprises;
3. Obsolete equipment and technologies; lack of equipment for on-board and on-shore fish processing;
4. Lack of high-quality raw fish for domestic processing;
5. Inefficiency of production capacities;
6. Distribution problems at all stages of the fish value chain (lack of special transport, obsolete refrigerating chambers and shortage of refrigerating chambers, poor conditions of the storage facilities, absence of quality control and poor hygienic condition of distributed end products);
7. Broken technological chain “catch-processing-sale”;
8. Poor advertising and marketing promotion, absence of branded products.
The existence of the problems and the difficult situation in the fish catching and processing make a participation of foreign companies in the Russian fish sector difficult. The absence of significant investments in the fish sector leads to an aggravation of the problems.

Together with the analysis of the sector and the identification of the main problems, this study was directed at the determination of possible solutions to these problems. To solve these problems, the resources of the large international financial institutions are required. The possible solutions are divided into investment solutions and TA solutions:

**Investment solutions**

1. Establishment of a special fund for the allocation of long-term credits to fish processing enterprises and fish catching enterprises;
   1.1 Allocation of long-term credits for:
      1.1.1 Modernization of existing fish processing enterprises and fish catching enterprises (purchasing and replacement of equipment at the existing enterprises, installation of new equipment for processing, refrigerating, transporting; energy equipment) for:
      • Increase of the production capacity of the fish processing enterprises;
      • Improvement of the quality of fish products;
      • Development of new types of high-quality fish products (delicacy products);
      • Increase of efficiency of the fish processing enterprises;
      1.1.2 Vertical integration of fish processing enterprises with fish catching enterprises, distributors of fish products and retailers into vertically integrated companies;
      1.1.3 Development of the distribution system of fish processing enterprises (development of transport and logistics departments at fish processing enterprises, enlargement of the distribution network);
   1.2 Establishment of a guarantee scheme for a leasing company in order to ensure payments for the equipment leased. Leasing of vessels and equipment for fishing and fish processing can be done through the leasing companies, such as Delta Leasing, which promotes leasing to small and medium-size enterprises in Russia.

2. Establishment of a leasing scheme for foreign companies that supply equipment for fish processing and fish catching to the Russian market.

3. Direct investments in the enterprises:
   3.1 Investments in the production of fish flour, which is imported in large amount;
   3.2 Investments in the development of profitable industrial coastal fish breeding, which is currently not developed in Russia;
   3.3 Investments in the production of highly technological products, such as surimi. Surimi is used as a raw material in crabsticks production and currently is not produced in Russia;
   3.4 Investments in the establishment of the production of culinary and semi-finished fish products the demand for those products is increasing especially in large urban centers;
   3.5 Investments in modern refrigerating and storage facilities and distribution centers;
   3.6 Investments in the domestic production of fish processing equipment.
TA Solutions
1. Training of personnel of all levels; TA for the creation of the system of personnel motivation;
2. TA for corporate governance, financial management and marketing (especially in advertising and promotion of products);
3. TA in preserving water bio-resources and solving ecological problems;
4. TA for the introduction of modern standards of quality control;
5. TA for the development of distribution channels and logistics.
5.2 Schematic overview of the Russian Fish sector

**Fish sector**

- **Fish catch**
  - Fishing fleet
  - Boats construction industry
  - Fishing/fish catch
  - Fish reserves
    - Fishing areas
    - Main types of fish (cod, herring, salmon and sprat)

- **Processing**
  - on board and
  - Distribution
to the market

- **Distribution**
  - of finished fish products to the market
  - (trading companies)

- **Processing of raw fish**
  - Products:
    - Frozen fish
    - Fish fillet
    - Smoked fish
    - Caviar
    - Pickled whole fish
    - Canned fish and seafood
    - Marinated fish and seafood
    - Dry fish
    - Non-food fish products such as fats and fish flour.
    - Packaging (vacuum and can): sometimes done on board - floating can-fish factories.
    - Storage

- **Market of fish products**
  - Supply
    - Domestic
    - Prices
    - Imported

- **Distribution**
  - of finished fish products to the market
    - (trading companies)

- **Exports**
  - of raw fish

- **Imports**
  - of raw fish

- **Exports**
  - of raw fish

**Number of consumers with low income**

- Rise $ - Invest. opport.

- Fall TA – TA

- Problems

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## 5.3 Problems and solutions by stages of the fish value chain

<table>
<thead>
<tr>
<th>STAGE</th>
<th>PROBLEMS</th>
<th>SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish catch</td>
<td>• Fishing fleet</td>
<td>• Modernization of fishing fleet</td>
</tr>
<tr>
<td>• Boat construction industry</td>
<td>• Construction of new vessels and modernization of equipment</td>
<td></td>
</tr>
<tr>
<td>• Fishing/ Fish catch</td>
<td>• Providing financial schemes for vessels construction and leasing</td>
<td></td>
</tr>
<tr>
<td>• Fish reserves</td>
<td>• Improvement of ecological state of water basins by financing ecological programs</td>
<td></td>
</tr>
<tr>
<td>• Fishing areas</td>
<td>• Introduction of technologies for the preservation of fish reserves</td>
<td></td>
</tr>
<tr>
<td>• Main types of fish</td>
<td>• Appropriate legislation on fish catching industry should be developed and approved (including export/import issues)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Quotas system should be revised and adopted</td>
<td></td>
</tr>
<tr>
<td>Export of raw fish</td>
<td>1. Loss of technological chain: “fish catch- fish processing- sales”</td>
<td>1. Vertical integration of fish catchers and processors through:</td>
</tr>
<tr>
<td>Processing of raw fish on board (floating fish processing enterprises)</td>
<td>2. Lack of transport with refrigerating facilities</td>
<td>• Vertical integration with raw fish suppliers</td>
</tr>
<tr>
<td>Deep processing (canned fish, pickled whole fish)</td>
<td>3. Lack of modern equipment for on-board fish processing</td>
<td>• Establishment of quality control centers and laboratories to provide qualified services on contract base</td>
</tr>
<tr>
<td>Non-deep processing (frozen fish, fish fillets)</td>
<td>4. Lack of established distribution channels</td>
<td>• Installation of new processing and refrigerating equipment, production and packaging lines</td>
</tr>
<tr>
<td>Processing of raw fish on shore:</td>
<td>5. Uncontrolled export</td>
<td>• Introduction of new technologies of fish processing</td>
</tr>
<tr>
<td>• Retail fish</td>
<td>1. Export-oriented raw fish suppliers (export market is more attractive)</td>
<td>• Personnel training</td>
</tr>
<tr>
<td>• Smoked fish</td>
<td>2. Obsolete equipment and technologies at fish processing enterprises</td>
<td>• Introduction of technologies and equipment for producing inedible fish products</td>
</tr>
<tr>
<td>• Canned fish and seafood</td>
<td>3. Lack of funds</td>
<td></td>
</tr>
<tr>
<td>• Semi-finished products</td>
<td>4. Low level of quality control (this system is not established)</td>
<td></td>
</tr>
<tr>
<td>• Marinated fish</td>
<td>5. Growth of energy tariffs and transport costs</td>
<td></td>
</tr>
<tr>
<td>• Inedible products</td>
<td>6. Absence of basic system for training specialists in technology and quality control, poor professional skills of staff and management</td>
<td></td>
</tr>
<tr>
<td>• Fat</td>
<td>7. Large share of unreported “grey” sector</td>
<td></td>
</tr>
<tr>
<td>• Fish flour</td>
<td>8. Complicated system of tax and customs payments</td>
<td></td>
</tr>
<tr>
<td>Packaging (vacuum and can)</td>
<td>9. Significant share of “grey” export (illegal export)</td>
<td></td>
</tr>
<tr>
<td>Storing</td>
<td>1. Loss of technological chain: &quot;fish catch- fish processing- sales&quot;</td>
<td></td>
</tr>
<tr>
<td>Import of raw fish</td>
<td>2. Lack of transport with refrigerating facilities</td>
<td></td>
</tr>
<tr>
<td>• Trading companies</td>
<td>3. Lack of modern equipment for on-board fish processing</td>
<td></td>
</tr>
<tr>
<td>Distribution of finished fish products to the market (trading companies)</td>
<td>4. Lack of established distribution channels</td>
<td></td>
</tr>
<tr>
<td>Distribution of raw fish to fish processing enterprises</td>
<td>5. Uncontrolled export</td>
<td></td>
</tr>
<tr>
<td>• Trading companies</td>
<td>1. Absence of established distribution system, including quality and safety control</td>
<td></td>
</tr>
<tr>
<td>1. Highly obsolete ships and equipment</td>
<td>2. Lack of funds to improve distribution</td>
<td></td>
</tr>
<tr>
<td>2. Loss of technological chain: “fish catch- fish processing- sales”</td>
<td>3. Lack of refrigerating equipment at storage facilities</td>
<td></td>
</tr>
<tr>
<td>3. Deterioration of fish reserves</td>
<td>4. Dependence of small fish processing enterprises on wholesalers’ choice of products</td>
<td></td>
</tr>
<tr>
<td>4. Uncontrolled and inefficient use of resources</td>
<td>5. Delays in payments for delivered products</td>
<td></td>
</tr>
<tr>
<td>5. Obsolete equipment and technologies</td>
<td>6. Big difference in assortment range and prices between urban centers of Moscow/St.Petersburg and regional markets</td>
<td></td>
</tr>
<tr>
<td>6. Lack of proper legislation on fish catching industry issues</td>
<td>7. Quotas distribution system</td>
<td></td>
</tr>
<tr>
<td>7. Quotas distribution system</td>
<td>8. Complicated system of tax and customs payments</td>
<td></td>
</tr>
<tr>
<td>8. Complicated system of tax and customs payments</td>
<td>9. Significant share of “grey” export (illegal export)</td>
<td></td>
</tr>
<tr>
<td>9. Significant share of “grey” export (illegal export)</td>
<td>1. Absence of established distribution system, including quality and safety control</td>
<td></td>
</tr>
<tr>
<td>Market of fish products: domestic – 75-80%, imported – 20-25%; rise of prices and demand.</td>
<td>2. Lack of funds to improve distribution</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Lack of refrigerating equipment at storage facilities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Dependence of small fish processing enterprises on wholesalers’ choice of products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Lack of refrigerating equipment at retail trading enterprises (esp. in rural areas)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Difference in assortment range and prices between urban centers of Moscow/St.Petersburg and regional markets</td>
<td></td>
</tr>
</tbody>
</table>
## 5.4 Description of the main Russian fish processing companies

<table>
<thead>
<tr>
<th>N</th>
<th>Company name</th>
<th>Company description</th>
<th>Present and planned investment and business activity of the company</th>
<th>Contact data</th>
<th>Annual turnover, mln USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OAO &quot;NBAMR&quot; (Primorskiy kray)</td>
<td>OAO &quot;NBAMR&quot; is a large fish catching and processing enterprise located in the Far East Federal district in the city of Nakhodka. The share of OAO &quot;NBAMR&quot; in the total Russian fish catch is about 7%.</td>
<td>N/A</td>
<td>ul. Makarova, 5, Nakhodka Primorskiy kray 692900 Phone: +7 (42366) 22721, (266) 22751 Fax: +7 (42366) 22751</td>
<td>81,481</td>
</tr>
<tr>
<td>2</td>
<td>JSC &quot;Okeanybflof&quot; (Kamchatskaya oblast)</td>
<td>JSC &quot;Okeanybflof&quot; is a large fish catching and processing enterprise situated in the Far East Federal district in Kamchatskaya oblast. The number of employees of the enterprise is over 2,5 thousand. In addition to the Russian market, JSC &quot;Okeanybflof&quot; exports its products to Japan, Germany, the USA, China and other countries. JSC &quot;Okeanybflof&quot; invests large funds in the purchase of new equipment and the construction of fish processing workshops in order to enlarge the assortment of products and manufacture products of high quality.</td>
<td>N/A</td>
<td>ul. Leningradskaya, 27 Petropavlovsk-Kamchatskiy, Russia 683003 Phone: +7(4152) 11-00-54, 11-25-68, 2256 10 Fax: +7 (4152) 11 27 40 E-mail: <a href="mailto:dyn@bor.kamchatka.ru">dyn@bor.kamchatka.ru</a> <a href="mailto:russey@bor.kamchatka.ru">russey@bor.kamchatka.ru</a></td>
<td>56,111</td>
</tr>
<tr>
<td>3</td>
<td>Rybolovetskoe predpriyatie &quot;Akros&quot; OAO (Kamchatskaya oblast)</td>
<td>The main directions of activity of &quot;Akros&quot; are: on-board fish processing and catch and subsequent sale of fish to fish processing enterprises. In 2002, the enterprise stopped selling raw fish to fish processing enterprises and processed all its fish catch itself.</td>
<td>N/A</td>
<td>ul. Shturmana Elagina, 43 Petropavlovsk-Kamchatskiy, Russia 683013 Phone: +7 (415-22) 4-37-17 Fax: +7 (415-22) 4-37-48</td>
<td>43,963</td>
</tr>
<tr>
<td>4</td>
<td>ZAO &quot;Super&quot; (Primorskiy kray)</td>
<td>N/A</td>
<td>N/A</td>
<td>ul. Kalinina, 243 Vladivostok, Russia 690043 Phone: +7 (4232) 270310 Fax: +7(4232) 300298</td>
<td>65,370</td>
</tr>
<tr>
<td>5</td>
<td>OAO &quot;Murmansky Traloviy Flot&quot; (Murmanska oblast)</td>
<td>OAO &quot;Murmansky Traloviy Flot&quot; is one of the largest fish catching and processing enterprises in Russia. The number of employees of the enterprise is about 6000. The annual fish catch by the enterprise amounts to 237 thousand tons, and the annual volume of production of fish products is 198 thousand tons. OAO &quot;Murmansky Traloviy Flot&quot; sells 65,6% of its output in Russia and exports the rest 34,4%. OAO &quot;Murmansky Traloviy Flot&quot; is constantly modernizing the vessels that are obsolete and installing modern equipment at its vessels.</td>
<td>N/A</td>
<td>ul. Shmidt, 43 Murmansk, Russia 183038 Phone: +7 (8152) 288-111, 288-006 Fax: +7 (8152) 288-070 E-mail: <a href="mailto:mtf@mtf.ru">mtf@mtf.ru</a></td>
<td>58,667</td>
</tr>
<tr>
<td>6</td>
<td>ZAO &quot;Sakhalin Lizing Flot&quot; (Sakhalinskaya oblast)</td>
<td>N/A</td>
<td>N/A</td>
<td>ul. Lenina, 5, rp Pravda, Kholmskiy R-N, Sakhalinskaya oblast, Russia 694620 Phone: +7 (42433) 52095 Fax: +7 (42433) 52295 E-mail: <a href="mailto:lizing1@kholmsk_sakhalin.ru">lizing1@kholmsk_sakhalin.ru</a></td>
<td>40,444</td>
</tr>
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<td></td>
<td>OAO “Preobrazhenskaya Baza Tralovogo Flota” (Primorskiy kray)</td>
<td>OAO “Preobrazhenskaya Baza Tralovogo Flota” is among 3 leading enterprises of the fish sector of Primorskiy kray (the Far East Federal district). The number of employees of the enterprise is 5 thousand.</td>
<td>OAO “Preobrazhenskaya Baza Tralovogo Flota” has constructed an enterprise engaged in breeding of trepang in order to include trepang in its assortment in the near future.</td>
<td>Rp. Preobrazhene, Lazovskiy Raion, Primorskiy kray 692899 Phone: +7 (4232) 22-48-43, 9-43-64; 9-42-44; 9-44-19, 9-42-15, 9-12-86, 9-42-15, 9-42-67 Fax: +7 (4232) 9-41-15, 9-42-15</td>
<td>38,370</td>
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<tr>
<td>7</td>
<td>“Arkhangelskaya baza tralovogo Flota” (Arkhangelskaya oblast)</td>
<td>“Arkhangelskaya baza tralovogo Flota” is engaged in fish catching and processing. “Arkhangelskaya baza tralovogo Flota” is the largest fish catching enterprise of Arkhangelskaya oblast and the second largest fish catching enterprise of the North-West Federal district. Most products of the enterprise are sold in Arkhangelskaya oblast. The number of employees of the enterprise is about 3200.</td>
<td>In order to develop its fish catching fleet, “Arkhangelskaya baza tralovogo Flota” has placed an order for the construction of 2 trawlers by the Russian state-owned enterprise “Zvezdochka”.</td>
<td>Leningradskiy Pr, 324, Arkhangelsk, 163030 Phone: +7 (8182) 62-89-88, 62-90-04 Fax: +7 (8182) 61-21-97 E-mail: <a href="mailto:priem2@abtf.arh.ru">priem2@abtf.arh.ru</a> <a href="mailto:priem1@abtf.arh.ru">priem1@abtf.arh.ru</a></td>
<td>34,963</td>
</tr>
<tr>
<td>8</td>
<td>OAO “Turnif” (Primorskiy kray)</td>
<td>The company is engaged in fish catching and processing. The company owns 8 large-capacity vessels equipped with modern fish catching and processing equipment. Currently OAO “Turnif” produces more than 60 thousand tons of fish products per year. The company sells its products in Russia and exports to the Asian-Pacific area and the USA.</td>
<td>The company plans to start production of semi-finished packed frozen fish products. In February 2003 the company started to install new German processing equipment at the premises rented from a local meat processing enterprise. The project is presented as part of the strategic program for the development of on-shore fish processing. The key focus of the program is to expand the sales of packed fish products on the local market.</td>
<td>Svetlanski Per 11/2, Vladivostok 690600 Phone/ Fax: +7 (4232) 224371, 270318, 260550</td>
<td>26,333</td>
</tr>
<tr>
<td>9</td>
<td>ROK 1</td>
<td>“ROK 1” is a fish processing and trading company. It is expected that the number of consumers in the markets of “ROK 1” will increase by 0,2% per year, and the growth of consumption of fish products of “ROK 1” will be at least 2,7% per year. The company has a large customer base of over 3500 regular customers located in different areas, including St.Petersburg, Moscow, the Ural Federal district, the Siberian Federal district and others. Among the customers of “ROK 1” are large wholesale traders and supermarket networks (Lenta, Metro, Perekrestok, Paterson, etc.) both in Moscow and St.Petersburg.</td>
<td>As a result of the business activity of “ROK 1”, the number of its customers is expected to increase by 0,2% per year, and the growth of the consumption of fish products of “ROK 1” is expected to be at least 2,7% per year.</td>
<td>St.Petersburg, Ugolnaya Gavan, Elevatornaya Ploschadka 16,7 Phone: (812) 183-33-00, (812) 183-91-74 Fax: (812) 183-33-35</td>
<td>2,4</td>
</tr>
</tbody>
</table>

Peja International B.V.
6 Brief overview of the Grains sector

6.1 Summary of the analysis of the Russian Grains sector

The share of the grains sector (flour production, mixed fodder production, bread and pasta production) in the total volume of output of the Russian food processing industry is 23%.

Russia is one of the largest producers of grain in the world. The exports and consumption of grain in Russia are large. The estimated capacity of the Russian grain production is 100 mln tons per year, whereas the volume of internal consumption of grain is 75-76 mln tons per year. However, for the past five years the grain production has not been stable, and in certain years Russia had to import up to 9% of the domestic grain consumption. The main reason for the unstable production of grain is the strong dependence of grain production on weather conditions in Russia. The Russian grain production is characterized by a low level of intensification. The use of modern technologies could make Russia the leader in the world by volume of grain production.

Main trends in the Russian grains processing industry

The Russian grains processing industry includes flour production, cereals processing and production of mixed fodder.

1. The flour production is decreasing due to the decrease in size of the Russian population. The flour industry is characterized by significant overcapacity and relatively low margins. As a result, it is expected that concentration of the industry will take place. In order to increase profitability, the flour producers may explore market niches by producing specialized types of flour (for example, flour with vitamin additives).

2. The volume of cereals processing in Russia is increasing, however Russia imports a large volume of processed cereals due to the fact that growing of cereals is limited in Russia.

3. The mixed fodder industry has been expanding for the past 3 years. The main reason for this expansion is the development of domestic livestock and poultry breeding (livestock and poultry breeding are the main consumers of mixed fodder). According to experts, the industry has a large potential for further growth due to the expected further development of domestic livestock and poultry breeding.

Market situation in the Russian grains sector

1. As the Russian population is diminishing, the demand for grain and the volume of the grain market are also gradually decreasing. This tendency is of a long-term character.

2. During the past 4 years, the Russian flour market has been more or less stable. The volume of the flour market depends directly on the size of the country’s population, its consumption habits and purchasing capacity. The volume of the Russian flour market is expected to steadily decrease in the coming years.

3. The market of cereals is relatively stable, and for the past 3 years the capacity of this market has been at the level of 1,3 mln tons per year. Russian people typically consume buckwheat (28% of the total consumption of cereals), rice (21%) and millet (10%) as garnish. With the increase of the purchasing capacity of the population, the market of “instant” cereals is quickly developing and is expected to attract future investments.

4. The Russian market of mixed fodder is growing due to the growth of the demand for
mixed fodder and the domestic production of mixed fodder.

**Main grains processing companies**
The main Russian grains processing companies are as follows: Agros (Roskhlebproduct), OGO Group of companies, Razgulay-UKRROS Group, Rusagro Group, Rusagrokapital, OAO “Jug Rusi”, LenStro Group, Altan Group, OAO Makfa. These companies are described in the chapter 1.5 “Description of the main Russian grains processing companies”.

**Main trends in the flour processing industries**
The main flour processing industries are bread industry and pasta industry.
1. The bread industry is strongly influenced by regional and municipal authorities, as bread is considered a socially important product (a product which is important for the “food safety” of Russia). The bread factories may increase profitability only by increasing efficiency of production and by production of a wider assortment of bread products, which will require additional investments.
2. The pasta production is steadily increasing in Russia. The domestic production of pasta experienced a boost after the crisis of 1998. Currently, the pasta production is increasing by 5%-8% per year. The largest pasta producers (Makfa and Extra-M) are expected to invest in own production of hard wheat. There is an increasing demand for high-quality pasta products manufactured of hard wheat, however the volume of domestic production of hard wheat is 2 times lower than the demand for hard wheat.

**Main trends in the grains sector as a whole**
1. Significant investments in modern equipment were made by the main market players due to the obsolescence of the equipment;
2. There is a growth of the purchasing capacity of the population, which positively influences the grains sector;
3. There are processes of concentration and integration in the grains sector;
4. The competition is expected to intensify in the coming 2 years and to lead to the production of high-quality products and a wide assortment of products.

**Regional aspect**
Grains production is mainly concentrated in the Southern Federal district (mainly in Krasnodar kray and Rostov oblast) and the Siberian Federal district (mainly in Altai kray). The Southern FD occupies 35% in the total volume of grains production in Russia. The share of the Siberian FD in the total volume of grains production is approximately 25%.

The flour production is unevenly distributed among Russian Federal districts. The main areas where the production of flour is concentrated are Altai kray in the Siberian FD with a share of 9% in the total volume of flour production, Moscow oblast in the Central FD with a share of 7%, Tatarstan republic in the Privolzhskiy FD with a share of 6%, Krasnodar kray in the Southern FD with a share of 6% and Chelyabinsk oblast in the Ural FD with a share of 5%.

Bread and pasta are among the main food products that have a constant demand in Russia. Therefore the production of bread and pasta is mainly concentrated in the most populated areas in Russia, which are located in the Central, Privolzhskiy, Southern, Siberian, Ural and North-West Federal districts.
Investments in the grains sector
It is estimated that the total investments in the grain processing, flour production and pasta production for the past 4 years have been 200-300 mln USD. The main investors in the industries relating to the grain value chain are the largest Russian agro-holdings: “Rusagrokapital”, “Makfa”, “Jug Rusi”, “Aston”, “OGO”, “Razgulay-UKRROS” and Agros.

The investments in the production of flour and bakery products in Russia were mainly made by small flour processors and bakery producers.

The highest investment activity takes place in the pasta industry. The leading Russian pasta-producing companies have invested in the modernization of their production facilities and purchase of new western equipment for pasta production.

Encouraged by the economic development and the political stability, foreign companies have started their investment projects in the Russian grain processing industry only recently.

Currently, grain production is considered a profitable business and attracts both Russian and foreign investors.

Investment and business opportunities in the Russian grains sector
There are the following investment opportunities in the grains sector:
1. Production of bread products with high added value;
2. Production of high-quality pasta products;
3. Production of mixed fodder;
4. Investment in the export port capacities on the Black Sea and on its eastern border;
5. Leasing of agricultural and processing equipment;

Problems of the grains sector
One of the main problems for the development of the potential of the Russian grains sector is insufficient financing. As a result, Russian grain producers lack quality grains for sowing, machinery and fertilizers. In turn, this leads to low yields and losses of harvests.

The second main problem is that Russian agricultural enterprises produce hard wheat in an insignificant volume. Hard wheat is used for production of high-quality bread products and pasta. The limited volume of domestically produced hard wheat significantly hinders the development of Russian flour processing enterprises.

The other problems of the Russian grains sector are as follows:
1. Lack of funds at agricultural enterprises – grains producers;
2. Obsolete equipment and technologies of grains production and processing at agricultural and grains processing enterprises;
3. Low professional skills of the management and the staff of agricultural enterprises – grains producers and grains processing enterprises;
4. Large losses of grains during harvesting, distribution and processing;
5. Poor advertising and market promotion of produced products by grain processing enterprises, strong price competition in the Russian market;
6. Growth of energy tariffs against the background of energy and heat supplies interruptions.

This study has identified the possible solutions for these problems which are divided into the investment and technical assistance solutions.

**Investment solutions**
1. Establishment of a special fund for allocation of long-term credits to grains processing enterprises and agricultural enterprises.
   1.1. Allocation of long-term credits for:
      1.1.1. Modernization of existing agricultural enterprises and grains processing enterprises (purchasing and replacement of equipment at the existing enterprises, installation of new equipment for grains growing, harvesting, processing and energy equipment);
      1.1.2. Vertical integration between processing enterprises, producers of grains and flour, distributors of processed products and retailers into vertically integrated companies;
      1.1.3. Development of a distribution system of grains (development of transport and logistics departments at grain processing enterprises, enlargement of the distribution network, investments in new export capacities);
      1.1.4. Investments in domestic mixed fodder production (through vertical integration).
   1.2. Establishment of a guarantee scheme for:
      1.2.1. Grains and flour producers - to guarantee the payments for delivered grains and flour to the processing enterprises and to ensure payments for delivered products;
      1.2.2. A leasing company – to ensure payments for the equipment leased.
2. Financing of the investments of foreign companies in Russia;
3. Leasing of equipment through the existing “Agro-industrial finance company”;
4. Establishment of a leasing scheme for foreign companies that supply equipment for grains processing to the Russian market.

**TA Solutions**
1. TA in the harmonization of GOSTs, standards, certificates and methods of the analysis of the quality of products taking into account the future WTO accession and world practices in general;
2. TA in the development of the information services for the grain exporters;
3. TA in grains selection (improvement of the quality of wheat seeds);
4. TA in the development of the regulation of the bread market, the price regulation, the state support to the bread producers, the restriction of the exports of grain, the government intervention, the financial support to the producers of flour and bakery products in the years of the high exports;
5. Training of personnel of all levels; TA for corporate governance, financial management and marketing (especially in advertising and product’s promotion);
6. TA in introduction of new western technologies of grains growing, harvesting and processing;
7. TA for the introduction of modern standards for quality control; TA for training on ISO/HACCP.
6.2 Schematic overview of the Russian Grains sector

Grains sector

Production of grains
- Grains sowing
- Harvesting
- Grains storing

Products:
- Grains

By-products:
- Silage

Import of grains
- trading companies

Market of bread (decreases 3% annually)
- Domestic (100% of the market)
- Imported (0% of the market)

Market of pasta (rises 8% annually)
- Domestic (94% of the market)
- Imported (6% of the market)

Market of flour (decreases 5% annually)
- Domestic (100% of the market)
- Imported (0% of the market)

Market of cereals (rises 2% annually)
- Domestic (66% of the market)
- Imported (34% of the market)

Supply Prices Demand

Number of consumers with low income
Number of consumers with medium and high income

Distribution of by-products to livestock-breeding enterprises and poultry farms

Distribution of finished products to the market (through trading companies or own distribution network)

Distribution of mixed fodder to livestock-breeding enterprises and poultry farms

Distribution
Grains to:
- Flour-grinding enterprises
- Cereals-producing enterprises
- Fodder-producing enterprises

Distribution
Flour:
- Packaged
- Storing

Processing of flour
Products:
- Packed flour
- Bread and bread stuffs
- Pasta
- Confectionary products (biscuits, wafers and others)

Processing of cereals products
- Packaged
- Instant gruels

Rise $ - Invest. oppert.
Fall TA - TA
Problems

Packing
Storing

Packing
Storing

Packaging
Storing

Packaging
Storing

Packaging
Storing
### 6.3 Problems and solutions by stages of the grain value chain

<table>
<thead>
<tr>
<th>STAGE</th>
<th>Production of grain</th>
<th>Distribution of grain</th>
<th>Processing of grain into</th>
<th>Processing of flour into</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>• Domestic grain production</td>
<td>• Storage</td>
<td>• Flour</td>
<td>• Bread products</td>
</tr>
<tr>
<td></td>
<td>• Imports of grain</td>
<td>• Transportation</td>
<td>• Cereals</td>
<td>• Pasta</td>
</tr>
</tbody>
</table>

**PROBLEMS**

1. Inefficient production
2. Losses during harvesting
3. Lack of souring and harvesting machinery
4. Unpredictable government policy
5. Lack of working capital
6. Different quality standards of grain in Russia and western countries
7. Grain producers lack analytical information about the western markets

<table>
<thead>
<tr>
<th>SOLUTIONS</th>
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<td>PROBLEMS</td>
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</tr>
<tr>
<td></td>
<td>1. Inefficient production</td>
<td>1. Lack of export capacities</td>
<td>1. Significant overcapacity in all grain processing industries</td>
<td>1. Significant overcapacity</td>
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<tr>
<td></td>
<td>2. Losses during harvesting</td>
<td>2. Losses at transportation and storage</td>
<td>2. At the same time, obsolete equipment and technologies</td>
<td>2. At the same time, obsolete equipment and technologies</td>
</tr>
<tr>
<td></td>
<td>3. Lack of souring and harvesting machinery</td>
<td></td>
<td>3. Inefficient use of resources; losses; rise of prices for resources</td>
<td>3. Inefficient use of resources; losses; rise of prices for resources</td>
</tr>
<tr>
<td></td>
<td>4. Unpredictable government policy</td>
<td></td>
<td>4. Poorly qualified management and staff at regional producers</td>
<td>4. Poorly qualified management and staff at regional producers</td>
</tr>
<tr>
<td></td>
<td>5. Lack of working capital</td>
<td></td>
<td></td>
<td>5. Lack of domestically grown hard wheat for production of high-quality pasta</td>
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<tr>
<td></td>
<td>6. Different quality standards of grain in Russia and western countries</td>
<td></td>
<td></td>
<td>6. Poorly qualified management and staff at regional producers</td>
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<td></td>
<td>7. Grain producers lack analytical information about the western markets</td>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Usage of varieties of higher yield</td>
<td>1. Investments in export capacities</td>
<td>1. Investments in modern equipment</td>
<td>1. Investment in modern equipment</td>
</tr>
<tr>
<td></td>
<td>2. Financing of machinery purchases and working capital</td>
<td>2. Investments in transport vehicles and modern storage facilities</td>
<td>2. Introduction of resource-saving technologies</td>
<td>Development of regulations of the bread market and price regulation</td>
</tr>
<tr>
<td></td>
<td>4. Harmonization of grain standards and certification procedures</td>
<td></td>
<td></td>
<td>2. Education of managers</td>
</tr>
<tr>
<td></td>
<td>5. Organization of information resources</td>
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</tr>
</tbody>
</table>
### 6.4 Description of the main Russian grains processing companies

<table>
<thead>
<tr>
<th>N</th>
<th>Company name</th>
<th>Company description</th>
<th>Present and planned investment and business activity of the company</th>
<th>Contact data</th>
<th>Annual turnover, USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agros (Roskhlebproduct) (6 grains processing enterprises and bread production plants)</td>
<td>&quot;Agros&quot; manages share holdings of over 40 joint stock companies and has a leading position by volume of grain sales on the domestic and foreign markets. The day-to-day control of the current projects is performed by the company “Roskhlebproduct”, which is included into &quot;Agros&quot;. The grain direction of &quot;Agros&quot; includes: large agricultural production, wholesale trade of grains and oil seeds, as well as products of their processing. The holding includes flour-producing enterprises, mixed fodder plants and macaroni plants. The main activities are purchase, storage, processing of grains and sales of the products of their processing: flour, cereals, mixed fodder, macaroni.</td>
<td>&quot;Roskhlebproduct” plans to construct a grain terminal in the port “Ust-Luga” in the collaboration with the company “Ust-Luga”. The planned capacity of the terminal is about 2.2 million tons per year. The terminal will be used not only for transportation and storage of grain, but also for transportation and storage of soybean, extraction cake, rice and sugar.</td>
<td>6 Krzhizhanovskogo st., Moscow, Russia 117292 Phone: +7 (095) 995 2222 Fax: +7 (095) 995 2255</td>
<td>120 mln (2001)</td>
</tr>
<tr>
<td>2</td>
<td>OGO Group of companies</td>
<td>OGO Group is one of the largest producers of grains and sunflower oil in Russia. The grains direction of OGO Group is represented by “Zernovaya kompaniya OGO” (“The grains company OGO”). The group of companies “OGO” owns or holds a share in the following enterprises: mixed fodder plants, plants and workshops producing flour, oil-extraction plants and poultry factories. The company has a vast distribution network on the territory of Russia, as well as abroad – in Belarus, Ukraine, Moldova, Kazakhstan, Turkmenistan, Switzerland and the USA.</td>
<td>In January 2003, “Zernovaya kompaniya OGO” issued the second tranche of bonds to the amount of 8.3 million USD in order to support its development. (The company issued its first tranche of bonds to the amount of 4.7 million USD in June 2001 and repaid it in December 2001). During recent years, “OGO” has invested USD 18.53 million in the reconstruction and modernization of its enterprises.</td>
<td>Gagarinskiy pereulok, 35/5/2, Moscow, 121002, Russia Phone: (095) 245-25-08</td>
<td>N/A</td>
</tr>
<tr>
<td>3</td>
<td>Razgulay-UKRROS Group</td>
<td>The group of companies “Razgulay-UKRROS” has 38 regional representations throughout Russia and owns 35 enterprises. The market share of “Razgulay-UKRROS” in the Russian grain market is 4%. The grain direction of the company is represented by “Zernovaya kompaniya “Razgulay”, which is among five biggest players on the Russian grain market and controls over 20 enterprises engaged in the storage and processing of grain.</td>
<td>&quot;Zernovaya kompaniya “Razgulay” intends to invest in possible projects of grain export through Caspian Sea. &quot;Zernovaya kompaniya “Razgulay” plans to invest in growing of grains in Omsk oblast through the collaboration with the agricultural enterprises of this oblast.</td>
<td>Ryazansky prospect, 61/4, Moscow, Russia, 109468 Phone: (095) 171-32-46 Fax: (095) 171-32-46 E-Mail: <a href="mailto:pr@raz.ru">pr@raz.ru</a></td>
<td>420 mln (2001)</td>
</tr>
<tr>
<td>4</td>
<td>Rusagro Group</td>
<td>The group of companies “Rusagro” was established in 1996. Since 2000, the company has started a quick development of three directions of activity: grain, oil and sugar production. ZAO “Kurant Zerno” (part of “Rusagro”) grows and processes grain and oil seeds. The company has elevators in Krasnodar kray and Altai kray, two oil-extraction plants in Voronezh oblast and a network of 7 trading branches. The company plans to gain a market share of no less than 10% in the grain market.</td>
<td></td>
<td>Ul. Krzhizhanovskogo, 18 corp. 2, Moscow, Russia, 117218 Phone: (095) 777-65-24, 777-65-26 Fax: (095) 129-21-10 E-mail: <a href="mailto:rusagro@rafinad.ru">rusagro@rafinad.ru</a></td>
<td>Over 400 mln</td>
</tr>
<tr>
<td>5</td>
<td>Rusagrokapital</td>
<td>“Rusagrokapital” is one of the ten biggest agro-holdings in Russia. “Rusagrokapital” includes over 10 enterprises of the flour-and-cereals industry, the mixed fodder industry, livestock breeding, the poultry industry and the meat processing industry. The holding processes about 1.5 million tons of grain each year and produces about 900 thousand tons of flour per year. The market share of “Rusagrokapital” in the Russian market of flour and grain is about 6.2%.</td>
<td>According to the president of “Rusagrokapital”, this agro-holding plans to acquire 8-12 flour-producing enterprises and increase its market share in the market of flour to 20% by the end of 2004. In March 2003, “Rusagrokapital” has started a program of issuing bills of credit in order to support its purchases of grain. By the end of August 2003, “Rusagrokapital” had issued bills of credit to the sum of 25 million USD and had repaid two thirds of this sum.</td>
<td>Ul. Bolshaya Yakimanka, 1, Moscow, Russia, 119180 Phone: (095) 777-25-22 Fax: (095) 777-49-58 E-mail: <a href="mailto:info@rusagrokapital.ru">info@rusagrokapital.ru</a></td>
<td>Over 60 mln (2001)</td>
</tr>
<tr>
<td></td>
<td>OAO “Jug Rusi”</td>
<td>The agro-holding “Jug Rusi” represents a vertically integrated company. It includes enterprises that are engaged in: production of seeds, storage and processing of grain on elevators, production of mixed fodder, seed oil and fodder cake, refinement and packing of oil, trade. “Jug Rusi” is one of the biggest exporters of grain in Rostov oblast. One of the main tasks of the agro-holding in the near future is to develop the port infrastructure. The main direction of the company’s activity is production of sunflower oil. Production of grain is a secondary direction of the company’s activity. Nevertheless, “Jug Rusi” remains one of the biggest players on the Russian market of cereals and flour.</td>
<td>“Jug Rusi” intends to expand its area under grains and presently looks for additional land for this purpose.</td>
<td>Ul. Lugovaya, 9, Rostov-on-Don, 344007, Russia Phone: (8632) 61-83-80, 62-49-53, 99-01-27 Fax: (8632) 62-05-88 E-mail: <a href="mailto:info@grain.ru">info@grain.ru</a> Moscow rep. Office: Michurinsky prospect, 51, Moscow, 117607, Russia Phone: (095) 797 5697 Fax: (095) 797 5623</td>
<td></td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td></td>
<td>LenStro Group (OAO &quot;Leningradskiy kombinat khleboproduktov imeni S.M.Kirova&quot;) (Leningrad bakery plant in the name of S.M. Kirov)</td>
<td>The group of companies “Lenstro” was established on the basis of a broker company “Lenstroimaterialy” and finished the process of its joining into a single agro-industrial complex with a complete chain of production in 2001. Presently, the foodstuff block of the group includes 9 enterprises with the number of employees of about 4 thousand. Among the enterprises of this foodstuff block is one of the largest bakery plant in the North-West Federal district – Leningrad bakery plant in the name of S.M. Kirov.</td>
<td>LenStro Group and the Petmol milk processing enterprise have invested 1 million USD in the establishment of the “Sluzhba 78” Company, which will be engaged in &quot;distant&quot; trade in foodstuffs and non-food products.</td>
<td>LenStro Group Ul. Millionnaya, 8, St.Petersburg, Russia, 191186 Phone/Fax: (812) 325-96-96</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Altan Group</td>
<td>The “Altan” agro-holding specializes in the processing of hard wheat and the production of macaroni under the brand “Grammulino”. “Altan” is one of the leaders on the macaroni market of Siberia and one of the leading players on the market of hard wheat. “Altan” was established in 1988 in Barnaul. The company includes OAO “Pospelikhin bread baking plant”, the LLC “Pospelikhin macaroni factory”, the LLC “Firm Altan” and a number of grain processing and food processing enterprises. One of the shareholders of “Altan” is a Greek investment fund “Commercial Capital”.</td>
<td>The main strategy of “Altan” aims at providing for the presence of the company’s products in all the sales outlets of Russia. In 2003, the company is planning to enter the market of central regions of Russia, first of all, the markets of Moscow and St. Petersburg. In addition, a financial company and a leasing company are to be included into the holding in 2003. It is necessary for the development of the agricultural producers that supply “Altan” with raw materials. The company plans to increase its production volume by 35% and bring it to 30000 tons. To increase its current assets and to develop its strategy, the company has placed bonds to the total sum of 3 million USD. Part of the funds raised will be spent on the modernization of the equipment and the development of new production capacities.</td>
<td>Ul. Karalkenko, 60, Barnaul, Russia, 656043 Phone: (3852) 23-66-84 Fax: (3852) 35-36-36 E-mail: <a href="mailto:y_pokornjak@altan.ru">y_pokornjak@altan.ru</a></td>
<td></td>
</tr>
<tr>
<td></td>
<td>OAO Makfa</td>
<td>OAO “Makfa” is an agro-holding that produced 94.2 thousand tons of macaroni, 104.1 thousand tons of wheat flour and 69.6 thousand tons of flour for macaroni industry in 2002. The sales of the company exceeded 68 million USD at the prime cost of 62 million USD. The gross profit was 19 million USD, and the net profit – 5.7 million USD. “Makfa” is the biggest Russian enterprise producing high-quality macaroni. The share of the company on the Russian macaroni market is 12%. Presently, the factory is equipped with six modern Italian macaroni production lines. The total productivity of these production lines is over 400 tons of macaroni per day.</td>
<td>N/A</td>
<td>Uchastok #1, poselok Melkombinat#2, Cheliabinsk, Russia, 454091 Phone: (3512) 65-88-66, 97-40-11 Fax: (3512) 42-15-26 E-mail: <a href="mailto:turkovskiy@makfa.ru">turkovskiy@makfa.ru</a></td>
<td></td>
</tr>
</tbody>
</table>

Peja International B.V.
7 Brief overview of the Vegetable oil and Fat sector

7.1 Summary of the analysis of the Russian Vegetable oil and Fat sector

The share of the vegetable oil and fat sector in the total volume of output of the Russian food processing industry is 4%.

The Russian vegetable oil and fat processing industry is a complex of manufacturers with different intensity of processing of raw materials. Finished goods of one company in the industry are raw materials for other companies (vegetable oil is used for production of margarine and mayonnaise). The limited sources of the raw materials are among the main problems in the vegetable oil and fat processing industry. A significant increase of the sown areas of sunflower is impossible, and the main task for the vegetable oil and fat processing industry is to increase yields of oil seeds. For the past 3 years, the volume of vegetable oil production and processing has been growing by 8-10%. The growth of the vegetable oil and fat processing industry is caused by the replacement of imported products by domestic products and the increase of the domestic consumption of vegetable oil and fat products. There are strong tendencies of concentration and integration in the vegetable oil and fat processing industry.

After the crisis of 1998, many foreign vegetable oil and fat products became too expensive for Russian consumers. As a result, the demand for vegetable oils and fats has grown. For the past three years, the average consumption of vegetable oil increased by about 8% per year, margarine by about 7% per year and mayonnaise by about 18% per year. However, in 2002 the growth in the consumption of margarine decreased by 2%, and the consumption of mayonnaise was even lower than in 2001. The main reasons for that are the following:
1. The low harvest of oil seeds in the previous year resulting in the limited supply of vegetable oil for further processing;
2. The saturation of the markets of margarine and mayonnaise as a consequence of the limited purchasing capacity of the population.

The average per capita consumption of vegetable oils is still lower than the medical standards in Russia. According to Goskomstat, the average level of consumption of vegetable oil was about 9-10 kg per capita per year, whereas the recommended norm is 13 kg per capita. At the same time, the level of consumption of vegetable oil in the USA is about 26 kg per capita per year. This indicates the large difference in vegetable oil consumption between Russia and developed countries and the scope for future growth of consumption of vegetable oil in Russia.

It is expected that the consumption of vegetable oil and fat products will continue to grow together with the increase of the purchasing capacity of the population. According to the Russian Ministry of Economic Development, the income of the population will increase by about 5-6% per year during the next three years.

Large Russian companies are gradually gaining a large share in the vegetable oil and fat market. These companies are able to invest several million USD in building new production lines and reconstructing the existing ones. Moreover, these large companies are paying strong attention to packaging and brand promotion.
The total investments in the vegetable oil and fat processing industry for the past 4 years are estimated at 400-450 mln USD. The main investors in the vegetable oil and fat processing industry are Russian agricultural holdings, such as Jug Rusi, Efko, Rusagro, NMZH, OGO, Buket and Rossiyskie semena. These agro-holdings are the main Russian oil extraction companies (together with “W.J Group” which owns 2 oil extraction enterprises in Russia). The main Russian oil extraction companies are described in the chapter 1.5 “Description of the main Russian oil extraction companies”.

There are also strong foreign players on the market, such as W.J.Group and Unilever. Cargill announced its plans for investments in vegetable oil production. It can be expected that the foreign companies that are already active on the Russian market and have significant market shares will invest in the Russian vegetable oil and fat processing industry in order to retain or expand the existing market shares.

The analysis of the vegetable oil and fat sector has revealed a number of problems that hinder the development of this sector.

**Problems of the Russian vegetable oil and fat sector**
1. Lack of funds at the oil extraction enterprises and agricultural enterprises;
2. Low professional skills of the personnel and management at the oil extraction enterprises and agricultural enterprises;
3. Obsolete equipment and technologies at the oil extraction enterprises and agricultural enterprises;
4. Limited sown areas (exhausted soil);
5. Insufficient volume of harvests of oil seeds and low yield of oil seeds;
6. Low and deteriorating quality of oil seeds;
7. Inefficient storage of oil seeds;
8. Inefficient use of resources and losses.

Despite the large number of problems, there are the following promising opportunities for investments (business opportunities) for foreign companies that look for possibilities to start or expand their business in the Russian vegetable oil and fat sector:
1. Investments in production of refined oil;
2. Investments directed at exports of vegetable oils;
3. Investments in production of specialized margarines and fats;
4. Investments in production of high added value mayonnaise;
5. Acquisition of oil extraction enterprises and increase of their efficiency;
6. Investment programs in co-operation with agro-holding companies directed at the increase of the oil seeds yields;
7. Other opportunities:
   7.1. Import of oil seeds varieties of high yield;
   7.2. Production and marketing of rapeseed and flax oils.

The problems of the Russian vegetable oil and fat sector mentioned above hinder the realization of these business opportunities. This study has identified solutions to the problems of the vegetable oil and fat sector, which are divided into investment solutions and technical assistance solutions.
Investment solutions
1. Establishment of a special fund for allocation of long-term credits to oil extraction enterprises and agricultural enterprises;
   1.1. Allocation of long-term credits for:
       1.1.1. Modernization of existing agricultural enterprises and oil extraction enterprises (purchasing and replacement of equipment at the existing enterprises, installation of new equipment for oil seeds growing, harvesting, processing and energy equipment);
       1.1.2. Vertical integration between oil extraction enterprises, agricultural enterprises, distributors of processed products and retailers into vertically integrated companies;
       1.1.3. Development of the distribution system of oil extraction enterprises (development of transport and logistics departments at oil extraction enterprises, enlargement of the distribution network, investments in new export capacities);
       1.1.4. Investments in domestic mixed fodder production (through vertical integration).
   1.2. Establishment of a guarantee scheme for:
       1.2.1. Agricultural enterprises - to guarantee payments for oil seeds delivered to the oil extraction enterprises;
       1.2.2. Oil extraction enterprises - to ensure payments for delivered products;
       1.2.3. A leasing company – to ensure payments for the equipment leased.
   1.3. Financing of the investments of foreign companies in Russia;
   1.4. Direct financing of expansion plans of the agro-holdings;
2. Leasing of equipment through the existing “Agro-industrial finance company”;
3. Establishment of a leasing scheme for foreign companies that supply equipment for growing and processing of oil seeds to the Russian market.

TA Solutions
1. Transfer of know-how for an increase of the yields of oil seeds;
2. Development of the government program for the support of the local oil seeds production and the increase of the oil seeds supply to the domestic market without export limitations;
3. Training of personnel for agricultural technologies and business management of agricultural and processing enterprises;
4. Development of the state policy for the development of the vegetable oil and fat sector so that this sector becomes a net exporting sector;
5. Harmonization of the Russian standards with the international standards;
6. TA in the development of scientific research of vegetable oil processing.
7.2 Schematic overview of the Russian Vegetable oil and Fat sector

**Vegetable oil and fat sector**

**Oil Seeds production**
- Oil seeds sowing
- Oil seeds harvesting
- Oil seeds storing

**Products:** Oil seeds

**By-products:** Silage

**Production and sales of by-products to livestock-breeding enterprises and poultry factories**

**Export of oil seeds**

**Distribution of oil seeds to oil extraction**

**Oil extraction**

**Products:**
- Vegetable oil

**By-products:** Cake

**Distribution of finished vegetable oil and fat products to the market (through trading companies or own distribution network)**

**Import of vegetable oil and fat products (bottled oil, mayonnaise, margarine)**
- Trading companies

**Distribution of vegetable oil**

**Products:**
- Bottled oil
- Mayonnaise
- Margarine

- Packaging
- Storing

**Export of vegetable oil**

**Process of vegetable oil**

**Market of bottled oil (rises 12-14% annually)**

- Supply
- Prices
- Imported (60% of the market)
- Number of consumers with low income
- Number of consumers with medium and high income

**Market of mayonnaise (rises 18% annually)**

- Supply
- Prices
- Imported (6%) of the market
- Number of consumers with low income
- Number of consumers with medium and high income

**Market of margarine (rises 6% annually)**

- Supply
- Prices
- Imported (29% of the market)
- Number of consumers with low income
- Number of consumers with medium and high income

**Import of vegetable oil and fat products (bottled oil, mayonnaise, margarine)**
- Trading companies

**Distribution of finished vegetable oil and fat products to the market (through trading companies or own distribution network)**

**Processing of vegetable oil**

**Export of vegetable oil**

**Market of bottled oil**

- Rise $ - Invest. opport.
- Fall $ - TA
- TA - TA
- Problems
### 7.3 Problems and solutions by stages of the vegetable oil value chain

<table>
<thead>
<tr>
<th>STAGE</th>
<th>PROBLEMS</th>
<th>SOLUTIONS</th>
</tr>
</thead>
</table>
| **Production of oil seeds** | 1. Limited sown areas (exhausted soil)  
2. Low yield of oil seeds  
3. Inefficient use of resources; losses; obsolete equipment for growing and harvesting  
4. Limited use of fertilizers  
5. Decreasing quality of oil seeds  
6. Inefficient storage of oil seeds | 1. Introduction of the high-yield varieties  
• Test of different varieties  
• Import of high-yield varieties  
• Improvement of selection of varieties  
2. Personnel training  
3. Introduction of high efficiency cultivation and harvesting  
4. Reduction of losses  
5. Financial support - crediting | 1. Financing of investments in new technologies of oil extraction  
2. Leasing of equipment for processing of oil seeds  
3. Personnel training | 1. Financing of the investments in new technologies  
2. Leasing of equipment for oil processing  
3. Development of new margarine products and recipes  
4. Personnel training | 1. Improvement and enlargement of the distribution and retail network of producers of vegetable oil and fat products  
2. Improvement of the work of marketing departments; active advertising and brand promotion  
3. Integration with retail traders  
4. Improvement of the storing facilities of retail traders |
| **Extraction of vegetable oil** | 1. Obsolete equipment and technologies  
2. Insufficient capacities for refined oil production  
3. Lack of funds  
4. Poor professional skills of staff and management | 1. Financing of investments in new technologies of oil extraction  
2. Leasing of equipment for processing of oil seeds  
3. Personnel training | 1. Financing of the investments in new technologies  
2. Leasing of equipment for oil processing  
3. Development of new margarine products and recipes  
4. Personnel training | 1. Improvement and enlargement of the distribution and retail network of producers of vegetable oil and fat products  
2. Improvement of the work of marketing departments; active advertising and brand promotion  
3. Integration with retail traders  
4. Improvement of the storing facilities of retail traders |
| **Processing of oil** | 1. Obsolete equipment and technologies  
2. Insufficient capacities for refined oil production  
3. Lack of funds  
4. Poor professional skills of staff and management | 1. Financing of investments in new technologies of oil extraction  
2. Leasing of equipment for processing of oil seeds  
3. Personnel training | 1. Financing of the investments in new technologies  
2. Leasing of equipment for oil processing  
3. Development of new margarine products and recipes  
4. Personnel training | 1. Improvement and enlargement of the distribution and retail network of producers of vegetable oil and fat products  
2. Improvement of the work of marketing departments; active advertising and brand promotion  
3. Integration with retail traders  
4. Improvement of the storing facilities of retail traders |
| **Market of bottled vegetable oil** (rise 12-14% annually): domestic products - 40% of the market, imported - 60%; rise of prices and demand. | 1. Large volume of imported products (in the market of bottled vegetable oil and margarine)  
2. Weak brand promotion and advertising  
3. Strong price competition |
| **Market of mayonnaise** (rise 18% annually). Domestic products – 94% of the market, imported – 6%; rise of prices and demand. | 1. Large volume of imported products (in the market of bottled vegetable oil and margarine)  
2. Weak brand promotion and advertising  
3. Strong price competition |
| **Market of margarine** (rise 6% annually). Domestic products – 71% of the market, imported – 29%; rises of prices and demand. | 1. Large volume of imported products (in the market of bottled vegetable oil and margarine)  
2. Weak brand promotion and advertising  
3. Strong price competition |

Note: Distribution is not included in the above table, as there are no serious problems in the distribution that require investment support.
## 7.4 Description of the main Russian oil extraction companies

<table>
<thead>
<tr>
<th>N</th>
<th>Company name</th>
<th>Company description</th>
<th>Present and planned investment and business activity of the company</th>
<th>Contact data</th>
<th>Annual turnover, mln USD</th>
</tr>
</thead>
</table>
| 1  | Jug Rusi ("The South of Russia") | The vertically integrated holding “Jug Rusi” includes enterprises engaged in: seed growing, storage and processing of grain on elevators, production of mixed fodder, unpacked oil and fodder protein extraction cake, fining and packing of vegetable oil and sale of products through the distribution network. The holding also includes an international water grain-transfer terminal. The holding is the largest producer of vegetable oil in Russia. Its production capacity enables to process 300000 tons of the seeds of sunflower, rape, mustard or soy per year. The holding produces over 10% of unpacked oil and about 40% of bottled vegetable oil in Russia. | In 2002, “Jug Rusi” put into operation its new oil extraction plant. The production capacity of this plant is over 400 thousand bottles of vegetable oil per day. The French production line “Sidel” is installed at the plant. | Ul. Lugovaya, 9, Rostov-on-Don, 344007, Russia  
Phone: (8632) 61-83-80, 62-49-53, 99-01-27  
Fax: (8632) 62-05-88  
E-mail: info@grain.ru  
Moscow rep. Office:  
Michurinsky prospect, 51, Moscow, 117607, Russia  
Phone: (095) 797 5697  
Fax: (095) 797 5623 | N/A |
| 2  | ZAO APIK "Efko"      | The group of companies “Efko” is a vertically integrated company that includes enterprises specializing in: production, storage and processing of agricultural output, production of foodstuffs and sale of finished products. The group of companies “Efko” includes:  
- OAO “Efko” – an enterprise producing refined and unrefined sunflower oil, mayonnaise and ketchup;  
- OOO “EFKO-Sloboda” – an enterprise producing special-purpose vegetable oils.  
The group of companies “Efko” is in second place in Russia by production of vegetable oil and fat products. | The “Efko” Company has carried out its re-equipment and has created one of the first brands of vegetable oil in Russia – “Sloboda”. In addition, “Efko” is investing in its raw-material base (the growing of sunflower seeds). “Efko” performs its harvesting with its own combines. The investments in its raw-material base and the active work of its marketing department have enabled the company to become the first exporter of vegetable oil in Russia (under the brand “Altero”). OAO “Efko” has placed bonds to the sum of 26,7 million USD in the Moscow International Currency Exchange. The bonds program of OAO “Efko” is part of the investment program of the group of companies “Efko” that has been successfully implemented during recent years. | Sredniy Ovchinnikovsky pereulok, 14, Moscow, 115184  
Phone: (095) 950-48-63  
Fax: (095) 950-48-65  
E-mail: sloboda@efko.ru | 96 mln (2001) |
| 3  | NMZHK                | OAO “Nizhegorodskiy maslo-zhirovoy kombinat” is the largest supplier of vegetable oil to the Russian market. Its market share (among domestic producers of margarine products) is 25%. OAO “Nizhegorodskiy maslo-zhirovoy kombinat” is a vertically integrated holding “NMZHK” with the full | N/A                                                                                                                                                                                                                                                                  | Sh. Zhirkombinata, 11, Nizhniy Novgorod, Nizhniy Novgorod oblast, 603095, Russia  
Phone: (8312) 75-47-00 Fax: (8312) 41-08-92, 46-57-68, 41-56-93  
E-mail: info@nmgk.ru | 90 mln in 2001 (estimations) |
<table>
<thead>
<tr>
<th></th>
<th>Text</th>
<th>Moscow rep office</th>
<th>Phone</th>
<th>E-mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Russian Agribusiness Survey</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2</td>
<td>production cycle: from laying-in of raw materials to production and sale of output. On the whole, OAO “NMZHK” produces more than 50 items of foodstuffs and technical products. Numerous diplomas and certificates received by the company at different exhibitions indicate high quality of the products of the company.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td><strong>RUSAGRO</strong></td>
<td>The group of companies “Rusagro” was established in 1996. Before 2000, ZAO “Rusagro” was an integrated sugar refinery with a complete production cycle that included: sugar beet growing (purchase of raw sugar), raw sugar processing and selling through a developed distribution network, which included 13 branches in Russia. Since 2000, the company started a quick development of three directions of activity: grain, oil and sugar production. The group of companies “Rusagro” includes: ZAO «Sugar Trading Company“, which produces and sells sugar, three sugar refineries in Belgorod oblast: OAO “Nika”, OAO “Rjevsky Sakharnik”, OAO “Valuykisakhar”, the refinery “Svoboda” in Krasnodar kray and 11 trading branches in different regions of Russia. “Rusagro” plans to construct its second oil extraction plant in Voronezh oblast. The total volume of investments in this project will be 100 million USD. The group of companies “Rusagro” has purchased 19,19% of the shares of OAO “Zhirovoy kombinat” (a fat-producing enterprise located in the city of Ekaterinburg).</td>
<td>Ul. Krzhizhanovskogo, 18, corp. 2, Moscow, 117218 Phone: (095) 777-6524, 777-6526 Fax: (095) 129-2110</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td><strong>W.J.Group</strong></td>
<td>Presently “W.J.Group” is one of the largest companies in the world that are engaged in processing and exports of grains and oil seeds from CIS countries and East-European countries. “W.J.Group” owns 2 oil extraction enterprises in Russia: OAO “Valuisky KRM” and ZAO “Chemiansky zavod rastitelnyh masel”</td>
<td>N/A</td>
<td><a href="mailto:office@wjgrain.ru">office@wjgrain.ru</a></td>
</tr>
<tr>
<td>5</td>
<td><strong>OGO</strong></td>
<td>Large agro-holding company. The main directions of the company are grains and oilseeds</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td><strong>Buket</strong></td>
<td>The agro-holding “Buket” includes seven enterprises operating in the vegetable oil and fat sector. The group of companies “Buket” has expanded through the acquisition of “Novosibirskiy zhirovoy kombinat” (a fat-producing enterprise located in the city of Novosibirsk).</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td><strong>Rossiyiske semena</strong></td>
<td>The agro-holding “Rossiyiske semena” was established in 1999. The main directions of activity of the agro-holding are: production of seeds of grains and vegetables and production of vegetable oil. The agro-holding “Rossiyiske semena” has constructed an oil extraction enterprise in the city of Veneva (Tula oblast). The agro-holding has invested 20 million USD in this project. In the next 2-3 years, the agro-holding intends to construct 3-4 oil extraction enterprises in different Russian areas. “Rossiyiske semena” plans to invest about 20 million USD in the construction of each of these enterprises.</td>
<td>Ul. Seleznevskaaya, 11-a, Moscow, 101485, Russia Phone: (095) 281-29-16 Fax: (095) 288-89-19 E-mail: <a href="mailto:russeeds@russeeds.ru">russeeds@russeeds.ru</a></td>
<td>N/A</td>
</tr>
</tbody>
</table>
8 Brief overview of the Fruit and Vegetables sector

8.1 Summary of the analysis of the Russian Fruit and Vegetables sector

Introduction
The Russian fruit and vegetables sector (F&V sector) is one of the important sectors of the Russian agro industry. Despite the fact that the share of the F&V processing industry in the total volume of output of the food processing industry is slightly above 1%, the F&V sector plays an important role in providing the population with products that have a high nutritional value. After the crisis of 1998, the situation in the Russian F&V processing industry started to improve due to the growth of the Russian economy and the purchasing capacity of the population. The expected rate of further growth of the Russian F&V processing industry is about 10-15% per year. However, the current situation in the Russian F&V processing industry remains difficult.

Main trends in the F&V sector
The demand for domestic retail fresh F&V and processed F&V products is growing as a result of the increase of the purchasing capacity of the population. The growth of the demand for processed F&V products stimulates the growth of the domestic F&V processing industry. The level of consumption of processed F&V products is low in Russia. Only about 16% of fruit, 2% of vegetables and less than 1% of potato are consumed by the Russian population in the processed form. The main reasons for the low share of processed F&V products in the consumption are the relatively low purchasing capacity of the Russian population and the difficult situation in the Russian F&V processing industry.

The absence or the low level of domestic production of processed F&V products is compensated by imports. In different segments of the market of processed F&V products, the share of imported products varies from 50% to 99%.

The production of F&V in Russia is stable. However, it significantly depends on climatic conditions and changes of weather conditions. There is no strong evidence that the production of F&V will increase in the future. Hothouse growing in Russia is not well-developed and has a number of problems. The main producers of F&V in Russia are household farms and agricultural enterprises.

The F&V sector is characterized by the beginning of the process of integration and acquisitions. Large F&V processing enterprises have started to acquire other F&V processing enterprises in order to enlarge the production capacities. There is also the process of vertical integration of F&V processing enterprises with agricultural enterprises that grow F&V.

The profitability of F&V growing and processing is high. According to Goskomstat, the average profitability of F&V growing is about 30%, and the average profitability of F&V processing is about 10%.

Regional aspect
F&V growing in Russia is concentrated in 3 Russian Federal districts (the Central, Privolzhskiy and Southern Federal districts). Fruit is mostly grown in the Southern FD
where Krasnodar kray occupies the largest share in the total volume of fruit production. Growing of vegetables and potato is less dependent on climate and is developed more evenly in different areas of the abovementioned Federal districts. The production of processed F&V products is concentrated in the areas with a high volume of F&V growing or near large urban centres. The development of production of processed F&V products in these areas is stimulated by the high purchasing capacity of the population of these areas.

**Market situation**

The Russian market of retail fresh F&V and processed F&V products can be divided into 5 segments: 1) market of retail fresh F&V, 2) market of frozen F&V, 3) market of canned F&V, 4) market of dried F&V, 5) market of products of potato processing. All these segments are characterized by growth and a large share of imported products.

The market of retail fresh F&V is the most developed segment of the Russian market of retail fresh F&V and processed F&V products. According to certain estimations, the capacity of the market of retail fresh F&V in monetary terms is slightly less than 1 billion USD per year. The Russian market of retail fresh F&V is characterized by strong competition, a significant difference of the prices for retail fresh F&V by different regions and a large volume of imported retail fresh F&V.

The main characteristic of the Russian market of frozen F&V is the large share of imported products in this market. Imported products account for more than 99% of this market. The potential capacity of the market of frozen F&V is 450-500 thousand tons per year. The market of frozen F&V is growing quickly. The volume of this market increased by 25% in 2002 and is expected to increase by 15-20% in 2003.

The market of canned F&V is at the initial stage of its development and is growing fast. The volume of this market increased by 50% in 2001. Domestic products account for 48% of this market, and imported products for 52%. The supply of both domestic and imported canned F&V is increasing. Domestic products occupy the lower price segment of this market, whereas imported products are in the medium and premium (high) price segments.

The market of dried F&V is developing rapidly. The tendencies of development of this market are the growth of producers and the enlargement of the assortment of dried F&V.

The Russian market of chips is the largest part of the market of products of potato processing. The market of chips is the most quick-growing segment of the Russian market of processed F&V. This is due to the quick growth of the demand for chips, the growth of the Russian beer market (beer and chips are complementary goods) and the increase of the marketing activity of the producers and distributors of chips (the promotion of a certain brand of chips indirectly stimulates the promotion of all other brands of chips). Both the domestic production and the imports of chips are increasing.

The rate of growth of the Russian market of processed F&V is one of the highest growth rates among the markets of foodstuffs in Russia. This makes the F&V sector one of the most attractive sectors for investments in Russia.

**Main fruit and vegetables processing companies**

The main Russian F&V processing companies are as follows: Wimm-Bill-Dann, “Konservniy zavod “Lebedyanskiy”, Multon, Baltimor, Belaya Dacha, Volgogradskiy-Gubernskiy canning holding company, Konprog, Ostrokins, Ledovo, Ice-beat, Russkiy Peja International B.V.
Product, Russian Snack Company, Lays, Heinz, Good Food, Zolotye Kupola, Bonduelle. (Lays, Heinz and Bonduelle are foreign companies operating in the Russian F&V sector). All the abovementioned companies are described in the chapter 1.5 “Description of the main Russian Fruit and Vegetables processing companies”.

**Investments in the F&V sector**
The investment activity in the Russian F&V sector is low. According to the representatives of Russian F&V processing enterprises, this is one of the main problems of the sector. According to Goskomstat, the volume of foreign investments in the F&V sector was about 4 million USD in 2001, which constitutes approximately 0.3% of the total volume of foreign investments in the Russian food processing industry. In addition, it is difficult to assess the level of investment activity in the F&V sector due to the lack of available information. Large Russian agro-holdings consider the possibility of investments in the F&V sector. However, the main barrier for these agro-holdings is the undeveloped production of F&V by the agricultural enterprises.

As mentioned, the fast growth of the market of processed F&V products makes the F&V processing industry attractive for investments and cooperation with foreign companies. This study has identified the most attractive opportunities for investments (business opportunities) in the F&V sector.

**Business opportunities in the Russian F&V sector**
1. Establishment of new F&V processing enterprises and production of high-quality processed F&V products;
2. Growing of F&V in Russia;
3. Growing of F&V without use of unhealthy chemical substances and genetic modification (in the context of integration or establishment of strong economic links with the agricultural enterprises), export of these “ecologically clean” F&V to western countries;
4. Transport and logistics services - deliveries of processed F&V products to regions with poorly developed growing of F&V;
5. Construction of collection points for retail fresh F&V;
6. Supply and leasing of equipment for F&V growing, processing, packaging, refrigerating; supply and leasing of special transport vehicles for distribution of retail fresh F&V and processed F&V products;
7. Supply of the seeds of special sorts of F&V, which are intended for processing, to Russian agricultural enterprises.

However, the realization of these business opportunities is limited by a large number of problems. The main problems that hinder the development of the F&V sector are the following.

**Problems of the Russian F&V sector**
1. Lack of funds and poor financial situation of F&V processing enterprises and agricultural enterprises;
2. Obsolete equipment and technologies of F&V growing and processing;
3. Low yield of F&V and low external quality of F&V;
4. Undeveloped collection of F&V from household farms;
5. Absence of special sorts of F&V that are intended for processing and narrow assortment of grown F&V;
6. Lack of modern packaging materials at the F&V processing enterprises;
7. Large losses (40% of total harvest) due to the poor storage and transportation facilities of distributors and agricultural enterprises; weak links between F&V producers and processing enterprises and delays in deliveries of retail fresh F&V to F&V processing enterprises;
8. Lack of professional skills of the staff and poor quality of the management at the F&V processing enterprises;
9. Lack of mineral fertilizers for fruit and vegetables; poor organization of the seed growing;
10. Narrow assortment of retail fresh F&V and processed F&V products;
11. Poor brand promotion and advertising;
12. Dependence of the growing and processing of F&V on seasonality;
13. Large volume of “gray” imports.

The study has identified possible solutions to the problems of the F&V sector. The solutions are divided into investment solutions and technical assistance solutions.

**Investment solutions**

1. Establishment of a special fund for allocation of long-term credits to F&V processing enterprises and agricultural enterprises and for micro-crediting household farms and private farms.
   1.1. Allocation of long-term credits for:
      1.1.1. The development of F&V growing at agricultural enterprises;
      1.1.2. The modernization of agricultural enterprises that grow F&V in hothouses;
      1.1.3. The purchase and replacement of equipment required for the production of high-quality retail fresh F&V at agricultural enterprises (equipment for F&V sorting, cleaning, packaging and refrigerating; transport vehicles);
      1.1.4. The modernization of existing F&V processing enterprises (purchase and replacement of equipment at the existing enterprises, installation of new equipment for F&V processing, packaging, refrigerating, transporting; energy equipment);
      1.1.5. Vertical integration of F&V processing enterprises with agricultural enterprises that grow F&V, distributors of processed F&V products and retailers into vertically integrated companies;
      1.1.6. Development of the distribution system of F&V processing enterprises;
   1.2. Allocation of micro-credits to household farms and private farms directed at the development of growing of F&V for further processing and the establishment of economic links between F&V processing enterprises and household farms and private farms.
   1.3. Establishment of a guarantee scheme for:
      1.3.1. F&V producers - to ensure payments for retail fresh F&V delivered to the F&V processing enterprises;
      1.3.2. F&V processing enterprises - to ensure payments for delivered processed F&V products;
      1.3.3. A leasing company – to ensure payments for the equipment leased.
2. Leasing of equipment through the existing “Agro-industrial finance company”;
3. Establishment of a leasing scheme for foreign companies that supply equipment to the enterprises of the Russian F&V sector.
TA Solutions
1. Training of personnel of all levels in the introduction of western technologies of F&V growing, harvesting, processing and selling; TA for the creation of a system of personnel motivation;
2. TA for corporate governance, financial management and marketing (especially in advertising and promotion of products);
3. TA in the introduction of a contracting system between F&V processing enterprises and household farms;
4. TA for the introduction of modern standards for quality control;
5. TA for the development of transport departments of F&V processing enterprises or contracting with transport companies.
8.2 Schematic overview of the Russian F&V sector

**Fruit and vegetables sector**

- **Growing of F&V**
  - Revegetation of land
  - Growing
    - Open-air growing
    - Hothouse growing
  - Products
    - Potato
    - Vegetables
    - Fruits and berries
  - Harvesting
  - Selection
  - Package
  - Storage

- **Processing of F&V**
  - Transportation
  - Direct supply
  - Supply through intermediaries
  - Collection points
  - Trading companies

- **Distribution**
  - of F&V to livestock breeding farms (as fodder)
  - of retail fresh products to the market
  - to processing enterprises

- **Market of retail fresh products**
  - Domestic (seasonal effect)
  - Imported
  - Prices
  - Supply
  - Demand

- **Market of processed products**
  - Domestic
  - Imported
  - Prices
  - Supply
  - Demand

1. **Market of frozen products**
   - Domestic (1% of the market)
   - Imported (99% of the market)

2. **Market of canned products**
   - Domestic (48% of the market)
   - Imported (52% of the market)

3. **Market of dried products**
   - Domestic (48% of the market)
   - Imported (52% of the market)

- **Import**
  - Retail fresh products
  - Processed products

- **Prices**
  - Rise
  - Invest. opport.
  - Fall
  - TA – TA
  - Problems

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### 8.3 Problems and solutions by stages of the F&V value chain

<table>
<thead>
<tr>
<th>STAGE</th>
<th>PROBLEMS</th>
<th>SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Lack of funds and poor financial condition of agricultural enterprises</td>
<td>1. Integration of F&amp;V producers with processing enterprises</td>
</tr>
<tr>
<td>2.</td>
<td>Obsolete technologies of growing, lack of equipment</td>
<td>2. Leasing of equipment for F&amp;V storage and transportation</td>
</tr>
<tr>
<td>3.</td>
<td>Lack of mineral fertilizers</td>
<td>3. Credits for modernization of transportation and storage facilities of agricultural enterprises and intermediaries</td>
</tr>
<tr>
<td>4.</td>
<td>Low yield of F&amp;V and low external quality of F&amp;V</td>
<td>4. Establishment of a contracting system between processing enterprises, intermediaries and household farms; establishment of collection of F&amp;V from household farms</td>
</tr>
<tr>
<td>5.</td>
<td>Absence of special sorts of F&amp;V that are intended for processing</td>
<td>5. Development of logistics departments at agricultural enterprises</td>
</tr>
<tr>
<td>6.</td>
<td>Poor storage facilities – large losses</td>
<td>6. Improvement of professional skills of personnel and management of agricultural enterprises (through TA; replacement of personnel</td>
</tr>
<tr>
<td>7.</td>
<td>Poor professional skills of personnel at agricultural enterprises, low quality of management</td>
<td>7. Recovery of hothouse growing, especially near large cities</td>
</tr>
<tr>
<td>8.</td>
<td>Narrow assortment of F&amp;V produced</td>
<td>8. Increase of the sown areas for F&amp;V growing</td>
</tr>
</tbody>
</table>

#### Growing of F&V
- 1. Revegetation of land
- 2. Growing of F&V
  - 2.1 Potato
  - 2.2 Vegetables
  - 2.3 Fruit and berries
  - 2.4 Open-air growing
  - 2.5 Hothouse growing
- 3. Harvesting
- 4. Sorting, cleaning and packaging of harvest
- 5. Storing of harvest

#### Distribution of F&V to processing enterprises
- 1. Transportation
- 2. Direct supply
- 3. Supply through intermediaries
- 4. Collection points
- 5. Trading companies
- Direct sales of F&V on local markets (mostly from household farms)

#### Processing of F&V
- **Production of:**
  - Frozen F&V
  - Dried F&V
  - Products of potato processing
  - Canned F&V
- **By-products** (Presscake, peelings, remainder and others)
  - Packaging
  - Storing

#### Import of F&V
1. Trading companies
2. Trading companies

#### Import of processed F&V products
1. Trading companies
2. Trading companies

#### Distribution of processed F&V products to the market (through trading companies (wholesalers) or through own distribution network)

#### Market of retail fresh F&V and processed F&V products
1. Market of retail fresh F&V: increase in supply and demand
2. Market of frozen F&V: domestic - 1%, imported - 99%; increase in supply and demand
3. Market of canned F&V (50% growth per year): domestic – 48%, imported – 52%; increase in supply and demand
4. Market of dried F&V: increase in supply and demand
5. Market of products of potato processing: increase in supply and demand

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**Russian Agribusiness Survey**

Peja International B.V.
## 8.4 Description of the main Russian Fruit and Vegetables processing companies

<table>
<thead>
<tr>
<th>N</th>
<th>Company name</th>
<th>Company description</th>
<th>Present and planned investment and business activity of the company</th>
<th>Contact data</th>
<th>Annual turnover, mln USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wimm-Bill-Dann</td>
<td>The company was established in 1992 in Russia. WBD is the leader in the juice market in Russia. The company has performed 170 juice projects. WBD owns 23 production enterprises in Russia.</td>
<td>WBD has the share of 35% in the juice market. In 2002 the volume of sales of juices was 476,7 th tons and increased by 45,7% compared to in 2001</td>
<td>OAO “Wimm-Bill-Dann Produkti Pitaniya”, ul. Solyanka 13/2 Moscow, Russia 109028 Phone: +7 (095) 105-58-05 Fax: +7 (095) 105-58-00 E-mail: <a href="mailto:info@wbd.ru">info@wbd.ru</a></td>
<td>500 mln</td>
</tr>
<tr>
<td>2</td>
<td>“Konservnyi zavod Lebedyanskiy”</td>
<td>“Lebedyanskiy” was established in 1967. First it produced canned soups and marinades. In the 1980s the company installed the second production line “Tetra Pak” juice. Presently, the company has 22 production lines.</td>
<td>The volume of sales increased by 22,1% in 2002. In April 2002, another “Tetra Pak” production line was launched.</td>
<td>“Lebedyanskiy zavod”, ul Matrosova, 7 Lebedyan, Lipetsk oblast, Russia 399610 Phone: +7 (07466) 5-24-75, 34-5-02 +7 (095) 933-62-52</td>
<td>N/A</td>
</tr>
<tr>
<td>3</td>
<td>Multon</td>
<td>The company produces juice of the “Rich”, “Dobriy” and “Nico” brands. The company is the second largest juice producer in Russia.</td>
<td>In 2002 the market share of the company was 29% of share of the market. The market value of the company is USD 150 million. The company has launched a new production line “Rich”. Two giants of the juice market (“WBD” and “Nidan”) are interested in purchasing the control packet of shares of “Multon”.</td>
<td>Ul. 2nd Magistralnaya, 16 Moscow, Russia Phone: +7 (095) 742-64-11 Fax: +7 (095) 940-20-49</td>
<td>170 mln</td>
</tr>
<tr>
<td>4</td>
<td>Baltimor</td>
<td>The company produces sauces and ketchups. The first production line of the company was started in St. Petersburg. The company has enterprises in Moscow, St. Petersburg, Krasnodar, Khabarovsk and Uzbekistan. The company works with “Baltimor”, “Krasnodar” and “Gorodok” brands.</td>
<td>The company occupies almost 50% of Russian sauce &amp; ketchup market.</td>
<td>Ave. Narodnogo Opolcheniya, 2 office 1012, St. Petersburg, Russia Phone: +7 (812) 255-94-14 Fax: +7 (812) 255-98-46</td>
<td>N/A</td>
</tr>
<tr>
<td>5</td>
<td>Belaya Dacha</td>
<td>The company is an agro-industrial complex. Its tendency is to cultivate vegetables in impenetrable soil. “Belaya dacha trading” was established in 2002 for transportation and to work with such companies, as: “McDonald’s”, “Mars”, “Sedmoi Kontinent”, “Perekrestok”, “Pyaterochka” and “Aeromar”.</td>
<td>The earnings of the company were USD 461 thousand in 2002 with an annual turnover of USD 40 million.</td>
<td>ZAO “Agrofirma Belaya-Dacha” Yanichkin pr., 2 pos. Kotelinki-1, Moscow oblast, Russia 140053 Phone: +7 (095) 554-45-02 (secretary) Fax: +7 (095) 728-41-70</td>
<td>40 mln</td>
</tr>
<tr>
<td>6</td>
<td>Volgogradskiy-Gubernskiy canning holding company</td>
<td>The holding consists of agricultural enterprise and enterprises producing canned products. The holding under the «PomidorProm and Ogorodnikov» brands produces tomato paste, canned vegetables and sauces.</td>
<td>The company’s turnover is USD 17 million.</td>
<td>Ul. Maikopskaya, 5 Volgograd, Russia 400074 Phone: +7 (095) 797-26-68, +7 (8442) 44-21-84</td>
<td>17 mln</td>
</tr>
<tr>
<td>7</td>
<td>Konprog</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td>8</td>
<td>Ostrokons</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td>9</td>
<td>Ledovo</td>
<td>It is a holding company, which includes industrial enterprises and trading companies. The holding is a producer and trader of refrigerated foodstuffs. The holding is a large producer of mushroom, fish and vegetable products. The brands of the company are “Snezhana”, “Beliy Medved”, “Salmon”, “Bon”</td>
<td>The company plans to strength its positions in the market of foodstuffs. The sales are 1300 tons of products month.</td>
<td>Pos. Dolgoe Ledovo, Schelkovskiy raion, Moscow oblast, Russia 141143 Phone: +7 (095) 777-60-77 Fax: +7 (095) 777-60-76 E-mail: <a href="mailto:secretary@ledovo.ru">secretary@ledovo.ru</a></td>
<td>N/A</td>
</tr>
<tr>
<td>No.</td>
<td>Company</td>
<td>Description</td>
<td>Details</td>
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<td>10</td>
<td>Ice-beat</td>
<td>The company started business in 1998 by building refrigerating facilities and purchasing equipment with the cost of USD 150 thousand. The total volume of investments in the business was USD 2 million.</td>
<td>The further plans of Ice-Beat are to build a new refrigerating facility with a capacity of 55000 m³ and to increase its production by 20 th tons. Ul. B. Cheremushkinskaya 25/25, Moscow, Russia 117218 Phone: +7 (095) 232-02-88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Russkiy Product</td>
<td>The company produces foodstuffs, such as: coffee, tea, paste, grains and others. The company was established in 1996.</td>
<td>The company produces 250 various products. Its earnings were USD 51,182 million in the second quarter of 2002. In March 2003, a new factory producing coffee put into operation. The further aims of Russkiy Product are to expand and modernize its production capacity. Ul. Permskaya, 1 Moscow, Russia 107143 Phone: +7 (095) 755-84-64</td>
<td></td>
<td></td>
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<tr>
<td>12</td>
<td>Russian Snack Company</td>
<td>The Russian Snack Company, which started business in 1998, has a market share of around 10% in the chips market and 6% in the whole chips and snack market in Russia. It is estimated that the company’s turnover in 2003 will be about of 12 million euro.</td>
<td>The Finnish company Chips Abp company has taken over 100% of the Russian Snack Company in accordance with the contract signed on 22 March 2003. ZAO “R.S.K. Center” 3rd ul. Yamskogo Polya, 2/26 Moscow, Russia Phone: +7 (095) 937-34-88 Fax: +7 (095) 771-71-33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Lays</td>
<td>The company is the largest chips producer in the world.</td>
<td>The company put into operation its first Russian enterprise producing chips in 2002. The volume of investments in this enterprise was USD 52 million. Paveletskaya sq. 2/3, Moscow, Russia 113054 Phone: +7 (095) 937-05-50 Fax: +7 (095) 937-05-55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Heinz</td>
<td>The largest producer of ketchup.</td>
<td>N/A 2nd Khoroshevskiy pr., 7 Moscow, Russia 123007 Phone: +7 (095) 937-35-37 Fax: +7 (095) 937-35-38 E-mail: <a href="mailto:sales@heinz.ru">sales@heinz.ru</a></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Good Food</td>
<td>The company produces dried fruit and confectionery</td>
<td>N/A OOO “Good-Food” Pevcheskiy per., 4 Moscow, Russia 129028 Phone: +7 (095) 933-55-72 Fax: +7 (095) 933-55-68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Zolotye Kupola</td>
<td>The company was established in 1997. The main activity of the company is valuation of crops and production of ground coffee and nuts.</td>
<td>N/A Ul. Dubkovskaya Odincovskiy raion, Moscow oblast, Russia 143000 Phone: +7 (095) 188-4427</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Bonduelle</td>
<td>There are three main activities of the company: canning, freezing, and cooling vegetables and salads.</td>
<td>Bonduelle had an agreement with Initiative Media Agency to work in the Russian market. European bank of reconstruction and development will purchase 35% of share. The government of Krasnodar kray granted to Bonduelle 6400 hectares of land for growing of corn. The annual turnover of the company is 850 million euro. The company is planning to build a factory in Kuban oblast producing canned green peas and corn. Presnenskiy val, 17 Moscow, Russia 123557 Phone: +7 (095) 748-70-43 Fax: +7 (095) 737-01-92 850 mln (EURO)</td>
<td></td>
<td></td>
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