



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.07

Required Report - public distribution

Date: 8/22/2003

GAIN Report Number: RS3019

Russian Federation

Poultry and Products

Annual

2003

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Report Highlights:

Russian broiler production is forecast to grow by ten percent in 2004, marking the seventh straight year of increased production and an over 300 percent increase since 1997. Investment and reconstruction of under performing plants continue to boost Russian production capacity. Russian imports in 2004 are forecast to decline by 11 percent due to the safeguard quota established in May 2003. The poultry quota and veterinary issues with several supplying countries are expected to also reduce Russian imports in 2003, by 12 percent from the previous estimate.

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

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Executive Summary

Russian broiler production is forecast to grow by ten percent in 2004, to 640,000 MT, while turkey production is forecast to remain unchanged. The growth in broiler production would mark the seventh straight year of increased production and a 320 percent increase since the low point in Russian production in 1997. Russian imports of broiler meat in 2004 are forecast to decline by 11 percent in 2004, to 875,000 MT, due to the safeguard quota established in May 2003. Russian imports of turkey meat are forecast to fall by 18 percent as importers choose to use quota licenses for chicken rather than turkey products. The poultry quota and veterinary issues with several supplying countries are expected to also reduce Russian imports of broiler meat in 2003, to 1.0 MMT or 12 percent decrease from the previous estimate.

Production

Farms of all categories produced 3.1 million tons of livestock and poultry (live weight) in the first half of 2003, a six percent increase over the same period of 2002 according to the Russian State Statistics Committee. The greatest growth occurred in poultry and pork production. Production of meat on small farms maintained its relative production level, accounting for 50 percent or more of production of all meats except poultry. In contrast to pork and beef, industrial production of poultry is slowly and steadily outpacing small-scale producers.

Broiler Production

Increasing investment and managerial experience is expected to help Russian producers increase output by ten percent in 2004. This is forecast to be the seventh straight year of increasing production. According to the forecast, Russian production will have increased by 320 percent between 1997 and 2004. Russia has 450 egg and 150 broiler complexes, which produce about 70 percent of all poultry meat, with an average profitability of five percent. The remaining 30 percent of production is on small and family farms.

The poultry quota applied in May 2003 is expected to support the existing trend of increasing profitability by raising overall prices in 2003 and 2004. Though poultry production remains the most profitable and attractive meat sector, many producers still face problems. Poultry farms must still recover from bad debts from the late 1990's and are under increasing pressure to expand their contribution to local social institutions and infrastructure. Successful farms are now trying to build vertically integrated structures in order to gain a consistent and reliable source of inputs. For most, this first entails the acquisition of a feed mill or some level of grain production. The largest farms now comprise the entire production cycle: feed, breeding, hatcheries, broiler production, slaughter, and retail sales.

Several large Russian agricultural corporations are continuing to buy idle or inefficient farms in order to create nation-wide production. Several of these companies now hold more than 10 separate broiler producers and processors in different regions of the country. These investment companies, often formed by oil companies, have significant resources that can finance the reconstruction and re-equipment of existing facilities. Refitting existing facilities is much cheaper than constructing new facilities at this time. Many of these companies have been investing millions of dollars in renovated housing facilities and processing lines. In fact, this is creating

two tiers of producers. The first tier is state-of-the-art in terms of processing and feeding technology. The other group is still using the same equipment and methods as in the Soviet period. While most in the second group would like to be folded into more modern corporate structures at some point, most of the poultry producers still remain in a state of near bankruptcy.

Turkey Production

Turkey production is forecast to remain stagnant in 2004. While demand remains strong for turkey and prices will rise due to the poultry quota, Russian turkey production is not expected to increase due to the lack of expertise and specialized production facilities.

PSD Table

Country Commodity	Russian Federation		(1000 MT)(MIL HEAD)			
	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	120	120	130	130	80	80
Production	500	500	600	580	0	640
Whole, Imports	150	150	65	75	0	50
Parts, Imports	1058	1058	1060	925	0	825
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	1208	1208	1125	1000	0	875
TOTAL SUPPLY	1828	1828	1855	1710	80	1595
Whole, Exports	1	1	0	0	0	0
Parts, Exports	0	0	1	1	0	1
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	1	1	1	1	0	1
Human Consumption	1675	1675	1755	1610	0	1565
Other Use, Losses	22	22	19	19	0	0
Total Dom. Consumption	1697	1697	1774	1629	0	1565
TOTAL Use	1698	1698	1775	1630	0	1566
Ending Stocks	130	130	80	80	0	29
TOTAL DISTRIBUTION	1828	1828	1855	1710	0	1595

PSD Table

Country Commodity	Russian Federation		Poultry, Meat, Turkey		(1000 MT)(MIL HEAD)	
	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	9	9	11	12	0	12
Whole, Imports	5	5	5	3	0	5
Parts, Imports	155	155	70	70	0	55
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	160	160	75	73	0	60
TOTAL SUPPLY	169	169	86	85	0	72
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	168	168	85	84	0	71
Other Use, Losses	1	1	1	1	0	1
Total Dom. Consumption	169	169	86	85	0	72
TOTAL Use	169	169	86	85	0	72
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	169	169	86	85	0	72

Feed Supplies

There will be no abundant supply of cheap grain in 2003 as was the case in 2001 and 2002. According to the first reports from the harvested regions, grain output will be significantly lower than in 2002. Lower grain stocks because of high grain exports in the 2002-2003 campaign will exaggerate the situation with poultry feed supplies in late 2003 and early 2004. The short feed supply will raise prices and the less developed poultry farms with low conversion rate will suffer. The producers that have new, efficient Western feeding systems will be able to weather the higher feed prices better than the older facilities. Feed prices are the main component of the final price of the poultry meat and there is often a 50 percent difference in feed efficiency between the new and old farms. Additionally, wheat makes up greater than 50 percent of the Russian poultry feed ration, thus the local prices for the reduced Russian grain crop will have a large impact on profitability in the coming year.

Some regions are already taking measures to ensure sufficient grain supplies for poultry facilities. For example, farmers in some of the southern regions of the Russian Federation are being

recommended by the regional government to pay land taxes with grain. This grain collection would then go into an emergency poultry feed fund.

Table 1: Feed Stocks Of Agricultural Organizations on July 1, 2003

	2002	2003	2003 as % of 2002
Planted and natural grasses, mln hectares	3.3	2.3	67.9
Hay	1.9	1.1	61.0
Non-Dried Fodder	3.3	2.3	69.2
Silage	1.2	1.0	83.9
Prepared Feeds			
Total, mln tons feed units	2.1	1.4	67.6
Per single standard animal, tons of feed units	0.16	0.11	68.2

Source: Russian State Statistic Committee

Consumption

The poultry quota is forecast to decrease consumption of broiler meat by three percent in 2004. Additionally, the consumption estimate for 2003 was decreased by eight percent from the previous forecast because of lower than expected imports during the period prior to the quota. Though domestic production has continued its strong growth, it cannot replace the import volumes in one year. Moreover, industry contacts feel that there will be significant excess demand that will also not be satisfied by domestic production. Russian incomes are growing at a steady pace and the demand otherwise associated with that cannot be fulfilled by domestic producers at the current time.

Trade

Russia's broiler imports are forecast to fall for the third straight year in 2004, to 875,000 MT, or 11 percent less than 2003. Russian broiler imports in 2003 were very unpredictable in the first part of the year and are estimated to decrease by 12 percent from the previous estimate. Combination of problems created by the poultry import quota and veterinary issues of numerous countries made poultry imports uneven over the year.

At this time, the quota will restrain Russian imports of poultry in 2004 for the entire year at the level of 1.05 MMT. This is a quota with a strict volume limitation and no over-quota imports are allowed. (Note: Post forecasts for combined broiler and turkey imports equal 935,000 MT in 2004. Mechanically deboned meat (MDM) is part of the quota but not included in the either the broiler or turkey PSDs due to the nature of its composition. Thus, part of total Russian poultry imports is not reflected in Post forecasts.)

According to the GOR Resolution N. 48, which established the poultry quota volumes, the import quota for poultry meat was fixed at the level of 744,000 tons for May-December 2003. This includes 553,500 tons from United States, 139,900 tons from the European Union, 33,300 tons from Brazil, and 3,100 tons from China. The remaining 14,200 MT are allocated competitively among any other supplier to the Russian market. The quota is divided between MDM and other poultry, namely chicken leg quarters and whole birds and turkey meat. In 2003, importers were required to import a 75/25 ratio of poultry meat to MDM.

According to Russian statistics, from January - April 2003 approximately 520,000 MT of poultry products were shipped to the Russian Federation before introduction of poultry imports quota. The May – December 2003 poultry import structure is expected to change due to the restrictions of the quota. Namely, the share of poultry leg quarters will increase and the share of whole birds will decrease. This will occur because the United States was allocated 75 percent of the quota, while Brazil was allocated about five percent. The change in trade is expected to occur because the United States is traditionally the supplier of chicken leg quarters to Russia, while Brazil supplied primarily the whole bird market. This specific export structure is mainly due to the domestic markets of each of these two supplying countries.

Table 2: Russian Poultry Imports, 2000-2003, MT

HSC Product	2000	2001	2002	2003					YTD
				Jan.	Feb.	Mar	Apr	May	
0207 POULTRY MEAT & OFFAL	687 898	1 374 756	1 375 039	80 206	81 515	138 391	219 300	16 607	536 019
020714 CHCK CUT+ED OFL,FRZ	558 539	1 147 949	1 056 599	61 448	67 631	116 166	177 965	10 615	433 825
020712 CHICKEN,WHOLE,FROZN	21 255	62 636	147 032	7 651	6 567	7 831	18 775	4 799	45 622
020727 TRKY CUT+ED OFL,FRZ	104 698	160 854	163 730	10 698	7 062	13 998	22 011	1 089	54 857
OTHER	3 407	3 318	7 677	319	208	323	242	67	1 160

Source: World Trade Atlas

Table 3: Market Share of Main Poultry Meat Exporters to Russia, 2000-2003, (% of volume, Excluding MDM)

020714 (LQS & parts, excl. MDM) Mkt. Share (% of Qty.)	2000	2001	2002	2003					YTD
				Jan.	Feb.	Mar	Apr	May	
1 United States	94.4%	95.1%	80.2%	51.3%	82.9%	76.7%	75.2%	64.4%	73.2%
2 Brazil	0.0%	2.9%	15.7%	45.8%	13.6%	21.4%	22.8%	18.6%	24.1%
3 Poland	0.1%	0.0%	0.1%	0.1%	0.3%	0.1%	0.2%	8.8%	0.4%
4 Germany	0.9%	0.7%	1.1%	0.9%	0.8%	0.3%	0.6%	4.3%	0.7%
5 Belgium	0.4%	0.4%	0.6%	0.5%	0.8%	0.4%	0.3%	2.6%	0.5%

Source: World Trade Atlas

Table 4: Market Share of Main MDM Exporters to Russia, 2000-2003 (% of volume)

02071410 MDM Mkt. Share (% of Qty.)	2000	2001	2002	Jan.	Feb.	Mar	Apr	May	YTD 2003
1 Belgium	5.2%	8.9%	12.9%	5.6%	5.0%	12.6%	3.1%	25.0%	6.8%
2 China	0.6%	5.3%	15.8%	38.8%	24.4%	21.5%	34.2%	16.7%	29.4%
3 Spain	0.5%	0.7%	0.9%	0.2%	2.3%	0.4%	1.3%	13.4%	1.3%
4 United Kingdom	16.3%	2.7%	16.4%	12.2%	19.7%	16.5%	15.3%	7.1%	15.8%
5 United States	35.1%	42.1%	5.4%	0.2%	0.0%	1.5%	4.4%	7.0%	2.1%

Source: World Trade Atlas

Table 5: Market Share of Main Whole Chicken Exporters to Russia, 2000-2003 (% of volume)

HSC 020712 CHICKEN,WHOLE,FROZN Mkt. Share (% of Qty.)	2000	2001	2002	Jan.	Feb.	Mar	Apr	May	YTD 2003
1 Brazil	58.0%	84.5%	89.9%	88.3%	84.2%	89.1%	96.2%	98.3%	92.2%
2 Sweden	0.0%	0.0%	0.0%	0.5%	0.0%	0.8%	0.5%	0.8%	0.5%
3 China	0.0%	0.8%	0.7%	1.9%	0.7%	2.6%	2.0%	0.5%	1.7%
4 Finland	0.0%	0.2%	0.1%	0.3%	0.6%	1.0%	0.0%	0.4%	0.4%
5 Czech Republic	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: World Trade Atlas

Prices

Though actual shortages of poultry products have not become apparent as of the middle August, market prices have risen on the prospect of limited imports during the fall and winter of 2003. Tables 6 and 7 show the dramatic changes in prices in 2003. All prices declined in the period of large imports prior to the quota and then started to grow again in June and July. A simple price comparison shows that beginning in July, all chicken products are growing in price.

Table 6: Retail Poultry Meat Prices in January – July 2003, Russian Federation

Date	Rate of exchange ruble/\$	Domestic chicken frozen carcass prices (ruble/kg)	Domestic chicken frozen breast boneless prices (ruble/kg)	Domestic chicken frozen legs prices (ruble/kg)	Foreign chicken frozen carcass prices (ruble/kg)	Foreign chicken frozen breast boneless prices (ruble/kg)	Foreign chicken frozen legs prices (ruble/kg)
1/30/2003	31.8000	42.81	58.28	47.05	38.55	55.47	34.69
2/28/2003	31.5762	42.32	56.28	41.16	40.81	54.89	35.04
3/30/2003	31.3805	41.68	55.17	42.27	42.15	54.15	34.92
4/30/2003	31.1000	41.77	55.67	44.50	41.90	56.38	34.42
5/30/2003	30.6691	43.93	57.62	45.00	43.76	62.17	39.55
6/30/2003	30.3483	49.07	59.32	49.50	48.27	73.08	39.77
7/30/2003	30.2450	53.55	78.00	50.83	55.78	81.69	41.76

Source: Russian Institute for Agricultural Marketing (IKAR)

Table 7: Wholesale Prices on Domestic Poultry Products, in June – July 2003, Moscow

Date	Rate of exchange ruble/\$	Domestic chicken frozen carcass prices (ruble/kg)	Domestic chicken frozen breast boneless prices (ruble/kg)	Domestic chicken frozen legs prices (ruble/kg)
6/20/2003	30.38	47.32	57.93	46.65
6/30/2003	30.35	49.07	59.32	49.50
7/10/2003	30.42	50.71	65.97	47.25
7/20/2003	30.43	51.31	77.67	48.00
7/30/2003	30.25	53.55	78.00	50.83
Alteration in price (%)	-0.61	4.37	0.42	5.90

Source: Russian Institute for Agricultural Marketing (IKAR)

Stocks

Poultry stocks will decrease at the end of 2003 and continue decreasing in 2004 due to the poultry quota.

Policy

In accordance with the GOR Resolution No. 48 “On Protection of the Russian Poultry Breeding,” poultry import quotas were introduced. The quota is effective from May – December 2003 (744,000 MT), 2004 and 2005 (1.05 MMT per year), and January – April 2006 (306,000 MT). Only the tariff code 0207 is included in the quota. The quota is the result of a safeguard investigation undertaken at the request of the Russian poultry producers. According to Russian Ministry of Agricultural officials, the poultry quota was aimed at guaranteeing that poultry production in Russia is profitable and making investment in the poultry industry attractive.

Country Quota Allocation

The import quota was distributed between importing countries in accordance with the historical trade during the period 1999-2001, as calculated by the Russian Custom committee. According to this reference period, the United States was allotted the largest share (74 percent), followed by the European Union (19 percent), Brazil (four percent), and China (less than one percent). A small “Other Country” allocation was also competitively available to any other country that did not receive a quota allocation, but still wanted to export to Russia. The allocations are a maximum allocation to each country and the shares are non-transferable. In the event of a disease outbreak or other reason a country could not fulfill its allocation, the share would be re-allocated among the other countries.

“Historical Importers”

The poultry quota is being distributed through a licensing system that allows only historical importers to participate. Importers that were active during 2000-2002 form this group and each company’s relative share of imports during that reference period determines its share of the quota. For example, if Company X imported two percent of Russian poultry imports from 2000-2002, the company will receive two percent of the TRQ licenses. Each company in the historical importer category was registered prior to the start of the quota and had to indicate that they were a legal entity and wanted to participate. After that was established and the company was registered by the Russian Government as a participant, the company was required to show a valid sales contract in order to import a volume that corresponded to the license.

As noted above, each company’s import license was also restricted by country of origin of the product. Therefore, a company had a license that indicated specific volumes for each of the supplier countries.

The final issuance of poultry import quota licenses to companies was originally scheduled for April 29, then it was postponed until July 1 and finally July 29, 2003. The extension of the date of issuance was due to lingering problems with certification of U.S. poultry facilities and

confusion about the system. After the closing of the July date, approximately 80 percent of the poultry licenses had been distributed.

Mechanically Deboned Meat (MDM) “Breakout”

Each country’s quota was also delimited by an MDM “breakout.” This means that a minimum of 25 percent of each country’s total exports were required to be MDM. Thus, the trade was split between 75 percent chicken leg quarters, breast meat, whole birds, or other parts and 25 percent MDM.

This means that each importer has a license that specifies the total volume available, the specific percentage that comes from each country, and the specific volume of MDM and non-MDM from each country.

Re-distribution and Future of the Poultry Quota

As it is mentioned in the historical importer section, 20 percent of the poultry quota remains unclaimed as of August. The Ministry of Economic Development and Trade (MEDT), the Ministry charged with managing and overseeing the quota, plans to re-distribute this volume in the third quarter of 2003. Several changes have been suggested and only two publicly acknowledged by MEDT, though not adopted officially. MEDT states that it intends to re-calculate the MDM share of each country based on MDM’s actual share of trade for that country during the reference period. This would decrease the MDM share for certain countries, including the United States. Secondly, MEDT has stated that it will revise the historical importer list to include companies that imported in the first quarter of 2003. Though this would change the company shares, it should not change the country allocation or the volume of the quota. (Note: Only these two policy changes were incorporated into Post forecasts for 2003 and 2004.)

Various producer, importer, and consumer groups have asked for other changes to the quota. Namely, they have requested changes to the historical importer principle, country allocation, and MDM breakout. At this time it is unclear whether additional changes will be made. Depending on the change considered, Russian import structure could change in terms of exporter market share and product mix.

Other Issues

Subsidies

At the same time as the quotas are limiting market access, the poultry producer lobby insists that the Russian poultry industry needs substantial support from the State, as interest rates are high and prices on inputs are growing. At this point, federal direct support looks unlikely. There are currently many different programs that assist with obtaining credit or reducing credit risk. Direct subsidies still appear to be too expensive for the Russian budget.

Veterinary Issues

Throughout the first half of 2003, doubt hung over the continued ability of the United States to export poultry to Russia due to veterinary issues. The remaining differences over the criteria that Russian veterinarians would use to conduct inspections of U.S. plants was finally ironed out in April. In May, ten teams of Russian veterinarians visited the United States to conduct reviews of processing plants and cold storage facilities that wanted to participate in the export trade to Russia. The new list of inspected plants approved by the Russian Federation went into effect on August 1, with additional plants approved by FSIS re-inspection in late July and early August.

Recently, the Russian Federation and EU agreed to use EU-wide veterinary certificate for exports of meat to replace the bilateral agreements with each EU country. Russia has announced it is tightening rules for imports of poultry and poultry products from the European Union after the European Commission lifted veterinary restrictions on imports of poultry meat from Belgium and the Netherlands that were imposed due to an outbreak of avian influenza (AI) in these countries. The veterinary restrictions were lifted because AI in these countries has been eliminated. In case of detecting sick poultry in one of the European countries, the Russian Veterinary Service has stated that it will close off not only this country, but all those bordering it. Before lifting the ban, Russia will send veterinary specialists to these countries and inspect the area. From the Russian point of view, this allows greater flexibility in ensuring that disease outbreaks are not spread via trade to Russia.

Marketing – Retailing Trends

Open-air markets are still estimated to sell over 90 percent of all poultry in Russia. A large enclosed building or an open area with many small stalls that sell different types of fresh food typifies these markets. Poultry is usually sold from small freezer/refrigerator cases. The product is usually thawed only sufficiently to break apart the chicken from the 20 kg trade package. Very rarely is imported poultry in consumer packaging or branded. Sellers often post the origin of the product along with the price, though this information is not always correct. Most consumers are price conscious, especially with poultry because it makes up one of the biggest sources of protein for most low-income families.

While open-air markets still account for the bulk of domestic and imported poultry sales, significant changes are occurring in Russia's larger cities. These changes are generally in product differentiation and sales outlet. Both of these changes are occurring due to the increasing incomes of most strata of Russia's population. This applies to the emerging middle classes and also to people who work in the public sector and retirees due to increasing industrial production and increasing government salaries and pensions.

Product differentiation is coming about as consumers exhibit their natural preference for chilled poultry products. Consumers have expressed a preference for the chilled product's texture and freshness. People also often have a more positive attitude toward chilled product because of past experiences with mishandled or improperly stored frozen meat sold in the open-air markets. As chilled product in Russia is sold within one or two days of slaughter, this product is fresh and is less likely to be mishandled over that short period. Moreover, as sellers receive a premium, they

tend to handle it better and more carefully than frozen poultry. Lastly, chilled poultry is often sold in the producer's own stall at open air markets or in supermarkets that regulate food handling better and more consistently. Naturally, these reasons translate into demand for local production.

This differentiation then translates into the specific products that are purchased. Whole chickens are often preferred in Russia if price is not the main object. Additionally, unlike many Western countries there is not a large price differentiation between white and dark meat so a whole bird is very versatile. In Russia, boneless breast meat is less than 50 percent more expensive than dark meat, where in the United States the difference can be over five times greater. On the other hand, frozen chicken leg quarters are the item of choice if price is the main object, due to its low price in comparison to chilled product and other frozen cuts. Thus, as people move up the economic scale or can more often have a special dinner where they may spend more than normal, consumers would choose chilled whole birds.

The differentiation is so great between chilled and frozen poultry, that in many areas they are only indirect competitors. For example, if a person has enough money they would almost always buy chilled poultry. Frozen poultry is only a competitor with chilled product when chilled product is in very short supply (very high price) or the consumer is unsure if they can spend the extra money to get the chilled poultry product. Direct competition between imported frozen product and domestic poultry comes when the domestic poultry is frozen in order to increase storage life. At this point, though most consumers often prefer domestic/local poultry over imported poultry, the premium consumers will spend reduces significantly.

Changes in retailing are starting to have an important impact on Russian purchasing decisions in urban areas, which are also changing the direction of poultry sales. In the past several years, domestic and foreign retail chains have been establishing themselves in Moscow and St. Petersburg. These supermarket and hypermarket formats account for an increasing share of food sales in these cities, as much as 25 percent of total sales by some accounts. Generally, the people that go to these markets are middle to upper-middle class shoppers who value convenience, selection, and moderate prices.

Tellingly, the poultry in these stores is almost exclusively fresh/chilled domestic production. In a representative store, approximately 30 meters of shelf space was devoted to poultry products. Of this space, 25 meters were devoted to fresh poultry and five meters to frozen poultry. Of the fresh poultry, approximately three-fourths of this space was whole birds or various cuts. The remaining portion was to highly processed poultry products (such as chicken nuggets) or semi-processed poultry products (such as chilled poultry in a marinate or with spices). The five meters of shelf space for frozen poultry was devoted to whole birds, game birds, and exotic meats. One small area of prepared food was also reserved for slow roasted chicken. In terms of supply, the fresh/chilled product was all local production (within 150 km) and only some of the whole, frozen chicken and frozen turkey was imported. Lastly, it is important to note that all the chilled poultry was sold under the producers' own label.

While this retailing trend is generally confined to only the largest cities due to the lack of distribution infrastructure and high incomes in the large urban areas, the growth of larger retailers is inevitable and has serious implications. First, these retailers have the infrastructure to sell chilled poultry, where open-air markets generally do not. Secondly, these retailers are aware of

the demand for chilled poultry and can sell chilled product for a premium. Third, these stores introduce a real and perceived jump in the food safety and food handling, which enhances the brand appeal of the local producers that supply the poultry. Lastly, by providing long-term contracts and relationships to producers, these stores increase the financial viability and investment potential of local producers.

This trend creates an even more distinct divide between frozen and fresh poultry and the type of retail outlet. Fresh poultry obviously gains from the development of retail chain in terms of a market free of competition from imported frozen poultry, a consistent demand, and a location that allows for the very positive development of brands.

On the other hand, this also poses challenges to importers of frozen poultry. The traditional model is the importation of a bulk packed, unbranded product that sells as a commodity to a series of middlemen. After coming through numerous middlemen, the product ends up in the open-air markets. Occasionally, problems occur in storage or handling which can degrade the quality due to negligence by the various middlemen. As with most commodities, it is purchased based on price and secondly by a vague perception of quality based on the point of origin.

While this comparison implies trouble for imported poultry, it is in the medium-run perspective that the commodity approach of importers becomes problematic. This is mainly due to the consistent, yet slow increase of incomes in the regions outside the handful of major cities. However, without a change to this approach, the negative image of imported frozen poultry only sold to very low income consumers at open-air markets will remain and become reinforced, as more consumers are able to opt for the supermarket.

Most exporters have not yet reached the decision point in terms of economics. Namely, for the near future most exporters will still be able to find a market for trade packed, bulk poultry products. However, some exporters have changed their approach. For example, the Brazilian company Sadia markets poultry of different cuts in consumer packaging and under its own brand. Certain companies also use bulk packaging of leg quarters, but arrange the cuts in a linear format so that they gain a better and more orderly appearance when sold. Regardless of the approach taken, the extra labor or packaging increases production costs. While many Russian consumers remain price driven, a large shift in the marketing policies of exporters will not change. However, in the long term, both domestic producers and exporters will respond to the changing dynamics of the Russian poultry market.