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## Russian Federation

### Retail Food Sector

### Report

### 2004

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**Report Highlights:**

A sharp increase in consumer spending helped pushed the Russian retail food market to \$56 billion in 2002, up 22 percent over 2001. Increasing consumer demand for more variety, better quality, and greater convenience is creating opportunities for a wide range of U.S. food products. In addition, favorable changes in Euro/Dollar and Ruble/Dollar exchange rates are making U.S. products more price-competitive. Among the best prospects are: meat and poultry products, private label canned/package foods, fresh fruit, dried fruit, nuts, fish and seafood (fresh/frozen/canned), wine, confectionary/snack foods, microwave and other convenience foods.

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## SECTION I. MARKET SUMMARY

Russia's retail sector is booming thanks to five straight years of strong economic expansion and consumer incomes that have grown at an even faster rate. According to official sources, total retail turnover in 2002 was \$121 billion, although unofficial estimates place total sales at least 50 percent above this level. Whichever figure is used, it's clear that the expanding market has caught the attention of retailers – both local and foreign chains.

### Retail Sales, 1998-2002

	1998	1999	2000	2001	2002
<b>Total Sales (\$ billion)</b>	51	67	83	102	118

Source: Goskomstat

After opening its first outlet in Moscow in 2002, Swedish retailer *IKEA* unveiled a new "Mega" mall last year – one of the largest shopping malls in Europe at 150,000 square meters (sqm). With French food retailer *Auchan* and German home improvement giant *Obi* – two other recent market entrants - as co-anchors, the mall exceeded its annual footfall target of 25 million in less than six months. In fact, reports indicate that *IKEA*'s per store turnover in Moscow is higher than any of its other outlets in the world. Based on this success, *IKEA* is completing a second, even larger mall (230,000 sqm) and has plans to open two additional *IKEA* outlets in Moscow and two in St. Petersburg in 2004.

### Total Number of Retail Outlets, 1998-2002

	1998	1999	2000	2001	2002
<b>Number of Outlets</b>	157,400	184,900	200,200	204,200	211,900

Source: Goskomstat

The retail sector was also a top performer for the Russian real estate industry thanks to the construction of more than 15 new shopping centers totaling 235,000 sqm. However, prospects for further growth remain very good. Retail space per 1000 inhabitants in Russia in 2002 was only 1000 sqm while the corresponding figure for Germany was 1800 sqm and 1950 sqm for the United States.

The table below provides another measure of retail growth – the number of retail outlets per capita. However, the numbers do not reveal the rate at which old, inefficient retail outlets (including open air markets) are being replaced with modern, enclosed shops and malls. Obviously, such construction is developing faster in Moscow and St. Petersburg. However, many of the retail chains have already begun aggressive expansion into the secondary cities.

### Retail Outlet Density, 1998-2002

	1998	1999	2000	2001	2002
<b>Outlets per 1,000 Inhabitants</b>	1.07	1.26	1.37	1.41	1.47

Source: Goskomstat

Russia's food retail sector is also growing at an impressive rate, with sales up 22 percent in 2002 to \$56 billion (unofficial estimates place total sales as high as \$90 billion). With a population of 145 million and economic growth of more than seven percent in 2003, Russia has become an attractive expansion target for international retail chains.

Several foreign chains (*Ramstore, Spar, Metro, Auchan*) entered the market over the past three years and have had a major impact on Russia's food retail market. In terms of product availability, customer service and pricing, these retailers have caused a fundamental shift in the way the food retail sector operates in Russia. Their obvious success is reflected in the growing number of outlets, including new stores in cities outside of Moscow and St. Petersburg, and the rapid increase in annual sales.

Unwilling simply to give up the market to foreign intruders, local retailers have also launched aggressive modernization and expansion plans, often supported by investments from the cash-rich Russian oil and gas sector. In fact, officials of some local retail chains have suggested that they are already too strong to be bought out or displaced by foreign retailers. However, it is worth noting that the largest local chain had total sales of less than \$500 million in 2002. Despite such public pronouncements, one or more retailers may be preparing for such a scenario by locking up prime locations simply to become a more attractive target for investment or outright takeover by an international retailer.

Despite the rapid expansion of both foreign and local chains, there is still considerable opportunity for further growth. Modern retail formats (supermarkets, hypermarkets, and convenience stores) account for only about 20 percent of retail food sales in Moscow and less than ten percent for the country as a whole. In fact, A.T. Kearney's 2003 Retail Development Index ranked Russia as the top expansion target for international retailers.

#### ADVANTAGES AND CHALLENGES FOR U.S. EXPORTERS

<b><i>Advantages</i></b>	<b><i>Challenges</i></b>
Population of 145 million and growing number of consumers who can afford high quality products	Despite growing consumer incomes, many buyers still live on very limited budgets
Consumers increasingly demand more choices and better quality food and beverage products	Many consumers loyal to local food producers and may be wary of imported products
Fast growing, increasingly popular retail chains offer variety and convenience to growing numbers of buyers	Retailers generally don't import directly, but rely primarily on local importers/distributors
Busier lifestyles and growing consumer demand for semi-processed and convenience foods	Booming local food processing sector creating stiff competition for imported food products
Foods and beverages associated with an "American life style" are popular with the younger generation	Some protectionist government policies favor local producers - retailers pledge to source bulk of sales inventory from local sources
With increasing competition, retailers are looking for any competitive advantage, which includes new, innovative products	Tough trade competition from exporters in Europe, Asia, and South America
Experienced importers can effectively handle difficult logistical and technical import requirements	Import requirements and procedures can be overly complicated and restrictive

## SECTION II. ROAD MAP FOR MARKET ENTRY

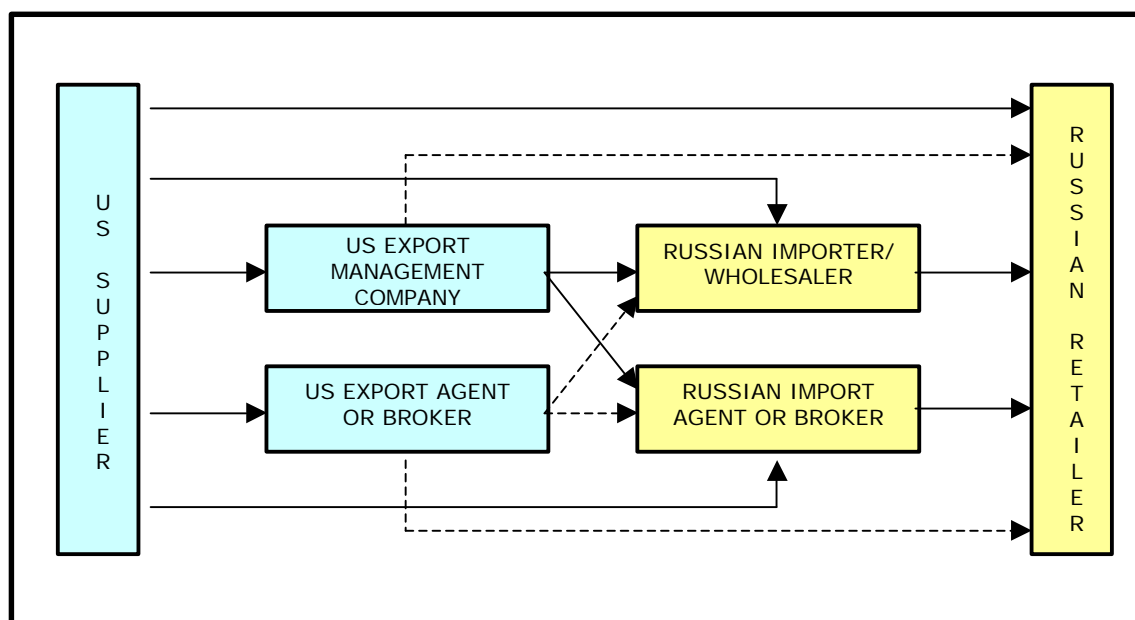
### ENTRY STRATEGY

While the best entry strategy for new-to-market exporters depends on their particular circumstances and experience, there are several general recommendations that can be made:

- Attend one of the major food trade shows in Russia. *Prodexpo* (February) and *World Food Moscow* (September) are the two largest general food and beverage shows. Each of these shows is well organized and heavily attended by the major Russian food importers, distributors, and retailers.
- Look for a reputable Russian importer instead of selling directly to retailers - at least initially. Choose a company that can provide strong trade references from other (non-competitor) foreign exporters and Russian retailers. Russia is a country where relationships take precedence and importing/distributing is an extremely time-consuming and bureaucratic undertaking. Having a local partner with a clear understanding of local market conditions and the right business connections can mean the difference between success and failure.
- If an exporter is willing to invest the necessary time and effort, even to the extent of establishing a representative office, then dealing directly with fast-growing Russian processing companies will provide better margins and the opportunity to respond more quickly to the clients' demands. If the decision is made to establish local representation, this office should be located in Moscow and run by an experienced Russian national.

### MARKET STRUCTURE

Food Retail Distribution Channels



Distribution Channels

Most major importers/distributors supplying goods to the Western part of the Russian Federation are located in Moscow and St. Petersburg. Moscow also can be regarded as a transshipping point for moving consolidated cargoes to the regions by truck or rail. For the Russian Far East (RFE), Vladivostok is home to most major importers/distributors and serves as the transshipment point for product moving within the RFE and further westward to Siberia. Importers typically buy FOB or CIF for shipment to ports in Russia, the Baltic Republics or Finland. Alternatively, Russian importers may source products at EU container ports, with transshipment to Russia by truck.

Local importers/distributors generally carry a wide range of products and brands. Many have exclusive distribution agreements with their suppliers although it is not unusual for some popular products to have several primary distributors. While there are no truly national distributors, most wholesalers have one or more affiliates in the regions. However, some of the larger distributors are beginning to grow and expand directly into the regions in an effort to maintain their business relationships with the fast expanding retail chains.

### *Retail Formats*

Estimates of total retail food sales by type of outlet vary widely. According to a recent study by AC Nielsen, there are about 340,000 outlets selling food and beverage products in Russia. Based on this information, open markets accounted for about 43 percent of total sales, traditional independent shops had 35 percent, kiosks and specialty shops (wine/liquor, dairy, confectionery, etc.), accounted for 13 percent, and modern format outlets (hypermarkets, supermarkets, and convenience stores) took about nine percent of the total.

While the AC Nielsen figures differ somewhat from the numbers provided in the following table, the overall trend is clear: buyers are moving from traditional open markets to more convenient and comfortable retail outlets. Not surprisingly, both sets of figures indicate that modern retail formats (hypermarkets, supermarkets, and convenience stores) still account for a relatively small share of total retail food sales. However, the fact that these modern retail chains are growing rapidly (some reported sales turnover increasing by 40-50 percent in 2003) confirms the tremendous growth potential for both local and foreign retail chains. Indeed, as noted earlier, Russia has moved past China as the top expansion target for international retailers according to A.T. Kearney's 2003 Retail Development Index.

### **Retail Sales by Outlet Format**

	1996	1998	2001	2002
	<b>-- Percentage of total sales --</b>			
Supermarkets	2	2	3	3
Hypermarkets	0	0	0	1
Discounters	0	0	3	5
Private Retail Outlets	37	41	62	63
Open markets	61	57	32	30
<b>TOTAL</b>	100	100	100	100

In some cases, the lines between the various retail formats begin to blur (e.g., some small format supermarkets in Russia are only slightly larger than convenience stores). For the purposes of this report, the following definitions/store sizes are used:

### Retail Outlet Formats

Format	Size (square meters)
Supermarket	600 – 6,000
Hypermarket	6,000 – 15,000
Convenience store	150-600
Cash & Carry	8,000 - 15,000

### A. Super Stores, Supermarkets, Hypermarkets, Club and Warehouse Outlets

The collapse of the Soviet Union disrupted local food production and delivery systems, further aggravating organizational problems in the food retail sector. With privatization, many state-owned retail outlets were turned over to employees, resulting in even greater fragmentation in the Russian food retail market.

By 2000, the Russian retail system began to recover with the launch of several supermarket chains in Moscow, St. Petersburg and other large cities. City and regional authorities supported the development of such local retail chains by offering discounts on rent and preferential tax treatment, particularly for retail discounters that catered to low-income consumers. Current market leaders like *Pyatyorochka* and *Kopeika* greatly benefited from these programs.

During the 2000-2002 period, several international retail chains entered the Russian market: Turkey's *Ramstor* (2000), *SPAR* from the Netherlands (2001), German retailer *Metro Cash and Carry* (2002), Dorinda Holding's *O'Kay* from Luxembourg (2002), and France's *Auchan* (2002). The first outlets opened in Moscow, but with the continued expansion of the Russian economy, these "pioneers" have begun broader regional expansion, and a second wave of foreign retailers (*Carrefour*, *Walmart*) may be poised to enter the promising Russian market.

As noted earlier, these foreign retailers have fundamentally changed the Russian food retail sector by introducing new management practices, improved customer service, and volume purchasing power. However, the most pronounced effect has been the impact on retail prices. By demanding the best possible terms from wholesalers/distributors through volume purchasing and, at the same time, lowering overhead through more efficient operations, these retailers have been able to offer customers a comfortable shopping environment, more product choices, and better customer service at prices that rival (or beat) the outdoor markets. Obviously, the performance of these foreign retailers has placed great pressure on the local food retail chains.

Faced with growing competition from foreign retailers, local chains started to form strategic alliances. Most also began to invest in the construction of new retail outlets and modern warehousing and distribution centers. Financing for this expansion has come from both local and foreign sources. In the case of *Pyatyorochka*, one of the largest local chains, major shareholder (and cash-rich) *Yukos Oil* is bankrolling much of the expansion. However, the European Bank for Reconstruction and Development (EBRD) apparently also saw an opportunity and invested \$60 million in the retail chain last year. Not to be outdone, *Perekryostok* (which vies with *Pyatyorochka* for the title of the largest food retailer in Russia) recently borrowed \$75 million from two Western banks, Raffeisen and HSBC – an unprecedented sum for a Russian retailer.

The following table lists the leading food retail operations in Russia. Since full 2003 sales data are not yet available, sales figures and the number of outlets reported are based on 2002 information. As a result, the table does not reflect the rapid expansion of most of these retail chains in 2003. The Food Retail Sector Highlights provided at the end of this section give some examples of this growth.

### Major Food Retailers, 2002

Retailer Name and Outlet Type	Ownership	Sales (\$Mil.)	No. of outlets	Location	Purchasing Agent Type
Pyatyorochka <i>Discounter/Supermarket</i>	Russian	488	132	Moscow St. Petersburg Voronezh Chelyabinsk	Importer Wholesaler
Metro <i>Cash &amp; Carry</i>	German	335	3	Moscow St. Petersburg	Direct Importer Wholesaler
Perekryostok <i>Supermarket/Discounter/ Hypermarket</i>	Russian	320	45	Moscow St. Petersburg	Importer Wholesaler
Seventh Continent <i>Supermarket/Discounter</i>	Russian	300	32	Moscow St. Petersburg	Importer Wholesaler
Ramstor <i>Supermarket/Hypermarket</i>	Turkish	300	16	Moscow Krasnoyarsk	Direct Importer Wholesaler
Petrovskiy (ex BIN) <i>Supermarket</i>	Russian	220	32	Moscow	Importer Wholesaler
Auchan <i>Hypermarket</i>	French	n/a	2	Moscow	Direct Importer Wholesaler
Kopeika <i>Discounter</i>	Russian	182	31	Moscow	Importer Wholesaler
Marktkauf <i>Hypermarket</i>	German	n/a	1	Moscow	Importer Wholesaler
Viktoria <i>Supermarket/Discounter/ Cash &amp; Carry</i>	Russian	115	22	Kaliningrad Moscow	Importer Wholesaler
Dixi <i>Discounter</i>	Russian	110	40	Moscow	Importer Wholesaler
Patterson <i>Supermarket</i>	Russian	85	17	Moscow St. Petersburg regional cities	Importer Wholesaler
12 Months <i>Supermarket</i>	Russian	45	12	Moscow	Importer Wholesaler
Avos'ka <i>Supermarket</i>	Russian	35	12	Moscow	Importer Wholesaler
Gerkules (Hercules) <i>Supermarket</i>	Russian	n/a	22	Moscow	Importer Wholesaler
Samokhval <i>Supermarket</i>	Russian	n/a	59	Moscow	Importer Wholesaler
SPAR <i>Supermarket</i>	Netherlands	30	7	Moscow St. Petersburg	Importer Wholesaler



T & K Products <i>Supermarket</i>	Russian	n/a	10	Moscow	Importer Wholesaler
Planeta Management <i>Supermarket</i>	Russian	n/a	8	Moscow	Importer Wholesaler
Azbuka Vkussa <i>Supermarket</i>	Russian	n/a	5	Moscow	Importer Wholesaler
Prodmak <i>Supermarket</i>	Russian	40	16	Moscow	Importer Wholesaler
Stolitsa <i>Supermarket</i>	Russian	n/a	12	Moscow	Importer Wholesaler
Sfera Market <i>Supermarket</i>	Russian	n/a	2	Vladivostok	Direct Importer Wholesaler
V-Lazer <i>Supermarket</i>	Russian	n/a	1	Vladivostok	Wholesaler
PCPT <i>Supermarket</i>	Russian	n/a	2	Vladivostok	Direct Importer Wholesaler
Vladkhleb <i>Supermarket</i>	Russian	n/a	1	Vladivostok	Importer Wholesaler
Ignat <i>Supermarket</i>	Russian	n/a	1	Vladivostok	Importer Wholesaler
Narodnaya Kompaniya <i>Supermarket</i>	Russian	n/a	1	Khabarovsk	Wholesaler

## B. Convenience Stores, Gas Marts, Kiosks

This sub-sector is still developing but may be the fastest growing area in food retail. Some of the leading Moscow-based retail chains (*Seventh Continent*, *Perekryostok*, etc.) have started to open convenience stores to diversify and maintain or expand their market share. One regional retail chain (*Viktoria*), acknowledging the very heavy competition in the supermarket/hypermarket sub-sector, has decided to target Moscow and other cities with convenience stores rather than the larger format outlets it operates in its home-base of Kaliningrad.

The average convenience store is 150–600 square meters with an assortment of 2,500-5,000 items - usually popular and good quality brands. These chain stores are located primarily in Moscow and other large cities (one million or more population). They target four groups of customers:

- Busy professionals who do not have time to shop
- Senior citizens who cannot drive and are forced to shop near to home
- Consumers who do much of their shopping at supermarkets or hypermarkets on the weekend but prefer to buy perishables (dairy, bread, fruits and vegetables) at local convenience stores
- Students and youth buying food products for immediate consumption (impulse)

**Major Convenience Store Chains**

<b>Retailer Name (Parent Retailer)</b>	<b>Ownership</b>	<b>Sales (\$Mil.)</b>	<b>No. of outlets</b>	<b>Location</b>	<b>Purchasing Agent Type</b>
ABK	Russian	n/a	22	Moscow	Importer Wholesaler
Mini-Perekryostok (Perekryostok)	Russian	n/a	8	Moscow	Importer Wholesaler
Seven Steps (Seventh Continent)	Russian	n/a	12	Moscow	Importer Wholesaler
Kvartal (Victoria)	Russian	n/a	9	Kaliningrad St. Petersburg Moscow	Direct Importer Wholesaler
PCPT Stores	Russian	n/a	5	Vladivostok	Direct Importer Wholesaler
Vladkhleb	Russian	n/a	2	Vladivostok	Importer Wholesaler
Tri Tolstyaka	Russian	n/a	3	Khabarovsk	Importer Wholesaler
V-Lazer	Russian	n/a	3	Ussuriysk Bolshoy Kamen	Importer Wholesaler

The gas mart format is a relatively new concept in Russia, first appearing with the entrance of international gas station chains, Shell Eastern European Company and Neste. However, these outlets are becoming increasingly popular, and some of the companies now plan to build “convenience outlets” with attached motels, fast food restaurants and minimarts along highways throughout Russia. Given the vast size of the country, these gas marts could be very helpful in terms of introducing new food and beverage products to the regions.

**Major Gas Mart Chains**

<b>Retailer Name</b>	<b>Ownership</b>	<b>Sales (\$Mil.)</b>	<b>No. of outlets</b>	<b>Location</b>	<b>Purchasing Agent Type</b>
Shell	Netherlands	n/a	6	St. Petersburg	Importer Wholesaler
Neste	Finnish	n/a	10	St. Petersburg	Importer Wholesaler
Lukoil	Russian	n/a	2,000	Nationwide	Importer Wholesaler
TNK-Chevron- Texaco	Russian/US	n/a	60	Moscow	Importer Wholesaler
BP Amoco	British	n/a	31	Moscow	Importer Wholesaler
Yukos	Russian	n/a	n/a	Nationwide	Importer Wholesaler
Statoil Nefto	Nowergian	n/a	5	Murmansk region	Importer Wholesaler

Most of the gas marts are open 24 hours. Typical retail space is 100–150 sqm. Major food products are alcoholic beverages, confectionary, soft drinks, snacks, pet food, frozen ready-to-eat dishes, fruits. Products are usually a mix of local brands and imported products.

Following are additional suggestions for U.S. exporters who would like to supply products to the convenience store/gas mart sector:

- Products must be price competitive with similar products from Western Europe
- Packaging sizes should be appropriate for convenience store/gas marts
- Since impulse buying is important, products should be innovative
- For the same reason, promotional support would help expand sales

### C. Traditional Markets – Small Independent Grocery Stores and Open Markets

Traditional, Soviet-style stores are still very common, particularly in smaller cities and rural areas. Typically located near homes or places of work, these stores carry a limited assortment of popular food and beverages, both local and imported. The food products are delivered either by wholesalers that have their own fleet of trucks or purchased by the owners at “cash & carry” formats like *METRO*.

In many ways, these small, independent retail outlets are similar to convenience stores. However, while such stores are able to keep prices reasonable by operating on lower margins, they cannot compete with the buying power of chain convenience stores. Also, many of these traditional stores are too small to provide the variety of products offered by the new chain stores.

According to Goskomstat (Government Statistics Office), at the end of 2002 there were about 5,900 open-air food, non-food, and mixed markets in Russia. Many Russian consumers still have the perception that open markets offer lower prices. However, low-margin retailers like *Auchan* (hypermarket) and *Pyatorachka* (discounter) are competing directly and quite successfully with open markets. In Moscow, open markets have come under further pressure as the city and regional governments have begun to “civilize” retail trade by closing down such open air markets.

While traditional stores and open markets still account for a major share of retail food sales, the convenience and shopping comfort offered by the new hypermarkets, supermarkets and convenience stores are quickly changing market share. This shift is most pronounced in Moscow and St. Petersburg, but retail chains are moving into the secondary markets, too.

### MARKET TRENDS

#### *Private Label*

Market analysts estimate that “private label” or “store brand” products account for about 12 percent of retail sales in Europe but less than one percent in Russia. However, several local chains have already introduced some products with apparent success and have suggested that more products are on the way. The most common private label products include, mineral water, fruit juices, and some frozen and packaged convenience foods.

*Ramstore* is generally credited with introducing the concept of “private label” products in the Russian market in 2001. In fact, *Ramstore* “private label” products now account for about 15 percent of the retailer’s total sales. Other retailers have also begun to introduce “private

label” products. Another large retailer, *Perekryostok*, has announced plans to introduce about 200 such products in 2004.

Some importer/distributors are also looking at “private label” products as a way to gain market share in the very competitive wholesale distribution market. Given apparent positive consumer reaction to “store brand” products, ATO Moscow sees this as a promising opportunity to introduce a wide range of U.S. food products.

#### *In-Store Delis*

An increasing number of retail outlets are providing in-store delis as an added convenience for shoppers and as a proven income-earner. The delis typically offer a range of salads, prepared meats and seafoods, sliced cheeses, sausages and meats, as well as some other specialty items. These in-store delis could provide a niche market for some U.S. specialty products, including cheeses and specialty meats.

#### *Promotional Video Screens*

Several supermarket chains have introduced plasma screens in the check-out lanes as another promotional tool. The often long and slow-moving lines provide a great opportunity for advertisers to pitch their products to captive shoppers. The screens may prove to be helpful in introducing new U.S. food and beverage products to Russian consumers.

#### *Food Retail Sector Highlights*

- During 2003, **Metro** opened its fifth outlet in Moscow, its second outlet in St. Petersburg, and its first outlet in Nizhniy Novgorod.
- **Metro** projected sales in 2003 to double the \$335 million in sales recorded in 2002.
- **Metro** will open its first **Real** hypermarket in 2004 and plans to have four or five stores in Moscow by 2005.
- In what was billed as the largest takeover of a retail chain in Russia, **Kopeika** purchased the 16-store **Promak** chain in 2003.
- Russia’s largest supermarket chain, **Pyatyorochka**, expected sales to jump to at least \$700 million in 2003 from the \$488 million mark reached in 2002.
- Sales turnover for **Seventh Continent** in 2003 reached an estimated \$420 million and is expected to reach \$650 million in 2004.
- German retailer **AVA** opened its first **Marktkauf** hypermarket in 2003 and is already working on plans for another five or six stores.
- **Seventh Continent** reported sales turnover of \$420 million in 2003 from 45 outlets. The chain plans to open another 24 stores and reach sales of \$650 million in 2004.
- **Ramstore** reported sales of \$430 million in 2003, 40% above the 2002 level. The chain plans 15 new stores in 2004, with its first outlets in St. Petersburg, Novosibirsk and Rostov-on-Don. Total sales in 2004 are expected to increase by 50 percent.
- In 2003, **Kopeika** had sales of \$270 million from 44 outlets
- **Perekryostok** reported sales of \$340 million from 51 outlets in 2003 and expects sales to increase at least 30 percent in 2004.
- Kaliningrad-based **Victoria** plans to open more **Kvartal** convenience stores during the coming year – 40 in Moscow and 20 in St. Petersburg.
- The **Victoria** group reported total sales of \$200 million in 2003 versus about \$115 million in 2002.
- **Patterson**, which currently has 26 retail outlets (17 in Moscow), plans 37 new stores in 2004. The retail chain had estimated sales of \$130 million in 2003.

- **Kopeika** had estimated sales of \$270 million from 40 outlets in 2003. Four more stores are to open in 2004, including new projects in Tula and Yaroslavl. The retailer also announced plans for an IPO sometime in the next 2-3 years.

### SECTION III. COMPETITION

The 1998 economic crisis provided a boost to Russian food processors as consumers were forced to substitute cheaper local foods for imported products. Unwillingly to give back these gains as the economy began to recover, local producers have worked to improve the quality and range of their product offerings. A number product areas are developing rapidly: dairy products; meat processing; soft drinks; mineral water; beer; confectionery; frozen semi-prepared products; and packaged soups and instant noodles.

#### Major Supply Sources For Selected Product Categories

Product Category	Major Supply Sources in 2002	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<b>Poultry Meat</b> Net Imports: 1,407,435 tons \$810 million	1. US – 51% 2. Brazil – 25% 3. France – 6% 4. Germany – 4% 5. Netherlands – 3%	<b>US</b> price competitive, provides tech support, benefits from country-specific TRQ; <b>Brazil</b> competes on price, offers favorable terms	New tariff rate quotas (TRQs) limit imports, but management challenges and high feed costs lead to greater cost of production for domestic suppliers
<b>Pork</b> Net Imports: 602,010 tons \$672 million	1. Brazil – 60% 2. China – 11% 3. Denmark – 6% 4. US – 3%	<b>US</b> price competitive on some cuts/trimmings; <b>Brazil/China</b> compete on price/credit terms	New TRQs limit imports, but management challenges and high feed costs lead to greater cost of production for domestic suppliers
<b>Beef</b> Net Imports: 469,140 tons \$589 million	1. Ukraine – 32% 2. Germany – 20% 3. Ireland – 11% 4. US – less than 1%	<b>Ukraine, Germany, Ireland</b> enjoy historical trade ties, short shipping time	New TRQs limit imports, but management challenges and high feed costs lead to greater cost of production for domestic suppliers
<b>Offal</b> Net Imports: \$112 million	1. US – 43% 2. Denmark – 13% 3. Germany – 11% 4. France – 6%	<b>US</b> price competitive; <b>Denmark, Germany</b> enjoy short shipping time	Management challenges and high feed costs lead to greater cost of production for domestic suppliers
<b>Fish &amp; seafood</b> Net Imports: 626,815 tons \$383 million	1. Norway – 41% 2. Latvia – 10% 3. UK – 6% 4. Denmark – 6% 5. US – 1%	<b>Norway</b> enjoys quality reputation, traditional trade ties, offers strong promotional support	Significant problems with infrastructure and fishing quota management; much of local production exported to higher priced markets
<b>Fresh vegetables</b> Net Imports: 111,137 tons	1. Netherlands - 23% 2. China - 16% 3. USA - < 1%	<b>Netherlands</b> enjoys proximity to western Russia; <b>China</b> has close access to RFE, competes strongly on price	Many families grow own potatoes, carrots, beets and cabbage. Lack of cold storage facilities hamper distribution.
<b>Frozen</b>	1. Poland – 72%	<b>Poland</b> dominates with	85-90% of frozen veas are

<b>Vegetables</b>  Net Imports: 10,744 tons	2. Netherlands – 3% 3. US - < 1%	frozen broccoli, peas, corn, carrots, mixed vegetables; leading brands: Hortex, Ardo, Bonduelle, Emborg, Euco, Timax	consumed in large cities (mostly Moscow and St. Petersburg); popular among young professionals. Local production has quality problems.
<b>Fresh fruit, deciduous</b>  Net Imports: 600,000 tons	1. Poland – 19% 2. China – 15% 3. Argentina – 15% 4. France – 11% 5. Belgium – 9% 6. U.S. – 2%	<b>Poland, China, and Argentina</b> compete on price for apples; <b>China, Argentina</b> for pears. Belgium/Netherlands are major transshipment ports.	Significant level of gray imports to Russia via Azerbaijan and other CIS countries. Lack of cold storage facilities hamper distribution.
<b>Dried Fruit</b>  Net Imports: \$40 million	1. Tajikistan – 35% 2. Iran – 19% 3. Uzbekistan – 15% 4. Afghanistan – 12% 5. US – <1%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time.	Some local production of dried pears and apples, but no major commercial production.
<b>Tree Nuts</b>  Net Imports: 40,000 tons  \$23 million	1. US – 26% 2. India – 10% 3. Iran – 9% 4. Azerbaijan – 9%	<b>US</b> dominates almond trade, which has grown sharply; <b>India and Iran</b> dominate cashew and pistachio markets, respectively.	Some local production of walnuts and pine nuts, but overall tree nut production limited.
<b>Canned Fruits and Vegetables</b>  Net Imports: \$165 million	1. Hungary – 22% 2. Poland – 17% 3. Spain – 14% 4. Ukraine – 7% 5. Thailand – 5% 6. US – 1%	Principal suppliers enjoy good image, established trade ties, competitive prices and short shipping time.	Busier lifestyles, rising incomes boost domestic demand. Local production marked by inconsistent quality, limited variety.
<b>Fruit Juices and Concentrates</b>  Net Imports: 300 million liters  \$128 million	1. Brazil – 27% 2. Netherlands – 22% 3. US – <1%	Bottled/package juice imports typically sold in premium market; <b>Brazil</b> major supplier of orange juice concentrate for processing due to competitive price	Local production of apple and some berry juices accounts for large share of domestic juice processing but imports of tropical and sub-tropical concentrates compete directly
<b>Rice</b>  Net Imports: 380 MMT	1. China – 40% 2. Vietnam – 26% 3. Thailand – 14% 4. India – 13% 5. US – 3%	Leading suppliers compete primarily on price. US enjoys premium image, but limited to niche sales.	Local production meets more than half of domestic demand, but some quality problems.
<b>Wine</b>  Net Imports: 286 million liters	1. Moldova – 49% 2. France – 15% 3. Georgia – 9% 4. Italy – 5% 5. Bulgaria – 4% 6. US – <1%	For <b>Moldova/Georgia</b> , traditional trade ties, positive image; <b>France</b> enjoys premium image; all benefit from shorter shipping time.	Wine consumption growing. Local production increasing, but primarily using imported wine materials.
<b>Pet Food</b>  Net Imports: \$22 million	1. Austria – 24% 2. Lithuania – 16% 3. Hungary – 15% 4. Germany – 8% 5. France – 7% 6. US – 6%	Principal suppliers enjoy traditional trade ties, short shipping time.	Large number of pets, currently low consumption of commercial pet foods.

Source: Russian State Statistics Committee (Goskomstat); industry estimates

## SECTION IV. BEST PRODUCT PROSPECTS

## Category A: Products Present in the Market With Good Sales Potential

Product Category	2002 Market Size	2002 Imports	5-Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints to Market Development	Market Attractiveness for USA
Poultry Meat	1.9 MMT	1.4 MMT	9%	25%, but not less than 0.2 Euros/kilo + 10% VAT, 18% VAT for processed meat	Country-specific TRQs for meat and MDM. Local production increasing sharply.	US has largest country TRQ. US leg quarters popular among low-income buyers. MDM use increasing in processing sector.
Beef/Veal	2.5 MMT	0.7 MMT	>1%	15%, but not less than 0.2 Euros/kilo + 10% VAT, 18% VAT for veal, cuts	Import TRQs for frozen and chilled beef. Local beef covers bulk of processing and some retail needs, but output declining. Germany dominates chilled imports; Ukraine, Germany, and Ireland account for most frozen imports.	U.S. country-specific quota. Good prospects for high quality and portion-control beef in fast growing HRI and some upscale retail.
Pork	2.4 MMT	0.8 MMT	10%	15%, but not less than 0.2 Euros/kilo + 10% VAT, 18% VAT for cuts	Import TRQ. Local output increasing and consumption declining. Strong import competition from Brazil and China.	U.S. country-specific quota. Some prospects for high quality and portion-control pork in fast growing HRI and some upscale retail.
Offals		\$112 million	35%	15%, but not less than 0.2 Euros/ kilo + 10% VAT		Not covered under TRQ. Good consumer demand, especially for beef liver.
Fish and Seafood	1.1 MMT	0.6 MMT	9%	10% + 10-18% VAT	Recovery in local catch/ production, expected higher prices.	Demand for ground fish, underutilized species for processing. Interest in high value products for HRI and retail.
Fresh fruit, deciduous	1.2 MMT	0.6 MMT	20%	Apples: (Jan 1-Jul 31) 0.1 Euro per kg (Aug 1-Dec 31) 0.2 Euro per kg + 18% VAT  Pears: 10% + 18% VAT	Cold chain deficiencies limit efficient distribution. Strong competition from Poland, China, Argentina for apples; Argentina and China for pears. Note: Belgium and Netherlands are major transshipment ports.	Good potential for U.S. apples and pears, especially during February- April period.
Dried fruits and nuts		\$63 million	<1%	15% + 18% VAT	Tough competition from Iran, Turkey, Chile and Argentina for bulk dried fruits. China, Iran biggest competitors for peanuts and pistachios; Ukraine for walnuts.	U.S. raisins and prunes competitive for quality retail and processing market. U.S. almonds enjoying very strong growth. Good potential for U.S. pecans and other nuts.



Canned fruits and vegetables	\$915 million	\$165 million	30%	5-15% (duty depends on product, size of package, etc.) + 10% VAT	Some local production with good brand loyalty; imports account for bulk of high-quality market: Bonduelle (France), Eko and Globus (Hungary), Pillsbury (U.S., France, Italy). Imports from Poland, Hungary dominate frozen market.	Market for canned vegetables in particular should show continued strong growth as consumers learn time saving qualities. Good potential for private label products.
Convenience Foods	\$1,852 million	\$370 million	10-20%	10-20% + 18% VAT	Expanding local production of various frozen/packaged foods. Strong loyalty for local brands.	Growing demand for more sophisticated products/new tastes. Increasing microwave home use. Growing opportunities for private label products.
Snack Foods	\$748 million	\$150 million	12%	5-15% (duty depends on product, size of package, sugar content, etc.) + 18% VAT	Strong competition from local producers, including some foreign brands such as Lay's (PepsiCo) and Estrella (Kraft) – Pringles from Europe.	Good potential for high quality U.S. snacks: popcorn, nuts, dried fruits mixes.
Rice	710 MMT	380 MMT	<1%	10%, but not less than 0.03 Euros per kilo + 10% VAT	Some local production; low-priced competition from China, Vietnam, Thailand & India	Opportunity for high quality U.S. rice, wild rice in HRI and retail.
Wine	580 mln liters	286 mln liters	17%	15-20%, but not less than 2.0 Euros per liter + 18% VAT	Competition from locally produced beer & vodka, wine imports from Europe.	Existing wine-drinking culture getting boost from GOR policy to reduce hard alcohol (vodka) consumption. Especially good potential for medium-priced wines.
Pet food	\$206 million	\$22 million	23%	20% + 18% VAT	Strong local production - Mars has two plants that produce Whiskas, Kitekat, Pedigree; Nestle's Purina produces Friskies and Darling locally; other imported and local brands, some very inexpensive	Large number of pets, but limited use of prepared pet foods; limited local production

Source: Russian State Statistics Committee (Goskomstat); Russian Customs; Euromonitor; industry estimates; etc.

### Category B: Products Not Present in Large Quantities but With Good Sales Potential

- Specialty/exotic seafood products
- Premium deli foods, including cheeses, meats, exotic/wild rice
- Diabetic/dietetic products
- Organic/natural foods and beverages
- Specialty/exotic juices
- Convenience foods, especially microwave



## SECTION V. KEY CONTACTS AND FURTHER INFORMATION

### CONTACT INFORMATION FOR FAS OFFICES IN RUSSIA AND THE U.S.

U.S. Agricultural Trade Office  
American Embassy  
Bolshoy Devyatinskiy Pereulok 8  
121099 Moscow, Russia  
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069  
E-mail: [atomoscow@usda.gov](mailto:atomoscow@usda.gov)

Jeffrey Hesse, Director

#### ***For mail coming from the U.S.:***

Agricultural Trade Office  
PSC 77 AGR  
APO, AE 09721

#### ***For international mail:***

Agricultural Trade Office  
U.S. Embassy - Box M  
Itainen Puistortie 14  
00140 Helsinki, Finland

#### ***Covering Northwest Russia (St. Petersburg):***

ATO Marketing Assistant  
American Consulate General  
Nevskiy Prospekt, 25  
191186 St. Petersburg, Russia  
Tel: 7 (812) 326-2580; Fax: 7 (812) 326-2561  
E-mail: [Maria.Baranova@usda.gov](mailto:Maria.Baranova@usda.gov)

#### ***Covering the Russian Far East (Vladivostok):***

ATO Marketing Assistant  
American Consulate General  
Ulitsa Pushkinskaya, 32  
690001 Vladivostok, Russia  
Tel: 7 (4232) 300-070 or 300-089  
Fax: 7 (4232) 300-089  
E-mail: [Svetlana.Ilyina@usda.gov](mailto:Svetlana.Ilyina@usda.gov)

#### ***For General Information on FAS/USDA Market Promotion Programs and Activities:***

AgExport Services Division  
Room 4939  
14<sup>th</sup> and Independence, SW  
Washington, DC 20250  
Tel: (202) 720-6343; Fax: (202) 690-0193

### USDA/FAS AND ATO PROGRAMS AND SERVICES

The Foreign Agricultural Service and the Agricultural Trade Office/Moscow offer a variety of programs, services, and information resources to help U.S. exporters of food, beverage, and agricultural products learn more about the Russian market, establish initial contact with

Russian buyers, and promote their products in the local market. Following is a partial listing of programs and services:

**Trade Leads** are direct inquiries from Russian buyers seeking U.S. sources for specific food, beverage, or agricultural products. U.S. companies can receive these Trade Leads by contacting the AgExport Services Division, FAS/USDA or by visiting the USDA/FAS Homepage (see contact information at the beginning of this section).

**Buyer Alert** is a bi-weekly publication providing information on specific food, beverage, and agricultural products offered by U.S. exporters. U.S. companies may place ads in Buyer Alert by contacting the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

**U.S. Supplier Lists** are drawn from an extensive database of companies that can supply a wide range of U.S. food, beverage, and agricultural products. The ATO Moscow supplies these lists to Russian importers on request. U.S. companies that wish to be included in this database should contact the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

**Foreign Buyer Lists** are drawn from an extensive database of Russian importers dealing with a wide range of food, beverage, and agricultural products. U.S. companies can order these lists through the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

ATO/Moscow also coordinates U.S. participation in local trade shows (see list of Russian Trade Shows below), sponsors supermarket and menu promotions, provides support for trade missions, and can help arrange appointments for first-time visitors to Russia. For more detail on these and other programs or activities, please contact the ATO/Moscow (see contact information above).

The FAS website ([www.fas.usda.gov](http://www.fas.usda.gov)) is an excellent source of information on other USDA/FAS export promotion/assistance programs, such as the Market Access Program (MAP) and Credit Guarantee Programs, as well as a wide range of information and reports on market opportunities for U.S. food, beverage, and agricultural exports world-wide.

## OTHER MARKET REPORTS

Reports on the Russian food and agricultural market are available on the FAS website. U.S. exporters may also contact ATO/Moscow for copies of these reports (see contact information at the beginning of this section). The following reports may be of particular interest:

Report Title	Report #	Report Summary
Exporter Guide	RS4301	Provides an overview of the Russian food market, identifying opportunities for U.S. food and beverage products in the retail, HRI, and processing sectors
Food Processing Ingredients	RS4302	Examines the Russian food processing sector, focusing on market opportunities for U.S. food ingredients, including raw, semi-processed and specialty products
HRI Food Service	RS4304	Examines Russian hotel/restaurant/institutional sector, focusing on market opportunities for U.S. products in the food service industry

The Russian Marketplace	RS3310	Quarterly newsletter highlighting developments in the Russian food retail, HRI, and processing sectors
Food and Agricultural Import Regulations and Standards	RS3020	Detailed information on Russia's food import requirements, including certification, labeling and packaging requirements
New Resolution Concerning Use of GMOs in Food Products	RS3031	Overview of new regulations concerning the testing and approval of foods containing of genetically-modified organisms (GMOs)
Livestock and Products Annual	RS3018	Review of the Russian market for beef and pork, including production, consumption and trade.
Poultry and Products Annual	RS3019	Analysis of the Russian market for poultry meat, including production, consumption and trade.
Fishery Products Annual	RS3033	Overview of the Russian market for fish and seafood products meat, including production, consumption and trade.

## OTHER USEFUL CONTACTS

American Chamber of Commerce in Russia  
 Kosmodamianskaya Nab. 52, Building 1, 8th floor  
 113054 Moscow, Russia  
 Tel: (095) 961-2141; Fax: (095) 961-2142  
 Email: [amcham@amcham.ru](mailto:amcham@amcham.ru)

American Chamber of Commerce in St. Petersburg  
 25 Nevsky Prospect  
 191186 St. Petersburg, Russia  
 Tel: (812) 326-2590; Fax: (812) 326-2591  
 Email: [sbytchkov@amcham.ru](mailto:sbytchkov@amcham.ru)

*For questions on agricultural machinery, food processing and packaging equipment/materials, refrigeration equipment, etc., please contact the U.S. & Foreign Commercial Service:*

Foreign Commercial Service  
 Bldg. 2, 23/38 Bolshaya Molchanovka  
 121069 Moscow, Russia  
 Tel: 7 (095) 737-5030; Fax: 7 (095) 737-5033  
 E-mail: [moscow.office.box@mail.doc.gov](mailto:moscow.office.box@mail.doc.gov)

## TRADE SHOWS IN RUSSIA

The following are large, well-organized, international shows:

### **PRODEXPO (with U.S. Pavilion)**

Prodexpo is the largest food and beverage show in Russia, with a large number of international exhibitors and many country pavilions.

*Date:* February 2005

*Location:* Krasnopresnenskaya Expocenter, Moscow

*Contact:* Olga Taybakhtina, Marketing Assistant  
ATO Moscow  
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069  
E-mail: [atomoscow@usda.gov](mailto:atomoscow@usda.gov)

### **WORLD FOOD MOSCOW**

The longest-running food and beverage show in Russia, World Food draws well from throughout Russia and from many countries of the Former Soviet Union.

*Date:* September 2004  
*Location:* Krasnopresnenskaya Expocenter, Moscow  
*Website:* <http://www.ite-exhibitions.com/>  
*Contact:* Olga Taybakhtina, Marketing Assistant  
ATO Moscow  
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069  
E-mail: [atomoscow@usda.gov](mailto:atomoscow@usda.gov)

### **INTERFOOD 2004**

This show covers the important Northwest region of Russia (St. Petersburg, Kaliningrad, etc.) However, the show also draws visitors from Moscow and other areas of Russia, as well as neighboring countries.

*Date:* April 2004  
*Location:* Lenexpo Center, St. Petersburg  
*Contact:* Maria Baranova, Marketing Assistant  
American Consulate General, St. Petersburg  
Tel: 7 (812) 326-2580; Fax: 7 (812) 326-2561  
E-mail: [Maria.Baranova@usda.gov](mailto:Maria.Baranova@usda.gov)

**IMPORT DUTIES/VAT FOR SELECTED PRODUCTS <sup>1/</sup>**

<b>Product/Category</b>	<b>HS Code</b>	<b>Import Duty</b>	<b>VAT</b>
Meat and Meat Products	0201-0206	15%, but not less than 0.2 - 0.25 Euros per kilo <sup>2/</sup>	10%; 18% for veal, beef cuts, tongue
Poultry and Poultry Products	0207	25%, but not less than 0.2 Euros per kilo <sup>2/</sup>	10%; 18% for processed products
Seafood	0301-0307	10%	10%; 18% for some products, incl. salmon, sturgeon, and fish roe
Dairy Products	0401-0406	15%, but not less than 0.18 - 0.30 Euros per kilo	10%
Fresh/Dried Vegetables	0701-0714	5-15%, but not less than 0.08 - 0.12 Euros per kilo	10%
Fresh/Dried Fruit and Nuts	0801-0813	5-10%	18%
Coffee, Tea, and Spices	0901-0910	5-20%, but not less than 0.2 - 0.8 Euros per kilo	18%
Grains	1001-1008	5%; rice - 10%, but not less than 0.03 Euros per kilo	10%
Wheat Flour, Starch, Malt, Grain Preps, Gluten	1101-1109	10%, but not less than 0.03 Euros per kilo	18%; 10% for flour
Oilseeds and Oilseed Products	1201-1214	5%	10%
Sausage, Canned Meat and Seafood	1601-1605	15-20%	18%; 10% for liver sausage and some canned fish, incl. tuna, herring, mackerel
Sugar and Confectionery Products (not including cocoa products)	1701-1704	5%	18%; 10% for sugar and fructose
Cocoa and Cocoa Products	1801-1806	5-10%	18%; 10% for cocoa butter and fat
Pasta and Baked Products	1901-1905	15%, but not less than 0.06-0.15 Euros per kilo	18%; 10% for pasta products
Canned Fruit/Vegetables, Juices	2001-2009	5-15%	10%
Instant Soup, Ice Cream, Baby Food, Food Ingredients	2101-2106	10-20%	18%; 10% for sauces, ketchups, soups, bullions, food mixes
Alcoholic Beverages	2201-2209	15-20%, but not less than 2.0 Euros per liter	18%
Animal Feed	2309	5-20%, but not less than 0.16 Euros per kilo	10%; 18% for pet food packed for retail

1/ The duties listed here are for illustrative purposes only. For specific product information, please contact the Agricultural Trade Office/Moscow.

2/ Tariff rate quotas (TRQs) were introduced for meat and poultry products (HS Code 0201-0207) in 2003. Out-of-quota tariffs are 60-80%.