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Report Highlights:

The growth in the Russian HRI sector has been steady in recent years, mainly due to the expansion of fast food and chain restaurants outside of the saturated markets of Moscow and St. Petersburg. The COVID-19 pandemic has hit the food service sector especially hard as it kept people in their homes and restricted international travel. Foodservice outlets in most cities were permitted to open their doors in late June, but under strict conditions. Experts predict that 10-30 percent of HRI establishments will eventually go out of business. The road to recovery for this sector will be long and difficult.

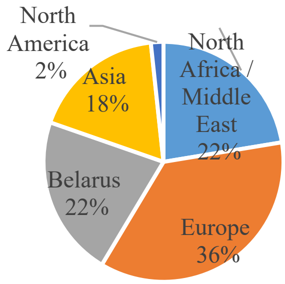
Market Fact Sheet: Russian Federation

Executive Summary

Russia is the fifth largest economy in Europe and the eleventh largest in the world. Despite its large size, most of the wealth and population are in the Western region around the capital city of Moscow. In recent years, economic sanctions and government support for import substitution has increased domestic food production. The continued weakening of the ruble and lower consumer purchasing power has generally discouraged imports. Turnover at restaurants, cafes and bars in Russia grew 4.7 percent in 2019 as the Russian economy seemed to pick up towards the end of the year. However, since the COVID-19 pandemic, the economy has contracted by 8.5 percent in the second quarter of 2020.

Imports of Consumer-Oriented Products

Total Russian imports of consumer-oriented products have been steady at around $20 billion per year for the past three years, although they are expected to decline slightly in 2020. Russia remains a net importer and continues to rely on foreign supplies of fresh and dried fruit, nuts, vegetables, beef, dairy, wine, spirits, food ingredients, and processed foods such as condiments, snacks and juices. Imports of consumer-oriented products from the United States are holding steady and are expected to be around $140 million in 2020.



Food Processing Industry

In the last three years, Russia's food processing industry has grown by an annual average of five percent. In 2019, revenues from Russia's food and drink processing sectors reached $102.4 billion. Food production turnover increased 6.5 percent from 2018, while the beverage sector increased 11.9 percent. Russia's growth is stimulating investment and innovation not only in equipment, but also in product development. Currently, there are an estimated 22,000 food processing companies in Russia, employing 2 million people.

Food Retail Industry

Russia's food retail industry grew by 1.4 percent and totaled $223.9 billion in 2019. Market consolidation has continued with the top ten largest consumer retail chains increasing their share of the market to 32.9 percent last year. Falling investment and a decline in real income will undoubtedly affect business and consumer confidence (and import demand) for as long as the COVID-19 crisis continues; however, the outlook for the retail sector is generally positive. Retail chains are modernizing and expanding into more regions of the country.

Food Service and HRI

The Russian foodservice industry has grown around four percent annually for the past three years and in 2019 reached 1,665 billion rubles ($23.1billion).[1] However, COVID-19 hit this sector particularly hard with the exception of fast-food chains and dark kitchens, which have demonstrated double digit growth in 2020. Consumers are gradually coming back to restaurants, but sector recovery will depend on disposable income growth.

Quick Facts CY 2019

Imports of Consumer-Oriented Products:

List of Top Ten Growth Products in Russia

1. Pork	2. Butter
3. Eggs	4. Cheese
5. Wine	6. Dog and cat food
7. Beer	8. Sparkling wine
9. Milk and cream	10. Sauces and seasonings

Food Industry by Channels (U.S. dollars billion):

Food Industry Total	$102.4
Consumer-Oriented Product Imports	$20.2
Consumer-Oriented Product Exports	$4.3
Agricultural & Related Product Imports	$31.1
Agricultural & Related Product Exports	$32.7
Retail	$518.0
Food Service	$23.1

Top Russian Retailers:

X5 Retail Group, Tander, Auchan, Lenta, Dixy, Metro Cash & Caryry, O'KEY

GDP/Population

Population: 144.5 million
GDP: 1.69 trillion USD
GDP per capita: 11,528 USD

Strengths	***Weaknesses***
The biggest consumer market in Europe with almost 145 million consumers, 56 million belong to the middle-class	Strong competition of accessible ingredients and products from local, European and Chinese producers
Opportunities	***Threats***
Evolving Russian food processing sector looks for quality and innovative ingredients in order to launch novelty products	Counter sanctions limit the list of American products eligible for export to Russia
Consumers are increasingly sophisticated and looking for value	Strengthening US dollar

[1] Exchange rate of $1 = 72 rubles

SECTION I. MARKET SUMMARY

Overall Business Climate

It has been six years since Russia imposed sanctions against the United States and other Western countries, and although the government has built up large foreign currency reserves and budget surpluses, the economic recovery has been sluggish due to the lack of investment and increasingly large and bureaucratic state-owned enterprises. The March oil crisis and the COVID-19 pandemic has lowered economic expectations further. In the first half of 2020, Russian GDP fell 3.6 percent (a preliminary estimate) and the Russian Ministry of Economic Development revised macroeconomic forecasts indicating that the Russian economy may recover to pre-crisis levels by the third quarter of 2021.

The Foodservice industry accounts for a significant part of the turnover of food products in the country. For the past three years, the turnover has been growing around four percent annually and in 2019 reached 1.7 trillion rubles ($23.1 billion). However, during the January-July 2020 period, the restaurant and catering market declined by 24.5 percent compared to 2019.

Consumer Trends

Due to the fast pace of life, especially in the larger cities, people increasingly prefer to eat at restaurants and/or carry out instead of spending time in grocery stores and cooking at home. Russian consumers continue to be price conscious. It is said that they "do not eat with their eyes, but with their pocket." Full-service restaurants showed moderate growth, but it was cheaper, limited service restaurants that drove foodservice in 2019. Consumers easily switch from full-service restaurants to fast food depending on their budget. Out-of-home dining services are most often used by younger customers age 24 to 39. Street food is especially becoming popular with this generation as it is fast and affordable.

The number of restaurants per capita in Russia is significantly less than in Europe and the United States. The level of trust in the country is highest for establishments that attract repeat customers. In addition to price, consumers still care about the quality of the product and are looking for fresh, healthy, and new menu items. Turnover at restaurants, cafes and bars in Russia grew 4.4 percent in 2019 to $1.99 billion (149.3 billion rubles) according to Rosstat, the Russian State Statistical Service.

Table 1. Advantages and Challenges for U.S. Products in Russia

Advantages – Sector Strengths and Market Opportunities	**Challenges – Sector Weaknesses and Threats**
Russia is one of the largest consumer markets in Europe with 144 million customers.	Declining income drives consumers to more affordable products.
The HRI sector has a lot of room for growth as the culture of eating out is expanding.	Growing production of domestic food products will decrease imports.
Food service establishments are looking for unique, innovative and trendy products to attract customers.	U.S. dollar strengthening led to increased prices for American products.
The increasing growth of fast-food chains and casual dining restaurants provide more opportunities for western-style food.	Russian counter sanctions severely limits the list of American products eligible for import.

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

The Russian market has never been an easy place to do business; however, with the imposition of counter sanctions and COVID-19 restricting travel, it is even more difficult. As a first step, U.S. exporters should confirm that the potential sale does not include products subject to counter sanctions. Exporters can find full information on the banned products in the following USDA FAS GAIN Reports: Russia Announces Ban on Many US Agricultural Products (August 2014) and Russia Extended Food Import Ban through End 2020 (July 2019). After determining that the product is allowed to legally enter the Russian Federation, the exporter can initiate the regular process of selecting importers, distributors or other buyers. The exporter is advised to conduct market research to better understand the dynamics of the market, including demand, competition, pricing and logistics. Some information is publicly available through USDA FAS GAIN reports, but the exporter is encouraged to contact the Agricultural Trade Office in Moscow for more specific information. Information can also be provided by various U.S. industry groups, USDA Cooperators and State Regional Trade Groups.

The Russian market is extremely competitive and establishing a personal relationship is critical. Although initial contact with importers and distributors is best done in person, virtual contact can suffice during this time of travel restrictions. There are also numerous international trade shows (in Russia and elsewhere) that can serve as an effective platform to connect with Russian buyers of food ingredients. Below are Russian trade shows that are expected to be held in the second half of 2020 and the beginning of 2021:

- Restaurant 2020, Moscow - October 13-15, 2020
- PIR Show, Moscow - October 19-22, 2020
- Beviale Moscow - March, 2021
- Modern Bakery Moscow - March 2021
- Gastreet, International Restaurant Show, Sochi - May 31-June 4, 2021

Many Russian buyers also attend U.S. and international trade shows like Expo West, Fancy Food, IFT, Anuga, SIAL, Gulfood, ProWein, Green Week and BrauBeviale. More information about these events can be found at https://fas-europe.org/.

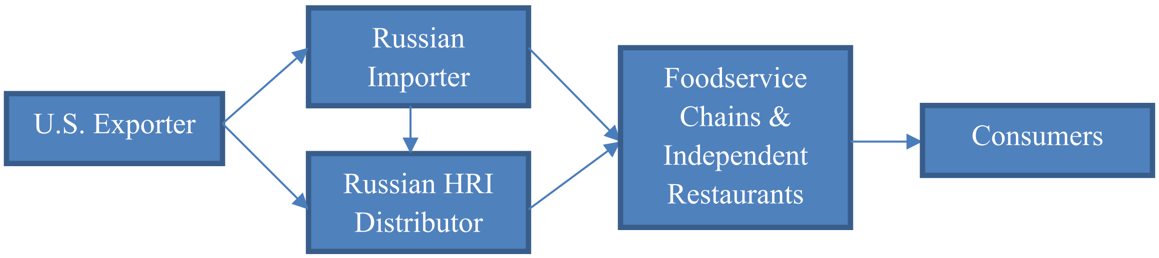
Market Structure

Foodservice establishments can purchase products in three different ways: directly from U.S. suppliers (although this is not typical), from Russian importers or from local wholesalers/distributors. High-end hotels, chains and independent restaurants prefer to work with specialized importers or distributors. Large HRI distributors prefer to import directly. The type of product can also make a difference, for example, most restaurants buy American wine, beer, and spirits from importers, whereas other specialty foods like nuts, sauces, syrups are procured from distributors.

Distribution

Distribution channels can vary considerably from one product to the next. The chart below provides a general schematic that applies to most of the HRI sector. Notwithstanding Russia's vast territory, there are only three commercial seaports that handle containerized perishable cargo. The ports are St. Petersburg, Vladivostok, and Novorossiysk; each have several terminals. The Port of St. Petersburg is the main port of entry for Russia, serving the heavily populated Northwestern part of the country. The Port of Vladivostok supplies the Russian Far East and Siberia and the Port of Novorossiysk, the Black Sea basin. Transatlantic shipment takes about 17 days from the U.S. East coast and 45 days from the U.S. West coast via hubs in Germany or the Netherlands.

Figure 1. Distribution Channel Flow Diagram



Food importers' offices and warehouses are mostly located in the port-cities of St. Petersburg and Vladivostok or in Moscow, the capital and the main center of consumption. Food-processing facilities are located in most Russian regions; however, larger factories are only located in the Central/Southern and Ural parts of Russia in close proximity to urban areas. Most of the inter-regional delivery across Russia is done by truck. Railroad is used occasionally for long-distance deliveries.

Restaurant, Cafe and Bar Industry

The growth in dining out has been steady in recent years, mainly due to the expansion of chain restaurants and cafes in mid- to larger-sized cities outside of the saturated markets of Moscow and St. Petersburg. Traditionally, restaurants have served as a place to do business or a place to take visiting guests, but they are now increasingly being seen as an alternative to cooking at home. Fast food chains, coffee shops, bakeries, cafes, canteens and even supermarkets are gradually gaining market share at the expense of traditional sit-down restaurants as consumers increasing look for convenience and lower priced food options. At the same time, there is still a demand for restaurants that offer unique formats or cuisine for special occasions.

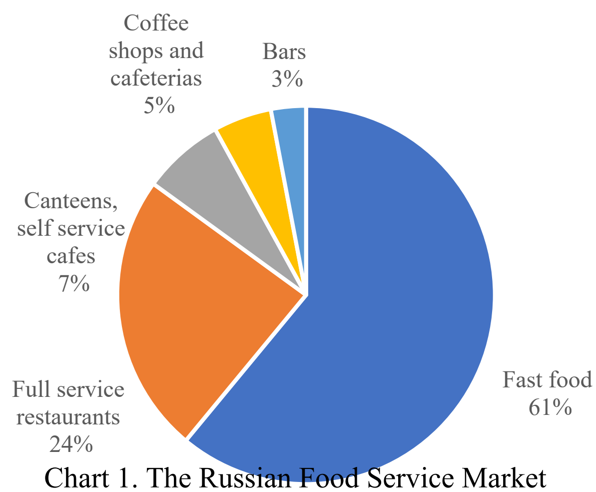


Chart 1. The Russian Food Service Market

The restaurants that have remained open continue to feel pressure due to the restrictive measures (mandatory distancing of 1.5 meters, antiseptic dispensers, regular temperature checks and masks) put into place by the government. Moscow was one of the first cities in Russia to reopen after the outbreak of COVID-19. Summer terraces, outdoor cafes and restaurants were opened from June 16th, and all other restaurants were opened from June 23rd. Restaurant traffic initially recovered by 70-80 percent in the first few weeks, but many establishments are not able to work at full capacity due to restrictions on occupancy rates. There are an estimated 15,000 food establishments in the city.

Quick Service Restaurants (QSR)

Fast food is the main driver of the food industry today due to its low-price segment. In recent years, there has been a proliferation of burger restaurants with Burger King and McDonald's in almost every major city in the country and with plans to continue expanding. KFC, Baskin Robbins and Subway are also present in the market. The transition of consumers away from full-service restaurants to fast food is due to a long-term reduction in real incomes, but also to the convenience of high-speed service. In 2019, the share of fast food in overall Russian spending on food reached 51 percent, an increase of 17 percent over the year.

Another main trend in the development of food service in Russia is the growth in the number of bakeries and Grab & Go format chains. Modern bakeries are places with a wide selection of pastries, sandwiches, and main dishes prepared in advance. In large cities, the meal schedule is blurring, and people are increasingly eating when they feel comfortable, rather than during the traditional lunch break. The average receipt in a bakery is usually three times lower than in restaurants.

Table 2. Top Five Largest Fast-Food Companies by net profit, Rubles, 2019 figures

Company	Brand	Net Profit
McDonald's	McDonald's	4,428 Billion
Yum! Brands Russia	KFC, Pizza Hut	1,789 Billion
Burger King	Burger King	287,417 Million
Markon	Stardog!s	15, 952 Million
Subway Russia	Subway	5,624 Million

Source: Audit-it.ru

Fast food establishments have now become the main sales channel for coffee. Fifty-two percent of all coffee orders come from these types of restaurants and the fast-food giants are increasingly betting on coffee-driven visits, the so-called 'white cup' category to drive their sales. They are offering combo sets (coffee with pastries, for example), espresso-based drinks, cappuccino and lattes. As a result, people of all ages, from young people to the elderly, are beginning to drink more coffee.

Full -Service Restaurants

The economic outlook for full-service or casual dining restaurants where guest come for the atmosphere is grim. Not only did the main impact of the COVID-19 closures fall on these establishments, as they were less focused on delivery or carry out, but the competition in this sector has been especially acute due to the increasing insolvency of the Russian middle class. New types of formats, concepts, services, delivery options are increasingly taking diners away from traditional casual dining restaurants.

Table 3. Top Five Largest Full-Service Restaurant Holdings, Rubles, 2019

Company	Brand	Net Profit
ZhirTrest Project	White Rabbit Family	81,853 Million
Novikov Group	Arkadiy Novikov's restaurants	47,284 Million
Restart Vasilchuk Brothers	Chaikhona #1	16,126 Million
Tanuki	Tanuki, Ersh	7,387 Million
Ginza Project Group	Giza Project restaurants	7,193 Million

Source: Audit-it.ru

Delivery-Only Kitchens

Dark kitchens, virtual kitchens, cloud kitchens, ghost kitchens, or delivery-only kitchens have been a growing trend in Russia. This segment of the restaurant industry was able to adapt quickly to the crisis aided by aggregator platforms that significantly expanded their reach. For the two months of April and May this year, delivery from food service establishments in the eight largest cities of Russia increased by 50 percent (in terms of the number of visits) compared to the two months of January and February according to the NPD[2] research.

The leading delivery services, those that currently own more than 30 percent of the delivery market, include Yandex.Food, Eda and Delivery Club. These types of delivery services are expected to grow 15-20 percent in the next year, after which it is expected to stabilize due to increased competition. One of the big events in the delivery-only kitchen format this year is a joint project between the Delivery Club, Novikov Group, and Anton Pinsky. As part of this project, 24 delivery-only kitchen factories will be established, each of which is expected to result in 20,000 orders per month. Yandex.Food is also increasing their reach. Since the end of March, Yandex.Food has been connected with 200 catering establishments per day. This is six times more than was recorded back in February.

The most popular food item for delivery is still pizza. The leader of the Russian market of pizza chains is DoDo pizza which continues to open new outlets. In 2019, the company's revenue increased by 45 percent compared to the previous year and amounted to 17 billion rubles.

Hotel Industry

The market for accommodation in Russia, which includes hotels, tourist apartments and hostels, grew by 5.7 percent in 2019. Traditional hotels represented about 600,000 rooms or 23 percent of total accommodation rooms available. The top five international hotel chains account for 39 percent of the total hotel market and local Russian hotels account for 61 percent. Domestic hotels have a greater regional reach because they are located in both large and small cities outside of the main population areas. Most of the international chains are located in cities with a population of at least 500,000 people, although as internal, domestic tourism continues to grow, there has been a shift towards less populated cities people. International chains are only opening a limited number of hotels in these smaller markets.

The Krasnodar territory actually has more accommodation facilities than Moscow. In preparation for the Sochi Olympics about 1,500 new hotel facilities were built. After the annexation of Crimea, tourism dropped briefly, but since then, the mass construction of hotel facilities in the region resumed. Moscow is the next largest region for hotel infrastructure facilities. In 2019, 1,700 hotels, hostels, and holiday homes were registered in Moscow. Growth for the year was 11 percent.

The hotel market in Russia was deeply affected by the coronavirus pandemic and it is expected to take three to five years before it fully recovers. In fact, about 80 percent of the hotels are in critical condition. The biggest loss has been Chinese tourists who made up a significant portion of tourism to Russia.

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[2] Analytical agency providing data, industry expertise, and prescriptive analytics.

Table 4. Distribution of Market Share Among Hotel Operators, 2019

International Operators:	Percent Share of Hotels	Percent Share of Rooms	Domestic Operators:	Percent Share of Hotels	Percent Share of Rooms
Accor Hotels	23	19	Azimut	9	12
Radisson HG	18	23	GOST Hotel	9	9
Marriott Intl	12	14	Marins Park Hotel	2	8
IHG	12	13	Amaks Hotels	6	8
Hilton Worldwide	12	11	Barkhatnye Sezony	1	17
Others	22	20	Others	73	46

SECTION III. COMPETITION

Russia remains the eighth largest importer of consumer-oriented products in the world. In 2019, imports of consumer-oriented products increased by two percent and are valued at $20.2 billion. Supply from the United States grew significantly in 2019, by 11 percent and totaled $140.8 million. While overall imports of consumer-oriented products have fallen by more than 33 percent since 2013, Russia continues to rely on foreign supplies of fresh and dried fruit, nuts, vegetables, beef, cheese, wine, spirits, food additives. Many imported products are now supplied by countries that are not subject to Russia's counter sanctions (Belarus, Turkey, China, Brazil, Ecuador, South Africa, Chile and Argentina).

In recent years, the volatility of the Russian ruble has been one of the major factors affecting the competitiveness of imported food products. The Russian ruble lost over half of its value against the U.S. dollar, from 35 rubles per USD in 2014 to 72 rubles per USD in 2019. Russian government policies, oriented toward import substitution, have also created a very challenging environment. In 2020, Russia adopted a new Food Security Doctrine that explicitly sets the goal of food self-sufficiency. For additional details, please refer to the GAIN report New Food Security Doctrine Adopted (February 2020). Despite the ban, stagnant purchasing power, and import substitution programs, Russian remains one of the largest food importers in the world.

In 2020, imports of consumer-oriented products are expected to slow down because of the general downturn of the economy and declining incomes. However, products that are lower cost, better value or that are not already available locally are still potentially an opportunity for American suppliers. The table below summarizes some of the existing opportunities in the Russian market and competition with other suppliers.

Table 5. Top Russian Imports of Consumer-Oriented Products and Competition

Product Category, (product code) Imports in $ millions	**Main suppliers, in percentage (value)**	**Strengths of Key Supply Countries**	**Market Attractiveness**
Wine (HS code 2204 21) Total imports: $873.3 From USA: $9.3	1.Italy - 23 2.Georgia - 22 3.France - 14 USA - 1	Due to the promotional efforts and historical presence in the Russian market, European wines are well known and popular with Russian consumers. New World wines compete directly with American wines on price	A wine culture is developing in Russia. Wine professionals know about the quality of American wines. Some importers are interested in bringing new brands to the market and are educating consumers about American wines.
Food preparations (HS 2106 90) Total imports: $654.4 From USA: $72	1.Germany – 26 2.USA – 11 3.Austria – 5	EU suppliers benefit from the geographical proximity and established connections in Russia.	There is a growing demand for healthy food additives and sports supplements which add nutrition, as well as innovative ingredients.
Sauces and Preparations (HS code 2103) Total imports: $247.7 From USA: $5.8	1.Germany – 19 2.Austria – 15 3.China – 8 USA – 2	EU and Chinese suppliers benefit from the geographical proximity and established connections in Russia and offer a diverse assortment of condiments and seasonings.	Russian consumers are diversifying their diet and using more ingredients and sauces from different cuisines. Consumers are looking for products with new tastes, including those available from the United States, e.g. BBQ sauces.
Cacao paste, not defatted (HS 1803 10) Total imports: $155.3 From USA: $4.6	1.Ghana – 34 2.Cote d'Ivoire – 33 3.Ukraine – 19 USA – 3	Major global suppliers make price-competitive offers, which is a key factor for the economical Russian market.	The growing confectionery sector is introducing innovative products with natural ingredients.
Tomato paste, not prepared with vinegar (HS 2002 90) Total imports: $103.8 From USA: $10.6	1.China – 55 2.Italy – 12 3.USA – 10	Asian and European suppliers make price-competitive offers.	Evolving food-processing industry creates demand for sustainable, innovative and natural ingredients and additives.
Rice (HS 1006) Total imports: $101.3 From USA: $0.9	1.India - 40 2.Thailand – 18 3.Pakistan – 12 USA – 0.9	Limited local rice production and historical supply channels from Asia make it difficult for other suppliers to enter the rice market in Russia.	Increasing demand for wholesome natural foods, including interest in specialty products, such as wild rice. U.S. rice industry offers unique specialty rice assortment, which is appreciated by the health-conscious Russian consumer.
Nuts prepared or preserved (HS code 2008 19) Total imports: $52.4 From USA: $9.4	1.Belarus – 18.7 2.USA – 18 3.Turkey – 16	Strong competition on price with processed nuts from Belarus, Turkey and Spain on price	Healthy eating trends are expanding along with the demand in nut snacks and natural ingredients for confectionary and bakery. U.S. nuts have established niches on the Russian market due to quality.
Cranberries prepared (HS 2008 93) Total imports: $8.7 From USA: $5.4	1.USA – 62 2.Germany – 26 3.Canada – 10	Strong U.S. position on the market due to quality and supply volumes. Meanwhile the competition with products from Germany and Canada is growing.	There is a growing demand for healthy snacks and natural ingredients and cranberries are known and appreciated by Russian consumers. Dried cranberries are not available locally.

Source: Trade Data Monitor

SECTION IV. BEST PRODUCT PROSPECTS CATERGORIES

A. U.S. Products Present in the Market Which Have Good Sales Potential

- Food preparations, not elsewhere specified
- Alcoholic beverages
- Tomato paste
- Dried sweetened cranberries

B. Top Consumer-Oriented Products from the World

- Bananas
- Beef
- Cheese
- Wine

C. Top Consumer-Oriented Products from the United States

- Food preparations, not elsewhere specified
- Tomato paste
- Processed nuts
- Wine

D. U.S. Products Not Present in Significant Quantities, But Which Have Good Sales Potential

- Beer
- Wild rice
- Organic and functional products
- Sauces and condiments

E. U.S. Products Not Present Because They Face Significant Barriers

- Raw nuts: almonds, pistachios, pecans (banned for imports as a result of the implementation of economic sanctions against Russia since 2014)
- Meat and meat products: beef, pork and poultry (banned since 2014)

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

For further questions on this report or assistance exporting to Russia, please contact the Foreign Agricultural Service in Moscow. Importer listings are available from the Foreign Agricultural Service for use by U.S. exporters of U.S. food and beverage products.

For More information on FAS/USDA Market Promotion Programs and Activities in Russia, please contact:
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Attaché reports on the Russian food and agricultural market are available on the FAS Website; the search engine can be found at https://gain.fas.usda.gov/

Attachments:

No Attachments