

# Russia

## The Market for Packaging Equipment

Compiled by:

### Swiss Business Hub Russia

#### 1. Introduction

During Soviet times, packaging had one main function: to protect the goods. Design and other features like consumer friendliness or environmental sustainability were not often taken into account. After Perestroika, the Russian packaging industry showed rapid development, as consumers' new requirements and international competition forced Russian producers to introduce new products and technologies. Today, packaging in Russia corresponds to a large extent to what you are familiar with in other European countries, although it tends to be a bit less costly. However, it must be noted that there still exist some producers that stick to the old fashioned but trustworthy old style and others find nostalgia in soviet design.

Since the Russian authorities have introduced an import ban on certain food products like dairy, meat, fruits and vegetables from specified countries, agriculture has become a key sector in the Kremlin's import substitution programme. Despite the productive Black Earth soil in the south of European Russia, one of the most fertile areas in the world, the country continues to import about 40% of its food.<sup>1</sup> While being one of the world's top three grain exporters, Russia has deficits, for instance, in raw milk, potato, pork and beef production. Therefore, the Russian government has decided to allocate RUB 570 billion (USD 11 billion) to implement an import substitution program for the agricultural industry.<sup>2</sup> The program is aimed at boosting not only the production of food, but also its processing. In the pharmaceutical industry, the import substitution program started earlier, and currently many foreign and Russian companies are building their own factories for the production, filling and packaging of drugs in Russia. In parallel, they are purchasing the necessary equipment for their facilities.

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<sup>1</sup> Source: Russian agricultural production soars after food sanctions, bne IntelliNews, 21.10.2014, <http://www.bne.eu/content/story/russian-agricultural-production-soars-after-food-sanctions>

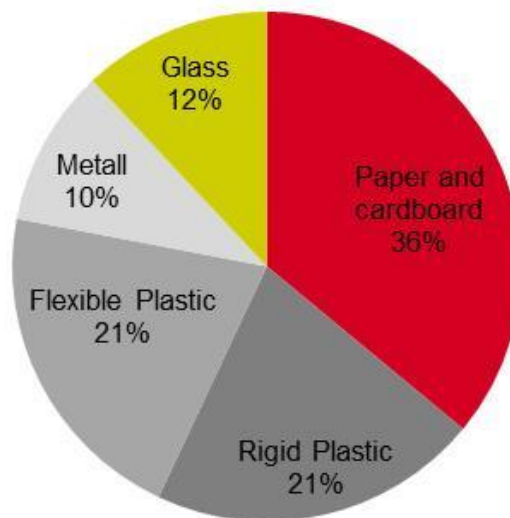
<sup>2</sup> Source: Russia aims for 70% decrease in meat imports through investment, Vladislav Vorotnikov , 20.04. 2015, <http://www.globalmeatnews.com/Industry-Markets/Russia-aims-for-70-decrease-in-meat-imports-through-investment>

As the locally produced packaging equipment is based on outdated design and technologies, the substitution programs for the food and pharma sectors create business opportunities for foreign suppliers, for instance for Swiss packaging equipment producers. However, the current tough economic situation, the weak ruble, and rising loan rates make it harder for Russian packaging producers to raise funding for the purchase of expensive western equipment. Exceptions can be found among companies which profit from the government's import substitution program or other official financial support.

## 2. Packaging Sector Overview

The Russian packaging market is among the ten largest packaging markets in the world. The volume of the packaging sector reaches about 15 billion USD annually.<sup>3</sup> Plastic packaging has been gaining ground continuously over the past few years while paper/cardboard and glass have been losing market shares.

### Packaging Sector 2013



Source: National Packaging Confederation (NCPack)

According to the Association "NCPack", there are more than 3,000 companies active in the packaging sector in Russia. Among them are Russian and foreign ones like Tetrapack, for instance. About 900 companies are involved in the production and supply of machines and equipment for the packaging sector. Due to high import taxes, there is very little competition for the suppliers of materials like cardboard, for instance, and production is almost totally aimed at the national market.

<sup>3</sup> Source: Deutschland ist Top-Lieferant von Verpackungstechnik nach Russland, GTAI, 25.06.2014, <http://www.gtai.de/GTAI/Navigation/DE/Trade/Maerkte/suche,t=deutschland-ist-toplieferant-von-verpackungstechnik-nach-russland,did=1037342.html>

Important foreign and local players in Russia:

#### **Association of plants “EUROPLAST”**

<http://europlast.ru/about/>

This group of companies is the leading Russian and CIS producer of polymer packaging. Every third bottle in Russia is made under the Europlast brand.

#### **GOTEK group**

<http://www.gotek.ru/>

This company is one of the largest Russian producers of packaging materials.

#### **Glass Décor**

<http://glass-decor.ru/>

This company is the most technologically advanced company in the field of glass decoration in Russia. It is capable of fully meeting the needs of customers in production, from a simple decoration on a standard bottle to the very difficult execution of an individual form.

#### **Komus Upakovka**

<http://www.komus-upakovka.ru/>

This company is one of the leading producers of food packaging. It produces plastic containers for salads, cakes, desserts, etc.

#### **Mir Upakovki**

<http://www.miru.ru/>

This company has been working in the rigid polymeric packaging market since 1999, and in the last 15 years it has become a leading enterprise in the sector.

#### **Rexam**

<http://www.miru.ru/>

This company is a leading global can producer with a factory in Russia.

#### **Ruscam**

<http://www.ruscam.ru/>

This company is part of the Şişecam Group – one of the world's leading glass producers since 1935.

#### **Tetra Pak**

<http://www.tetrapak.com/ru>

This company is the world's leading supplier of food processing and packaging systems. It has a factory for liquid food packaging in Russia.

Currently, the following trends can be observed in the Russian packaging sector:

- Increase in demand for smaller sized packs due to more single parents and single person households.
- On the other hand, unchanged packaging contains less and less content in an attempt to hide the growth of prices.
- Demand for convenient packaging is on the rise alongside the aging of the population; these include easy-to-open, re-sealable packs, and packs with longer shelf life and clearer labeling.
- The development of supermarkets results in lighter, fancier and cheaper production.
- Packaging manufacturers have shown a strong shift towards producing eco-friendly products, thereby reducing carbon footprints.
- In Russia, women significantly outnumber men in terms of population. The use of bright colors and aesthetics in packaging will help to extend product appeal to female consumers.

There are several sectors where import substitution is being especially pushed by the Russian government, and therefore the related packaging sector is expected to develop.

#### Food

Food packaging is already quite advanced in Russia. But as more producers, including smaller regional ones, are reaching supermarkets' shelves because of sanctions, the demand for new packaging equipment and technology is still there.

#### Pharmaceuticals

The development of nanotechnology packaging for new, hi-tech drugs will fuel the growth of pharmaceutical packaging as pharmaceutical companies adopt advanced packaging technology to reduce the impact of counterfeit products.

### **3. Packaging Equipment**

The trend for more innovative and catchy packaging has resulted in an increasing demand for state-of-the-art western equipment. Today, European packaging equipment manufacturers are very important suppliers for the Russian industry. In terms of value, European manufacturers still hold the biggest market share in Russia. Experts estimate that the import of packaging equipment is valued at up to a total of 1 billion USD a year.<sup>4</sup>

As an example, we can analyse the import of packing or wrapping machinery (HS code 842240), which accounts for almost half of imports of packaging equipment in Russia:

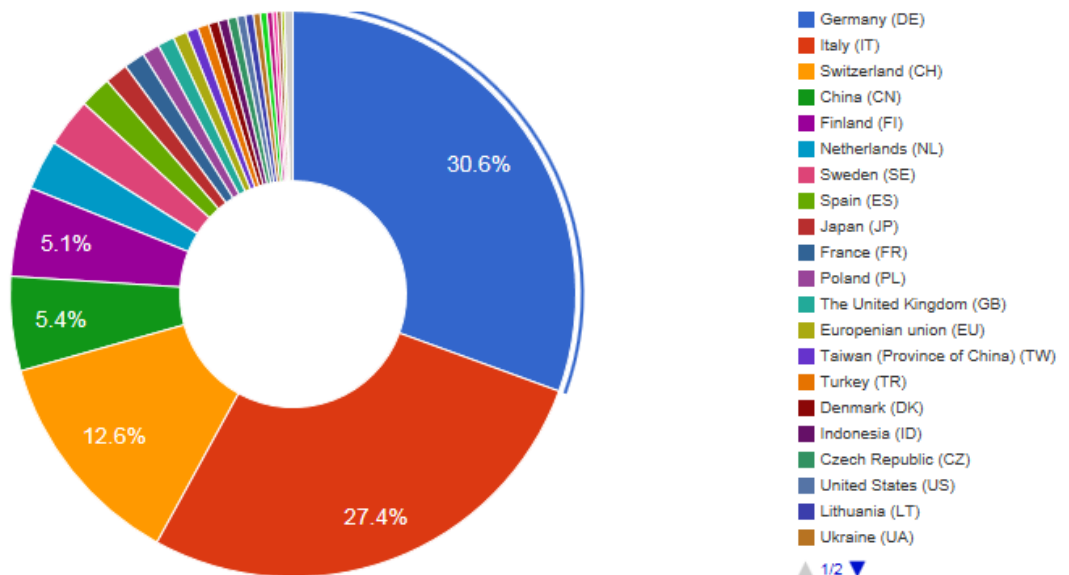
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<sup>4</sup> Source: Tendenciya rynka upakovki i upakovochnogo oborudovaniya, <http://russitaly.ru/a-tendencii-razvitiya-rynka-upakovki-i-upakovochnogo-oborudovaniya.html>

In 2014, under this HS code, equipment for USD 406.1 million was imported into Russia, which is an increase of 3.4% in comparison to 2013. It seems that many Russian companies at this time were inspired by the import substitution efforts of their government and wanted to update their equipment in order to compete with foreign suppliers. Unfortunately, in 2015, it seems that the same local producers were hit hard by tough reality and had to reconsider their investment plans. This has led to a sharp reduction in the import of equipment under HS code 842240, which accounted for only USD 92.1 million in the first half of 2015.

In the first half of 2015, Germany, Italy and Switzerland were the most important suppliers of this equipment, accounting for about 60% of all imports (detailed remarks on imports from Switzerland follow below):

Chart



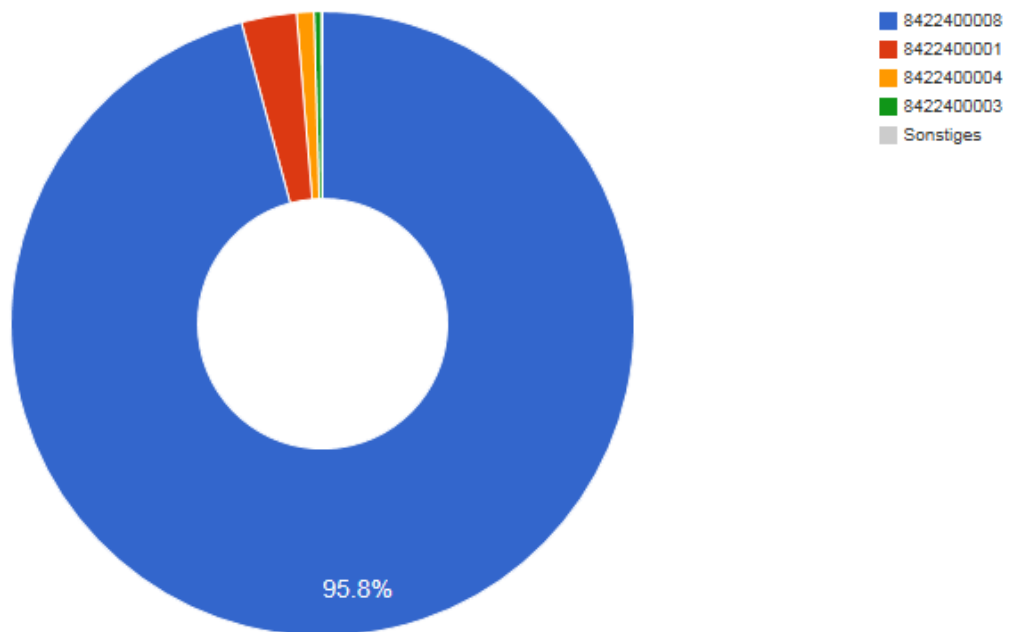
Source: Globus Trade Data Base, <http://globus-fea.com>

The figures vary quite widely from year to year, but it can be generally noted that the European producers account for almost two thirds of imports, with Germany leading the list followed by Italy. It goes without saying that if we measure not the value but the items, the picture is completely different, with China leading the ranking.

Nevertheless, it is remarkable that Chinese producers which try to flood the market with cheap packaging equipment have so far been unsuccessful in forcing the European suppliers out of the Russian market. In fact, they have a bad reputation, and Russian producers generally like to stick to trustworthy European brands whenever they can afford it.

If we differentiate further down the HS code, we see that the overall majority is imported under 8422400008:

Chart



Source: Globus Trade Data Base, <http://globus-fea.com>

As noted above, Switzerland demonstrated outstanding results in the first half of 2015, with an import share of 12.6% and equipment supplies for about USD 11.6 million. However, in previous years the imports were more modest with USD 7.6 million in 2013 and USD 8.1 million in 2014. As the prices for packaging equipment are rather high and the number of the imported Swiss machines has been always less than one hundred in the last years, just a few big investment projects can lead to such a fluctuation in the statistics.

The following brands are imported from Switzerland into Russia:

**BANHOLZER & WENZ**  
**BOBST**  
**BOSCH**  
**CARRERA**  
**CORDSTRAP**  
**CRYOVAC**  
**DISKO**  
**ELMOR**

ILAPAK  
INAUEN MASCHINEN  
ORGAPACK  
ROHRER  
SAM  
SAPAL  
SEALED AIR  
SIGNODE  
STRAPEX  
STRAPEX  
TIPPER TIE  
TIPPER TIE ALPINA  
VAC-STAR  
VC999  
ZMB

Source: Globus Trade Data Base, <http://globus-fea.com>

Generally speaking, Swiss packaging equipment has a very high reputation in Russia. Although it is known for being rather expensive, Russian entrepreneurs consider it to be worth paying for.

## 5. Conclusions

According to the analysis of the German specialised association VDMA, the reduction in the export of European packaging equipment to Russia has its reason in a general investment break of the local packaging producers and not in a shift to suppliers from other countries (like China, for instance). Therefore, the German specialists assume that, once the Russian economy picks up again, European exports of packaging equipment will likewise rise.<sup>5</sup> Consequently, at this moment, European suppliers should be very active in Russia in order not to lose the market to their competitors and defend their market position for the time when the Russian processing industry will develop positively once again.

## 6. Market Information Resources/Trade Events

### Internet Platforms:

<http://www.unipack.ru/eng/>

<http://www.packagingeurope.com/Country/Russia.html>

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<sup>5</sup> Source: Russland ist drittichtigster Auslandsmarkt für deutsche Nahrungsmittel- und Verpackungsmaschinen, GTAI, 11.02.2015, <http://www.gtai.de/GTAI/Navigation/DE/Trade/Maerkte/suche,t=russland-ist-drittichtigster-auslandsmarkt-fuer-deutsche-nahrungsmittel-und-verpackungsmaschinen,did=1172508.html>

**Associations:**

**Union of Producers and Consumers of Packaging Products**

<http://sojuzupak.ru/>

**National Union of Packaging Companies**

<http://www.ncpack.ru/>

**Trade Fairs:**

**Upakovka**

Moscow, Expocenter, 26.-29.01.2016

<http://upakovka.messe-duesseldorf.de>

For this show, Switzerland Global Enterprise plans to organize a Mini Swiss Pavilion.

**Rosupak**

Moscow, Crocus Expo, 14.-17.06.2016

<http://www.rosupack.com/en-GB>

**Ipack Siberia**

Novosibirsk, Novosibirsk Expocenter, 28.-30.10.2015

<http://www.ite-siberia.ru/exhibitions.aspx?id=37570>

It goes without saying that the exhibitions of several processing industries like food or pharma could also be interesting for packaging equipment producers.

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