

Study on the promotion of the consumption of olive oil and table olives in Russia

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by

AGERÓN INTERNACIONAL

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Executive summary

Objectives and methodology

The IOC is wanted to receive a proposal that puts forward promotion activities to increase the demand for olive oil and table olives in Russia, together with a budget for each activity in each country and an analysis of the agencies which would be able to carry out promotion activities in the future.

The subject of the present study is the promotion of consumption of olive oil and table olives in Russia, with special focus on the following aspects:

- **The demand** for olive oil and table olive products over the last ten years
- The types of consumers (household, hotel, restaurant, etc.).
- The **distribution** of consumption by type of consumer and the potential for higher consumption
- **Market supply** over the last ten years for the two products.
- Supply **distribution** by import and local production, if there is any
- **Customs duties and technical barriers** to the two products

The work has been undertaken by a multilingual and multidisciplinary **team based in Russia and Spain**, composed by consultants of the companies AGERÓN INTERNACIONAL and CIANEX. This team has carried out an extensive desk work and an intensive field work for 3 months (**August, September and October 2009**) covering all aspects of the research and with a wide target group:

- Importers and distributors
- Retailers (big distribution chains, specialty shops, on-line shops, etc.)
- Catering and Food Service companies
- Associations
- Producers and producers associations (in the case of the USA)
- Exports promotion Boards of the IOC member States
- Trade Missions of the member States
- Media (culinary, gastronomic, retail, lifestyle)
- Culinary and gastronomic opinion leaders
- Famous chefs
- Trade fair organisations
- Agencies (public relations, in store promotions, advertising, branding)
- Olive oil and table olive experts
- Researchers and research institutions
- End consumers
- Government health officials

The methodology used for this market research has been based on:

- Intensive desk work
 - Journals
 - Magazines (both Professional & Consumer)
 - Reports
 - Market studies (both national & regional)

- Extensive field work
 - 1,100 questionnaires addressed to end consumers
 - More than 40 personal interviews with the target audience
 - Over 40 storechecks
 - 11 major cities in Russia

- A mix of qualitative and quantitative research
- The use of multi lingual and multicultural research teams based in Russia and Spain
- A process standardization, coordination and follow-up system among teams working simultaneously in all markets
- A tracking process to verify that the research objectives and timetable are being met
- A deep analysis of the multilevel results of the quantitative and qualitative research, in order to offer full conclusions and recommendations to the IOC



Conclusions

1. Russia is not a “new” market for olive oil and table olives for many reasons:

- The Russian Federation has already been importing olive oil and table olives for many years and volumes have been constantly increasing
- There are more than 100 olive oil brands and more than 60 table olives brands in the market
- Both products are being distributed through many channels available, mainly big retailing groups
- Olive oil and table olives can be found in many different types of sales points: supermarkets, specialty stores, “produkti” shops, etc.
- There are many restaurants where olive oil is used and proposed as a “trend” product from the Mediterranean diet.
- Table olives have been positioned as a “more popular” product and incorporated to the consuming habits of the Russians as a snack.
- There is big awareness among consumers of both products (Everyone in Russia, at least in the big cities, knows about olive oil and olives)
- In recent years, a considerable amount of promotion activities have already taken place, carried out by the operators or by different institutions

2. The size of the Russian market

- The Russian Federation is one of the biggest countries in the world, with a population of 142 million
- It may seem a huge potential market but there are some aspects to be considered:
 - Population is in decline
 - There is a severe economic crisis
 - Purchasing power is decreasing
 - Olive oil and table olives are not part of the culinary habits of the Russians, although table olives are increasingly so.
 - The country is very big and has certain logistics difficulties (mainly in winter)
- Yet, there are other positive aspects:
 - Russia is now an open economy with more or less clear market rules
 - There is relative political stability, with the same group holding power for more than a decade
 - There is part of the population with a very high income
 - The average education levels of the population is very high
 - Russia is linked to western culture and trade world
 - Old and young people are more concerned about health, and olive oil is perceived as a healthy product
 - Many people live in big cities, where distribution and promotion is easier
 - The modern retail sector is developing very fast
 - The food service sector is growing as well
 - Chefs are beginning to be seen as real opinion leaders
 - Import tariffs and other barriers are not very high

3. There is big competition from sun flower oil

- Russia is one of the biggest consumers of vegetable oils in the world
- It is one of the biggest producers of sun flower seed oil
- There are many brands of sunflower oil and most of them are “national”
- Sun flower oil has been an essential part of the traditional Russian diet for decades and is deeply rooted in the habits of the consumers
- Sun flower oil has a very good reputation. It is seen as a high quality product with reasonable prices, and it is also considered healthy
- There are big corporations (national and multinational) in the processing industry of sun flower oil (for industrial and domestic use), with big interests and investments.
- Olive oil represents a very little proportion of all what is imported in Russia (vegetable oils)
- The relation quality/price of the sunflower oil is considered better than that of the olive oil, as it is from 6 to 10 cheaper than olive oil.

4. The evolution of olive oil in the Russian market

- Although total imports have been considerably growing in the recent years (more than 1,900% in the period 1999-2008), the rest of the imported oils (especially palm oil) have been growing as well.
- As a result, the imports market share of olive oil in Russia remains at the same level (1.5%) in this period.
- It is the vegetable oil that (albeit at a modest level) is growing at the fastest pace in this market.
- There are two main suppliers of olive oil to Russia: Spain and Italy, from where 80%-85% of the olive oil comes into Russia.
- Spain has been keeping a dominant position in recent years. Yet imports from Italy are growing faster and are progressively gaining market share.
- There are other 3 relevant origins: Greece, Tunisia and Turkey, that represent, altogether, around 12% of the total Russian imports, and getting more share.
- The analysis shows then the progressive loss of market share of the Spanish olive oil in favour of Italian oil, although there still quite a big gap between them

5. Olive oil key facts

- We have identified at the Russian olive oil market up to:
 - 102 brands of olive oil, but may be more at Horeca (food service) or some stores we have not covered.
 - 397 references of different olive oil products
- There are some brands:
 - With national coverage
 - Some in Moscow and some regions
 - Belonging to a big group of small players
- The market share of the different brands has been analysed in different reports or magazines with different results. It seems reasonable that Borges is the the leader in the Russian market, mainly with its Borges brand, and having a second brand, ITLV
- Other key brands are: Monini from Italy, Gaea from Greece, Maestro de Oliva, Iberica and La Española from Spain, with national coverage.
- Other secondary brands are: De Ceco, Carapelli, Aro and Barbera, Aceites del Sur and Carbonell from Spain, and the Tunisian Terra Delyssa, gaining national coverage.
- It is important to remark the arrival of IDEAL in the olive oil business, as it is one of the leaders of Sunflower oil.
- Italians and Greek are trying to position themselves on top of the market, together with some products of Olive Line and Corrado.
- The main problem with olive oil is not access to distribution, but low penetration due to extraordinary high prices for average consumers, by high margins.

6. Table olives key facts

- Russia does not produce olives and is then importing this product from different countries, mainly Spain, which amounts for over 90% of the total. They have got an average imports market share of 95% in the past 10 years, far ahead from other origins like Hungary (probably a mistake, a payment middle company or a trader in one of the years), Turkey, Greece or Italy.
- The origin of the Russian table olives imports is much more diversified in terms of number of countries. There are about 15-20 countries that have exported olives to Russia in the period 1999-2008,
- In the last 10 years, table olives imports in Russia have grown by 289%. The Russian demand is growing at a 30% increase pace every year (in terms of volume).
- The current situation (2008) is characterized by two main key factors:
 - Big import prices increase
 - Significant retrocession in imported quantities
- The crisis does not seem to have affected those imports at all. Instead, import prices of table olives in Russia have grown.
- The fact that olives come from Spain (Euro zone) and should be therefore paid in Euros, gives an explanation of the loss of purchasing power and the rise in prices.
- Imports from Italy are, by far, the most expensive when going through the Russian customs. In the last 10 years, as an average, import prices of Italian olives have been more than 40% above the average.
- The Italian table olives have positioned more like a high quality gourmet product, sold in specialty stores.
- Spanish table olives have positioned as a cheaper product, using other distribution channels, but covering the whole countries
- There are advertising campaigns going on by Spanish institutions on the market.
- Table olives may be found all over the country and at all kind of distribution formats
- They have become a regular purchase for most Russian consumers, as a majority knows them and buys them.
- We have identified low rotation as a problem. The way to increase consumption lays not in “explaining” the product, but in fostering higher consumptions.

7. Olive oil and table olives are “trendy”

- Russians are eager to consume “western style” and imported products, as olive oil is perceived.
- Foreign brands are fashionable
- Within the wealthiest part of the population, there is an evident interest in buying expensive and foreign products
- But middle class can hardly afford it.
- Young people are more interested in new nutritional concepts: health, natural, quality linked to an origin, functional, convenience.
- And not only young people. Health in Russia is a very important issue and the Authorities could see in the olive oil a tool to improve health conditions of the population
- As seen below, a local scientific research remarking the health quality of olive oil and table olives could help a lot to increase consumption
- Many Russian tourists travel every year to the Mediterranean basin where they get to know and consume olive oil and table olives
- The Mediterranean diet and the Mediterranean way of life are drawing the attention, as in many other countries, of the Russian consumers
- Awarded and renown Russian chefs are opening restaurants and promotion new cultures and products like olive oil and table olives
- A big amount of restaurants in Moscow and other big cities are Italian
- Table olives are insufflating “new air” in the way the Russians have their snacks. They are big consumers of preserved vegetables but now there is a new “funny”, delicious and easy way to have their drinks. And not only at celebrations
- The advertising campaigns are taking most of these things into account.

8. Different positioning of both products

- Olive oil consumption per capita is still very low
- Olive oil seems to be “overpriced”. Most of the olive imported in Russia is virgin or extra virgin. Therefore, the best quality and the highest prices are going to Russia. Imports prices and prices at the sales points are 4-5 times higher than those of the sunflower oil.
- Olive oil is considered a very high quality product, with very good nutritional properties, but expensive or very expensive.
- The fact that olive oil is not considered a daily product and its high prices, are the reason for been consumed only at special occasions for the majority of the population.
- Russians accept that olive oil and table olives are very healthy products but they admit to have scarce information about its history, varieties, types, qualities, properties, etc.
- Table olives are more popular. They have a better quality/price relation and are more and more consumed on a daily basis.

9. Communications and media

- In this aspect, Russia may be considered a “new” market as independent media and communication agencies have been established only 10 years ago.
- Yet, there is big development of national, regional and local media
- Apart from national communications agencies, big multinational groups have established in Russia
- In Russia there are enough resources (in terms of quality, quantity and experience) as find communications companies to design and implement a promotion strategy. In the Russian Federation there is a considerable amount of promotion activities, both by institutions, and by individual operators. Spain, as the first exporting country of the two products is the first institutional advertiser, with independent and separate campaigns, with different partners (professional and regional) in each one.
- Media tools overview:
 - TV seems to be the most profitable and efficient media to cover the Russian Federation with advertisements. The use of the media has been for advertisement, traditional advertisements, as incursions in the contents, cuisine programs.
 - The Radio has very good coverage in all of Russia, but very little advertisement penetration. Those who have used it, like the Spanish in two campaigns, recommend not using it because of its reduced efficiency.
 - The Press is a media with great penetration in Russia and important investment, particularly the specialized theme magazines. It seems that the feminine and gastronomy press is a good support for the products object of this study, but the general press has been cast aside.
 - The Outdoor media, billboards and other urban supports are a good support for the public that live in those cities, but it is used by others and we do not recommend them.
 - Internet: indispensable, for the medium-high and high class public, with a higher education, and above all, for the Trade and Horeca Channel.

10. Campaigns in the market

- The Spanish Olive Oil campaign amounts to 300,000 € (450,000 \$) and is based on the publication of a book of cooking recipes with Olive Oil, campaign presentation event, press trip with a TV channel, a website, point of sale promotional material and advertisements in women and gastronomy press.
- The Spanish Table Olives campaign amounts to 365,000 € (around US\$ 550,000) and was based on a market investigation in seven cities. It consisted mainly on an outdoor advertisement campaign, paid ads at women and gastronomy press, invitation to Spain for a Fam-Trip for a TV programme team, website and executive video.
- Italy and Greece focused their promotional campaigns towards participation in trade fairs and organizing tailor-made events. Greece received economic support from the European Union.

As for private companies:

- The Olive Oil brands invested in Russian TV in 2008, nearly 600,000 \$.
- The Table Olives, nearly 160,000 \$. As we have previously mentioned, there is a thoroughly detailed annex of the same.
- Borges (Borges and ITLV), recognized by all as the market leader for Olive Oil. Its main advertisement investment radiates in the sponsorship of a TV cuisine programme, with an approximate investment of 400,000 \$ for 52 programmes.
- The rest of the Olive Oil brands invested more than 260,000 \$ in Russian Press, in 2008

These conclusions are to be analyzed together with the whole study and its annexes to get the complete picture and to avoid misunderstandings. These findings, as well as the recommendations on next page are done to the best of our knowledge and should be taking cautiously. Agerón is not to be blame by results of actions taken based on these ideas and proposals, as the market is always changing, and the objective was to get a sound overview of the market, to allow for a tender where the actual campaign will be based.

Recommendations

1. We recommend to do 2 products, 2 campaigns

- The two products are different and have a different positioning in the Russian market
- Olive oil needs a deeper communication effort. It still remains in the dawn of a long term promotion strategy that could position it in the way to spread awareness and increase consumption. There is still a big lack of information about olive oil: history, production methods, varieties, origins, denominations, nutritional properties, culinary uses, etc. There is a general knowledge among consumers about the beneficial properties of the olive oil but there are many misunderstandings and erroneous points of view. That is why we are recommending that the olive oil promotion campaign should more focused in information and education.
- Table olives have reached a further and more mature stage. The strategy should thus be oriented not only at informing and educating but to increase the purchasing and consuming frequency and reaching almost all levels and niches of population.

2. Different objectives

- | | |
|---------------------|---|
| Olive oil | <p>INFORMATION AND EDUCATION</p> <ul style="list-style-type: none"> ▪ Informing about its properties: Healthy product, Natural and tasty ▪ Educate in its consumption: That people get to know the product, its characteristics, types, varieties... |
| Table olives | <p>INCREASING CONSUMPTION</p> <ul style="list-style-type: none"> ▪ Increasing the use of olives as an ingredient in the Russian diet ▪ Promoting new uses and applications <ul style="list-style-type: none"> • In the Food Service sector channel (example: as an aperitif) • New recipes ▪ Reminding its healthy properties ▪ Recommending its consumption along the year and not only at celebrations and special events |

3. Some clues for future campaigns:

DIFFERENTIATION

Each product should have its own an independent promotion strategy.

COORDINATION

Duality should not mean a lack of coordination. Avoiding duplicity is essential and therefore a single agency should manage and develop both campaigns in search of coordination and synergies.

SYNERGIES

Both strategies should have some common points and actions, what will bring economy and more efficiency.

GENERIC

According to IOC objectives, regardless of origin producers and brands, promotion activities should always be totally generic and neutral.

UMBRELLA

The campaigns must be useful for producing countries, for manufacturers and their brands, for importers and retailers. All stakeholders would be welcomed to operate in coordination with the IOC and benefit from its campaigns. Tenderers should consider what has already been done by different operators in the market. This will bring transparency, trust and efficiency.

COMPLEMENTARY

All actions from any operator are important and useful. IOC strategy will take into account what others are already doing, namely the national foreign trade promotion boards, federations and associations alike, as well as exporters and distributors.

PROGRESSIVE

Due to market nature, its huge size and complexity, a progressive promotion strategy is desirable. Starting point should have a higher profile and then be reduced along the years (objectives, awareness and budget).

ASYMMETRIC

Promoting olive oil will require a deeper-long term effort. Therefore a bigger budget should be allocated for the olive oil campaign.

LONG TERM

Increasing awareness and consumption in any market and especially in one of the size of Russia will not be easy. Only a progressive and long term strategy aimed at the adequate targets will bring results. A starting campaign should not be shorter than 3 years.

FLEXIBLE

Out of the experience of the campaigns already under way carried out by exporters, it seems adequate that all actions and results should be revised every year in order to correct deviations and to adapt messages to a changing environment.

CONVERGENT

It is recommended that two campaigns should differ during year 1 and year 2 (albeit sharing certain actions) but converge in year 3.

OBJECTIVES

Tenderers should establish desirable measurable objectives in terms of awareness to be hit at the end of the campaign, as well as the

CONTROL

The campaigns should include control procedures as to measure the level of implementation of activities and objectives as the promotion takes place.

4. Main axis of the campaign

- Olive oil** We recommend 3 main aspects to build the promotion strategy: **Health, Natural, Taste**
 The message will then be used to clearly mark a difference between olive oil and other vegetable oils. Olive oil and table olives are:
- A source of Health (widely admitted worldwide and necessarily backed by a prestigious Russia scientific institution.
 - Naturally and traditionally elaborated
 - Essential part of the Mediterranean diet and way of life

RESEARCH > COMMUNICATION BY SEGMENTS > MASS COMMUNICATION

- Table olives** Table olives promotion message should also be in line with the healthy aspects of the product as the original source of olive oil. These beneficial properties should be constantly reminded along the campaign.
 Yet table olives, with a already relatively extended consumption in the Russian market, need different positioning and marketing tools. We recommend a strategy based more in quantity and repetition than in quality.

CONTESTS OF RECIPES > COMMUNICATION BY SEGMENTS > MASS COMMUNICATION

Assuming that olives are already more popular among Russian consumers than olive oil, the axis of its campaign should be based on a message like **"Include Olives in your the daily diet"**

Housewives, chefs or cuisine school students could be very suitable vectors to spread the message and generate more awareness and increase popularity

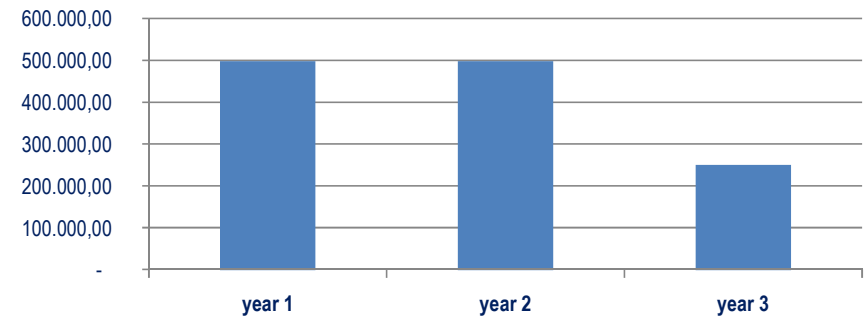
5. Main lines of action

The final campaign should be propose by a PR, promotion or advertising agency, but we have gather and summarize some ideas for the IOC, based on the interviews with over 30 people from different companies, as well as the results or the questionnaires and other inputs.

The chart below shows graphically how it could be done, for a two year promotional campaign, which could be extended for a third year, according to results and budget availability

	First Year (2010)	Second Year (2011)	Optional Third Year (2012)
Olive Oil	<ul style="list-style-type: none"> •Scientific Study •PR & Advertising of Research Conclusions: <ul style="list-style-type: none"> • Press and Media • Distribution • Events 	<p><i>• Consume Olive Oil is Health</i></p> <ul style="list-style-type: none"> • TV Cooking Show (2/3): <ul style="list-style-type: none"> • Health • New Recipes • Ambassadors • Advertising: <ul style="list-style-type: none"> • Women Press • Trade Press 	<ul style="list-style-type: none"> • TV Cooking Show (1/3): <ul style="list-style-type: none"> • Health • New Recipes • Ambassadors • Advertising: <ul style="list-style-type: none"> • Women Press • Trade Press
Common	<ul style="list-style-type: none"> •PR "Kick off meeting": <ul style="list-style-type: none"> • Producers • Authorities • Corporate Identity: <ul style="list-style-type: none"> • Logo & Web • Ambassadors 		
Table Olives	<ul style="list-style-type: none"> • Press Advertising • New Recipes Contest • Jury selection & meeting • Print & Circulation of Recipes Leaflet and booklets • Events at Moscow & Regions <p><i>• Incorporate Table Olives in daily diet</i></p>		
	40% Budget / Mid profile	40% Budget / High profile	20% Budget / High profile

Approximate recommended budget (Euros)



6. Budget

	year 1		year 2		year 3			
	min. (€)	max. (€)	min. (€)	max. (€)	min. (€)	max. (€)		
PR agency fee	100.000,00	150.000,00	100.000,00	150.000,00	60.000,00	90.000,00		
corporate image & website	10.000,00	12.000,00	Ambassadors fees	30.000,00	50.000,00	Ambassadors fees	90.000,00	135.000,00
Scientific research project	25.000,00	40.000,00	TV shows and their communication (2/3)	180.000,00	270.000,00	TV shows and their communication (1/3)	30.000,00	45.000,00
Presentation Kick off meeting	15.000,00	20.000,00	5-10 events in Moscow adn regions	50.000,00	70.000,00	Adevertising (1/3)	20.000,00	30.000,00
Advertisements for recipes contests	40.000,00	60.000,00	Adevertising (2/3)	40.000,00	60.000,00			
Jurors for contests	5.000,00	8.000,00						
Edition, print & circulation recipes leaflet	75.000,00	110.000,00						
Ambassadors fees	30.000,00	50.000,00						
5-10 events in Moscow adn regions	100.000,00	150.000,00						
TOTAL year 1	400.000,00	600.000,00	TOTAL year 2	400.000,00	600.000,00	TOTAL year 3	200.000,00	300.000,00
% of the 3 year campaign	40%	40%	% of the 3 year campaign	40%	40%	% of the 3 year campaign	20%	20%

Size and characteristics of the market

General economic data

Summary¹

- Economic and social deterioration in the first five months of 2009 has been deeper than expected just a few months ago. Real GDP is estimated to have dropped by more than 10%, unemployment reached close to 10%, and the poverty rate rose dramatically. But the recent rise in oil prices provided some windfall to Russia's export and budget revenues, capital account, as well as its oil and gas dominated stock market.
- Russia's economy is now likely to contract by 7.9% in 2009, despite higher oil prices assumed in the current forecast. Depressed export demand, tight credits, declining investment, and compressed consumption will remain the major factors of output contraction this year. The speed of the subsequent recovery in Russia will likely be slow, dependent on the revival of the global demand and global financial system.
- Looking into the medium term, with the current growth profile, real GDP levels in Russia will reach the pre-crisis high only at the end of the third quarter of 2012. Thus, economic recovery is likely to be very gradual and prolonged.
- The financial crisis has significantly worsened not only poverty, but also the entire income distribution in Russia. A deeper-than-expected drop in real GDP of 7.9% in 2009 is causing huge changes in the composition of wealth and the overall income distribution. The share of the poor will rise from 13.2% before the crisis, to 17.4% by year's-end.
- The Russian middle class measured in terms of household consumption is likely to shrink - by about 10 percent - from 55.6% to 51.2% (a decline of 6.2 million people).

According to an OECD report², the global crisis has put a sudden end to the strong recovery of the Russian economy since the financial crisis of 1998. A slowdown was becoming increasingly likely, given the erosion of favorable factors such as undervaluation of the rouble and spare production capacity and labour resources, but the severity of the crisis is a function of overlapping internal and external factors:

- Collapsing prices of oil and other commodities have resulted in a sharp turnaround in the terms-of-trade, which no longer support domestic demand.
- The drying-up of access to international capital markets hit some Russian banks and corporations hard, and a sudden deterioration of Russia-specific risks, and also more general emerging-market risk premium, increased financing costs steeply.
- The sharp depreciation of the rouble against the dollar in particular (related to falling oil prices and the deterioration in the private capital account) greatly increased the burden of foreign currency corporate debt, which has risen considerably in recent years. Even more acute against the Euro, as shown in our report.

¹ Russian Economic Report 19: From Crisis to Recovery. The World Bank. June 2009.
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/RUSSIANFEDERATIONEXTN/0,,contentMDK:22222555~pagePK:141137~piPK:141127~theSitePK:305600,00.html>

² Economic Survey of Russia 2009. ODCE, http://www.oecd.org/document/30/0,3343,en_33873108_36016497_43271966_1_1_1_1,00.html

The key economic data (inflation, GDP, Public Debt, etc.) is included in Annex I. The main issues to understand the Russian Federation today are the following:

- The basic problem of the Russian economy is **dependence on export of natural resources**. According to the US CIA World fact Book³, the Russian Federation ended 2008 with a GDP growth of 5.6%, following 10 straight years of 7% annual average growth.
- Over the last six years, fixed capital investment growth and personal income growth have averaged above 10%, but both grew at slower rates in 2008. Growth in 2008 was driven largely by non-tradable services and domestic manufacturing, rather than exports. During the past decade, poverty and unemployment declined steadily and the middle class continued to expand. Russia also improved its international financial position, running balance of payments surpluses since 2000.
- **Foreign exchange reserves grew** from \$12 billion in 1999 to almost \$600 billion by end July 2008, which include \$200 billion in two sovereign wealth funds: a reserve fund to support budgetary expenditures in case of a fall in the price of oil and a national welfare fund to help fund pensions and infrastructure development. Total foreign debt is almost one-third of GDP.
- The state component of **foreign debt has declined**, but commercial short-term debt to foreigners has risen strongly. These positive trends began to reverse in the second half of 2008. Investor concerns over the Russia-Georgia conflict, corporate governance issues, and the global credit crunch in September caused the Russian stock market to fall by roughly 70%, primarily due to margin calls that were difficult for many Russian companies to meet.
- The **global crisis** also affected Russia's banking system, which faced **liquidity problems**. Moscow responded quickly in early October 2008, initiating a rescue plan of over \$200 billion that was designed to increase liquidity in the financial sector, to help firms refinance foreign debt, and to support the stock market. The government also unveiled a \$20 billion tax cut plan and other safety nets for society and industry. Meanwhile, a 70% drop in the price of oil since mid-July further exacerbated imbalances in external accounts and the federal budget.
- In mid-November, **mini-devaluations of the currency** by the Central Bank caused increased capital flight and froze domestic credit markets, resulting in **growing unemployment**, wage arrears, and a **severe drop in production**. Foreign exchange reserves dropped to around \$435 billion by end 2008, as the Central Bank defended an overvalued ruble. In the first year of his term, President MEDVEDEV outlined a number of economic priorities for Russia including improving infrastructure, innovation, investment, and institutions; reducing the state's role in the economy; reforming the tax system and banking sector; developing one of the biggest financial centers in the world, combating corruption, and improving the judiciary.
- According to CIA, the Russian government needs to diversify the economy further, as **energy and other raw materials still dominate Russian export earnings and federal budget receipts**. Russia's infrastructure requires large investments and must be replaced or modernized if the country is to achieve broad-based economic growth. Corruption, lack of trust in institutions, and more recently, exchange rate uncertainty and the global economic crisis continue to dampen domestic and foreign investor sentiment. Russia has made some progress in building the rule of law, the bedrock of a modern market economy, but much work remains on judicial reform. Moscow continues to seek accession to the WTO and has made some progress, but its timeline for entry into the organization continues to slip, and the negotiating atmosphere has soured in the wake of the Georgia and global economic crises.
- Russia enjoyed a decade of strong growth until mid-2008, but has since been gripped by a **severe recession**. The near term challenge is to limit the severity and duration of the downturn. Looking beyond the crisis, the overarching challenge is to put in place a sounder growth model driven by innovation, investment, and the accumulation of human capital. This will require reforms in many areas, but this chapter focuses on a few key challenges: 1) strengthening the macroeconomic policy framework; 2) improving the functioning of the financial system; and 3) raising the levels of competition throughout the economy via streamlined state involvement and lower barriers to entry.

³ CIA. The World fact Book. Russia. <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>

Population

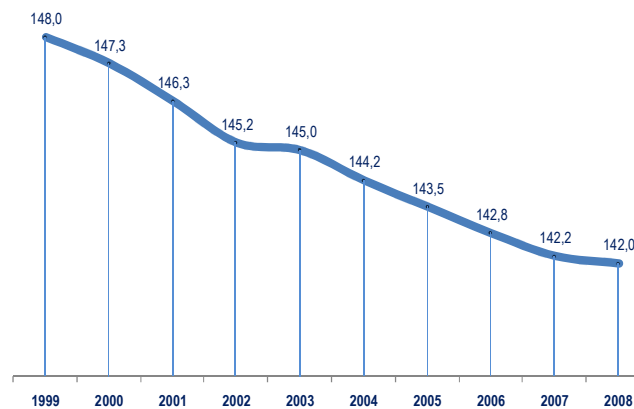
Summary

- Russian population is estimated at 142 million people on 2009.
- In the last decade (1999-2008), population has decreased 4%.
- The life expectancy has also been shortened dramatically in a decade
- “The country is getting old”: people aged 60 years old or more accounts for 13 %. Forecasts of the Russian Academy of Sciences estimate that by 2016, it will increase to 20 % from total population.
- Old population, as a general rule, has low purchasing power. Most mature people, over 55, were left almost out of the system by the communism downfall. Furthermore, the great difference between men and women life expectancy is not only due to the war, but to alcoholism in old adult males.
- From 2002 to 2008 Russian Life Expectancy at birth has been decreasing. In 2009 it has grown by 0.14%.
- In the World Rank of Life Expectancy at birth, Russian position has been losing positions, from level 142 in 2002 to 162 in 2009.
- The U.S. Census Bureau projects a Russian population decline of 19 million from 2000 to 2025. The United Nations Population Division (UNPD) foresees a drop of more than 21 million in that period

Russia's population structure is changing⁴, with **lower life expectancy**, especially amongst men, which could affect the size and strength of the labour force and with it, the country's future economic growth. Russia's **population decline** has been persistent and is caused by the changes in lifestyle since the start of the transition from a central to a market economy in 1990. In Russia, this decline has been predominantly caused by falling births rates and rising death rates due to heart disease, alcoholism, smoking, violence, traffic accidents and poor dietary habits. Currently, the official population figure stands at 142 million, a reduction of more than six million since 1996. By 2050 some forecasts see the **population shrinking to about 108 million** – making for a shrinking consumer base, but we consider that recovery of population figures is possible and it will not be so dramatically.

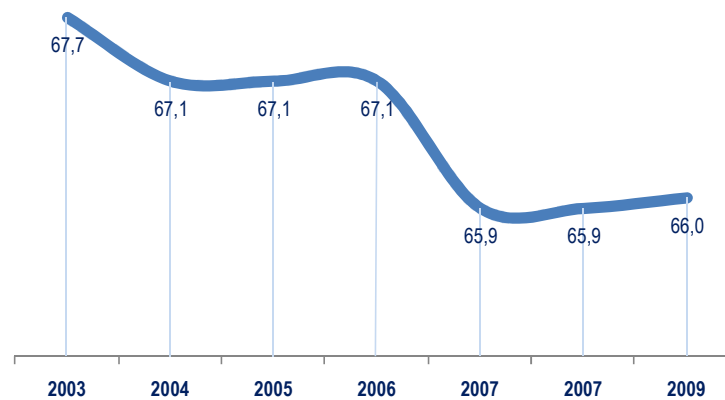
⁴ Top 10 consumer trends in Russia. Sarah Boumphrey. 2008. http://www.euromonitor.com/Top_10_consumer_trends_in_Russia

Russian population (million people)

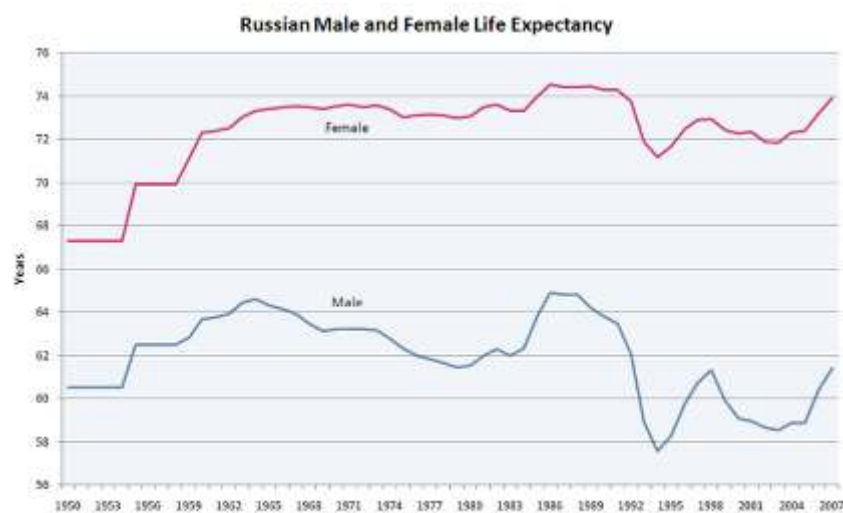


Source: Russian Federation Federal State Statistics Service

Russian life expectancy (years)

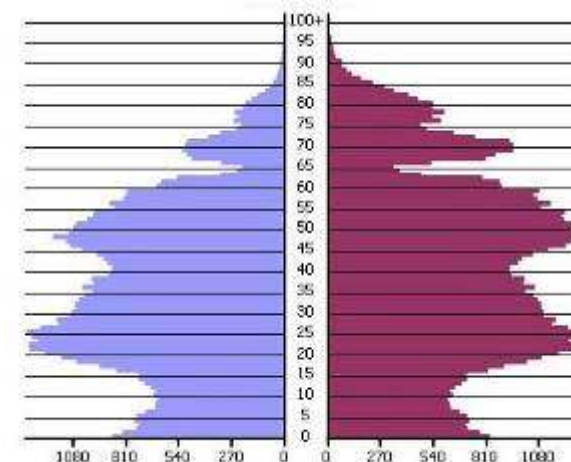


Source: Russian Federation Federal State Statistics Service



Source: <http://demoscope.ru/weekly/pril.php>[http://www.gks.ru/free_doc/2008/demo/osn/05-08.htm]

Population pyramid: Age and Sex structure of population as of January, 1 2009 (thousand people)



The **levels of homicide and suicide** in Russia are among the highest in the world⁵, even though the numbers have improved in recent years. There is a strong association between alcohol consumption and violent mortality. This connection is particularly strong because Russians often drink vodka or illegally produced spirits in large quantities and in private or semi-private settings where fights are more likely to become deadly than in public places. Despite the improving situation, one-third of all deaths in Russia are directly or indirectly related to alcohol, requiring intervention at a variety of levels. As for the IOC study, the issue to be pointed out is the difference between male and female at the population pyramid, as shown above.

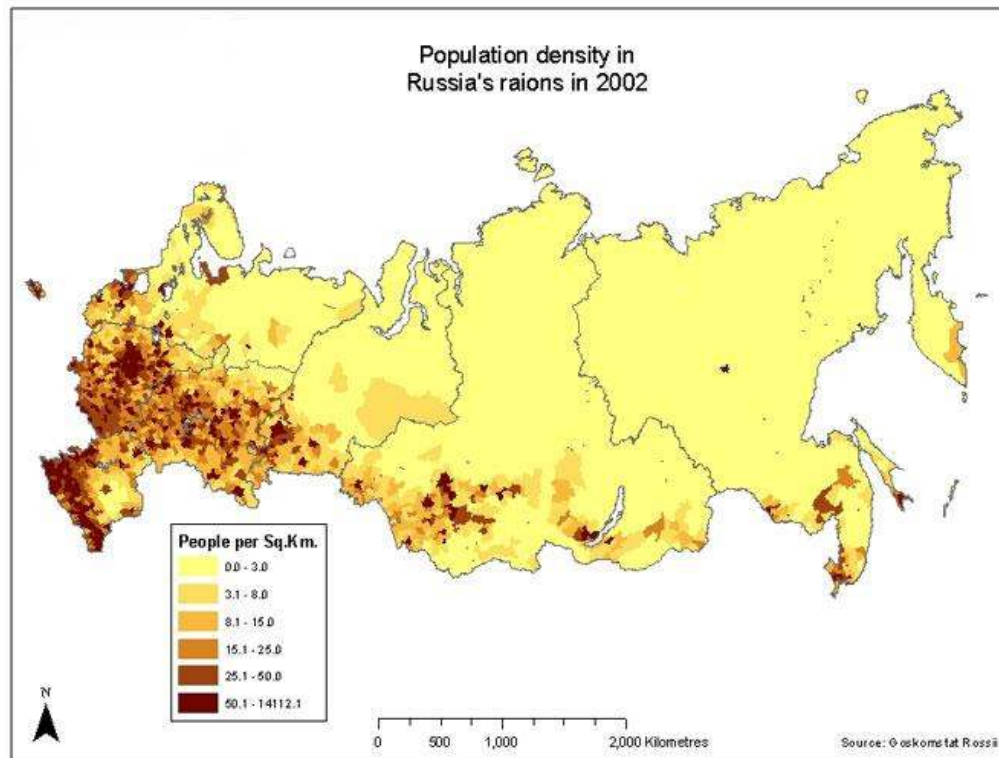
Russia's population is distributed unevenly

The areas with the largest density of cities and towns include the center and south of European Russia, the Northern Caucasus, the Volga region, and the Middle Urals. The rural population density is high in the same areas, which together form the "principal settlement belt" of Russia.

The belt gets narrower as it crosses Western Siberia; further to the east the belt narrows and follows the Trans-Siberian Railway. In the northern and northeastern areas of the country settlements form groups surrounding cities, while the areas outside these spots are almost completely unpopulated.

This pattern is typical in two-thirds of the area of the country. A characteristic feature of Russia is that substantial shares of urban and rural settlements are located in regions with severe (or even extreme) climatic conditions. In the Russian East almost all settlements are located in the permafrost zone with severe conditions for human life and economic activities. At the same time, these areas are more sensitive to human impact.

⁵ The Role of Alcohol in Russia's Violent Mortality. F William Alex Pridemore. February 2008. Russian analytical digest.. Research Centre for East European Studies.



- According to population census of 2002, 73 % of Russians were urban, 27 % — rural.
- More than 64% of the population of Russia is concentrated in three federal districts:
 - Central (26 %), Privolzhsky (22 %) and Southern (16 %).
- One Third of the inhabitants of Russia are concentrated in largest "cities-millionaires": in Moscow, St.-Petersburg, Novosibirsk, Yekaterinburg, Nizhniy Novgorod, Samara, Omsk, Kazan, Chelyabinsk, Rostov-on-Don and Ufa.
- But we believe the pattern of consumption in cities over 200.000 inhabitants is very similar to those with over a million inhabitants. We believe that 1 million figure to be totally arbitrary.

Moscow

Largest on a population city in Russia and Europe, the centre of the Moscow city agglomeration. Also is one of the largest cities of the world, taking the seventh place in this list. Moscow is the major transport knot, and also political, economic, cultural and a country centre of science.

Inner division: 10 Administrative districts (123 areas)

Population: 10,524,400 people (1 June 2009)

Saint-Petersburg

The city of federal value of the Russian Federation, the subject of the Russian Federation, an administrative centre of North-West federal district, the location of the administration of Leningrad region. Important economic and science centre of Russia, also the large transport knot.

Inner division: 18 areas

Population: 4,593,854 people (2009)

Novosibirsk

The third city on a population in Russia. The Administrative centre of the Novosibirsk region and the Siberian federal district, scientific, cultural, industrial, transport, trading and a business centre of Siberia. Inner division: 10 areas

Population: 1,397,213 people (2009)

Yekaterinburg

The administrative centre of Sverdlovsk area, transport-logistical knot on the Trans-Siberian highway, large industrial centre. Yekaterinburg is the main administrative, cultural, scientifically-educational centre of the Ural region allocated with the status of the centre of the Ural federal district. Inner division: 7 administrative districts

Population: 1,332,264 people (2009)

Nizhniy Novgorod

The administrative centre of the Nizhniy Novgorod region, the centre of Privolzhsky federal district. Nizhniy Novgorod is the fifth on a population a city of Russia, the important economic, transport and cultural centre of the country. Inner division: 8 areas

Population: 1,280,335 people (2009)

There are also other important cities as **Samara, Omsk, Kazan, Chelyabinsk and Rostov-na-Donu.**

Administrative/political organisation

Summary⁶

- Russia is organized like a Federation, with a president with full powers as head of State, with strong and wide executive powers. Nowadays, the position is held by Mr. Medvedev.
- The ruling of the country is done by a council of ministers, lead by the prime minister. The former president, Mr. Putin, is holding this office today.
- The federation has lived through a period of political stability, because power has been held by the same group. Radical change is difficult, due to the complexity of the country and the election system.
- The Russian Federation has two Chambers, the Duma and the Federation Council, which legislate at the Federal level. There are also different regional and local governments and legislative assemblies, progressively gaining power, but playing still mainly a representative role.
- **The administrative division of Russia is very complex**, and the federal government is trying to simplify it in 11 economic zones, 8 west of the Urals and 3 East of the Urals. In May 2000 the government formed seven Federal Districts
- The western economic zone of Russia: 8 economic region: Northern, Northwest, Central, Central Black Earth, Volgo-Vjatsky, North Caucasian, Volga region, Ural, with an area of 4,294 million км2 or 25% of the total, and its population with 112,8 million (last census) or around 78% of the people.
- East economic zone consists of three greatest on territory regions of Russia: Western-Siberian, East-Siberian, Far East. Its area is 12.765 million км2, 75 % of all territory of Russia, and its population around 31 million people, or 21,5 % of all population of Russia.

The legislative system of the Russian Federation consists of federal and regional laws. Regulatory authorities at federal level are the Federation Council and the State Duma, at regional level – Legislative Assemblies of subjects of the Russian Federation. Federal laws are promoted by the State Duma and are reviewed by the Federation Council. In case of disagreement of the State Duma with the Federation Council, a decision over a federal law is considered accepted if at a second voting turn, it has been supported by more than two thirds of total number of deputies of the State Duma. The passed federal law goes to the President of the Russian Federation for signature and promulgation. If the international contract of the Russian Federation establishes other rules, than provided by the federal law in conformity with article 15 of the Constitution of the Russian Federation rules of the international contract are applied. Preliminary expert examination of bills is carried out by *ad hoc* and permanent committees of the State Duma.

⁶ Russian Economic Report 19: From Crisis to Recovery. The World Bank. June 2009.

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/RUSSIANFEDERATIONEXTN/0,,contentMDK:2222555~pagePK:141137~piPK:141127~theSitePK:305600,00.html>

The administrative division of Russia is very complicated, as it is formed by Republics, Krai, Areas (oblasts), Federal Cities, Autonomous areas (oblasts), Autonomous Districts (okrugs) — all of them as equal in rights subjects of Russia Federation.



The federal government is trying to simplify it, with two measures: First, by establishing 11 economic zones, 8 west of the Urals and 3 East of the Urals, as explained in the next chapter.

Furthermore, in May 2000 the Government formed **seven Federal Districts**, as shown on the map below.



Central Federal District

Its center is the city of Moscow. The territory of CFD is 650,7 thousand. km² or 3,82% of Russia federation. There is a highest density, as for Russian standards, about 57,09 persons per km². There are also 18 areas within the structure of CFD. The population is 37,121,812 (Urban – 29,994,175; rural – 7,127,637) or 26,16% of Russia population.

Northwest Federal District

Center is St-Petersburg. The territory of NFD is 1,677,900 km² or 9,8 % of Russia federation territory. Population is 13,501,038 or 9,51 % of RF. Main is urban population. In structure of NFD are: 2 republics, 7 areas and 1 autonomous region. Density is 8,52 persons per km².

Privolzhsky Federal District

Center is Nizhniy Novgorod. Territory – 1,038,000 km² or 6,8%. Population – 30,241,581 people or 21,3 %. Main is urban population. In structure of PFD are: 6 republics, 7 areas and 1 krai. Density is 30,53 persons per km².

South Federal District

Center is Rostov-on-Don. Territory – 589,200 km² or 3,5%. Population – 589,200 people or 16,08 %. In structure of SFD are: 8 republics, 3 areas and 2 krajs. Density is 36,8 persons per km².

Uralskiy Federal District

Center is Yekaterinburg. Territory – 1,788,900 km² or 10,5%. Population – 12,240,382 people or 8,62 %. In structure of UFD are: 4 areas and 2 autonomous regions. Density is 7,0 persons per km².

Siberian Federal District

Center is Novosibirsk. Territory – 5,114,800 km² or 29,95%. Population – 19,553,461 people or 13,77 %. In structure of Sib.FD are: 4 republics, 5 areas and 3 krajs. Density is 4,1 persons per km².

Dalnevostochniy Federal District

Center is Vladivostok. Territory – 6,215,900 km² or 36,4%. Population – 6,486,419 people or 4,57 %. In structure of DFD are: 1 republic, 4 areas, 3 krajs and 1 autonomous region. Density is 1,2 persons per km².

In the head of each Federal District is a plenipotentiary of RF president. These districts are not related to the administrative-territorial division of the country and serve the purpose of strengthening the regional government.

Economic areas

The western economic zone of Russia

The western economic zone of Russia: 8 economic region: Northern, Northwest, Central, Central Black Earth, Volgo-Vjatsky, North Caucasian, Volga region, Ural, with an area of 4,294 million km² or 25% of the total, and its population with 112,8 million (last census) or around 78% of the people.

1. **NORTHWEST AREA**
(the economic centre of area agglomeration of St.-Petersburg - one of the major foreign trade ports of Russia is, the largest cultural and a centre of science) - The area — 196,5 thousand km², the population — 7,8 million people (5,4 % from the Russian Federation).
2. **NORTHERN AREA**
(area rather sparsely populated with strongly pronounced concentration of the population and all "an economic life" in industrial centres, Arkhangelsk, Murmansk, Vologda are especially allocated) - The area — 1466,3 thousand km², the population - of 5,6 million people (4 % from the Russian Federation).
3. **The CENTRAL AREA**
(leading area of Russia on a population, industrial, cultural, scientific potential; the Moscow capital region is contrastly allocated for area territories with administrative functions of "allied" value inherent in it) - The area — 483,0 thousand km², the population — 29,0 million people
4. **CENTRAL BLACK EARTH AREA**
(one of the manufacturers of various agricultural production largest in Russia) - The area — 167,7 thousand km², the population — 7,7 million people (5,3 % from the Russian Federation).
5. **VOLGO-VJATSKY AREA**
(in area territory the third is located on industrial potential a city of Russia - Nizhni Novgorod) - The area — 265,4 thousand km², the population — 8,2 million people (5,5 % from the Russian Federation).
6. **VOLGA REGION AREA**
(one of leading industrially-agrarian areas of Russia. The basic cities - Samara, Saratov, Astrakhan, Kazan) - The 536,4 thousand area km², the population — 16,7 million people (11,5 % from the Russian Federation).
7. **The NORTH CAUCASIAN AREA**
(a distinctive feature of the population of area - a multinationality, leading area of Russia on a level of development of a resort economy and tourism. Krasnodar, Rostov-on-Don, Stavropol, Novorossisk - southern port of Russia) - The 355,1 thousand area - km², the population - of 17,5 million people (12 % from the Russian Federation).
8. **The URAL AREA**
(among other areas of Russia the area is allocated strongly pronounced with industrial specialisation. Chelyabinsk, Perm, Ufa, Ekaterinburg) - The 824,0 thousand area - km², the population — 20,2 million people (14 % from the Russian Federation).

Eastern economic zone of Russia

East economic zone consists of three greatest on territory regions of Russia: Western-Siberian, East-Siberian, Far East. Its area is 12.765 million km², 75 % of all territory of Russia, and its population around 31 million people, 21,5 % of all population of Russia.

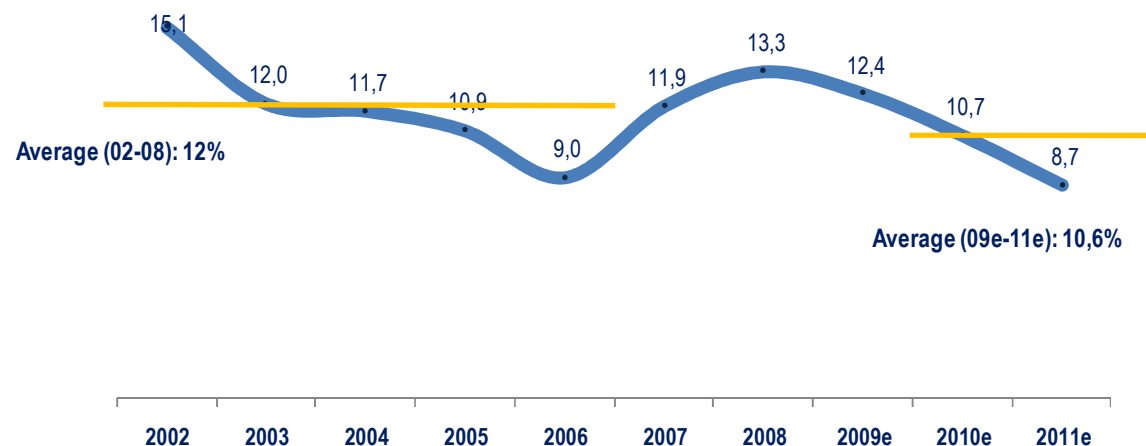
9. The WEST SIBERIAN AREA
(one of the largest resource areas of Russia. Tyumen, Omsk, Novosibirsk) - The area — 2427,2 thousand km², the population — 15,0 million people (10,3 % from the Russian Federation).
10. The EAST SIBERIAN AREA
(the area of Russia second for the area, area exclusively resource. Krasnoyarsk, Norilsk) - The area — 4122,8 thousand km², the population — 8,9 million people
11. FAR EAST AREA
(the largest on the area area of Russia, but simultaneously - with very small population. Vladivostok, the Find, Yuzhno-Sakhalinsk - the major ports of Russia on Pacific ocean) - The area — 6215,9 thousand km², the population — 7,1 million people (5 % from the Russian Federation).



Inflation

Russia is **an unequal society**, closer to a developing country, than to a wealthy developed democratic country:

- About 10 % of the citizens have 31 % of total amount of the wealth
- Over 30% have very low incomes, including not only the old population mentioned before, but also families with children. Some 10% of the population has less than 1,9% of the country wealth. There is not an efficient system of social care
- Rural population, around 24% of population today (27% in 2002), has very low income, as a general rule.
- The narrow middleclass has been suffering a downfall of its purchasing power through inflation. The average between 2002 and 2008 has been 12%. Inflation forecast for the next years is lower and going down, but average is still 10,6%.



Forecasts are not too optimistic

- According to Rosstata, an aggregate number of the unemployed in Russia following the results of the first quarter 2009 has exceeded 7 million persons, which represents a little more than 9 % from economically active population of the country.
- The official forecast of inflation rate for 2009, according to Rosstata, is going to finish at 12,4 %.
- Under the forecast of Ministry of economic development and trade, in 2009 real incomes of Russians will fall for the first time for last 9.
- Following the results of a year of Ministry of economic development and trade predicts decrease in real salaries on 4,1 %, and real had incomes of the population – on 8,3 %.

Currency exchange rates

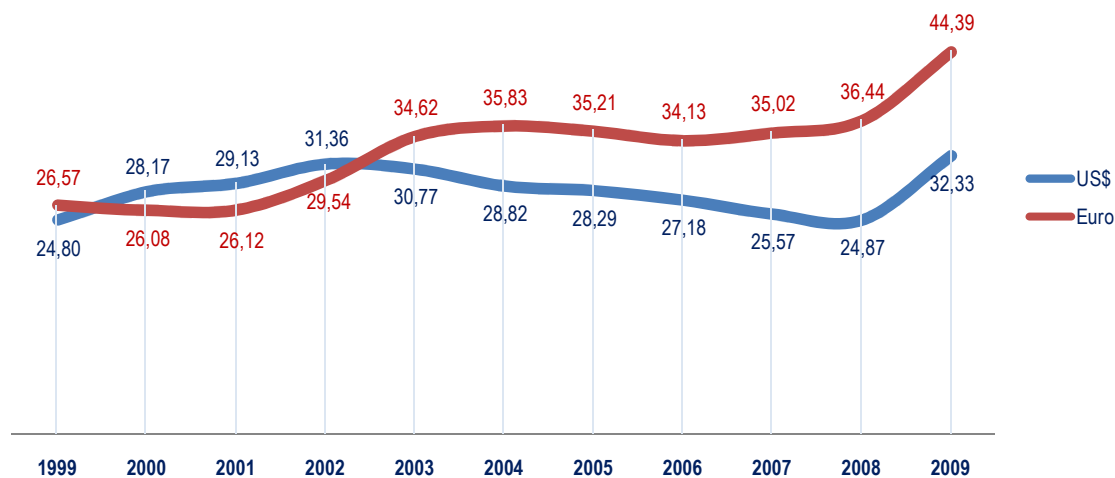
Currency exchange rates are of paramount importance in the analysis of the Russian vegetable oils and table olives market.

The main olive oil and olive exporters to the Russian Federation (Spain, Italy, and Greece) belong to the Euro zone and operate in Euros, and then olive oil has become relatively more expensive for the Russian importers in the past years, until 2009. With regard to the Euro, 3 main different phases can be differentiated in the last 11 years:

Phase 1	1999-2001	The Euro kept a stable level against Russian rouble at around 26.
Phase 2	2002-2008	Euro went up at the 34-36 level.
Phase 3	2009	An important loss of the rouble position makes it go to the level of 44

Therefore, olive oil imports prices in the Russian market have been increased by almost 67% of the prices due to currency exchange, from around 26 rubles to 44 rubles per euro. This means that purchasing olive oil has been progressively more and more expensive for Russian operators.

Russian rouble average exchange rates against US\$ and Euro

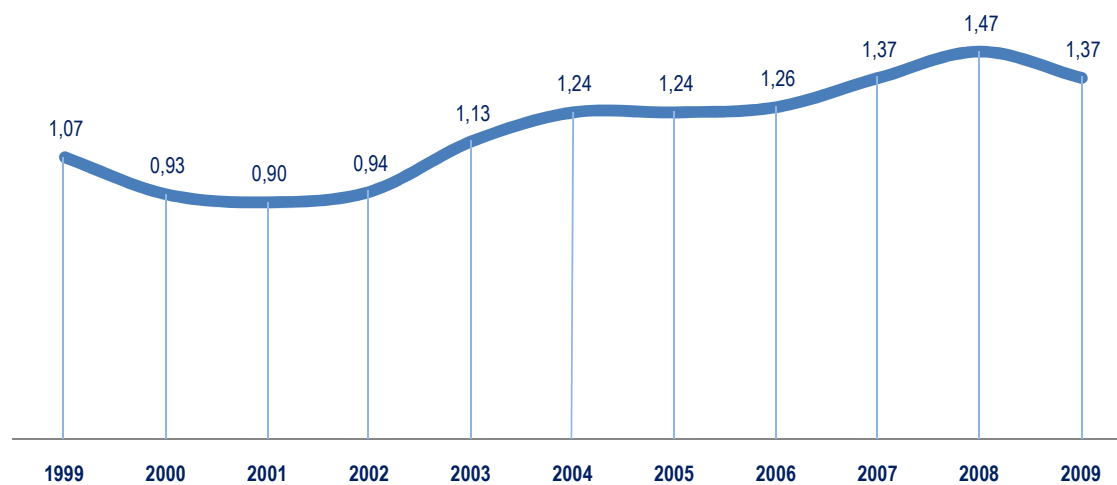


Source: OANDA

This is one more reason which explains the apparent stagnation of olive oil imports in Russia in 2008 when compared to 2007. In other words, imports of olive oil from the EU are becoming more expensive just as a result of the currency exchange Russian rouble/Euro. Just in the last 2 years (2007-2008), there has been an increase of 7% in that exchange rate.

From the parity between the two currencies (2002-2003), the evolution had been that Euro appreciate 47% vs US Dollar. That make exportations from Euro Zone is now much more expensive, which has been used by some Tunisian, Turkish and companies from other origins.

Average Euro exchange rate against US\$



Source: OANDA.com

Market access conditions

Legislation

The Russian Federation ranks federal laws regarding foodstuffs, including foodstuffs of foreign origin, as follows:

- Federal Law On Protecting Consumer Rights No. 2300-1 of February 7, 1992 (with the Amendments and Additions of June 2, 1993, January 9, 1996, December 17, 1999, December 30, 2001, August 22, 2004, November 2, 2004, December 21, 2004, and October 27, 2007)
- Federal Law On The Quality And Safety Of Food Products No. 29-FZ (with the Amendments and Additions of December 30, 2001, January 10, 2003, June 30, 2003, August 22, 2004, May 9, 2005, December 5, 2005, December 31, 2005, and March 31, 2006)
- Federal Law On The Sanitary And Epidemiological Well-Being Of The Population No. 52-FZ (as amended on December 30, 2001, January 10, 2004, June 30, 2003, September 22, 2004, May 09, 2005, and December 31, 2005)
- Federal Law On State Regulation In The Sphere Of Genetic Engineering Activities No.86-FZ of July 5, 1996, as amended by the Federal Law No. 96-FZ of July 12, 2000.
- Federal Law On State Regulation Of The Production And Handling Of Ethyl Alcohol, Spirits, And Products Containing Alcohol No. 171-FZ of November 22, 1995, as amended by Federal Law No. 248-FZ of December 29, 2006
- Federal Law On Technical Regulation No 184-FZ of December 27, 2002, as amended by Federal Law No. 65-FZ of May 1, 2007.

The Russian Federation ranks regulatory documents regarding foodstuffs, including foreign, as follows⁷:

- Hygienic Requirements For Foodstuff Safety And Nutrition (in force as SanPiN 2.3.2.1078-01 since July 1, 2002) with several recent additions and amendments (the latest amendment establishes hygienic requirements for organic products)
- 2. General Requirements For Providing Consumer Information Regarding Foodstuffs (GOST P 51074-2003, Conformity Certificate with the regulation), emitted by the GOSSTANDARD (Russian Governmental Standards Organization). The Russian regulations in which the requirements are specified to obtain the above mentioned certificate are called GOST R (Gosudarstvennye Standarty Rossii).
- Hygienic Requirements For Food Additives (Sanpin 2.3.2.1293-03) Including Additions And Amendments No. 1 TO SanPiN2.3.2.1293-03 (SanPiN 2.3.2.2364-08) of May 2008.

⁷ Russian Federation. Food and Agricultural Import Regulations and Standards – Narrative. FAIRS Country Report. USDA Foreign Agricultural Service, 2009.
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Moscow_Russian%20Federation_11.08.2009.pdf

Customs clearance usually occurs at the point of destination and typically takes between 2 and 4 days⁸. All customs documents must be in the Russian language. Customs duties, fees, and the value-added tax (VAT) are usually paid in advance to avoid delays in customs clearance. Customs duties, payments, and taxes depend on the type of product and are calculated based on the customs value of the product (i.e., product value plus transportation cost). The customs value cannot be less than the accepted value, a figure that customs authorities determine.

Traders should use the Russian Customs Tariff and Tax Code to calculate customs duties and fees. The Russian government published new customs tariff rates in Resolution 718 of November 27, 2006. Russia's Customs Tariff is a code of import-duty rates that corresponds with Russia's Commodity Nomenclature. Customs duties, fees, and payments are calculated based on rates from the customs value of the goods and are assigned while developing the consignment's customs declaration.

Tariff rates are subject to change, and thus importers and exporters must monitor amendments to the tariff schedule. The official website of the Russian Customs Service publishes tariffs at <http://www.customs.ru/ru/tariffs/>.

The majority of the oils and fats enjoy preferences. The Federation of Russia grants a discount of 25 % of the duty base for the most portion of the group 15 (except to the olive oil, - look at the Decree of the Government Nro.414 of May 25, 2000).

In general, 125 countries enjoy certain preferences; of them 104 have the same regime.

⁸ Russia: Overview of Food Labelling and Import Rules. US Government, 2008. <http://www.flex-news-food.com/files/russian.food.laws.pdf>

Import tariffs

Product description	tariff
Olive oil and its fractions, whether or not refined, but not chemically modified	
virgin	10%
refined	10%
Other oils and their fractions, obtained solely from olives	15%
Olives, preserved/preserved otherwise than by vinegar/acetic acid, not frozen,	15%
<hr/>	
Palm oil and its fractions, whether or not refined, but not chemically modified	10% -15%
Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified	15%
Coconut (copra), palm kernel or babassu oil and fractions thereof, whether or not refined, but not chemically modified	10%
Rape, colza or mustard oil and fractions thereof, whether or not refined, but not chemically modified	15%
Other fixed vegetable fats and oils (including jojoba oil) and their fractions, whether or not refined, but not chemically modified	5%

Source: EU Market Access DataBase

Packaging and labelling

The General Requirements for Consumer Information Regarding Foodstuffs, GOST 51074-2003, came into effect on July 1, 2005. This standard incorporates the Codex Alimentarius International Food-Packaging Standards [Codex Stan 1-1985 (Rev.1-1991)].

Among other things, GOST 51074-2003 regulates pre-packaged food sold either in retail or wholesale markets that supplies public catering facilities, schools, children's facilities, therapeutic facilities, and other facilities directly servicing consumers. GOST51074-2003 establishes general requirements for product information that must be provided to customers.

The following information must be presented in the Russian language:

- Data about the manufacturer (including the organization authorized to accept claims from consumers)
- Country of origin
- Trademark
- Net weight or quantity
- Composition
- Nutritional value based on the specificity of the product
- Storage conditions
- Use-by date or shelf-life expiration date
- Regulatory or technical documents with which the products can be identified (not for those produced abroad)
- Confirmation of conformity

GOST 51074-2003 also requires labeling of the following:

- Food additives, biologically active additives, flavorings, components of non-traditional composition including components from raw materials containing protein that does not exist naturally and was added while manufacturing the product
- Food products that are products of biotechnology, obtained from products of biotechnology, or contain components from products of biotechnology.

For products with biotech components, information must be provided when these components contain more than the permitted level of biotech ingredients. The information on the label must read (in Russian): "genetically modified [name of the product], [name of the product] is obtained based on genetically modified sources, or [name of the product] contains components received from genetically modified sources."

The manufacturer may list the basic mineral substances and vitamins inherent in the product without indicating their quantity. Manufacturers are required to list a recommended daily allowance in accordance with established procedures.

If more than 2% of the recommended daily allowance of proteins, fats, carbohydrates, or calories is included in a 100-gram serving, this information must be included on the label.

The label must also indicate if a 100-gram serving contains more than 5 percent of the daily recommend allowance of minerals or vitamins. GOST ? 51074-2003 covers all special requirements for nutrition labeling. GOST P 51074-2003 seeks to incorporate international standards in order to prevent technical trade barriers from arising during international transactions. It is intended to provide an objective and trustworthy method for assessing the quality and safety of products in Russia.

Information requirements have been clarified since the previous GOST (R 51074-97) for the following food categories:

- Meat and meat products
- Poultry meat
- Eggs and processed egg products
- Milk, dairy products, and products containing milk
- Fish, non-fish fishery products, and products manufactured from fish
- Canned products
- Preserved fish and seafood
- Wine products
- Products manufactured by the beer and non-alcoholic beer industry
- Malt beverages
- Beverages manufactured with grain as a raw material
- Low-alcohol beverages

Foodstuff packaging, currently regulated by 169 GOST standards that vary by type of packaging, is important for preserving food quality and safety. Hygienic standards have been created for materials that come into contact with foodstuffs listed in HN 2.3.3.972-00.

HN 2.3.3.972-00 also specifies the maximum permissible quantities of chemical substances allowed to escape from materials in contact with foodstuffs. Packing materials and transport containers must have completed sanitary and epidemiological inspection and have a certificate of conformity. GOST ISO 3394-99 establishes the permitted size, shape, and material of transport containers.

Many products imported into Russia must meet product-type-specific packaging requirements. Packaged grains, for example, must be packaged in air-permeable materials as stated in the Ministry of Agriculture's Order No. 681 of September 3, 2002.

Specifications for packaging are a vital part of each commercial contract. Before signing a contract, the importer should research the specific packaging requirements and advise the exporter accordingly. Packaging (e.g., cardboard or paper boxes, plastic or polymer packets, bottles or cans) that comes into direct contact with products must be certified.

Certification is not required for containers, pallets, and other packaging that does not come into immediate contact with products. For additional information please see GAIN RS5067 Guidelines For Regulating Wood Packing Material In International Trade.

Sanitary and hygienic requirements must also be used when selecting food packaging.

Packing material may not be manufactured from highly toxic compounds having cumulative characteristics, including carcinogenicity, mutagenicity, or allergenicity. The material must not change the organoleptic or nutritional qualities of the foodstuffs, and it may not discharge hazardous substances in excess of permissible levels.

General Requirements for Products of Plant Origin Three international documents form the basis of Russian phytosanitary requirements:

- The International Plant Protection Convention
- The WTO agreement on Sanitary and Phytosanitary Measures, and
- The Food and Agricultural Organization International Standards on Phytosanitary Measures.

Phytosanitary regulation applies to all imports of plants and products of plant origin. The Federal Legislation on Plant Quarantine of July 15, 2000 and the Ministry of Agriculture's Order No. 681 of September 3, 2002 state the main requirements. The latter deals specifically with plant quarantine when importing, storing, transporting, or using grain or grain products used for food, feed, or processing.

The Ministry of Agriculture and VPSS have issued a number of regulatory documents that clarify the quarantine requirements for products being imported into or transported domestically within Russia. The most important regulations are the Commodity Nomenclature Subject to Quarantine Phytosanitary Control.

Phytosanitary certificates are not presently required for some goods of plant origin, including pasta products and products packaged in vacuum packs or foil. Rospotrebnadzor requires sanitary-epidemiological certification or registration for these goods. Russia diverges from international norms by requiring phytosanitary certificates for many products not conventionally subject to such certification.

Foreign trade

Introduction

In order to better understand the nature, characteristics and trends of the Russian market with regard to olive oil and table olives, a necessary overview of the statistics should be undertaken. This statistical analysis is essential to complete the study of the Russian market and gives light to the rest of research actions undertaken in different contexts and with different segments of the market.

This chapter focuses on data of:

Vegetable oils

Olive oil

- 1509** Olive oil and its fractions, whether or not refined, but not chemically modified
 - 150910** virgin
 - 150990** refined
- 1510** Other oils and their fractions, obtained solely from olives

Other oils

- 1511** Palm oil and its fractions, whether or not refined, but not chemically modified
- 1512** Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified
- 1513** Coconut (copra), palm kernel or babassu oil and fractions thereof, whether or not refined, but not chemically modified
- 1514** Rape, colza or mustard oil and fractions thereof, whether or not refined, but not chemically modified
- 1515** Other fixed vegetable fats and oils (including jojoba oil) and their fractions, whether or not refined, but not chemically modified

Table olives

- 200570** Olives, preserved/preserved otherwise than by vinegar/acetic acid, not frozen, other than products of 20.06

Imports

1. vegetable oils (including olive oil)

Summary

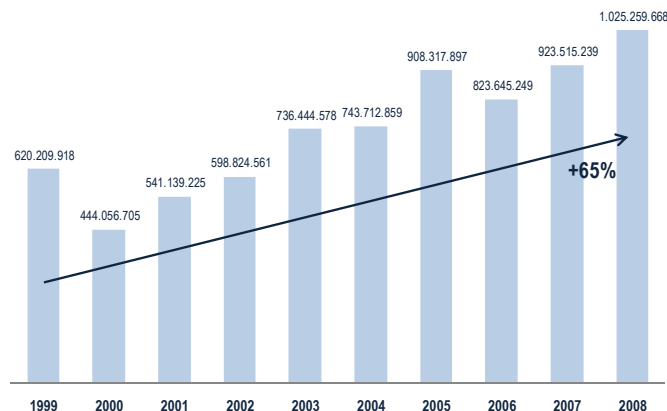
- During the recent five campaigns, the world consumption of vegetable oils has increased by 23.3 million tons or 22%, which essentially exceeds the rates of growth of the global consumption of grains (8% during the mentioned period).
- At the same time, consumption of palm oil increased by 31%, sunflower oil by 28%, and rapeseed oil by 30%.
- The Russian Federation has been importing an annual average of 735,000 tons of different edible oils in the period 1999-2008.
- There has been a considerable increase of 65% in this 10 year period, all vegetable oils considered.
- Palm oil (1511) is by far, the most imported vegetable oil in Russia, with 56% of the imports market share in the last 10 years, ahead of the sunflower seed oil and the coconut oil.
- Russian domestic per capita consumption of vegetable oils has been increasing in the last 10 years.
- As a result of the increase of the imports duties for palm imports, 2009 figures will probably show stagnation or even a decrease in the palm oil imports in Russia an increase of the consumption of sunflower seed oil.

1.1. Imports

The Russian Federation has been importing an annual average of 735,000 tons of different edible oils in the period 1999-2008. There is a progressively increasing trend, with a record of more than 1 million tons imported in 2008. There has been a **considerable increase of 65% in this 10 year period**, all vegetable oils considered.

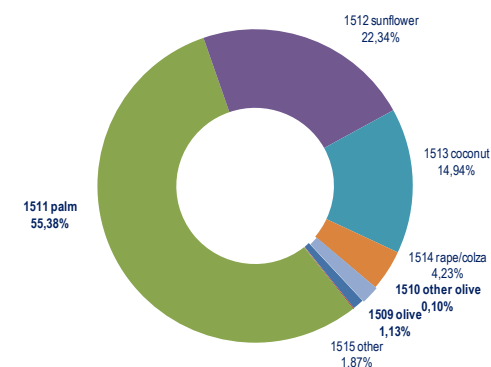
In this context, **palm oil** (1511) is by far, the most imported vegetable oil in Russia, with 56% of the imports market share in the last 10 years, ahead of the sunflower seed oil and the coconut oil.

Imports of all main vegetable oils in Russia (Kg)



Source: UN Comtrade

Russian imports of vegetable oils, accumulated period 1999-2008 (Kg)



Source: UN Comtrade

This growth of the palm oil imports is due mainly to a **considerable improvement in the consumers' purchasing power** in Russia and the development of the food industry that demands this kind of oil to produce, among other, margarine. Other sectors like the chemicals, cosmetics and animal feed also use palm oil.

Big **vegetable oil operators** were turning into palm oil for their processed products in detriment of sunflower seed oil, what made Russian dependency on imports more evident. More recently, the palm oil is being used to the bio fuels industry. Yet the situation seems to have arrived to a turning point in 2009 as a result of the **increase of the imports duties for palm** imports, in a struggle to "save" domestic sunflower seed production and consumption. 2009 figures will probably show stagnation or even a decrease in the palm oil imports in Russia and an increase of the consumption of sunflower seed oil.

Imports of vegetable oils in the Russian Federation (US\$)

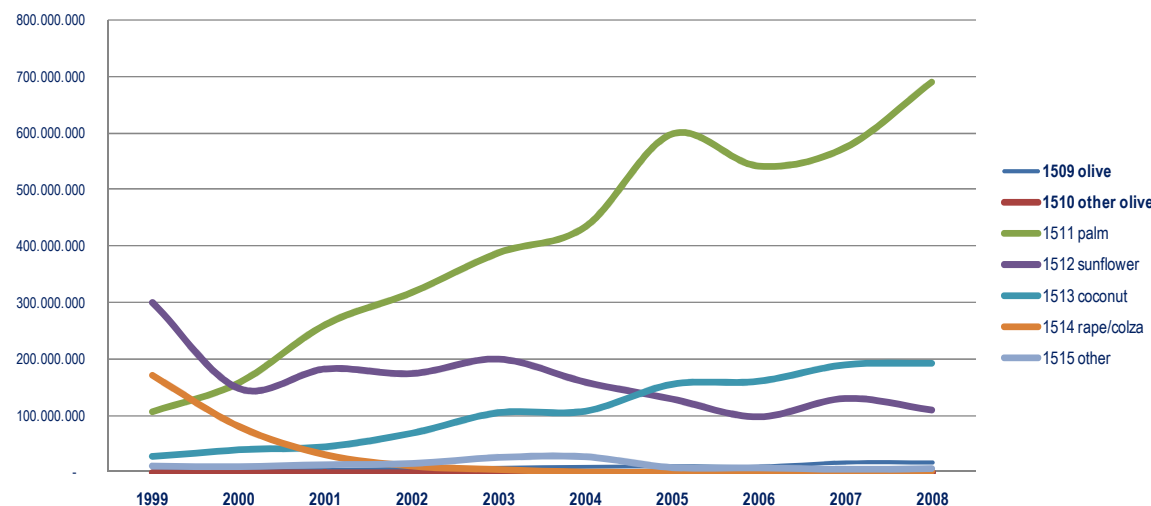
	US\$										TOTAL 1999-2008	% average period 1999-2008	% increase
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008			
1509 olive	925.000	2.482.381	3.291.866	6.516.982	8.404.003	10.850.279	18.199.346	25.989.952	53.547.197	65.143.460	195.350.466	3,9%	6943%
1510 other olive	19.629	109.908	67.285	154.071	230.388	551.251	1.986.014	1.955.081	4.780.918	4.767.369	14.621.914	0,3%	24187%
1511 palm	49.377.315	54.207.999	88.024.459	129.105.591	180.621.632	209.809.640	300.385.820	290.663.860	455.401.221	793.876.473	2.551.474.010	51,2%	1508%
1512 sunflower	170.023.706	88.027.816	90.934.885	116.995.563	144.903.390	125.055.172	115.055.677	91.533.765	133.191.257	177.275.005	1.252.996.236	25,2%	4%
1513 coconut	21.615.892	22.688.198	19.449.091	31.675.718	51.495.981	56.786.565	92.808.710	92.872.776	121.146.591	218.132.981	728.672.503	14,6%	909%
1514 rape/colza	60.981.385	29.360.875	12.855.569	6.327.596	4.138.725	963.015	747.876	259.645	2.351.469	4.771.552	122.757.707	2,5%	-92%
1515 other	8.028.073	7.132.083	9.084.945	9.759.795	16.307.390	19.014.308	10.180.346	9.818.110	9.281.457	14.352.506	112.959.013	2,3%	79%
total all	310.971.000	204.009.260	223.708.100	300.535.316	406.101.509	423.030.230	539.363.789	513.093.189	779.700.110	1.278.319.346	4.978.831.849	100,0%	311%

Imports of vegetable oils in the Russian Federation (Kg)

	Kg										TOTAL 1999-2008	% average period 1999-2008	% increase
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008			
1509 olive	910.063	2.617.968	3.358.019	5.837.488	7.512.891	9.208.306	10.160.965	9.603.844	17.182.450	17.202.184	83.594.178	1,1%	1790%
1510 other olive	18.936	139.654	76.714	156.031	255.867	586.294	1.382.623	1.411.292	1.700.775	1.455.388	7.183.574	0,1%	7586%
1511 palm	106.348.991	157.955.940	261.261.095	318.496.951	388.887.195	435.110.659	599.853.247	543.030.631	575.604.759	692.221.728	4.078.771.196	55,4%	551%
1512 sunflower	300.119.842	149.511.813	183.703.297	175.697.926	200.836.884	160.568.040	131.192.378	99.878.224	131.974.169	111.900.053	1.645.382.626	22,3%	-63%
1513 coconut	28.826.330	41.350.185	46.672.342	70.350.114	106.138.327	108.769.391	155.575.836	160.971.640	189.621.384	192.338.905	1.100.614.454	14,9%	567%
1514 rape/colza	172.556.239	81.987.022	31.971.841	12.055.221	5.872.437	1.322.279	1.034.517	274.858	1.590.734	2.897.902	311.563.050	4,2%	-98%
1515 other	11.429.517	10.494.123	14.095.917	16.230.830	26.940.977	28.147.890	9.118.331	8.474.760	5.840.968	7.243.508	138.016.821	1,9%	-37%
total all	620.209.918	444.056.705	541.139.225	598.824.561	736.444.578	743.712.859	908.317.897	823.645.249	923.515.239	1.025.259.668	7.365.125.899	100,0%	65%

Source: UN Comtrade

Imports of vegetable oils in the Russian Federation (Kg)



Source: UN Comtrade

Imports of coconut oil have been growing as well. This oil, mainly used for cosmetic, industrial, and pharmaceutical purposes, and less for cooking, is now the second imported in Russia, ahead of sunflower seed oil, that was the first 10 years ago.

And of course, at a very modest absolute level, **olive oil imports show the biggest percentage growth** when compared to the rest of the vegetable oils.

Imports of vegetable oils in the Russian Federation

	total sales US\$ increase 1999-2008	total sales Kg increase 1999-2008	average price increase 1999-2008
1509 olive	6942,5%	1790,2%	272,6%
1510 other olive	24187,4%	7585,8%	216,0%
1511 palm	1507,8%	550,9%	147,0%
1512 sunflower	4,3%	-62,7%	179,6%
1513 coconut	909,1%	567,2%	51,2%
1514 rape/colza	-92,2%	-98,3%	365,9%
1515 other	78,8%	-36,6%	182,1%

Source: UN Comtrade

1.2. Domestic consumption per capita

The Russian population has kept on decreasing slightly over the past 10 years. In 2008 there were 142 million people and in 1999 there were 148.

Although a big share of the production and the imports (both have grown significantly in this period) goes to the industry, there is also an increase of the individual domestic consumption of vegetable oils, especially olive oil, less used for industrial purposes.

The consequence is that the **domestic per capita consumption of vegetable oils has been increasing** in the last 10 years.

1.3. What oils are growing?

Olive oil is growing at a very fast pace although its imports market share is still very little compared to sunflower or palm. Therefore albeit there a very significant increase in the imports volume of olive oils, it has a minor impact in the market because it **only represents 1.8% of the Russian imports in 2008**.

Nevertheless, it is important to notice than there seems to be a **growing interest** in olive oil in among the Russian operators and consumers which has originated a big growth in imports in the recent years. Yet, the import prices have grown more than the import volumes and therefore the **average prices keep on increasing**.

1.4. Prices

There is a clear turning point in the recent 10 years track history: 2005. Year 2005 marked a dramatic change in the imported oils prices in Russia that had been relatively stable since 1999 until that year. There were not great differences of import prices among the different vegetable oils.

	price US\$/Kg										average 1999-2008	% increase
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		
1509 olive	1,02	0,95	0,98	1,12	1,12	1,18	1,79	2,71	3,12	3,79	1,78	273%
1510 other olive	1,04	0,79	0,88	0,99	0,90	0,94	1,44	1,39	2,81	3,28	1,44	216%
1511 palm	0,46	0,34	0,34	0,41	0,46	0,48	0,50	0,54	0,79	1,15	0,55	147%
1512 sunflower	0,57	0,59	0,50	0,67	0,72	0,78	0,88	0,92	1,01	1,58	0,82	180%
1513 coconut	0,75	0,55	0,42	0,45	0,49	0,52	0,60	0,58	0,64	1,13	0,61	51%
1514 rape/colza	0,35	0,36	0,40	0,52	0,70	0,73	0,72	0,94	1,48	1,65	0,79	366%
1515 other	0,70	0,68	0,64	0,60	0,61	0,68	1,12	1,16	1,59	1,98	0,98	182%
av. all	0,70	0,61	0,59	0,68	0,71	0,76	1,01	1,17	1,63	2,08		198%

Source: UN Comtrade

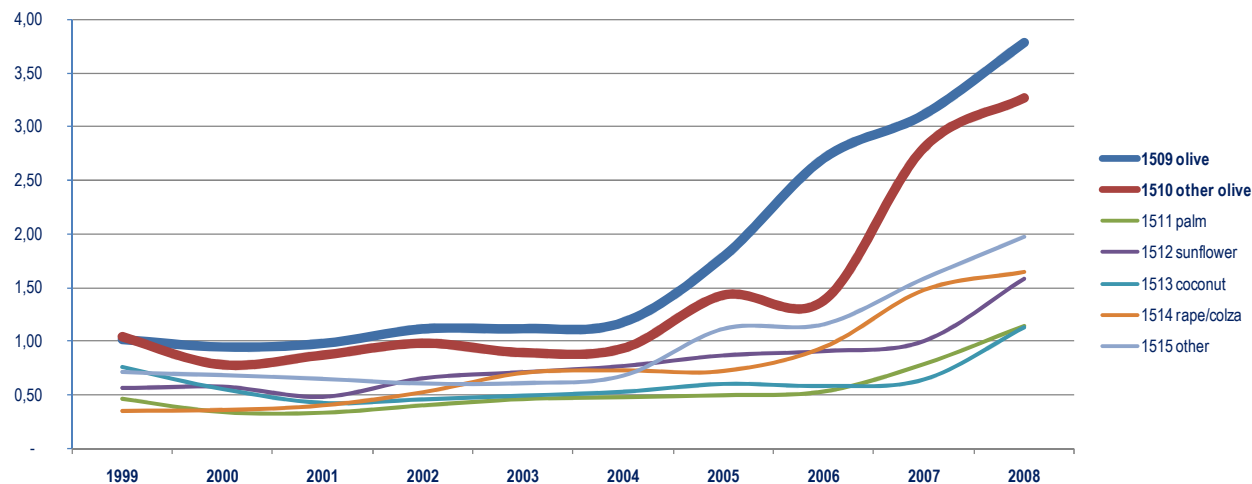
But from 2005, all import prices have initiated a steep growth, especially olive oil.

Olive oil is by far the most expensive vegetable oil imported in Russia, well above sunflower and palm. Prices of both virgin and refined olive oil have grown above the average a notably more than the prices of the rest of the imported vegetable oils in Russia.

This is the case for the period 2005-2008, where import prices of olive oil have initiated an escalate that clearly detaches them from other vegetable oils imported by Russia.

Olive oil exporters of the producer countries seem to have chosen top quality virgin olive oil rather than refined as the main argument to penetrate the Russian market, with an ever-growing increase in prices that positions olive oil quite above other vegetable oils.

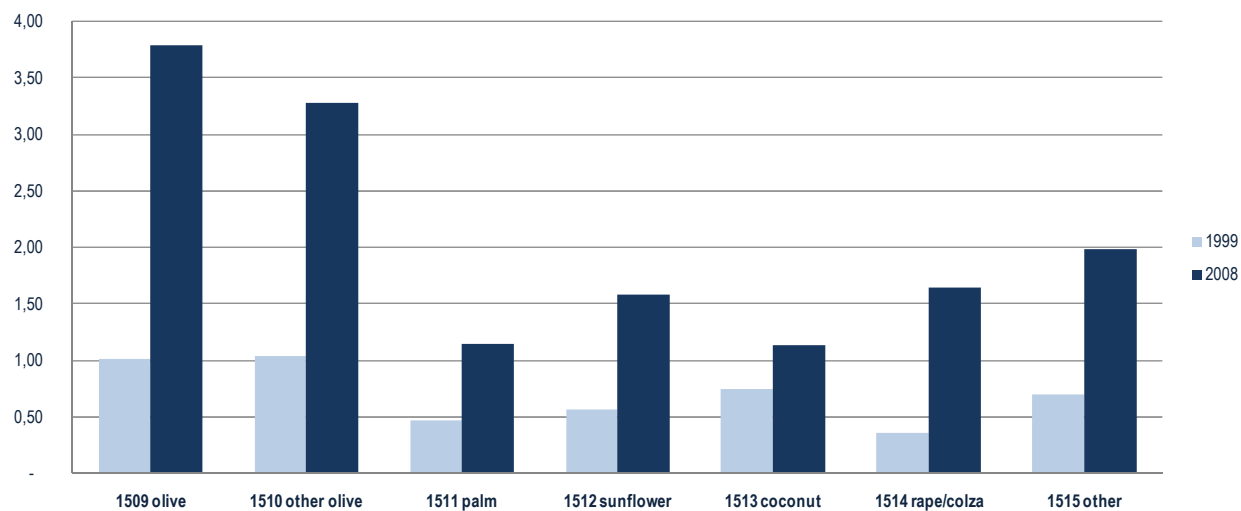
Average prices of imported vegetable oils in Russia (US\$/Kg)



Source: UN Comtrade

When the import prices in 1999 and in 2008 are compared, the analysis shows that those that have grown most are those of olive oil. They have almost been quadrupled in 10 years.

Average import prices of vegetable oils in Russia (US\$/Kg). Comparison level 1999 with level 2008



Source: UN Comtrade

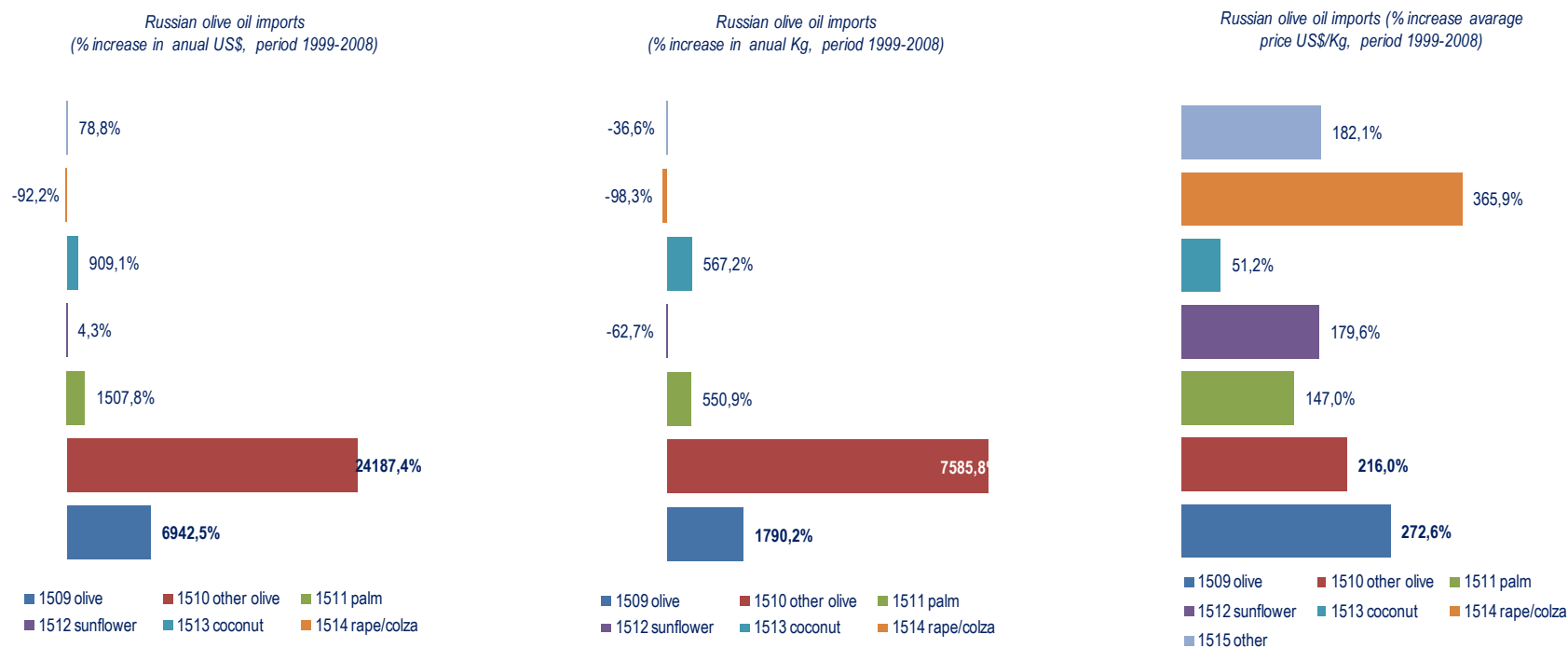
In 2008 the imports volume of virgin olive oil has stabilised with regard to 2007, perhaps as a result of a certain saturation of the market or a consequence of the relatively high prices when compared to other substitute oils (specially sunflower). The current financial and economical crisis should also to be taken into account as a probable influencer in the demand. Nevertheless, the data at the end of 2009 will cast more light about the real trends and will probably confirm certain loss of the adequate positioning of olive oil in Russia.

As will be seen along this study, the general opinion of Russian importers and distributors is that olive oil has gone very far when it comes to imports prices, especially when demand is stopped or in recession and the domestic economies have going through a severe crisis.

One important fact to be considered is the weakness of the US\$ in front of the Russian rouble from 2003 until 2008, what has favoured the purchasing power in the Russian market and has probably had some influence on the increase of the imports. This can be true for most of the vegetable oils that have been imported from Asia or America. Yet if we take into account that the main olive oil exporters to the Russian federation (Spain, Italy, and Greece) belong to the Euro zone and operate in Euros, then olive oil has become relatively more expensive for the Russian importers in the past 6 years.

This is one more reason that explains the apparent stagnation of olive oil imports in Russia in 2008 when compared to 2007. In other words, **imports of olive oil from the EU are becoming more expensive** as a result of the currency exchange Russian rouble/Euro. Just in the last 2 years (2007-2008), there has been an increase of 7% in that exchange rate.

As shown in the chart below, among all imported vegetables oils in Russia, olive oil and its varieties is the one that has grown more in all aspects (imported quantities and prices).



Source: UN Comtrade

2. Imports of olive oil

Summary

- Olive oil represents a very little proportion of all what is imported in Russia (vegetable oils)
- Although total imports have been considerably growing in the recent years (more than 1,900% in the period 1999-2008), the rest of the imported oils (especially palm oil) have been growing as well.
- As a result, the imports market share of olive oil in Russia remains at the same level (1.5%) in this period.
- It is the vegetable oil that (albeit at a modest level) is growing at the fastest pace in this market.
- There are two main suppliers of olive oil to Russia: Spain and Italy, from where 80%-85% of the olive oil comes.
- Spain has been keeping a dominant position in the recent years. Yet imports from Italy are growing faster and are progressively gaining market share.
- There are other 3 relevant origins: Greece, Tunisia and Turkey, that represent, altogether, around 12% of the total Russian imports.
- The analysis shows the progressive loss of market share of the Spanish olive oil in favour of Italian, although there still quite a big gap between them

2.1. General information

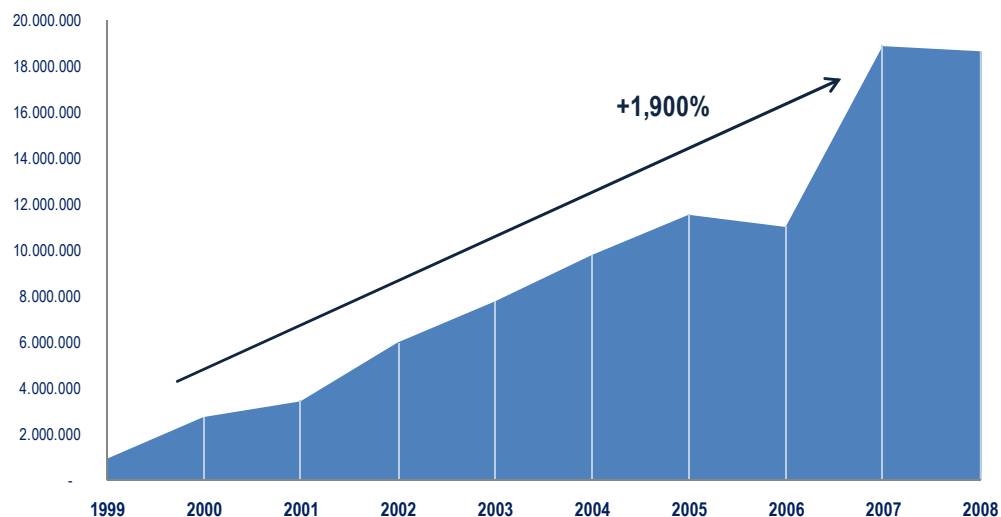
Olive oil represents a **very little proportion** of all what is imported in Russia (vegetable oils) and although imports of olive oil have been considerably growing in the recent years (more than 1,900% in the period 1999-2008), the rest of the imported oils (especially palm oil) have been growing as well.

As a result, the imports market share of olive oil in Russia remains at the same level (1.5%) in this period. Therefore, its relative importance with regard to the rest of vegetable oils imported in Russia remains very little, in terms of volume.

It is important to outline **the big increase in the imported volume** of olive oil in Russia. It is the vegetable oil that (albeit at a modest level) is growing at the fastest pace in this market. In 2008 there has been a light descent in imports of olive oil that can be attributed, in part, to the high prices and the difficult economic situation.

Perhaps this is a signal to the operators showing the elasticity of the demand and probably a limit when arriving at certain price levels. It is too soon to determine if this light descent in the imported volumes of olive oil is due to the saturation of the market, the excessively high prices or the stagnation of purchasing power of the end consumers. It is probably a combination of the 3.

Russian imports of olive oil (1509+1510) (kg)



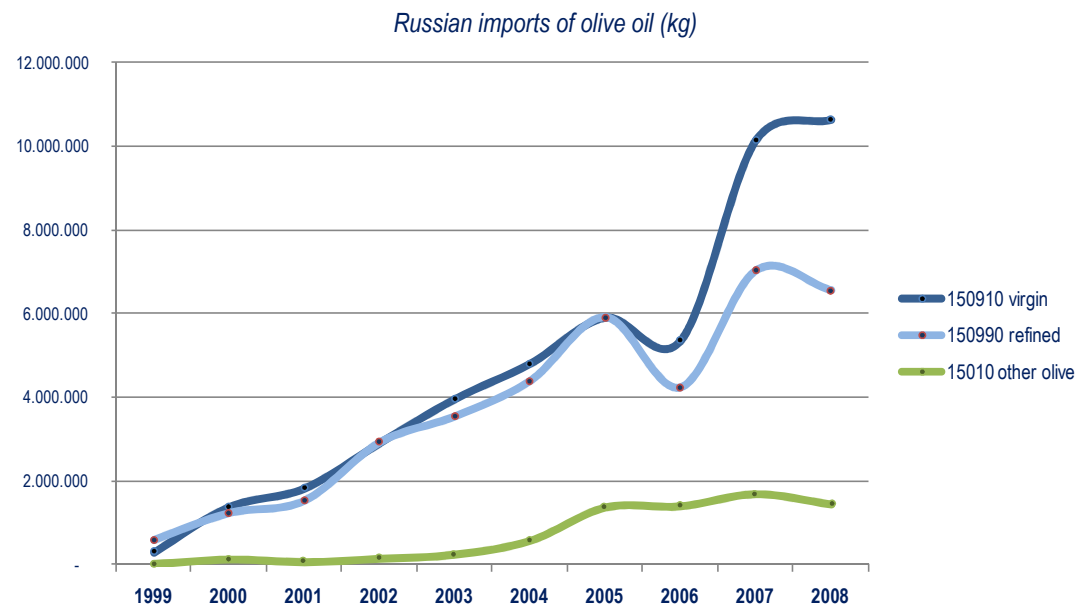
Source: UN Comtrade

While virgin olive oil shown a stable trend in 2007-2008, imports of other olive oils has decreased in the last year, provoking a general descent in the import of olive oil as a general category.

When it comes to differentiating the different types of olive oil imported in Russia, the analysis shows that, in terms of volume (Kg), imports of both virgin and refined olive oils have been growing at the same level until 2006. They had almost 50% each of the total olive oil imports market share in Russia. Yet, from 2006, **the imports increase of virgin oil has been much bigger** to such an extent that the current market share is almost 58% while that of refined olive oil has gone down to 35%.

Therefore, in the last 3 years, Russian importers and consumers have clearly changed the balance in favour of virgin olive oil, that is progressively gaining market share when compared to refined.

The rest of olive oils (15010) represent between 8%-10% of total olive oil imports in Russia.



Source: UN Comtrade

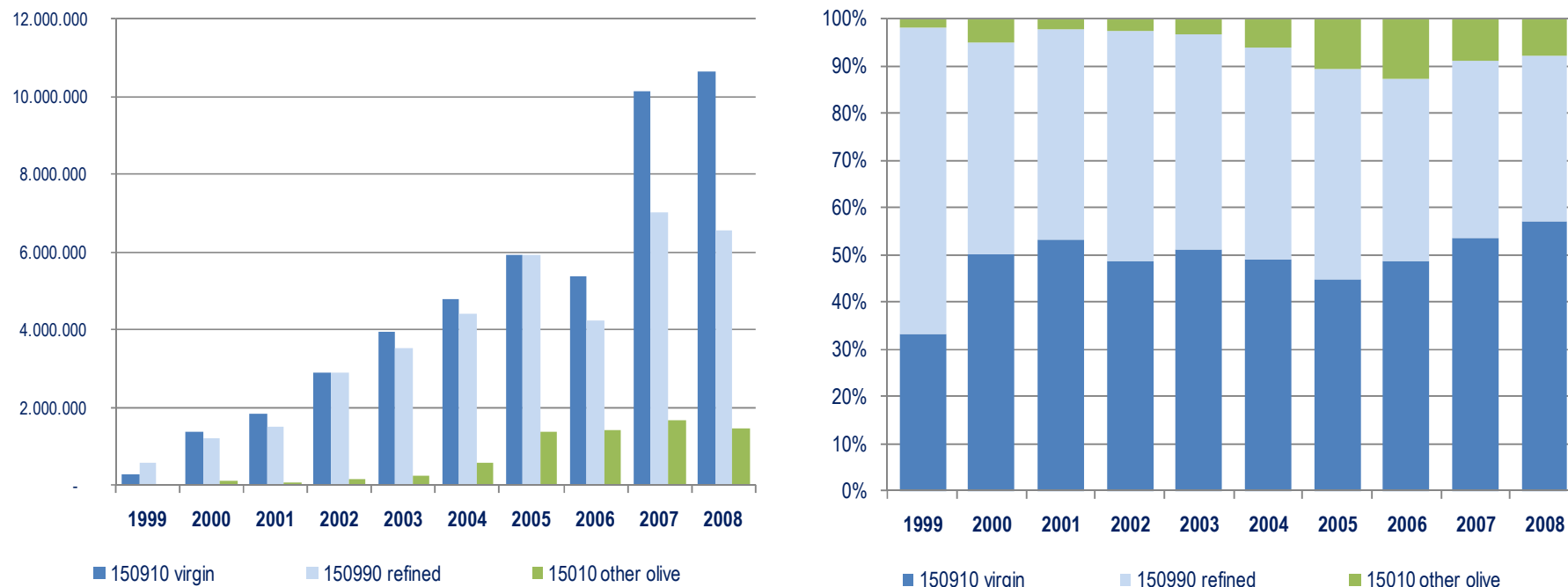
As shown in the chart above, the increasing trend in imports have been broken in 2008, due to the general economic crisis and the high prices levels in the Russian market.

Russian imports of olive oil (kg)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
150910 virgin	310.625	1.385.454	1.831.249	2.917.137	3.967.977	4.813.333	5.914.027	5.366.162	10.151.202	10.643.971
150990 refined	599.438	1.232.514	1.526.770	2.920.351	3.544.914	4.394.973	5.914.027	4.237.682	7.031.248	6.558.213
15010 other olive	18.936	139.654	76.714	156.031	255.867	586.294	1.382.623	1.411.292	1.700.775	1.455.388

Source: UN Comtrade

Russian imports of olive oil (kg)



Source: UN Comtrade

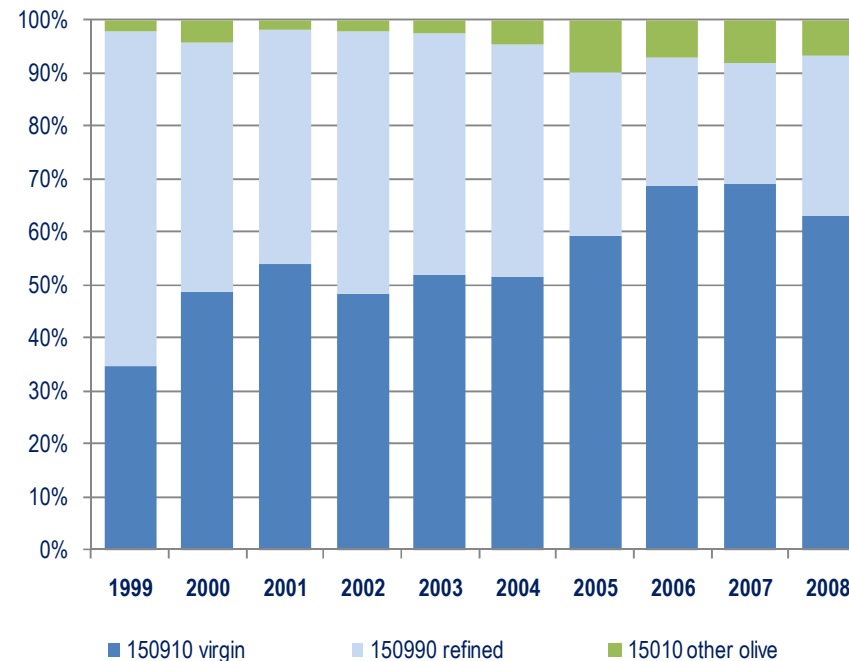
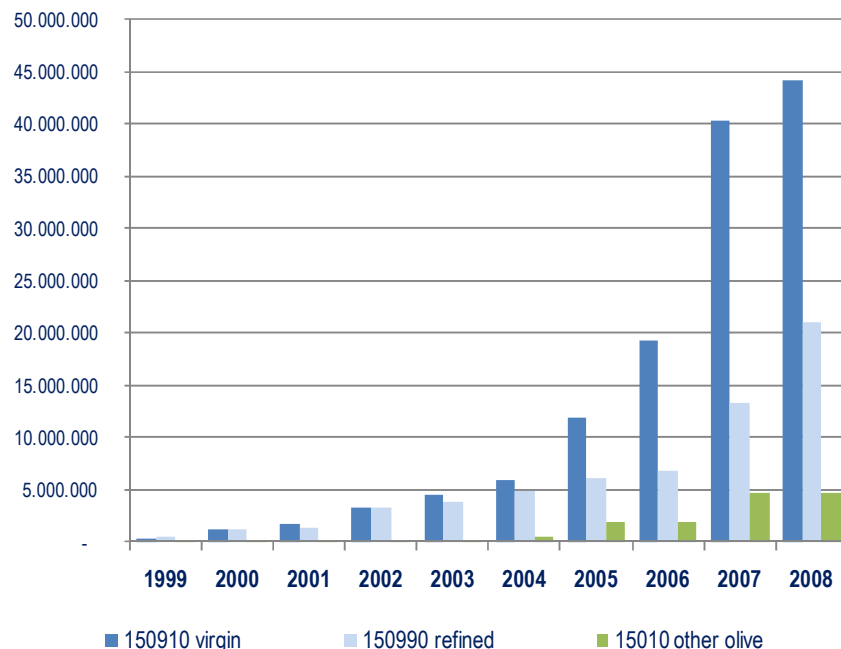
When analysing the imports in prices terms (US\$), the difference between virgin and refined olive oil is even bigger. The virgin olive oil has reached almost 70% of the total costs of olive oil imports in Russia, what clearly shows that the price of the former is increasingly higher and growing faster than that of the latter.

Russian imports of olive oil (US\$)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
150910 virgin	326.913	1.261.013	1.812.744	3.235.679	4.481.501	5.884.166	11.987.878	19.223.479	40.229.929	44.189.715
150990 refined	598.087	1.221.368	1.479.122	3.281.303	3.922.502	4.966.113	6.211.468	6.766.473	13.317.268	20.953.745
15010 other olive	19.629	109.908	67.285	154.071	230.388	551.251	1.986.014	1.955.081	4.780.918	4.767.369

Source: UN Comtrade

Russian imports of olive oil (US\$)



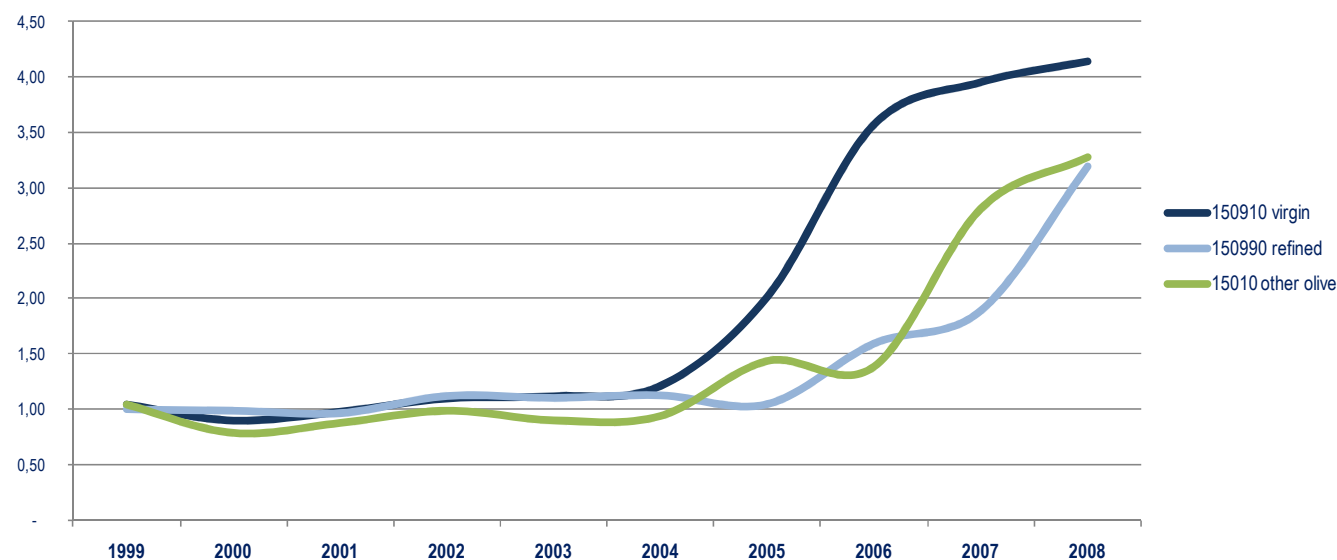
Source: UN Comtrade

Olive oil import prices had been quite stable until 2004. Until this year, all olive oils were imported almost at the same price and there were not big differences. But since then, a great change has occurred and average prices have started a notorious increase that has positioned olive oil, in general terms, **4 times more expensive than 4 years ago**. This is especially evident for virgin olive oil that is now 30% more expensive than refined olive oil.

In brief, Russian imports of all olive oils have grown at a fast pace in the last 10 years. But **import prices have grown more rapidly than volumes** and although some years ago there were no evident differences between virgin and refined olive oil, nowadays virgin olive oil is much more expensive (In terms of imports prices) and is more imported than other olive oils. This gap is more and more evident in the recent years.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
150910 virgin	1,1	0,9	1,0	1,1	1,1	1,2	2,0	3,6	4,0	4,2
150990 refined	1,0	1,0	1,0	1,1	1,1	1,1	1,1	1,6	1,9	3,2
15010 other olive	1,0	0,8	0,9	1,0	0,9	0,9	1,4	1,4	2,8	3,3

Source: UN Comtrade



Source: UN Comtrade

2.2. Where is Russia importing its olive oil from?

There are two main suppliers of olive oil to Russia: Spain and Italy, from where 80%-85% of the olive oil comes into Russia.

Spain has been keeping a dominant position in the recent years. Yet imports from Italy are growing faster and are progressively gaining market share in Russia in detriment of those coming from Spain.

There are other 3 relevant origins: Greece, Tunisia and Turkey, that represent, altogether, around 12% of the total Russian imports. At a modest level, imports from Tunisia are those who show an increasing trend in the recent years. On the contrary, imports from Greece and Turkey are more stable.

Russian imports of olive oil (kg)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	increase 1999-2008
Spain	712.174	2.351.099	2.751.932	4.837.992	5.383.805	7.181.640	7.924.507	7.241.476	12.054.421	11.365.975	1496,0%
Italy	103.467	204.485	328.743	645.256	1.450.604	1.618.924	2.327.281	2.597.144	3.970.583	4.710.324	4452,5%
Greece	44.261	99.793	247.535	229.416	304.639	507.661	714.820	716.509	1.191.496	679.076	1434,3%
Tunisia	-	598	55.656	95.978	95.478	224.335	272.588	258.895	719.431	1.035.248	
Turkey	9.250	41.260	29.440	147.659	180.631	172.026	253.146	-	601.990	549.325	5838,6%
rest of the world	59.847	60.387	21.427	37.218	353.601	90.014	51.246	201.112	345.304	317.624	430,7%
total	928.999	2.757.622	3.434.733	5.993.519	7.768.758	9.794.600	11.543.588	11.015.136	18.883.225	18.657.572	1908,4%

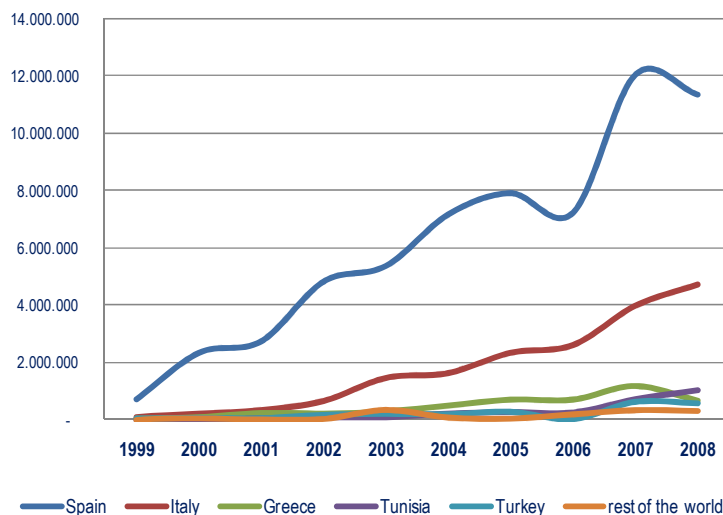
Source: UN Comtrade

Russian imports of olive oil (Kg). Market share segmented by countries of origin

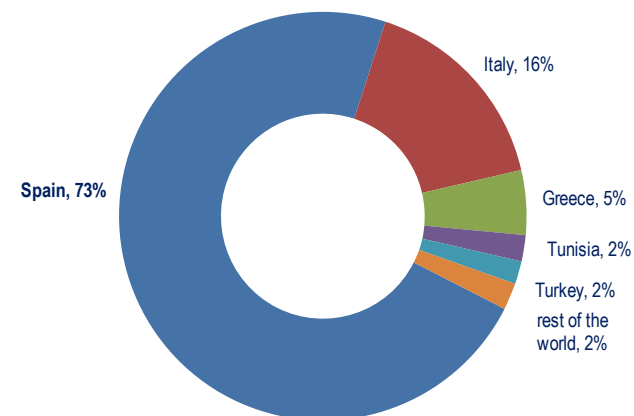
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	average 1999-2008
Spain	76,7%	85,3%	80,1%	80,7%	69,3%	73,3%	68,6%	65,7%	63,8%	60,9%	72,5%
Italy	11,1%	7,4%	9,6%	10,8%	18,7%	16,5%	20,2%	23,6%	21,0%	25,2%	16,4%
Greece	4,8%	3,6%	7,2%	3,8%	3,9%	5,2%	6,2%	6,5%	6,3%	3,6%	5,1%
Tunisia	0,0%	0,0%	1,6%	1,6%	1,2%	2,3%	2,4%	2,4%	3,8%	5,5%	2,1%
Turkey	1,0%	1,5%	0,9%	2,5%	2,3%	1,8%	2,2%	0,0%	3,2%	2,9%	1,8%
rest of the world	6,4%	2,2%	0,6%	0,6%	4,6%	0,9%	0,4%	1,8%	1,8%	1,7%	2,1%

Source: UN Comtrade

Russian imports of olive oil (Kg)



Russian imports of olive oil (Kg). Market share segmented by countries of origin



Source: UN Comtrade

The analysis shows the **progressive loss of market share of the Spanish olive oil in favour of Italian**, although there still quite a big gap between them.

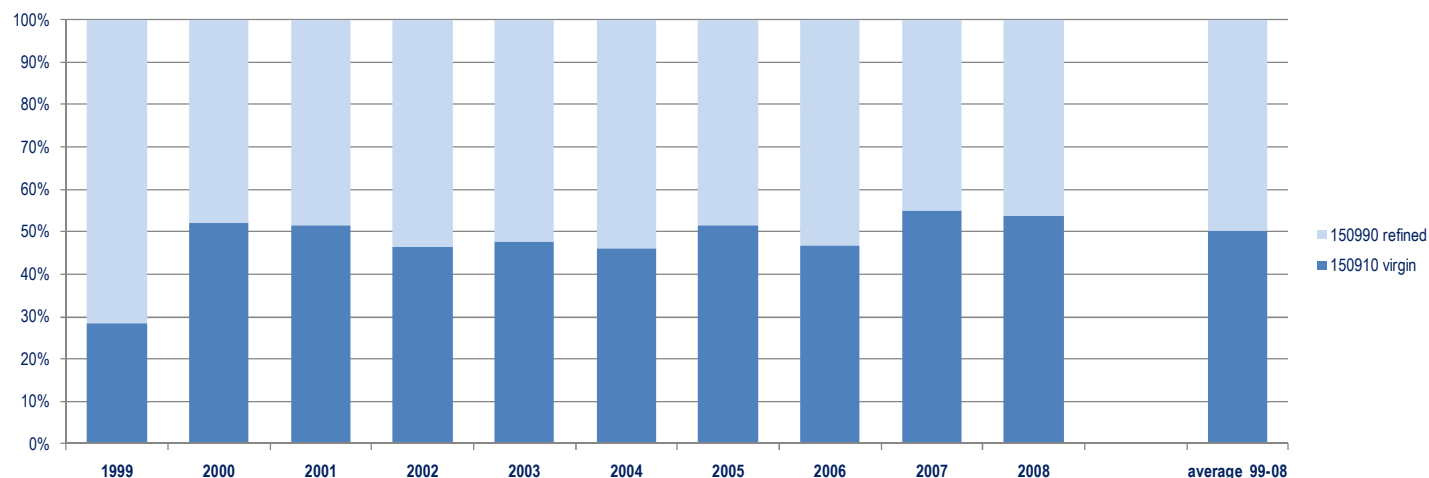
Spain is not the biggest olive oil export in the world. But Spain has gained a clear leading position in Russian imports. Spanish operators have probably been more active, more aggressive in their positioning, prices, diversity, quality, etc.

Why are imports from Spain losing pace? There may be different reasons but it is commonplaces that as markets grow in maturity more operators and brands try to get in, until it is saturated. Competition grows, awareness grows, promotion and marketing actions multiply, etc. It is therefore a natural process and the future will probably bring imports from other new countries as Italian and Spanish imports converge progressively.

A deeper view into the Russian imports of both countries shows that there are some differences not only in quantity but in quality.

Russian olive oil imports from SPAIN (kg)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
150910 virgin	201.675	1.170.224	1.398.941	2.208.069	2.528.900	3.200.235	3.766.496	3.047.064	6.156.980	5.811.141
150990 refined	507.937	1.071.592	1.317.877	2.551.374	2.776.932	3.738.289	3.527.384	3.461.783	5.037.330	5.037.330



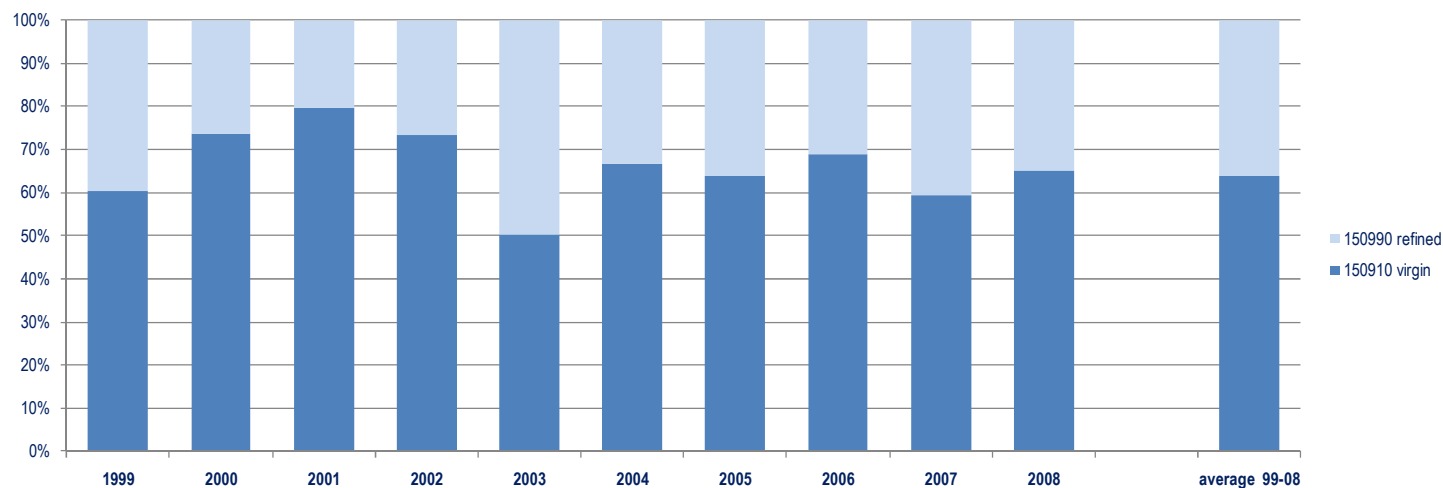
Source: UN Comtrade

Although there have been some light oscillations in the past 10 years in the Russian imports coming from Spain, the average market share is 50%-50% for virgin and refined olive oils (in terms of volume, kg). Therefore, Russia is importing from Spain the same quantities of virgin and refined olive oil.

But imports of Italy, albeit less in quantity, are more in quality. Of all olive oil imported in Russia from Italy, more than 60% is virgin, what means that Italian have positioned their oils in Russia in a higher segment and more expensive than this coming from Spain or other origins.

Russian olive oil imports from ITALY (kg)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
150910 virgin	54.472	131.203	240.525	417.365	663.766	930.585	1.210.609	1.525.918	2.072.546	2.517.759
150990 refined	35.808	46.783	61.099	151.945	655.539	467.666	682.810	687.437	1.410.288	1.353.268



Source: UN Comtrade

3. Imports of table olives

Summary

- Russia does not produce olives and is then importing this product from different countries, mainly Spain.
- The origin of the Russian table olives imports is much more diversified in terms of number of countries. There are about 15-20 countries that have exported olives to Russia in the period 1999-2008.
- In the last 10 years, olives imports in Russia have grown by 289%. The Russian demand is growing at a 30% increase pace every year (in terms of volume).
- Spanish olives are significantly dominant in the Russian market.
- They have been having an average imports market share of 95% in the past 10 years, far ahead from other origins like Hungary, Turkey, Greece or Italy.
- The current situation (2008) is characterized by two main key factors:
 - Big import prices increase
 - Significant retrocession in imported quantities

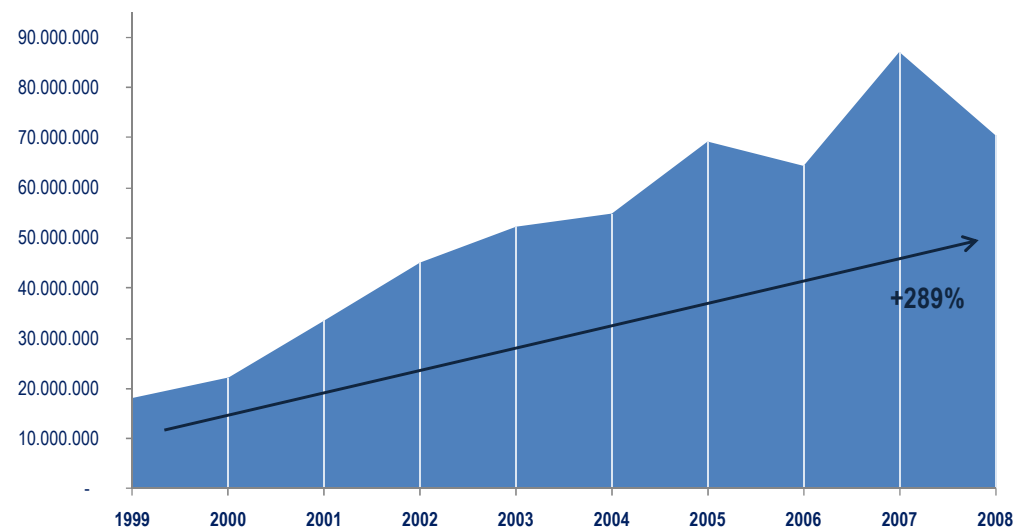
3.1. General information

Russia does not produce olives and is then importing this product from different countries, mainly Spain. Differently from what happens with olive oil, the **origin of the Russian table olives imports is much more diversified** in terms of number of countries.

There are about 15-20 countries that have exported olives to Russia in the period 1999-2008, all of them with very little quantities when compared to those exported by Spain to the Russian market. There are even some non producer countries that are exporting olives to Russia, perhaps buying them as a commodity and processing and packaging them to send them to the Russian market.

In the last 10 years, olives imports in Russia have grown by 289%, although there have been some ups and downs from 2004 to 2008. The **Russian demand is growing at a 30% increase pace every year** (in terms of volume), what shows the growing awareness and acceptance of this product among Russian consumers.

Russian imports of table olives (Kg)*



Source: UN Comtrade

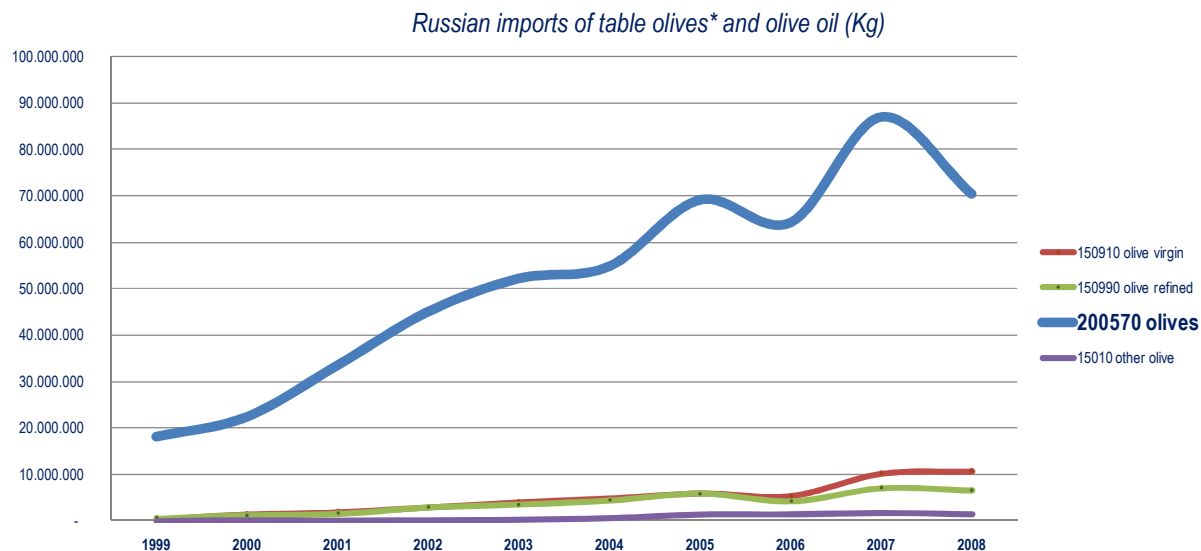
*A correction has been introduced regarding the UN COMTRADE data in 2000, as we believe this data to be wrong

2008 is a break point in the growing trend as imports in Russia have descended notably, 20%, probably as a consequence of the crisis and the retrocession of demand at all levels. It remains to be seen if the effects of the crisis will continue in 2009 and if so, how big the impact on imports could be.

The current situation (2008) is characterized by two main key factors:

- **Big import prices increase**
- **Significant retrocession in imported quantities**

When compared to the imports of olive oil in Russia, those of table olives are much bigger in terms of volume (Kg). But there is an evident common factor: an important and progressive increase in the last 10 years.

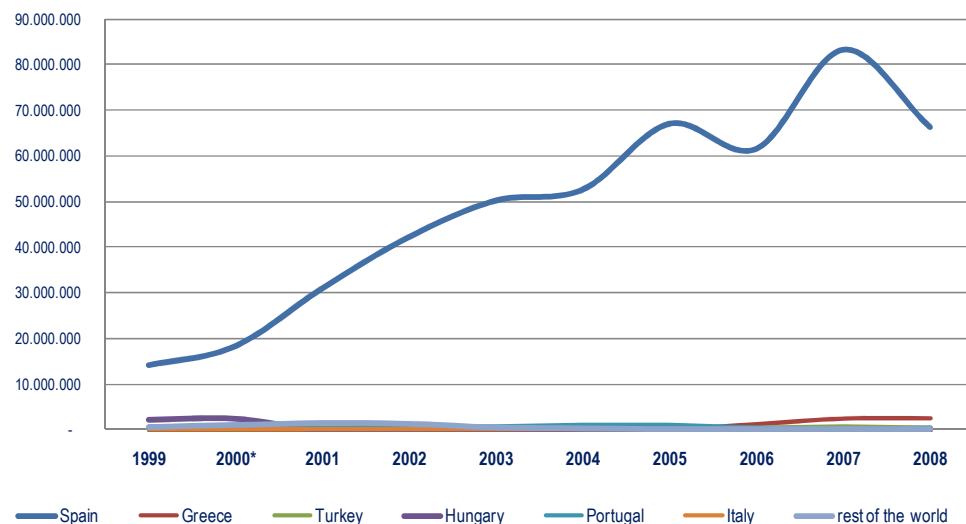


Source: UN Comtrade *A correction has been introduced regarding the UN COMTRADE data in 2000

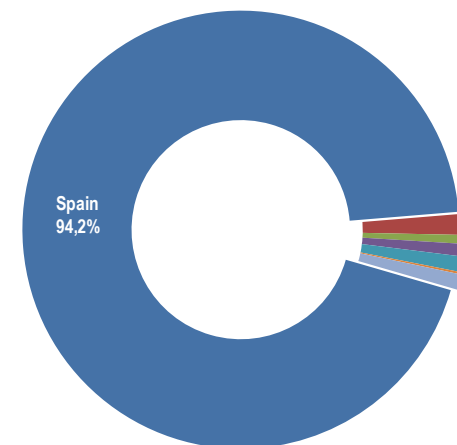
3.2. Where is Russia importing its olives from?

Spanish olives are significantly dominant in the Russian market. They have been having an average imports market share of 94% in the past 10 years, far ahead from other origins like Hungary, Turkey, Greece or Italy. Russia is clearly dominated by the Spanish olives although imports from Greece seem to have started a growing trend in the recent years.

Russian imports of table olives (Kg)



Russian imports of table olives (Kg)
Accumulated (1999-2008) imports market share by country



Source: UN Comtrade

*A correction has been introduced regarding the UN COMTRADE data in 2000

Russian imports of table olives (Kg)

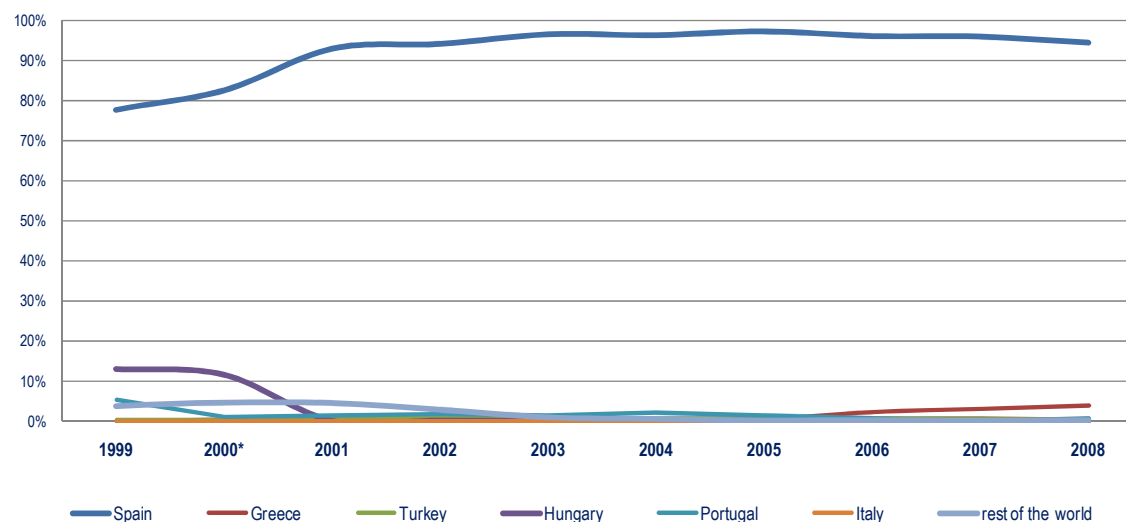
	1999	2000*	2001	2002	2003	2004	2005	2006	2007	2008
Spain	14.067.210	18.473.813	31.100.543	42.332.933	50.315.270	52.718.885	67.135.231	61.653.143	83.338.667	66.396.610
Greece	13.562	90.062	203.928	208.767	259.575	208.836	399.648	1.486.374	2.697.098	2.776.883
Turkey	30.285	60.334	221.494	386.260	417.393	434.668	484.429	505.218	637.370	316.117
Hungary	2.331.312	2.572.241	82	19.303	-	-	-	-	-	-
Portugal	937.187	192.240	483.004	819.947	730.418	1.131.693	978.220	331.816	24.868	534.336
Italy	7.687	6.796	14.609	11.888	20.128	61.647	63.623	157.204	194.293	266.937
rest of the world	707.644	1.046.273	1.519.875	1.306.064	506.476	314.594	130.866	180.974	147.235	185.420
total	18.094.887	22.441.758	33.543.535	45.085.162	52.249.260	54.870.323	69.192.017	64.314.729	87.039.531	70.476.303

Russian imports of table olives (US\$)

	1999	2000*	2001	2002	2003	2004	2005	2006	2007	2008
Spain	5.816.018	7.999.308	13.476.330	21.423.296	28.198.805	29.845.668	41.460.903	38.851.197	53.892.019	65.814.805
Greece	6.762	43.575	114.300	145.807	145.807	135.293	288.423	931.495	1.854.041	3.842.750
Turkey	48.615	94.099	167.153	310.889	247.275	252.768	318.794	327.315	383.952	283.431
Hungary	560.520	461.473	29	6.177	-	-	-	-	-	-
Portugal	339.531	93.240	241.501	448.311	439.542	626.174	554.052	189.136	14.175	584.369
Italy	13.718	13.040	17.584	12.717	18.469	52.422	65.878	162.836	219.394	637.402
rest of the world	353.989	975.265	631.344	500.798	285.700	181.988	80.492	114.669	135.873	265.095
total	7.139.153	9.680.000	14.648.241	22.847.995	29.335.598	31.094.313	42.768.542	40.576.648	56.499.454	71.427.852

Source: UN Comtrade *A correction has been introduced regarding the UN COMTRADE data in 2000

Russian imports of table olives (Kg) Market share by country of origin



Source: UN Comtrade *A correction has been introduced regarding the UN COMTRADE data in 2000

3.3. Prices

The crisis does not seem to have affected to import prices at all. Instead, import prices of table olives in Russia have grown. The same could be said about olive oil and other vegetable oils. These high level prices partially explain the descent in demand and less import for 2008.

It is importance to notice how import prices have been increased in just one year (from 2007 to 2008): 56%. Again, as it happens with olive oil, the fact that olives come from Spain (Euro zone) and should be therefore paid in Euros, gives an explanation of the loss of purchasing power and the rise in prices.

*Russian imports prices of table olives (US\$/Kg)**

	1999	2000*	2001	2002	2003	2004	2005	2006	2007	2008
Spain	0,41	0,43	0,43	0,51	0,56	0,57	0,62	0,63	0,65	0,99
Greece	0,50	0,48	0,56	0,70	0,56	0,65	0,72	0,63	0,69	1,38
Turkey	1,61	1,56	0,75	0,80	0,59	0,58	0,66	0,65	0,60	0,90
Hungary	0,24	0,18	0,35	0,32						
Portugal	0,36	0,49	0,50	0,55	0,60	0,55	0,57	0,57	0,57	1,09
Italy	1,78	1,92	1,20	1,07	0,92	0,85	1,04	1,04	1,13	2,39
rest of the world	0,50	0,93	0,42	0,38	0,56	0,58	0,62	0,63	0,92	1,43

Source: UN Comtrade

*A correction has been introduced regarding the UN COMTRADE data in 2000

A deeper analysis of the import prices shows that **olives from Italy are, by far, the most expensive** when going through the Russian customs. In the last 10 years, as an average, import prices of Italian olives have been more than 40% above the average.

Being the average for the period 1999-2008, 0.68 US\$/Kg, the Italian table olives have positioned more like a high quality gourmet product, sold in specialty stores, nice packaging and presentations and high prices. Yet, Italian olives do not even represent 1% of the total olives imports in Russia.

Therefore, Spanish table olives have positioned as a cheaper product, using other distribution channels, mainly big distribution chains.



Source: UN Comtrade

*A correction has been introduced regarding the UN COMTRADE data in 2000

Consumption

Summary

- Consumption of vegetable oils and fats in Russia in 2008/09 was estimated to increase by nearly 2%
- At the same time, consumption volumes of the main product – sunflower oil –also increased greatly (up 12% – to 2 million tons).
- Sunflower is widely consumed in Russia, followed by palm and soy.
- The Russian Federation is one of the biggest producers and importers of sunflower seed oil, what explains the deeply rooted consumption of this type of oil among Russian consumers.
- Among of vegetable oils consumed in Russia, olive oil is just insignificant. Its market share is less than 0.5%, while sunflower is 60%-70%.
- When it comes to prices, olive oil is the most expensive among those sold in the Russian market

1. Vegetable oils in the world

During the recent five years⁹, the world consumption of vegetable oils has increased by 23.3 million tons or 22%, which essentially exceed the rates of growth of the global consumption of grains (8% during the mentioned period). At the same time, consumption of palm oil increased by 31%, sunflower oil - 28%, rapeseed oil - 30%.

The growth of both industrial and food usages of vegetable oils became the main reasons of such essential increase of oil consumption. According to the forecasts of experts, in 2020 world consumption of vegetable oils will grow by 67% or 90 million tons, which will open new prospects for the extension of oilseeds and by-products production and trading.

⁹ www.agrimarket.info. <http://www.agrimarket.info/conferences/oo2009/>

World Domestic consumption of vegetable oils (Million metric tons)

	Million metric tons			
	2005/06	2006/07	2007/08	2008/09
China	21,51	22,56	23,34	24,41
EU-27	20,13	21,70	22,03	22,55
India	12,11	11,99	12,52	13,43
United States	11,19	11,66	12,23	11,07
Indonesia	5,24	5,30	5,53	6,02
Malaysia	4,56	4,86	4,89	5,19
Brazil	3,69	4,23	4,74	5,13
Pakistan	2,81	3,44	3,02	3,27
Russia	2,71	2,82	3,12	3,13
Japan	2,19	2,19	2,23	2,22
Mexico	2,00	2,01	2,03	2,04
Argentina	0,80	1,00	1,40	1,68
Turkey	1,78	1,73	1,73	1,80
Nigeria	1,56	1,61	1,66	1,69
Egypt	1,38	1,51	1,50	1,60
Other	22,14	22,90	23,87	24,87
Total	115,78	121,51	125,85	130,09

Source: USDA

According to a study carried out by APK-Infom¹⁰, global market of sunflower seeds and oil is an important segment of the world market of oilseeds and oils. And although these markets are not such dynamically developed as palm and soy oil, the segment of sunflower is of high interest, because the demand for the crop increases, even, despite high cost of sunflower oil compared to other oils. The share of this oil accounts for 8% of the world consumption of vegetable oils, and 10% of food consumption of vegetable oils in the world.

For the last 10 years, (from 1999 till 2008) world production of sunflower increased by 20%, whereas production and consumption of sunflower oil increased by 25% or 2.2 million tons per year for the indicated period.

Climatic conditions, stable demand and geographical attachment of production and consumption to the exact list of countries stipulated the specificity of the world market of sunflower - having 3 poles - Argentina, EU and Black Sea countries. The peculiarity of the global market of sunflower oil and vegetable oils on the whole is stably rising consumption for food as well as feed aims. The result is high investment attractiveness of the industry: only at the recent years, scores of large investment projects on oilseed crushing, in particular sunflower seeds, have been realized or are at realization stage in Argentina, Russia and Ukraine.

¹⁰ Sunflower triangle: Argentina, Russia, Ukraine. Competitive Environment, Investing Opportunities and Prospects for 2009-2011. APK-Infom and AGRO-T.E.C.E.I. September-November 2009

2. Vegetable oils in Russia

According to the forecasts of APK-Inform Agency¹¹, despite the influence of the financial crisis, **consumption of vegetable oils and fats in Russia in 2008/09 will increase by nearly 2%** and will total 3.8 million tons. At the same time, consumption volumes of the main product – sunflower oil – will also increase greatly (up 12% – to 2 million tons).

The imposition of 5% import duties for palm oil in May, 2009 in Russia became one of the most important reasons of the growth of sunflower oil consumption and production. In future, the import duty is supposed to increase to the level of 10%. During the period of October-May, imports of palm oil to Russia reduced by 32% compared to the same period of the previous season. At the same time, in the current conditions, sunflower oil is the main substitute to palm oil (especially in margarine production).

Internal sales of vegetable oils in Russia

	2005	2006	2007	2008	2009*
sunflower	66,21%	68,51%	66,51%	58,50%	69,54%
maize	0,32%	0,54%	0,37%	0,44%	0,28%
soy	4,33%	2,30%	3,03%	7,80%	5,78%
olive	0,34%	0,33%	0,51%	0,58%	0,36%
palm	19,57%	19,52%	19,01%	23,05%	13,69%
other	9,22%	8,80%	10,58%	9,64%	10,35%
total	100,0%	100,0%	100,0%	100,0%	100,0%

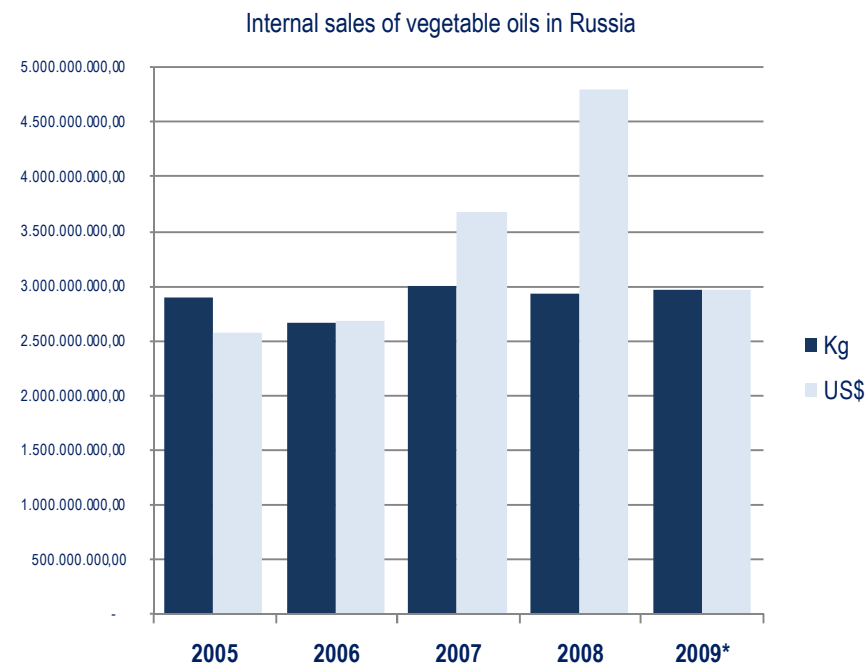
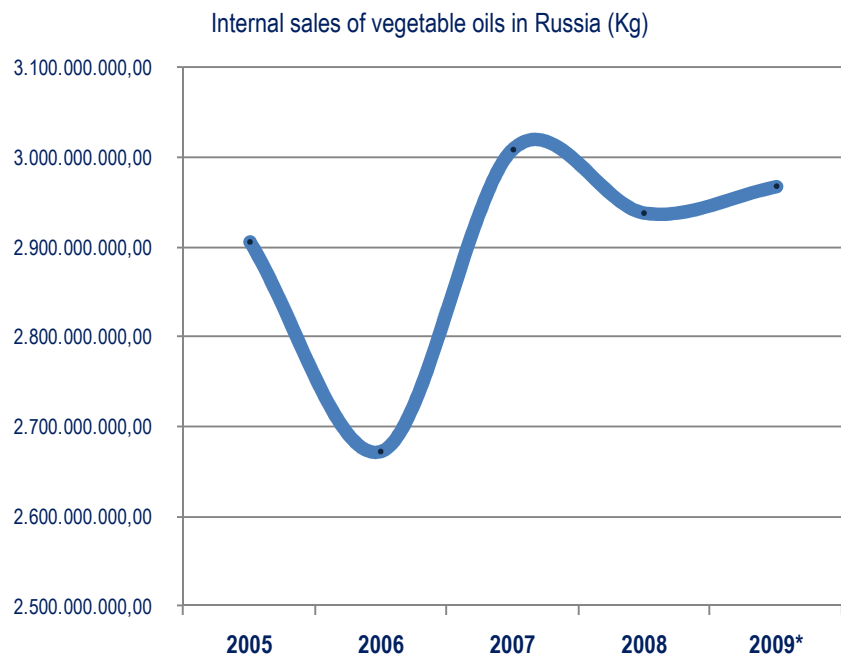
Source: BusinesStat

Internal sales of vegetable oils in Russia

	2005	2006	2007	2008	2009*
Kg	2.906.300.000,00	2.673.200.000,00	3.009.900.000,00	2.938.300.000,00	2.967.900.000,00
US\$	2.580.417.108,52	2.693.156.732,89	3.691.826.359,01	4.813.027.744,27	2.972.060.178,08
price US\$/Kg	0,89	1,01	1,23	1,64	1,00

Source: BusinesStat

¹¹ www.agrimarket.info. <http://www.agrimarket.info/showart.php?id=79932>. © 2001-2009 APK-Inform Information Agency



Source: BusinesStat

Sunflower is widely consumed in Russia, followed by palm and soy. The Russian Federation is one of the biggest producers and importers of sunflower seed oil, what explains the deeply rooted consumption of this type of oil among Russian consumers.

Among of vegetable oils consumed in Russia, **olive oil is just insignificant**. Its market share is less than 0.5%, while sunflower is 60%-70%. Although olive oil imports have been constantly increasing in the past decade, at a very swift pace, there are some factors that explain that its market share in the Russian consumption remains stable.

- Growth of general consumption of goods among the Russian population (including food and drinks and all types of edible oils)
- Imports of other vegetable olives have also been increasing (mainly palm)
- High prices of olive oil may have slowed its growth with regard to other cheaper oils

Internal sales of vegetable oils in Russia (Kg)

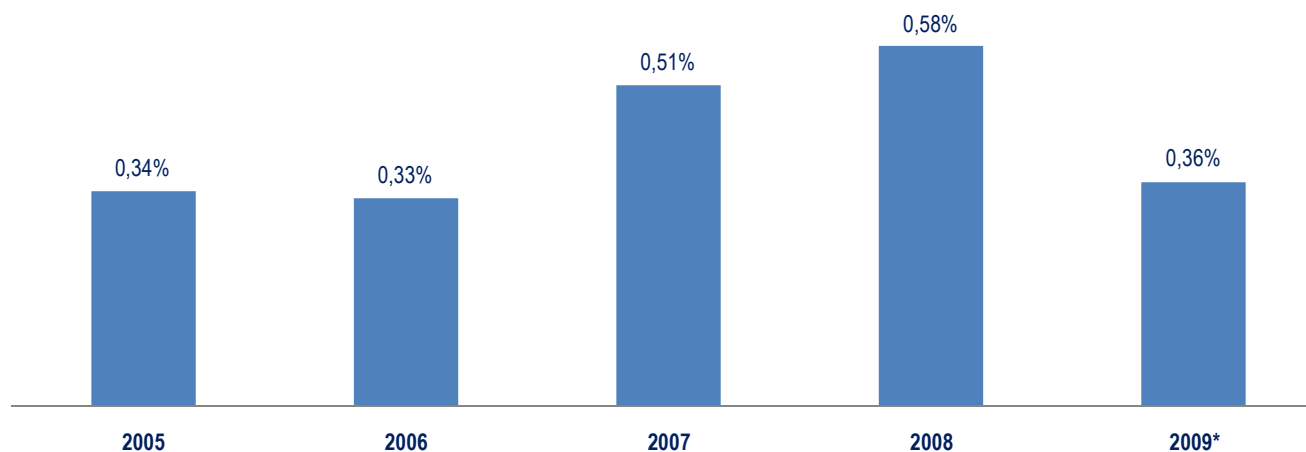
	2005	2006	2007	2008	2009*
sunflower	1.924.300.000	1.831.300.000	2.001.800.000	1.718.800.000	2.063.800.000
maize	9.300.000	14.500.000	11.100.000	12.800.000	8.400.000
soy	125.900.000	61.600.000	91.100.000	229.200.000	171.400.000
olive	10.000.000	8.900.000	15.500.000	17.000.000	10.700.000
palm	568.900.000	521.700.000	572.100.000	677.200.000	406.300.000
other	268.000.000	235.100.000	318.300.000	283.300.000	307.300.000
total	2.906.400.000	2.673.100.000	3.009.900.000	2.938.300.000	2.967.900.000

Internal sales of vegetable oils in Russia (US\$)

	2005	2006	2007	2008	2009*
sunflower	1.876.627.784	2.027.211.185	2.656.973.015	3.112.581.423	1.853.976.052
maize	11.774.479	19.289.919	16.171.294	22.742.260	6.966.534
soy	86.072.817	47.454.010	93.163.864	296.718.938	166.297.206
olive	19.833.864	27.836.645	60.684.396	70.361.882	48.363.525
palm	394.881.584	395.938.190	511.795.072	919.083.233	443.337.427
other	192.120.891	176.302.428	354.376.222	390.313.631	453.592.263
total	2.581.311.417	2.694.032.377	3.693.163.864	4.811.801.367	2.972.533.006

Source: BusinessStat

Olive oil market share (Kg) in the total sales of vegetable oils in Russia



Source: BusinesStat

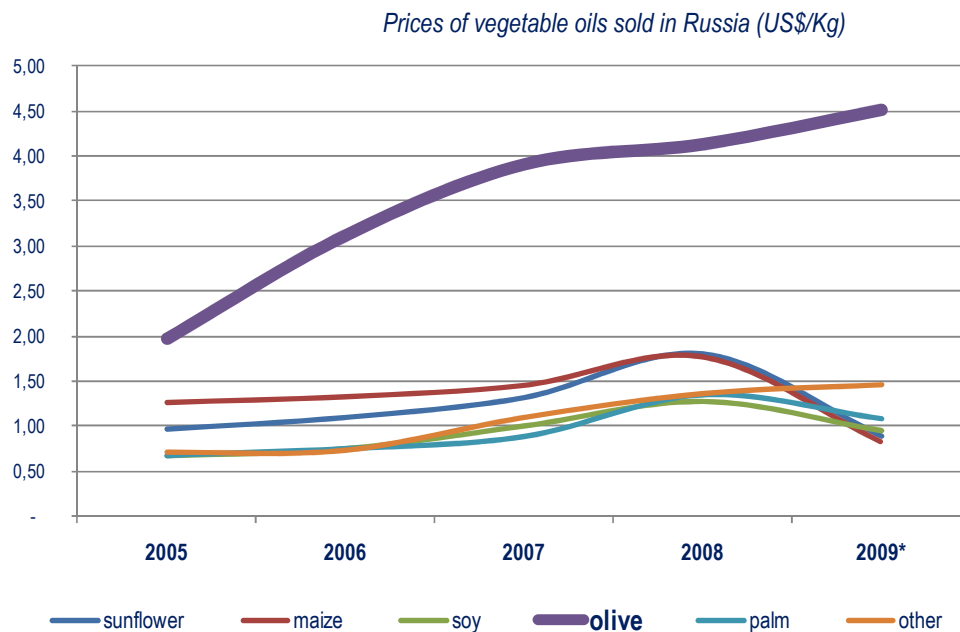
When it comes to prices, olive oil is the most expensive among those sold in the Russian market. This trend is a result of the increase of the import prices of olive oil. Olive oil has more than doubled its price in the internal market in just 4 years and although it started at the same level of other oils, it is now, by far, the most expensive in Russia. The rest of oils keep their prices at a similar level (around 1 US\$/Kg).

Prices of vegetable oils sold in Russia (US\$/Kg)

	2005	2006	2007	2008	2009*
sunflower	0,98	1,11	1,33	1,81	0,90
maize	1,27	1,33	1,46	1,78	0,83
soy	0,68	0,77	1,02	1,29	0,97
olive	1,98	3,13	3,92	4,14	4,52
palm	0,69	0,76	0,89	1,36	1,09
other	0,72	0,75	1,11	1,38	1,48

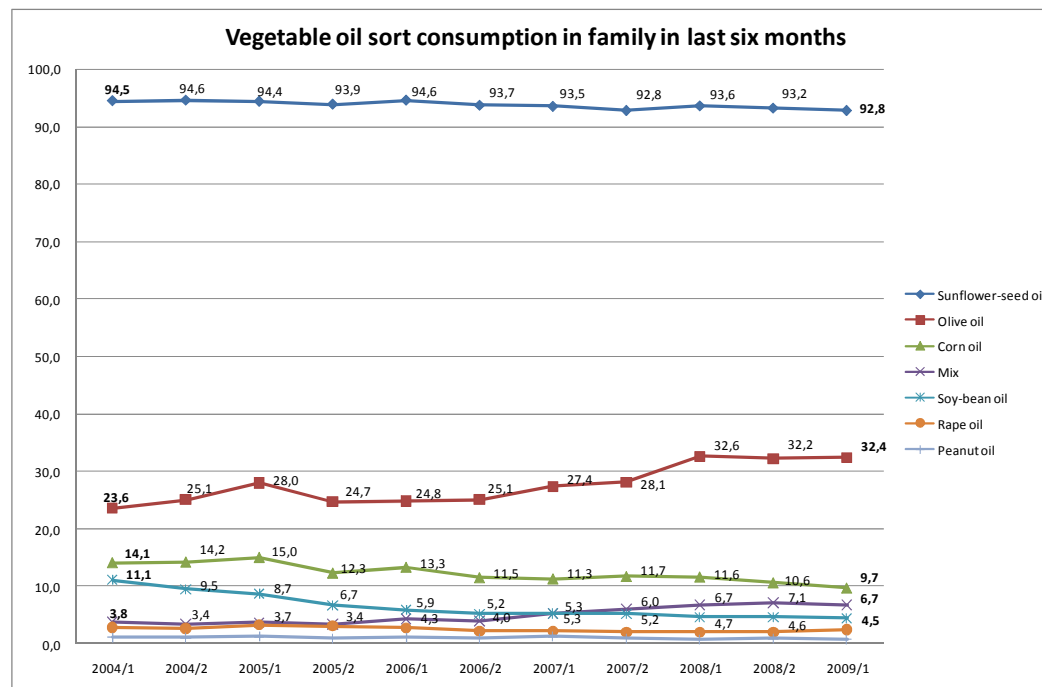
Source: BusinesStat

The chart shown below is very clear at shows how olive oils prices are gathering momentum and positioning in the Russian market as top price oil, widening the gap with regard to the rest of vegetable oils. In fact, the rest of oils are even decreasing their prices in the internal market.



Source: BusinesStat

According to MMI (M'Index) & TNS, olive oil in 2009 is the second vegetable oil consumed by the Russian families in 2009. 32% of the consumers say that they have consumed olive oil in the last 6 months, while 93% say that have consumed sunflower seed oil. The rest of oils are much less consumed as shown in the chart.



Source: MMI (M'Index) & TNS

Supply

Production

Summary

- In the past 5 years, the biggest world production of vegetable oils went to the Palm, followed by Soybean and Rapeseed.
- Olive oil counted only for 2.3% of total world production in this period, constrained to a relatively small group of countries, mainly in the Mediterranean basin.
- Olive oil remains then as a minor product in terms of world production, restricted to few countries, led by Spain and Italy.
- The world production of olive oil seems quite stable in the past 10 campaigns, although prices have notoriously oscillated in the markets.
- The Russian Federation is the biggest producer of sunflower seed oil, followed by Ukraine and the European Union. Furthermore, Russia has been constantly increasing its production levels in the past years, always keeping its first position as world leader.
- By far, Spain is the world's top producer of table olives

1. Vegetable oils in the world

In the past 5 years, the biggest world production of vegetable oils went to the Palm, followed by Soybean and Rapeseed. **Olive oil** counted only for 2.3% of total world production in this period, constrained to a relatively small group of countries, mainly in the Mediterranean basin.

World Production of vegetable oils (Million metric tons)

	2004/2005	2005/06	2006/07	2007/08	2008/09		total 2004/2009	yearly average period 2004-2009	% share period 2004-2009
Coconut	3,46	3,47	3,26	3,49	3,64		17,31	3,46	2,8%
Cottonseed	4,78	4,62	4,86	5,00	4,72		23,98	4,80	3,9%
Olive	2,96	2,66	2,91	2,84	2,97		14,33	2,87	2,3%
Palm	33,53	35,98	37,35	41,31	43,19		191,35	38,27	31,3%
Palm Kernel	4,15	4,38	4,44	4,85	5,10		22,91	4,58	3,7%
Peanut	5,08	4,95	4,50	4,83	5,15		24,51	4,90	4,0%
Rapeseed	15,72	17,24	17,03	18,31	20,22		88,53	17,71	14,5%
Soybean	32,60	34,61	36,39	37,51	36,26		177,37	35,47	29,0%
Sunflowerseed	9,18	10,59	10,61	9,73	11,46		51,57	10,31	8,4%
Total	118,88	118,88	121,59	127,85	132,17		611,85	122,37	100,0%

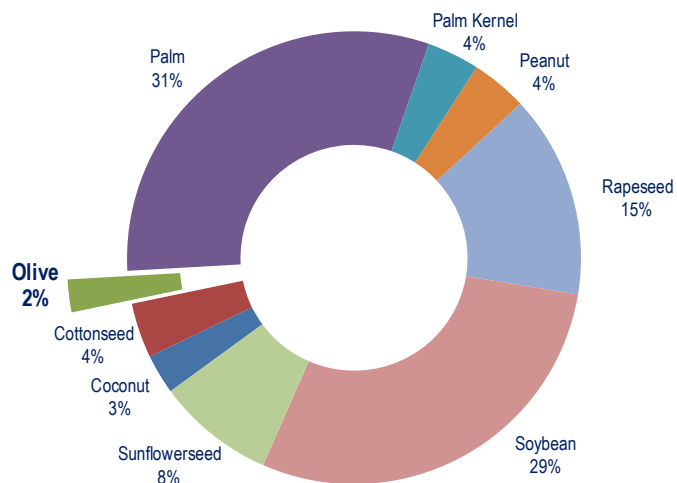
Source: USDA

The production of palm and rapeseed oils follow a growing trend and Soybean goes down. On the other hand, the world production of olive oil seems quite stable in the past 10 campaigns, although prices have notoriously oscillated in the markets. World olive oil production has varied during the years but if we consider the last 10 years, there has been a 21% increase, which means an annual average increase of 2.1%.

Olive oil remains then as a minor product in terms of world production, restricted to few countries, led by Spain and Italy.

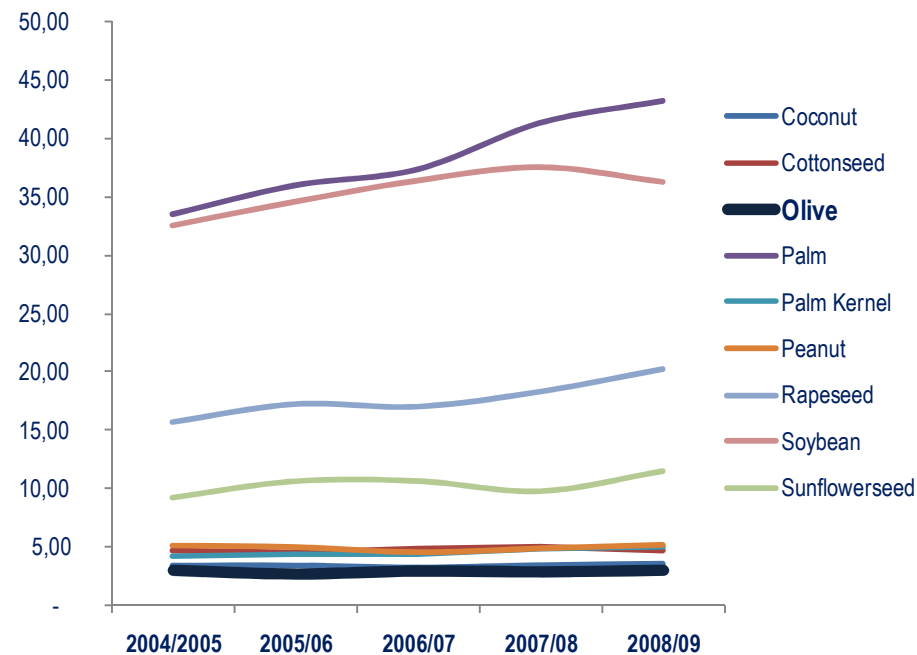
During the recent years, volumes of the world trading with vegetable oils have increased by 10.6 million tons, or by 25%. The trading volumes of sunflower oil increased by 1.3 million tons, or by 50%, rapeseed oil - by 0.9 million tons, or by 71%, palm oil - by 7.6 million tons, or by 31%.

Vegetable oils oil production in the period 2004-2009 (Thousand metric tons)



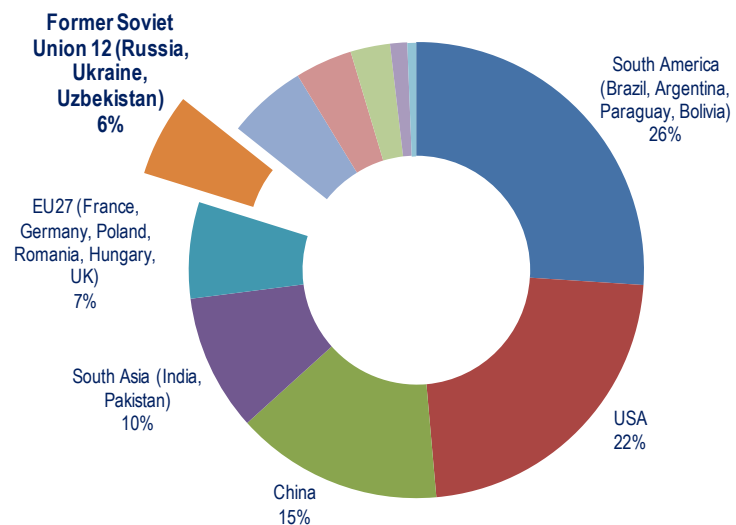
Source: USDA

Vegetable oils oil production in the period 2004-2009 (Thousand metric tons)



South America, USA and China are the **main production areas** when speaking of vegetable oils in general. The region of the former Soviet Union, more specialised in sunflower seed oil, represent 6% of the world total production of vegetable oils. This little share is due to the importance of sunflower seed production in the total of the world, representing only, as seen before, around 8.5% of all vegetable oils production.

World production of main vegetable oils (soybeans, sunflower seeds, peanuts, cottonseed, rapeseed, copra, palm kernel), olive oil excluded



Source: USDA

According to the forecasts of USDA, the countries of the Black Sea region managed to strengthen own positions in the global rate of oilseeds, vegetable oils and by-products producers and suppliers due to successful location relatively to importers of oilseeds and by-products from the North Africa, Asia, the Middle East and the European Union, and presence of favorable soil and climatic conditions.

In 2008/09, Ukraine and Russia cover 5% of the global oilseed production, and 4% from the global vegetable oils production. In 2008/09, Ukraine and Russia will take the 5th and 10th place, respectively, at the volumes of vegetable oils supplies onto the world market. Due to the geographic location, and developed infrastructure, Turkey started to play one of the key roles on the oilseed market of the Middle East and the Black Sea region during recent years, and became producer as well as processor, importer and exporter of oilseeds, oils and meals.

In brief, palm and soybean oils are by far the most produced in the world, with 60% of the world production market share, followed by far by rapeseed and sunflower seed oils. All four except for the soybean, are growing. Olive oil represents a very small fraction of the world production of vegetable oils and shows quite an stable trend in the recent years, with a market share of 2.3%

2. Vegetable oils in Russia

Among the vegetable oils, Russia excels in the sunflower seed oil, considered as a traditional crop in this country and the former USSR. **Russia is the world leader in the production of sunflower seed oil**, primary used in the food industry.

This big production explains, as will be analysed and explained along this study, the high consumption of this type of vegetable oil in the country, deeply rooted in the habits of consumers for decades. Russia does not produce olive oil, which has been recently introduced in the market and cannot be considered yet as a widespread product among Russian consumers.

Grown on 24 million hectares worldwide, Russia, Ukraine, Argentina, France and Central Europe are the leading producers of sunflower seed oil.

From the middle of 2007¹² to the beginning of 2008 some recession was observed in the vegetable oil market because of negative volumes trend of oil-bearing plants croppage that has resulted in growth prices for raw materials and final production. Nevertheless, favorable weather in agricultural season of 2008 created preconditions for increase in offer of raw materials in the market and decline in manufacturers' prices.

As from the second half of 2008 one can observe a saturation of the vegetable oil market. In this connection, within September – November of 2008 it has already exported 132 thousand ton in comparison with 2006 that was the most productive year, as to export it has increased approximately in 2 times.

Production of sunflower seed oil (Thousand metric tons)

		2007/08	2008/09	2009/10		yearly average period 2007-2010	% average period 2007- 2011
Production							
Argentina	(Mar-Feb)	1.576	1.525	1.510		1.537	14,0%
Russia	(Sep-Aug)	2.130	2.565	2.602		2.432	22,2%
Turkey	(Sep-Aug)	544	509	558		537	4,9%
Ukraine	(Sep-Aug)	1.726	2.391	2.231		2.116	19,3%
EU-27	(Oct-Sep)	1.773	2.335	2.363		2.157	19,7%
Other		1.923	2.256	2.320		2.166	19,8%
World Total		9.672	11.581	11.584		10.946	

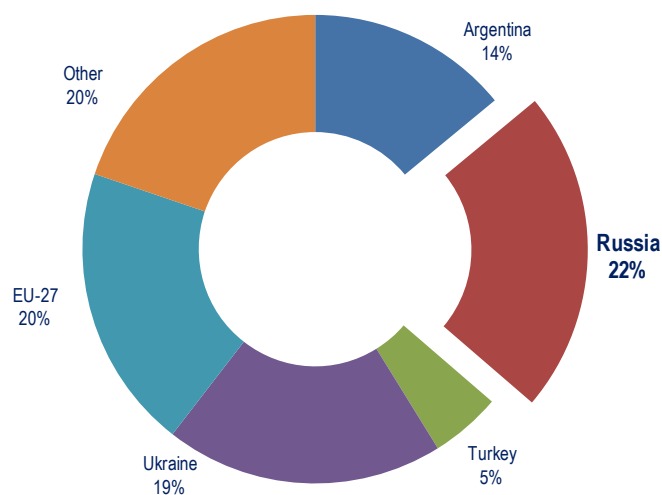
Source: USDA

¹² Russian vegetable oil market: state and development trends. CJSC Information Agency CredInform North-West. 20.04.2009.

According to experts, on the Russian market of vegetable oil work more than 100 enterprises. Though there are about 10 large players. The majority of these enterprises are holdings and industrial companies. In the last years situation the vegetable oil market in Russia seems rather unstable. According to experts' opinions, State intrusion in regulation of food market is required to set minimum purchasing prices on sunflower. The further development of the Russian vegetable oil market will depend on growth of vegetable oils resources connected with a high sunflower harvest in the current year and low price level on it. Considerable reduction of prices is observed on the market of bulk vegetable oils.

The Russian Federation is the biggest producer of sunflower seed oil, followed by Ukraine and the European Union. Furthermore, Russia has been constantly increasing its production levels in the past years, always keeping its first position as world leader. This has to be connected, as will be explained hereunder, with the fact that the consumption and the exports are growing at the same path.

Sunflowerseed oil production in the period 2007-2010 (Thousand metric tons)



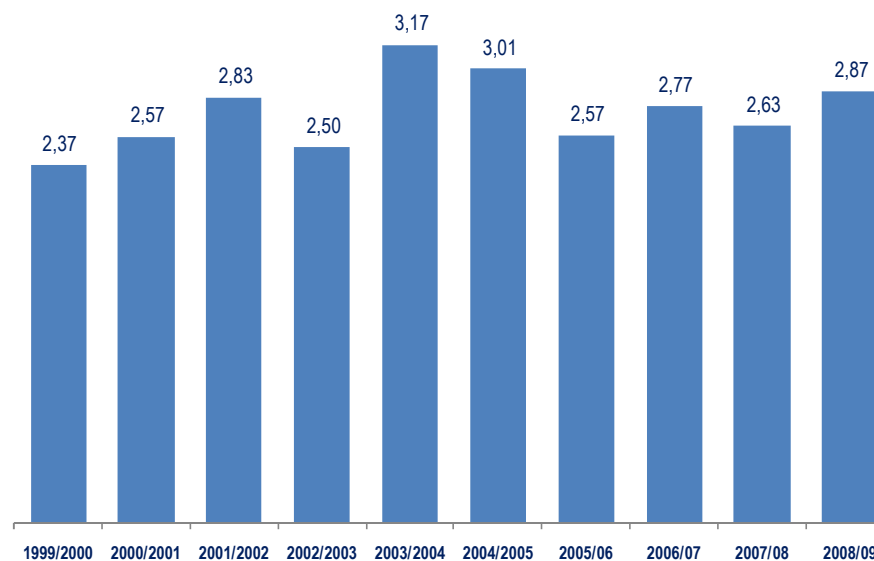
Source: USDA

3. Olive oil in the world

Olive oil production is mainly restricted to Mediterranean countries (Spain, Italy, Greece, etc.) and although there may be some punctual test crops in Russia, there is not a significant production as to be taken into account whatsoever. World olive oil production has been oscillating in the past 10 campaigns in a rank between 3 and 2,4 million tons, mostly produced in Spain and Italy.

World production of olive oil (Million tons)

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/06	2006/07	2007/08	2008/09
EC	1,88	1,94	2,46	1,94	2,45	2,36	1,93	2,03	2,04	2,14
rest	0,50	0,63	0,36	0,55	0,73	0,66	0,64	0,74	0,59	0,73
TOTAL world	2,37	2,57	2,83	2,50	3,17	3,01	2,57	2,77	2,63	2,87



Source: IOC

4. Table olives in the world

According to data from the International Olive Council (IOC), there are around 850 million olive trees on earth¹³, which cover more than 10 million hectares of land. Of these, more than a million hectares are used to produce table olives. Total production of olives exceeds 18 million tons a year, of which 90% are used to make oil and 10% processed into table olives. According to a survey on land surface and yield (Esysce), Spain has 2,513,400 hectares of olive trees, of which 90,800 (3.75%) are used for table olives. A total of 77% of the latter is located in Andalucia, followed by the Extremadura region with 22%.

By far, Spain is the world's top producer of table olives. The IOC says average world production over the past five seasons was 1,767,100 tons, with Spain accounting for 518,600 of them, which is approximately 30% of the total. Far behind Spain are Turkey, Egypt, Syria, Greece, Morocco, the United States, Argentina, Algeria and Italy.

Spain is the world leader in production. The net figure for the last campaign, that of 2007/2008, was 556,160 tons, according to the Olive Oil Agency (AAO in Spanish). Industries located in Andalucia accounted for 437,083 tons, which is equivalent to 79% of total Spanish production. The provinces with the highest production were Seville with 325,607, Cordoba with 58,738 and Malaga with 46,066. Industries based in Extremadura produced 107,773 tons, or 19% of the national total, with Badajoz province turning out 59,336 and Caceres 48,437.

¹³ ASEMESA. Spanish Association of Producers and exporters of table olives. <http://asemesa.org/en/info/overall-data-sector>

Store check (types, varieties, commercial presentations, brands, sizes, origins, prices)

1. Olive oil

Origins and brands

There are **more than 100 brands** of different producers, exporters and wholesalers in the Russian market, with **397 references** of different olive oil products. There are some private labels owned by big importers and wholesalers but they do not represent more than 10% of the total quantity sold in the Russian market.

There are just a handful of market leaders, mainly from Spain. Some producers or their importers and distributors may have several brands at the same time. This fact is a sign of the maturity of the market, where there are some operators already well established and positioned and other newcomers trying to find new niches.

There are 2 main leaders in the market (Borges and Maestro de Oliva), well ahead of the rest of competitors. Yet ICEX¹⁴, points out that there are other remarkable brands like Torres y Ribelles and Monini, as seen in a leading magazine of the sector. Although it is a serious magazine and the rest of the study by ICEX is very well documented, we disagree on this particular issue, after our extensive store-check and our interviews with importers and distributors. Indeed, apart from Borges and Maestro de Oliva, the rest of the market is represented by almost 100 brands with very little market share. It is consequently a **very concentrated market in one way but, at the same time, very fragmented (in 30-40%)**.

Other key brands are: Monini from Italy, Gaea from Greece, Maestro de Oliva, Iberica and La española from Spain, with national coverage. The Italian brands De Ceco, Carapelli, Aro and Barbera, Aceites del Sur and Carbonell from Spain, and the Tunisian Terra Delyssa, are gaining national coverage. It is important to remark the entrance of IDEAL in the olive oil business, as it is one of the leaders of Sunflower oil. In total, the storecheck has identified olive oil from 8 countries, from Spain, Italy, Greece, France, Tunis, Turkey, Israeli and Jordan.

Although Spanish origin olive oils are, in terms of volume, clear leaders in the market; as per the storecheck we have undertaken in 11 main Russian cities, only 25% of the brands sold in Russia come from Spain, which means a lot of producers are trying to penetrate the market, but with very low sales. Meanwhile, 60% of the brands that are present in Russia represent olive oil coming from Italy.

¹⁴ Nota sectorial. El mercado del aceite de oliva en la Federación Rusa 2009. Oficina Económica y Comercial de España en Moscú. ICEX., 2009.
<http://www.icex.es/icex/cma/contentTypes/common/records/viewDocument/0,,00.bin?doc=4251673>

Brands

Italy	Spain	Greece	France	Tunis	Turkey	Israel	Jordan	
Alice Nero	Lochitello	Acorsa	Delphi	C & J.B. Hugues Cas	Ekovita	Milas Olio	Ziton	Terra Rossa
Alis	Marracco	Betis	Gaea	Le Tempe des Mets	Terra Delyssa			
Apolivo	Mon casa	Borges	Gourmante					
Ardoino	Monini	Carbonell	Grand di Oliva					
Aro	Monte Pollino Contac	Coopoliva	Greek Olympic					
Barbera	Mosto	Deguste	Greekelita					
Basso	Nocellara	Ecovinal	Iliada					
Bertoli	Olio di Casa	Elfo Gourment	Mani					
Bioitalia	Olitalia	Fernando Geron	Sofos					
Calvi	Picantolio	Fragata						
Carapelli	Pomas Pietro Carice	Guillen						
Casa Rinaldi	Primo	Iberica						
Colavita	Primoglio	Ideal						
Colle dei Frati	Redoro	ITLV						
Condi	Reservo del Presiden	La Espanola						
Conte de Cesara	Riviera del Fiori	La Unidad						
Corleone	Roi	Lorado						
Costa d'Oro	Ruslichella d'Abruzzo	Maestro de Oliva						
De Cecco	Salvagno	Marques de Valdueza						
Deguste	San Feliciano	Olives						
Falconero	Santa Giulia	Parqueoliva						
Felippo Berio	Soler Romero	Rafael Salgado						
Frantoi Redoro	Terre Nostre	Ricon de la Cerbbetica						
Frantoio di Santa Te	Torelli	San Leonardo						
Garda Orientale	Toscana	VIP Extra						
Gradassi	Trasimeno							
Il Grezzo	Trasimento							
Il Tempio	Ursini							
Laudemio	Vincotto							
Leonero	Viola (Garda Oriental)							
60	25	9	2	2	1	1	1	
59%	25%	9%	2%	2%	1%	1%	1%	

Varieties

Different types of olive oil are sold:

- Extra virgin
- Virgin
- Refined
- Pomace

According to data from UN Comtrade, more than 60% of the olive oil imported in Russia is virgin/extra virgin what means that operators have been considering that the Russian consumers appreciate more a high quality product and is ready to pay high prices for it.

As per the storecheck, most of the brands do have virgin olive oil at sale in the Russian market, but also, the majority of the brands have a relatively wide range of varieties and formats, as well as denominations, which gives an idea of the big struggle to find consumers and niches.

Denominations

There is a large list of different denominations used by brands in order to position and differentiate their products. They refer to the origin, the type of olive, the way the oil has been processed, the ingredients and flavours, etc. But most of the commercial denominations are just “artistic” names of different type.

Hereunder we present some examples:

4 peppers, A.O.C, Abellinum, Affiorato, Anfora, Arbequina, Basil, Basil & Pepper, Basilico, BIO, Carolea, Chilli, Clarus, Classic, Creta, Delicato, Equilibrio, Eremo, Extra lite, Familiar, Filtrato, Fructus, Frutato, Garlic, Garlic & Chilli, Gold, Gorgano, Gran Frutto, I.P.G., Il Tradizionale, Ilailado, Kalamata, Laconia, Lemon, Light in taste, Liguero, Liguria, Nut, Olive pulp, Orange, Organic, Oro, Premium, Rosemary, Toscana, Trufa Blanca, Trufa Negra, etc.

Commercial presentations

The variety of formats is big. There are 200, 500, 750, 1,000, 2,000 and 5,000 ml. plastic bottles, cans and crystal bottles. The predominant formats are those of 500 and 750 ml.

Prices

We believe it has no point to go into details about prices by products and brands here, but to see them at Annex 4, as it is a very valuable information.

Nevertheless, a general overview of the prices situation in general must be provided, as we believe high prices to be one of the main brakes for the increasing of sales volumes of olive oil in the Russian Federation:

- As both table olives and olive oil are imported products, most consultants and some people in the trade try to explain high prices for them as dictated by world market condition, and the expenses connected with its import, in particular on transportation and the customs duties. But, as presented by us, the latter are 10% for olive oil and 15% for table olives. Some professionals blame the cost for listing fees. And it is obvious that the inflation and exchange rate has helped a lot in the high prices, especially in olive oil.
- But we believe that all these are not the cause, but that this is mainly due to the high margins by all members of the value added chain:
 - A way to prove the relation between high prices and margins is the chart we have shown with the difference in export price increases for refined olive oil, virgin olive oil and table olives, during the last years. All products suffer exchange rate fluctuation, but some are increasing much more than others.
 - Some importers/distributors are selling at higher prices than others. As we do not think the latter are losing money, it means that the huge difference is due to both gross and net margins by the former, especially, but not only, the market leaders. In our opinion, the main problem is that olive oil is focused to the rich segment of society, not to the middle class. The product is from 6 to 10 more expensive than local sunflower oil, so only wealthy and up-middle class is going to consume it. For the higher segment, money is not an issue, and they are ready to pay the 12-14 euros per bottle, at retail price, or even more at gourmet shops.
 - When compared with prices of table olives, also with customs duties, transportation and other expenses, the difference between Europe and Russia is much smaller, as the great penetration and wide distribution makes them closer to a commodity, for almost all segments of population, and margins are lower.
 - Most importers and distributors say they have low rotation in olive oil, and that is why they are increasing prices to compensate with margins. But the higher the prices, the lower the rotation of the products. Actually, when a leading sunflower brand like "Ideal" launches its own line of olive oil, they want to become massive, and their prices are lower than those of other players.
 - Finally, we are not sure about the distribution chains margins, but it seems that they are also obtaining little higher margins with this product, than with others.

Table olives

Origins and brands

In the Russian market there are **more than 60 brands** of different producers, exporters and wholesalers, with **388 references** of different types of table olives. There are some private labels owned by big importers and wholesalers. It is important to outline that the same producers offer different brands and denominations in order to extend their scope to more niches of the market and deal with some distributors at the same time. Consumers may think that there are many more producers as they see that there are many different brands at the sales points, but their number is not so large. **The offer is then quite atomized and diversified**, much more than the olive oil segment. **The brands are mainly of Spanish origin.**

There are some leader brands: Maestro de Oliva, Acorsa, Iberica, ITLV. The storecheck has identified 39 brands of Spanish producers (66%) and 11 from Italian (19%). The rest are French and Greek.

Russian imports of table olives are quasi uniquely of Spanish origin (95%) and, contrarily to what happens with the olive oil, in this case, the majority of the brands that are present in the Russian market are Spanish as well, what is apparently more logical.

Brands

Italy	Spain	Greece	France
Alpes	Aceitunas Gonzalez	ITLV	Bonneterre
Casa Rinaldi	Acorsa	Kapriz	Calanquet
Cinquina Bella Italia	Alonso	La Espanola	Reflets de France
Cinquina Nere Leccino	Aro	La Explanda	
Colavita	ArteOliva	Lorado	
Grespi	Beldi	Maestro de Oliva	
INPA	Benani	Marquesa de Oliva	
Iposea	Black Gold	Nash Produkt	
Natura Verde	Bonduelle	Olitera	
Polli	Coopoliva	Oro Negro	
Rioba	Corrado	Oro Verde	
	Fernando Geron	Plasoliva	
	Fragata	Serpis	
	Gartens	Skater' samobranka	
	Gonzales gold	Sol Negro	
	Green Ray	Suzanna	
	Gryadka Udachi	Vegda	
	Iberica	Vilanta	
	ISKA	Vitaland	
		Viva Oliva	
11	39	5	4
19%	66%	8%	7%

Varieties

62% of the olives identified at the shelves are green, while 38% are black.

68% are sold without bone and 32% are with bone.

Those without the bone are stuffed with different ingredients like: anchovy, red pepper, salmon, almonds, lemon, tuna, cheese, shrimp, octopus, orange, tomato, capers, cucumber, lobster, onion, garlic...

It is important to outline the fact that there is a **significant diversity in the stuffed olives**, in an effort by producers to adapt their olives to the habits and preferences of Russian consumers. As an example, in Spain, main producer of the world, the variety of the ingredients of the stuffed olives is much smaller.

Denominations

Table olives are mostly sold by their colour (green or black), by their presentation (with or without bone) or by their stuff (in the case of those without bone).

But as there are some protected denominations of origin and some regions known for their originality and differentiation, there are quite a few of table olives packs that are sold in Russia with denominations like:

Kalamata, cacereña, malagueña, cordobesa, Jaén machacada, other...

Yet, with the exception of some gourmet consumers, average Russians do not seem to be ready to differentiate according to denominations or regions. The Greek producers are working in this field but it seems that the Russian market is not still mature as to assimilate such segmentation.

Commercial presentations

There is an enormous variety in this field. The storecheck has identified 55 different formats (amount of product in the pack), but cans or bottles with 300-400 gr. are most common (70% of the sample).

The next format more sold is that of 150-300 gr. (12%)

When it comes to the material of the container, glass bottles and metal cans are those preferred by producers. Both types of container are present almost at equal parts at the shelves, although traditionally; crystal has been used for high quality and gourmet products.

Prices

As with olive oil, we believe it has no point to go into details about prices by products and brands here, but to see them at Annex 4

Demand

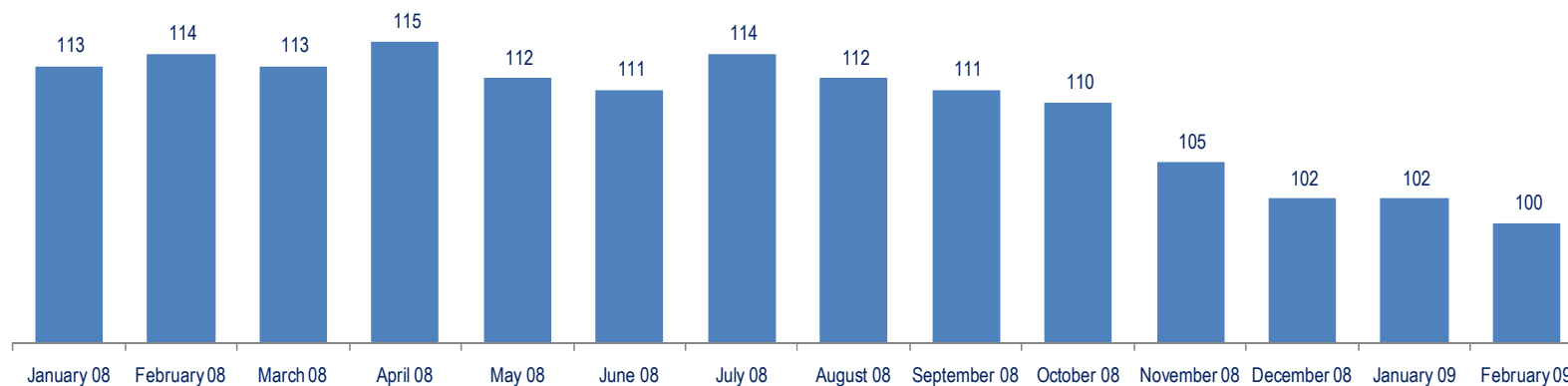
Consumption

1. Overview

Russia, like many other countries is going through a deep crisis that is having its effects in many aspects, including consumers behavior towards purchases and consumption of all types of goods.

The unemployment is raising at a pace of 300,000 people every month and 2009 forecasts are rather pessimistic. In February 2009 there were 6.4 million unemployed in Russia and **wages kept on decreasing**, although there seems rates al becoming lower.

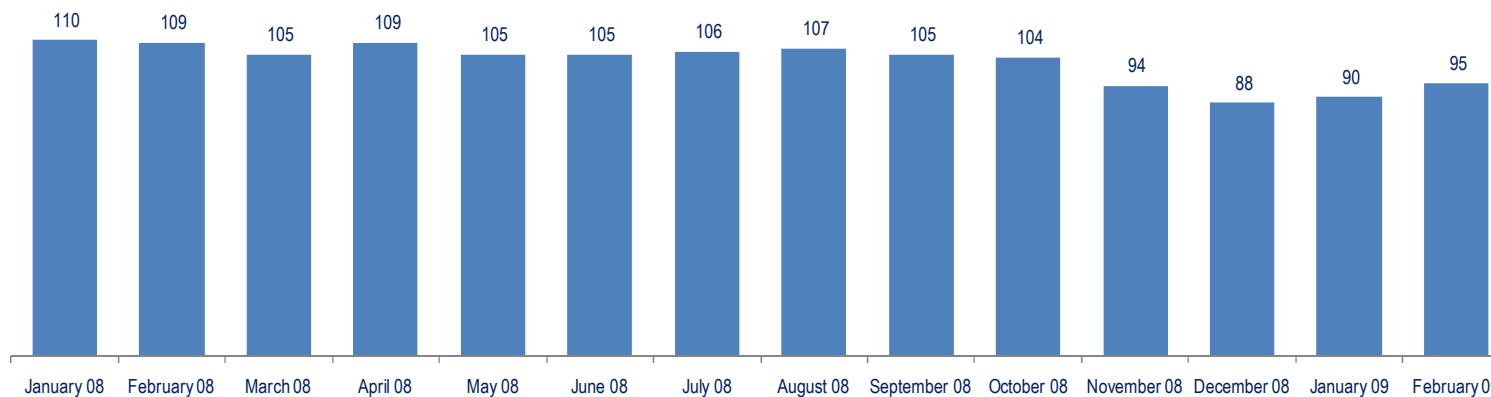
Russian real average salary (% to the month of the previous year)



Source: www.gks.ru

With regard to the purchasing power of the Russian consumers, it is still lower than a year ago but it seems that the drop has come to an end and there is a slight recovery in the latest months.

Russian average purchasing power (% to the month of the previous year)



Source: www.gks.ru

In 2000 more than 30% of Russians lived below the poverty line¹⁵, which means that their incomes were below the subsistence minimum. In 2006, their number dropped to below 15 %. According to the Economy Ministry's estimates, it will stand at 14.5 percent in 2007, falling to 12.6 percent in 2007 and 11.3 percent in 2009. Real disposable incomes increased by 10 percent in 2006 compared with 2005. The average monthly wage climbed 24.5 percent to RUR 10,736 (approx. \$404), up 13.5 percent in real terms. In November, the highest average wage of RUR 26,000 (approx. \$978.5) or 2.3 times more than the country's average was reported in the finance sector. In the raw materials sector, the average wage was RUR 23,000 (approx. \$865.6). In the manufacturing sector wages were 4 percent lower, in education - 30 percent lower, in healthcare and social services sector – 22 percent lower.

In 2007, 34 Russians were included in the Forbes list of the world's top 400 richest people.

By 2015, the highest average annual gross income (in 2007 prices) – Rb317,778 – will be enjoyed by the 40-44 age group, closely followed by those aged 35-39 with Rb316,945. However, as the trend in falling birth rates continues, the proportion of the population below 20 years of age will decrease. More sophisticated and material-oriented youth will be a good target for companies offering branded and fashionable products in the medium term. As incomes rise, spending patterns are expected to shift, with more attention paid to communications and fashion trends.

¹⁵ Poverty and Average Income in Russia, 2007. RosBusinessConsulting. <http://www.sras.org/news2.phtml?m=574&popup=1>

2. Olive oil

According to a survey carried out by ProChile¹⁶, **vegetable oils consumption in Russia is variable according to seasons of the year**. March, September and December are the months where consumption reaches its peak due to holidays and the purchases for the home elaboration of preserves. During the summer, oils consumption keeps a lower profile due to relatively high temperatures.

The market is showing to be quite dynamic in the last years as new products are arriving and different oils mixes have been introduced. There seems to be a growing **trend to blend olive oil with other** locally produced (mainly sunflower) and to brand new varieties with condiments and flavours.

The growing habit of mixing olive oil with other cheaper oils is originating more and more confusion among consumers and creating a complex situation where people are, in most cases, buying a product that offers very little information in its label and is probably adulterated. But some operators (Oleina, Altero Golden, Zlato, Monini, Milora) are using this practice as the way to popularize the consumption of olive oil and lower prices. In most cases, the olive oil content in the blends is so low that one can hardly taste de flavour. Yet, sales of blended oil are increasing.

Diversification is growing and olive oil is presented and sold in many different formats and varieties. Russians seem to enjoy olive oil with different flavours depending on the use (salads, frying, meat, fish, etc.). Some brands outstand in this area: Gaea, Borges, La Española.

Generally speaking, animal fats are progressively been substituted by vegetable fats in Russia. The average Russian consumption per capita is 15kg. and according to ProChile, experts forecast a consumption of around 40Kg. in 10 years time.

The religious factor should also be considered in these forecasts. There are different religious confessions in the country and some of them just forbid the consumption of animal fats. Every year, among Muslims and Orthodox, the use of vegetable oils grows in the fasting season. Vegetable oils are really an ingredient of many other typical products.

When it comes to prices, olive oil prices have kept on growing, both at imports and at internal sales level. Olive oil prices in the Russian market, fostered by the fact that there is more and more virgin oil coming in and that there was a growing demand in the previous years, are in the opposite trend, although experts estimate a certain fall in prices in 2009.

In brief, Russian domestic economic situation (badly affected by the crisis) is not at all tuned with the trend in olive oil prices that, at least until 2008, have been growing at full speed. This will affect the type of consumers that can afford a product that has become more expensive in comparative terms. The niche for olive oil will probably become smaller in the next future, with a high income consumer profile.

According a research by Business Analytics¹⁷, volume of Russian market of vegetable/seed oil constituted in 2008 about 1065 million liters – minus 1.5% against 2007. Thus, after several years of growth – by 5-10% annually – some decline of sales was observed in the review category. **Average price per liter of vegetable/seed oil reached RB 72.2 last year** – over 60% plus against 2007 when the average price was RB 44.8. This price jump was conditioned by the crisis on oilseed market in late 2007.

Traditionally the review market splits between four segments: sunflower seed, corn, olive and other vegetable/seed oils. The category “other” comprises soybean and colza oil, and also oil mixtures. Segment of sunflower seed oil retains leadership with over 86% of sales volume in 2008. During 10 months of 2008 this segment grew by 1.2% in comparison to 10 months of 2007; the category grew on some decline of other kinds of oil.

¹⁶ Perfil de mercado aceite – Rusia, 2008. ProChile

¹⁷ Review of Russian Market of Vegetable/Seed Oil. Research of the Company “Business Analytics” Anna Zaharova

Olive oil is worth special mention; in 2007 this category had just 0.6% of the market. Olive oil demonstrates steady positive dynamics as consumer interest to this relatively new for Russian market product increases and the health/wellness trend gets stronger. During 10 months of 2008 this category won 1.2% of market volume and 6.7% of its value.

However, it is too early to say that Russia has a well-developed consumption culture for olive oil.

On the contrary, its taste is still unknown for many consumers. Olive oil is offered in premium segment – in 2008 average price in this category exceeded RB 400 per liter. Relatively high price of olive oil is partially related to absence of domestic production.

In all Russian territories positive dynamics was demonstrated by sales volume of olive oil. This category was especially strong in Moscow and the North-West where olive oil had larger share of sales than in Russia in general – respectively 3.3 and 2.1% of sales volume and 17.2 and 10.2% of sales value. Share of other kinds of vegetable/seed oil in total sales reduces in all regions except for Central area. However this category is still standing strong in Far East and the North West.

In terms of package type the reviewed market is practically homogeneous. During 10 months of 2008 PET bottle accounted for 98.8% of sales – minus 0.6% against the same period of 2007.

Negative dynamics of dominating package type is determined by increase of glass – plus 5% of sales volume through the review period. Growth of glass containers is driven by gradual increase of olive oil category major part of which is offered exactly in glass. Consumers associate glass containers first of all with elite products and in Russia olive oil is positioned in this exact segment.

According to researches, through 10 months of 2008 in Russia top-five of manufacturers controlled 66.5% of vegetable/seed oil sales volume. The list of major market operators includes “Bunge Ltd.”, company “Efko”, holding “Solnechnie Produkty (Sunny Food)”, “WJ” group, and “Yug Rusi (South of Russi)” APG *. Autumn 2007 brought upswing of prices both for raw materials and ready product – except for olive oil. Just like corn oil, the category of other kinds of vegetable/seed oil demonstrates high concentration which suffered almost no changes through the review period. During 10 months of 2008 top-five manufacturers in this category controlled 82.8% of sales in the segment.

As it has been already mentioned, the category of olive oil offers only imported products – mainly supplied from Spain and Italy providing over 95% of sales volume in the segment. Healthy performance of olive oil in Russia is determined by relatively “young age” of this category and thus under-saturation. The list of top-players is still changing rather frequently. For instance, in 2008 the company “Bunge” entered top-five of this category; “Bunge’s” products were first offered on Russian market in late 2007.

However, the group of the largest operators of olive oil segment is quite settled with “Aceites Borges Pont” (TM “Borges”) and “Olive Line International” (TM “Maestro de Oliva”) retaining the leadership.

In the summary, though in terms of per capita consumption Russia is far behind European countries sales volume of vegetable/seed oil was stagnating over the review period. Meanwhile olive oil demonstrated vibrant growth driven by increasing consumer interest. Growing prices for raw materials and ready product in all of the review product categories – except for olive oil – resulted in increased market concentration in the second half of 2007 due to declining shares of SME operators.

3. Table olives

IOC data show that world consumption of table olives in the 2007-2008 season was 1,880,500 tons in net, drained weight. Of that amount, by regions, the European Union accounted for 32.96%, Arab countries 28.77%, Other Nations 15.27%, US/Puerto Rico/Canada 13.45%, Central/South America 5.82% and Eastern Europe 3.72%. By country, the world's largest consumers of table olives were Spain, the United States, Egypt, Turkey, Italy, Syria, Russia, Algeria, Brazil, Germany, Iran, Morocco, Jordan, Britain and Canada.

Olives are much more popular, in terms of volume and extension of the consumption, than olive oil. It is a cheaper product that has been introduced in the habits of Russian consumers and is part of their day life, mainly in holidays and celebrations.

According to the Spanish Commercial Office in Moscow¹⁸, the interest for table olives, which are now affordable to the majority of Russians, is getting stronger in the country. It is noteworthy that 89% of Russian consumers buy olives for everyday consumption; 87% of respondents consume olives as a separate meal and 60% add them to salads and other dishes.

A research carried out by Symbol-Marketing¹⁹ points out that although table olives may not be considered "a national dish", the demand is relatively high. One third of the Russians buy table olives on a regular basis according to Symbol-marketing, and one of the reasons for this habit is that their price is cheaper when compared to pickles. In Moscow, the consumers that use the olives from 1 to 3 times per month account for nearly 40 % of all families, and almost half of those families who buy some kind of vegetable canning. In St. Petersburg, it is 27 per cent and 36% of those who buy canned. In Yekaterinburg, 30%. In brief table olives are well distributed and introduced in big but not in the rural areas, as a result of the marketing efforts focused mainly in the former.

¹⁸ Information and Advertising Campaign to Promote Table Olives from Spain Starts in Russia. ASEMESA press release, 2007. http://www.interaceituna.com/pdf/Spanish_olives_festival_eng.pdf

¹⁹ НЕ РОСКОШЬ, А СРЕДСТВО ПРОПИТАНИЯ. Краткий обзор российского рынка оливок. Исследования компании COMCON-SPb. Кира Обухова

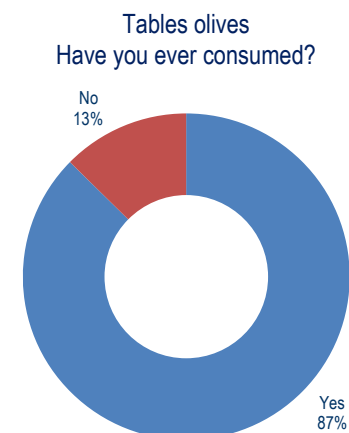
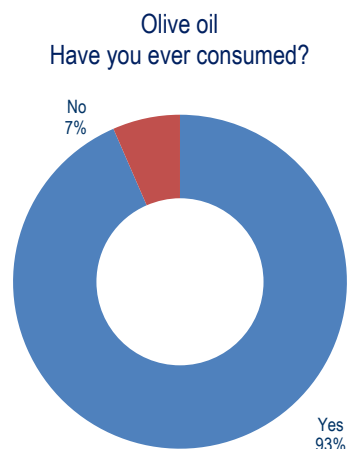
4. End consumers survey

A field survey based on a questionnaire to one thousand end consumers in face to face meetings at sales points has been carried out in 11 major cities in Russia during the months of September and October 2009. The aim of the questionnaire is gathering information about the demand of both olive oil and table olives among Russian consumers.

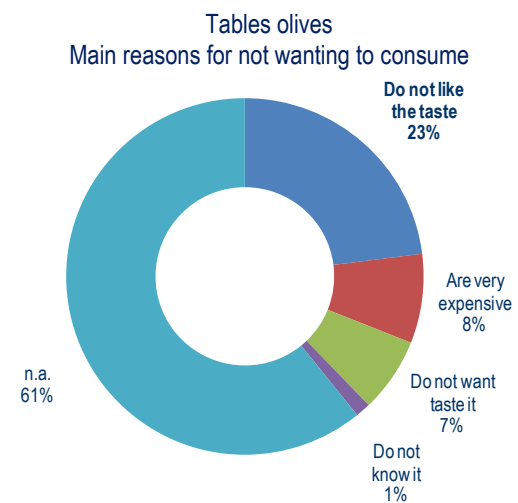
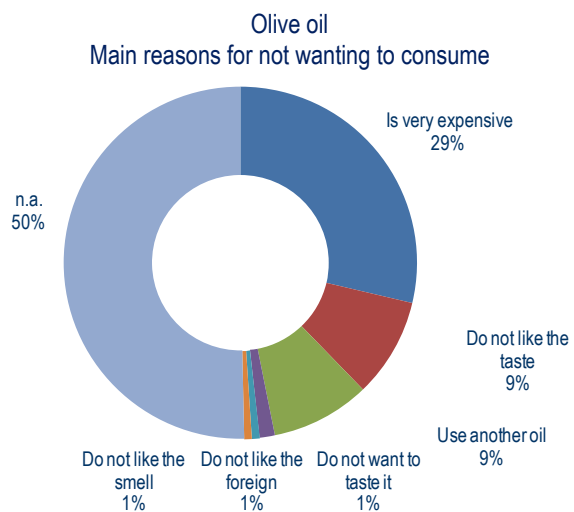
Number of face to face interviews	1,133		
Valid interviews (questionnaire of 15 questions totally completed)	1,015	(89.5%)	
Target audience by sex (% of total valid interviews)	Male	34.9	%
	Female	65.1	%
Target audience by age (% of total valid interviews)	18-24	21.6	%
	25-39	45.2	%
	41-55	26.3	%
	More than 55	6.9	%
Employment category of the target audience	Student	14.0	%
	Employee	46.9	%
	Director / Manager	17.5	%
	Retired person / pensioner	5.3	%
	Unemployed	9.0	%
	Owner of a company / freelance worker	6.8	%
	Other	0.5	%
Type of points sales where the interview were held	Hypermarket	24.6	%
	Supermarkets	23.0	%
	Specialty stores	48.2	%
	Productki (Little Food shop)	4.2	%
Cities and % of the total of valid interviews (1,105) in each one	Moscow	16.6	%
	St. Petersburg	16.7	%
	Kransnodar	8.8	%
	Rostov-on-don	3.9	%
	Ekaterinburg	9.7	%
	Nizhni Novgorod	9.3	%
	Samara	8.6	%
	Novosibirsk	9.7	%
	Omsk	9.5	%
	Yakutsk	5.1	%
	Irkutsk	2.3	%

Awareness

- Almost all Russian consumers know olive oil and table olives (almost 100%). Therefore, awareness of both products, albeit not being part of the Russian traditional diet, is complete. Everyone knows what olive oil and table olives are, although there is a few that have never bought or tasted them.
- Most of the population has tried olive oil and tables olives at least once, although there are more consumers that have not consumed olive oil (13%). Olive oil is not as popular, in terms of consumption, as olives. The first important conclusion to be drawn is that olive oil and olives are no more strange and unknown products for the Russians. There is a big awareness of both although, at the same time, there is a lot of confusion about the origin, the nature, the properties, the varieties, etc.



- The main reason for not having ever tasted olive oil is that that prices are considered very high and that the taste is nor appealing. Price seems to be a clear barrier for those who are not consuming olive oil and deters them from doing it in the future. Although the Russian consumer is traditionally used to “milder” oils like sunflower, the “stronger” taste of olive oil does not seem to be a solid argument for not buying it. Not anymore.
- Meanwhile, the main reason for those who have never tried olive oils is not the price, but the taste. Therefore, Russian consumers do not think of olives as an expensive product. They just do not feel like consuming a product that is not part of the traditional diet and habits.
- With regard to the awareness of table olives, green and black are equally known.
- And as far as olive oil is concerned, consumers declare to know more the extra virgin than other categories (virgin, refined or pomace). This is probably a result of the big proportion of extra virgin olive oil that is imported in Russia, what means high prices and little relative consumption.



With regard to the nutritional properties awareness, the aspects that are more relevant for the Russian consumers are the following:

Table olives Rich in vitamins
Olive oil Reduces bad cholesterol levels and rich in vitamins

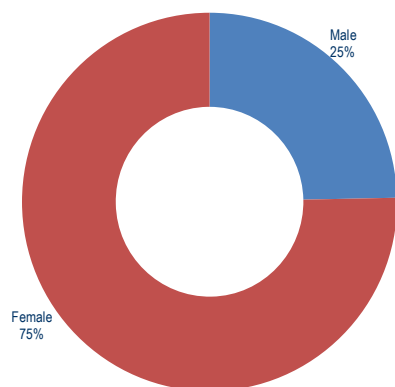
Purchases

Who normally buys?

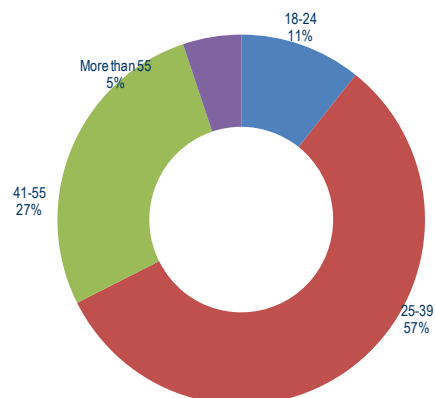
65% of the interviewed in the field survey had been women. This percentage does not match with the real composition of the Russian population but as the questionnaires were carried out at the sales points, the composition of the sample reflects that shopping (for food) is mostly done by women. Taking into account this possible deviation, the results are the following:

- Olive oil and table olives, as the rest of the food shopping, are mainly bought by women (75%)
- Main buyers are between 25 and 40 years old, followed by those between 41 and 55
- Those who buy more are people actively working (employees or executives)

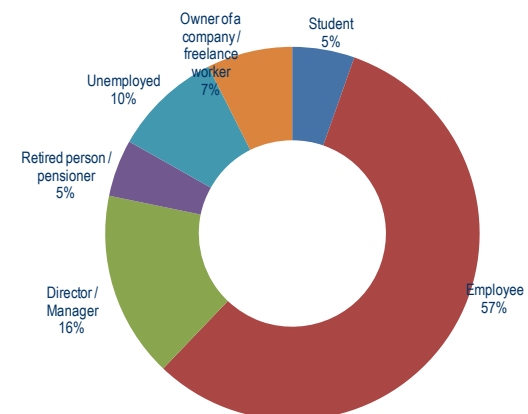
Olive oil and table olives
Who normally buys? (genre)



Olive oil and table olives
Who normally buys? (age)



Olive oil and table olives
Who normally buys? (occupation)



How often the Russian buy?

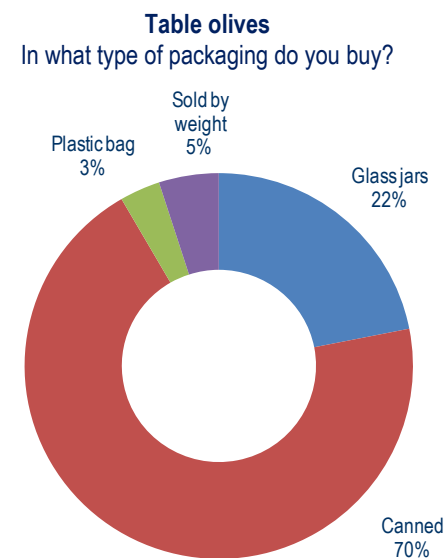
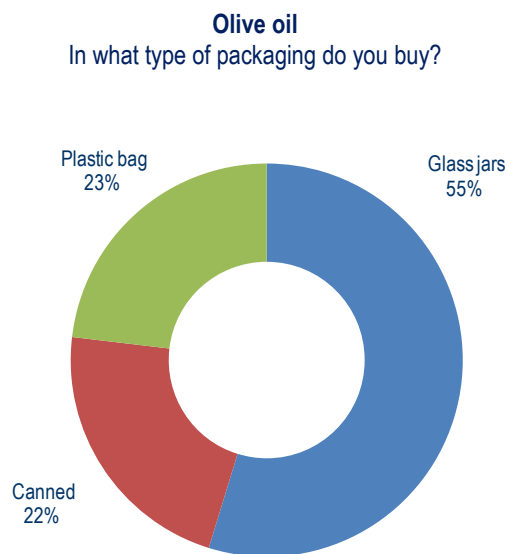
Table olives are more frequently bought (every month) than olive oil (every 3-3 months), what reflects that olives are more popular and much more introduced as a almost common product than olive oil. It is important to point out as well that 13% of the interviewed rarely or almost never buy olive oil.

	olive oil	table olives
Once a week (or more often)	5%	26%
Once a month	34%	46%
Once every 2-3 months	37%	18%
Once a year	9%	5%
Rarely	13%	4%

Standard profile of the Russian buyer

There are very little differences in terms of genre, age and occupation between the buyers of olive oil and table olives. A simplified standard **profile of the Russian buyer** of olive oil and table olives is a middle age woman (around 38 years old), employed at executive level. She buys table olives at least once a month but buys olive oil less frequently (every 2-3 months).

Packaging



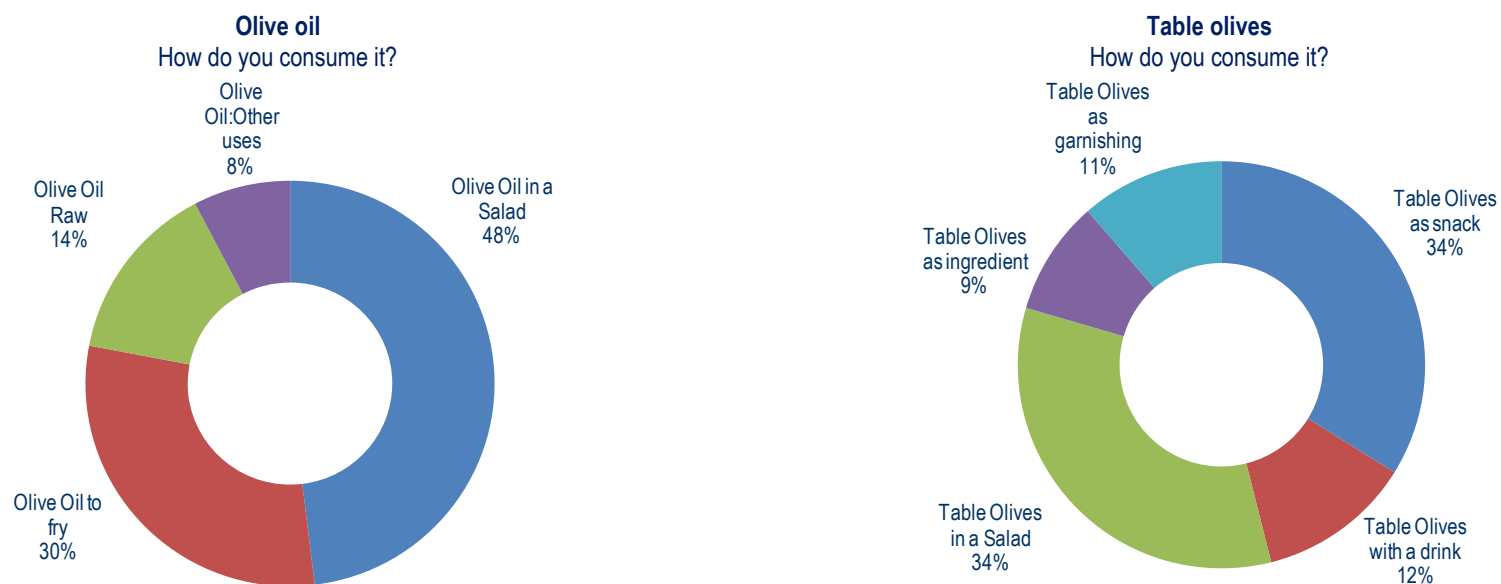
In the Russian market different formats and types of packaging are used for the retail distribution of olive oil and table olives. For olive oil, the most commonly used is the crystal bottle (55%) and for table olives, the can.

Consumption

Who normally consumes?

There are very little differences between the buyers and the consumers and therefore, the standard average consumer in Russia is a female, between 25-39 years old and working.

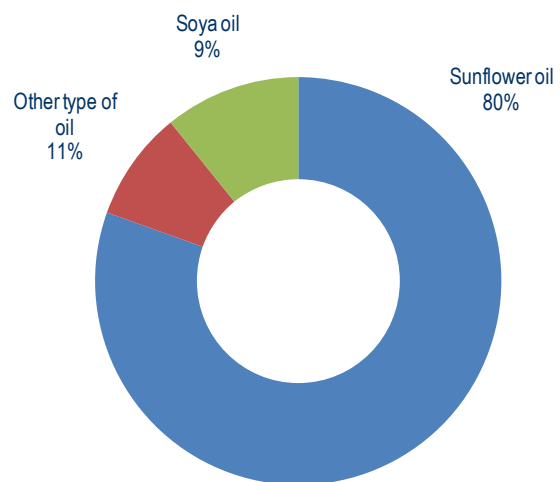
How are olive oil and table olives consumed?



Olive oil is mostly used for salads although there are many people who use it for frying purposes as well. With regard to table olives, these are equally consumed as snack and in salads and very little for other purposes.

What other vegetable oils are mostly consumed

Logically, apart from olive oil the most commonly used vegetable oil in Russia is sun flower, followed by soya oil.



Promotion

Half of the interviewed declare having seen any type of promotion or advertising of olive oil and/or table olives. This is a very high percentage and shows that promotion at different levels (below or above the line) has been quite efficient in Russia.

When asked about the type of promotion that consumers recall most, **TV adverts and TV cooking** shows seem those that are more efficient. It seems that Point of Sales Promotion, although they can provoke instant impulse consumption are not very efficient as reminders in the consumers mind.

Olive oil
In which media do you remember to have seen/listened any advertising?

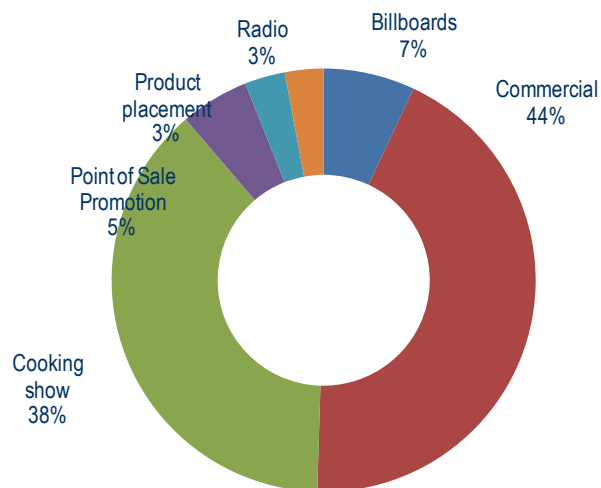
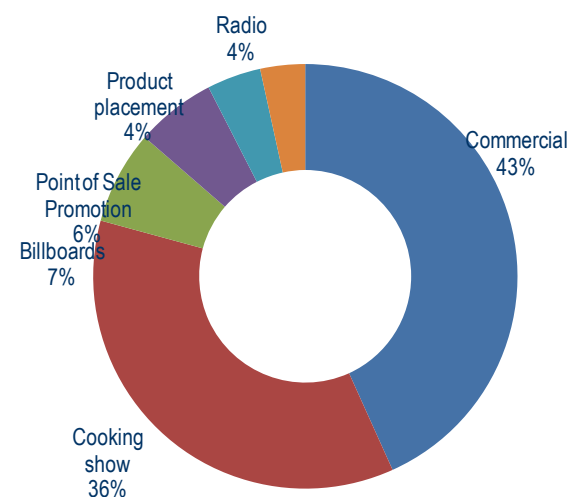


Table olives
In which media do you remember to have seen/listened any advertising?



What type of media would be more appropriate from the consumers' point of view?

When asked about what type of media the consumers would like to receive information and promotional messages for both products, the preferred (in this order) are the following.

- TV ads.
- TV cooking shows
- Point of Sale Promotions

Types of consumers and trends

An analysis of the consumption trends in Russia will not be complete if the retail sector and its evolution is not studied. According to a survey carried out by Euromonitor²⁰, Russia has experienced a **strong growth of retail trade**. In 2007, Russia was ranked the world's 10th largest retail market. Russian consumers have a higher purchasing power since the majority of the population owns a house without the burden of mortgage repayments, having inherited their housing from the state following the collapse of communism. As well as the grocery and fast food sector, retailers of durable goods have benefited the most, starting with a boom in video recorder sales in the early 1990s. The strong demand for all things electronic and – most importantly – portable, i.e. visible, continues. Since all Western products are assumed to be of the same high standard, it is not the brand that is of principal concern, but the product's novelty value - a gimmick, a strong advertising campaign - which indicates the product's avant-garde status.

One of the most striking developments in Russia is the **growth of the new elites** who draw upon a traditional status culture. Luxury car sales are booming. Despite the catastrophic traffic situation in Moscow, the streets are cleared as if by magic when one of the new oligarch's cavalcade of limousines arrives. A look at Rubljovka Street shows that the old Ladas, Wolgas, half-trashed Vectras or Ford Mondeos are a thing of the past. More than three quarters of the passing cars are black: armoured Audi A8, Mercedes S-class, 7 series BMW and a plethora of accompanying dark SUVs dominate the streets. The bestselling Mercedes is the S 500 L 4Matic, of which more than 3000 were sold during the first nine months of 2007. In addition, the streets of Moscow boast more than 130 Maybach limousines. Since 2002, new registrations of passenger cars in Russia rose 61% to 1.7 million in 2007.

Russians are also becoming more exotic in the types of pets they own. This is due mainly to the ostentatious tastes of the expanding higher income consumer groups. It is often the case that rare breeds are purchased as accessories or status symbols, when the new owner has no idea how to care for them. The main owners of exotic pets are so-called “new Russians” with extremely large incomes. People with high levels of disposable income also tend to own racehorses.

Since its 1990 Russian launch, McDonald's has opened close to 150 restaurants in Moscow and more than a dozen Russian cities and has plans to open a restaurant at every Moscow metro stop. Moscow's Pushkin Square continues to be the busiest – and largest – McDonald's restaurant in the world, adding to the company's 30% share of the Russian chained fast food market in 2006. Baskin Robbins is one of Russia's largest franchises, benefiting from the traditional Russian passion for ice-cream, with street kiosks operating even in sub-zero temperatures. Other franchises such as Pizza Hut, its sister company KFC, Sbarro's, and Subway all have smaller presences and have faced more problems in the market. One of the problems for Western brands has been successful Russian competitors, such as the Georgian chains Moo-Moo and the salad bar-based Yolki-Polki, which appeal to Russian nationalism and offer traditional dishes in a rustic atmosphere. Rostik's (Russia's KFC) has become a market leader in drive-in restaurants.

But the most widely available fast food comes from kiosks on the streets of the big cities serving Kroshka-Kartoshka (stuffed baked potatoes), Russkoe Blini (filled Russian pancakes) and hot dogs at Stop Top. The Rostick chains selling roast chicken rank second in popularity behind McDonald's. McDonald's Russian menu is mostly the same as in the USA, with the addition of cabbage pies and some other traditional Russian food items.

According to information from the School of Russian and Asian Studies, **half of men and women aged 16-50 buy fast food at least once a week**. Most of this clientele considers location (64%) and cost (54%) most important, while fewer regard quality (43%) and cleanliness (25%) as important factors. This means that rapid expansion, even with cut corners, is likely to be rewarded.

²⁰ Top 10 consumer trends in Russia. Sarah Boumphrey. 2008. http://www.euromonitor.com/Top_10_consumer_trends_in_Russia

Food sales in 2008 witnessed further growth²¹, mostly in value terms, while some products operated with the same retail volume or even reduced volume, such as several soup, oils and fats and bread product niches. High energy prices affected unit prices in all food categories, leading to restructuring of the packaged food market as a whole. Consumer purchasing power was affected at the end of 2008 by the economic slowdown in major cities and provinces, which impacted many categories of packaged food and led to many consumers trading down to unpackaged and cheaper fresh and frozen food alternatives.

Rising unit prices across packaged food categories affected many people with low incomes and citizens in second-tier cities and Russian provinces. As a result the market witnessed rising demand for economy products, as an increasing number of customers shifted from mid-priced and premium offerings back to economy goods. The convenience of packaged food products for consumers with busy lifestyles and the snacking habit will continue to drive sales of mid-priced and premium packaged food products, but the focus of demand will shift towards products offering better value for money. Premium products are set to maintain sales in large Russian cities with more affluent populations, such as Moscow and St Petersburg, where demand is stimulated by higher consumer purchasing power.

According to a survey carried out by ICEX²² and a study conducted by the "Top of Mind B & MC" company in 2005 and published by the Russian Food & Drinks Market Magazine about the preferences of consumers in the supermarkets of Moscow, two large groups of buyers with a clearly differentiated behaviors can be distinguished: adult generation, composed of people older than 35 years, and young buyers. Considering the establishments in which they perform their purchases, adults usually prefer only one supermarket. Young buyers do not share this habit and normally visit several establishments.

Also the choices of supermarkets criteria are different: **young people demand quality service, while older buyers pay more attention to the quantity and quality of products**. The elderly give particular importance to discounts and offers since in many cases prices in shops are precisely affordable through these discounts.

However, all consumers of supermarkets regardless of age have a set of criteria that determines their choice of an establishment in particular: **location close to home, wide selection of high quality products at reasonable prices**.

These are the main demands that a supermarket must meet to maintain its competitiveness. At the same time there are additional factors that increase the frequency of visits to the store. These include discount systems and high quality service. The less important as consumers are kind enough to staff, the absence of queues in boxes, lighting and cleaning the premises, ease of movements and available marks. Other services, such as cosmetics, photography services, mobile providers, dry cleaners, flower shops or cafés, also highly influence the influx of consumers to an establishment. This type of high-level service improves the image store and attracts new consumers.

Apart from the above mentioned factors, the influx to a supermarket is maintained with a convenient traffic infrastructure, home delivery service and own processing in meat or fish, salads, bakery and others, giving consumers the opportunity to buy fresh salads, meat or ready to eat fish, bread, sweets and ready to serve food.

The importance of the factors mentioned in the flow to a supermarket may vary depending on location in a particular district of the city. The mentality of the district, the potential consumer's preferences and unmet demands are equally important to the success of a supermarket as the density of population of the district or the appropriate site store. It may also be considered another approach to classify shops and is considering visits of consumers depending on their purpose: make daily purchase or buy products for the entire week. For this reason the retailers are expanding by opening new stores in bedroom areas and new districts; occupying the niche "store's home". Thus the retailers achieve two objectives:

²¹ Packaged Food in Russia. Euromonitor 2009. http://www.euromonitor.com/Packaged_Food_in_Russia

²² La distribución agroalimentaria en Rusia. Oficina Económica y Comercial de la Embajada de España en Moscú, 2009. <http://www.oficinascomerciales.es/icex/cma/contentTypes/common/records/viewDocument/0,,00.bin?doc=4202400>

- Reorienting towards the dominant group of consumers - dwellers with an average level of income.
- To construction in the Moscow suburbs becomes more dense and intense, the stores get many more customers of this area of influence than the shops in downtown where inhabited houses are not so numerous.

Based on the research results by ICEX, it can be said that Moscow consumers have already defined their habits and customs of purchase. They distinguish between daily small purchases and large ones. The daily shopping is normally done on the way home, in the nearest supermarket, several times a week or every day. In Russian families this type of purchase often is made by women. These purchases fill the amount of daily food needed: bread, milk, eggs, and others. We must consider that if there are several supermarkets close they are normally alternated. The peculiarity of this behaviour of buyers is given or by personal preferences for certain products or by the habit to return home by a particular way.

Large purchases for the week are made in large establishments - hypermarkets as "Ashan" or "Mosmart". In Moscow "Metro" chain operates cash & carry establishments, but consumers call them "hypermarkets" because it is more familiar to them. Generally a hypermarket occupies a vast area and is located outside of the MKAD (Moscow ring road). People go to these stores during the weekends with a frequency from once a week to once a month. Purchases in a hypermarket are made by a woman, but in this case they are accompanied by a man who helps them take home the purchase.

Distribution channels

Overview

Due to the time limitations and project objectives, we have decided to expend less time on a first hand exact view of the distribution in the Russian Federation through field work, but to get instead this information from secondary sources, mainly from the excellent report of the Spanish Commercial Office in Moscow⁽²³⁾, which has been copy even literally in some extracts, with minor changes by opinions by local importers and direct experience, although figures vary here and there. We believe it does not affect to the general understanding of the market, as it is not a brand new virgin market like India, but a market where sales have been in progress for a long time. All credit should be given to them, all mistakes to our misunderstandings.

Large modern distribution formats are still expanding their market share, thus managing to make the highly fragmented distribution channels slightly more uniform. Retail sector in Russia has been growing between 20 and 30% per year. Consequently, Russia is one of the countries with the most potential worldwide. According to several sources, food and drink products have risen by around 27% per year. The strategy of these new formats in the Russian market is to implement their own distributor's brands and offer large discounts. The Russian food industry turnover forecast for 2009 is \$240 billion (Moyo Delo magazine, January 2009).

However, in the Russian Federation, the distribution of agri-food products has specific characteristics, which, according to the main source, are mainly as follows:

Significance of the Underground Economy

This makes it difficult to gather precise national, regional or local data on the sector. "Black economy", i.e., that not paying taxes, could account for 50% of the market, but the figure varies depending on the location. Western analysts estimate that the data obtained from market and statistical studies gives only a picture of 60% of the actual market. As we will see below, the open markets, kiosks, and little shops makes very difficult to control and to estimate this.

Large Increase in Modern Distribution

Modern agri-food distribution has risen sharply in recent years, representing around a third of the market (between 30 and 35%). The specific layout of Russian cities has been a factor in this growth. As they contain very few business premises, major distribution outlets need to find new larger establishments on the outskirts of large cities all over the country.

High Market Growth

As mentioned above, the market is increasing between 20 and 30% every year, leading to the establishment of large distribution chains. A decade ago, they appeared and were confined to Moscow and St. Petersburg, but they are now present at the regions all over Russia and still expanding at the mentioned high pace.

²³ Agri-food distribution in Russia. Economic and Trade Office of the Spanish Embassy in Moscow, 2009. <http://www.oficinascomerciales.es/icex/cma/contentTypes/common/records/viewDocument/0,,00.bin?doc=4202400>

Market Saturation in Moscow and St. Petersburg

Major distribution outlet penetration in the large cities of Moscow and St. Petersburg is extremely high (unlike in the rest of the country), and may be around 60%, as consumption is closer to the western model. Although this may indicate that growth through new shop openings will slow down, we believe the key problem is not with number of points of sale, but with rotation of the products due to high prices on them.

Sector Development in Regions

The saturation of the formats in Moscow and St. Petersburg, and the improvement in the economic situation in the regions, have led to the implementation and expansion of major distribution outlets in the regions. New establishments have been opened, and already established chains have been purchased, so the key players are now national.

Mergers and Acquisitions in the Sector

This constant market growth, and its resulting large sales volume, has led to the purchase of some chains and mergers of others, since the market was too saturated for new establishments, especially in Moscow and St. Petersburg.

Main Distribution Chains of Agri-Food Products by Type of Format

Format	Group Name	No. of Stores 2008	Retail Sales 2007 (millions of \$)
Hypermarkets, Supermarkets, Discount	X5 Retail Group	1,027	6,151
Convenience Stores, Hypermarkets	Magnit	2,592	4,244
Cash & Carry	Metro AG	48	4,046
Hypermarket	Auchan	32	3,699
Convenience Stores, Hypermarkets, Discount	Dixy	493	1,658

Source: "Renaissance Capital" (in a report by the Spanish Commercial Office in Moscow)

Wholesale distribution

Markets

Wholesale markets are usually located next to stadiums and on the outskirts of cities and they are called “Yarmarka” (fair) or “Optovie rinki” (wholesale market). Retail markets, known as “Rinki”, are located close to underground train exits. There are also product-specific markets. They are essential for distributing fresh produce: fruit, vegetables, meat, fish, etc. Table olives may be found here, but it is not so common to see olive oil, as their target segment has got lower income. This format is very popular because of its price-quality, but it is somehow inefficient, which will mean a reduction if the economy gets better and the per capita income increases in the long term.

Specialised Companies

Importers have taken over the activities usually performed by wholesalers in other markets, because distribution is a recent activity in Russia. Most of the products imported are distributed to the regions, with a lot of local middle companies that also increase prices, buying from this huge specialised wholesaler companies. To become a national player involves huge investments in warehouses, which special requirements and conditions, such as refrigeration, to store and handle the products, etc.. Consequently, small companies cannot compete, as viability depends on large volumes. That notwithstanding, more and more distributors are looking forward the possibility to buy direct from the Mediterranean area, and only customs requirements at the western borders are retaining them from doing so.

Cash & Carry

The Cash & Carry format is a relatively recent phenomenon at the Russian Federation. The first shop to open was Metro in 2000 in Moscow, becoming a total revolution, and working partly as a Cash & Carry and partly as a huge supermarket for individuals. The main companies in this format are currently: Metro, Selgros, Berado and Lenta Cash & Carry. These establishments sell to both other wholesalers and retailers. This segment has grown substantially in Moscow and Saint Petersburg, and it is currently expanding into the regions where growth is expected to be high.

Retail distribution

Traditional Distribution

These are Russia's characteristic formats. Some of them date from the Soviet age and others are more recent. Their providers are usually local producers, although they also rely on importers for a wide variety of other products.

"Gastronom's"

They were exclusive in Soviet times, and their location is very convenient at the cities, which is why their sales volume is still quite high. However, some of them have turned into western-style supermarkets. They are located on populated neighbourhoods of cities and usually have a floor area over 400 m². They distribute average-quality food with quite a wide range on offer.

"Produktis"

Their location and opening times are convenient, since they are found on the ground floors of buildings and they are usually open 24 hours a day seven days a week. Their range of products is quite limited. Table olives are eventually to be found, but not olive oil, except for some premium location like the one at Tverskaya, some hundred meters from the Kremlin.

Pavilions

They have a large floor area shared by several small shops selling the same product, which can be food, clothes, shoes, etc. As with the markets, its existence is linked to an impoverished population, and they will probably disappear some when in the future.

Kiosks

Kiosks (often called "palatki") are located in subways leading to underground trains or under large avenues, or on corners. They are, therefore, a conveniently close-at-hand distribution format with flexible opening times (they are often open 24 hours a day) offering a wide variety of products between them: cigarettes, cakes, sweets, accessories, etc. They came into being after the fall of the USSR, as it was difficult to access products, and points of sale were few and far between.

District Street Markets

These markets mainly sell food products supplied by fruit and vegetables gardens near the city. They can also offer pharmacy products, clothes, etc. They are normally located in very busy areas, near supermarkets or underground train stations, etc.

Modern Distribution

Modern distribution accounts for 35% of food distribution. This figure is less in the regions. Everything seems to indicate that this figure will increase, as these outlets are being established in the regions. In cities with over half a million inhabitants, two thirds of consumers say that they shop for food in hypermarkets and supermarkets. Nevertheless, according to one of the studies consulted, the market share of the 15 main distributors was only 16.4% in 2007. This figure is well below the norm in consolidated markets.

Although this distribution format appeared in Moscow in the mid 1990s (the supermarkets Azbuka Vkusa and Sedmoi Kontinent), it has become far more widespread since 2000.

At the time, it was a massive innovation in the Russian market, as consumers had free access to the products and could choose which ones they wanted. Currently, modern distribution has started to expand to the regions in various formats: large hypermarkets, medium-sized supermarkets and neighbourhood stores.

This type of establishment is mainly supplied by distributors and importers, without any wholesale intervention. However, there is also a listing fee that needs to be paid for each of the products to enter the chain, and per establishment.

Hypermarkets

This is a very recent format. The first one was opened in 2002 by the Turkish chain Ramstore. The first Auchan was also launched that same year. Auchan began an aggressive implementation policy with the purchase of 14 of the Ramstore chain outlets. The national competitor in this format is the Mosmart chain, which already has 83 stores in Russia. Some of the chains of other formats, such as supermarkets and convenience stores, are also changing to this format. An example of this is Sedmoi Kontinent and the X% Retail Group chain, which has 16 hypermarkets grouped in the Karusel brand.

Supermarkets

In this format, Russian chains with western management models have been more efficient and more successful. For example: Perekriostok, Ramstore, Sedmoi Kontinent, Paterson and Azbuka Vkusa.

Hard Discount

Price is a key factor in the Russian market. Many consumers have low income levels, which largely explains this format's success. Pyaterochka, in the X5 group, has become the segment leader due to a very aggressive purchase and merger strategy. Another chain, Magnit, combines discounting with the convenience store format, and it can be found in many regions. Other chains are Diksi and Kopeyka.

Convenience Stores

Forecasts predict that this format, also known as Universams, is going to be the segment with the most growth. As we have seen, convenience stores combine with the discounting or supermarket format. Examples are Magnit, Sedmoi Kontinent and Perekriostok.

Cash & Carry

Metro and Lenta Cash & Carry are the two main competitors in this format. Metro opened its first outlet in 2000 and it currently has 48 shops in Moscow and in the rest of the large cities in the regions. Lenta is the competitor that is beginning to expand to other cities from the St. Petersburg area. It is a segment where both wholesalers and retailers make purchases.

Food service

The catering distribution channel is very recent, since there were hardly any HoReCa or Food Service channel establishments until the end of the Soviet age. There are very few specialised distributors in this channel, since exclusive dealings are still not very profitable. This type of establishment is mainly supplied by generalist distributors, by specialised distributors of a specific product and by Cash & Carry outlets. There is an annual fair in Moscow (PYR) specialised in this segment.

The distribution of olive oil and table olives

As for the focus of our study, Western-style supermarkets and hypermarkets, with various major modern distribution formats, where consumers with higher incomes shop seem the main distribution channel for olive oil. There is a high initial cost of listing each product in every one of the outlets in these chains, but it seems that it is not a major problem. Therefore, olive oil may be found all over Russia and, in our opinion, low sales are not due to lack of distribution, but to the high prices and average income in the country.

As for the table olives, and according to various sources:

- 60% of the sales are via modern distribution (hypermarkets and supermarkets), providing clients with direct access to products and offering a very wide range. As we have said, distributors or importer's own brands have also started to be sold.
- The traditional Russian channel of small shops ("producktis") is still very important in the sale of table olives, although there is less variety than in modern distribution. This channel still accounts for 30% of the sales volume due to its high number of outlets and their flexible opening hours.
- The remaining 10% of the market volume is via street markets. There is not much variety in this channel, only two or three brands, which are also offered in bulk, especially the Maslini (black) variety. They are aimed at low-middle and working classes.

Unlike other products, Olive Oil does not have a high number of intermediaries. Distribution chains do not normally acquire products directly from producers. This is also the case of many local products. As we have already mentioned, the regions usually acquire it from importers from Moscow and St. Petersburg.

The opinion of the local players

The field work carried out for this study has included 18 in depth interviews with importers, wholesalers and retailers in Moscow and St. Petersburg. Most of them are importing olive oil and table olives at the same time while just a few are importing only olive oil or only olives.

- CORRADO GROUP
- SEVKO
- AMERICA RUSS
- MATIMEX
- OLIVERA 2000
- INFO-LINK
- DIONIS IMPORT
- FORWARD-5
- MISTRAL TRADING
- PBK
- VERDE
- CORONA
- SEVENTH CONTINENT
- GLOBE GOURMET
- ASHAN
- KARUSEL
- BEST

The interviews were based on a 20 question draft and have been focused to learn about the opinion these Russian operator have about different aspects of the market. Hereunder we offer the most relevant opinions and suggestions:

Distribution channels

- 80%-90% of the sales are made trough the big retail supermarket chains. Less important are the small retailers (gourmet and specialty stores).
- Local “produkti” shops are very little used as a sales channel
- The same with restaurants, hotels and other collectivities

Awareness

- Most of the local players think that the awareness and consumption of olive oil and table olives is growing slowly. This opinion is not in line with the fact that imports and sales have been growing at a very fast pace in the recent years. 2009 will not probably be as good as the past years. What the importers pretend to point out is that both products have a very big potential but they are growing very slowly with regard to their possibilities and a lot of information should still be passed to the consumers.
- Those who seem more aware about the products are the importers, the wholesalers, the restaurants/hotels and some chefs. But it seems to be very insufficient awareness among end consumers, mainly those who do not live in big cities.

Positioning

- Olive oil is seen as a very high quality product but its price goes beyond its quality in many times. There seems to be an “overpricing” of olive oil, mainly when compared to sunflower oil. Sunflower seed oil has a very good image a reputation in Russia, it is considered a very good quality product (even at the same level of the olive oil), and is much cheaper. Therefore, the relation price/quality of olive oil is not the right one if it wants to compete with sunflower oil.
- Some importers point out that in many cases, olive oil is perceived as a cosmetic product as the message about its properties has not been complete. Thus, more information is needed in order to extend the use for cooking and not only for medical or cosmetic purposes.
- Everybody agrees that good, straight and clear information about olive oil is necessary. Many consumers just think that olive oil is very good because it is very expensive. And there is a lack of knowledge about the different types, varieties and qualities.
- With regard to table olives, this relation price/quality seems to be more accurate. Olives are considered a good product (normally not extra quality) but their prices (lower than olive oil) are cheaper and then more affordable.

Promotion

- Most operators (producers, importers and wholesalers) undertake any type of promotional activity regarding olive oil and/or table olives. They always allocate some money (a little share of the sales) to marketing and advertising.
- The most common marketing actions take place at the points of sales: tastings, discounts, merchandising, promo-thematic weeks, etc. This kind of promotion is considered very useful but bigger budgets are needed.
- One aspect that should be considered for the future is the growing power of the big retailers and the expensive fees they ask to the brands, as well as the promotional actions they undertake. Supermarkets are the main channel where olive oil and table olives are sold and this is an “expensive” place to be for brands, regarding of the volume of sales they can reach.
- There are some who use other tools: advertising in the press and TV, mainly. There is big awareness among the operator about the institutional campaign made by public national organisations.
- When asked about the preferred target for a future promotion campaign by the IOC, most declare that end consumers all around the country (and not only in big cities) should be the main one. There are others like wholesalers, journalists, culinary institutions and chefs.
- Most of the importers and distributors understand that generic campaigns are useful and benefit all operators, though they might prefer having the opportunity of mentioning the brands as well. In some kind of promotions, the mention of the brands is very important but generic promotion is good and effective in all aspects.
- POS promotions seem to be very useful as they give the chance to taste the product and “convince” consumers. Apart from that, TV seems to be adequate (if budget is enough) but preferably in the way of cooking shows. And the press is considered a good way as well, probably in the form of reports, and not in the form of ads.

Media and promotional channels available

Panorama of the Russian media

1. General overview

Getting a grasp of the way traditional Russian media works is the key to promote Table Olives and Olive Oil in Russia. While there are other means of promotion, the (ATL / Above the Line) **mass media plays a very important role** in effectively and efficiently reaching the general public.

Advertisement investment in this type of media for the year 2008 in Russia was in the amount of 7,300 million Euros. To get an idea of what this figure means we can compare it with the Spanish traditional media advertisement market for that in the same year 2008, was 7,100 million Euros, a very similar amount. The difference is that the Russian market has 145 million people while Spain has only 45 million. That means **Russia still has an enormous potential for advertisement development**, as its economy grows and reaches averages consistent with European standards.

Publicity investment in 2008 in Russia

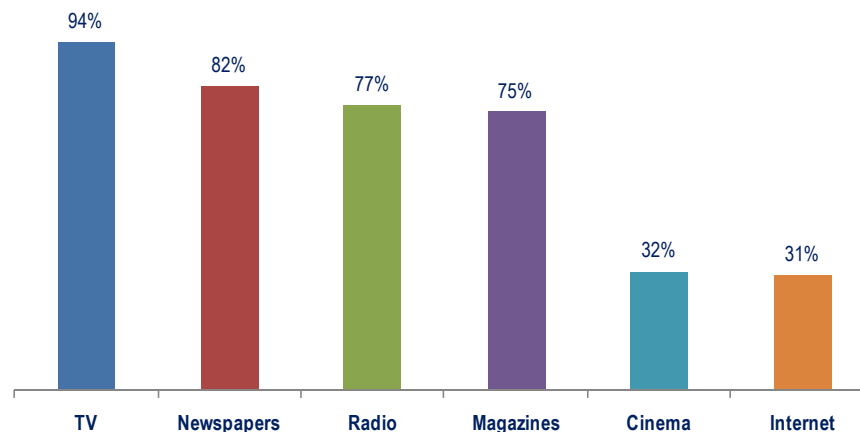
TV	52%
Press	22%
Outdoor	17%
Radio	5%
Internet	3%
Others	2%

Source: Medialogics (AKAR)

It is important to know how these advertising quotas evolved. **TV's share has been consistently increasing**, hiking from a 34% share in 2001. Written press, which was leading in 2001 with a 41% share, has been gradually losing penetration, slipping to 22% in 2008, half of the previous share. This recession is due to the very modest growth of the written Press, compared with the rest of the market that had a steady growth of more than 30% in these seven years. Outdoor has stayed between 18% of 2001 and 17% of 2008 and Radio has lost two points of penetration from 7% in 2001 to 5% in 2008. On the other, hand Internet has tripled since its appearance in 2003 from 1% to 3% in 2008.

A drop is foreseen in 2009 in the Media advertising market that will lose about 20-30% of its value. According to the forecasts, TV investment's drop (-15% to -20%) is less than what is foreseen in Press and Radio (-30% to -40%) and in Outdoor (-30%), while in Internet it may be between a 10% growth and a 10% loss.

Penetration of the different media for the 16 and older demographic in cities with populations over 100,000, for the IQ09



Source: TNS

As we can see, **Internet has an important share of penetration**. Keeping in mind the aforementioned investments in Media we realize there is no correlation between the presence of advertisement and its penetration. Radio has a 77% penetration but only a 5% investment, which shows the preference of the large advertisers for TV when making their campaigns. Lets analyze the Cost per Thousand (CPT) in US\$ for each one of the media.

	Russia	UK	Germany	Italy	Czech republic	Poland	Ukraine
TV (national)	5,60	10,80	13,60	6,30	8,00	1,50	1,80
Magazines (national)	9,70	9,30	12,90	4,60	35,10	5,10	11,00
Radio (national)	2,30	3,20	2,40	3,20	2,30	0,20	4,80
OOH	0,84	n.a.	n.a.	n.a.	n.a.	n.a.	1,00

Source: Medialogics

As we can see, if we compare the CPT of Russian TV with other Western European countries, **TV is much more economic in Russia, as is in other Eastern European countries** where it is even more economic than magazines. **Magazines are comparatively much more expensive in Russia**, although not so much as in the other Eastern countries. Radio is the most economic nationwide media, as is in all other countries. Therefore, we have the classic advantages: TV offers a very wide coverage, Radio, being cheaper, allows for more frequency, and Magazines offer better specific targets segmentation, which means an increase in price. Outdoor is a complementary media that offers advantages in geographical and urban segmentation.

The effects of the economic crisis in the advertising market should be taken into account. As we saw, there is a **20-30% drop in advertising investment** foreseen for 2009. As we previously indicated, this drop varies according to media, but can be analyzed by the number of advertising spaces placed. While we ignore the actual cost of each media, we can tally the amount of advertisements placed and compare them to the previous year.

Thus, we appreciate the following drops in the first trimester of 2009 as opposed to the same period in 2008:

TV (National)	-3%
Outdoor (Top 50 cities)	-5%
Radio (National)	-8%
National Magazines	-32%
National Newspapers	-35%

As we see, TV seems to have reacted better to the crisis and showed fewer leaks of advertisement, probably due to an important price cut, followed by Outdoor and Radio. It seems that the printed media has had the highest leak of advertisements and advertisers, losing around a third of the advertising it had in the same trimester of the previous year.

Regarding investment concentration, it is worth highlighting that Press is the most fragmented media, that is to say, it has the highest number of advertisers. In 2008, the top 100 advertisers concentrated just 31% of the investment, while on TV they represent an 85% of the total. TV has less advertisers and their investment is much higher.

Regarding media exposure time, TV is the leader with an exposure higher than the European average.

- TV 264 minutes
- Radio 180 min.
- Online: 21 min.
- Press: 20 min.

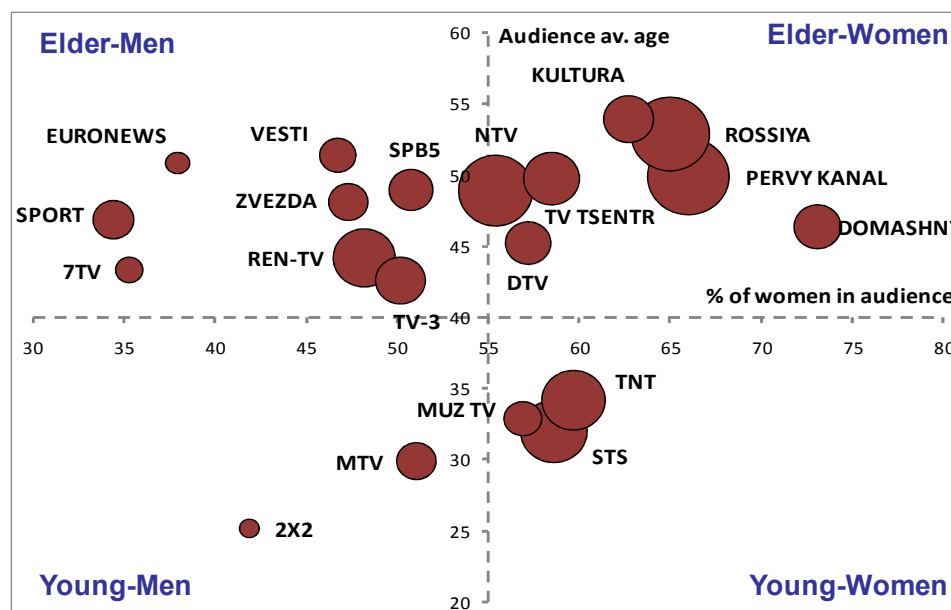
2. Television

TV's consumption model comprises an 8 hour work day, with night prime time. TV consumption increases over the weekend, especially on non prime time hours and rises considerably during the months of November to March. The highest consuming demographics are 55 and older and women.

The top 10 TV stations cover 70% the adult public. The European average achieves this share with fewer channels. **90% of the audience is in national television.** There are 3 channels that group 50% of the audience.

- PERVY 19%
- ROSSIYA 17%
- NTV 13%

The larger TV stations target elder women.



Size of bubbles ~ channel daily reach size,
Axes-cross correspond to total population's % of females and ave. age

Source: TNS Gallup,
Research:
TV Index (1Q 2009)
Geography: Russia, 100K+
TA: P04+

Source: Medialogics

This table helps us understand the gender orientation of each of the TV stations. We can see, for example, that three quarters of Domashny's audience consists of women.

50% of the TV audience is in series and films. TV contents are distributed as follows:

- Programming 86%
- Announcements 11%
- TV Station's self-promotion 3%

The viewer watches a daily average of 18.6 minutes of advertising. The main advertising sectors are:

- Beauty and Healthcare products: 19%
- Medicines and Dietary Supplements: 14%
- Foodstuffs: 12%
- Non-alcoholic Drinks and Beers: 9%

The average TV advertiser has 9 minutes, for all the national 18 years and older audience in cities of more than 100.000 people. That is to say, around 1,800 GRPs, or 18 OTS (Opportunities to see) for 100% of that public. This imaginary campaign average would have a cost of 5.7 million dollars (3.9 mill Euros). The large advertisers (Danone, Bee Line, Megafon...) have around 40,000 GRPs during the whole year, at an estimated cost of 80-90 million Euros.

As we have mentioned, TV has reacted well to the crisis. The media is used to being saturated as it fights against the seasonal conditions of the environment with aggressive discounts; therefore it is always full of advertisements. The fact that the entire advertising placement is handled by two large "Sales Houses" that concentrate 96% of the audience helps the sales. It is a duopoly where Video International owns TV stations that represent 63% of the audience and GazProm Media 33%). There are also two main suppliers in regional TV.

Nevertheless the total number of announcements has dropped, not because of the crisis, but of a law, enforced since Jan. 2008, that reduces 15% of the amount of advertising that can be broadcasted each hour.

On the other hand, TV audience is aging and, as we have already said, tends to be largely feminine, although this tendency seems to remain stable.

The usual spot is 30" long (36%) or 20" (29%).

3. Outdoor

Refers mostly to 3 x 6 m billboards (57% of the supports) and its variation Trivisión (10%).

4. Indoor

Is placed mostly in Shopping Malls to advertise food and represents 25% of the investment.

5. Press

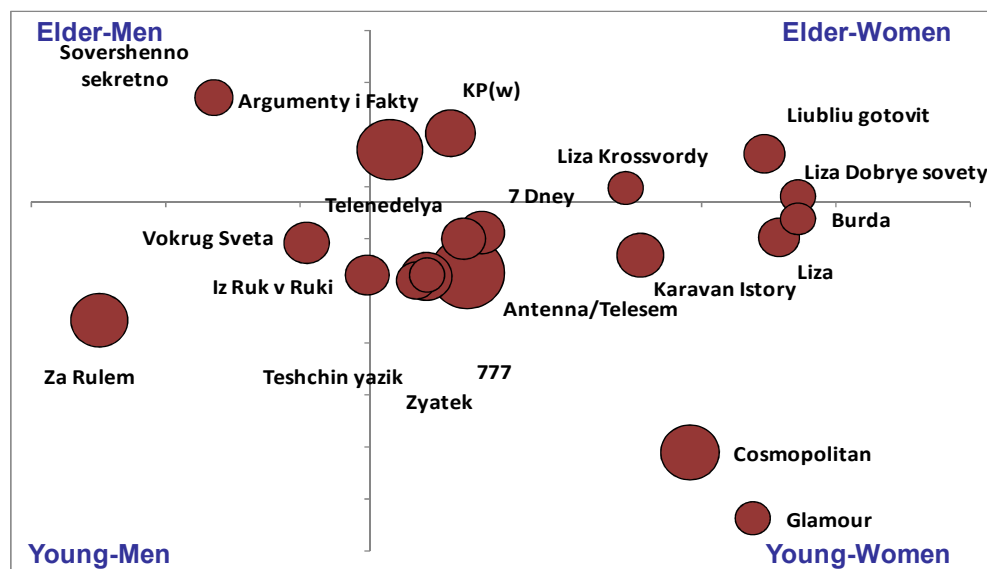
As we said already, the volume of press investment is expected to experience a **sharper drop** than the other media and is estimated between 30% and 40%. Lets remember too that press has lost its former investment leadership, in favor of TV, when it failed to attract the enormous market growth. Penetration in the audience remains stable (89% in Newspapers and 82% in Magazines).

The most popular feminine magazine is Cosmopolitan, with 11% coverage of the 16 and over group.

The local press averages a 25% penetration against the 75% of national press.

Press has a marked seasonality, with two peaks of higher investment in March-April and in October-November, when it nearly triples the volume of January's advertising.

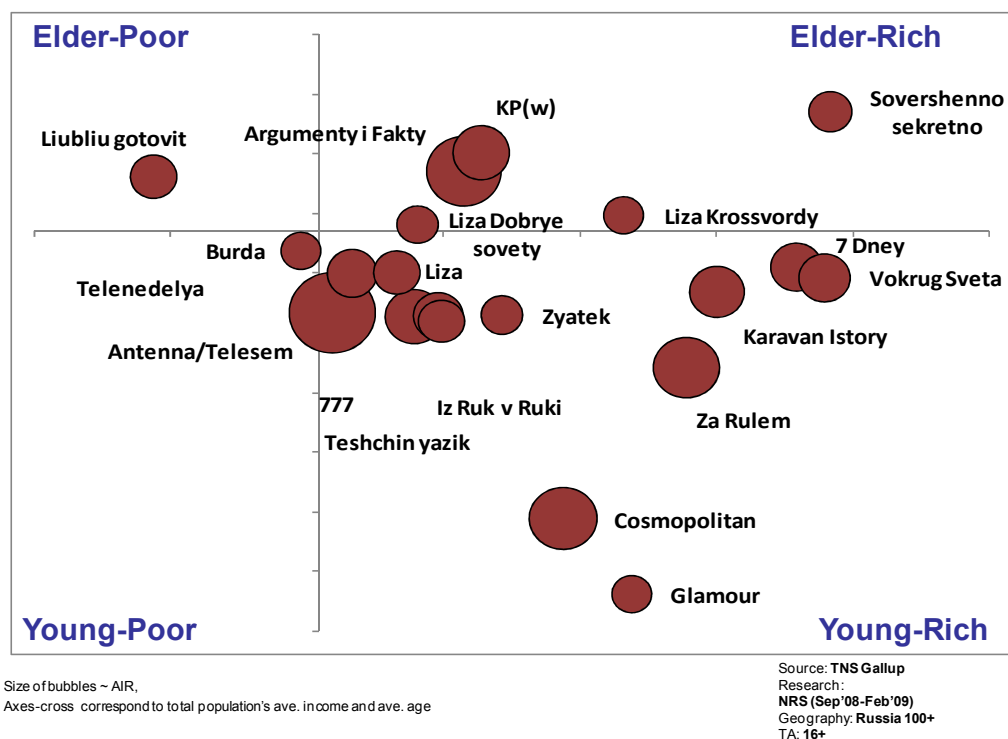
Below we indicate the segmentation of the different publications by Gender and also by Age and income.



Size of bubbles ~ AIR.
Axes-cross correspond to total population's % of females and ave. age

Source: TNS Gallup
Research:
NRS (Sep '08-Feb '09)
Geography: Russia 100+
TA: 16+

Source: Medialogics



Source: Medialogics

6. Internet

Its quota **grows year by year**. In 2008 it reached a total investment of 2.8% of the total. The 2009 prevision is that it will remain stable between a 10% growth and a 10% drop. In Moscow the penetration is of 68% between the ages of 12 to 54. In cities of more than 100,000 inhabitants this penetration is 44%.

Logically the heavy users of Internet spend less time watching TV than the rest of the audience and up to 48 minutes daily average to the online media.

The main uses of the network for the heavy users are as follows:

- Searching for information: 80%
- E-mail: 72%
- Chatting: 39%
- Downloading music, films, etc. 38%

The websites with higher penetration are:

- Yandex.ru 45%
- Mail.ru 42%

7. Cinema

They group only 0.26% of the advertising investment, although they have a penetration of 22% among those 16 and over.

The scientific community

Russia has a long outstanding record in the research field in various fields, especially in nutrition and health issues. For decades, nutrition of a vast and disseminated population has been one of the key elements of the general policy of the USSR and therefore, there has been a strong political support for research in many directions.

The Ministry of Health and Social Development of the Russian Federation is the federal enforcement authority which is carrying out functions on development of a state policy and is standard-legal regulation in the fields of public health services, social development, work and protection of the rights of consumers, including questions of the organisation of medical preventive maintenance.

One of its current projects is the Program on formation of a healthy way of life that will entail the opening of the Centers of health along the country. In them, any interested person can address for consultation, pass primary diagnostics on risk factors and receive recommendations about conducting a healthy way of life. The work of experts of the Centers of health will be focused on the treatment of diseases, observance of recommendations of the doctor for improvement of quality of a life, prolongation of a life, preservation and restoration of work capacity and active longevity. The major component of a healthy way of life is a healthy food. How correctly to eat, what products to include in the diet? To receive answers to this and many other questions, concerning a correct and healthy food, experts will help with the health Centers.

This program can be interesting from the point of view of advantage of olive oil and table olives to health.

The **Russian Institute of Nutrition**, belonging to the Russian Academy of Medical Sciences, is the most important and prestigious research institution in the country with regard to agro food products. The institute carries out fundamental and applied (including clinical) researches in many directions, for example:

- Development of scientific bases of an optimum food of the person and safety of foodstuff
- High-sensitivity methods of an estimation of quality and safety of foodstuff, including nanotechnology
- Scientific forecasts about food and health conditions of the population of Russia on the basis of wide epidemiological researches, at federal and regional levels
- Representation on behalf of the President of the Russian Federation, in the Federation Council and the State Duma of Federal meeting of the Russian Federation, in the Government of the Russian Federation of offers on preventive maintenance and overcoming of consequences and risks for population health
- Formulation of analysis in the field of a state policy of a healthy food together with the Russian Academy of Sciences, the Russian Academy of Medical Science, Russian Academy of Agrarian Sciences, Minzdravsotsrazvitija of Russia and other enforcement authorities of the Russian Federation.
- Research in the field of health of children and adult population of Russia, working out of actions for the rationalization of the diet, working in cooperation with the producers and scientific research institutes.
- Working out of scientific bases of hygienic education and formation of the population of the country to balanced diet principles, as one of elements of a healthy way of life, preventive maintenance of diseases and strengthening of health of people. Propagation of principles and approaches of a healthy food with use of modern methods of training, including through mass media.

The culinary community

Russia is a very dynamic market in many senses. One of them is the swift proliferation of small and big business and the change in the habits of the consumers. One of the evident changes the Russian society is going through is the way the Russians buy and eat.

More and more restaurants, bars, cafes, clubs and public establishments are growing rapidly, with an ever increasing and varied offer. The food service and catering sector in Russia is growing 25 % annually and forecasts predict a much bigger growth. There are more 30,000 public establishments and 1/3 of them are located in Moscow and St.-Petersburg.

Only in Moscow there are about 3,000 restaurants though it is necessary to notice that this number is just approximate as many sources include bars, clubs and café of all sorts. Yet, this is a very small sector, when compared to other European cities: 3-4 times less than Prague, and in 8-9 times less than Paris.

There are 3 main types of restaurants, unequal on volume and quantity of players: fast food, restaurants of average price level and high level restaurants.

Some experts estimate that the sector of restaurants of high level is already saturated; no further growth here is expected. Among these restaurants the French cuisine is in the lead, then goes European and Italian. In Moscow all world cuisines are represented. Mexican tibetsko-Mongolian are also fashionable.

On the contrary, there is a progressive growth of restaurant chains through franchises and medium level restaurants, mainly in urban areas and in business districts..

Though the sector is changing very quickly, the Russian restaurants and catering industry is still far behind the potential of such a big country. The current economic crisis will probably slow the opening of food businesses but there is still a big growth to come in the near future.

In line with that, Russian chefs have not reached the media protagonism other colleagues in other countries have. Though there are very renowned and top quality chefs, they do not have big influence in public opinion.

Russians spend many hours watching TV and TV cooking shows are very much appreciated. Some of them are:

- 1Chanel - "SMAK" . Popular television leader Ivan Urgant invites to kitchen the known persons where they prepare various dishes.
- NTV – "We eat in house" (<http://www.edimdoma.ru/>) . Julia Vysotskaja - the actress, the wife of a very known director. This program is very popular. Borges uses this program.
- DOMASHNIY – "Ask the cook". The big plus of the program – for 30 minutes, the professional cook will teach to prepare a high-grade dinner with the first, the second dish and a dessert.
- TV CHENEL – "KUHNYA TV" <http://www.kuhnyatv.ru/>
- Some recipes of cooking with chef in morning program "Dobroe utro" (1 Chanel).

These TV shows seem to be a good way of promotion. The cost is not very big and they offer the possibility of explaining the characteristics of the products and their use in cooking recipes.

As per culinary magazines:

- Home cookery. The best culinary recipes
- Liza. Bon appetit!
- Good advice. I like to prepare!
- Shape. The Menu

- It is tasty and is useful (Domashniy ochag) Gastronom Collection of recipes Orange orange Gastronom school 1000 secrets A & F. About Kitchen Tasty recipes Njam-njam. A culinary tabloid of 1000 councils It is simply tasty Recipes on hurrah School of the culinary specialist Meal for all family Stroke a supermarket Hoziaushka. The appendix to the Peasant Grow thin Samaya. A culinary practical work Editions with culinary sections:
- Shape
- Home
- Liza. A good advice
- Liza.Style
- Samaya
- Female secrets
- Cosmopolitan. Beauty
- Glamour
- Mini
- Have a rest
- Liza
- All for the woman
- Liza. My cosy house
- The peasant