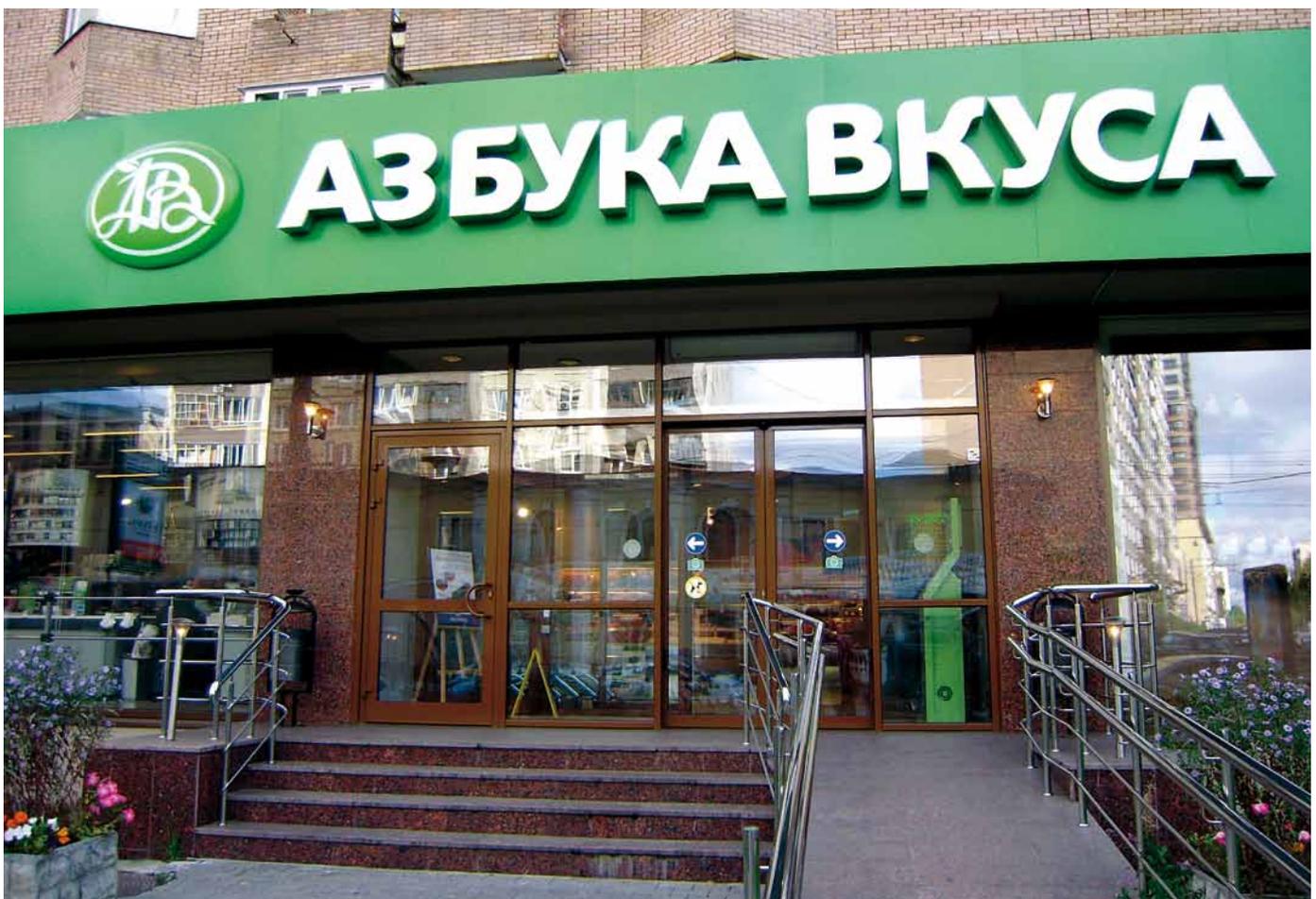




The Russian paradox

Great opportunities for Dutch companies in the Russian agri-food and horticultural sector



Russia aims for improving its food security situation. Although it has abundant agricultural land and water resources, the country imports a significant share of the food it consumes. Despite recent modernisation, efficiency in the whole supply chain including food distribution needs further improvement to meet domestic food demand that continues to increase (both in quantity and quality terms) in parallel with economic growth.

Major opportunities are available for the Dutch agribusiness sector, including exports of products and equipment as well as knowledge transfer via sales and direct implementation. The scale and scope of these opportunities have been carefully researched and explained by LEI Wageningen UR on assignment of the Ministry of Economic Affairs. The resulting report makes essential reading for all companies looking to do business in Russia today... and tomorrow. Here is a foretaste of what you can learn.

The background

Russia is among the largest importers of agricultural products in the world. This includes especially animal products – largely beef, pork and dairy – and vegetables & fruit. The Netherlands is an important supplier of these products in international markets, and a significant share of Russia's imports of cheese, fresh pork and poultry products comes from Dutch producers. The Netherlands is also an important supplier of cut flowers, onions, potatoes, vegetable seeds and delicate vegetables such as lettuce and capsicums.

Needs and opportunities

Given Russia's natural endowments and capital resources, the country has serious potential to supply both more and better agricultural produce. Yield is relatively low for many commodities. With enhanced knowledge, seemingly small improvements in equipment or expertise can result in significantly enhanced performance. There is certainly room for improvement in terms of production, storage & transport efficiency, differentiation and quality.

Information and expertise

Entrepreneurship and competencies on the farm level can be boosted by providing agricultural producers with knowledge and skills how to achieve better operating results, as well as proving them with specific market intelligence. Knowledge transfer could remedy the severe shortages of qualified labour hampering the Russian agricultural sector development and improve yield from advanced equipment sold in parallel. Competencies can

be improved at all stages of the supply chain, notably at the farm level and in service institutions such as veterinary or food safety inspection labs.

Equipment and inputs

Better tools could ensure proper cultivation, respond to local growing conditions in an optimal way, and reduce harvest losses. Expanding the use of high-yield seeds and improving the genetic stock of milk and meat producing animals could also considerably increase the performance of Russian farms. It is important to keep in mind that the optimal deployment of advanced inputs and state-of-the-art equipment requires well-trained staff with the right skills and tools.

Logistical improvements

Supply chains in Russia could be much better organised, especially in the metropolis of Moscow. Supermarkets have rapidly gained market share over the last decade, especially in cities, but frequently signal difficulties in sourcing sufficient quantities of products that meet quality requirements – the supply chain is too fragmented and disorganised to respond to the demand adequately. There is room for improvement in product quality, grading and packaging (size and quality). Traceability methods are often not applied in practice. This situation results in considerable transaction costs and market operation inefficiencies. A special problem is the inadequate logistical infrastructure around Moscow.

Another logistics issue is the lack of adequate cold stores, leading to more post-harvest losses and seasonal fluctuation of production. Domestic supplies of fresh produce are insufficient in winter and early spring due to low capacity and lack of expertise in storage.



Doing business in Russia

Economic links between the Netherlands and Russia can be strengthened on several levels. There are opportunities for private actors from the Netherlands in the sale of commodities, final consumer goods, sophisticated means of production (whether inputs or equipment) and capacity-building expertise. Each subsequent step is more complex and requires more long-term commitment, after-sales follow-up and involvement by Russian partners.

Potential support initiatives by the Dutch government include government-to-government measures that could help to support small and medium size business initiatives to establish trade relations and investments (such as the Partners for International Business; PIB), or nurturing a Dutch farming community in Russia directly. Public-private partnerships could promote the Dutch brand, transpose

the Dutch top sector policy within Russia, or facilitate a cross-sector approach deploying Dutch experience and expertise in all stages of the chain, and linking them downstream with supermarket chains in highly populated cities such as Moscow.

Key success factors for success in Russia include having representatives or partners well versed in the local ways of doing business (obviously including fluency in the Russian language) and maintaining excellent relations with the Russian authorities at all levels. It is also important to maintain focus on a given market and organise a strong supply chain that can cope with the Russian infrastructure. SMEs cooperating and offering a chain approach are enhancing their competitive position to be attractive to Russian investors and authorities.

Concrete prospects

Examples of opportunities for Dutch companies include:

- Special training and educational programmes, (e.g., the presidential programme for agribusiness managers and specialists within the Key Executive MBA programme; educating young specialists in the state programme for agricultural development 2013-2020).
- Governmental support at the national level, whether from the federal budget via the Ministry of Agriculture (e.g., the programme of a big multinational for a Milk Business Academy which provides practical training in best practices to Russian dairy farmers), or from Special Investment Funds (e.g., the US\$10 billion Russian Direct Investment Fund established by the government for equity investments of \$50-500 million in the Russian economy, which is partly earmarked for agricultural projects).
- Initiatives at a regional level, financed from the federal (development institutes and ministries) and regional budgets (e.g., a greenhouse cluster investment in the Belgorod region).
- Bank support, including multilateral (the EBRD provides five or six loans per year to agribusiness; IFC and the Dutch FMO also provide opportunities) and private (e.g., international operating banks are more and more keen on providing loans and finance several projects in the agrofood sector each year). These banks require evaluations of business plans and impact assessments, creating opportunities for small-scale (€10,000 to 50,000 budget) consultancy tasks.
- Opportunities within the Moscow Metropolitan Food Security framework financed or facilitated by the Moscow city government. The Russian Greenhouse Association is interested in investing in greenhouses and distribution centers near Moscow. A further example is a project by a major Russian retailer, to create 100 ha of greenhouses in Krasnodar region.
- Opportunities within animal protein initiatives, in the wake of major projects by big multinationals in the Russian dairy sector, or with Russian agroholdings with needs in livestock, machinery and know-how and access to government support funds for investments.
- Use possibilities offered in the Dutch 'Topsectoren Beleid.' There are good business opportunities for establishing Public Private Partnerships for potatoes (full range from seed potatoes to processing), greenhouse production, vegetal oil production and animal feed.
- For further steps towards using identified opportunities, see www.agentschapnl.nl/programmas-regelingen/partners-international-business-pib

Your next step: Order the Wageningen UR report on Russia

Our inquiry and interviews in Russia with authorities and businesses have yielded numerous leads in training and educational programmes, government support at the federal and regional level, and loan support from banks. There are also many specific private and public initiatives at the city or region level which support infrastructure improvement, production, distribution and knowledge-sharing.

Our feasibility study, based around the two pilots Animal Protein Sector and Moscow Metropolitan Food Security, assesses the current situation and bottlenecks for further development. It also recommends measures to address the issues and identify opportunities for Dutch business together with stakeholders in Russia and the Netherlands.

Order your free copy www.wageningenUR.nl/expostrussia

