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Market Brief - Product

Russian Federation : The Pork Market in the Russian Far East

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Moscow [RS1], RS

Summary

- Ě The Russian Far East (RFE) offers very good opportunities for US pork and pork product exporters. With changing Russian customer taste, an increasing demand for meat products, and a decrease of local pork production, demand for imported pork meat has increased greatly over the past few years.
- Ě Importing pork from China once compensated for this local shortage. However, Russian customers are getting to be more picky and now prefer to buy quality products made from quality meat.
- Ě The Russian diet consists of 25-30 % of meat and meat products. Pork is traditionally one of the most popular types of meat in Russia.
- Ě The RFE's annual demand for pork is around 140,000 tons.
- Ě At the same time, the number of small and medium scaled meat processing enterprises has nearly doubled over the last two years and competition among meat processors is very keen. To meet the demand of local customers and to survive the competition, many meat processing companies turned to sources of more quality pork – the United States.
- Ě Demand for US pork increased greatly for last 5 years. This increase is clearly evident from the RFE trade statistics. Total pork imports increased from \$23,054,600 in 1993 to \$38,446,400 in 1997 (66.8% growth). This growth can be expected to continue, despite exchange rate fluctuations.

NOTE: As a result of the financial crisis which occurred in Russia after mid-August 1998, most Russian banks are unable to operate normally, or have ceased operations entirely. In addition, the devaluation of the Russian ruble and fluctuating exchange rates have made it difficult to do business in a normal manner. This has had a major impact on the ability of many Russian importers to purchase imported food products. Despite these difficulties, the Russian market will remain an important one for U.S. exporters committed to longer term market development.

Advantages of Trading in the Russian Far East

- < The RFE area depends on meat imports for meat production and retail trade of meat (pork) products.
- < The average diet of Russians consists of meat and meat products (25-30%). Traditionally, pork is one of the most popular types of meat in Russia.
- < Consumers and meat processing plants are becoming more sophisticated in their meat preferences.
- < The number of meat processing plants and enterprises increased greatly over the last 5 years.
- < U.S. pork is very competitive on quality and prices.
- < The food industry is considered to be a priority for some RFE regions and is supported by local governments.
- < GSM-102 and the Facilities Guarantee Program make US pork imports even more attractive for local importers (**NOTE:** These programs are currently not operational in Russia due to the current financial crisis).
- < Retail sale of pork is a very promising niche for US supplier.

Challenges

- C Tariffs, labeling requirements and inspection procedures can be complex and inconsistent.
- C Most parts of pork imported from the United States cannot be used for retail sales because of the RFE import regulations.
- C Pork from New Zealand, Canada, Australia and Europe can become more attractive for local importers as it can be used both for retail sale and for processing.
- C The RFE market is still price driven, and price is a determining factor for the local population. Chinese pork is less expensive and can easily compete with US pork.

Market Access

- Ě Like other commodities, pork import is complicated by number of import regulations.
- Ě Labeling standards: all labels and any signs must be translated into Russian.
- Ě Customs duties are calculated according to CIF value or weight of imported product.
- Ě Customs duties on CIF value:

- Pork carcass, half-carcass, leg (ham), shoulder or loin - 15%, but not less than 0.2 ECU (European Currency Unit) per one kilo.
- Pork belly, trimming and other - 15%, but not less than 0.25 ECU per kilo.

- Ě A supplementary import tariff is 3% of CIF value (**NOTE:** Currently temporarily suspended).
- Ě Value added tax (VAT) equals 20% of CIF value plus all custom tariffs (**NOTE:** Temporary reductions in place due to the food and financial situation in Russia).
- Ě The custom processing fee is 0.1% in rubles plus 0.05% in foreign currency of CIF value.
- Ě Following is the list of documents required for shipping to the Russian Far East:

1. **Commercial Invoice** -- A single document, which describes the entire transaction from start to finish. It is also the primary shipping document used by RFE customs officials for merchandise control and valuation. It should clearly state the terms of payment, designate the exporter and the buyer, provide the purchase order number, the importer's license number, and the total price of the merchandise, as well as other details essential for completion of the shipping transaction between the exporter and the importer. For shipments to RFE, the commercial invoice should also contain information on the Russian bank that will process the transaction payment. Make at least three certified copies, with original stamps and signatures. Whenever possible, the commercial invoice should be translated into Russian.
2. **Marine Bill of Lading and Air Waybill** -- Issued by the carrier who takes charge of the merchandise, generally a steamship or an airline company. The buyer usually needs the original document to take possession of the goods in RFE.
3. **Certificate of Origin** -- Used to determine if the merchandise was manufactured in the United States. The certificate of origin should be prepared by the exporter or the freight forwarder and signed by an officer of the exporting firm. It also needs to be notarized by

the exporter's local Chamber of Commerce. Again, at least three copies of the document, bearing original stamps and signatures, are required to meet RFE customs requirements.

4. **Export Packing List** -- Provides a detailed summary of the shipment, including the weight and dimension of the shipment, and the number of packages. The packing list should also indicate the contract and import license numbers along with the shipper's and buyer's references. Several copies of the packing list should be made and, preferably, translated into Russian together with any special handling instructions.

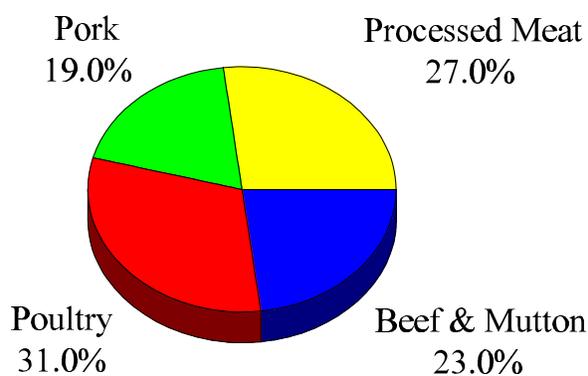
3. Trends in Consumption

- , Pork is one of the most popular meats in Russia. Pork makes up about 19% of all meat products imported to the Russian Far East

Meat Products Market Share, RFE, 1997

Processed Meat	27%
Pork	19%
Poultry	31%
Beef & Mutton	23%

Meat Products Market Share



- , Imported pork is used for retail sale or to make sausages, canned meat and other meat products. 60% of all pork imported to RFE is used for processing.
- , The following types of pork are imported to the RFE:

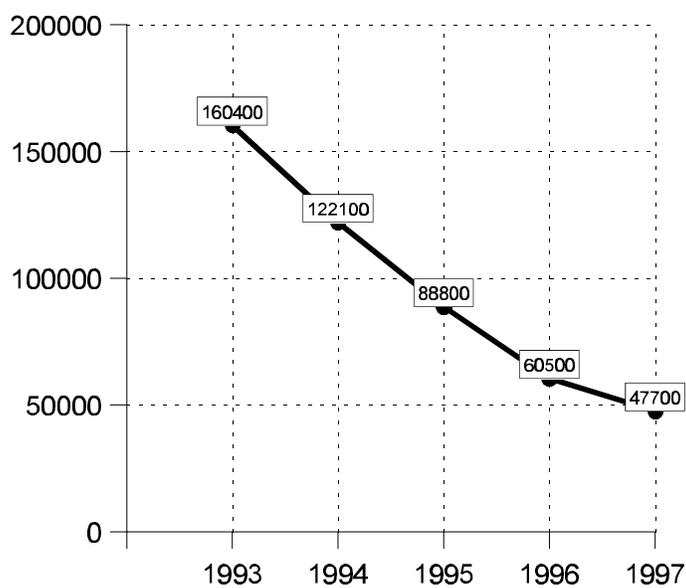
- C Picnic (the boneless shoulder)
- C Bone-in Picnic Shoulder
- C Pork Leg (ham)
- C Trimmings
- C Half-carcass pork

- , Half-carcass pork is used only for retail sale in big stores and meat markets. Picnics, bone-in picnics and pork legs are more commonly sold in the smaller stores, kiosks and other points of sales.
- , Trimmings are usually processed for canned meat and sausages; picnic and pork legs are mostly used for processing of sausages.
- , The most popular types of pork in the RFE now are picnics and trimmings, but the market is ready for greater variety of cuttings and specifications.
- , RFE Veterinary Inspection controls all import of food products. Any US pork producer must be approved by the Russian Veterinary Inspection for imports of its product to Russia. Most of these companies are approved for imports of pork for processing. Only 2 of them: 3S and 3W (Swift/Monfort) are approved to import pork for retail. This is one reason of comparatively small market share of US pork for retail on the RFE market.
- , Some other US plants are attempting to gain approval to import pork for retail sales.

4. Competition

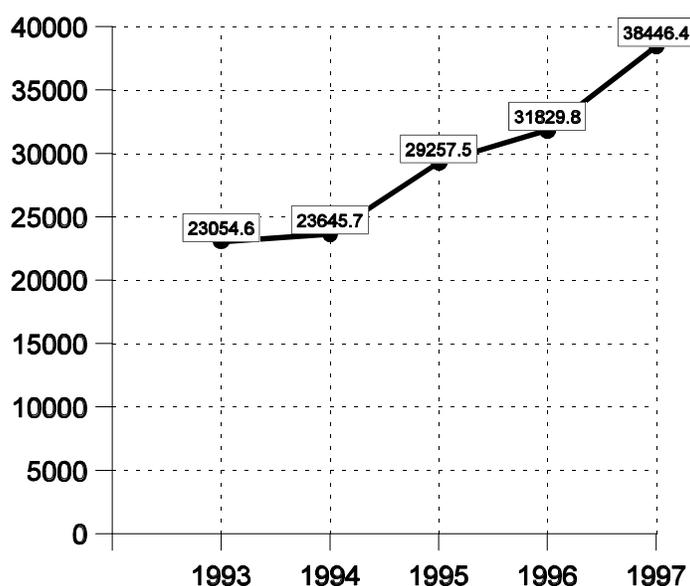
- , Currently, the competitive situation is very favorable for the US pork exporter.
- , The RFE total demand for pork is 140,000 tons a year.
- , There are two types of pork producers on the local market: collective farms and farmers.

Amount of pork produced by collective farms of the RFE, 1993-1997, tons



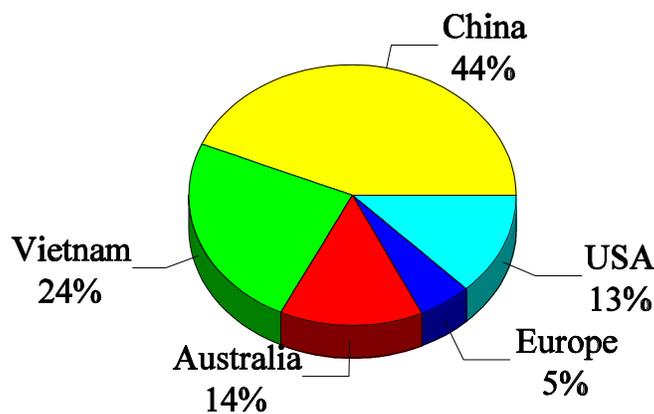
- , Livestock numbers (the number of hogs in the collective farms of the RFE) have rapidly decreased over the last 5 years. In 1993, 160,400 tons of pork were produced by local farmers. In 1997, only 47,700 tons. Production of pork in the collective farms of the RFE decreased by 70. over the last 5 years.
- , Farmers prefer to grow hogs because complicated fodder is not required. The number of farmers all over the RFE is small. In 1997, small farms produced 28,000 tons of pork only. Pork produced by RFE farmers may grow; however, this growth is very slow.
- , Pork produced in farms and collective farms is sold through retail outlets.
- , More than 45% of demand for pork within the RFE is covered by imports. This percentage has grown at a fast pace over the last 5 years and may grow in the future.
- È Between 1993 and 1997, total pork imports increased from \$23,645,700 to \$38,446,400 (a 62.6% increase).

Import of Pork to the RFE, 1993-1997



1997 Pork Market Share by Country, Primorskiy Kray

Imported pork in the RFE is imported from China, Vietnam, Canada, Australia and the United States.



Country	Market Share	
	\$US	%
Australia	2,769,100	14
Vietnam	4,737,100	24
China	8,534,200	44
Europe	1,017,000	5
United States	2,467,400	13

- , The quality of pork from China and Vietnam is low. It is used mostly for processing of inexpensive canned meat and sausages.
- , Australian pork is usually shipped in half-carasses to be sold in big stores and markets.
- , Having a reputation for good quality, USA pork attracts many buyers. It is used both for retail trade and processing.
- , There are 14 major companies in the RFE engaged in the wholesale trade of pork. Six of these companies work with U.S. pork, while 5 more would like to find American partners for this product.

5. Packaging

- , Imported pork in half-carass is usually packed in polyethylene and kapron bags; this

packaging is convenient for both shipping and distribution.

- , Leg (ham), picnic, loin and pork trimmings are packed in carton boxes 27.2 kilos each. It is a very convenient package for processing, but the RFE companies that work with retail trade prefer to buy pork in smaller packages, about 12-16 kilos each, with a polyethylene package inside for each piece of pork.

7. Prices

- Ē The price of pork meat in the RFE depends on season, currency exchange rate, custom tariffs, taxes, export-import regulations and other factors.
- Ē The price for Chinese pork within RFE is about \$1,1-1.20 per kilo/CIF/RFE port. The price for USA, Australian and other imported pork is about \$1.35-1.50 per kilo/CIF/RFE port.

List of Importers

Commodity Co.

103, 100-letiya Ave., 226
Vladivostok 690039
Russia
Tel.: (7-4232) 323-385
(7-4232) 323-420
Fax: (7-4232) 316-621
Igor Ryaboshapka, Director;

Agro

4, Avrorovskaya Str.,
Vladivostok 690010
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Tel.: (7-4232) 254-851
Fax: (7-4232) 254-851
Vladimir Khrapak, General Director

Alfa International Company

28, Shevchenko St.
Khabarovsk 680028
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Tel.: (7-4212) 399-742
(7-4212) 399-746
Fax: (7-4212) 399-746
Andrey Petrenko, Director;

April Co.

51/v, Nagayevskaya Str.
Magadan 685000
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Tel.: (7-41322) 276-33
Fax: (7-41322) 357-63
Nikolay Pechonkin, Director

Arnika

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End of the List