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Waiting for WTO, Food Chains Look To Regions

By Olga Solovyova

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Average food import tariffs in Russia will drop from the current 10 percent to 7.8 percent as soon as Russia's entry into the World Trade Organization is complete, but challenges remain in taking advantage of the new status, industry experts agreed during the Food Business Summit in Moscow on Thursday.

"We were preparing to enter the WTO for 18 years and still are not ready for it," said Russian Food Union chairman Maxim Protasov. "We have no training manual how to make use of the WTO."

Product safety is one aspect that should improve under the WTO, Protasov said, and the Russian Food Union is working on its quality standards. "We need to be more focused on it," he said.

Last year the Russian Food Union, with the participation of the National Dairy Producers

Union, checked the quality of dairy products in Moscow and the Moscow region. About 50 percent of all butter did not meet standards. Protasov said other segments also will be checked.

Meanwhile, food retail market players attending the summit were not very impressed by the opportunities coming out of the Customs Union of Russia, Belarus and Kazakhstan. The size of the market will change and some barriers may disappear, Protasov said, but retailers are not now interested in this new Belarus-Kazakhstan market.

"Why do we need to go somewhere, to unknown consumers?" said Oleg Goncharov, Magnit's director of investor relations.

Major retailers are now more focused on Russia's regions. X5 Retail Group plans to expand in 2012 in regions where it is already present.

"Last year we opened 577 stores; in 2012 we plan to approach this number," X5 Retail Group director of corporate communications Mikhail Suslov told The Moscow Times. This will cost 45 billion rubles ($1.5 billion), he said.

Dixy is also making regional expansion a priority. "We will develop in European [Russia], where we are already located," Dixy's president Ilya Yakubson said. "We are not looking beyond the Urals in 2012 or 2013," he added. The company will spend 35 billion rubles in 2012 to open 350 stores. Yakubson also said his company is not interested in developing e-commerce.

Protasov sees three different ways for independent regional retailers to survive. "The first is to be bought by a major national retailer; the second is to work under a national retailer's brand labels; and the third is to be unique by offering a different selection,'' he said.

Arkhangelsk-based Panorama Group founder Vladimir Bokhan sees another alternative for survival and prosperity. He suggests that all regional retailers band together in cooperatives to do collective purchasing and save money. "We look at the experience of such countries as Germany and Hungary, where they have done the same," he told The Moscow Times. Now his union combines 40 regional retailers, 55 towns, 1,300 stores, 520,000 square meters and 1.5 million consumers per day. "And doesn't intend to stop at that," he said.

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