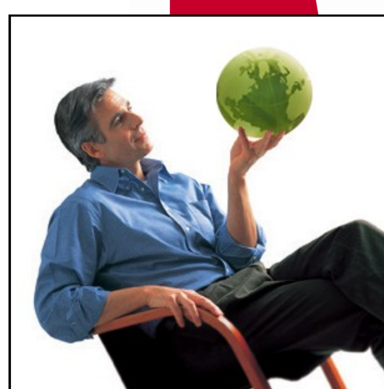
Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

Canada

International Markets Bureau

MARKET INDICATOR REPORT | JUNE 2011

The Soybean Market
In Russia



Source: *Shutterstock*

Growing Forward

Canada

EXECUTIVE SUMMARY

Russia is a major developing economy offering prospects for Canadian agri-food suppliers. Russia's economy is primarily based in the petroleum and petroleum products industry, but became more consumer oriented over the period of 2000 to 2010. This growth, as well as that of the service sector, has helped fuel significant growth within the Russian economy.

Demand for higher quality and a better variety of products has developed alongside Russia's growing economy. With respect to agriculture and agri-food, this has led to demands for safer products and different types of food. Russian consumers are interested in trying new or innovative products; changes in product formulation as well as completely new introductions have become common and will likely continue, as companies seek to improve the quality of their food and tailor their products to consumer demands.

Changes in the way products are formulated have led to increased consumption of soybeans and their by-products. Russia's soybean processing capacity has increased significantly since the early 1990s and is continuing to grow. Furthermore, domestic production has grown, albeit more slowly than processing capacity. This has led to significant growth in soybean imports, both in volume and value terms.

Some key areas where new products are being developed using soybeans and their by-products are: chocolate confectionary, skincare, colour cosmetics, bakery products as well as processed fish and meat products.

Overall, Russia is a bright market for soybean (as well as other agri-food) exporters and will present significant opportunities into the foreseeable future.

INSIDE THIS ISSUE

ECONOMY

The Russian economy is powered by natural resources (primarily oil and natural gas) and consumption. The gross domestic product (GDP) grew at an average rate of 7% over the period of 2003-2008, increasing average disposable income by 80% in absolute terms. Russia also has a growing middle class (roughly 48% of the population) which bodes well for further growth in consumption (Agriculture and Agri-food Canada [AAFC], 2009).

Russia's agriculture sector is growing, albeit at a slower rate than demand. This can be partly attributed to the limited production capacity of Russia's natural geography. Despite having large tracts of land that would normally be considered ideal for farming (133 million hectares of arable land) , the country has sporadic rainfall which makes it difficult to maintain high yields and crop consistency (AAFC, 2009). This has led to a significant rise in imports, and ever-growing demand for foreign agri-food and seafood products, presenting a prime opportunity for Canada.

Canada has opportunities in a number of key Russian markets (AAFC, 2009):

1. Meat
2. Fish and Seafood Products
3. Alcoholic Beverages
4. Product Ingredients
5. Packaged Food
6. Animals and Genetics.

PROCESSING AND RETAILING

Russia is estimated to have 8,000 to 10,000 food processing plants, and this sector is growing. However, Russia lacks domestic supplies of key ingredients, such as soy products, and producers have sought the necessary food processing ingredients from Canada and elsewhere (AAFC, 2009).

By 2020, Russia is expected to have the largest food retail market in Europe, surpassing even France. Some key themes have arisen in the Russian story of growth:

1. The value of food is rising faster than the volume of food sold.
2. People are demanding higher quality food and a greater variety of food.
3. Competition in the provision of food is being focused on quality, packaging and innovation (AAFC, 2009).

These three key themes present an opportunity for Canadian producers and exporters interested in expanding their presence in the Russian market. Canada is known as a source of high quality food and is capable of providing a wide variety of products and preparation ingredients.

TRADE SUMMARY

Canada was the sixth largest supplier of Russian soy products in 2010. Canada's absolute value of soy, as well as relative share of the market, shrank in 2010. However, since 2005 Canadian soy exports to the Russian Federation have increased by 1485%, at a compound annual growth rate (CAGR) of 79.39%. Because of this, Russia remains one of the brightest markets for growth in soybean exports, despite a decline of Canadian imports in 2010.

Top 10 Suppliers of Russian Soy Products (US Dollars)

	2005	2006	2007	2008	2009	2010
Total Imports	195,738,492	200,163,645	381,076,269	863,341,049	671,418,493	708,619,192
Brazil	35,804,821	15,929,721	125,618,081	367,201,145	189,550,815	218,042,967
Paraguay	0	0	0	69,737,175	175,836,415	205,941,133
Argentina	69,621,422	112,068,181	186,770,188	227,182,479	65,919,585	102,081,106
Netherlands	39,432,177	29,518,871	21,934,361	110,104,206	73,790,677	68,743,242
United States	3,830,104	8,663,951	14,236,185	24,344,299	55,929,052	28,885,062
Canada	1,417,489	755,719	36,502	98,816	32,099,155	22,469,486
Ukraine	2,388,474	203,966	180,571	17,017,191	5,321,603	19,126,752
Uruguay	18,122	0	0	0	13,501,670	10,666,050
Germany	15,306,171	10,721,687	9,409,372	9,046,323	35,671,218	8,379,282
Norway	1,815,196	2,176,761	1,666,396	5,747,967	7,505,728	5,861,173

***Source:** GTIS, Global Trade Atlas, 2011*

Soybeans constitute the majority of soy products imported by Russia, both in value and volume terms. Russia has steadily increased its soybean imports since 2005. In value terms, imports have risen by 262% and by 118% in volume terms, at a CAGR of 29.3% and 16.8% respectively.

Russian Soy Imports by Product Type (US Dollars)

	2005	2006	2007	2008	2009	2010
Total Soy Products	195,738,492	200,163,645	381,076,269	863,341,049	671,418,493	708,619,192
Soybeans, Whether Or Not Broken	10,042,796	1,158,263	53,217,510	326,600,751	442,934,911	474,205,132
Soybean Oilcake & Other Solid Residue	129,248,172	172,539,424	291,725,973	392,003,435	195,563,539	195,497,371
Soybean Oil, Refined, And Fractions, Not Modified	45,009,310	14,407,940	18,441,217	66,874,132	16,453,681	18,599,081
Soy Sauce	3,788,479	8,654,216	6,803,786	13,105,215	14,078,552	17,250,827
Soybean Oil & Fractions, Crude	4,393,759	553,172	9,030,914	60,803,971	244,912	1,895,937
Flours And Meals Of Soybeans	3,255,976	2,850,630	1,856,869	3,953,545	2,142,898	1,170,844

***Source:** GTIS, Global Trade Atlas 2011*

Russian Soy Imports by Product Type (Tonnes)

	2005	2006	2007	2008	2009	2010
Total Soy Products	688,373	783,482	996,894	1,395,374	1,386,759	1,498,081
Soybeans, Whether Or Not Broken	39,904	3,118	125,375	561,614	959,533	1,038,813
Soybean Oilcake & Other Solid Residue	535,107	723,276	819,910	706,106	394,372	424,083
Soybean Oil, Refined, And Fractions, Not Modified	86,277	23,780	27,165	64,913	16,918	16,489
Soy Sauce	13,474	27,173	11,624	13,320	12,404	15,388
Soybean Oil & Fractions, Crude	7,297	801	9,406	43,272	292	1,789
Flours And Meals Of Soybeans	6,313	5,334	3,413	6,149	3,239	1,518

***Source:** GTIS, Global Trade Atlas 2011*

DOMESTIC PRODUCTION

Russian soybean production increased by 37% over the period of 2005 to 2009, or at a CAGR of 8.19%. This is significant because soybean oil production, an important measure of processing capacity, grew faster than the production of soybeans. When considered alongside import data, this paints a clear picture of a market that does not have a large enough soybean supply to meet its own demand. Domestic soybean production supplies less than a third of Russia's total needs.

Russian Soybean Production (tonnes of seed)

	2005	2006	2007	2008	2009	CAGR
Soybeans	688,740	804,536	650,180	745,990	943,660	8.19%

Source: *FAOSTAT, 2011*

VALUE-ADDED PRODUCTION

Russia has experienced strong growth in most processing sectors of the soybean industry. Approximately 70% of Russian soybean processing capacity is located in the Northwest (St. Petersburg area). Other significant processing facilities are located in the Far East (Pacific Coast area), Siberia (East of the Urals) and Southern Districts (Rostov-on-Don area) (Novikova, 2009).

In the early 1990s, the ability to process soybeans was limited to under 300,000 tonnes per year. In 2009, this capacity had significantly increased to approximately 1.5 to 2.0 million tonnes per year.

The lead company in soybean processing (and one of the leading agricultural companies in Russia) is the Sodrugestvo Group of Companies (Soy and the Soymeal Market, 2011). Sodrugestvo controls approximately 70% of the Russian soy products market, with the ability to crush over a million tonnes of soybeans per year (Group of Companies Sodrugestvo, 2008).

Soybean Meal

Russian soybean meal production has risen by 63% over the last three years (2007-2010). Soy meal production and consumption have been rising and are expected to continue doing so as Russia becomes more wealthy.

Russian Soybean Meal Production (Tonnes)

	2007/2008	2008/2009	2009/2010	2010/2011 forecast
Beginning stocks	42,619	55,340	45,850	95,011
Production	730,992	982,290	1,190,679	1,395,625
Import	776,389	471,874	411,653	450,000
Total supply	1,550,000	1,509,504	1,648,182	1,940,636
Consumption	1,450,000	1,450,000	1,550,000	1,750,000
Export	44,660	13,654	3,171	10,000
Ending stocks	55,340	45,850	95,011	180,636

Source: *Russian Food Portal, 2011*

Soybean Oil

Russian Soybean oil production significantly increased over the review period of 2005 to 2009. In that time period, production increased by 466%, or at a CAGR of 54.25%. Even in 2009, which was a recessionary year for the global economy, Russian soybean oil production increased significantly.

Russian Soybean Oil Production

	2005	2006	2007	2008	2009	CAGR
Tonnes	40,908	49,812	62,947	154,576	231,596	54.25%

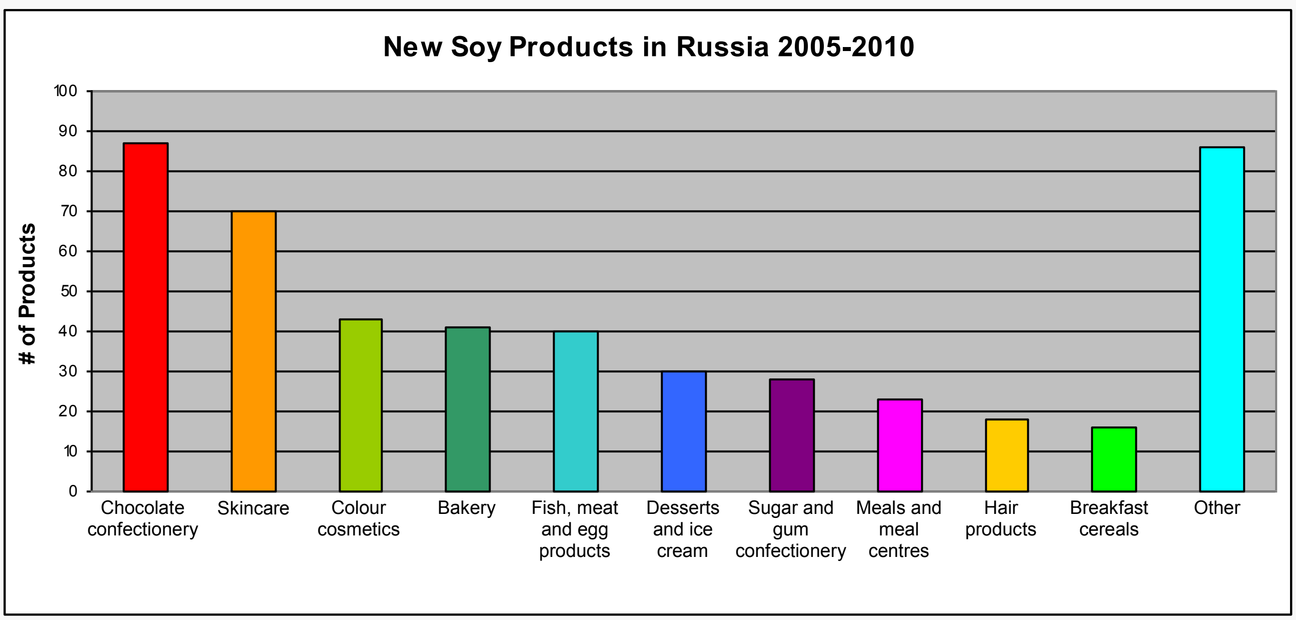
Source: *FAOSTAT, 2011*

PRODUCT ANALYSIS

Soybeans and their extracts are playing a more important role in the food, beverages and cosmetics we consume. This is true for Russia as well as Canada. However, due to the prevalence of sunflower oil in Russian society, growth in products employing soybean oil has been slower than in other countries. Regardless, the market offers significant opportunities, especially as both the consumption and production of soybeans and soy products are on the rise.

New Products Using Soybeans or Extracts 2005-2010	
Category	**Number of Variants**
Chocolate Confectionery	87
Skincare	70
Colour Cosmetics	43
Bakery	41
Processed Fish, Meat & Egg Products	40
Desserts & Ice Cream	30
Sugar & Gum Confectionery	28
Meals & Meal Centers	23
Hair Products	18
Breakfast Cereals	16
Other	86

Source: *Mintel 2011*



Source: *Mintel 2011*

SUNNY COMPETITION

Sunflower seeds are the major oilseed competitor in Russia and account for approximately 80% of all oilseeds sown. They also happen to be the most profitable crop produced domestically. The product is also present in many traditional Russian foods in the form of sunflower oil. This creates some difficulty for oilseed competitors (Synkovskya, 2010). Currently, Russia produces over six times as much sunflower seed, in volume terms, as soybeans.

Sunflower Seed Production (Tonnes)						
	2004	2005	2006	2007	2008	2009
Sunflower seed	4,800,710	6,440,910	6,743,376	5,671,389	7,350,240	6,454,320

Source: *FAOSTAT, 2011*

The number of new products being introduced in Russia that contain sunflower extracts is similar to the number of new products being developed with soy extracts. However, it should be noted that the new soy introductions are products that did not previously exist on the market, whereas sunflower products already have dominant market presence. Thus it should come as no surprise that the smaller number of new soy-based products being introduced, as compared to sunflower products, reflects its much smaller consumer base. Interesting to note however, is that while many of the new soy products are focused in skincare, cosmetics and hair products, most of the sunflower products are being developed for the purposes of food (although some are being developed for skincare as well).

New Products Using Sunflower Seed or Extracts 2005-2010	
Category	**Number of Variants**
Skincare	95
Sauces & Seasonings	93
Snacks	61
Bakery	55
Meals & Meal Centers	29
Baby Food	26
Hair Products	24
Soap & Bath Products	21
Breakfast Cereals	11
Non-Alcoholic Beverages	9
Other	67

Source: *Mintel 2011*

Overall, while sunflower seeds and their extracts remain dominant in the market, there definitely exists a growing niche for soybeans and extracts of soy in the Russian market.

CONCLUSION

Russia is a rapidly growing economy that is increasing its consumption of non-traditional foods and ingredients. Growing demand for food, as well as health and beauty products, will drive the demand for soybeans and their by-products as ingredients. Russia is currently unable to meet its own demand for soybeans and this is unlikely to change in the foreseeable future, as imports have risen and continue to rise.

While it is true that Russia has had significant market access issues in the past, it has been making an active attempt to join the World Trade Organization. A number of market access issues will decline if this takes place.

Canadian producers and exporters of soybeans have opportunity to become a part of an emerging market in Russia, especially with the significant (and growing) crushing capacity already in place.

REFERENCES

Agriculture and Agri-Food Canada. (2009). “State of the Market: Agriculture and Agri-food Sector—Russian Federation.” Government of Canada.

Global Trade Information Services. (2011). “Global Trade Atlas.” [Online] Available: http://www.gtis.com/english/

FAOSTAT. (2011). “Crops—Russia—Soybeans—2009-2005—Production Quantity.” Food and Agriculture Organization of the United Nations. [Online] Available: http://faostat.fao.org/site/567/default.aspx#ancor

FAOSTAT. (2011). “Crops—Russia—Sunflower seed—2009-2005—Production Quantity.” Food and Agriculture Organization of the United Nations. [Online] Available: http://faostat.fao.org/site/567/default.aspx#ancor

FAOSTAT (2011). “Crops Processed—Russia—Soybean Oil—2009-2005—Production Quantity.” Food and Agriculture Organization of the United Nations. [Online] Available: http://faostat.fao.org/site/636/default.aspx#ancor

Mintel. (2011). “Global New Products Database.” [Online] Available: http://www.gnpd.com/sinatra/gnpd/frontpage/

Novikova, E.E. (2009). "Soybean meal market: 2008-2009 years". ID-marketing report published June 2009. [Translated from Russian].

Group of Companies Sodrugestvo. (2008). “Oilseed processing Industrial Complex.” [Online]. Available: http://www.u-trading.net/enu/page.php?id=100

Russian Food Portal. (2011). “Russian market of Soya and its products”. Branch news. [Online] Available: http://foodmarkets.ru/news/topic/3107 [Translated from Russian]

“Soy and the soymeal market of CIS countries and Europe.” (2011). [Online] Available: http://www.apk-inform.com/conferences/sam2011/ [Translated from Russian]

Synkovskya, Svetlana. (2010). “Room for Growth.”

The Soybean Market in Russia

ISSN 1920-6615 Market Indicator Report
AAFC No. **11473E**

Photo Credits

For additional copies of this publication or to request an alternate format, please contact:
Agriculture and Agri-Food Canada
1341 Baseline Road, Tower 5, 4th floor
Ottawa, ON
Canada K1A 0C5
E-mail: infoservice@agr.gc.ca

Aussi disponible en français sous le titre :
Le marché du soya en Russie

Canada