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## Russian Federation

### Promotion Opportunities

## Leading Trade Opportunities in the Russian Market 2005

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**Report Highlights:**

Exports of U.S. agricultural products to Russia are growing due to the revolutionary changes in Russia's retail and food processing sectors. Russia imports over \$12 billion in food and agricultural products each year, and imports are growing by roughly 12 percent annually. In 2004, U.S. agricultural exports to Russia grew to over \$850 million, up 40 percent year-to-year, reversing a downward trend; from 2001 to 2003 U.S. exports dropped due to a series of market access barriers.

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## Executive Summary

Economic improvement over the last five years has increased consumer purchasing power and demand for quality products -- pushing the retail food market to \$68.1 billion in 2003, 25 percent more than in 2002. Final 2004 figures are not available, but food retail sales were probably above \$83 billion, up 22 percent. Russia is the fastest growing retail food sales market in the world, with the potential to again double in size by 2008, just as it did since 2001. With this growth and the participation of multinational retailers, the retail market has become more competitive, and quality in now counts even more in purchasing decisions. In fact, suppliers now face penalties for failing to provide either the agreed quantity or quality to retailers. This creates a natural advantage for U.S. high quality consumer ready products, especially poultry, meat, snacks, nuts, fresh and frozen fruits and vegetables, wine, beer, seafood, among many others.

## Diversification of Trade

As shown in table 1, Russia's imports from the United States, while dominated by poultry, have begun to diversify. Red meat (beef and pork) exports were down in 2004 due to the ban Russia imposed on U.S. exports after the discovery of BSE in the United States in 2003. This ban hit hardest beef liver imported primarily by Russia for use in the meat processing industry. While overall red meat exports were off, U.S. pork is doing quite well, jumping 640 percent last year. As a group, food ingredient exports were down in 2004, due only to non-economic reasons related to one specific component. All other food ingredients saw staggering 88 percent growth. Tree nuts (such as almonds), seafood, and snack foods all grew impressively last year and have a bright future. While fresh fruits and wine sales appear in the table to be only quite moderate, official statistics underreport this trade due to heavy transshipments to Russia through Europe. In fact sales are quite brisk for each item, as explained in more detail below.

## Poultry

Although U.S. chicken leg quarters continue to dominate the Russian import market for poultry meat, the Russian government has imposed a safeguard measure that significantly limits market access. The safeguard quota, which will be in effect for three full years, is set at 1.05 MMT per year, with pro-rated amounts in the first and final years. For 2005, the total volume of the quota for the United States is 771,900 MT.

## Beef

In 2003, Russia introduced new tariff rate quotas (TRQs) for beef under codes 0201 and 0202. Although the United States does not ship beef under these categories due to the current BSE-related trade ban, when the market reopens, US exporters can be expected to take advantage of growing demand in the HRI sector. The high demand for less expensive beef cuts (offals) is expected to remain strong, and would likely resume at levels equal to the \$30 million dollars in 2003

## Pork

Despite a decline from pre-1998 crisis levels, Russia is one of the top ten export destinations for U.S. pork. In the near future, high-quality imported pork is likely to take advantage of the growing demand in the retail sector. However, the TRQ on pork could limit U.S. exports in the short term, which are capped by a country-specific allocation of 53,800 MT. U.S. suppliers are also facing extremely tough competition from Brazil due to very competitive pricing. The best export opportunities in the near future will include unprocessed and semi-

processed pork products for further processing (i.e., hams and picnics). These products are popular because Russian processors are keen to locate sources of inexpensive raw materials for further processing into sausages and other products.

### **Food Ingredients/Food Processing**

Russia's food processing industry has been growing rapidly in recent years, with a significant output increase of 25 percent in 2003 valued at \$32.5 billion. In 2004, the industry grew by a reported 18 percent. Due to the growing preference for Western style food and beverages, rising consumer incomes, and a significant population of 143 million, Russia is an excellent prospect for exporters to supply food processors. Consumer markets are not yet saturated with products. These trends are expected to continue, keeping prospects bright for U.S. exporters. Most local food processors trying to compete in the market are quality-oriented, rather than price-oriented ingredient consumers. Many companies report that raw resources and specialized ingredients for meat, bakery, confectionary, juice, and dairy processing available from Russia domestically are not sufficient to satisfy their needs in the future.

### **Edible Tree Nuts**

Domestic consumption continues to expand for a wide variety of edible nuts, including almonds, hazel nuts, and pistachios. Nuts are popular as both sweet and salty snacks. In addition, the fast-growing confectionery industry uses nuts in a variety of chocolates and baked goods. In particular, imports of U.S. almonds are expanding sharply, although direct import figures do not reflect the actual level as large volumes of U.S. almonds are also imported through Western Europe.

### **Fish and Seafood**

U.S. fish and seafood product exports will continue to grow and may reach \$30 million in 2005, up from \$23.1 million in 2004. High-quality fish, in particular for retail sale and in the hotel/restaurant sector, are growing in demand. Due to Russian industry's strong export focus, the domestic retail market is growing and relies heavily on imported fish and seafood. U.S. seafood exporters interested in the market should contact USDA's Trade Show Office or FAS/Moscow offices to participate in the seafood pavilion at the World Food Moscow exhibition in September 2005.

### **Fresh Fruit (apples, pears, citrus, table grapes)**

U.S. exports of fresh fruit are growing quickly. During 2004, Russia bought about 105,000 boxes of apples worth \$2.3 million, and 170,000 boxes of pears worth \$3.8 million. This estimate is based on industry representatives' information, since U.S. exports are often transshipped through Europe, artificially lowering US-Russia trade figures. Due to a high quality-low priced crop, the sales potential for apples alone in 2005 is estimated to be at least 500,000 boxes (about \$12 million), and a significant portion of that amount (reportedly, 300,000 boxes) has already arrived. As a further indication of market potential, some importers report they are already getting purchase requests from retailers for June shipment. For pears, the market is estimated at 300,000 boxes (\$6.7 million) this year. The retail sales sector in Russia is extremely modern and competitive. Quality matters and the United States is well positioned to take advantage of this growth as the world's highest quality, most consistent fruit exporter.

## Wine

Fueled by stable economic growth over the last six years, Russia is one of the most rapidly growing wine markets in the world with an average 30 percent wine consumption increase per year. Although Russian consumers still drink a greater quantity of popular wine labels from CIS countries like Moldova, Georgia, and European wines from France, the popularity of New World wine is growing steadily. U.S. wine exporters to Russia have excellent prospects. Chile and Argentina are the leaders among the other 'New World' countries in the Russian imports. In addition, this year French exporters are going to invest about one million Euros in wine promotion to Russia, three times more than last year.

## Other Products

In addition to the products described above, there is good market potential for a wide variety of other U.S. food and agricultural products, including: raisins; prunes; exotic juices (for retail and further processing); wine; wild rice; popcorn (especially microwave); prepared/canned foods (including private label); microwave foods; intermediate products for further processing (soy products, dried potato products, essential oils/flavorings, etc.); livestock genetics; and planting seeds.

U.S. exporters are invited to learn more about sales opportunities to Russia by writing USDA's Agricultural Trade Office at [atomoscow@usda.gov](mailto:atomoscow@usda.gov) or by participating in the U.S. company pavilions at World Food Moscow in September 2005 or Ingredients Russia in November 2005. For questions related to market access, agricultural policy, USDA's reporting program, and technical assistance, write USDA's Agricultural Affairs Office in Moscow, [agmoscow@usda.gov](mailto:agmoscow@usda.gov). You may also contact USDA offices in St. Petersburg [agstpetersburg@usda.gov](mailto:agstpetersburg@usda.gov) and in Vladivostok [agvladivostok@usda.gov](mailto:agvladivostok@usda.gov).

Table 1. U.S. Exports to Russia, 1999-2004, Selected Product Groups

Millions of Dollars							
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>CHANGE</u>
<b>TOTAL</b>	<b>743,0</b>	<b>586,7</b>	<b>926,5</b>	<b>564,7</b>	<b>591,3</b>	<b>829,5</b>	<b>40%</b>
1 POULTRY MEAT	153,0	317,5	666,1	373,0	381,0	530,5	39%
2 TOBACCO	12,5	17,4	42,7	12,0	6,8	71,1	944%
3 FOOD INGREDIENTS	<u>6,5</u>	<u>5,1</u>	<u>16,6</u>	<u>18,4</u>	<u>44,5</u>	<u>41,3</u>	<u>-7%</u>
<i>PROTEIN ISOLATES</i>	0,2	0,6	3,2	2,8	27,9	10,1	-64%
<i>ALL OTHER INGREDIENTS</i>	6,3	4,5	13,3	15,6	16,6	31,2	88%
4 RED MEATS, FR/CH/FR	<u>166,9</u>	<u>40,1</u>	<u>90,2</u>	<u>79,6</u>	<u>60,5</u>	<u>38,8</u>	<u>-36%</u>
<i>PORK MEAT FR/CH/FR</i>	13,7	5,3	25,5	9,1	2,6	19,3	640%
<i>BOVINE LVRS</i>	15,9	8,8	31,6	36,4	33,8	0,2	-99%
5 GENERAL CONSUMER ORIENTED	3,2	4,9	5,3	6,3	22,7	30,7	35%
6 TREE NUTS	0,2	1,5	6,6	8,3	16,8	27,5	63%
7 TOTAL SEAFOOD	<u>4,0</u>	<u>2,9</u>	<u>8,4</u>	<u>10,8</u>	<u>10,6</u>	<u>25,0</u>	<u>58%</u>
<i>FISH/SEAFOOD</i>	0,4	0,8	3,9	5,5	4,9	19,4	298%
<i>SALMON WHOLE/EVIS</i>	0,0	0,1	0,1	0,6	0,7	3,0	363%
<i>ROE/URCHIN/FISH EGGS</i>	2,6	1,2	1,7	4,5	5,0	1,5	-70%
<i>SURIMI (FISH PASTE)</i>	1,0	0,9	2,7	0,2	0,0	1,1	
8 SNACK FOODS	3,1	2,7	2,7	3,4	8,0	15,0	88%
9 FRESH FRUIT	1,7	0,6	2,4	1,5	2,1	6,3	196%
10 PROCESSED FRUIT & VEG	1,1	1,5	4,8	5,9	4,4	5,5	26%
11 PLANTING SEEDS	13,5	24,2	0,4	0,2	0,4	5,1	1316%
12 COARSE GRAINS	45,5	42,1	8,4	1,1	0,6	4,7	634%
13 VEGETABLE OILS (EX SOY)	11,9	10,2	7,7	1,5	2,1	3,1	50%
14 PET FOODS	0,5	0,2	0,8	0,7	1,0	2,4	126%
15 SUGAR, SWEETNER, BASES	0,2	0,7	1,0	1,5	1,5	2,1	38%
16 WINE AND BEER	0,6	0,6	1,1	1,2	1,1	1,8	62%

SOURCE: U.S. Census Bureau, USDA FAS, U.S. Trade Database