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Russian Federation

Exporter Guide

Export Opportunities for the U.S. Suppliers of Agricultural Products

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Report Highlights:

In 2012, the Russian economy grew 3.4 percent. Unemployment dropped to record lows and wages grew at a solid pace. Strong labor markets and price stability reduced poverty. The Russian food industry is characterized as highly dependent on imports. In 2012, Russia joined the WTO which should not only have some positive effect on tariffs but also improve predictability and transparency in the business environment. These are two significant factors that make Russia an attractive market for U.S. exporters and many of their competitors. The U.S. was the fifth largest supplier to Russia in 2012 by value of agricultural, fish and forestry products. The consumer oriented sector accounted for 69 percent of total agricultural imports from the United States, worth more than \$1.3 billion according to Russian customs statistics. With growing demand, Russia presents great opportunities for U.S.

suppliers, particularly suppliers of live animals, red meats¹, poultry, fish and seafood products, tree nuts, fresh and dried fruits, food preparations/ingredients and pet foods. Russia remains a complicated market in terms of regulatory environment, financial structure, and in terms of its market size and diversity. Post recommends that U.S. exporters review this guide and other reports, e.g. FAIRS Report, from FAS Russia prior to entering the market.

Post:

Moscow ATO

¹ Note: at present the Russian market is closed for U.S. beef, pork, turkey and their products. Please check FAS Gain reports for updates on this and any other trade policy issue.

Author Defined:

SECTION I. MARKET OVERVIEW

The Russian consumer market is the largest in Eastern Europe boosted by the country's vast size, population, and strong economic growth. Euromonitor estimates by 2020 Russia will overtake Germany as Europe's largest consumer market. Rising incomes and a growing middle class have particularly fueled demand for packaged food in Russia, as well as more intermediate and casual dining options in the foodservice industry. Russia's entry into the WTO in August 2012 should create a more transparent policy environment and predictable business environment. These trends ultimately present great opportunities for U.S. food and beverage exporters looking to enter the large and increasingly advantageous Russian marketplace.

Russia's economy grew 3.4 percent in 2012 (down from 4.3 percent in 2011). Gross domestic product (GDP) in 2012 totaled \$2,007 billion (\$1,860 in 2011). Growth declined mainly due to weaker performance of investments in the country. In contrast, consumption growth remained almost as strong as in 2011 due to low unemployment, wage increases, and government spending. As a result, consumption became the main growth driver in 2012. According to World Bank estimates, the GDP is forecast to grow by 3.3 percent in 2013 and by 3.6 percent in 2014. Experts forecast that growth in 2013 will be slightly lower than in 2012 due to weak global sentiment, flat oil prices, high inflation, and moderate domestic demand.

In 2012, retail sales in Russia amounted to \$706 billion or up 5.9 percent year-on-year, according to the Russian Federal Statistics Service (Rosstat). The share of food products in total retail sales in 2012 was 46.5 percent versus 47.8 percent in 2011. Foodservice sales grew by 6.3 percent and totaled \$32 billion.

Real disposable income was up 4.2 percent in 2012 and totaled \$7,578 per person per year. The average monthly wage grew 13.9 percent and totaled \$859. Unemployment in Russia continues to decline. It stood at 5.7 percent in 2012 (6.6 in 2011), the same level as before the financial crisis of 2007-8. In addition, Russia's savings ratio has been falling in recent years. In 2012, savings amounted to 10.1 percent of disposable income (10.4 in 2011). The number of poor people in Russia reached a record low. In the first nine months of 2012, 17.2 million of people were below the poverty line -- 3 million less than a year ago and the lowest number in the last two decades. For the first three quarters of 2012, the share of poor people declined to 12.1 percent, compared to 14.3 percent in 2011. The decline in poverty reflected low unemployment, growth of wages and public transfers, as well as low food inflation in the first half of 2012.

The Russian government continues to focus on fundamental changes in the country's economic structure over the long term. The economy remains heavily dependent on oil and natural gas exports, which account for two-thirds of export revenues. Their goal is to reduce the economy's dependence on the energy sector.

European Russia, geographically west of the Urals, is home to over 75 percent of the total population (143 million people). 74 percent of Russians in 2012 lived in urban areas and over 8 percent of the total

population lived in either Moscow (12 million people) or St. Petersburg (5 million people). There are twelve cities in Russia (e.g. Novosibirsk, Yekaterinburg, Nizhniy Novgorod, etc.) with a population of more than one million people. These Russian metropolitan areas also represent the largest retail and Hotel/Restaurant/Institutional (HRI) markets in the country.

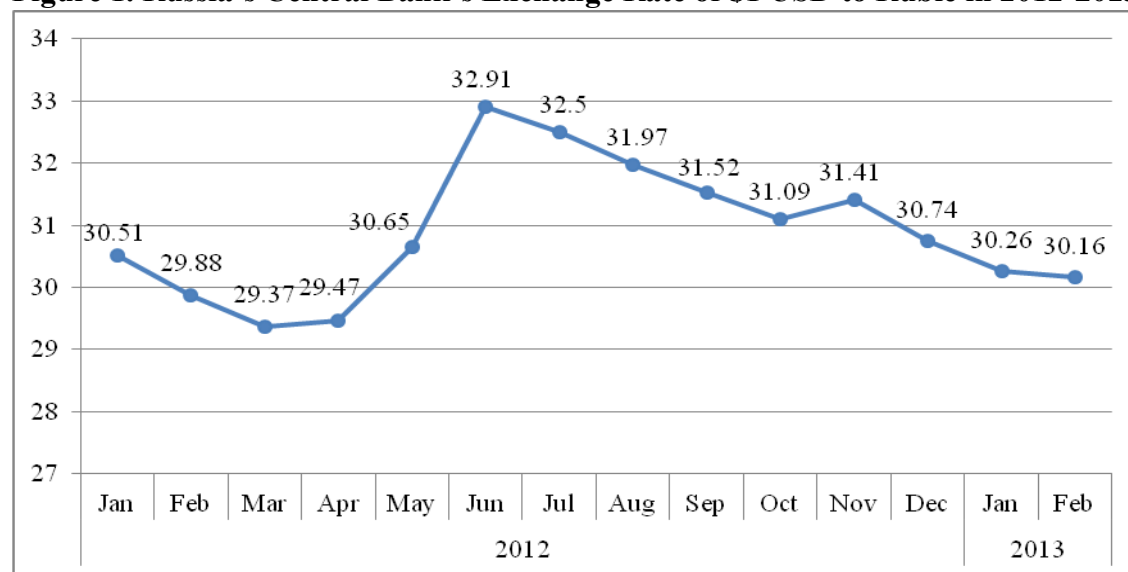
Table 1. Russia – Economic Activity, 2008-2012

	2008	2009	2010	2011	2012
Nominal GDP, billion rubles	41,277	38,807	45,173	54,586	62,357
Nominal GDP, billion dollars	1,410	1,293	1,474	1,860	2,007
Real GDP growth, % change y-o-y	5.2	-7.9	4.0	4.3	3.4
GDP per capita, US\$	11,304	8,682	10,315	16,700	17,687
Population, millions	142	141.9	141.9	142.96	143.1
Unemployment, %	7	8.2	7.5	6.6	5.7
Inflation, %	13.3	8.8	8.8	6.1	6.6
Exchange rate (per \$1)	24.85	31.76	30.36	29.35	31.07

Source: Federal State Statistics Service, The Central Bank of Russian Federation, 2013

In 2012, the Ruble was still weak against the Dollar and Euro. The Central Bank of Russia allows the Ruble to float within a certain band to adjust to market conditions. Figure 1 below shows the exchange rate of U.S. Dollar to Russian Ruble in 2012.

Figure 1. Russia's Central Bank's Exchange Rate of \$1 USD to Ruble in 2012-2013

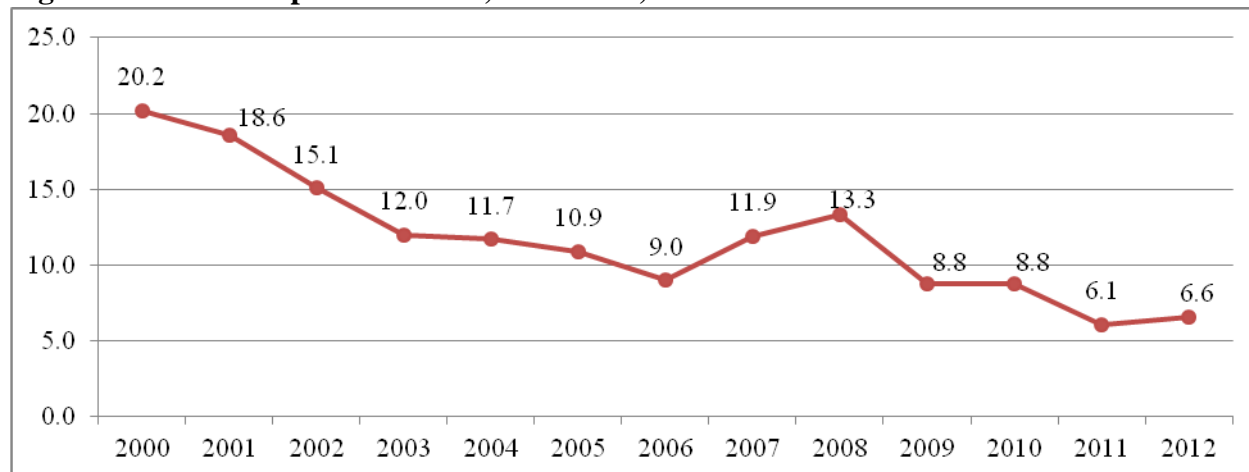


Source: The Central Bank of the Russian Federation, 2013

Consumer price inflation in Russia in 2012 stood at 6.6 percent (6.1 in 2011). According to the World Bank, the increase of the inflation rate in 2012 was related to three factors. First, it reflects the increase in food inflation triggered by the drought in Russia and among international grain producers, as well as higher excise taxes on alcohol. Second, the rise in administrative prices in July and September 2012 pushed up services inflation. Finally, there was some uptick in core inflation, which excludes food and

gasoline. Sberbank estimates food inflation in 2013 will total 5.8 percent.

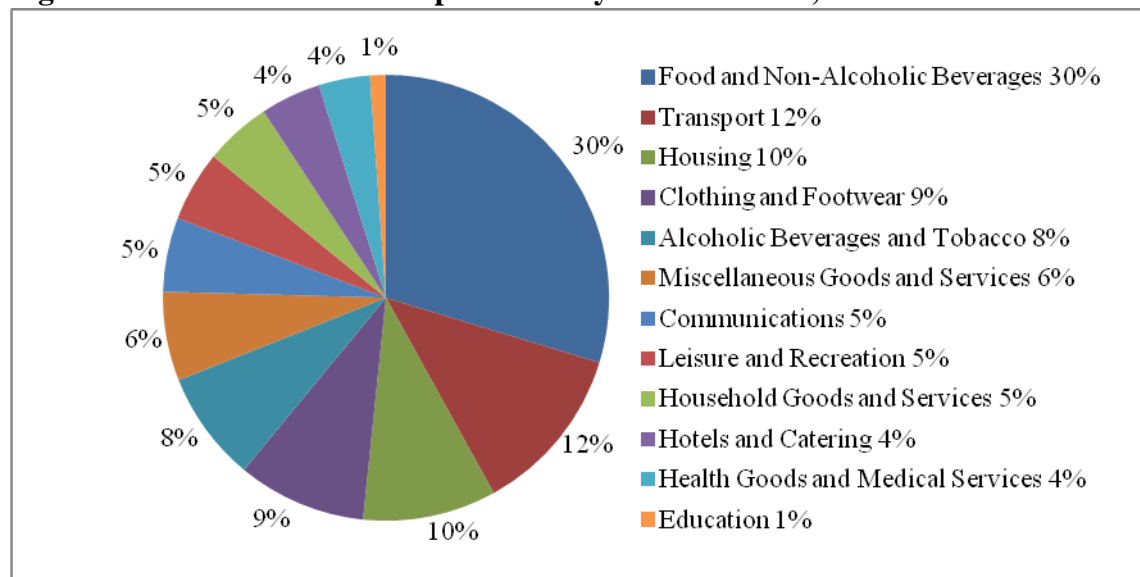
Figure 2. Consumer price inflation, 2000-2012, %



Source: Rosstat, 2013

Consumer spending on food has steadily increased from 2006 through 2012 by 125 percent with an annual growth rate of 16 percent. Approximately 31 percent of consumer expenditure in 2012 was allocated to the purchase of food and non-alcoholic beverages (compared to approximately 12.7 percent in the United States in 2010), totaling about \$300 billion. Figure 3 shows Russian consumers' expenditures by sector in 2012.

Figure 3. Russia. Consumer Expenditure by Sector in 2012, %

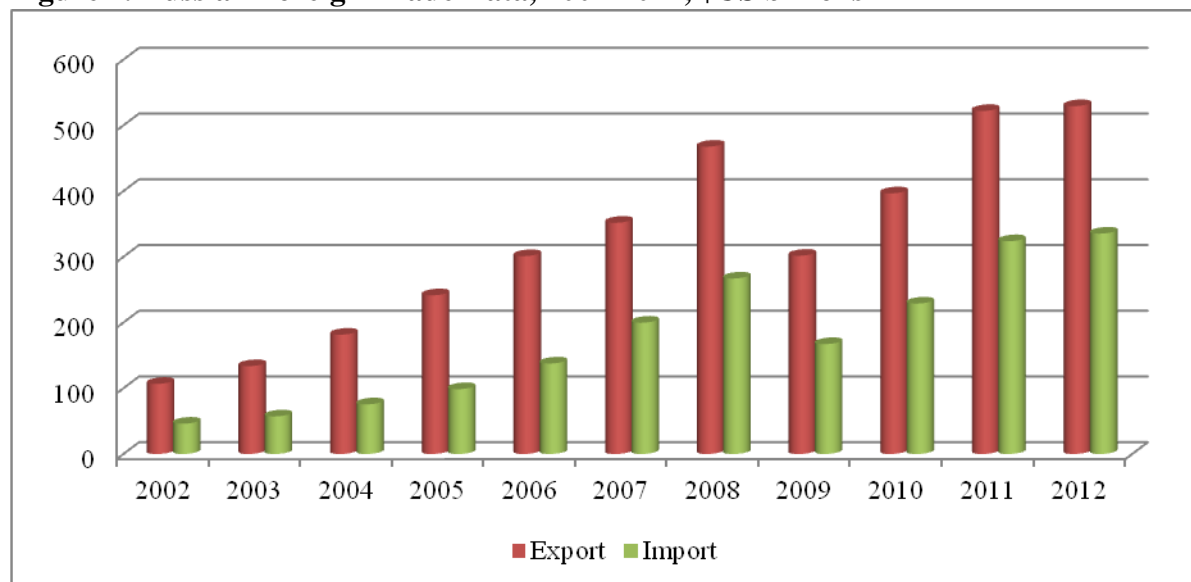


Source: Euromonitor International from trade sources and national statistics, 2013

In 2012, Russian exports and imports slowed down their growth significantly. It was mainly due to low investments and weak external demand due to the recession in the European Union. Export sales increased by 1.4 percent (versus 31.5 percent in 2011) and imports by 3.6 percent

(versus 30.0 percent in 2011), according to Rosstat.

Figure 4. Russian Foreign Trade Data, 2002-2012, \$US billions



Source: Rosstat, 2013

Imports of agricultural products to Russia decreased by 5.5 percent compared to 2011 and totaled \$40.2 billion, according to Rosstat. In total, Russia's imports have grown 143 percent since 2006. This indicates an opportunity for future growth, suggesting U.S. exporters can benefit from further increasing Russian import demand.

Table 2. Import of Agricultural Products to Russia, 2008-2012

	2008	2009	2010	2011	2012
Agricultural Imports, billion dollars	35.2	30.0	36.5	42.4	40.2
Growth Year on Year, %	-	-14.8	21.7	16.2	-5.5
5-Year Average Annual Growth Rate, %					4.4

Source: Rosstat, 2013

The U.S. and Russia maintain strong trade relations and cooperate through trade and investment, energy, and educational and cultural partnerships. The United States is Russia's fifth largest import source and in total U.S. - Russia bilateral trade amounted \$25 billion in 2012.

Table 3. The U.S. – Russia Bilateral Trade, 2012

Russian Total Trade	\$864 billion
Exports	\$529 billion
Imports	\$335 billion
Trade Balance	\$194 billion
The U.S.-Russia Trade	\$25 billion
Exports from Russia to U.S.	\$10 billion

Imports to Russia from U.S.	\$15 billion
Trade Balance	\$5 billion
The U.S.-Russia Ag. Trade*	\$2.2 billion
Exports from Russia to U.S.	\$0.2 billion
Imports to Russia from U.S.	\$2.0 billion
Trade Balance	\$1.8 billion

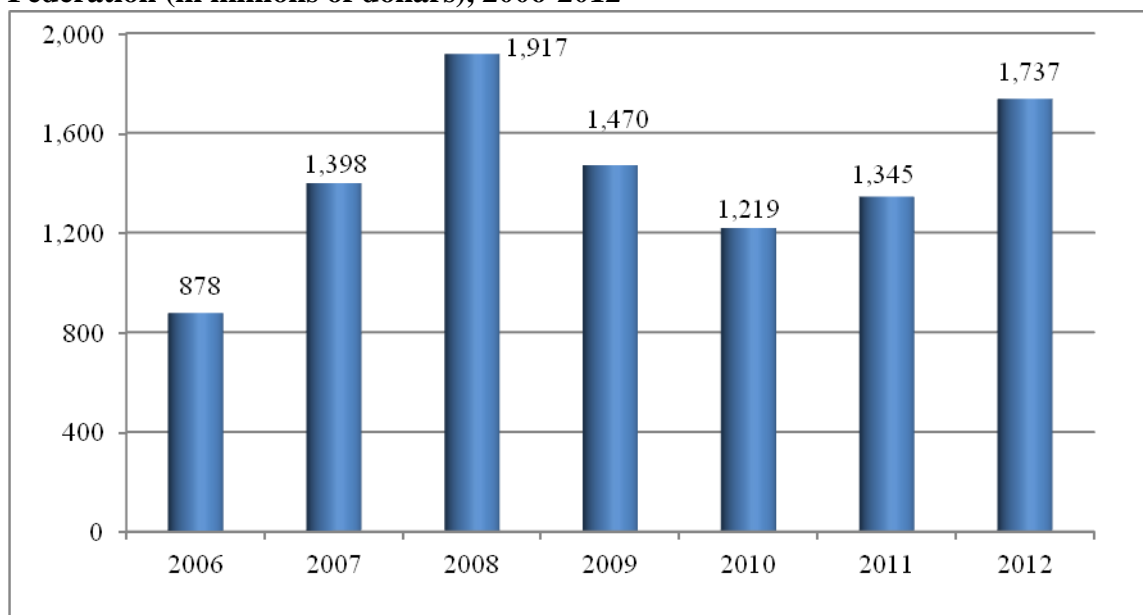
Source: Rosstat, Global Trade Atlas, 2013

*Note: Agricultural, Fish and Forestry Products

Russia is among the top export destinations for U.S. agricultural products. Based on U.S. official export data, the U.S. share of agricultural, fish and forestry products in 2012 increased by 29 percent and exceeded \$1.7 billion. Note: these figures are understated due to transshipments via Europe.

According to Russian customs statistics, U.S. agricultural imports in 2012 accounted for \$2 billion – a figure that is up by 26 percent compared to 2011. The U.S. remains the fifth largest supplier to Russia (by value of agricultural, fish and forestry products) with 5.2 percent of Russia’s agricultural imports behind Brazil, the EU, China, and others (please see Appendix Statistics, Table C). The U.S.’s top agricultural exports to Russia in 2012 included: red meat, poultry, food preparations, tree nuts (almonds and pistachios), fresh fruit, fish and seafood, and other products. Total U.S. - Russia agricultural trade, approximately \$2.2 billion, represents about 9 percent of total trade between the two countries.

Figure 5. Value of U.S. Exports of Agricultural, Fish & Forestry Products to the Russian Federation (in millions of dollars), 2006-2012



Source: Global Trade Atlas. Note: These figures are based on U.S. Customs export data, and will differ from Global Trade Atlas data on Russian imports from the U.S., which are based on Russian Customs import data.

U.S. suppliers of a wide variety of products and services are active in the Russian market. The Russian chapter of the American Chamber of Commerce includes more than 850 members successfully operating in Russia. Among them are such American companies as Kraft, Mars, DuPont, Wrigley, Cargill, PepsiCo and many others. According to PMR research, a number of leading international brands entered or returned to the Russian market in 2011, including Berghaus, Diesel, DKNY Jeans, Jaeger, Victoria's Secret, La Senza, Jimmy Choo and many others. Moscow has been ranked as the third most attractive city for international retailers after London and Paris, according to a survey of 150 leading international retailers in 55 countries in Europe conducted by Jones Lang LaSalle.

Successful U.S. businesses operating in Russia should not rest on their laurels. Russian companies are raising their game in order to compete for customers. For some staple products, domestic production meets demand. Certain imported food and agricultural products have difficulty competing with domestic products due to the high cost of foreign exchange, high import duties and/or difficult regulatory framework and generally efficient production of unsophisticated food products. Successful imports tend to be those that add to the variety of foods available on the market such as those that are not grown in Russia or for which domestic production is insufficient to meet domestic demand.

As part of its WTO accession agreement, Russia has committed to reducing and binding import tariffs to all agricultural goods, thereby providing more predictability on its duties. For Russia's WTO commitments please see: <http://tariffdata.wto.org/ReportersAndProducts.aspx>. To see Russia's current applied rates please refer to the Customs Union schedule:

<http://www.tsouz.ru/db/ettr/ettwto/Pages/default.aspx>. The average tariff for agricultural products will be reduced from current 13.2 percent to 10.8 percent. For more information on market opportunities please see the following report:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Market%20Opportunities%20for%20Key%20U.S.%20Products%20in%20Russia_Moscow_Russian%20Federation_3-20-2012.pdf

Exporters should review some of the advantages and challenges of the Russian market (please see Table 4 below) when considering their marketing strategy.

Table 4. Russia: Advantages and Challenges for U.S. Exporters

Advantages	Challenges
Population of 143 million people who are potential consumers. The U.S. is the fifth largest supplier to Russia (by value) of food and agricultural products.	The relatively low purchasing power of many Russian consumers, particularly in the regions and the consequently lower demand for durable goods, premium grocery, and non-grocery goods.
Russia's retail sector is growing, which creates a number of opportunities for prospective U.S. exporters. The ongoing development of the mass grocery retail industry will allow producers to route products to the market more efficiently.	Economic vulnerability, dependence on oil and mineral extraction for most wealth. Substitution of imports for domestic products as part of the Russian Government's policy of self-sufficiency. Distance is one of the major barriers complicating logistics for the retail chains.

In general retailers are open to new products in order to attract customers.	Strong competition with suppliers of similar products from Russia and European Union.
Significant number of consumers can afford purchasing high-quality food products.	Per capita spending in the regions outside Moscow and St. Petersburg remains quite low.
Urban lifestyle changes increase demand for semi-finished and ready-to-cook products.	Rapid development of local manufacturers of ready-to-cook products and Government Strategy to modernize food processing sector creates tough competition for similar imported goods.
American-made food and drinks are still new for the majority of the population, and popular among the younger generation.	Growing number of domestically produced products; lack of knowledge of American products.
Existence of large importers experienced in importing food products to Russia.	Language remains an obvious barrier for many entrepreneurs from both small and large companies. Despite improvements in English language competency of many Russians it's still to be expected that many firms will not communicate effectively in English.
Paying in dollars is advantageous for exporting to Russia compared to Europe due to the lower cost of the dollar relative to the euro.	Russian government bureaucracy and corruption. Contradictory and overlapping regulations. Official government opposition to growth in food imports.
Russian trade and investment policy is converging with international standards.	Current presence of non-tariff barriers such as sanitary and phytosanitary restrictions.
Investors are building more efficient storage facilities, improve infrastructure and logistics.	Despite huge potential, regional markets require substantial up-front investment in infrastructure and facilities, and transportation infrastructure between cities and regions remains extremely poor.
The Russian government has committed to spending billions on infrastructure over the next 10 years, particularly on railroads and highways, which should translate to better logistics for expanding retailers.	Lack of reform in the Russian agricultural sector has led to high raw-material costs and shortages for processors.
Due to Russia's accession to the WTO Russia is obligated to bind its agricultural tariffs, adding more predictability to the trading relationship and opening export opportunities for the U.S. agricultural industry. WTO membership will also require Russia to abide by science-based sanitary and phytosanitary standards that will help facilitate U.S. farmers' access to the market.	Competition with food products imported from EU and other countries may rise.

Russia's accession to World Trade Organization (WTO) is expected to create changes that will improve market access for foreign companies as well as a much healthier competitive environment domestically. As part of its WTO accession agreement, Russia has committed to reducing and binding import tariffs to all agricultural goods, thereby providing more predictability on its duties. The average tariff for agricultural products will be reduced from current 13.2 percent to 10.8 percent. Through commitment to WTO rules and norms, the investment in and expansion into the Russian market will become more predictable thus reducing the "risk cost" of the entry ticket onto the market. To get more information on the market opportunities for key food products that will occur with WTO accession for U.S. suppliers please see the report:

<http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Market%20Opportunities%20for%20Key%20U.S.%20Products%20in%20Russia%20Moscow%20Russian%20Federation%203-20-2012.pdf>

SECTION II. EXPORTER BUSINESS TIPS

General Consumer Tastes and Preferences

According to EMEA retail consulting and research, more than 90 percent of the most popular European brands already operate in the Russian market with the rest considering entry. Experts estimate that within the coming years, the high level of disposable income and the rapidly growing middle class will make the Russian retail market one of the European leaders in terms of turnover.

According to Sberbank research, the average Russian consumer is largely debt free and has a larger discretionary income as a percentage of pay than his or her counterparts in the West. Younger consumers seem keener to spend rather than save their newfound incomes. Consumer finance is booming, the number of Russian credit cards in circulation reaching 26 million in 2012, compared with a mere 597,000 in 2003.

Eating habits in Russia are changing -- the increasing pace of life has led to a desire to reduce the time spent cooking. This has resulted in greater use of processed and pre-cooked food, as well as a rise in snacking and eating out including fast-food restaurants. At the same time, many consumers have embraced the healthy eating trend and are consuming more fruit and vegetables. Higher income consumers are seeking out low fat, natural and functional foods. Environmental awareness is expected to grow in Russia as a result of new legislation and pressure from other developed markets, opening opportunities for greener, healthier and more natural products. The demand for eco-brands and organic products is also growing, whilst there is a lack of regulation in Russia concerning organic production, and any company can name its products "bio" or "eco". For more information on the Russian organic market please see ATO Moscow's Organic Market report:

<http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Organic%20Market%20Continues%20to%20Grow%20ATO%20Russian%20Federation%202-15-2013.pdf>

For high end Russian consumers, food is becoming more of a fashion statement or a lifestyle choice. In major cities, growth in high-end shops and boutiques continues apace. Russian consumers are tempted by bite sized brand offerings aimed at greater novelty, convenience and superior niche services.

According to a recent Nielsen Global Survey, Russian shoppers love new products and innovations. More than three-fourths of Russian consumers (76 percent) are interested in trying new products. And they keep their eyes open for them. Thirty-eight percent of Russian respondents frequently notice new products on store shelves, well above the global average of 29 percent. In fact, 23 percent of Russians indicate that product variety is the most important factor in determining where to shop. Responding on this, in 2012, Russian FMCG manufacturers and retailers launched almost 7,000 new products.

Along with that, Russian shoppers love their tried-and-true brands and exhibit strong brand loyalty. Many Russians know which brands they will purchase before they enter a store, and 43 percent are brand loyalists in most categories. Private label store brands have had less success in Russia than many other markets -- 73 percent of the survey respondents still don't buy them.

Family remains important in Russian life, and it affects shopping habits. More than half (53 percent) of Russian consumers shop regularly for the whole family (compared with 45 percent globally). Comparatively, one-third (32 percent) of Russians shop only for themselves.

The vast majority of Russians shop for products they intend to use in the short term. Only 5 percent shop with future buying intentions in mind. One quarter of Russians shop to satisfy an immediate need, and half (47 percent) shop to buy things to use that day. This is good opportunity wide range of U.S. packaged products and ready-to-eat options.

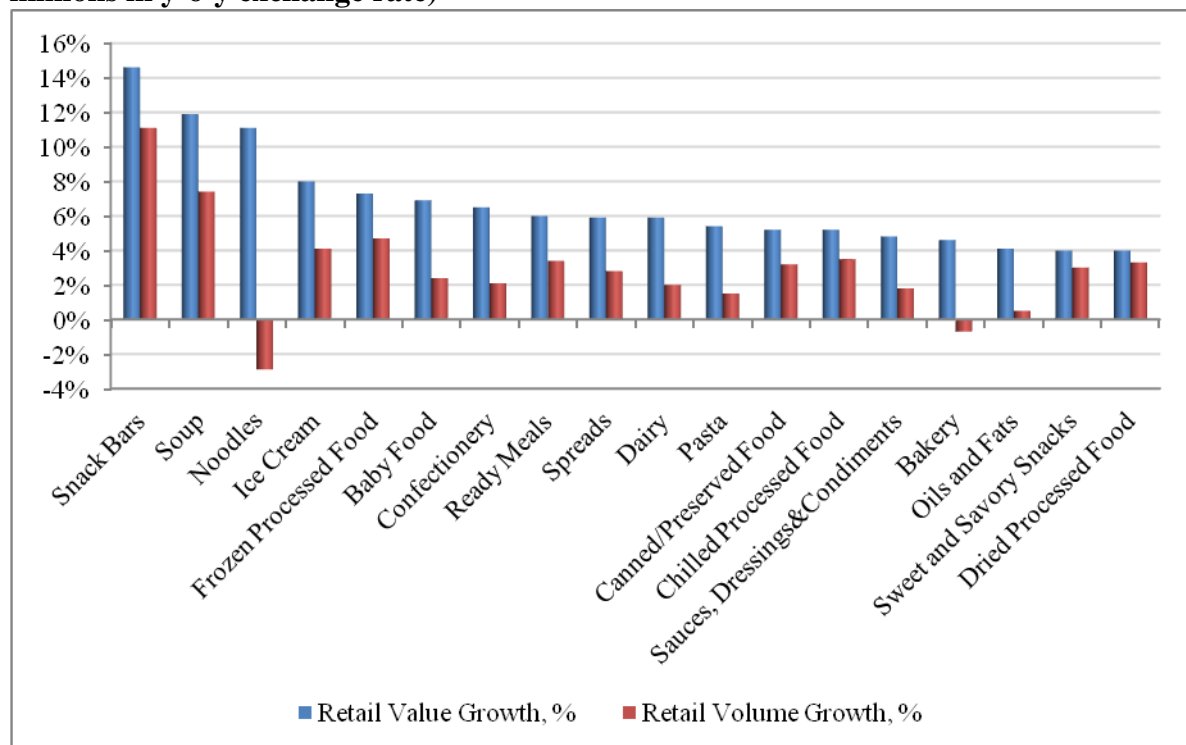
Packaged Food Sales

With growing demand, Russia is increasingly dependent on imports of retail and packaged food products, and this presents opportunities for U.S. suppliers. Russia's packaged food market is amongst the fastest growing in the world reaching \$100 billion by some estimates. In 2012, the market was boosted by steady growth in almost all categories of packaged food. Sales in this sector increased by 5.5 percent in 2012 supported by rising incomes as well as the availability of imported products on the market.

Moscow is a priority market for many packaged food players. Global brands and imported products have a higher share of value sales in Moscow than they do nationally. This is largely due to the city's higher income level and Muscovites' Western-looking attitudes being affected by European lifestyle trends and brands. In addition, the higher share of imported products in Moscow is due to generally higher prices in the city. This reduces the price gap between domestic and imported goods. Many products are often launched in Moscow long before they are launched nationwide. As a result, Moscow accounted about 15 percent share of overall packaged food sales in 2012 and saw stronger growth than Russia as a whole (according to Euromonitor).

The influence of Western consumption habits in Russia has led to an increasing penchant among Russian consumers for snacking between meals, making the snacks category a growth market. Since 2000, sales of snacks have grown rapidly due to new product launches and the heavy promotion of national brands. As you can see below, the Snack Bars category reached record volume with 14 percent growth year-on-year. Almost all categories of packaged products also saw noticeable growth in 2012 in both volume and value terms.

Figure 6. Packaged Food Sales through Retail Stores in Russia (2011/2012 % growth, \$US millions in y-o-y exchange rate)



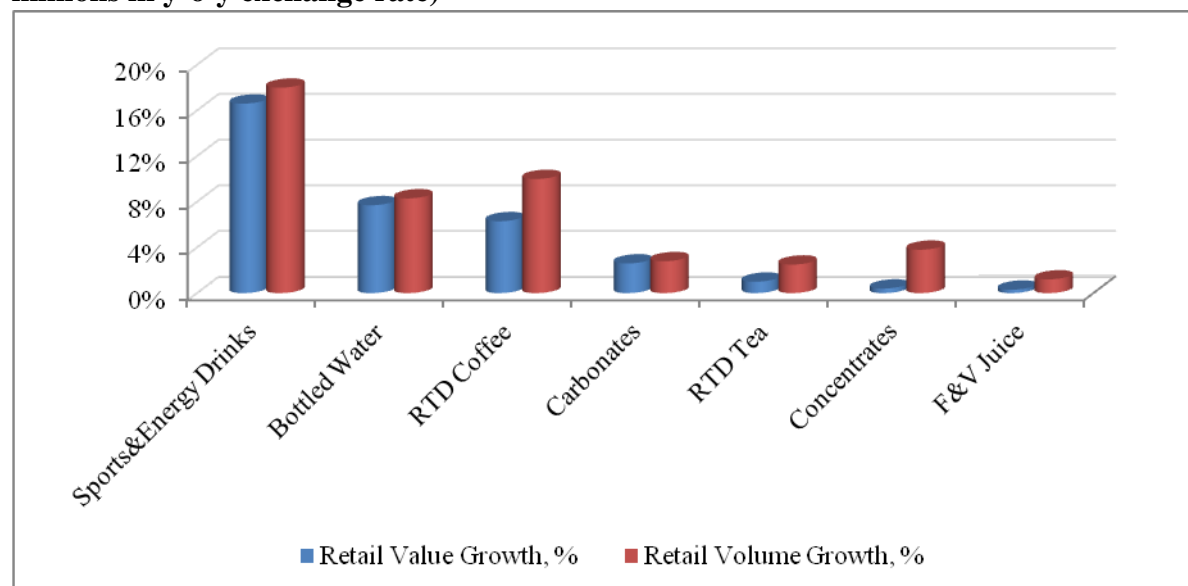
Source: Euromonitor International

The popularity of fortified products in Russia is also growing. Various types of noodles, dairy products, soup, and baby food products fortified with vitamins (omega 3, vitamins A, B1, B2) were launched in the market in 2011-2012. Producers emphasize the new health and wellness features of their products (reduced-fat or vitamins added) on the packaging of their products (for more information on food package labeling please see FAIRS report:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Certification_Moscow_Russian%20Federation_05.02.2013.pdf

Significant market opportunities exist for U.S. exporters of non-alcoholic beverages and many of these are already experiencing strong growth in Russia. According to Euromonitor, in 2012 the sales of sport and energy drinks reached 17 percent growth year-on-year. Bottled water increased by 8 percent followed by ready-to-drink coffee (6 percent) and carbonates (3 percent). Significant growth in sports and energy drinks sales was due to the novelty of the products on the market as well as their active promotion in media. In 2010, there was a spike in bottled water sales due to the record-setting temperatures. The bottled water habit that was formed that summer has persisted for many Russians.

Figure 7. Drink & Beverages Sales through Retail Stores in Russia (2011/2012 % growth, \$US millions in y-o-y exchange rate)



Source: Euromonitor International

* Note: RTD - ready-to-drink

Table 5 below shows retail value sales of packaged food in 2008-2012.

Table 5. Packaged Food Sales through Retail Stores in Russia, 2008-2012, \$US millions

	2008	2009	2010	2011	2012	2011/2012 % Growth
Packaged Food	74,777	65,509	77,315	87,769	92,619	5.5
Dairy	14,979	13,984	16,871	18,922	20,033	5.9
Bakery	12,366	10,603	12,250	13,915	14,550	4.6
Confectionery	9,760	8,569	10,133	11,812	12,580	6.5
Frozen Processed Food	6,674	5,840	6,853	8,149	8,744	7.3
Chilled Processed Food	5,939	5,139	6,358	7,032	7,394	5.2
Oils and Fats	5,691	4,675	5,502	6,172	6,428	4.1
Canned/Preserved Food	4,654	4,007	4,666	5,313	5,590	5.2
Sauces, Dressings and Condiments	4,085	3,560	4,050	4,586	4,805	4.8

Ready Meals	3,740	3,250	3,726	4,304	4,563	6
Sweet and Savory Snacks	3,683	3,018	3,396	3,783	3,935	4
Dried Processed Food	3,203	2,755	3,103	3,539	3,681	4
Ice Cream	1,734	1,543	1,999	1,999	2,159	8
Baby Food	1,534	1,404	1,648	1,971	2,107	6.9
Pasta	1,313	1,211	1,344	1,462	1,541	5.4
Noodles	555	503	557	616	685	11.1
Soup	462	414	506	605	677	11.9
Spreads	419	370	442	529	560	5.9
Snack Bars	11	10	12	15	17	14.7

Source: Euromonitor International from trade sources and national statistics, 2013

Starting Business with Russia

The World Bank's Ease of Doing Business 2013 report ranked Russia 112th out of 185 countries (in 2011, 111th out of 183). The conditions for starting a business have deteriorated significantly since 2009 when Russia ranked 88th out of 183 countries. This is due to the lack of reform in terms of the time and number of procedures required for setting up a business in the country. While many countries have simplified and streamlined the process, it takes 8 procedures and 18 days in Russia to open a business. However, the cost of starting a business in Russia is low: only 2 percent of per capita income, compared to an average of 8.3 percent of per capita income in the Eastern Europe and Central Asia region in 2012.

Exporters can request a brief market assessment for their products and/or a list of Russian importers from ATO Moscow, St. Petersburg and Vladivostok. Additionally, ATO Moscow offers the following recommendations to help exporters select the best approach for their firm:

- A prospective entrant is advised to estimate market prospects for their product with respect to consumer preferences and incomes, local competition and sales channels (marketing research from a specialized consulting firm may be required). A thorough review of Russian regulations is also advised including a review of any changes to the tariff post WTO-accession.
- Attend Promotional Events: One of the main challenges to exporters entering the Russian market is product promotion. A cost-effective way exporters can promote their products is to participate in one of the largest general food and beverage trade shows in Russia, World Food Moscow, held annually in September. If exporters are targeting specific regions within Russia, the Moscow ATO recommends participating in regional exhibitions. Participation fees for regional exhibitions are lower, and are aimed at local consumers and retail food chains. The Russian retail market is competitive; exporters should allocate time to visit Russia and earmark funds in their sales plans for promotional support.
- Work with a Russian Importer: Selecting the right trade partner is one of the most important decisions for exporters developing their business in Russia. Working with a local partner in Russia significantly expands business opportunities, and minimizes the need for exporters to establish direct contact with multiple retail chains. A local Russian partner familiar with market conditions and the regulatory environment can help exporters navigate the Russian retail market,

resolve issues, and increase the likelihood of success.

In order to make the first delivery, usually a large local import company is chosen. The company should have a good reputation and experience in customs clearance, and must have storage facilities and a developed distribution network. Make sure the company has experience working with Western suppliers and has experience in arranging regular supplies of food products. Western companies that strive to supply directly, circumventing Russian middle men, often sustain losses due to lack of local market knowledge. A large domestic import company is usually better adjusted to local conditions, with established trade ties and contacts in state structures.

Exporters representing U.S. companies may contact the Moscow ATO for an importer list. Performing due diligence is critically important, such as verifying banking and supplier references of potential importers, and local and U.S.-based organizations in Russia can provide helpful information to exporters. However, credit reporting is a relatively new practice in Russia, and credit-reporting agencies may not have complete information on potential Russian business partners. Retail chains may be another valuable source for exporters collecting information on importers.

- **Provide Sales Support:** Exporters must help market the products they sell in Russia. Russian importers and wholesalers expect exporters to participate in the sales process, either by providing event marketing support, advertising assistance, training, packaging/handling advice, or point of sales materials.
- **Establish a Representative Office:** Once a company has established firm contacts and has a solid prospect for sales, one of the best ways to conduct business in Russia is to open a representative office. Depending on the product and target market, an office might be situated in Moscow, a city that hosts a large concentration of retailers and representative offices; St. Petersburg, the port city through which the largest volume of sea-borne freight passes; or Vladivostok, the principal transpacific gateway to the Russian Far East.

Trade Shows in Russia

Participation in one of several established trade shows in Russia allows exporters to take a first-hand look at the local market, to meet potential importers, and to gauge the competitiveness of their products compared to similar products promoted at the show.

World Food Moscow

Moscow, Expocentre

September 16-19, 2013

www.world-food.ru/eng

World Food Moscow is a USDA-supported show, and is essentially the “main event” for U.S. exporters interested in market opportunities in Russia. ATO Moscow and the Office of Trade Programs (in Washington) organize American pavilions in the grocery, fruit, and seafood sections offering “turn-key” service. USDA industry organizations (aka Cooperators) typically organize a pavilion in the meat hall. In 2012, this 4-day show drew 1,600 exhibitors from 69 countries and attracted more than 26,000 importers, wholesalers, retailers, and processors from all parts of Russia and from many neighboring

countries.

PIR Hospitality Industry

Moscow, Crocus Expo Center

October 1-4, 2013

<http://www.pir.ru/>

The PIR Hospitality Industry exhibition is the leading show for the hotel, restaurant, and industrial catering sector (HRI) and is affiliated with the Restaurateurs and Hoteliers Federation of Russia. In 2012, more than 850 exhibitors from 25 countries participated in the PIR show. The PIR show attracted approximately 45,000 visitors from the Russian hospitality industry.

Ingredients Russia

Moscow, All-Russian Exhibition Centre (VVC)

March 11-14, 2014

<http://www.ingred.ru/>

Ingredients Russia is a specialized trade show for suppliers and buyers of ingredients worldwide. In 2012, more than 240 companies and organizations from 21 countries exhibited at the show. More than 6,000 specialists visited the show last year searching for new contacts and different kinds of ingredients for food processing (e.g. confectionery, meat, fish, dairy, etc.).

Golden Autumn

Moscow, All-Russian Exhibition Center (VVC)

October, 9-12, 2013

<http://www.goldenautumn.ru/en/>

The Golden Autumn trade show is organized by the Russian Ministry of Agriculture, and is the largest Russian trade show for production agriculture. In 2012, more than 2,000 companies and organizations from 70 Russian regions and 30 foreign countries exhibited at the show. Golden Autumn occupied over 70,000 meters of space, including open grounds, displaying over 700 items of agricultural equipment, both Russian and foreign. More than 100,000 visitors attended the event, most of who are involved in farming and livestock production, food processing, agri-business, research, or business financing. At this annual trade show, the USDA pavilion displays animal and plant genetics, high-grade feeds, animal nutrients, and feed additives.

Prodexpo

Moscow, Expocentre

February 10-14, 2014

<http://prod-expo.ru/en/>

Prodexpo is Moscow's largest international trade show highlighting foodstuffs manufactured in Russia and Eastern Europe. In 2012, Prodexpo hosted more than 2,200 exhibitors from 63 countries and attracted more than 50,000 visitors.

Logistics and Transportation

Imported products arrive in Russia via land, sea, or air freight into ports or customs warehouses for clearance before proceeding to the next destination. The transportation system for shipping U.S. high value food products into Russia via St. Petersburg and Moscow is well established. Most consumer-oriented food and beverage products including those from the U.S. enter through St. Petersburg or Moscow for customs clearance. Most American products are delivered to the Russian Federation in containers by sea and around 90 percent enter via the Port in St. Petersburg. MAERSK LINE, APL, OOCL, Hapag Lloyd, Evergreen, CMA-CGM shipping lines deliver cargos from the United States to Rotterdam, Hamburg, or Bremerhaven in Northern Europe. The transatlantic shipment can take from 17 to 30 days depending of the departure port and number of ports the vessel calling on the way to Europe. In Northern European ports, the containers are reloaded onto feeder vessels and travel an additional five days to St. Petersburg. It then takes an additional four days shipping time for final delivery by rail or truck to Moscow.

Outside of Russia, imports are also delivered to Baltic ports and then shipped by truck or rail to St. Petersburg or Moscow. Baltic and Finnish ports had offered 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, Novorossiysk and Vladivostok.

The cleared products are then shipped further into the interior via truck or rail to Moscow, Yekaterinburg, Novosibirsk, Rostov-on-Don, Kazan, Samara, Ufa, and other major population centers in Russia, the main markets for the high end products.

Products destined for the Russian Far East (RFE) enter through the ports of Vladivostok, Vostochnyy, Vanino, Nakhodka and Magadan. Although Vostochnyy is the region's largest port by volume, the majority of U.S. food exports to the RFE enter through Vladivostok.

Figure 8. Entry Gateways for the U.S. Products by Sea



Source: SVT Group

Currently several forwarders make shipments from the U.S. west coast to Vladivostok: Hyundai Merchant Marine, MAERSK LINE, APL, and Hapac Loyd. Average transit time from the U.S. west coast to Vladivostok takes 18 days: ocean vessels bring containerized goods to the Korean Port of Pusan (it takes 9 to 13 days), then, feeders transfer them to the Port of Vladivostok (it takes 4 to 7 days).

MAERSK LINE has the longer transit time, because it goes through Japan first, and then delivers goods to Korea (Pusan). In 2008, FESCO launched a direct line from Everett, Washington to RFE ports (Vladivostok, Korsakov, Petropavlovsk, and Magadan). Direct voyages are scheduled approximately once per month and the average transit time is 14 days. From Vladivostok food products are shipped to the other cities in the RFE and Siberia by truck or rail.

Distribution Channels

Imported food products for Russian retail chains and food service establishments come through importers, distributors, and wholesalers. Large suppliers are typically also importers.

Figure 9. Russia: Distribution channel for food retail chains, import of transatlantic products via the Port of Greater St. Petersburg

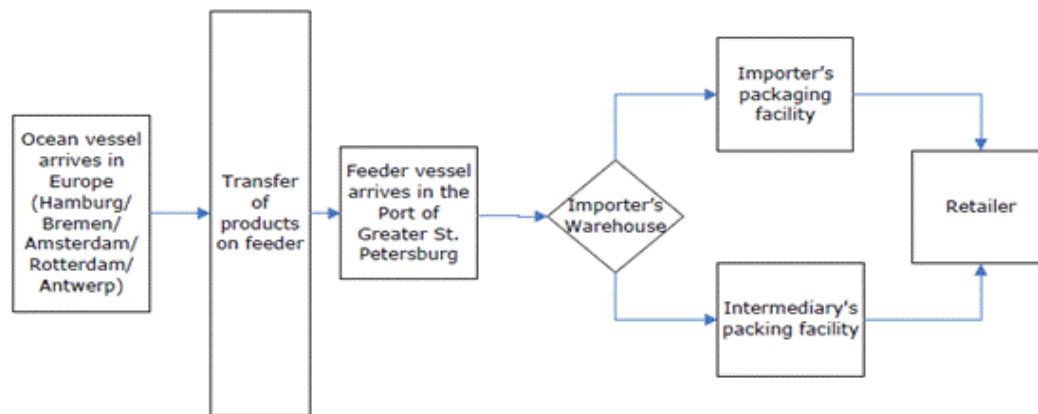
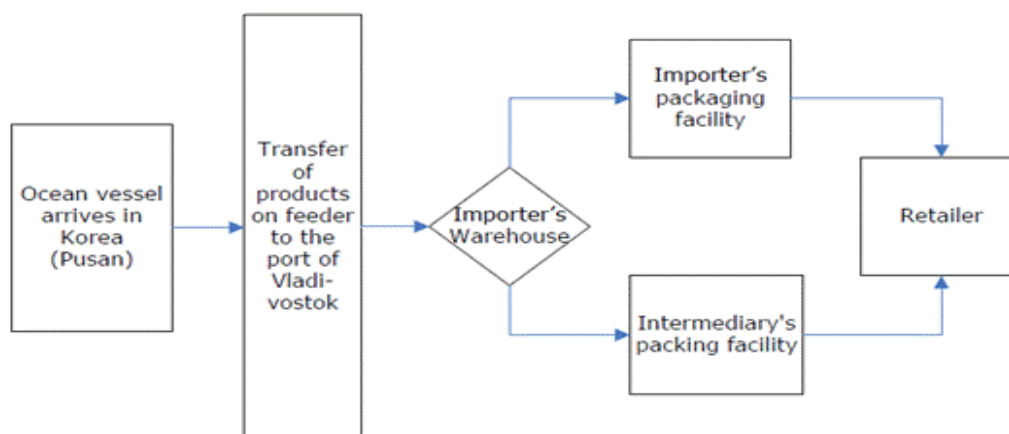


Figure 10. Russia: Distribution channel for food retail chains, delivery from U.S. to the Russian Far East



Most hotels and restaurants choose to purchase the majority of products through food service importers/distributors in the hotel, restaurant, and industrial (HRI) sector, both large and small.

Credit and Payment Terms

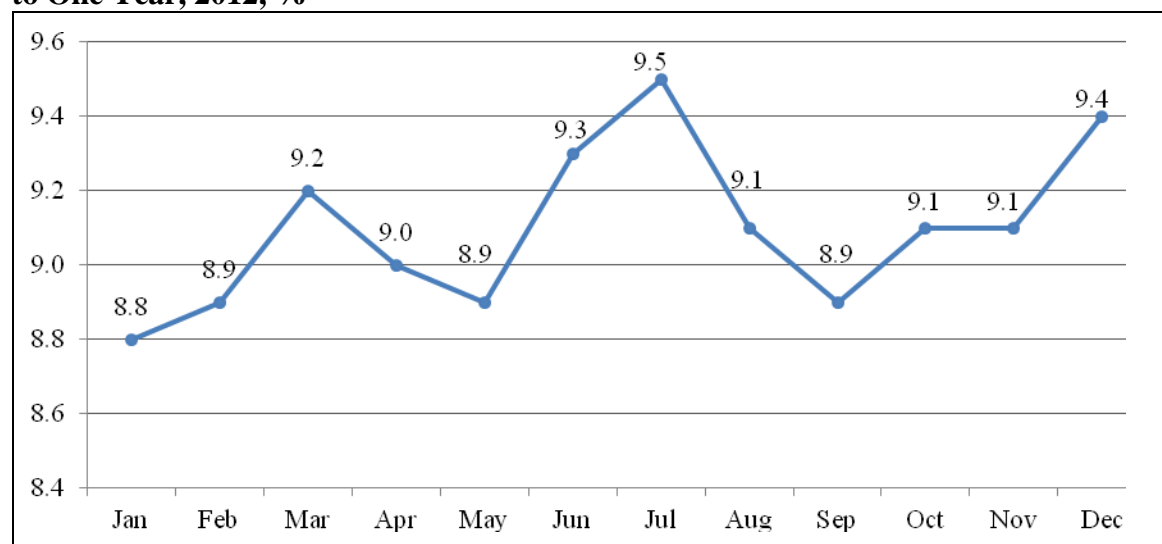
The Russian banking system continues to make strides towards complying with international standards, and many banks that are authorized to open foreign currency accounts also have general licenses enabling them to undertake a full range of foreign currency transactions. Many of these banks have correspondent banks in the United States. Further, several American and foreign banks such as Citibank, Raffeissenbank, Societe Generale, and Credit Suisse are licensed to operate in Russia. Securing credit can be costly, however, and there can be obstacles to securing credit in Russia if the company is 100 percent foreign-owned. 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, the Russian banking industry remains unconsolidated with a large number of small banks, and it is still considered underdeveloped with low penetration of banking services and strong growth potential. The largest state banks play a huge role in the domestic banking sector. Sberbank and VTB have a combined market share of over 42 percent of Russian banking sector assets. Sberbank dominates in both retail deposits and retail loans (45 percent and 33 percent market shares respectively) with over 100 million retail clients in total. (Source: Sberbank Report, 2013)

According to Sberbank, Russia's banking sector has been one of the fastest growing of the leading emerging markets over recent years with a 26 percent CAGR in 2005-2012. In 2012, the Russian banking sector delivered retail loan growth of 39 percent (versus 36 percent in 2011).

Prospective borrowers should expect Russian banks to request a package of documents, including a balance sheet showing profits for the last three quarters and proof of assets to mitigate the bank's risk. Interest rates on credit became lower in 2011-2012 after a significant rise in 2009-2010 (up to 13.9 percent) making credit more available for Russian businesses.

Figure 11. Average Interest Rates on Ruble-Denominated Credit to Nonfinancial Institutions Up to One Year, 2012, %



Source: Central Bank of Russian Federation, 2013

The Russian credit card and payments market demonstrated significant growth during the last five years. In 2012, the Russian credit card market grew by 82.5 percent in value terms having exceeded the growth

rates of 2011 (61.6 percent) with about 26 million of credit cards. Key growth drivers included increased annual disposable income, the development of online shopping, investment in the banking infrastructure and raised consumer awareness about the benefits of using payment cards. In total, the market size of plastic cards (both debit and credit) is expected to grow at a CAGR of 5.4 percent in terms of volume over 2012–2016, to reach 266.5 million cards in 2016. (Source: Researchandmarkets.com)

Table 6. Growth of Loans in Russia in 2011-2012, %

Type of Loan	2011	2012
Consumer Credit	32.67	36.94
Car Loans	33.15	36.71
Mortgage Loans	35.44	50.53
Total Loans	34.69	44.54

Source: National Bureau of Credit Histories, 2013

Regarding payment terms, many U.S. exporters require 100 percent up-front payment especially for new trading partners. Russian importers may not be accustomed to making a 100 percent pre-payment prior to shipment and moreover may struggle to finance it. As the business relationship develops, Russian importers may eventually expect exporters to ship on credit, with payment due upon arrival in the Russian port. The importer may alternatively make a pre-payment and pay the balance when the product arrives to the importer's storage facility.

In established business relationships, bank transfers are sometimes 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 Russian importers consider LCs expensive and difficult to arrange. Document Collections work relatively well at ports, and importers are accustomed to these procedures. Nevertheless, until exporters and importers build relationships and reach a level of trust, exporters may find letters of credit worthwhile.

The GSM credit guarantee program offered through the United States Department of Agriculture (USDA) provides credit guarantees to encourage financing of commercial exports of U.S. agricultural products. The GSM Credit Guarantee allocation for Russia for FY 2013 (October 2012 – September 2013) is \$125 million with \$25 million specifically for all commodities excluding beef, pork, poultry and live animals. The GSM-102 program is in great demand due to the difficult financial environment and lack of financing available commercially in Russia. GSM-102 reduces risk to the U.S. exporter's bank and facilitates shipments of U.S. commodities to markets that may not be able to import these same products without the guarantee offered by the Commodities Credit Corporation.

The list of approved participating foreign banks in the GSM-102 program is available at FAS web-site: <http://www.fas.usda.gov/excredits/foreignbanks.html#RUSSIA>. The list is regularly updated upon the review of incoming financial information and applications from banks that desire to participate in the GSM-102. For further information on these programs, please visit the FAS website: <http://www.fas.usda.gov/excredits/ecgp.asp>.

Food Standards and Regulations

Russia has complex food import regulations. Exporters should carefully question importers regarding certification and documentation requirements, as well as procedures for clearance of shipments into the Russian Federation. Upon WTO accession many of the rules and regulations governing food and beverage imports will change so please continue to check the FAS website for updates.

In February 2010, compulsory certification for non-veterinary food products and cosmetics was cancelled. The Government of the Russian Federation (GOR) now requires only a declaration of conformity with the product safety regulations, instead of an obligatory certificate. At the same time, the authorities are planning to impose heavy fines on the manufacturers of unsafe products. Sanitary norms and technical regulations were not cancelled and continue to regulate the production process. For more detailed information on certification, customs procedures, documentation, tariffs, and labeling requirements please see the following GAIN reports:

1) Food and Agricultural Import Regulations and Standards report:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Moscow_Russian%20Federation_01.02.2013.pdf

2) RS1015 Declaration of Conformity Replaces Certification for Many Products

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Declaration%20of%20Conformity%20Replaces%20Certification%20for%20Many%20Products_Moscow_Russian%20Federation_3-22-2010.pdf

On January 1, 2010, Russia, Belarus and Kazakhstan launched a Customs Union which has since introduced many new rules and regulations for food products exported to the Union. The unification of sanitary norms and technical regulations continues, and reforms affecting food standards and regulations may last for quite some time. Please check the Customs Union Ag Times in the FAS GAIN system for regular updates on the Customs Union developments.

Pricing

Retail prices in Russia can vary significantly; however pricing has become more competitive as large retail chains increase their aggregate market share. On the regulatory side, exporters should consider the effect of the Russian tax regime when making pricing and margin decisions. Again, please continue to monitor GOR tariffs and other duties as WTO accession moves forward. Some of the taxes assessed include:

- Import duties are applied to most goods and typically range from 5 to 20 percent of products' customs values. However, some agricultural products are subject to specific tariffs that are calculated by volume, weight or quantity. Excise taxes, depending on the commodity exported, apply to goods such as alcohol and tobacco products. For checking excise taxes rates please contact ATO Moscow.
- Russia typically levies an 18 percent Value Added Tax (VAT) on imported goods; however, some food products (e.g. sugar, salt, milk, bread, pasta, vegetables, baby food, end etc.) are

subject to a reduced rate of 10 percent

- Customs clearance charges add about 1.25 percent. The wholesale mark-up is typically 12 to 15 percent, while retail mark-up runs 35 percent or more, depending on the product and the retailer; and,
- A 39 percent profit tax is assessed on gross margin.

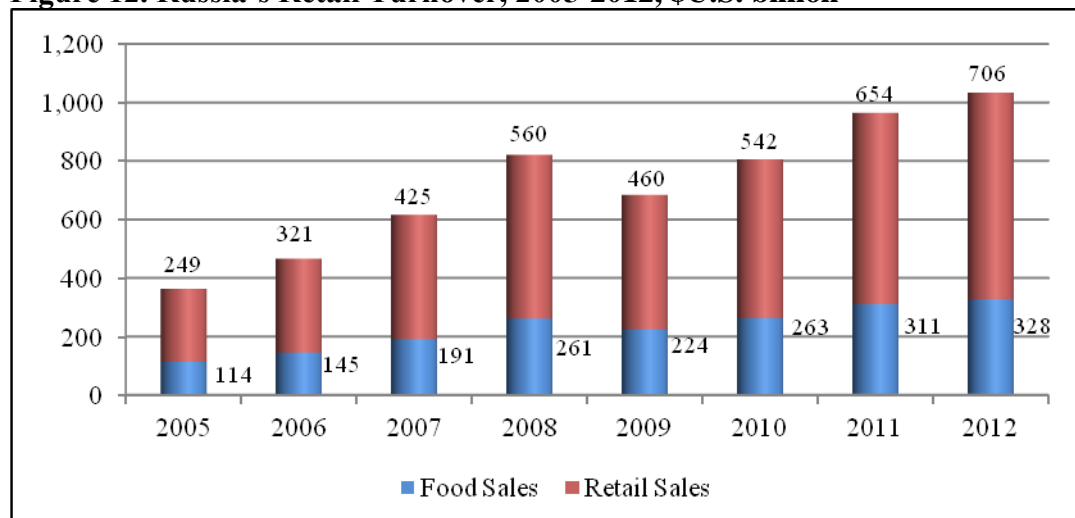
SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Retail Food Sector

Over the past 10 years, the retail market in Russia has changed dramatically. In 2002-2012, the Russian retail sector increased its turnover six fold, created 5 million new jobs and doubled its productivity. The main driver of this improvement has been the growth in modern retail formats which currently accounts for about 90 percent of sales across Russia. Open-air markets and older Soviet-style stores, including wet markets, continues to decline in popularity and lose market share to modern retail formats.

According to Rosstat operational data, Russian retail sales turnover in 2012 grew by 5.9 percent year-on-year. In value terms, the indicator reached \$706 billion. To compare, in 2011 the figure was \$544 billion and in real terms grew by 7 percent year-on-year. At the same time, the retail sales turnover of food products was valued by Rosstat at \$328 billion in 2012. The share of food products in total retail sales in 2012 was 46.5 percent versus 47.8 percent in 2011.

Figure 12. Russia's Retail Turnover, 2005-2012, \$U.S. billion



Source: Rosstat, 2013

The Russian retail market is heavily saturated and barriers to entry are high. Russian retail giants such as the X5 Retail Group, Magnit, Seventh Continent and Dixie chains are still among the top Russian retail players. The two foreign chains that have found success in Russia are German retailer Metro Group and the French chain Auchan. Both entered the Russian market in the early 2000's before

competitors became well-established. Of the top 10 leading food retailers Metro and Auchan have been the only non-Russian companies to command a leading position in the retail sector. Notably absent from the Russian market are Carrefour and Wal-Mart although both had attempted to enter.

Table 7. Top 10 Grocery Retailers in Russia by sales turnover, 2012

Rang	Company Name	Sales turnover (US\$, bn)
1	X5 Retail Group	18.2
2	Magnit	16.7
3	Auchan Group	9.9
4	Metro Group	8.4
5	Dixie Group	5.5
6	O'Key	4.3
7	Lenta	4.2
8	Seventh Continent	2.3
9	Globus	1.0
10	Rewe Group (Selgros)	0.8

Source: PlanetRetail, 2013

Russia's enormous size contributes to the fact that the retail market is currently divided among many players and differs by region. The market shares of large retail chains are relatively small. For example, the X5 Retail Group which is the largest Russian food retailer controls only 8 percent of the grocery market and the top 10 food retailers comprise about 23 percent, according to Euromonitor. This presents great opportunity for consolidation for Russia's retail chains in future for widening regional and national market shares.

As an example of consolidation activities in 2013, Auchan Group is going to purchase a retail chain Real which is currently a part of Metro Group. The sale of Real to Auchan comprises 91 hypermarkets in Russia, Poland, Romania and Ukraine. Currently, Real takes 22nd position in the rank of Russian food retailers, according to Infoline. Sixteen Real hypermarkets operating in Russia will be sold by the end of 2013 and will operate under the Auchan brand in future. With this deal Auchan Group takes the opportunity to balance its presence in Central and Eastern Europe, according to the company's management.

According to InfoLine research agency, 130 major Russian grocery retailers opened 4,059 outlets of different formats in 2012. The retailers' joint trading area grew by 1.75 million sq. m. to 11.5 million sq. m. which means 17.5 percent growth year-on-year. Magnit remained the fastest growing company during the last year. Currently, the company holds 25.5 percent of the total market in terms of retail space. Second position in the rating is taken by X5 Retail Group with 10.1 percent growth in combined trading area. Dixie is third with 4.8 percent growth.

Table 8. Number of New Openings by Selected Grocery Retailers in Russia, 2012

Retailer	No. of Stores Opened in 2012	Store Count at the End of 2012
Magnit:	1,093	6,192

Convenience stores	1,040	6,046
Hypermarkets	36	126
Magnit Semeyniy	17	20
X5 Retail Group:	800	3,802
Soft discounters	695	3,220
Supermarkets	40	370
Hypermarkets	1	78
Convenience stores	64	134
Dixie Group:	380	1,499
Convenience stores	368	1,437
Supermarkets	11	42
Hypermarkets	1	19
Maria-Ra	131	502
Auchan Group:	40	156
Hypermarkets	8	56
Supermarkets (Atak)	30	96
Nasha Raduga	2	4
O'Key:	12	83
Hypermarkets	10	52
Supermarkets	2	31
Lenta	10	56
Azbuka Vkusa	8	51
Metro Group:	6	84
Metro Cash & Carry	6	68
Real	0	16

Source: PMR, 2013

According to Euromonitor data, the most dynamic growth in modern retail formats in 2012 was in convenience stores (14 percent year-on-year), the format which is very close to discounters. Hypermarkets grew by 8 percent, supermarkets -- by 6 percent. Traditional retail is shrinking their market share and declining in sales. The most popular grocery retail format in Russia remains supermarkets with \$96 billion sales in 2012.

Table 9. Russia: Sales in Retailing by Sector in 2008-2012, \$ US Million

Formats	2008	2009	2010	2011	2012	% change '11-'12	% change '08-'12
Modern Grocery Retailers	95,619	86,012	106,534	131,450	141,259	7	48
Supermarkets	70,679	62,286	75,244	90,646	96,344	6	36
Hypermarkets	17,455	16,288	20,988	26,477	28,713	8	64
Convenience Stores	6,873	6,954	9,695	13,603	15,473	14	125

Forecourt Retailers	611	484	607	724	729	1	19
Traditional Grocery Retailers	99,444	86,827	98,378	111,560	107,486	-4	8
Independent Small Grocers	62,836	55,609	63,512	72,642	70,349	-3	12
Food/Drink/Tobacco Specialists	5,053	4,353	5,054	5,776	5,607	-3	11
Other Grocery Retailers	31,556	26,865	29,812	33,142	31,530	-5	0
Total Grocery Retailers	195,063	172,839	204,912	243,010	248,745	2	28

Source: Euromonitor International from trade sources and national statistics, 2013

Development of private labels in Russia is a relatively new phenomenon. The X5 Retail Group, Metro Group and Magnit are among the first to introduce private labels in Russia starting from 2001. Currently, the share of private labels sales in total turnover of the retail chain is relatively small at about 5-7 percent. The main reason of this is the lack of a clear strategy for the majority of retailers and lack of the quality control. Also retailers confirm that it is difficult to establish long-lasting and trusting relationships with contractors, as private label manufacturing brings little profit.

Table 10. Share of Private Labels Sales in Total Retail Sales in 2012, %

Retailer	PL Share
X5 Retail Group	5
Magnit	13.2
Auchan Group	14
Metro Group	10.5
Maria-Ra	17.3

Source: Infoline, 2013

Nonetheless, retailers see private label products as offering strong advantages in terms of price competition in the longer term. The leading retailers are investing in better packaging and improving the quality of private label offerings. The majority of the leading retailers have ambitious plans on further private label development. The X5 Retail Group plans to increase its private labels' share up to 50 percent in Pyaterochka stores, to 25 percent in Perekriostok supermarkets and to 10 percent in Karusel hypermarkets. Auchan intends to increase its own brands' share in total sales up to 17 percent introducing 500-700 SKU's under the private label annually. The development of private labels in the medium and upper-medium price brackets will become one of the major trends in Russian retailing, according to the PMR report "Private Label in Russia 2012. Market Analysis and Development Forecasts for 2012-2014".

Moscow and St. Petersburg account for the highest number of shopping malls in Russia. At the end of 2011, approximately 45 percent of all shopping centers in the country were in these two cities. In 2012, twelve new shopping centers were completed in Moscow and eighth in St. Petersburg.

Retailers demand consistent quality and adherence to contract specifications and penalize suppliers for failure to meet requirements. As a result, foreign suppliers continue to be competitive in the Russian

market as they are more accustomed to meeting such strict specifications than Russian agricultural producers. Please see the “Retail Foods Annual 2012” report for more information on the retail sector in Russia: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Moscow%20ATO_Russian%20Federation_9-24-2012.pdf. The next updated Retail Report will be available in August – September, 2013. For search engine please visit <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

Legislation Regulating Retail Trade

The Russian Federal Law on Trade came into force on February 1, 2010. The Law is aimed at creating transparent conditions of cooperation between domestic suppliers and retailers and boosting competition in the retail sector. The Law contains strict antimonopoly regulations, such as capping store openings once a retailer reaches a 25 percent market share threshold within a city or municipal region, a 10 percent limit on bonuses paid to retailers by suppliers, and payment terms regulating how fast a retailer has to pay for goods with a certain shelf life, among others. The Law stipulates that the terms and conditions of food product supply contracts shall be brought into accord with requirements of the Law within one hundred eighty days from the effective date.

Please see the “Russian Trade Law” report for further information on the legislation regulating retail trade in Russia: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/The%20Russian%20Federal%20Law%20on%20Trade%20_Moscow%20ATO_Russian%20Federation_8-30-2010.pdf

According to PMR, the Russian Federal Antimonopoly Service (FAS) is currently to amend the Trade Law to allow retailers to exceed a 25 percent share of a particular municipal market on a one-off occasion when the company is in the middle of developing a new trading object (or objects). According to local media, the construction of a new trading outlet may bring a company a one-time increase in market share which will still have to be less than 50 percent to comply with the anti-monopoly law. After the one-off breach of the 25 percent threshold a retailer will not be able to open more stores.

Hotel, Restaurant, and Institutional (HRI) Sector

HRI sales grew by a respectable 12.2 percent in 2012, on par with pre-crisis sales growth of 10 to 12 percent (2005 to 2008). Returning consumer confidence brought customers back HRI dining establishments. Most notably the HRI sector’s growth was in the fast food, coffee shop, and casual-dining segments. Since imports make up the vast majority of HRI products (more than 65 percent), opportunities for U.S. products are significant.

Table 11. Food Service Industry Sales in Russia

	2008	2009	2010	2011	2012
RUR, billion	722.7	711.2	781.4	903.3	1013.6
Growth Year on Year, %		-1.6	9.8	15.6	12.2
US Dollars, billion	29.09	22.42	25.63	30.77	32.62
Average exchange rate	24.84	31.72	30.48	29.35	31.07

Source: Federal State Statistics Bureau (Rosstat)

According to Russian Business Consulting the number of cafes, restaurants, and other food outlets in Russia currently stands at about 63,500. There are currently more than 400 restaurant chains operating in Russia, each of which manages between 3 - 600 outlets. The total number of restaurant chains currently is about 8,500 outlets. McDonald's, Subway, Rosinter Restaurant Holding, Arkadiy Novikov Restaurants, Ginza project, Markon, Shokoladnitsa, and Coffee House are the largest restaurant chains in different foodservice segments in Russia.

The consumer markets are flourishing in Moscow and St. Petersburg as the incomes of their residents grow. As a result, Moscow and St. Petersburg are Russia's largest restaurant cities with market shares of 15 % in Moscow and 5.6 % in St. Petersburg in 2012. This growth comes despite the higher rate of increase in the cost of food, which increased faster than overall inflation in 2012. After some consolidation in the industry during the crisis years (2008-2010), in 2011-2012 more and more local as well as international chains are active in the Russian foodservice market and are planning further regional expansion into other wealthy cities.

The fast-food sector is the fastest-growing restaurant category in Russia with an annual growth rate of 20 to 30 percent. McDonald's, which entered Russia in 1990 and created two generations of fast food eaters has remained the absolute leader with a 43 percent value share of fast-food chain sales. On April 2012 McDonald's gave one of Russia's largest multi-concept restaurant operators Rosinter Restaurant Holding subsidiary right to develop chain in Moscow and St. Petersburg transport hubs. Subway, the world's largest sandwich chain, is one of the most rapidly developing fast food chains in Russia opened 155 new restaurants in Russia in 2011, twice as many as in 2010. As of March 2013, Subway had 535 outlets in all Russian regions, including the Far Eastern Federal District. In turn, about 210 new outlets were appeared in the country in 2012. In St. Petersburg, the popularity of the Subway brand is underscored by the fact that, from May to July 2010, one local Subway restaurant had the highest sales turnover out of 31,000 Subway restaurants worldwide. Subway has an ambitious plan of expansion and had caught up to McDonald's in terms of number of outlets in 2011.

Franchising models dominate in fast food. As of now more than 90 percent of fast food chains in Russia work under various franchise agreements. Fast-food is an increasingly attractive market for overseas investors and many famous American fast-service operators have appeared in Russia since 2009. Most of the international companies which decide to enter consumer foodservice in Russia open their first outlets in Moscow. Only two foodservice players launched their restaurants from St. Petersburg: Subway and Carl's Jr.

Burger King, one of the largest fast food corporations in the world, established a presence in Russia by opening its first restaurant in Moscow on January 2010. Currently, Burger King's franchisees operate 54 restaurants in Moscow and in St. Petersburg and intend to open several hundred Burger King outlets in Russia over the next few years. Dunkin' Donuts, the U.S. doughnut eatery chain that left Russia after a three-year stint in 1999, returned to Moscow in 2010 with big plans for rapid expansion. The Russian company Donuts Project received exclusive franchising rights for development of the chain in Russia and the Ukraine. Dunkin' Donuts opened its first outlet in May 2010 and currently has seventeen restaurants in Moscow. Wendy's/Arby's Group, one of the world's leading fast food operators entered the Russian market in 2011 and will open 180 restaurants there over the next 10 years. The company currently operates eight outlets in Moscow. Regional expansion through sub franchising will start in mid 2013, when the company will open 20 outlets by franchising.

The coffeehouse business in Russia boomed in the early 2000s. Today, there is an increasingly high concentration of the leading chains, including Shokoladnitsa, Coffee House, McCafé, Starbucks, and Coffeeshop Company, in Moscow and St. Petersburg, so in the short term many coffeehouse chains plan to expand to the Russian provinces. The world leader, Starbucks Coffee Company, opened its first outlet in Moscow in September 2007 and currently is number three by coffee sales after Shokoladnitsa and Coffee House. As of March 2013, Starbucks operates 63 coffee shops.

Baskin Robbins, the world's largest chain of ice cream specialty shops, entered Russia in 1990. Baskin Robbins Production International opened 69 new ice cream salons in Russia in 2011 expanding its chain 40%. As of January 2013, Baskin-Robbins' network in Russia consists of 253 outlets in 82 cities, most of them franchises.

Many restaurants import the vast majority of their ingredients, creating opportunities for U.S. exporters of meat, seafood, wine, rice, spirits and specialty foods.

Please see the “HRI Food Service Sector” 2012 report for further information on the HRI sector in Russia <http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Service%20-%20Hotel%20Restaurant%20Institutional%20Moscow%20ATO%20Russian%20Federation%2012-28-2012.pdf>

Food Processing Sector

Russia is the largest processed food market in Europe and one of the world's largest importers of ingredients for food processing, for example Russia is the world's largest dairy products importer in the world. According to *ID-Marketing* the number of food processing plants in Russia in 2012 was around 53,000 (including beverage and tobacco production) and the number has been growing by about 10% per annum over the last 3-4 years. In 2012, Russian food industry production was valued at 4,062 billion Rubles (\$135.4 billion), twofold growth from 2006. The food processing sector is expected to continue growing in 2012-13, supported by rising disposable incomes, increasing real wages and declining unemployment. Among the growth leaders are: meat products (including pork, poultry, sausages and semi-finished meat), dairy products, confectionary, dry baby food and dietary products with cereal.

Currently, the food processing industry is made up of foreign and domestic manufacturers with the latter dominating number wise. Among the biggest Russian food manufacturers are: Baltika Brewery Company, Yug Rusi Group, “United Confectionaries”, “Cherkizovo”, “Efko” Group, RusAgro and Miratorg. Among the most well-known foreign food manufacturers in Russia are Kraft Foods and PepsiCo which invested heavily in WimmBill Dann in 2010-2011. These foreign investors are strengthening their positions with investments and marketing activities that overshadow domestic companies. That said, many Russian manufacturers are investing in modernization and expansion in order to strengthen their position in the market. The leaders in this market are focused on consolidation and expansion into regions outside of Moscow and St. Petersburg.

Demand for higher-quality ingredients is increasing as more local food processors strive to meet international quality standards. That demand will lead to increased imports given that around 86 percent of the products used by the Russian food industry are imported. More than a half of the meat and milk

products in big Russian cities are provided by import suppliers. 70 percent of the raw materials in meat processing plants are imported. And specialized ingredients for bakery, confectionery and juice manufacturers are also widely imported. The majority of food ingredients are imported from: Denmark, Belgium, France, Germany, Austria, Great Britain, China, Brazil, India and the United States.

Perhaps in response to this current situation, on April 17, 2012 the Russian Government announced its Strategy for Food Processing Industry Development. In it, they target public and private sector investments into the sector at more than 777 billion rubles (USD 24.9 b) for the period of 2013-2020. The strategy is aimed at modernizing production facilities and increasing their capacity through innovation and technologies providing more advanced processing. As a result, the sector would be able to manufacture more competitive products, decrease power consumption and be more environmentally friendly. The aim is to increase production of flour, grains, bakery products, sugar, dairy products, butter, cheese and cheese products, fruit and vegetable preserves, oil, confectionary products, fish and fish preserves. One of the strategy's targets is to develop infrastructure and logistics for food products distribution system. This is clearly an ambitious strategy and Post will monitor its development.

The FAS Russia "Food Processing Annual 2013" will be available by the end of April and can be found at <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

Internet Sales

Even though Russia became the largest internet audience in Europe in 2011, with more than 53 million users, e-commerce here remains in its infancy. Consumers are highly skeptical of making purchases online and are uncomfortable with transactions in which they cannot inspect products beforehand. The logistical challenges of home deliveries remain unsolved. The federal mail system has a poor reputation for parcel service, and the market for home delivery has been too small for large parcel delivery services to expand nationwide. These trends are underscored by the fact that Russia's current leader in e-commerce, OZON.ru, relies primarily on pick-up points rather than home delivery and still conducts 80 percent of its transactions in cash.

One of the obstacles to the faster development of internet retailers is the underdeveloped system of e-payments. Currently most e-shop operators accept cash on delivery. It is still true that Russian consumers do not trust e-payments. Only 10 percent of e-shops offer the option to pay by debit/credit cards. Industry experts explain that e-shop operators prefer to call consumers before the final confirmation of purchase. The PayPal system of security for e-payments has recently opened a subsidiary in Russia, but it mainly serves foreign e-shop operators. In Moscow, traffic may also be a factor limiting internet and delivery sales particularly for perishable items.

Nevertheless, in 2012, growth of internet retailing in Russia remained high and exceeded growth rates of store-based retailing. According to Euromonitor data, internet sales in Russia grew by 29.5 percent to reach \$10.4 billion in 2012. More than 50 percent of consumers who buy goods online live in Moscow or St. Petersburg. The average bill is about \$300. Experts estimate internet sales turnover will grow by 21 percent in 2013 to reach \$12.6 billion.

Russian consumers mainly shop online for non-grocery products. In 2012, online grocery market in Russia was worth \$334 million and accounted 3.2 percent of total internet sales. People are not used to

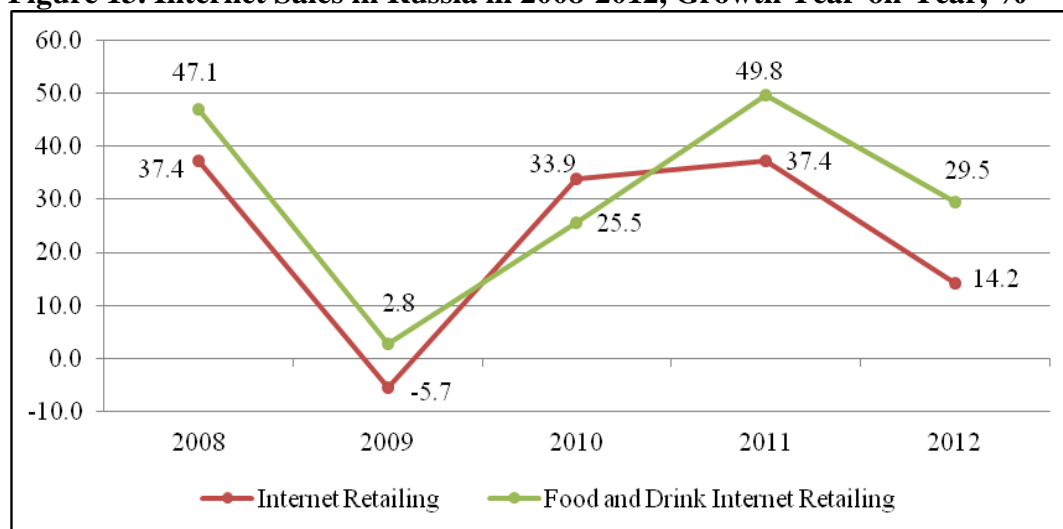
shopping for groceries online, and they have difficulty using the technology for this purpose. It is still perceived to be less stress and less time consuming to visit the local supermarket than to shop for groceries online. However, significant annual growth in internet sales in recent years shows that online grocery retailing has great potential.

Table 12. Internet Sales in Russia in 2008-2012, \$US Million

Category	2008	2009	2010	2011	2012	Growth, % 2011/2012
Internet Retailing	5,262	4,960	6,640	9,125	10,421	14.2
Food and Drink Internet Retailing	133	137	172	258	334	29.5

Source: Euromonitor International from trade sources and national statistics, 2013

Figure 13. Internet Sales in Russia in 2008-2012, Growth Year-on-Year, %



Source: Euromonitor International from trade sources and national statistics, 2013

The internet sites developed by store-based retailers are increasingly important, as the current environment favors well-established chains such as X5 Retail Group, with an established physical presence in major cities and across the regions, which removes some issues related to storage and transportation. The X5 chain launched its E5 project, offering a wide online range of non-grocery products, including books, electronics and home care products, among others. Consumers are able to collect products through Perekriostok outlets which are a particularly attractive option to Russian consumers unwilling to pay online, although courier delivery and post office collection are also offered as options. (Source: Euromonitor)

In March 2012, Utkonos, one of the largest online grocery retailers in Russia, started selling grocery goods using the online retail platform Wikimart, which is supposed to grow Utkonos' turnover by 3-5 percent, according to the Company's management. In 2011, Utkonos' online sales reached approximately \$300 million. Currently, the Company handles about 10,000 orders per day.

Tourism Sales

The upcoming 2014 Winter Olympic Games (February 7-23, 2014) and Paralympic Games (March 7-16, 2014) in the resort town of Sochi are expected to boost tourism in Russia. Hotels, restaurants and catering are all ramping up in order to serve the influx of visitors. According to Sochi Olympic Committee plans, 62 restaurants, 40 cafes, and 27 fast food outlets will operate during the Olympic Games. These could provide opportunities for foreign firms and investors. In December 2012, the Russian Government set a maximum cost per room per night for the Olympic Games time period and events that precede them. The maximum cost per night in 5* hotels will be 13,896 Rubles (approximately \$448), in 4* hotels will be 13,048 Rubles (approximately \$420), in 3* it will be 9,003 Rubles (\$290), in 2*, 1* or mini-hotels the maximum rate will be 5,741 Rubles (\$185). A total of 47 transport infrastructure construction and modernization projects are underway and there are also plentiful opportunities in terms of telecom, energy and environmental protection services. Two years ago the Russian government renovated the Sochi airport, increasing capacity to serve 1,300 to 2,500 passengers per hour. The \$14 billion investment package in Sochi and the determination of the government to make the Olympics a domestic and international success make Sochi an attractive proposition although information on how to become a supplier of food and beverages to the Olympic Games is still unclear at this stage.

Currently, the tourist sector in Russia is relatively underdeveloped with the possible exception of the city of St. Petersburg. Therefore, Russia has unique opportunities both for the development of internal tourism and for reception of foreign travelers. A variety of landscapes (mountains, sea, rivers, woods, tundra) allows developing different kinds of tourism, e.g. beach vacation, ski vacation, etc. Vladimir Putin announced in 2011 that the Russian Government would launch a new federal program "Development of domestic tourism in Russia". 7 billion rubles (\$US 233 million) were allocated from the federal budget in order to enhance tourism in Russia (source: Rossiyskaya Gazeta).

Already the hotel market, which has been underserved in Russia, is growing. Growth in the tourist sector will spur further development of Russia's hotels and restaurants which, in turn, will lead to a better quality services and offer new opportunities for the exporters of food products to Russia.

In addition to the Olympics events, in 2013, the World University Summer Games (a.k.a. "Universiade") will be held in the city of Kazan (population 1.2 million). And a bit further afield, Russia will host the 2018 Football World Cup. Matches are to be held in 11 cities including: Moscow, St. Petersburg, Kaliningrad, Kazan, Yaroslavl, Nizhny Novgorod, Samara, Saransk, Rostov-on-Don, Volgograd, and Sochi.

Holiday Gifts Sales

While the Russian economy including the food sector appears to be growing, consumer confidence still has a bit of catching up to do particularly with respect to year-end holiday spending. According to a Deloitte 2012 survey, the average amount of money Russians allocated for their festive budget included spending on food, gifts and entertainment of about \$583, about 11 percent more than in 2011 but still below the pre-crisis spending average of \$700 (2008).

Consumers in Russia usually start to think of their gift shopping near to the middle of December and

buy gifts, for the most part, during the last week before the holiday season. Russians tend to buy presents primarily in hypermarkets, with second place given to specialized shops, and the third place given priority being open-air-markets. Russian consumers continue to ignore the Internet as one of the major trading channels for buying gifts, especially during the pre-holiday period. According to Deloitte survey, the main reason is that Russians desire to see a product in person, to hold it in their hands and not just to look at a picture of it on a website.

SECTION IV. BEST PRODUCT PROSPECTS

The U.S. is the fifth largest supplier to Russia by value of agricultural, fish and forestry products. Based on official data, the U.S. share of Russia's agricultural imports exceeded \$2 billion in 2012. This is 26 percent growth compared to 2011. The U.S. share of Russia's total agricultural imports in 2012 was 5.2, on par with 2011. Top performing retail-oriented U.S. exports to Russia in 2012 included red meats and poultry, tree nuts, fresh and processed fruit and vegetables, snack foods, pet food, wine and beer, and fish and seafood.

In 2012, U.S. poultry exports accounted for roughly \$330 million (about 265,000 metric tons), followed by pork --\$293 million (nearly 88 million tons), and beef --\$237 million (approximately 46 million tons). Following WTO Accession, Russia is expected to remain an attractive market for poultry imports for the next several years, particularly for affordable frozen chicken leg quarters that do not compete against domestically-produced chilled whole birds. Russia is the second largest importer of beef and veal products (including offal) in the world, and the 5th largest importer of pork products. Russia demonstrated significant growth as an importing meat market in 2012, compared to recent years. In 2012, Russian beef, pork, and poultry imports exceeded 2011 levels by 15, 13, and 19 percent, respectively, by value, and three, nine, and 17 percent, respectively, by volume.

Russia's accession to the World Trade Organization (WTO) has helped to bring some of the country's legal and regulatory regimes closer in line with internationally accepted practices. Also, while Russia's stated goal to be self-sufficient in categories such as meat and dairy products may, to some extent, limit U.S. exports of those products, these goals may also create new opportunities for U.S. exporters to supply high protein feeds and animal genetics. For example, the United States was the largest exporter of live bovine animals to Russia in 2012. U.S. exports grew from \$85 million (19,092 head) in 2011 to \$289 million (74,734 head) in 2012.

U.S. fish and seafood exports to Russia were down by 20 percent in 2012 and totaled \$48 million. That was due to lower than average salmon catch in the United States and salmon roe being the significant export product from the United States to Russia (between 30-40 percent of all U.S. fish and seafood exports to Russia). However, lower exports of those products were partially compensated by increasing shipments of frozen scallops, lobsters and crabs as a result of growing demand from the Russian HRI sector. Because of this growing market, U.S. fish and seafood producers will continue to be able to find new market opportunities in Russia as consumer income rises, demand continues to boom, and consumer habits continue to change. For more information please see Gain report:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fish%20and%20Seafood%20Production%20and%20Trade%20Update_Moscow_Russian%20Federation_7-24-2012.pdf

The market for commercial pet food has strong growth potential. The growth is related to a greater

demand for specific types of pet food. Currently products include both wet and dry food, economic and premium products, and products that meet very specific needs related to the age (for young, adult and older animals), lifestyle (high-energy or light diets), and health condition (for diets that prevent allergies or address certain diseases) of pets. U.S export of pet food to Russia was up more than double in 2012 and reached \$6 million. The increase is a result of renewed economic growth, higher household incomes, an increase in the number of pets within Russian families and higher demand for new flavors and premium products.

In 2012, overall Russian nut imports totaled at 88,597 tons, valued \$425 million. The growth in nut consumption is driven by the growing popularity of healthy snacks in Russia and increasing use of nut ingredients in food processing. In 2012, the United States exported 22,263 tons of tree nuts to Russia, valued at \$125 million, a twofold increase in volume and value since 2008. The main driver of this growth was the increase in California almond exports. California pistachio sales have been growing since 2010, but volumes fluctuate based on price competitiveness particularly with Iranian pistachios. Almonds shelled and in shell, shelled hazelnuts and shelled cashews enjoy zero tariffs; the customs tariff for other raw nuts is 5 percent. For more information on Russian nuts market please see Gain report RSATO1108:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russia%20Going%20Nuts%20Over%20Almonds_St.%20Petersburg_Russian%20Federation_4-20-2011.pdf.

Russia is the world's second largest importer of fruit, and ranks as the number one market for pears. In 2012, overall Russian imports of fresh fruits totaled at 5.8 million tons valued \$5.5 billion. In 2012, Russia imported 15,945 metric tons (MT) of U.S. fruit worth \$23 million. In 2011, Russia was the third largest export market for Northwest Pears. Pears, apples, California table grapes and pomegranates. For more information on the Russian fruit market please see Gain report:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fresh%20Deciduous%20Fruit%20Annual_Moscow%20ATO_Russian%20Federation_12-17-2012.pdf

The most dynamic growth in the high-valued sector compared to 2011 was shown by such categories of U.S. products as popcorn (both raw and microwave), soy sauce, peanut butter, frozen pastry, mixed seasonings, spices, tomato sauces, prunes, wine and beer, nonalcoholic beverages (excluding fruit and vegetable juices), fresh apricots, peaches and nectarines. To get more information on market opportunities for the U.S. products please see the report:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Market%20Opportunities%20for%20Key%20U.S.%20Products%20in%20Russia_Moscow_Russian%20Federation_3-20-2012.pdf

Table 13 (below) provides additional information on food and agricultural product prospects ^{/1}.

Table 13. Russia: Suggested Best Prospects for U.S. Exporters, by Sector, 2012

Product	2012 US Import (\$ US mln.)	Average Growth of Import over the Last 5	Import Taxes	Key Constraints to Market Development	Attractiveness of the Market for the USA

		Years, %			
Poultry	338	-16	See GAIN Poultry and Products reports. Tariff-rate quotas apply to some items. Tariffs change unpredictably.	Competition with Brazilian and EU producers; Quick growth of domestic production; Perception of U.S. product as cheap and of low quality. Veterinary controls and demands do not follow international standards. Official goal of “food security” calls for reduction of meat imports.	U.S. product has well-established position; Low prices attract buyers. Local producers will not be able to satisfy demand in near future.
Pork	293	-3	See GAIN Livestock and Products reports. Tariff-rate quotas apply to some items. Tariffs change unpredictably.	Competition from Brazilian pork, complicated import procedures. Veterinary controls and demands do not follow international standards. Official goal of “food security” calls for reduction of meat imports.	Shortage of pork in the country; declining production; high prices; Demand for stable deliveries of both cheap and high quality product. New health certificates are in place for U.S. origin pork.
Live Cattle	289	761 ²	0%	Competition from Australian and European cattle suppliers (the latter being true if Russia eliminates ongoing trade restrictions with the EU)	Russia needs more highly productive cattle to reach its publicly stated food security goals which call for a reduction of imported meat and dairy products.

² Average growth of imports over the last four years because the United States did not begin shipping until 2008.

Beef	237	159	See GAIN Reports Livestock and Products reports. Tariff-rate quotas apply to some items. Tariffs change unpredictably.	Consumer unaware of U.S. high quality beef; Growing domestic production; Complicated import procedures. Veterinary controls and demands do not follow international standards. Official goal of “food security” calls for reduction of meat imports.	Insignificant specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development; New health certificates are in place for U.S. origin beef.
Tree nuts	144	29.4*	Nuts – 18% VAT Pistachios and pecans 18% VAT + 5% import duty	Iran biggest competitor for peanuts and pistachios; Tajikistan for walnuts.	U.S. almonds and pistachios enjoying very strong growth. Good potential for U.S. pecans.
Food preparations	135	9	20% but not less than 0.25 Euro/kg plus 18% VAT for position 1704; generally 5% + 18% VAT for items in 180620, but varies in other positions	High competition from EU products; Cheap canned food niche occupied by Russian trademarks.	Fewer Russians are making food products (e.g. canning) at home; High-quality product niche is not completely filled.
Spirits	104	31.8	RUR 400/liter of ethyl alcohol content; VAT 18%	Lack of U.S. whiskey promotion, strong positions of other importers (France, United Kingdom)	Whiskey are growing in popularity and have tremendous growth potential
Fish and	39	6	10% + 10-18%	Regular deliveries of	Growing demand for

Seafood			VAT	high quality product from Norway; Shortage of suitable equipment at retail trade outlets; Deficit of proper storage facilities with below –20C temperature; Unaware of quality and value of U.S. shellfish.	higher quality seafood from consumers; Very modest assortment in markets; Significant demand from supermarkets and HRI sector. Importers are looking for product diversification. Price competitiveness with European shellfish.
Hatching Eggs	25	33.8 ³	0%	Strong competition with Netherlands, Germany and Czech Republic in exports of chicken hatching eggs.	Russia needs more hatching eggs (specifically turkey eggs) to help supply new and modernizing poultry facilities.
Fresh Fruit	23	9*	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, Moldova for apples; Argentina and China for pears.	U.S. has good sales already and good potential for growth U.S. apples, pears, grapes, citrus, especially during February- April period.
Wine	12	17.2	RUR 7-24/liter of ethyl alcohol content; VAT 18%	Lack of U.S. wine promotion, strong positions of other importers (France, Italy, Spain, Argentina)	California wine is growing in popularity and has good potential for growth
Pet food	7	1	20%, but not less than 0.16 Euros/kg + 18% VAT	Strong tradition of feeding pets with table scraps; Strong local production with foreign investments - Mars has two plants that produce pet food.	Traditionally large number of home pets; Increased population incomes followed by growing demand for ready to use pet food.
Snack Foods	5	26	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, and dried fruits mixes.

³ Data only available for comparison of U.S. export growth between 2011 and 2012.

Source: Global Trade Atlas, U.S. Trade Database, Russian Tariff Database

* U.S. Export Data (Global Trade Atlas)

^{1/} Food products listed in Table 13 are based on market intelligence, including discussions with retailers and data analysis efforts, and should not be considered an official endorsement by the United States Department of Agriculture or any affiliated agencies.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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1400 Independence Ave., S.W.
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FAS Website: www.fas.usda.gov

For Trade Policy/Market Access Issues, General Information on the Russian Agricultural Sector, etc:
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Other Useful Contacts

The Agricultural Trade office works with a large number of U.S. industry organizations, several of which are resident in Russia. These cooperators share the view that Russia is a promising market for food products.

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<http://www.discovercaliforniawines.com/>

The American Chamber of Commerce is another good source for information on doing business in Russia. The Chamber has offices in Moscow and St. Petersburg.

American Chamber of Commerce in Russia (AmCham)

Ul. Dolgorukovskaya, Building 7, 14th floor

127006 Moscow, Russia

Fax: 7 (495) 961-2142

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Tel: 7 (812) 448-1646

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<http://amcham.ru/spb/>

The U.S Commercial Service has offices in Moscow, St. Petersburg, and Vladivostok. For questions regarding agricultural machinery, food processing and packaging equipment or materials, refrigeration equipment, and other industrial products, please contact:

U.S. Commercial Service

Bolshoy Devyatinskiy pereulok, 8

121099 Moscow, Russia

Fax: 7 (495) 728-5585

Tel: 7 (495) 728-5580

E-mail: Moscow.Office.Box@trade.gov

<http://export.gov/russia/>

The U.S. Commercial Service office at the U.S. Embassy in Moscow assists American exporters by identifying potential partners through the Gold Key Matching Service. The program features:

- appointments (typically four per day) with prescreened Russian firms;
- background and contact information on each potential partner, such as: the size of the company; number of years in business; product or service lines; and capability to provide after-sales service;
- customized market briefing with U.S. Commercial Service staff; and,
- available market research on the relevant industry sector.

The World Bank and the U.S. Agency for International Development also maintain missions in Russia.

APPENDIX – STATISTICS

TABLE A. KEY TRADE & DEMOGRAPHIC INFORMATION, 2012

Agricultural Imports From All Countries (\$Mln) / U.S. Market Share (%) ^{1/}	35,053/5.6
Consumer Food Imports From All Countries (\$Mln) / U.S. Market Share (%) ^{2/}	25,843/5.2
Edible Fishery Imports From All Countries (\$Mln) / U.S. Market Share (%) ^{3/}	2,554/1.5
Total Population (Millions) / Annual Growth Rate (%)	143.2/+0.2
Urban Population (Millions) / Annual Growth Rate (%)	106/+0.2
Number of Major Metropolitan Areas ^{4/}	12
Size of the Middle Class (Millions) / Growth Rate (%) ^{5/}	48/2.8
Per Capita Gross Domestic Product (U.S. Dollars)	16,700
Unemployment Rate (%)	6.6
Per Capita Food Expenditures (U.S. Dollars)	6,447
Percent of Female Population Employed ^{6/}	93
Exchange Rate (US\$1 = RUR), 2012 ^{7/}	31.07

^{1/}Source: 2012, Global Trade Atlas (Agricultural Total, Group 2)

^{2/}Source: 2012, Global Trade Atlas

^{3/}Source: 2012, Global Trade Atlas

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

^{5/}Sources: Various - based on estimate of individuals earning US\$500-\$1,150 per month

^{6/}Source: 2012 Rosstat data. As percentage of economically-active female population (employed or actively seeking employment). Female workers account for 49.1 percent of the total economically-active population

^{7/}See Figure 1. Russia's Central Bank exchange rate of \$1 USD to Ruble in 2012

TABLE B. CONSUMER FOOD & EDIBLE FISHERY PRODUCT IMPORTS, CY 10-12

	Imports from the World (<i>Million Dollars</i>)			Imports from the U.S. (<i>Million Dollars</i>)			U.S Market Share (<i>Percent</i>)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
CONSUMER-ORIENTED AG, Total	21,719	25,325	25,843	1,011	1,143	1,355	4.7	4.5	5.2
Snack Foods (Excl. Nuts)	910	1,165	1,192	3.3	4.9	5.1	0.4	0.4	0.4
Breakfast Cereals & Pancake Mix	21	25	25	0.9	1.4	0.9	0.5	0.6	0.4
Red Meats, Fresh/Chilled/Frozen	4,615	5,090	5,820	334	413	592	7.2	8.1	10.2
Red Meats, Prepared/Preserved	157	271	255	3.4	4.9	6.2	2.2	1.8	2.4
Poultry Meat	863	572	707	331	307	338	38.4	53.7	47.9
Dairy Products (Excl. Cheese)	659	618	573	20.6	0.06	0.09	3.1	0.01	0.02

Eggs & Products (Excl. Cheese)	116	153	176	9.8	21.6	25.3	8.5	14.1	14.4
Fresh Fruit	4,572	5,462	5,527	29.3	32.1	22.8	0.6	0.6	0.4
Fresh Vegetables	2,025	2,858	2,260	1.3	1.9	1.5	0.06	0.07	0.07
Processed Fruit & Vegetables	1,457	1,621	1,417	24.9	27.4	18.8	1.7	1.7	1.3
Fruit & Vegetables Juices	364	441	485	6.3	4.6	4.2	1.7	1.1	0.9
Tree Nuts	335	391	425	82.6	113	144	24.7	29	34
Wine & Beer	1,075	1,265	1,384	7.4	9.7	12.3	0.7	0.8	0.9
Pet Foods (Dog & Cat Food)	139	196	219	4.6	8.7	6.8	3.3	4.4	3.1
Other Consumer Oriented Products	2,352	2,786	2,921	146.7	190.1	172.8	6.2	6.8	5.9
FISH & SEAFOOD PRODUCTS TOTAL	2,150	2,564	2,554	51.6	60.4	39,2	2.4	2.4	1.5
Salmon	524	604	704	1.5	0.3	0.2	0.3	0.1	0.01
Molluscs	60	88	90	4.4	4.1	3.5	7.4	4.7	3.9
Crustaceans	253	325	302	0.4	0.5	1.2	0.2	0.1	0.4
Other Fishery Products	1,082	1,304	1,270	32.3	37.8	25.7	3	2.9	2
AGRICULTURAL PRODUCTS TOTAL	30,599	36,301	35,053	1,278	1,510	1,963	4.2	4.2	5.6
AG, FISH AND FORESTRY TOTAL	33,727	40,271	39,199	1,347	1,608	2,023	4	4	5.2

Source: Global Trade Atlas

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCTS
CONSUMER-ORIENTED AG TOTAL

№	Country	Million United States Dollars		
		2010	2011	2012
1	Brazil	2,150	1,698	1,845
2	Ukraine	1,415	1,613	1,778
3	Germany	1,633	1,882	1,613
4	Netherlands	1,185	1,403	1,356
5	Turkey	1,336	1,408	1,355
6	United States	1,010	1,143	1,355
7	Spain	785	1,135	1,235
8	Poland	923	932	1,205
9	Ecuador	878	1,189	1,160
10	Italy	796	1,088	1,089
11	China	857	1,089	1,023
12	France	781	893	874
13	Canada	232	402	622
14	Paraguay	227	196	568
15	Argentina	509	526	521
	World	21,719	25,325	25,843

Source: Global Trade Atlas

TABLE D. TOP 15 SUPPLIERS OF FISH & SEAFOOD PRODUCTS

№	Country	Million United States Dollars		
		2010	2011	2012
1	Norway	860	929	1,049
2	China	235	309	292
3	Iceland	96	163	158
4	Chile	79	112	126
5	Canada	92	115	119
6	Vietnam	74	95	79
7	Faroe Islands	15	29	77
8	Thailand	49	49	56
9	Denmark	70	69	46
10	Spain	35	42	42
11	Latvia	32	45	41
12	Ukraine	32	31	41
13	United States	52	60	39
14	India	26	34	37
15	Indonesia	20	24	36
	World	2,150	2,564	2,554

Source: Global Trade Atlas

Other Relevant Reports

Attaché reports on the Russian food and agricultural market are available on the FAS Website; the search engine can be found at

<http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>

The latest FAIRS Report can be found at

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Moscow_Russian%20Federation_01.02.2013.pdf

RS1306 Food and Agricultural Import Regulations and Standards – Certification

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Certification_Moscow_Russian%20Federation_05.02.2013.pdf

RS1215 Market Opportunities for Key U.S. Products in Russia

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Market%20Opportunities%20for%20Key%20U.S.%20Products%20in%20Russia_Moscow_Russian%20Federation_3-20-2012.pdf

RSATO1110 Retail Report / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Moscow%20ATO_Russian%20Federation_9-24-2012.pdf

RSATO1002 Trade Law Report

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/The%20Russian%20Federal%20Law%20on%20Trade%20Moscow%20ATO_Russian%20Federation_8-30-2010.pdf

RSATO1107 Russian Food Processing Sector

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Processing%20Ingredients_Moscow%20ATO_Russian%20Federation_12-21-2010.pdf

RSATO1102 Russian HRI Sector

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Service%20-%20Hotel%20Restaurant%20Institutional_Moscow%20ATO_Russian%20Federation_12-28-2012.pdf

RSATO1002 Fresh Deciduous Fruit / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fresh%20Deciduous%20Fruit%20Annual_Moscow%20ATO_Russian%20Federation_12-17-2012.pdf

RSATO1109 Russian Organic Market

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Organic%20Market%20Continues%20to%20Grow_Moscow%20ATO_Russian%20Federation_2-15-2013.pdf

RSATO1301 Development of a National Standard for Organic Products in Russia

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Development%20of%20a%20National%20Standard%20for%20Organic%20Products%20in%20Russia_Moscow%20ATO_Russian%20Federation_2-8-2013.pdf

RSATO1010 Russian Alcohol Market Regulation 2008-2010 Update

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Alcohol%20Market%20Regulation%202008-2010%20Update_Moscow%20ATO_Russian%20Federation_11-22-2010.pdf

RSATO1208 Customs Union Technical Regulations on Food Products Labeling

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Customs%20Union%20Technical%20Regulations%20on%20Food%20Products%20Labeling_Moscow%20ATO_Russian%20Federation_7-18-2012.pdf

RSATO1205 Russian Duma Revises Wine Definitions and Other Alcohol Rules

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Duma%20Revises%20Wine%20Definitions%20and%20Other%20Alcohol%20Rules_Moscow%20ATO_Russian%20Federation_7-13-2012.pdf

RSATO 1205 Strategy of the Russian Food Industry Development until 2020

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Strategy%20of%20the%20Russian%20Food%20Industry%20Development%20until%202020_Vladivostok

[Russian%20Federation_6-7-2012.pdf](#)

RS 1247 Fish and Seafood Trade Update

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fish%20and%20Seafood%20Production%20and%20Trade%20Update_Moscow_Russian%20Federation_7-24-2012.pdf

RS 1139 Poultry and Products Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Dairy%20and%20Products%20Annual_Moscow_Russian%20Federation_11-6-2012.pdf

RS 1144 Livestock and Products Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Annual_Moscow_Russian%20Federation_9-5-2012.pdf

RS 1146 Dairy and Products Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Dairy%20and%20Products%20Annual_Moscow_Russian%20Federation_11-6-2012.pdf

RS 1015 Declaration of Conformity Replaces Certification for Many Products

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Declaration%20of%20Conformity%20Replaces%20Certification%20for%20Many%20Products_Moscow_Russian%20Federation_3-22-2010.pdf

RS1117 Pet Food Market Brief

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Pet%20Food%20Market%20Brief_Moscow_Russian%20Federation_4-21-2011.pdf