



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 10/05/2000

GAIN Report #RS0051

Russian Federation

Exporter Guide

2000

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Report Highlights:

This Exporter Guide to doing business in Russia is designed to be a practical guide for U.S. companies interested in exporting agricultural, food and beverage products to Russia. It provides an overview of the current market situation, up-to-date statistical data and useful information on local business practices, consumer preferences, food standards and regulations, import and inspection procedures. It also discusses the relative market opportunities of the three major market sectors (food retail, food service, and food processing) and identifies the best high-value product prospects.

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

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ABOUT THE EXPORTER GUIDE

This Exporter Guide to doing business in Russia was developed by the Moscow Office of Agricultural Affairs' Agricultural Trade Office (ATO) to assist US companies interested in exporting agricultural, food and beverage products to Russia. It has been designed to anticipate many of the questions asked by American companies seeking to enter the Russian market and to provide practical tips to U.S. companies on how to do business in Russia. It includes helpful information on the market, local business practices, a general review of consumer preferences, food standards and regulations, and import and inspection procedures. It also discusses the relative sales opportunities of the three market sectors (food retail, food service, and food processing) and, it also identifies the "best high-value product prospects."

Although every effort has been made to insure that this information is accurate and reliable, US exporters should check with their prospective importer and other sources for the latest information prior to any export shipment. This is necessary due to the complexity of Russian import regulations and the frequent changes in export requirements and customs procedures. For a copy of this Guide, contact the ATO/Moscow or Ag Export Services, USDA/FAS/ASD, 1400 Independence Avenue, SW, Washington, DC 20250-1052 (tel: 202-720-6343 or fax: 202-690-4374). Washington, DC. This guide is also available on the Internet at our Home Page: agmoscow.post.ru .

The names and addresses of organizations, firms, associations and individuals found within this Guide are provided for informational purposes only. The US Department of Agriculture neither endorses nor guarantees the reliability of the information provided by these public and private organizations and their representatives.

SECTION I MARKET OVERVIEW

Prior to the August 1998 economic and political crisis, Russia was the fastest growing of the emerging markets, importing more than \$1 billion of U.S. agricultural and food products. Although the economic crisis of August 1998 has briefly halted this growth, today the effects of the 1998 economic crisis are wearing off and economic and political factors have turned increasingly favorable for Russia in the near term, and possibly longer. The new government is enjoying wide popular support necessary for pursuing critical reforms. Political stability can be expected with the new Russian administration if it can successfully implement its reform plans. It has already had more success in gaining Duma passage of important reform legislation, especially in the areas of taxation and Federal-local relations.

Russia's economy still faces many problems, of course, but the the recovery is well underway and steady. In fact, the economy has had its best year since well before the dissolution of the Soviet Union. GDP grew by an annual rate of 7.5% in the first six months of 2000 – even better than forecasted by the government. Although real incomes remain 12.5% below their level of July 1998 (i.e., before the crisis), and real consumption of goods and services is still 15% below its pre-crisis level, real incomes were up 11.3% compared with the year before. Also, inflation has been kept relatively low. The government statistical agency Goskomstat predicts that inflation for the first eight months of 2000 that cumulative inflation will be no higher than 12.8%. The Russian ruble has been stable; in fact, during the summer it even strengthened slightly due to Russia's trade surplus (due largely to the high world oil prices). Although currently the banking sector is still in need of serious reform, and all but very short term credit is difficult to obtain, there is discussion underway at USDA to reinstate a GSM102 credit guarantee program which will help stimulate a resumption of trade.

Despite its past economic difficulties, the Russian market remains heavily dependent on imports. The country's agricultural industry is unable to meet the demand for food products, particularly in the processing sector. The newly revived domestic food processing industry, in particular, the meat processing sector, faces perennial shortages of raw materials, food ingredients and food processing equipment which will open up new market opportunities for US companies. In 2001, U.S. companies will also be able to take advantage of the end of EU subsidies on certain meat products. On another front, U.S. exports of consumer foods are up more than 20% in comparison to the year before, certain U.S. fishery product exports have doubled, and U.S. exports of poultry are almost at the pre-August 1998 levels. Currently, imported U.S. chicken continues to dominate the Russian poultry market with an 80% share and Russia is once more the major export destination for U.S. poultry products. In 2001, Russian imports of poultry are expected to rebound more significantly because of lower duties, stronger domestic prices, and greater transparency in the trade – unless trade import quotas are introduced, as occurred recently with sugar. All these encouraging signs indicate that there is no doubt that in time, with the recovery further along, Russia is expected to regain its place as a strong and dynamic market for US agricultural and food exports.

Macroeconomic conditions affect, in large measure, the ability of Russian buyers and consumers to purchase imported products. Although the official unemployment rate is not significantly higher than a year ago (12.40% in Oct. 1999, compared to 11.80% in 1998), it must be noted that salaries have not yet returned to pre-crisis levels. According to the Russian Ministry of Economy, 1999 witnessed a 15-20% drop in Russians' real income from 1998. Combined with the devaluation of the ruble, many imported products are still too expensive for average consumers to purchase. For those on fixed incomes, including veterans, pensioners and those without supplemental wages, cheaper domestic food products or low-priced imports are the only alternative.

For many Western based companies, doing business in Russia is a daunting undertaking. Opportunity and risk go hand-in-hand in Russia. The political and economic reforms since the early 1990s have brought many needed changes, such as the privatization of formerly state owned enterprises. This has resulted in a large and significant private sector that now accounts for more than half of GDP. However, across different sectors and regions in Russia, change is uneven, and taking place at different paces. Trade practices are still far from international norms. Flaws in the legislative system, high tax levels, and the lack of a viable and secure banking system are all contributing factors in making the Russian market a significant risk for Western companies. The Russians call it a free market --"a market in which anything goes."

Nevertheless, Russia's size and potential affluence continue to make it attractive for many Western food manufacturers. If the enthusiasm and upbeat comments of the US company reps at the recent World Food Moscow Show are any indication, the Russian market is once again back in the sights of many U.S. companies marketing consumer food products. Company representatives reported a renewed interest in U.S. food products and a growing optimism among Russian importers. Business this year is up anywhere from 25 percent to more than 200 percent for some companies. New to market companies promoting hot sauces, salad dressings, apples and pears, meat products, canned and frozen vegetables and fruits, and condiments reported strong interest in their products. The number of companies and trade organizations participating in the show this year was 28, double last year's number, and the trade organizations USAPEEC and USMEF proclaimed the show an outstanding success for their companies. There is growing interest in US pork products as EU subsidies have ended on this product. This year, Russian buyers and processors are also showing a new interest in U.S. trade shows with record numbers attending the largest food show in Chicago and other regional fairs such as the Great American Food Show in Miami in December. The first-ever Russian Buying Mission to the States in May was

a major success with potential sales of more than \$20 million expected in the coming 12-month period. All these encouraging signs indicate that Russia is expected to regain its place in the near term as a strong and dynamic market for U.S. agricultural and food exports.

In a strong partnership with an experienced Russian importer or distributor, careful market analysis, and targeted advertising and promotional activities, U.S. products can compete successfully with local and European products as long as quality and price are taken into account.

U.S. Food Assistance to Russia

Although the main focus of this guide is the Russian market for consumer-oriented foods/beverages (including food ingredients for further processing), it is important to take note of the U.S. - Russian Food Aid Program, which was implemented at the beginning of 1999 in response to a request from the Russian government due to a record low harvest. Over two-thirds of the assistance was food targeted at regions with anticipated food deficits; one third consisted of animal feed meant to support Russia's livestock industry. This program, especially shipments of planting seed and feed grains, was part of an effort to build a mutually beneficial bilateral agricultural relationship and to ensure a healthy agricultural sector in Russia. Under the Program, in 1999 and over the course of 2000, the United States will have provided Russia with close to 4.2 million metric tons of food and grain products, valued at over US\$1 billion. These commodities included wheat, dried milk, soybeans, corn, beef, pork, poultry, planting seeds, as well as other ready-to-eat non-perishable foodstuffs. This unprecedented program has been successfully implemented and is expected to come to an end by December 2000.

One of the significant outcomes of this program has been the wide distribution of these U.S. commodities to regions all over Russia, many of which have never used U.S. products before or have not sourced them from the U.S. since the disintegration of the former Soviet Union. During the course of the program, many regions were impressed by the high quality of U.S. commodities and have shown strong interest in continuing to source these commodities - from wheat to feed grains to meat products - from the U.S. on a commercial basis. In particular, the traditional shortage of feed grains such as corn and soybean meal, combined with the desire on the part of the GOR to increase domestic livestock production and output to offset the lack of imported food product in the market, will certainly lead to increased demand for imported feed grains. The introduction of U.S. bulk commodities under the food aid program can pave the way for potential commercial partnerships between U.S. and Russian companies.

Market Opportunities

Although the Russian market for consumer-ready imported products has not completely rebounded since the economic crisis, the U.S. share of this market now stands at 8.5 percent (up from 7.3 last year although still below the pre-crisis level of 10 percent) based on Russian statistics. European companies remain the strongest competitors for U.S. companies although a small number of Russian manufacturers and distributors are now becoming more competitive with quality, well-packaged products at a lower cost. These diversified Russian food and beverage companies are selling products that compare favorably to similar U.S. and European products. In many cases, these companies import their raw or semi-processed ingredients due to the better quality and reliability of the imported product. In a few cases, Russian companies have products manufactured and labeled abroad. Prior to the Food Aid Program, the market for US bulk and intermediate commodities declined substantially for several years. However, strong regional demand is expected to bolster exports of a few of these commodities.

In the short term, products offering the greatest potential include poultry, frozen and processed red meats primarily for processing, fresh fruit (apples), fish and seafood items, and pet foods (see section IV for a list of related reports on these commodities). In addition, as mentioned before, it is also expected that the following bulk and intermediate agricultural products have good export potential: wheat, wheat flour, soybeans, soybean meal and cake, animal feed corn, and planting seeds. See also the market sector (Section III) for additional products that may be targeted for specific markets.

Demographics, Income and Dietary Habits

The Russian population is predominantly urban. About 73 percent of the population lives in urban areas. The two largest cities are Moscow (8.7 million) and St. Petersburg (5 million). Another 12 cities have populations in excess of 1,000,000.

Size of Resident Population

Years	Total population, mln. persons	Including		In total population, per cent	
		urban	rural	urban	rural
1979	137.4	94.9	42.5	69	31
1989	147.0	108.0	39.0	73	27
1999	146.3	106.8	39.5	73	27

Source: Goskomstat 1998

The great majority of the Russian people live in European Russia (the area west of the Urals), but there are also major cities in Central Russia and the Russian Far East (RFE). In fact, besides Moscow and St. Petersburg, the major cities of the Far East, Vladivostok and Khabarovsk, each with about 650,000 inhabitants, provide an important market for American products shipped across the Pacific. The relative geographical proximity of the RFE which gives U.S. exporters an advantage over their European competitors is a factor that should not be overlooked. However, in the short to medium term, for the U.S. exporter, Moscow and St. Petersburg will remain the most important regional markets simply because of their population size, developed market structure, and most importantly, the concentration of the most affluent population. More than 60 percent of the wealth of the country is concentrated within Moscow's banking and financial circles. In addition, many buyers in outlying regions source their products in Moscow which is the major transportation hub for truck, air, rail and shipping lines.

Population by Age Groups

1998 Source: Goskomstat	Thos. Persons	In per cent	Females per 1000 males of given age
Total population	146740	100	1132
Total under working age (of total pop.)	31367	21.4	958
*Total of working age (of total pop.)	84786	57.8	927

Total over working age (of total pop.)	30587	20.8	2471
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* Males 16-59 years, females 16-54 years

Income

In spite of the economic reforms of the 90s, the average income of more than 15 million Russians is half or less than half the minimum subsistence level. The year 1999 witnessed Russians' real income dropping 15 - 20 percent from 1998, according to the Russian Ministry of Economy. The average monthly wage now stands at about US\$67 in comparison to US\$74 in December 1998. However, while the reforms did not raise the income levels of all Russians, it did create a small segment of the population whose income is sharply differentiated from the rest. While some 30 to 50 million (20-35%) Russians have incomes below the minimum subsistence level, the segment of the population with high and extremely high incomes has grown greatly. For example, in 1997, the 20 percent of the population with the highest income level has almost half of the total annual income of the population.

In large cities such as Moscow, the reforms of the 90s have contributed to the development of the Russian "middle class". Although precise figures on this segment of the population are unavailable, the number may be estimated at less than 200,000 people, mostly concentrated in Moscow and St. Petersburg. This new class, mostly men and women in their mid 20s to late 30s, is comprised mostly of middle managers. These new Russians emerged in the mid-1990s, as western firms and joint ventures began replacing expatriate employees with young, and often, but not always, Western-educated Russians. They were not self-employed like the so-called "New Russians," who are considered to be more than "middle class," and much wealthier, but were not dependent on the state like most Russians. The salaries of these middle class Russians were estimated to range from US\$500-US\$2000 a month prior to the 1998 crisis and US\$300 to US\$1000 after the crisis.

Distribution of Households by Per Capita Money Incomes

1998 (Goskomstat)	Mln. people	In per cent
Population, total, including with average per capita money income, monthly, thous. rubles*	146,7	100
up to 400,0	22,1	15,1
400,1-600,0	27,8	19,0
600,1-800,0	25,2	17,2
800,1-1000,0	19,6	13,3
1000,1-1200,0	14,3	9,8
1200,1-1600,0	17,6	12,0
1600,1-2000,0	9,0	6,1
over 2000,0	11,1	7,5

*Rubles in 1998 (1,000 old rubles = 1 new ruble; US\$exchange rate before the devaluation after the August 1998 crisis was approximately US\$1 = 6 rubles).

Source: Goskomstat 1998

Russians typically spend more than 50% of their income on food purchases. The following table illustrates the average monthly expenditures by food categories.

Consumer Food Expenditures of Households

Consumer expenditures, total, in 1998	in per cent (out of 100)
Total outlays towards purchase of foodstuffs for domestic consumption	51.4
Out of that for purchase of:	
bread and bakery products	8.2
potatoes	0.9
vegetables and melons	2.9
Fruit and berries	2.5
Meat and meat products	14.2
Fish and fish products	2.9
Milk and dairy products	7.3
Sugar and confectionary	6.0
Eggs	1.1
Vegetable oil and other fats	2.1
Tea, coffee, soft drinks and other foodstuffs	3.3
Outlays for catering away from home	2.0
Outlays for purchasing alcoholic beverages	2.6
Outlays for other expenditures	44

Source: Goskomstat 1998

Dietary Habits

The Russian diet was traditionally based upon meat. In addition, soured milk products are popular and widely eaten, as are pickled vegetables and salad products. Russians are also great soup eaters, with the soup generally being made at home, and often substantial enough to be considered a meal in itself. Although Western style soups may be popular among the younger, more affluent city population, they are by no means widespread. Meal preparation is a part of the Russian culture, and even with both partners in a family working, convenience foods are not yet widely accepted. However, this may be changing, as domestic brands of instant soup packets - often more substantial in weight and cheaper than imported equivalents - have lately started to appear in supermarkets in large cities. In big cities like Moscow, deli counters in large supermarkets offering a wide variety of fresh salads and other appetizer type food are also rapidly gaining popularity among the working population as an acceptable substitute or addition to home cooking. The following table illustrates the share of monthly diet accounted for by major food products:

Milk and milk products	Bread and bakery products	Potatoes	Vegetables	Meat	Others
42%	15%	15%	10%	8%	10%

Snack foods are relatively new to Russia. Potato chips and their variants introduced about 20 years ago are popular, particularly among children. However, Russians are very fond of cakes and chocolate confectionary products, which are usually eaten as a dessert after a meal. Boxed chocolate candies, which can be found just about everywhere, are often used as gifts.

Russian consumers have come a long way since the early 1990's when a lot of low quality products were exported to Russia, mostly from Eastern Europe and Asia. According to pre-crisis consumer surveys, from 70-90 percent of consumers prefer domestic products over imports. This is largely because many Russians still believe that domestic products are better because they are more "natural" and have few or no additives. Imported products are perceived as less natural due to the higher content of additives and preservatives, either perceived or actual.

Today, imported products are widely available in major cities in Russia, and consumers are becoming more and more sophisticated about them. Western European and American products today are generally perceived as being of high quality. Up to the crisis, the budding Russian middle class in Moscow and St. Petersburg were beginning to get used to higher quality imported foods. However, with diminished disposable income after the crisis, some imported products are simply no longer affordable to many Russians. Russians may spend over 50% of their income on food; however, even among the relatively well off Moscovites, they now tend to stretch their ruble by buying the less expensive food products, so as to save money for other expenditures, such as dining out or purchasing consumer electronics.

U.S. SUPPLIER ADVANTAGES AND CHALLENGES

ADVANTAGES	CHALLENGES
US products are generally identified as being good quality	Post-crisis reduction of income for the average consumer requires US products to be more price competitive
Food aid program helps the promotion of US food products	Lack of credit on the part of Russian buyers may continue to hinder the development of commercial trade
The growing food processing industry is looking for new imported food ingredients and equipment	May involve capital investment on part of US companies. Such market opportunities may not be suitable for many small to medium size companies.
Inability of domestic producers to supply quality goods on a consistent basis.	Given that most importers/distributors pay in advance for product, the longer wait for U.S. versus European products ties up the limited funds of the importers
Processors rely on imports because they cannot purchase the type, quality and/or quantity to meet their input requirements	Processors generally lack access to credit. In addition, there is also a preference whenever possible to use low quality, low price inputs

SECTION II EXPORTER BUSINESS TIPS

For any Western company operating in Russia, the most attractive (and indeed accessible) market lies west of the Urals, in European Russia. By conservative estimates, 70 percent of the people living east of the Urals could not afford to buy high value products such as ready-to-eat cereals, ready meals and other snack and chocolate confectionary products on even an occasional basis. For the U.S. exporter, the market for premium products remains limited to the major cities in European Russia, with the major markets being Moscow and St. Petersburg.

As in many developing countries, business relationships in Russia are largely built on the basis of personal relationships. Despite the availability and increasing reliability of phone, fax and even e-mail communication, dealing with Russian business representatives is still best done on a face to face basis. For the new to market exporter who is interested in seriously developing the market, it is imperative to meet in person with several importer/distributors and choose the right Russian partner before attempting to market products in Russia. Moscow veterans have offered these general words of wisdom for newcomers:

- Invest a great deal of time trying to figure the country out and research the market. The more you understand, the better.
- Don't expect to come to Russia, spend three days, and do a deal. To build a partnership that works takes a personal investment of weeks or months.
- Don't let culture shock impair your business judgement. Sometime during your first six months, everything will seem hopeless. That does not mean that it is.
- Don't neglect the business fundamentals. All the business basics - knowing your market, putting the customer first, producing quality - are just as true in Russia as in the States.
- Don't expect to do things at an American pace. Nearly everything in Russia, like making a telephone call, takes three to four times as long.
- Business in Russia is a contact sport. It can't be done at a distance, through phone, fax and letter alone.

For US agricultural food companies which want to export to Russia from their production bases in the US, there are a number of alternative marketing strategies. There may be considerable overlap between different types, but four broad approaches can be identified:

- Establishment of own office and distribution facilities in Russia
- Use the services of an American Trading Company with Offices in Russia
- Sell to Russian importers
- Sell to West European Agents (consolidators)

An American firm operating on its own will pay higher customs fees, face more difficult inspection procedures, and will receive slower processing times than a domestic company. For these reasons, the use of a local intermediary or sales office is highly recommended. The local importer may or may not also be the distributor. This entity will serve as a conduit for products into Russia and help deal with the numerous barriers to bringing a product into Russia. A model used by many successful Western companies operating in Russia is to use a Moscow based trading company to act as primary customer and facilitator of imports. The vast majority of imported products sold in Russia pass through Moscow.

If significant business develops there is also the option of establishing a legal representative office in Russia – preferably in Moscow. An office in a respectable office building with an assistant, car and driver and including

the salary and benefits of the representative, apartment, T&E expenses etc. would average \$150,000 - \$200,000 per year.

Below is an overview of some of the local business practices that could assist the exporter when considering entry into the Russian market.

PRICING

Pricing products for the Russian buyer is, as elsewhere, essentially market driven. Retailers and wholesalers have to use a competitive price to move product. Traveling relatively short distances in Russia, one can note that retail prices are very responsive to different competitive situations, with wide fluctuations between relatively nearby areas and cities. In understanding final prices and margins, it is important to understand the impact of the Russian tax system. For instance, the profits tax is in fact a tax on margins, not on net profit.

Product retail price is based on a number of important assumptions:

1. Customs duty and a further 1.25 percent customs clearance charges
2. Wholesale mark-up of 12.5 percent and retail mark-ups of 35 percent
3. Profits tax of 39 percent of gross margin
4. Additional charges to cover local taxes, wage tax, etc.
5. Value-added tax (VAT) at 20 percent of sales value, levied on imports at the point of entry. If goods are still the property of the exporter, then VAT is paid by the exporter and again by the wholesaler, down the chain to the retailer. Some food products, however, pay only 10% VAT.
6. A recently passed tax reform act gives the regions the right to impose a 5% sales tax but it is not clear whether all the regions will exercise this right.

BRAND IDENTITY

The idea of product brands and brand loyalty is gradually being developed, first through imports, and now by the adoption of Western marketing techniques by the more forward-thinking Russian producers. This is partly through consumers becoming more aware of brands available in the shops, and making repeat purchases, and partly through advertising and promotional activities. The fashion for all that is “foreign” has passed; consumers’ interest in old and new Russian products bearing Russian brand names is on the rise. The slowly recovering Russian food industry has successfully introduced a number of new Russia brands which compete favorably with imported products.

ADVERTISING AND PROMOTIONAL ACTIVITIES

Western-style advertising has hit Russia in a big way. In 1991, it was estimated that around \$30 million was spent on advertising. By contrast, in 1998, some estimates put the total figure at over \$1 billion. A few years ago, when the market was opening up to Western products, recycled Western commercials were very popular. Now, most advertising industry experts agree that Russian tastes and the Russian market require uniquely Russian ads. Relatively few Western advertisements will “translate” into the Russian market without substantial modification.

There are few regulations prohibiting specific forms or types of advertising. The exception is tobacco and hard liquor advertising on TV. In-store promotions are beginning to develop, as is point-of-sale advertising and

other promotional methods common in the U.S. These promotions are usually initiated by the distributor or the food company, and rarely by the stores themselves.

Billboards and other street advertising, including advertising on buses and the metro, are increasingly being used. Some companies have their own kiosks selling exclusively their own products.

WORKING WITH A RUSSIAN IMPORTER

Selecting the right Russian partner is probably the most important thing you can do in developing your business in Russia. An experienced and reliable importer can help you avoid the kinds of mistakes that can cost your company profits and sales. In selecting a Russian partner, you should be cautious and use due diligence in evaluating your prospective importer. Checking banking or supplier references, particularly if in the United States or abroad, is essential, as is an examination of the company's experience and business history. There are both U.S. and Russian companies that can assist you in evaluating your potential partner.

CREDIT AND PAYMENT TERMS

Prior to the August 1998 crisis, the Russian banking system, although still underdeveloped, was improving rapidly. After the crisis, the financial sector has been the slowest to recover and credit has become increasingly difficult to come by. In general, Russian bank charges are high and it takes much longer to open letters of credit or transfer funds than in the USA. Ruble interest rates are also very high, upwards to 40 percent, with credit generally limited to 90 days. About half the banks that are authorized to open foreign currency accounts also have general licenses enabling them to undertake a full range of foreign currency transactions. Many of these banks have correspondent banks in the USA. American banks such as Citibank, Chase Manhattan and Bank of New York are licensed to operate in Russia.

Russian banks are becoming more experienced in the art of modern commercial banking, but there are still many problems. A number of banks are poorly capitalized and have a weak supervisory regime. Since January 1, 1994, all cash transactions in Russia involving a foreign currency physically changing hands have been officially banned.

In the past, foreign suppliers expected, and Russian buyers agreed to make, a 100 percent pre-payment prior to shipment. This situation had started to change before the crisis as the market was getting far more competitive and Russian companies sought better terms. Currently, as a result of uncertain economic conditions, many exporters demand up front payment, particularly for new business. Some Western companies offer varying credit terms depending on client relationships. However, the unstable financial situation and fear of default has taken a toll on the willingness to grant credit. Where business relationships have become established, it is likely for simple bank transfers to take place on the basis of payment on delivery or payment after an agreed number of days. Letters of credit are sometimes used when required by the foreign supplier, but they tend to be difficult to organize for Russian companies and are not a favored payment method. Before the crisis, more than forty Russian banks were eligible to participate in the USDA GSM 102 Credit Guarantee Program. This program, suspended after the crisis, may be resumed in the near future and is a valuable tool for U.S. exporters.

Shipping and delivery terms vary widely, and transport arrangements may be organized by either party. Various Russian importers trade on a variety of bases, including FOB foreign port, CIF, cost insurance paid (CIP) or delivery duty paid (DDP).

BARTER AND COUNTER-TRADE

Countertrade (barter) was a long-established form of trade in the former Soviet Union and has continued its existence since liberalization, although the method of counter trading has completely changed from the organized system which existed in the days of the former Soviet Union. In the early 1990s, it was quite common for individual factories, mines, other industrial organizations or regional bodies to barter their products for imported food simply in order to feed their own workers. Such barter arrangements not only still exist, but after the crisis, have regained some of their lost popularity.

It is not generally advisable for foreign suppliers to become engaged in countertrade unless:

1. You have considerable experience in this form of trading with either in-house or hired expertise.
2. You are engaged in a substantial volume of trade (in order to cover the incremental costs of countertrade).
3. You are engaged in regular, on-going, shipments to the same partner.

REGIONAL CONSIDERATIONS

When exporting to Russia, a US company should pay careful attention to the regional differences that can affect transportation modes, storage, and delivery time. In addition, some regional agencies may not be fully informed about decisions made by the federal governmental agencies in Moscow. For example, the Russian Veterinary Service may have approved a US plant for exporting to Russia but the local customs or regulatory officials may not have this information in their files. Roads and other distribution and logistical infrastructure are not as well developed in many parts of Russia as in Moscow or St. Petersburg. Here, again, US exporters should work closely with the Russian importer to make sure regional considerations are fully addressed prior to shipment.

ASSESSING THE MARKET FOR YOUR PRODUCTS

There are a number of ways to assess whether your product has market potential in Russia. First, you can review the Unified Export Strategy developed by FAS/Moscow to see which products or product groupings have been identified as providing the best prospects for US exporters. You can also check to see if a Market Brief has been completed for your particular product. These Market Briefs give a more in-depth overview of the market for a given product or product grouping, as well as provide information on labeling requirements, regional markets, and the overall market situation. Trends in consumption, competition, pricing and lists of potential importers are normally part of the Market Brief. In addition, you can consult the BICO report on Russia (all these reports can be accessed through the FAS Home Page at fas.usda.gov) to see the latest export data for US agricultural and food products.

Another way to better understand and assess the market is to participate in a trade show in Russia. These trade shows are held annually in Moscow, St. Petersburg and in other cities across Russia. Participation in these exhibitions enables a US exporter to promote his product and meet with potential importers. Also, you have a chance to gauge how competitive your product is when compared to similar product being promoted at the show. A list of these shows can be found in Appendix VI. A U.S. company may obtain Trade Leads from Russian companies which are forwarded from Moscow to AgExport Services of the Foreign Agricultural Service. Finally, a US exporter can contact the ATO in Moscow for a brief assessment of the market for your product, or to receive the latest information available about Russian importers.

DISTRIBUTION CHANNELS

There are very few businesses importing products which do not also act as a primary wholesaler. This linkage between importer and primary wholesaler remains very strong in Russia. A number of importers go further and are involved to varying degrees in other stages up to and including retail distribution. Typical turnovers are difficult to categorize - most businesses claimed to be moving between US\$5 to \$40 million; a handful of large companies reported sales of over US\$50 million. One of the key factors influencing any business in Russia is the availability of working capital. Many operators simply cannot afford to hold stocks and, if they do, are likely to be inhibited in their ability to offer credit or initiate further trade.

Secondary wholesaling is identifiable as a separate activity. These are businesses which procure product on the domestic market, either imported or locally produced, and using relatively small but conveniently located warehouses, supply the local shops and supermarkets. The means used by secondary wholesalers to distribute products vary widely, adapting to opportunities and local competition. Virtually all operate on a cash and carry basis. Some offer delivery of telephoned orders; others sell through agents. Through regular personal contact, the agent knows what the retailers require and delivers goods as frequently as once a day.

LOGISTICS AND TRANSPORTATION

The transportation system to support the introduction of U.S. high value food products into the Russian market via St. Petersburg and Moscow is very well established.

The cost of a container shipment to the port of St. Petersburg, Russia ranges between \$2500 to \$3000 for a 20' dry container up to \$7000 for a 40' refrigerated container. Transit time ranges from 20 days to 27 days depending on the origination and destination ports. An average of \$400-\$800, plus 4 days shipping time, could be added to the shipment for delivery in Moscow.

The onward movement of the container from the port of entry to the final destination would be by rail or truck.

Ports

Some exporters say the northern route through Finland, using the ports of Helsinki, Kotka and Hamina, is the most efficient transportation route. The ports are capable of handling Bulk, Container (both dry and temperature controlled) and Roll-on/Roll-off (RO/RO) traffic. The ports have very modern, efficient, and well organized operations.

The Baltic route using the port of Riga, Latvia is capable of handling Bulk, Containerized (dry) and RO/RO traffic. The Port of Riga was rated as high risk because of the high loss and damage reported and/or the high unallocated cost of transportation experienced within the port.

The Baltic route using the Port of Tallinn is also a viable route to service the Baltic and the St. Petersburg/Moscow market. The Port of Tallinn is capable of handling General Bulk cargo, Containers (dry) and RO/RO vessels. The management services and facilities located in Tallinn are sophisticated and modern and capable of either warehousing or delivering a container by rail or truck to the St. Petersburg/Moscow market.

A significant share of U.S. poultry once was transshipped through the Baltics. A new Russian customs decree, has closed these land routes. All U.S. poultry must now be shipped to a Russian sea port.

The ports in the Russian Far East include, beside the port of Vladivostok, Vostochny, Vanino, Nakhodka and Magadan. Although Vostochny is the region's top port, the majority of U.S. exports move through Vladivostok. Break-bulk shipments, including large orders of poultry products, played a major role in food imports from the United States. There is a large cold storage facility in the port of Vladivostok for refrigerated and frozen shipments.

Internal Transportation Modes

In Soviet times, just as the State controlled the production of raw materials, their processing and retailing, it also controlled the physical distribution of products. Properly "connected" processing enterprises were able to lease the transport they required, virtually on a day-to-day basis, which gave them great flexibility and alleviated the need for them to repair and maintain a transport fleet of their own. Few, if any, retailers owned transport, and product delivered to the retail outlets was done by directive from higher authorities.

A chaotic situation emerged following the collapse of the command system. Many retailers invested in their own transport, and went in search of supply. It was not uncommon for retailers to travel many hundreds of miles to secure a supply of a particular product. Today, processors are finding that they are required to find buyers and that they must make deliveries to their customers by truck or rail. While many continue to lease transport, some have invested in their own transportation vehicles.

Given the great distances in Russia, finished product and raw materials have tended to be moved around by rail. At one time, more than 90 percent of all freight was shipped by rail. Many of the large processing factories have their own railway sidings through which they receive deliveries of raw materials and by which they send finished product. Although transport by road can be difficult given the state of some roads, the problems are not insurmountable. Security problems also exist for truck transport within Russia. Most food importers distributing onward to the Russian interior by road report sending trucks in convoy with at least one armed guard.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

In spite of the negative economic after effects of the crisis of August 17, 1998, Russia remains a market with significant potential for U.S. food products. Although the economic crisis and financial instability significantly decreased the amount of imported food products in the last months of 1998, while domestic food products started to gain sales in the local market as imports became more expensive, it remains a fact that the underdeveloped Russian agricultural and food industries cannot satisfy the demands of 146 million Russian consumers.

Below is an overview of the three major sectors, namely food retail, food processing and food service sectors, that may offer U.S. exporters sales opportunities in post-crisis Russia. For a more detailed analysis on each of these three sectors, please see Gain reports #RS0018 "Hotel, Restaurant and Institutional Food Service Sector Report - Russia, #RS0019 "Food Processing Sector Report - Russia", and #RS0017 "Retail Food Sector Report - Russia". All these reports can be accessed through the USDA/FAS Web Site (<http://www.fas.usda.gov>).

THE HRI SECTOR

Of all the food industry sectors, the HRI sector may have suffered the most as a result of the crisis. Prior to the August 1998 crisis, the Russian HRI market, estimated at US\$325 million, was one of the fastest growing and most lucrative food service markets for foreign exporters. The depreciating ruble in the months immediately following the crisis wiped out a large part of the Russian middle class. According to industry sources, revenues dropped about 50 percent after the crisis, and some luxury restaurants are finding it difficult to operate profitably. Restaurants that are making a comeback in today's market are fast food chains and franchises, where costs can be contained by ordering food supplies in bulk. While some of the top-end restaurants, already in the minority, still require some imported food stuffs, most others, in order to keep costs down, most source their supplies locally wherever possible.

There are over 70,000 companies in the Russian catering market, 50 percent of which are restaurants and 50 percent institutional outlets at factories, schools, hospitals and such.

Expensive Restaurants	Hotels	Fast Food	Family Style	Cafes, Bars	Institutions
0% (under 1%)	3%	9%	15%	25%	48%

In the short to medium term, the best opportunity for foreign exporters in the hotel and restaurant subsector will likely be limited to providing food service products in demand by the top hotels and restaurants of Moscow and St. Petersburg, while in the institution subsector, there may be opportunities in airline catering products, for example, with Aeroflot-Russian International Airlines, which has made strides in improving onboard food service by including certain imported items.

High quality products that may be sold to the top level restaurant market include: boxed meats, salmon, trout, lobster and shrimp, wine and spirits, and ethnic ingredients, especially for Asian and Mexican menus.

Food products that may be sold to the growing fast-food and family-style restaurant trade include: frozen french fries, frozen dough, and portioned products that do not require restaurant staff skills.

THE FOOD PROCESSING SECTOR

In the wake of the crisis, the domestic food processing sector was the first to regroup as consumers with reduced purchasing power turned towards cheaper domestic products. Long suffering domestic processors suddenly found their products to be in great demand. The upside of this trend for the U.S. exporter is that there will be increasing demand for imported raw materials and ingredients for which there is a perpetual shortage in Russia.

There are more than 8,400 food processors in Russia, not counting the growing on-farm primary processing of commodities. The following table breaks down the food processors into major subsectors:

Dry goods, condiments	Prepared fruits, veg, oilseed products	Confectionary	Dairy	Beverages	Meat and Fish	Baked goods
6%	9%	13%	15%	17%	19%	21%

The estimated import market for food processing inputs in 1998 was worth \$2.4 billion dollars, of which roughly one tenth was from the U.S. In 1999, due largely to foreign food aid, the percent of total food and ingredient imports used as processing inputs was higher, therefore, the food processing inputs import market is estimated to be worth from \$4.25 to \$4.5 billion.

Pre-crisis, imported products accounted for 70 percent of the processed food available in the major cities and 40 percent in the regions. Post crisis imports are estimated to account for 40 percent in the major cities and 10-15 percent in the regions. For the domestic processors the primary competitive advantage of imported inputs is availability, as the Russian farming sector, particularly the livestock subsector, continues to contract and not be in a position to supply local processors with the inputs they need.

Products that may be good prospects for the processing industry are: beef and pork, ground poultry meat, sausage casings, milk powder, egg powder, hops, soy concentrates, gluten powder, lecithin.

THE RETAIL FOOD SECTOR

The retail sector had been on a continuous growth curve until the financial crisis of August 1998. According to industry insiders, as a result of the crisis, sparked in large part by the devaluation of the ruble, sales plummeted 70 percent as consumers' buying power shriveled up and imported goods suddenly became much more expensive. Retail sales of food and beverages in 1998 were only 53.4 billion US dollars, a decrease of 19.6 billion US dollars or 26.9 percent from that of 1997.

Currently, imports that have best preserved their presence and market share since the crisis are those for which there are yet no Russian domestic equivalents due to the lack of production technology. However, with the economic recovery on the way, at least in large cities such as Moscow and St. Petersburg where the per capita average income is considerably higher than in the outlying regions, higher priced imported products have started to reappear on store shelves. According to industry sources, on the retail front, although sales are still 25% to 30% below pre-crisis levels, demand is continuing to pick up, especially for more competitively priced goods found in supermarket chain stores.

Although the number of large supermarkets, which are the most likely venue to carry imported food items is steadily increasing in large cities, the share of supermarkets is still relatively low among retail food outlets. According to industry estimates, currently supermarkets have only 0.2 percent of the national food and beverage market (4-7 percent in Moscow) and 8 percent share of the nation's total sales. The largest retail channels are still food and beverage shops that account for 55 percent of the market, while outdoor markets have 32 percent of the total value of sales. Increasingly, however, certain competitively priced imported items (most items with no domestic equivalent) can now be found even at some outdoor markets.

U.S. companies interested in exporting to the retail market should consider products that as yet have no serious domestic competition, such as vegetable oil, raw meat, poultry, fruits and nuts, wine, tea, coffee, tobacco, processed fruits and vegetables, cereals, ready to eat frozen foods, sugar and confectionary products, and pet foods.

MARKET TRENDS

In the past several years, there has been a government supported campaign to promote Russian-made products. The financial crisis of 1998, while detrimental to the economy as a whole, breathed new life into the domestic

food processing industry as the level of imports dropped and consumers who could no longer afford imported goods increasingly turned towards less expensive domestic brands. Domestic food processors who were able to attract investment have been reaping the benefits since the crisis. In a few subsectors, some domestic suppliers have captured market shares that will probably never be recovered by imported products.

While the development of the domestic food processing industry may offer new opportunities to U.S. exporters of raw materials and food ingredients to Russia, it is becoming a stronger competitor for certain high valued processed food imports from the West, such as dairy products and fruit juices, as well as beers. Prior to the crisis, imported beer had approximately 75 percent of the HRI market, certainly among hotels and restaurants serving business and middle class customers. Post crisis, domestic beers, such as Baltika, have dramatically altered the market share of imported beers. Because of the investments in modern brewery technology, the quality of many local beers are up to international standards while imported beers are 4 times more expensive. In order to compete with some of the major domestic producers, many Western companies have started building their own plants in Russia due to the favorable cost difference for raw materials.

Aside from the domestic competition, European based companies have a great advantage over U.S. suppliers due to the relative geographical proximity, similarities in taste, and long established business relationships with Russian importers. Since the crisis, Russian importers/distributors have been forced to pay in advance for food and beverage supplies. When they pay European suppliers they generally receive delivery of goods much faster--frequently several weeks quicker than exports from US suppliers. Because Russian importers/distributors have tight financial resources, there is obviously a preference to purchase from European suppliers. US Exporters with product warehoused in Europe, however, can overcome this advantage.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

In the short term, consumer food products offering the most potential include poultry, frozen and processed red meats, fresh fruit (apples), fish and seafood items, and pet foods (please refer to "Unified Export Strategy 2001" - through the USDA/FAS website for a more detailed analysis of the relative market opportunities of these commodities). In addition, the following bulk and intermediate agricultural products, wheat, wheat flour, soybeans, soybean meal and cake, animal feed corn, and planting seeds also have the potential to develop into good export prospects (also refer to Gain Report #RS9065). Please also refer to the "BICO" report, for up-to-date figures on U.S. exports of agricultural, fish & forestry products to the Russian Federation (all these reports may be accessed through the FAS/USDA website).

APPENDIX I - STATISTICS**Appendix I - Table A
Key Trade & Demographic Information**

Agricultural Imports From All Countries (\$Mil)/US Market Share(%)*	\$8,133/10% (1999)
Consumer Food Imports From All Countries (\$Mil)/US Market Share (%)*	\$6,546.6/8.5% (1999)
Edible Fishery Imports From All Countries (\$Mil)/US Market Share (%)*	\$116/6% (1999)
Total Population (Millions)/Annual Growth Rate (%)	146.3 /-0.3% (1998)
Urban Population (Millions)/Annual Growth Rate (%)	107/ -0.2% (1998)
Number of Major Metropolitan Areas (population in excess of 1 million)	14
Size of the Middle Class (Millions)/Growth Rate (%) *	0.2/N/A
Per Capita Gross Domestic Product (US\$) **	\$1800
Unemployment Rate(%)	12.40% (Oct./99)
Per Capita Food Expenditures (US\$)	\$386.4
Percent of Female Population Employed***	88%
Exchange Rate (US\$1 = 27.50 Rubles)*****	As of Oct.2000

* Data per CY1999 Russian Customs

** Official figures and growth rate not available. The Russian Middle Class is defined as those earning \$500-\$2000 a month before the crisis.

*** From speech by Vladimir Putin in December 1999

**** Per every 100% of economically active female population.. Or 41% of the total economically active population.

***** In the month following the August 1998 crisis, the ruble was devalued from 6.2 to over 20 to the dollar.

Appendix I -- Table B
Consumer Food & Edible Fishery Product Imports

Russian Federation Imports									
(In Millions of Dollars)									
	Imports from the World			Imports from the U.S.			U.S. Market Share		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
CONSUMER-ORIENTED AGRICULTURAL TOTAL	6,444	7,655	5,746	706	990	770	11	13	13
Snack Foods (Excl. Nuts)	445	407	251	11	6	6	2	1	2
Breakfast Cereals & Pancake Mix	12	27	38	2	3	2	16	10	7
Red Meats, Fresh/Chilled/Frozen	1,149	1,502	1,193	60	124	141	5	8	12
Red Meats, Prepared/Preserved	410	448	303	86	90	54	21	20	18
Poultry Meat	509	815	563	389	608	426	76	75	76
Dairy Products (Excl. Cheese)	432	519	376	18	14	19	4	3	5
Cheese	159	165	98	1	1	1	0	0	0
Eggs & Products	10	20	13	2	5	1	16	25	7
Fresh Fruit	806	854	627	22	25	15	3	3	2
Fresh Vegetables	300	337	274	8	8	3	3	2	1
Processed Fruit & Vegetables	375	473	401	15	18	22	4	4	6
Fruit & Vegetable Juices	180	129	112	2	2	1	1	1	1
Tree Nuts	50	52	32	14	15	10	27	29	33
Wine & Beer	530	648	485	10	7	5	2	1	1
Nursery Products & Cut Flowers	36	48	51	1	1	1	0	0	0
Pet Foods (Dog & Cat Food)	16	22	23	2	3	5	9	14	23
Other Consumer-Oriented Products	1,025	1,188	906	66	62	58	6	5	6
FISH & SEAFOOD PRODUCTS	380	395	255	10	9	7	3	2	3
Salmon	12	15	12	3	1	1	25	1	1
Surimi	5	4	2	1	1	1	11	2	8
Crustaceans	20	14	10	1	1	1	5	8	7
Groundfish & Flatfish	63	89	49	1	1	1	2	1	2
Molluscs	2	2	2	1	1	1	1	1	2
Other Fishery Products	278	271	181	5	7	6	2	3	3
AGRICULTURAL PRODUCTS TOTAL	10,385	11,855	9,370	840	1,104	855	8	9	9
AGRICULTURAL, FISH & FORESTRY TOTAL	10,937	12,479	9,812	856	1,121	869	8	9	9
<i>Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office</i>									

Appendix I -- Table C
Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Russian Federation Imports							
CONSUMER-ORIENTED AGRICULTURAL TOTAL - 400				FISH & SEAFOOD PRODUCTS - 700			
	1996	1997	1998		1996	1997	1998
	Value	Value	Value		Value	Value	Value
	1000\$	1000\$	1000\$		1000\$	1000\$	1000\$
United States	706,483	989,967	770,463	Norway	124,909	129,038	77,205
Germany	498,238	600,554	478,584	Latvia	20,490	28,278	17,976
Ukraine	673,375	461,398	385,114	Ukraine	41,557	16,786	17,802
Moldova, Republic of	461,019	574,493	350,164	Iceland	16,155	23,284	12,780
Poland	279,567	374,178	341,894	Estonia	16,170	16,824	11,082
Netherlands	356,379	408,198	274,376	Korea, Republic of	4,517	7,418	10,387
China (Peoples Republic of)	361,424	266,845	271,308	United Kingdom	16,049	22,001	9,597
France	232,759	294,936	250,348	Denmark	12,417	15,141	9,370
Italy	190,632	239,051	172,592	Kazakhstan, Republic of	7,066	7,908	8,399
Denmark	167,670	225,375	169,321	Germany	20,420	17,415	8,213
Hungary	148,528	189,467	156,923	United States	10,407	9,365	7,450
Belgium	116,027	175,762	143,883	Poland	7,826	8,317	6,299
New Zealand	137,735	224,083	133,920	Finland	6,934	8,059	5,334
Uzbekistan, Republic of	188,122	200,881	113,337	China (Peoples Republic of)	1,697	4,190	5,162
Spain	115,319	169,136	113,022	Netherlands	4,723	5,500	4,308
Other	1,810,524	2,260,391	1,620,555	Other	68,458	75,090	44,131
World	6,443,875	7,654,822	5,745,879	World	379,814	394,628	255,499

Source: United Nations Statistics Division

APPENDIX I-Table D Russian Agricultural, Fishery and Forestry Imports From All Countries
(In millions of dollars)

	1Q 1999	2Q 1999	3Q 1999	4Q 1999	S u m 1999	Imports from the US, 1999	U.S. Mark et share, 1999	Total imports, 1Q, 2000	Total imports, 2Q, 2000	Imports from the U.S., 1Q, 2000	Imports from the U.S. 2Q, 2000	U.S. Mark et share, 1&2 Qs
01 Live animals	2,292	2,242	3,129	2,813	10,476	0	0.0	2,295	2,331			0
02 Meat & edible meat offals	263,860	324,111	248,979	360,045	1,196,995	208,139	17.4	189,834	159,835	81,133	59,333	40
03 Fish, crustaceans & molluscs	32,885	29,142	21,462	32,923	116,412	7,072	6.1	22,441	13,875	375	437	2
04 Dairy products, eggs and honey	54,520	41,756	58,895	100,423	255,594	31,120	12.2	50,664	54,884	9,933	9,920	19
05 Other products of animal origin	5,213	3,506	7,199	10,966	26,884	1,177	4.4	4,470	6,235			0
06 Live trees and plants, bulbs, roots and flowers	8,585	6,203	5,086	5,167	25,041	0	0.0	10,112	10,889			0
07 Edible vegetables and tubers	57,121	89,937	94,388	117,883	359,329	23,249	6.5	80,450	117,625			0
08 Edible fruits and nuts	98,566	105,456	101,541	132,219	437,782	5,572	1.3	127,637	141,749	73	185	0
09 Coffee, tea and spices	88,188	85,105	61,284	78,206	312,783	178	0.1	60,766	64,573	51	422	0
10 Cereals	26,055	148,869	215,099	236,341	626,364	226,782	36.2	141,813	235,382	461	120,125	32
11 Products of the milling industry, malt and starches	23,511	35,982	51,211	46,166	156,870	5,194	3.3	32,848	40,653	920	200	2
12 Oil seeds, Miscellaneous grains, hay & straw	22,626	32,020	43,933	24,712	123,291	46,030	37.3	21,103	34,342			0
13 Lacs, Gums, Resins, Saps & Extracts	3,695	5,034	5,728	4,401	18,858	2,610	13.8	4,646	5,459			0
14 Other vegetable products	274	478	928	1,923	3,603	0	0.0	683	340			0
15 Animal or vegetable fats & oils, waxes	106,078	143,774	172,509	155,957	578,318	40,572	7.0	93,526	81,970	163	0	0
16 Preparations of meat, fish or crustaceans or molluscs	17,943	24,723	24,621	28,916	96,203	31,093	32.3	18,587	17,705	27	112	0
17 Sugar & sugar confectionary	335,511	543,624	237,338	138,120	1,254,593	1,764	0.1	272,494	383,324	19	17	0
18 Cocoa, cocoa products & chocolate	32,198	32,077	36,554	65,607	166,436	4,984	3.0	35,705	30,327	123	34	0
19 Preparations of cereals, flour, starch or milk	12,834	14,621	17,014	26,444	70,913	913	1.3	1,817	17,726	11	12	0
20 Preparations of vegetables, fruits and nuts	42,673	58,693	44,146	68,186	213,698	1,486	0.7	47,660	55,495	39	99	0
21 Miscellaneous edible preparations	72,295	59,823	65,753	73,785	271,656	8,349	3.1	59,018	67,969			0
22 Beverages, spirits & vinegar	48,959	55,718	77,666	122,917	305,260	2,583	0.8	78,137	91,767	606	709	1
23 Food industry waste, prepared animal feed	27,004	33,503	58,364	81,090	199,961	73,350	36.7	51,339	22,634			0
24 Tobacco & tobacco products	152,076	225,280	207,067	209,384	793,807	100,451	12.7	151,304	171,923	11,281	13,474	8
41 Raw hides and skins and leather	2,674	2,697	3,094	5,386	13,851	142	1.0	4,232	4,879			0
44 Wood and articles of wood	33,588	18,202	20,001	25,018	96,809	2,207	2.3	19,032	23,604			0
52 Cotton	80,422	81,299	74,124	142,324	378,169	275	0.1	101,768	125,366	568	642	1
TOTAL AGR. PRODUCTS	1,581,478	2,151,497	1,909,922	2,234,980	7,877,877	813,397	10.3	1,638,262	1,939,923	105,408	205,284	9
TOTAL AGR., FISH & FORESTRY	1,647,951	2,198,841	1,951,385	2,292,921	8,091,098	822,675	10.2	1,679,735	1,977,402	105,783	205,721	9

Source: Russian Customs CY1999

APPENDIX II DESCRIPTION OF USDA/FAS AND ATO SERVICES

There are a number of services and programs available to assist both US exporters to Russia and Russian buyers and importers. These activities include those provided by the FAS offices in Russia, as well as those provided by FAS or USDA offices in Washington. Below is a brief list of the services and information provided by ATO/Moscow. For more details on these services and additional information please visit the USDA/FAS Homepage on the Internet (www.fas.usda.gov) or contact us directly. Contact information of Agricultural Affairs and ATO offices in Moscow are listed at the end of this appendix.

Services and Information provided by ATO/Moscow:

Trade Leads - Designed to help foreign buyers looking for U.S. products

Buyer Alert - A bulletin listing specific products offered by U.S. exporters supplied to Russian food industry representatives

U.S. Supplier Listings - May be supplied to Russian importers upon request

Lists of Russian Importers

Lists of Major Trade shows in Russia and U.S.

List of U.S. Dept. of Commerce Offices in the U.S. and Russia

List of Major Russian Holidays

Trade Missions/Reverse Trade Missions

Contact Information of ATO Offices In Russia

Agricultural Affairs, Moscow

Moscow 121099, Bolshoy Devyatinskiy Pereulok 8

Tel. 7 (095) 728-5222, Fax 7 (095) 728-5133

Agricultural Trade Office, Moscow

Moscow 121099, Novinsky Bulvar, 19/23

Tel. 7 (095) 728-5560, Fax 7 (095) 728-5069

E-mail : agtrade@corbina.ru

FAS/Moscow Representative, St. Petersburg

St. Petersburg 191186, Nevskiy Prospekt, 25

Tel. 7 (812) 326-2580, Fax 7 (812) 326-2561

FAS/Moscow Representative, Vladivostok

Vladivostok 690000, Pushkinskaya, 32

Tel. 7 (4232) 26 8458, Fax 7 (4232) 30 0091

E-mail : vladmon@online.ru

APPENDIX III List of US Cooperators and Trade Groups with Offices in Russia

U.S. Wheat Associates: Bolshaya Molchanovka str.,23/38, stroyeniye 2, office 3, Moscow, 121069 (Commercial Department of American Embassy).

Tel.: 7 (095) 956-9081, Fax: 7 (095) 956-9080

American Soybean Association (ASA): 1st Kolobovskiy Pereulok, Bld.6, stroyeniye 3, Moscow, 103051.

Tel.: 7 (095) 795-0664, Fax: 7 (095) 795-0665; in the U.S.: Fax: 502 221 5254

U.S. Feed Grains Council: 1st Kolobovskiy Pereulok, Bld.6, stroyeniye 3, Moscow, 103051.

Tel.: 7 (095) 795-0662, 7 (095) 795-0663, Fax: 7 (095) 795-0663;

in the U.S. Tel: 501 817 1011, Fax: 501 817 1012

U.S. Poultry and Egg Export Council (USAPEEC): 1st Kolobovskiy Pereulok, Bld. 6, stroyeniye 3, Moscow, 103051. Tel.: 7 (095)

795-0660, Fax: 7 (095) 795-0661

U.S. Meat Export Federation: 9th floor, Business Center, Leninsky Prospekt,2, Moscow, 117049.

Tel.: 7 (095) 239-1578, Fax 7 (095) 230-6849

U.S. Rice Federation: 1812 Goda str., Bld.2, office 123, Moscow, 121170.

Tel/fax: 7 (095) 249-3833, mobile phone: 8 902 687 0593

Washington Apple Commission: Far-Eastern Office. Hotel Gavan, Washington State Trade Office, Vladivostok, 690002, U.I. Komsomolskaya, 3, 6 Floor.

Tel/Fax: 7 (4232) 25-88-60 E-mail: casper@gin.global-one.ru

APPENDIX IV **RUSSIAN IMPORT REGULATIONS** **Required Import Documents and Certificates**

General Import Regulations

Shipping product into Russia is a bureaucratic and time consuming process that is best handled either by a freight forwarder or an experienced Russian importer. The process involves two main steps: (1) Safety, Phytosanitary and Veterinary Clearance; and (2) Customs Clearance. The official language of the system is **Russian** and **all documents must be submitted in Russian**.

Although this information is considered accurate at the time of its publication, exporters should confirm the exact import requirements for individual products prior to shipment. Also, there may be specific import requirements for certain products which are not addressed within this. The following documentation is **required**. An explanation on these documents will be given below.

Delivery Contract

Bills of Lading

Freight customs declaration

Certificate of Origin - This is used to determine tariffs. Certificates can be obtained from local

Hygiene and Veterinary Certificates, as necessary

Chambers of Commerce.

Hygiene and Veterinary certificates

Manufacturer's Certificate of Quality

Certificate of safety issued by an independent party

Labeling and Packaging Requirements

The labeling laws have gone through several changes during the past two years. Russian importers are responsible for correctly adhering to the labeling laws. Below are the generic label requirements in force at the time of this publication. In addition, there may be specific requirements for certain product categories. Consult the FAS Home Page at www.fas.usda.gov for additional labeling information. All information must be in Russian.

1. Name of the Product and its kind
2. The country, company-producer (company name may be in Latin letters)
3. The weight and volume of the product
4. A list of the main ingredients, including food additives
5. Nutritional information
6. Storage conditions for products that have a limited storage life or that require special storage conditions
7. The length of storage possible (This should include the date of production and the use by date)
8. Method of preparation
9. Recommendations for use
10. Conditions for use, including avoidance during certain types of illness

Currently, importers are allowed to stick on the labels with the information in the Russian language after the product reaches Russia. The current law states that in cases of small-sized packages, or labels which cannot include all the necessary text in full, the information or part of the information about the product is allowed to be printed on a list enclosed with each unit of the product. You should check with the Russian importer to make sure your product labeling complies with the current law.

Certificate of Conformity

GOSSTANDART (State Standards Committee). This is the national body responsible for the certification of goods. A schedule of goods that are subject to mandatory certification is published and includes foodstuffs and beverages, whether of local or imported origin. Full certification to standards set by GOSSTANDART is mandatory for importing product. The most important certification needed for exporting product into Russia is the Certification of Conformity (called GOST-R). The Russian Research Institute for Certification (VNIIS) issues the Certificate of Conformity. The testing is done by the Testing and Certification Center (Rostest), which provides a full range of quality control and inspection facilities in Russia. However, the Certificate of Conformity can be issued in the United States. Enquiries about pre-certification can be made to Control Union Inspection, Inc. or to the U.S. Testing Company, Inc, of New Jersey, a subsidiary of SGS. These firms can also give further information relating to certification necessary to conform with import requirements and the costs of testing. The advantage of obtaining the Certificate of Conformity abroad is that testing in Russia can take up to two months or more.

Hygiene Certificate

This is required for all food products, additives, and preservatives. The State Committee on Sanitation and Epidemic Control (Goskomsanepidemnadzor) issues the certificates for children's foods, food additives, non-traditional forms of unprocessed food, as well as food products purchased under international agreements. Goskomsanepidemnadzor is responsible for sanitary and hygiene regulations. It issues Hygiene (Sanitary) Certificates through its Moscow certification laboratories. This committee also works closely with the Institute of Nutrition which operates under the supervision of the Russian Federation's Academy of Medical Science. The Hygiene Certificate can also be handled through the U.S. testing centers mentioned above. Certificates for other food products may be issued by local departments of Sanepidemnadzor.

Specific Import Regulations: Meat and Poultry

The Russian veterinary authorities determine which meat and poultry products may be imported into Russia and the import requirements for these products.

Eligible Products

The following products are eligible for export from the United States to Russia: Poultry and poultry products, beef and products, pork and pork products. Processed meat products intended for export to Russia must comply with USDA standards and regulations.

Ineligible Products

The following meat products are not eligible for export from the United States to Russia: ground red meat packaged in bulk form or in meat patties; beef products originating from beef animals raised in states where outbreaks of vesicular stomatitis are occurring; consumer size packages of ground poultry, mechanically deboned poultry meat, and giblets; poultry products originating from birds grown in selected counties in states affected by an outbreak of laryngotracheitis. Contact the Food Safety and Inspection Service (FSIS), Technical Service Center, Omaha, Nebraska. Tel. (402)221-7400 Fax (402) 418-8914 for updated information regarding disease status in restricted regions. Contact the Export Coordination Division of FSIS at tel. (202)501-6022 or by fax at (202)501-6929 for up-to-date requirements. You can also get the latest import requirements by contacting FSIS through the USDA Hope Page: usda.gov.

Veterinary Certificates

All meat and poultry products shipped from the United States require USDA/FSIS Form 9060-5--Export Certificate of Wholesomeness. In addition to this certificate, the following certificates are required:

Raw pork, including bacon and pork for retail sale. FSIS Form 9450-3(8/97) — Veterinary Certificate for Pork Meat Exported to the Russian Federation.

Pork casings. FSIS Form 9450-6 (7/95) — Veterinary Certificate for Pork Intestine Raw Material, Exported Into the Russia Federation.

Poultry. FSIS Form 9450-4(3/96) — Veterinary Certificate for Poultry Meat Exported into the Russian Federation.

Raw beef. FSIS Form 9450-5 (6/94) — Veterinary Certificate for Beef Meat Exported into the Russian Federation.

Fully cooked meat and poultry products and heat treated but not fully cooked meat products. FSIS Form 9450-7 (7/95) — Veterinary Certificate for Prepared Meat Products Exported into the Russian Federation.

All certificates accompanying product into the Russian Federation must be signed by a FSIS veterinarian. Contact FSIS, Technical Service Center, Export Division (402) 221-7400 for guidance in completing the proper documents correctly.

Processing/Packing Plant Certification

Poultry

All establishments which process or store raw poultry intended for export to the Russian Federation must be reviewed by an official of the Russian Ministry of Agriculture and included on the approved plant list for raw poultry prior to being eligible to export products to Russia. Establishments are inspected at their own expense. The requirements for these establishments are outlined in “The US-Russia Criteria for Processing and Refrigeration Facilities Exporting Poultry to the Russian Federation”. For additional information on plant inspection, copies of inspection criteria and approved plant list please contact FSIS, Technical Service Center, Export Division (402) 221-7400.

Pork

All establishments which process or store raw pork intended for export to the Russian Federation must be reviewed by an official of the Russian Ministry of Agriculture and included on the approved plant list for raw pork prior to being eligible to export products to Russia. Plants are inspected at their own expense. For additional information on plant inspection, copies of inspection criteria and approved plant list, please contact FSIS, Technical Service Center, Export Division (402) 221-7400.

Other Meat Products

Fully cooked pork products, pork casings, beef and beef products, fully cooked poultry products, and heat treated but not fully cooked poultry products can originate from any federally inspected facility.

Processed Food Products

Processed food products must comply with the general import requirements discussed above. In addition, if the product contains meat or poultry, it must comply with the requirements for importing meat and poultry products. Fish and seafood products must be from plants approved by the US Food and Drug Administration (FDA). You can contact FDA at tel. (202) 418-3163 or by fax (202)418-3196. There may be some special import requirements for certain processed food and

beverage products. Always check with your importer to be certain that your products meet Russian standards prior to shipment.

Potential Import Problems to Avoid

Exporting products into Russia can be a daunting task for the inexperienced US exporter. Even more experienced US exporters encounter problems and delays due to changes in Russian import requirements or customs regulations. This is why it is always a good business practice to check with your Russian importer and other sources to make sure your shipment has all the necessary documentation prior to shipment. Some of the more common problems to avoid include incorrectly completed documents and forms; required documents and certificates missing or unavailable; price discrepancies when the invoice price is at odds with Russian customs officials' price determination; meat or poultry product shipped from a packing plant or facility not certified by Russian veterinary officials; and duties, tariffs and VAT not paid in advance delaying the shipment. Customs duties and VAT must be paid before the product will be cleared by Russian customs authorities unless product is shipped, under the seal, to a Russian, boned, customs-approved warehouse.

Russian Regulatory Bodies

Below is a list of the more important Russian regulatory agencies involved in food imports. Their coordinates can be found at the end of this appendix.

Gosstandart is the State Standards Committee of Russia which is the national body for the certification of goods. A schedule of goods that are subject to mandatory certification is published and includes foodstuffs and beverages, whether of local or imported origin. Certification to standards set by Gosstandart is all important.

The Russian Research Institute for Certification (VNIIS) issues the Certificate of Conformity.

The Russian Testing and Certification Center (ROSTEST) provides a full range of quality control and inspection facilities in Russia.

Goskomsanepidemnadzor is the State Committee on Sanitation and Epidemic Control which is responsible for sanitary and hygiene regulations.

Customs Clearance

As a general rule, customs clearance is undertaken at the customs office for the designated address of the importer, and goods have to travel under seal to the clearance point. Import clearance is normally undertaken by the importer. All customs documentation should be drafted in Russian. Fees are levied for customs clearance and these depend upon the regime applicable to the commodity. Fees are normally 1% of contract value with a further 0.05% due in foreign currency. Clearance procedures, although formally spelled out, appear to be applied inconsistently.

Import Duties

Import duties are levied on imported foodstuffs at varying rates, the actual amount paid depending on the contract value. New rates were announced in 1995, and while there are general tariffs for each main category, some sub-categories attract different rates. It is important that individual exporters check into what category their product line falls and ascertain the correct tariff.

It is important to note that sub-categories within the main categories may attract different rates; tariffs and the system of applying tariff is constantly being changed. The customs office gives weekly briefings about these changes. Moreover, re-classification of product lines is constantly taking place and this re-classification can be retroactive.

Russia is currently negotiating to join the World Trade Organization. Upon accession, Russian will need to make further changes in its tariffs.

Excise Duties

Excise duties are levied on imported alcoholic beverages. This tax can be as high as 200 percent.

Value Added Tax

As of April 1995, a value-added tax (VAT) of 20% has been applied to all food imports. This tax is payable at the time of importation. There may be other minor sales taxes (1-2%), in addition to the VAT, depending on the imported product.

Customs Brokers

There is a growing number of Russian companies which specialize in customs clearances and other customs-related problems and issues. For a list of these companies, please contact the ATO in Moscow.

Contact Information for Russian Regulatory Agencies

State Standard Committee (Gosstandart)

Moscow, Leninsky prospekt, 9

tel.7 (095) 230-13-20

Mariya F. Mishina, Head of Division of Standardization and Certification of Food and Ag Products

tel.7 (095) 237-54-68, fax 7 (095) 237-6231

State Committee on Sanitary and Epidemiological Surveillance of the RF (GOSKOMSANEPIDEMNADZOR)

Moscow, Vadkovskiy per.18/20

tel.7 (095) 973-2748, fax.7 (095) 200-0212, 258-4497

Evgeniy N. Belyaev, Chairman

tel. 7 (095) 973-2748, fax 7 (095) 200-0212

Anatoliy A. Monisov, Vice Chairman

tel. 7 (095) 973-2666, 973-1803, 973-2674, fax 7 (095) 258-4497

All-Russian Scientific-Research Institute for Certification (VNIIS)

Moscow, Elektricheskoy per.3

Boris Krutov, Head of Section

tel. 7 (095) 253-3580, fax 7 (095) 253-3360

"Rostest - Moskva", Russian Center for Test and Certification, GOSSTANDART, RF

31, Nakhimovskiy prospect, 117418, Moscow, RF

Zlatkovich Lev Arnoldovich, General Director First Deputy

tel. 7 (095) 129-3200, fax 7 (095) 124-9966