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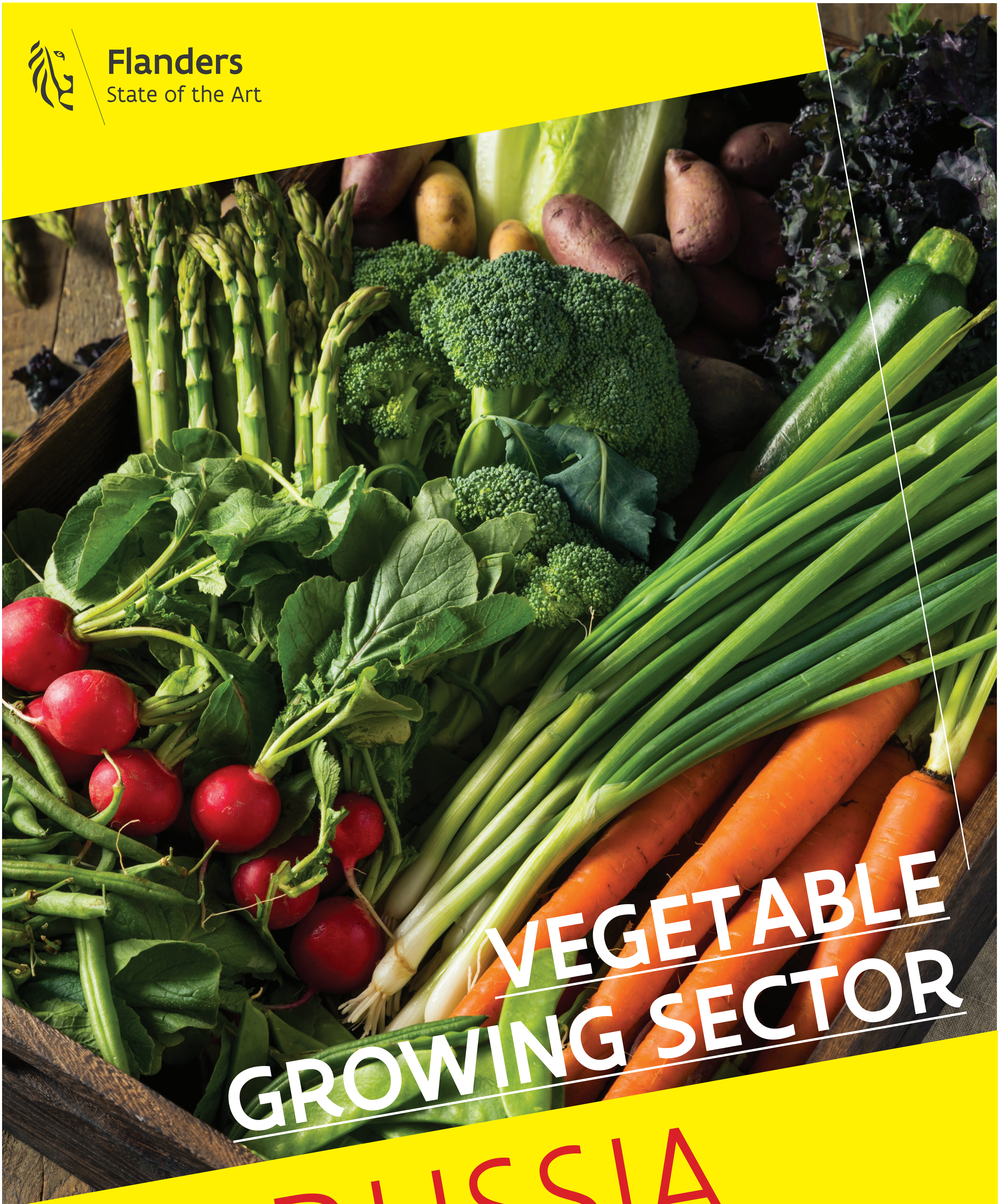

# VEGETABLE GROWING SECTOR IN RUSSIA

FLANDERS INVESTMENT & TRADE MARKET SURVEY

FLANDERS
INVESTMENT &
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Market study

# SECTOR OVERVIEW – RUSSIAN VEGETABLE GROWING SECTOR

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# 1. EFFECTS OF RUSSIA'S FOOD EMBARGO

August 2019 marked the fifth anniversary of Russia's food embargo against the EU, the United States, Canada, Australia and Norway. One can identify three micro effects of the food embargo referred to as countersanctions in Russia.

The first micro effect is that the value of Russia's food imports declined dramatically. For fruits and vegetables, the value of apple and pear imports is about one-half the 2013 level and tomatoes are even less than one-half. The second micro effect of the food embargo is that Russia's trade partners for agricultural products have changed. Russia has increased its food trade with Belarus, China, Turkey, Brazil, Ecuador, South Africa, Chile and Argentina. Prior to 2014, the European Union was Russia's main trade partner. Since the food embargo, China has become Russia's largest food trading partner. And the third micro effect is a reduction in imports of agricultural machinery. While a lot of attention is given to import substitution for food products, much less attention is devoted to the replacement of machinery imports. This policy is also very important and has the same goal: increase self-reliance and reduce dependence on machinery imports. Starting in 2013, the federal government began to provide subsidies to domestic producers in order to revitalize agricultural machine building. In August 2018, subsidies for domestic buyers were raised to 25% of the price of machinery. Since 2014, the annual value of production of domestic agricultural machinery rose from RUB 33 billion in 2014 to RUB 100 billion in 2019. As a result, local producers have increased their market share from 24% in 2014 to 50% in 2019.

Overall, the food embargo reflected not only a preference to protect local producers, but also a shift in thinking that agriculture is an important strategic sector of the Russian economy

# 2. INDUSTRY PROFILE

By greenhouse area, Russia is far behind developed EU countries, Japan and Turkey. Spain has the largest concentration of greenhouses in Europe. Japan stands second, and Turkey is the third in this ranking. The total greenhouse area in Russia is only 2 600 ha.

**Table 1. Total Greenhouse Area by Country**

| Country | Total Greenhouse Area |
|---|---|
| Spain | 52 000 ha |
| Japan | 42 000 ha |
| Turkey | 35 000 ha |
| Italy | 20 000 ha |
| Netherlands | 10 000 ha |
| France | 8 000 ha |
| Poland | 7 000 ha |
| Russia | 2 600 ha |

Source: Association 'Teplitsy Rossii' (Greenhouses of Russia)

The food ban introduced by Russia in 2014 attracted many new investors into this industry. Investors with different background (agriculture, food retail, construction) came into the greenhouse sector and started investing into greenhouses.

Over the last five years, the total greenhouse area has increased by 1 000 ha.

**Table 2. New Greenhouse Area by Year**

| Year | Greenhouse area |
|---|---|
| 2014 | 188 ha |
| 2015 | 206 ha |
| 2016 | 110 ha |
| 2017 | 260 ha |
| 2018 | 260 ha |

Source: Association "Teplitsy Rossii" (Greenhouses of Russia)

Total area of greenhouses installed and commissioned in 2019: 260 ha.

Big vegetable growers plan to continue greenhouse expansion in 2020. 250 ha of new greenhouses will be launched by the end of 2020 in Russia. But the expansion rate slows down because the vegetable growing market is getting saturated and mature.

**Federal districts developing vegetable growing:**

- Central Federal District
- Southern Federal District
- Volga Federal District
- North-Caucasus Federal District.

Eco-Culture (https://aph-ecoculture.ru/) is the biggest greenhouse grower in Russia. The company is based in Stavropol region, has several production sites and distribution centres in different regions of Russia. The total greenhouse area is 207 ha and the annual production is approximately 125 000 tons. Eco-Culture is planning to build greenhouses in Tula region, Stavropol region and Moscow region. The company intends to grow berries in the Moscow region. Besides, Eco-Culture plans greenhouse expansion to Kazakhstan and Uzbekistan where the company has already received a warm welcome and support measures from the local governments. Eco-culture will invest RUB 1,1 billion into greenhouses in Kazakhstan.

Eco-Culture is very active in North-West Russia. In 2017, the company took over OOO 'Krugly God', the third biggest grower in Leningrad region. The greenhouse complex is located in Pikalevo, Leningrad region, and occupies the area of 7 ha.

Belgorod region has a big greenhouse cluster with the total greenhouse area of 71 ha (7 greenhouse complexes). According to the regional development program, the total area of greenhouses shall grow by 102 ha by the end of 2021. 3 more greenhouse complexes will be launched in the nearest future.

ROST (https://ghgt.ru/), one of the leaders in vegetable growing, has recently announced plans to invest in greenhouse farming. The company operates 4 greenhouse complexes and is planning to build 2 more complexes in the following Russian regions: Tambov region and Nizhny Novgorod region. The total designed area of greenhouses will be 117 ha. Cucumbers and tomatoes will grow in the new greenhouses.

In Russia, there are a few modern high-technology greenhouses. The majority of the greenhouses were built 20-25 years ago. Now they are not well-equipped and efficient. There are several state-of-the-art greenhouses (UltraClima) located in Lipetsk region. They belong to LipetskAgro (http://tklipagro.ru/), one of the leaders in vegetable growing.

The Central and Southern parts of Russia are well supplied with greenhouse complexes because most of the greenhouses are located near population centers and fertile land. There is a shortage of greenhouses in Siberia, the Far East of Russia and in regions of the Far North.

In general, the Russian greenhouse vegetable market is characterized by asset consolidation in the hands of big investors. Big market players have more resources and commercial opportunities to compete in such a capital-intensive sector.

# 3. GREENHOUSE VEGETABLE PRODUCTION

The domestic production of fresh greenhouse vegetables has been growing in Russia since 2015. The share of domestic vegetables reaches approximately 50%.

**Key facts:**

**Total greenhouse vegetable production in 2019: 1 300 000 tons**

**Total vegetable consumption in 2019: 1 900 000 tons**

**Leading vegetables: cucumber (52%), tomato (42%)**

**Consumption growth over the last 3 years: 15%**

**Per capita consumption of cucumbers and tomatoes in Russia: 12 kg per person per year.**

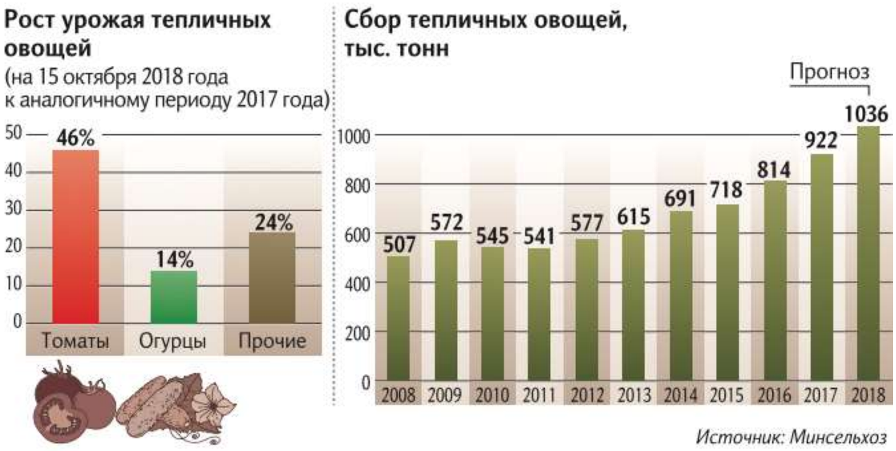
In 2019, Russia broke a harvest record of 2018 – 1 million tons. Russia produced 1,3 million tons of greenhouse vegetables, a 13% increase compared to the production level of 2018.

Russia has become sufficient in cucumbers. Cucumber supply is only low in winter season. The share of imported cucumbers is about 10%. Russia sources cucumbers mainly from Iran, China and Belarus.

So local producers are able to meet the consumer demand for cucumbers during the spring-summer period. In winter the share of local cucumbers and tomatoes is approximately 50%. The production of other vegetables (eggplant, summer squash, paprika) is rather low.

The tomato market is far from reaching saturation. The share of domestic tomatoes makes up 45%. Tomatoes are mainly imported from Azerbaijan (27%), China (25%) and Morocco (23%).

The production of other vegetables (eggplant, summer squash, peppers) is rather low.




Source: Russian Ministry of Agriculture (http://mcx.ru/en/)

**Table 3. Vegetable Production in 2019 by Market Leaders, thousand tons**

| Greenhouse Complex | Website | Region | Production |
|---|---|---|---|
| Yuzhny | https://ahstep.ru/yuzhny-agrokombinat/ | Karachay-Cherkessia | 50 |
| LipetsAgro | http://tklipagro.ru/ | Lipetsk region | 45 |
| Green Line (Magnit) | | Krasnodar region | 40 |
| Stavropol Ovoschy (Eco-Culture) | https://aph-ecoculture.ru/proekty/ooo-ovoshhi-stavropolya/ | Stavropol region | 35 |
| Maisky | https://maiski.ru/ | Tatarstan | 32 |
| Agro-Invest | https://agroinwest.com/ | Kaluga region | 25 |
| Moskovsky | http://www.mosagro.ru/ | Moscow region | 18 |
| Teplichny | http://teplichny.com/ | Krasnodar region | 18 |
| Vyborzhets | http://vyborgec.ru/ | Leningrad region | 17 |
| Teplishnoe | http://www.tkrm.ru/ | Republic of Mordovia | 15 |
| Alekseevsky | http://alex-agro.ru/ | Bashkortostan | 15 |

Source: AgriConsult (https://agricons.ru/ru/)

There is a big market for fresh greens (dill, parsley, basil, lettuce salads) since the demand for greens is rising every year.

# 4. IMPORTED GREENHOUSE VEGETABLES

Russia is strongly dependent on agri-food imports including different citrus and stone fruits, bananas, beef, dairy products and fish. Russia is included into the TOP-5 destinations for EU agri-food exports which are the US, China, Switzerland, Japan and Russia.

The share of imported greenhouse vegetables declined considerably when Russia introduced the food embargo for a wide range of food products in August 2014. In 2013, Russia imported 1 225 000tons of greenhouse vegetables, while in 2015 only 928 thousand tons were imported.

In recent years the share of imported vegetables has been increasing. In 2017-2018, imported tomatoes gained quite a big share of the vegetable market (31,1%). The share of imported cucumbers was down 2% compared to the level of 2016 (10%).


Source: Federal Customs Service (http://customs.ru/)

**Table 4. Structure of Vegetable Imports in 2017, %**

| Vegetable | Import Share |
|---|---|
| Tomato | 31,1 % |
| Potato | 12,7 % |
| Onion | 11,7 % |
| Cucumber | 8,1 % |
| Carrot, Radish, Beet root | 5,8 % |
| Cabbage | 3,6 % |
| Other Vegetables | 27 % |

So Russian vegetable producers are now exposed to foreign competition which is getting quite strong. This competition drives them to increase productivity and production efficiency.

# 5. LEADING PRODUCERS OF GREENHOUSE VEGETABLES IN LENINGRAD REGION

Leading vegetable producers include the following:

- ZAO Vyborzhec (http://vyborgec.ru/)
- OOO Krugly God (division of Eco-Culture (https://aph-ecoculture.ru/proekty/ooo-kruglyj-god/)
- ZAO Detskoselsky (https://www.detskoselsky.ru/)
- ZAO Prinevskoe (http://prinevskoe.ru/).

Two local vegetable producers have gone bankrupt in recent years: ZAO Molodezhny and ZAO Rosa. They could not compete with big market players that are well-established and present in many regions. Market leaders supply vegetables to federal retail chains and have no distribution problems.

Mushroom growing is a new popular trend in Russia. Several mushroom greenhouses are being built in the country. Vyborzhets (http://vyborgec.ru/) is building the largest greenhouse complex for mushrooms in Leningrad region. The total investment is RUB 4 billion, and the designed production is 10 000 tons. The new greenhouse complex will be launched by the end of 2019.

Eco-Culture wants to continue greenhouse expansion in Leningrad region. The company is going to build a new greenhouse complex in Pikalevo, Leningrad region, on the territory of 5,5 ha. Lettuce salads and tomatoes will be cultivated in the new greenhouses.

According to the Committee of Agriculture of Leningrad region, local vegetable producers harvested 30 000 tons of greenhouse vegetables in 2019. The market size of Saint Petersburg is approximately 110 thousand tons of vegetables. So a lot of fresh seasonal vegetables are imported into the region from neighboring regions.

# 6. NEW LAW ON ORGANICS

On 1 January, 2020, Federal Law No. 280-FZ ‘On Organic Products’ will come into force. The new law will, for the first time, regulate manufacturing, storage, transportation, labelling and marketing of organic products. The new law will not apply to relations associated with the manufacture, storage, transportation, and marketing of perfumery, beauty products, pharmaceuticals, forest plant seeds, hunting products and fish products (except for aquaculture).

Russia’s organic food industry views the new law as a legal framework to further develop the organic sector in Russia. Industry experts are very optimistic about the new regulations. However, many details are still under development and consideration, especially those regarding certification, labelling and support measures for organic producers.

The main problem is related to certification standards. Russia is trying to develop new organic standards having no experience and general background in organic farming.

All organic producers will be added into a special organic registry that will be maintained by the Russian Ministry of Agriculture.

# 7. MAIN PROBLEMS IN THE VEGETABLE GROWING SECTOR

Experts point out that Russian growers face many challenges including, but not limited to:

- Shortage of greenhouse capacity
- High energy costs
- Shortage of distribution centres and storage facilities
- High interest rates for growers
- Bad selection and seed breeding (share of imported seeds ranges from 20 to 90%).

# 8. EXPORT OPPORTUNITIES FOR BELGIAN COMPANIES

Government policies in the food and agricultural sectors offer food processing and packaging technology providers new commercial opportunities. The ban on imports of food, along with the Russian import substitution policy, means that the Russian food industry will continue to develop and expand in a favorable competitive environment. In recent years, the domestic food processing sector has been growing by an average of 5% annually.

The Russian vegetable growing sector depends on the climate conditions and greenhouse technologies. Many operating greenhouses were built 20-25 years ago. Now they are not efficient any more. So many greenhouses need modernization or a complete change of technology. Flemish companies could export greenhouse systems or technologies as well as liquid fertilizers for the Russian vegetable growing sector.

Fresh vegetables have to be stored and packaged before they go to supermarkets and retail chains. Fruit and vegetable processing and packaging equipment can be exported to Russia to support the growth in vegetable farming and processing

# 9. SOURCES


1. Association 'Greenhouses of Russia' http://rusteplica.ru/
2. Agricultural platform 'Agroinvestor' (www.argoinvestor.ru)
3. Expert North-West Russia http://expert.ru/ (magazine)
4. Information and Marketing Agency RBC www.rbc.ru
5. Delovoy Petersburg https://www.dp.ru/ (news-paper)
6. AgriConsult (https://agricons.ru/ru/).


# 10. COMPANIES REFERRED TO IN THE OVERVIEW

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