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Exporter Guide

Russia's economy fuels agricultural import growth 2006

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Report Highlights:

Russia offers U.S. exporters a large market and many undiscovered opportunities – 142.8 million potential consumers. High world prices for oil & natural gas, increase in sovereign credit ratings, stability in political situation cause overall economic development and consumer spending boom. Such dramatic growth is beginning to spread beyond Moscow and St. Petersburg to the regions

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Moscow ATO [RS4]
[RS]

SECTION I. MARKET OVERVIEW**KEY POINTS**

- ❖ Russia offers U.S. exporters a large market and many yet undiscovered opportunities – 142.8 million potential consumers. The country is currently attracting more international businesses from around the globe every year.
- ❖ High world prices for oil & natural gas, increase in sovereign credit ratings, stability in the political situation cause overall economic development and a consumer spending boom.
There is an external surplus and in 2007 the country will save \$ 150 billion in a stability fund, and this sum is likely to grow twice by 2009.
- ❖ Russia's investment rating grew by this year when it paid back the Soviet debt to the Paris Club of Creditors. According to Rosstat, the amount of investments to Russia in the first half of 2006 was \$ 23.4 billion, which is 41.9 percent higher than the same period in 2005.
- ❖ There already are established, successfully functioning, American companies in Russia.
- ❖ World's 4th largest growing economy with 7 years of consecutive growth. GDP growth was 6.6 percent to \$570 billion in 2005.
- ❖ Per capita GDP reached \$5,300 in 2005, comparing to \$4,039 in 2004.
- ❖ Incomes grew over 20% in 2005. According to experts, average wage in 2005 is \$1,031 for Moscow middle income buyers, \$370 for other regions' buyers
- ❖ There is fast growing retail market and in the period of 2002 –2006 it had been increasing an average of 28.6% per year, which is explained by the fast growth of people's incomes. Now this market is estimated \$ 117 billion. Forty-four percent of products sold through retail is imported products. Moscow consumers continue to spend 70% of their incomes on consumer goods, the highest ratio in Europe (Interactive Research Group). Modern retail formats are going into regions increasing total demand for quality products
- ❖ Since the ruble and euro are continuing to appreciate against the dollar, American products are becoming more attractive to the Russian importers.
- ❖ Recognized as a "market economy" by US and European Union, Russia has made significant strides with its accession to the World Trade Organization

CHALLENGES AND ADVANTAGES FOR U.S. EXPORTERS

<i>Advantages</i>	<i>Challenges</i>
As part of the WTO accession process, Russia is moving towards international standards	Continuing debates between Russia and the US over WTO issues.
Russia is the fastest growing retail market in the world, after China and India	Government bureaucracy and corruption
Paying in dollars is quite advantageous for the Russian businessmen due to the lower cost of dollar.	Tight competition to American products from Europe, Asia and the rest of the world
New format supermarkets are rapidly expanding to meet consumer demand, creating a good venue for imported products and taking sales from other channels	Misperception among Russian consumers against imported goods. Russians lack knowledge on the quality and benefits of US agricultural products
Sanitary and Phytosanitary issues, when they	Economic vulnerability, dependence on oil

are resolved, grow trade	and mineral extraction for most wealth
Greater emphasis on value-added production in food processing gives opportunities to new products	Non-tariff barriers hold trade below potential USDA has not finished negotiating new veterinary certificates
Consumers became less financially restrained and continue to shift towards better-quality products, growing middle-class	Limited acceptance of biotechnology
Investors are building more efficient storage facilities, improve infrastructure and logistics	Distance being a major barrier complicates logistics and ties up importers' funds
Fast food service and restaurants develop at incredible rate demanding new products	

SECTION II. EXPORTER BUSINESS TIPS

Based on experiences of American businessmen operating in Russia, below are the marketing tips for newcomers to the Russian market:

- Take time to research the market for your product. The better you understand local conditions and opportunities, the more likely that you will succeed in finding a buyer. Make sure that your product really has a market in Russia. The Russian housewives are very economical and would rather spend time in the home preparing a nice meal for their families than buy a ready to eat meal.
- If/when you do travel to Russia to visit potential trade partners, don't expect to spend a few days and close a deal. That could happen, but a successful partnership may take months to develop. For example, if you visit for 2 weeks, the first 13 days you could travel, meet the family, meet friends at dinner and on the last day you can conclude your business if all is in agreement that you can work together. But you need to keep in mind, that this agreement is not the final part of the negotiation process, but only a first phase of an ongoing process to get to a final understanding.
- Pay attention to business fundamentals. Business basics - knowing your market, putting the customer first, and offering quality products - are as useful and necessary in Russia as in any other market. A lot of foreigners have wrong ideas of the Russian market being the same as during Soviet Union times with shortages of most products in the stores. You'd be surprised to find out an abundance of all kinds of quality goods from all over the world now available to Russians and their demands for quality are growing every year as well as their purchasing abilities. If your idea was to sell off grade items, you would most likely not succeed here. You will never enjoy your Russia experience if you are of the opinion that this is a low-grade market.
- Don't let culture shock impair your business judgment. Some Russian business people are not friendly and open during first meetings. Still, many entrepreneurs are outgoing and speak good English.
- Don't expect to do everything at an American pace. While the business environment is improving, many things simply move at a different speed. A good example: Getting around by car or taxi in major cities, such as Moscow and St. Petersburg, can be especially frustrating. Build extra time into your schedule - you will probably need it.

There are several alternative marketing strategies that can be used to enter the Russian market. While there may be considerable overlap among these different types, four broad approaches can be identified:

- Sell directly to a Russian importer/distributor/processor.

- An option is to sell to an agent/consolidator in Western Europe. This is very risky for pricing structure and your market development. If your goal is to sell here, you need to maintain product identity and prices. Europeans would only sell your product if and when they can make a profit and not when the client wants it.
- Establish your own import and distribution facilities in Russia.

A U.S. company, operating on its own, will generally pay higher customs fees, face more difficult inspection procedures, and be forced to contend with more administrative delays than would a local importer. The local importer may or may not also be the distributor. This entity will serve as a conduit for products into Russia and can deal with the numerous barriers to bringing a new product into the country. A model employed by many successful exporters is to use a Moscow or St. Petersburg based trading company to act as primary customer and facilitator of imports. In fact, most imported products sold in Western Russia pass through Moscow and/or St. Petersburg. For the Russian Far East, Vladivostok is home to most importers and the principal import and transshipment point. If an exporter is willing to invest the necessary time and effort, even to the extent of establishing a representative office, then dealing directly with fast-growing Russian processing companies will provide better margins and the opportunity to respond more quickly to the clients' demands. If the decision is made to establish local representation, this office should be located in Moscow and should be run by an experienced Russian national to ensure the greatest market coverage.

➤ You as the exporter, must take the decision if this market has potential, how you want to enter and at what volumes and pricing structure. You have to find someone who will represent your interest either on a full time or part time basis is a good option. You can set up a Russian company with 100% foreign ownership and act as a domestic company doing customs, etc working with brokers for customs and handling will allow you maximum control and the end results will be much better.

➤ In Russia, business is conducted on a face-to-face basis with the top people making the decisions. Your local person must be able to act on their own as if they were the top man. Give them control with very rigid controls in place for money, commitments, etc. Make them part of your team and treat them respectfully. Remember here in Russia, most people you'd work with are likely to know at least one other language, have a very good basis in geography and generally are intellectual.

ASSESSING THE MARKET FOR YOUR PRODUCTS

There are various aspects to determining whether your product has market potential in Russia:

- Review the information provided in *Section IV. Best High-Value Product Prospects* of this report.
- Participate in one of several established trade shows in Russia. This will allow you to take a first-hand look at the local market, meet potential importers, and gauge how competitive your product is compared to similar products being promoted at the show.
- Contact ATO Moscow, St. Petersburg and Vladivostok to request a brief market assessment for your product and/or a list of Russian importers.

TRADE SHOWS IN RUSSIA

World Food

Moscow

September

www.world-food.ru/eng

This USDA-endorsed event offers an excellent opportunity to introduce U.S. food products in Russia. In 2005, this 4-day show drew 1,100 exhibitors from 51 countries and attracted more than 50,000 importers, wholesalers, retailers, and processors from all parts of Russia and from many neighboring countries.

Prodexpo

Moscow

February

<http://www-eng.expoctr.ru/site/95/default.asp?section=3>

The Prodexpo International trade show is the largest show of foodstuffs in Russia and Eastern Europe that boosts development of the domestic and international food markets.

WORKING WITH A RUSSIAN IMPORTER

Selecting the right trade partner is probably the most important thing you can do to develop your business in Russia. An experienced and reliable importer can help you avoid the kinds of mistakes that could cost your company profits and sales. In this regard, banking and supplier references are essential, as is an examination of the company's experience and business history. There are local and U.S.-based organizations that can help provide this kind of information. However, be aware that credit reporting is still a relatively new practice in Russia, and credit-reporting agencies may not have complete information on potential business partners.

DISTRIBUTION CHANNELS

Most importers also act as a primary wholesaler or distributor.

The entry of large foreign supermarket/hypermarket chains has had a fundamental impact on food distribution in Russia. Increasingly, these large retailers are buying in bulk directly from local manufacturers. At the same time, the increasing buying power of these retail chains is encouraging consolidation and growth among distributors in an attempt to maintain some balance. Although, up to now, Russian retailers have done little direct import, several of the larger chains are beginning to bring in some items and a few are considering an even larger range of products. All operators of the market are busy with optimizing the process.

LOGISTICS AND TRANSPORTATION

Various routes are available for shipment of various food products to Russia, each with its own advantages and disadvantages. Some products are sourced through Western European importers or brokers and delivered by truck or vessel to Russian ports. More direct imports come via Baltic or Finnish ports and then are shipped by truck or rail to St. Petersburg or

Moscow. The advantage of these ports was greater efficiency, fewer problems with loss or damage, and lower port fees. However, changes in Russian import requirements have largely redirected these shipments to Russian ports: St. Petersburg; Ust-Luga, Vysotsk, Kronshtadt; Novorossisk and Vladivostok.

Most consumer-oriented food and beverage products enter through St. Petersburg and are customs-cleared there or in Moscow. In fact, the transportation system for shipping U.S. high value food products into Russia via St. Petersburg and Moscow is very well established. Transit time ranges from 20 days to 27 days depending on the origination, with an additional four days shipping time for final delivery by rail or truck to Moscow.

Figure 1. Distribution Channel for supermarkets. Import of transatlantic products via the Greater Port of St. Petersburg.

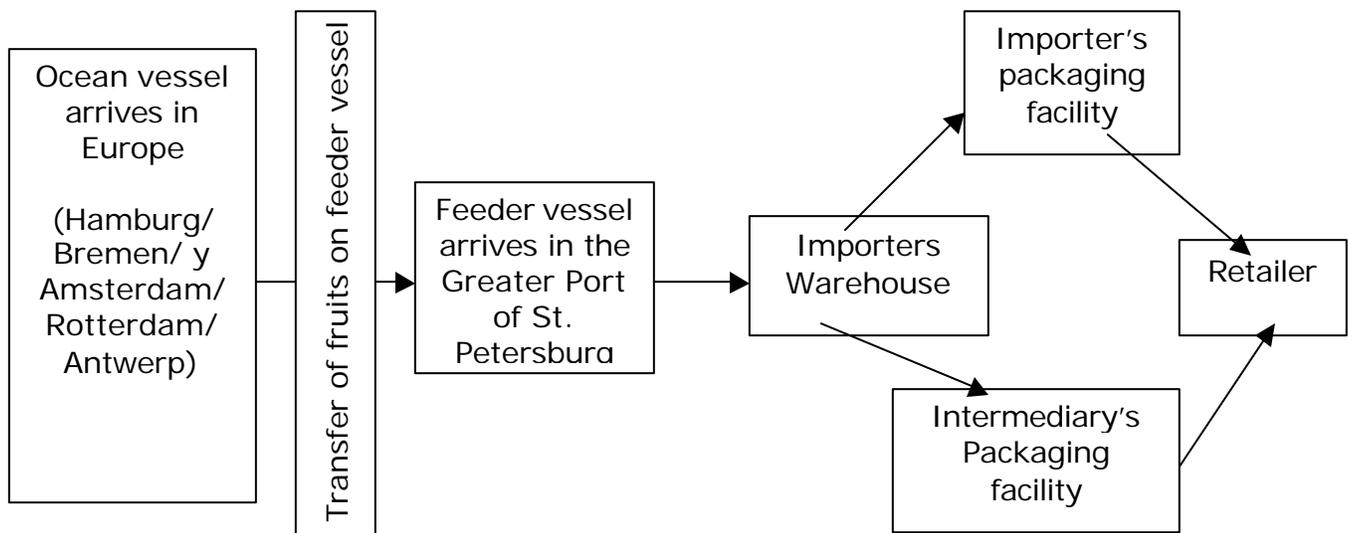
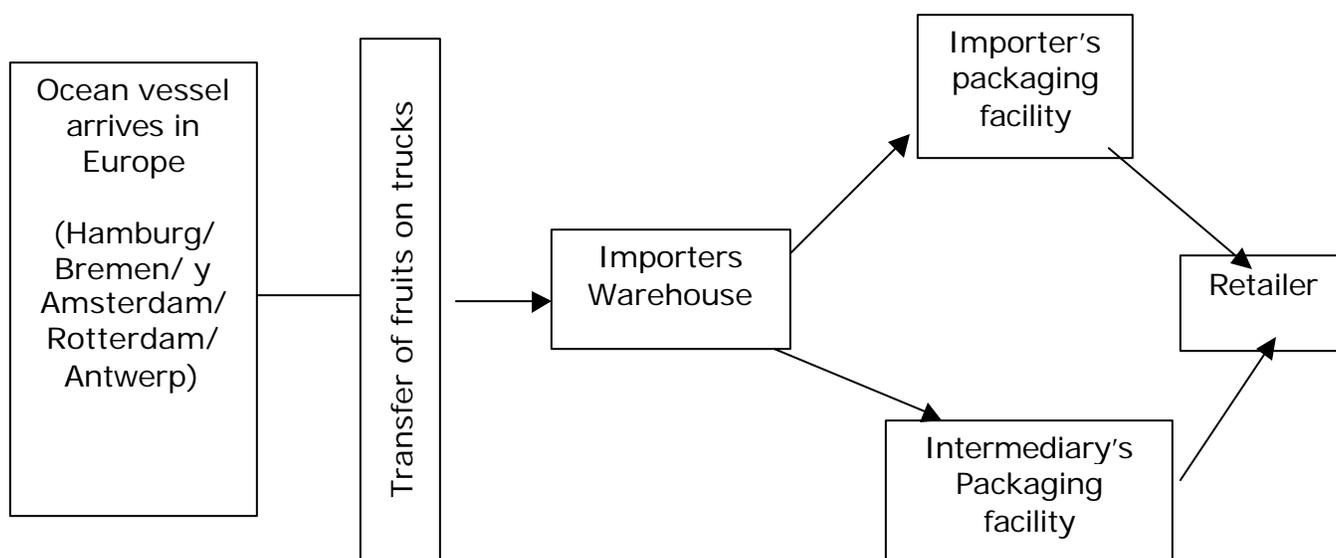


Figure 2. Distribution Channel for supermarkets. Delivery directly from Europe.

From Moscow and St.Petersburg, products may move further eastward by truck or rail to cities in Siberia and beyond. In fact, some products are shipped all the way to the Russian Far East (RFE). However, most products destined for the RFE enter through the ports of Vladivostok, Vostochny, Vanino, Nakhodka and Magadan. Although Vostochny is the region's largest port by volume, the majority of U.S. food exports to the Russian Far East enter through Vladivostok.

CREDIT AND PAYMENT TERMS

There is a rapid evolution in the Russian banking system, and banks every year are getting closer to meet international standards. Still getting a credit is relatively expensive and can be difficult to arrange. There can be obstacles to receiving a credit in Russia if the company is 100% foreign owned. In order to receive a credit at a Russian bank, you need to present a package of documents; a successful balance showing profits for the last 3 quarters among those and it would be helpful to have assets on the balance that could completely cover the bank's risks.

In addition, Russian bank fees are often high, and it can take much longer to open letters of credit or transfer funds than is common in the United States. However, as the economy improves, the financial operations of Russian banks also are improving. 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 United States. Further, several American and foreign banks such as Citibank, J.P. Morgan, Raffeissenbank, Societe Generale, and Credit Suisse are licensed to operate in Russia.

Not all of the Russian importers are accustomed to making 100 percent prepayment prior to shipment. Your regular customers would eventually expect you to ship in credit, (and that's the way it is provided by many western, particularly European companies) and pay when the product arrives in the Russian port or in some cases, make a prepayment and pay the balance when the product hits their storage. Many companies do not like to "freeze their money" for 30 days or more. Like everywhere else, it takes time to build a trusting relationship. You always need to think well on how to work with each particular company, sometimes getting a reference from an expert in this market can be very helpful. Where business relationships have become well established, simple bank transfers often are made on the basis of payment on delivery or payment after an agreed number of days. A letter of credit (LC) may be used when required by the foreign supplier, but LCs are expensive and sometimes difficult to arrange, so this is not a favored payment method. Documentary Collections work very well at ports and importers are accustomed to these procedures.

USDA credit guarantee programs (Supplier Credit, GSM-102) can help overcome some of these financing problems. The credit guarantee program operates with a specific country program for Russia and Russia also is included in a separate Eurasia program. At present Supplier Credit is not available worldwide due to the need for regulatory updates to the program. For further information on these programs, please visit the FAS website (www.fas.usda.gov) the FAS Moscow website (eng.usda.ru) or contact ATOMoscow (see SECTION V. KEY CONTACTS AND FURTHER INFORMATION).

FOOD STANDARDS AND REGULATIONS

Please, review the Moscow Agricultural Affairs Office (AAO), Moscow FAIRS Reports RS5025, RS5026, RS5008, RS5009 <http://www.fas.usda.gov/scriptsw/AttacheRep> Russia has complex food import regulations and exporters should carefully question importers regarding certificates and procedures needed for clearance into the Russian Federation. USDA has provided substantial reporting on these issues in the reports listed above and on our website <http://eng.usda.ru/> at the Market Access page.

PRICING

Product pricing for the Russian market, as elsewhere, is essentially determined by local market conditions. In fact, retail prices can sometimes vary significantly between relatively nearby cities and even areas within the same city. However, with the spread of large retail chains, pricing is becoming more competitive.

To understand how final prices and margins are determined, it is important to understand the impact of the Russian tax system. The product retail price is based on a several factors/assumptions:

- Import duties vary by product, but generally range from about 5-30 percent (see Appendix III)
- An 18 percent value-added tax (VAT) is levied on imports at the point of entry (note: the VAT on some food products is only 10 percent)
- Customs clearance charges add about 1.25 percent The wholesale mark-up is typically 12-15 percent, while retail mark-up runs 35 percent or more, depending on the product and the retailer
- A profit tax is assessed at 39 percent of gross margin

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

As the Russian economy continues to grow and consumer incomes rise, there are emerging opportunities for wide range of U.S. food products. Following is an overview of the three major food and beverage sectors -- food retail, food processing and food service (HRI). While each sector offers a unique set of challenges, there are also many interesting possibilities for U.S. exporters. For more detailed analysis, please refer to the other reports provided in *SECTION V. KEY CONTACTS AND FURTHER INFORMATION*.

THE RETAIL FOOD SECTOR

“This is the right time for retail”

- ❖ Russia’s retail market for food is \$ 117 billion and in the period of 2002 –2006 it had been increasing an average of 28.6% per year. By 2008 it might, according to several experts, double in size.
- ❖ Russian retail is benefiting from foreign investments and this situation is likely to develop. The Russian and foreign banks have opened new credit lines for retail chains –a good example here is a credit of \$ 75 million provided by Reiffeisen Bank to “Perekryostok” chain of stores.
- ❖ Modern retail formats (both local and foreign chains) are going into regions increasing total demand for quality products
- ❖ Although Moscow market is not over concentrated, most retailers from the capital are getting into regions due to the great potential there. In Moscow itself the situation is becoming more complicated due to the deficit of available trade spaces.
- ❖ Russia's economic improvement over the last five years has increased consumer purchasing power and demand for quality products

Overall, today the situation in retail can be characterized by the increasing concentration of trade and the growing significance of strategic planning. The global players came to the Russian market and in short periods have conquered the leading positions. These companies, which already had an experience on the markets of Asia, Mexico and Eastern Europe, here feel self-confident and now define standards for the industry.

According to experts, modern formats will actively replace little stores and businesses by offering quality products, a variety of choice and attractive prices.

Starting in 2001, several retail chains began to offer private label products. Nowadays, Ramstor, Metro Cash&Carry, Spar, Pyaterochka, Kopeika, 7Continent and others are developing their private label products and hoping that consumer awareness will increase. So far, consumers are doubtful about the quality of such goods and believe that private label products are for people who are willing to save money. This most likely happens because packaging doesn't meet consumers' expectations. According to an AC Nielsen survey conducted in 2005 among Internet users, 60% of Russian citizens consider private label able to compete with branded products, which is lower than the results of Western Europe (about 80-85 percent), but higher than in such countries as India, China, Poland (55-50 percent). According to experts, the leaders of private label products are milk, cheese, water, ready-to-eat cooled meals. Retail chains announce their plans to increase the share of private label products in their outlets to the level of 10-12% next year.

Listing fees and strict quality requirements are becoming a stumbling block between modern format retail outlets and producers. According to expert evaluation, suppliers have to pay \$200 – 300 for each unit they plan to sell in the outlet. Still, in fresh produce, meat and fish departments products that are supported by marketing programs sponsored by a supplier can get listed in the store with a discount. In produce and meat departments, for high quality goods, sometimes listing fees are waived entirely.

THE HOTEL, RESTAURANT, AND INSTITUTIONAL (HRI) SECTOR

- ❖ Sharp increases in consumer income, pent-up consumer demand, and expanding tourism are creating a boom in Russia's HRI sector
- ❖ Fast-food chains, both foreign and home-grown versions, are expanding by 14-16 percent annually
- ❖ Sales for mid-level or "democratic" restaurants are growing even faster - as much as 30 percent per year
- ❖ Coffee shops are seeing the fastest growth – 20-25 percent or more annually

Eating out and take out food is now often connected to increasing frequent trips to new retail formats (supermarkets, hypermarkets, and malls) and after-work convenience foods. Cafes and fast food establishments have capitalized on increased consumer income and desire for convenience foods. Amazingly, experts estimate that 90 percent of all food prepared in restaurants and cafes in Western Russia is imported.

There are only about 15 restaurants in Moscow and 10 restaurants in St. Petersburg that serve American cuisine. There are hundreds of Italian restaurants. This is one way American products are disadvantaged. They are not as visible. Key concerns that are important to Russian restaurants are food or ingredient price and availability. Price is an obvious concern for most restaurants because of the large number of individual, independent owners. They typically purchase on a small scale and generally have a demanding, but price sensitive clientele. Showing restaurants how to maximize the value of a product or use less expensive substitutes is often helpful. As there are few restaurants with significant buying power, they often work hard to find the supplier with the best price. Lastly, developing new menu items depends on the constant availability of U.S. products.

Established restaurants also work through one or more food service distributors, both wide-spectrum and specialized distribution companies. While many restaurants like having a large choice of products from one company, many continue to work with the specialized suppliers because of their client orientation and convenient delivery services. Some restaurants also purchase ingredients through cash and carry retailers. Though this is more common for small restaurants and cafes, low prices on bulk items attract a variety of HRI consumers.

This segment is full of opportunities for U.S. exporters because of the wide variety of imported foods used and the wide range of qualities (from premium to economy) demanded from different customers. It is very easy to find a niche for any product. The best prospects are for bakery ingredients, meat, seafood, and wine.

Please refer to GAIN Report Number: RS5060 for further information on HRI sector in Western Russia. <http://www.fas.usda.gov/scripts/AttacheRep/>

THE FOOD PROCESSING SECTOR

- ❖ Local processors more and more must meet international quality standards. They pay more attention to quality of ingredients they use.
- ❖ Russian food processing companies continue to expand and modernize their production facilities. This stipulates their demand for high quality ingredients.
- ❖ Local food industry has become one of the most dynamic sectors of the Russian economy, with an average increase of 15-20 percent per year.

Russia's food processing industry has been growing rapidly in recent years, with a significant output increase of 25 percent in 2003, which was valued at \$32.5 billion. In 2004, reports are that the industry grew 18 percent. Consumer markets are not yet saturated with products. These trends are expected into the future keeping prospects bright for continued development at the pace of 10-15% a year. 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.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

“Hot picks” – best US Export opportunities for Russia

The top US products exported in Russia in 2005 –and the first half of 2006 are as follows: nuts (almonds and pistachios), fish and seafood, fresh fruit and vegetables, livestock and poultry genetics, pork, poultry, snacks, including popcorn, food ingredients including soybean isolates and/or flakes and hide and skins. Cheese is a new opportunity. Russia's imports are quite large and a major tariff obstacle will be suspended by December 2006. Wine and spirits are also exported successfully.

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% 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% 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 to be quite moderate, official statistics underreport this trade due to heavy transshipments to Russia through Europe.

There's a good growing market in Russia for American fruit, particularly apples and pears. Russian customers prefer larger sizes of apples and pears, which differ from the West, where small sizes are favored. The absolute favorite American apple in Russia is Red Delicious, but there's a good demand for Golden Delicious and Braeburn. There's a misperception of American Granny Smith apples, because the buyers dislike yellow sunburn. The most popular American pears are Green Anjou, Red Anjou and Bartlett. In winter American apples and pears hardly meet any competition because of their good appearance and the fact that they

can be stored year round. There's a market for American citrus and grapes yet to be explored.

Following are suggested best prospects for U.S. exporters by sector:

Product Category	2004 Imports from USA	2004 Imports	5-Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints to Market Development	Market Attractiveness for USA
Fresh Fruits		3.75 mmt	12.7%	Apples: (Jan 1-Jul 31) 0.1 Euros per kg (Aug 1-Dec 31) 0.2 Euros per kg + 18% VAT Pears: 10% + 18% VAT	Strong competition from Poland, China, Chile, New Zealand, Moldavia for apples; Argentina and China for pears.	Good potential as a niche market for U.S. apples, pears, grapes, citrus. Especially during February- April period.
Dried fruits	Raisins - \$162 thousand	Raisins - \$24 million	10.7%	5%, but not less than 0.02 Euros per kg + 18% VAT	Tough competition from Iran, Tajikistan, Afghanistan and Uzbekistan for bulk dried fruits.	U.S. raisins and prunes competitive for quality retail and processing market.
Tree nuts	Nuts - \$5 million Almonds - \$4.6 million	Nuts - \$23 million Almonds - \$4.8 million	Nuts - 29%	Tariff depends, 18% VAT	Iran biggest competitor for peanuts and pistachios; Tajikistan for walnuts.	U.S. almonds enjoying very strong growth. Good potential for U.S. pecans and other nuts.
Wine	\$2.3 million	\$ 445 million	18%	GAIN Report RS5009, www.fas.usda.gov	Lack of US wines promotion, strong positions of other importers (Moldavia, Burglary,	

					France, Italy, Spain, Chile)	
Fish and Seafood	\$ 23.1 million	\$642 million		10% + 10-18% VAT	Recovery in local catch/production, expected higher prices.	Opportunities for groundfish and salmon, especially underutilized species, for processing. Growing demand for high value products for HRI and retail.
Confectionery	HS190590 – pastry, cakes, bread- \$200 thousand HS1806 – chocolate – \$8.2 million HS 1704 – sugar pastry – \$ 1 million	HS190590 – pastry, cakes, bread- \$29 million HS1806 – chocolate – \$229 million HS 1704 – sugar pastry - \$ 91 million				
Snack Foods	\$9 million	\$385 million	-8%	5% - 15%, but not less than 0.15 – 0.075 Euro/kg (duty depends on product, size of package, sugar content, etc.) + 10% - 18% VAT	Strong competition from local producers, including some foreign brands such as Lay's (PepsiCo) and Estrella (Kraft) – Pringles from Europe.	Good potential for high quality U.S. snacks: popcorn, nuts, dried fruits mixes.
Rice	0.002 MMT	0.46 MMT	12%	10%, but not less than 0.03 Euros per kilo + 10% VAT	Some local production and low-priced competition from China/Vietnam	Opportunity for high quality U.S. rice, wild rice in HRI and retail.
Wine	0.4 mln	229 mln	7.4%	20%, +	Competition	Existing wine-

	liters	liters		18% VAT	from locally produced beer, vodka, plus wine imports from Europe.	drinking culture getting boost from GOR policy to reduce hard alcohol (vodka) consumption. Especially good potential for medium-priced wines.
Pet food	\$4 million	\$61 million	15.3%	20%, but not less than 0.16 Euros/kg + 18% VAT	Strong local production - Mars has two plants that produce Whiskas, Kitekat, Pedigree; Nestle's Purina produces Friskies and Darling locally; other imported and local brands, some very inexpensive	Large number of pets and limited consumption

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Contact Information for FAS Offices in Russia and in the United States:

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To learn more about USDA/FAS AND ATO services please visit <http://eng.usda.ru>.

OTHER MARKET REPORTS

Attache reports on the Russian food and agricultural market are also available on the FAS website www.fas.usda.gov/attache.

OTHER USEFUL CONTACTS:

The ATO/Moscow works with a large number of U.S. industry organizations, some of which have local offices to assist U.S. exporters of these food and agricultural products. Find these contacts at eng.usda.ru.

U.S. Poultry and Egg Export Council (USAPEEC)
E-mail: usapeec@usapeec.ru

U.S. Meat Export Federation (USMEF)

E-mail: Moscow@usmef.org

U.S. Wheat Associates

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E-mail: Irina.Koziy@mail.ru

Pet Food Institute

E-mail: agerman@globalworks.ru

National Renderers Association

E-mail: lischenko@ane.ru

Another good source for information on doing business in Russia, the American Chamber of Commerce which has offices in Moscow and St. Petersburg:

American Chamber of Commerce in Russia (AmCham)

Ul. Dolgorukovskaya, Building 7, 14th floor

127006 Moscow, Russia

Tel: 7 (495) 961-2141; Fax: 7 (495) 961-2142

Email: amchamru@amcham.ru

American Chamber of Commerce in St. Petersburg

25 Nevsky Prospect, 3rd Floor

191186 St. Petersburg, Russia

Tel: 7 (812) 326-2590; Fax: 7 (812) 326-2591 or 326-2561

Email: st.pete@amcham.ru

For questions on agricultural machinery, food processing and packaging equipment/materials, refrigeration equipment, etc., please contact:

U.S. and Foreign Commercial Service

Bldg. 2, 23/38 Bolshaya Molchanovka

121069 Moscow, Russia

Tel: 7 (495) 737-5030; Fax: 7 (495) 737-5033

E-mail: moscow.office.box@mail.doc.gov

moscow.office.box@mail.doc.gov

APPENDIX I. STATISTICS

Table A: Key Trade & Demographic Information ^{1/ 2/}

Agricultural Imports From All Countries (\$Billion) ^{3/}	12.9
Consumer Food Imports From All Countries (\$Billion) ^{3/}	7.7
Edible Fishery Imports From All Countries (\$Million) ^{3/}	642
Total Population (Millions)/Annual Growth Rate (%)	142.8
Urban Population (Millions)/Annual Growth Rate (%)	105.8 / 1.3
Number of Major Metropolitan Areas ^{4/}	13
Size of the Middle Class (Millions)/Growth Rate (%) ^{5/}	25 / 27
Per Capita Gross Domestic Product (US\$) ^{6/}	5,300
Unemployment Rate (%) ^{6/}	7.6
Per Capita Food Expenditures (US\$) ^{7/}	530,8
Percent of Female Population Employed ^{8/}	93.4
Exchange Rate (US\$1 = 26.70 Rubles)	As of August 2006

^{1/}Unless otherwise noted, 2004 data

^{2/}Source: Unless otherwise noted, Russian State Statistics Committee (Goskomstat)

^{3/}Source: GTI World Trade Atlas

^{4/}Population in excess of 1,000,000

^{5/}Source: Various - based on estimate of individuals earning US\$500-\$2,000 per month

^{6/}Source: Goskomstat

^{7/}Source: Estimate based on annual total retail food sales

^{8/}As percentage of economically-active female population (employed or actively seeking employment)

- female workers account for 41% of the total economically-active population.

The Russian economy has expanded sharply following the 1998 economic crisis and Ruble devaluation. The table below shows this growth during the 1997-2004 period.

Table B: GDP Growth (%), 1997-2005

1998	1999	2000	2001	2002	2003	2004	2005
-5.3	6.4	10.0	5.1	4.7	7.3	6.8	6.6

Source: Business Monitor International

As indicated in the following table, the Russian population is largely urban. The two largest cities are Moscow (nine million) and St. Petersburg (five million). Although not widely known, Moscow's total metropolitan population of nearly 18 million makes it the largest city in Europe. Another 12 cities across Russia have populations in excess of one million each.

Table C: Consumer Food & Edible Fishery Product Imports

	Imports from the World (Million Dollars)			Imports from the U.S. (Million Dollars)			U.S Market Share (Percent)		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
CONSUMER-ORIENTED AG TOTAL	5,617	6,687	7,735	535	534	529	10	8	7
Snack Foods (excl. Nuts)	252	307	385	1	3	9	0	0	2

Breakfast Cereals & Pancake Mix	11	11	10	1	1	1	2	2	6
Red Meats, Fresh/Chilled/Frozen	1,414	1,426	1,470	70	53	29	5	4	2
Red Meats, Prepared/Preserved	64	58	69	1	1	1	2	2	1
Poultry Meat	816	698	663	417	405	396	51	58	60
Dairy Products (excl. Cheese)	188	264	286	1	1	1	1	0	0.12
Cheese	235	355	462	1	1	1	0	0	0.01
Eggs & Products	12	16	22	1	1	1	1	6	1
Fresh Fruit	742	1,053	1,463	3	2	3	0	0	0.2
Fresh Vegetables	224	377	416	1	1	2	1	0	0.37
Processed Fruit & Vegetables	380	451	528	6	5	4	2	1	0.85
Fruit & Vegetable Juices	131	148	173	1	3	3	1	2	2
Tree Nuts	23	25	31	6	4	5	26	16	16
Wine & Beer	361	497	576	2	2	2	0	0	0.42
Nursery Products & Cut Flowers	75	94	186	1	1	1	0	1	0.01
Pet Foods (Dog & Cat Food)	18	22	61	1	3	4	6	6	6
Other Consumer-Oriented Products	651	844	933	24	52	69	4	6	7
FISH & SEAFOOD PRODUCTS	382	481	709	5	9	23	1	2	3
Salmon	41	60	104	1	2	3	0.19	3	2
Surimi	11	21	34	1	2	6	4	10	17
Crustaceans	23	33	45	1	1	1	0	3	0.2
Groundfish & Flatfish	44	63	94	2	2	11	5	3	11
Molluscs	11	14	19	1	1	1	1	7	1
Other Fishery Products	251	290	413	2	3	4	1	1	0.93
AGRICULTURAL PRODUCTS TOTAL	9,443	10,699	11,878	713	663	714	8	6	6
AGRICULTURAL, FISH & FORESTRY	10,001	11,422	12,891	721	674	740	7	6	6

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table D: Top 15 Suppliers of Consumer Foods & Edible Fishery Products

CONSUMER-ORIENTED AG TOTAL (\$1,000)				FISH & SEAFOOD PRODUCTS (\$1,000)			
	2002	2003	2004		2002	2003	2004
Ukraine	461,391	681,443	831,047	Norway	157,484	198,650	306,623
Brazil	712,803	719,120	780,518	United Kingdom	24,465	32,720	45,009
United States	535,354	533,889	529,174	Denmark	24,069	28,069	38,472
Germany	487,685	461,326	517,734	China (Peoples Republic of)	19,493	24,949	33,526
Poland	284,792	376,801	442,017	Latvia	39,674	39,740	30,110
Ecuador	191,361	261,244	362,174	Mauritania	12,233	18,940	25,641
Netherlands	271,722	319,268	319,013	United States	4,809	8,750	23,235
Moldova, Republic of	173,791	258,946	284,828	Iceland	532	3,462	18,465
France	232,904	272,931	284,179	Lithuania	16,784	20,315	17,011
China (Peoples Republic of)	222,881	242,828	272,341	Chile	6,204	7,084	15,267
Argentina	73,010	141,963	258,919	Canada	3,445	3,987	14,669
Uzbekistan, Republic of	86,962	129,967	232,597	Kazakhstan, Republic of	12,952	12,658	13,502
Spain	146,682	187,441	210,414	Argentina	578	4,225	13,359
Italy	147,116	181,249	209,661	Estonia	7,602	5,036	10,515
Turkey	122,545	138,341	177,401	Ukraine	6,634	5,434	9,313
Other	1,465,889	1,780,222	2,023,023	Other	44,611	66,925	94,033
World	5,616,928	6,687,040	7,735,116	World	381,570	480,948	708,746

