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Russian Federation

Market Development Reports

Cold Chain and Warehousing

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Report Highlights:

Russia's cold chain and warehouse system is aging, but currently sufficient to meet demand. In the medium term, improvements in quality and an expansion in capacity will be needed to service the country's growing demand for imported goods, including foodstuffs. Investment in physical plant takes time and effort, but will be rewarded for those early adaptors and investors who study the market.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1]
[RS]

Executive Summary

Russia's transportation and cold storage system is just sufficient for current needs, but as a whole, quality is deficient. Many warehouses are old and based on outdated cooling technology with antiquated layouts that do not conform to modern logistics practices. Importers and retailers recognize the need for greater efficiency and capacity as demand for imported products, including high-value foods, grows along with the strengthening domestic economy. For these reasons, the private sector is beginning to invest in new facilities.

Investing in physical plant in Russia requires the same hard work and due diligence as for business in any country. Industry representatives note that a lot of time is needed to complete all of the stages of a project, but these efforts will be rewarded in the end, especially for the "early adaptors" that will capture an important share of the growing market for logistical services. Most investment is done through foreign private investment funds, as local banks are either unwilling to lend, charge high interest rates, or demand excessive collateral.

Current Warehouse Condition and Capacity

According to industry contacts, warehouse capacity in Russia is sufficient to meet current needs, but in the medium term will not be sufficient in either quality or quantity as continued strong growth in Russia's economy taxes current capacity for these services. Although an option, industry analysts do not recommend renovating existing facilities for several reasons. First, cooling systems now in place use old technology which cannot be easily upgraded, and which would "fall apart" if significant alterations were attempted. Second, Russian importers are making major advances in product handling technology, including computerized warehousing, and the existing stock of warehousing facilities cannot be converted easily to more modern layouts and handling systems.

The "average" old-style cold storage warehouse (warehouses that can store from -9 to +12 degrees centigrade) holds about 3,000 metric tons of product, but there are a number of 20-30,000 metric ton facilities in the Moscow area, with the largest warehouse available being about 30,000 metric tons. Estimated storage capacity for the country as a whole is about 2.0-2.5 million metric tons. In contrast, facilities and systems now being planned will have a wider range of storage temperatures and more modern handling equipment.

Main Trade Centers

Russia has two main trading centers in the western portion of the country, which import most food products: Moscow and St. Petersburg. Sea shipments comprise the majority of trade into St. Petersburg, while Moscow receives most products by either rail or truck. This also indicates where the goods come from and which country has a market advantage; as trucks are more convenient and less costly from Europe, that region is the key supplier to Moscow, while ships with their transport cost advantage bring more goods from origins such as the United States and New Zealand. However, as internal road and rail systems (some companies have started to develop their own truck fleet, for example) improve, these advantages are becoming blurred. Distance to market also impacts the general category of imports; US imports are often frozen products which can more easily be kept wholesome for the required longer transit times through St. Petersburg, while European products may be fresh or chilled, given the shorter distance and time to the Moscow market.

“Store-Owned” vs. “Service Center Facilities”

Supermarkets chains, which in Russia are usually European-owned, generally take small, frequent deliveries from a warehouse. This is also true for smaller independent outlets that were built some years ago and thus were not designed with collocated larger, more efficient storage space. Having a sufficient and varied stock of foodstuffs on hand is important for business success in Russia—product must always be on the shelf to attract customers in this increasingly competitive market. Thus, having a relationship with an importer that has modern warehouse facilities which can keep a steady flow of product to the store is critical—the ability for a warehouse to hold and deliver at least one-month’s supply is said to be a deciding factor for developing a relationship between a supermarket and warehouse.

Some supermarkets are setting up their own distribution centers, while others have or are expected to enter into a contract with an importer/warehouse company—it depends on the business strategy of the supermarket, and no clear pattern has yet emerged.

Transport Systems

In previous times, the rail system was the main method for moving products and freight throughout the country. However, this is changing; trucks are moving more products, and for regional deliveries, they are by far the most common method. For transport of food products to the Ural region and beyond, rail is used because of the distance and for security reasons—losses while using other transport methods can be substantial. Rail and trucks are used for shorter-haul shipments, while transport from other CIS countries is mainly by road; differing rail gauges between countries complicate trade, and some train-to-train transfers are needed at the border. Truck fleet modernization is also needed. The current stock of trucks is getting old, except in cases where private companies are building their own fleet.

Investment Climate, Process and Potential

Project financing for new warehouse facilities takes time and is sometimes difficult to obtain, as many banks are not that willing to lend. The reason for this reluctance is that warehouse firms often do not have enough collateral to back a project proposal. Reportedly, private investors, including investment capital firms, are a better source of capital funding. The investment climate is generally good, corporate taxes are relatively low, and funds are coming into the country through private firms. As always, there are delays and problems, but these are more of a business nature and the normal bureaucracy than for any other reason.

The Foreign Commercial Service provides information on business and investment in Russia. Please contact them at: http://www.usembassy.ru/embassy/section.php?record_id=fcs