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Russian Federation

Food Processing Ingredients

The Food Processing Ingredients Sector in Russia

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Report Highlights:

Russia's food processing sector has shown some improvement in 2010 after the slowdown in 2008-2009. From January to August 2010, the food products manufacturing index (which includes beverages and tobacco) increased almost 5 percent compared to the same period last year. Some food processing sectors remain strong, such as meat products (including pork, poultry, sausages and semi-finished meat), dairy products, confectionary, dry baby food and dietary products with cereal. The food processing and consumer products market is expected to come back at the end of 2010 or

early 2011 supported by rising disposable income and increasing real wages and declining unemployment. Many Russian manufacturers are investing in modernization and expansion in order to strengthen their position in the market. The majority of food ingredients are imported, mainly from Denmark, Belgium, France, Germany, Austria, Great Britain, and the United States. The Russian food industry continues its dependence on imports and, thus, opportunities to supply the market with U.S. products are plentiful.

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Author Defined:**SECTION I. MARKET SUMMARY**

In 1998 Russia suffered a financial crisis which turned out to be a starting point for growth in the local food processing industry after a long period of stagnation. Locally manufactured products were affordable for local consumers compared to imported products and manufacturers improved the quality to meet consumers' needs and seize a larger market share. *Foodmag.ru* estimates that from 2005 to 2008, investments into food processing enterprises totaled more than 135 billion rubles which demonstrates the attractiveness of this sector for both Russian and foreign investors. Producers of meat and meat products, dairy, edible oil, beverages, and confectionary items made the most capital asset improvements. Two-thirds of total investments were used for modernizing equipment to increase labor productivity, create efficiency, and lower overhead. New equipment helped strengthen Russian food processors making their products more competitive.

Then, in October-November 2008 the global economic recession hit and Russia's economy entered a recession that seized all the sectors of the Russian economy including the food processing industry. One of the key factors in Russia for the recession was heavy dependency of Russian enterprises on loan capital amidst tightening of credit including loan rate growth, restricted offers of capital in the market, and shortening of credit terms. Strategically important industries faced uncertainty in the market making strategic planning and business planning difficult. The yearly production index in 2009 slowed down to 99.5 percent from 101.1 percent in 2008 and from an average range of 104.4 to 107 percent in 2004-2007 (please refer to Table A below). By 2009, the food processing industry accounted for 44,878 organizations with 1.3 million employees.

According to Ernst & Young, the most crisis-resistant sectors are businesses that specialize in manufacturing primary goods and that receive government support, namely: farming, grain processing, manufacturing flour, bread production, milk production and dietary foods.

The factors that restrain faster growth in the food-processing sector are as follows:

- growing competition;
- growing influence of retail networks to the manufacturers;
- unstable legislation;
- high prices of high quality raw materials and growing prices for import ingredients due to dollar/euro rate increase;
- continuous growth of energy prices and railway transportation;
- high credit fees.

Table A. Russian Food Processing Sector 2006-2009

	2006	2007	2008	2009	2009/2008 (%change)
Number of businesses, including beverage and tobacco manufacturers (as of the beginning of the year)	54,032	53,510	49,973	44,878	-10.2
Value of food production, in billion RUR	1,729	2,143	2,656	2,774	4.4
Value of food production, in billion USD*	63.57	83.71	106.66	87.23	-18.2
Production index, percentage change from previous year**	107.0	106.1	101.1	99.5	-0.5
Balance, financial (profit less loss), in billions RUR	83.45	102.03	101.47	163.64	61.3
Balance, financial (profit less loss), in billions USD*	3.07	3.99	4.08	5.15	26.2
Bread/bakery products, in thousand tons	7,815.3	7,758.9	7,477	7,200	-3.9
Pasta products, in thousand tons	1,036.3	1,013.8	1,027	1,035	0.8
Confectionery, in thousand tons	2,557.1	2,739.3	2,845	2,731	-4
Meat, incl. offal in thousand tons	2,185.0	2,561.2	2,899	3,306	14
Sausages, in thousand tons	2,198.4	2,410.9	2,454	2,263	-7.8
Semi finished meat, in thousand tons	1,092.8	1,254.3	1,451	1,474	1.6
Whole milk products, in thousand tons	10,020.8	10,514.6	10,300	10,500	1.9
Canned/preserved foods, in million cans (Standard can = 335 grams)					
- Vegetable and fruit preserves	8,704.2	10,460.6	10,353	9,337	-9.8
-Dairy products	833.3	759.2	864	831	-3.8
-Meat and soya containing preserves	648	675	718	717	-0.1
-Fish/seafood	778	827	909	727	-20
Mineral water, in million deciliters	299	363	413	391	-5.3
Vodka, liquor products, in million deciliters	120	131	122	113	-7.4
Wine, grape, in million deciliters	47.4	51.3	50.3	50.3	0
Beer, in million deciliters	1,001	1,147	1,140	1085	4.8

* The Dollar equivalent of "Value of Food Production" and "Balance, Financial" (i.e. net profit) is calculated based on annual average USD/RUR exchange rate: 2006 – 27.2, 2007 – 25.6, 2008 – 24.9, 2009 – 31.8. Changes in the Dollar value of production and net profit are caused more by exchange rate fluctuations than changes in domestic production.

**The "Production Index" is a relative indicator characterizing changes in production output over comparable periods. The aggregate index of production characterizes integrated changes in production of all types of goods and products and reflects changes in value generated in the process of production as a result of quantitative changes of physical volume of production.

Source: Russian Federal State Statistics Service

There was significant contraction of the number of businesses during the economic crisis. The data suggests that economically viable firms survived. For example, the value of food production actually increased each year during the 2006-9 period, by 4.4% in 2009. Net profit was also up significantly in 2009, by 61.3%.

Looking at the food processing industry in terms of broader categories, we can point out the following sectors which showed the growth: vegetable and tallow oil (17.8 percent), animal feed (9.7 percent), meat and meat products (4.2%), flour-and-cereals industry products, starches and starch degradation products (3.1 percent) and fish and seafood processing (2.9%). The following sectors had declines: potatoes, fruit and vegetables processed and preserves (-7.7 percent), drinks (-3.6 percent) and other dairy products (-0.3 percent). Sausages, confectionary, preserves, bread and bakery products, sugar, tea, non-alcohol drinks and mineral water production also decreased.

According to the Russian Federal State Statistics Service, the January-August 2010 index of food products manufacturing increased by 4.9 percent compared to the 2.1 percent decrease for the same period of 2009. Food processing enterprises showed positive dynamics in manufacturing the following products: meat and offal – by 16.6 percent, including pork – by 26.5%, poultry – by 16.3 percent, sausages – by 8 percent, semi finished meat – by 7.3 percent, dairy products – by 10.5 percent, confectionary – by 4.5 percent, dry baby food and dietary products with cereal –by 27.3 percent. At the same time, meat preserves output decreased by 6.9 percent, butter – by 1.6%, cheese and cheese products – by 2.6 percent, vegetable oils – by 8 percent, flour – by 3.4 percent, beer – by 4.2 percent, cognacs – by 21.6 percent.

The decline in beer production is connected with the triple increase in the excise duty rate. However, non-alcoholic beverage, e.g. juice, production is strengthening.

One of the reasons for decreased butter and cheese production is the 5.5 percent reduction in milk released by agricultural organizations for processing in August 2010 compared to August 2009. Milk processing factories used the purchased milk mostly for whole milk products manufacturing. Another reason for the decrease in cheese production is market saturation. According to www.bsmarket.ru, milk and cream are the most popular dairy products in the Russian market. In 2009 their sales share reached almost 50 percent of total dairy sales followed by cultured milk products with 19 percent market share, yogurts (8 percent), cheese (7 percent) and curd and cake cheese (5.7 percent). Showing constant positive dynamics for the last five years, in 2009 total dairy products sales volume increased by 6.5 percent compared to 2005. This trend is supported by growing product assortment. Analysts forecast yearly sales growth by 1-2 percent through 2014.

Sausages and smoked meat products sales volume grew over the four years and reached their maximum level in 2008 equal to 2.36 million tons. As a result of the economic slowdown, demand for sausages decreased and production dropped by 7.4 percent in 2009 compared to 2008. However, in the first half of 2010 data show positive changes and slight growth in the sausage products market compared to the same period of 2009. Cooked sausage and frankfurters occupy the biggest share in the sausage market which is connected with the trend toward cheaper food products. In 2008 their share was 65 percent; in 2009-2010 their market share is forecast to

grow as smoked sausage and smoked meat products sales dropped.

According to Agrarian Marketing Institute, by 2012 meat raw materials production in Russia will increase by more than 30 percent compared to 2009 level. The main growth is expected in the poultry market where the poultry share is expected to exceed 40 percent of the Russian market's meat production. Beef's declining share will continue in spite of the forecast increase in beef production.

Effective January 1, 2010, Russia requires all imported poultry products be processed with only those ingredients approved for use in Russia. Please consult the FSIS Export Library for a list of approved ingredients

<http://www.fsis.usda.gov/Regulations_&Policies/Russia_Requirements/index.asp>. Also since January 1, 2010 frozen poultry was prohibited for use in processing select foods (e.g., baby food and food for nursing or pregnant mothers). In 2011, this prohibition is likely to extend to other products (likely delicatessens and products not subject to heat-treatment). Please consult your importer or USDA for guidance on a case-by-case basis. Historically, 10 percent of U.S. poultry, all frozen, is used for further processing. Only a small share of this trade is expected to be disrupted in 2011.

In 2010 Russia started replacing the system of mandatory certification of conformity of major consumer goods, including imported food, alcohol, and cosmetics, with a system of declaration of conformity. The move is intended to ease the bureaucratic burden on business and to allow producers to vouch for their goods based on their own verification. However, the mechanism of declaring conformity is not working well yet, and the requirement for declarations may be stricter than in the previous certification system. Many producers and traders are concerned that the change will harm their business.

The Russian food industry is characterized by its dependence on imports. Around 40 percent of products used by the Russian food industry are imported: \$36 billion was spent in 2008 for importing food products. More than a half of the meat and milk products in big Russian cities are provided by import suppliers. 70% of the raw materials in meat processing plants are imported.

In the January-August 2010 period, the food products and agricultural raw materials share of total imports decreased by 2.1 percent compared to the same period of 2009 and totaled 17.1 percent. Fresh and frozen meat imports increased by 2 percent, condensed milk and cream – by 80 percent, butter – by 1.8 percent, citrus – by 11.9 percent, coffee – by 25.3 percent, tea – by 7.1 percent, wheat – by 2.2 percent, sunflower oil – twice, raw sugar – by 60 percent, cacao beans – by 12.2 percent, alcohol and non-alcohol drinks – by 28.7 percent. Poultry imports decreased more than double, grains- by 21.5 percent, meat products and preserves – by 18.6 percent and white sugar – by 9.1 percent.

ADVANTAGES AND CHALLENGES FOR U.S. EXPORTERS

Advantages	Challenges
Demand for food processing ingredients is growing dramatically compared to the other	European exporters have geographical advantage, and exporters from the Middle East

sectors of the food processing industry.	offer lower prices.
Russian food processing ingredients market is widening its assortment.	Demand for premium products has not yet recovered from the crisis. Consumers have switched from imported products to cheaper brands or Russian analogs due to Ruble devaluation.
Russian food processing sector relies on imports	Increased Dollar rate made prices for imported raw materials and food processing ingredients less affordable for manufacturers.
Local processors more and more must meet international quality standards. They pay more attention to the quality of the ingredients they use and local ingredients often do not meet their needs.	Russian processors do not have enough information about U.S. food ingredient suppliers and high quality and safety standards.
Russian food processing companies continue to expand and modernize their production facilities. This increases their demand for high quality ingredients.	Russian producers of ingredients are improving the quality of their products.
Growing demand for healthy food leads to increasing consumer demands for better quality and innovative/functional products, forcing processors to use high quality ingredients.	Imperfection of tariff legislation and its constant changes sometimes lead to customs clearance delays, contract disputes, and unpredictable expenses.
	High credit rates create obstacles for inflow of foreign investment into Russian industry.
GSM-102 program offers U.S. exporters an opportunity to conduct business using credit.	Cash-in-advance system of payment is still a common trade practice in Russia, eliminating credit risks and expenses from letter of credit.

SECTION II. ROADMAP FOR MARKET ENTRY

A. Entry Strategy.

Of course, the best entry strategy for every new-to-market exporter depends on its unique experience, particular circumstances, and specific products. But there are some general recommendations for successful entry into the Russian market.

- In order to make Russian processors aware of the assortment and quality of U.S. ingredients, plan to attend specialized exhibitions. There are three major shows held in Moscow that can be recommended for participation.
 - INGREDIENTS RUSSIA, held in November, is the only ingredient exhibition in Russia. Ingredients Russia is a key meeting point for all those involved in the Russian ingredients industry. It is an effective way to meet new and existing clients, increase brand awareness and discover the latest news from the Russian ingredients industry. In 2009, more than seven thousand visitors from 34

countries attended Ingredients Russia. 90.5 percent of visitors represented Russian companies, 87 percent visitors were responsible for making decisions, 85 percent of visitors represented manufacturing and trading companies. 160 companies from 20 countries presented a full range of food products and services.

- PRODEXPO INTERNATIONAL EXHIBITION (Moscow, February) is the largest annual international exhibition in Russia and Eastern Europe promoting high quality foodstuffs. The exhibition promotes high-quality foodstuffs to the domestic market, giving the opportunity to foreign exporters to present their products and to make valuable contacts.
 - WORLD FOOD (Moscow, September) is attended by serious players in the Russian food market – both well-established and those who are just planning to enter the market. World Food Moscow is an effective platform for processors or dealers. Held annually, this show attracts approximately 1,300 exhibitors from 58 countries and 60,000 trade visitors. Unlike Prodexpo, it contains seafood and fruit and vegetable pavilions.
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- Business relations in Russia depend on personal contacts. For this reason it is important to have a representative office in Russia or to have a well-established contact with a Russian importer. Local partners should be chosen on the basis of references from other foreign exporters or local reputable processing companies. The local partner can help you solve many problems and better understand the peculiarities of the local market that will positively influence the results of your business activities in the targeted market.
 - Moscow remains the obvious first choice for a representative office in Russia where many food processing companies and representative offices of foreign and regional food companies are concentrated. However, if your contacts are located on the West Coast or will ship through St. Petersburg it might be worth considering St. Petersburg as a home base. Having a representative office in a major Russian city will help you to establish valuable contacts with leading Russian food companies. Moreover, established direct dealership with fast-growing Russian companies will provide more opportunities to meet customers' demands.
 - Marketing the products to the buyers and end-users is paramount. Russia's leading processing companies employ qualified personnel and use modern processing technology making them good candidates for training programs for technologists. Also, ingredients suppliers should understand that their clients are actually not ingredients manufacturers but the food products' end-users. Keeping consumers in mind along with the importer/distributor will help U.S. exporters be successful in the Russian market.

B. Market Structure

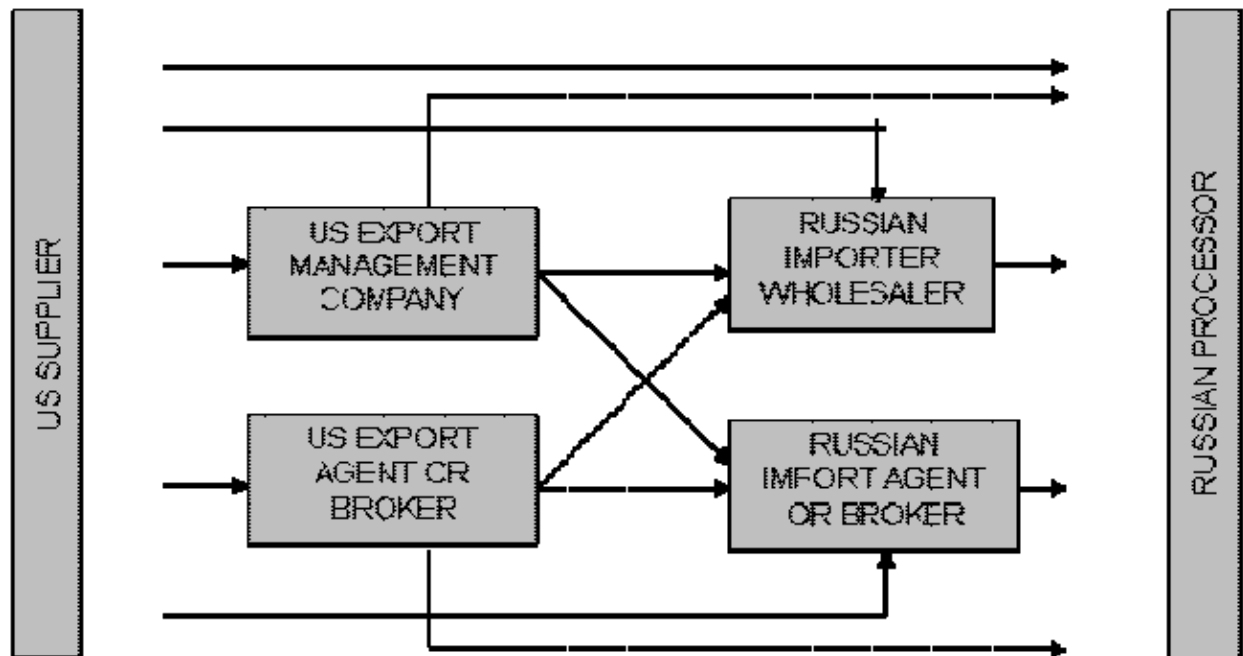
Below are three possible ways of working with ingredient processors in Russia.

- Supply products directly to a local food processor;

- Trade via Russian importer/broker to a local food processor; or
- Supply products via a Russian importer/wholesaler to a local food processor.

In Russia, there are today a number of large food ingredients importers and distributors. One of the key market trends is concentration of the largest food importers/distributors/processors in Moscow and St. Petersburg, expanding their reach and influence into regions by forcing out and absorbing small local distributors. In the past, there was one key distributor in a Russian region working with all local large processors and small wholesale companies. A few years ago, large Moscow/St. Petersburg-headquartered companies held all distribution channels using their affiliates and partners in the regions.

Russian food processors prefer working through local wholesalers, as wholesalers can offer the whole range of ingredients with attractive discounts. Processors supply their products to wholesalers and also to large food retailers whose share of the market has recently grown. The latest local market trend is a growing demand for high quality food products despite the higher prices. This is a positive sign for foreign ingredient suppliers, as demand for consistently high quality ingredients has been growing leaving far behind locally produced ingredients in terms of their quality. A key task to solve for the exporter along with establishing distribution channels for selling products throughout Russia is a search of an experienced and reputable customs broker who would be able to solve numerous problems and disagreements related to customs.



C. Company Profiles

Russian food processors can be divided into the following main groups:

- Large vertically integrated holdings focused on development of their production facilities using their own raw material resources (began in the mid 90s), such as Cherkizovsky meat-processing plant, Wimm-Bill-Dann juice and dairy producer, etc.
- International manufacturers having their production facilities in Moscow suburbs and other large regions of the country (started to appear in early mid 90-s), such as DANONE (France), Campina (Germany), Mars (U.S.), Dirol Cadbury (UK), San Interbrew (Belgium), etc.
- Russian holding companies with foreign capital, such as OJSC "Baltika" Brewery Company, KamposMos, and others.
- Regional food processing companies that started their activity under the Soviet times and successfully passed through the period of structural management and production reorganization in the second half of the 90s.
- Small regional producers/entrepreneurs most of whom produce and sell their products in the region where they are located.

The following table includes information about major food processors by category. 27 food processing companies made the list of the 400 biggest Russian companies based on sales volume in 2009. The rating was published by EXPERT rating agency at www.raexport.ru.

Table B. Company Profiles

Company (Product types)	Sales in 2009 (\$ Mil)	End-Use Channels	Production Location	Procurement Channels
Baltika Brewery Company (beer, non-alcohol drinks)	\$ 2,952	Retail, HRI	Russia (10)	Importers, Direct, Distributors
Wimm-Bill-Dann Food Products (dairy products, fruit juices, drinking water, baby food)*	\$2,181	Retail, HRI	Russia+ CIS (37)	Importers, Direct, Distributors
Nestle Russia (chocolate, confectionary, coffee, drinks, cereals, ice-cream, snacks, baby food, drinking water, pet food)	\$1,688	Retail, HRI	Russia + Eurasia (14)	Importers, Direct, Distributors
Unimilk (dairy products, baby food)	\$1,355	Retail, HRI, Food Processing	Russia + Ukraine + Belorussia (28)	Importers, Direct, Distributors
Mars (confectionary, chocolate, ready soups, chewing gum, pet food)	\$1,292	Retail	Russia (4)	Importers, Distributors
Sun inBev Russia (beer)	\$1,195	Retail, HRI	Russia (10)	Importers, Direct, Distributors
PepsiCo Holdings (non-	\$1,191	Retail, HRI	Russia (6)	Importers,

alcohol drinks)				Direct, Distributors
Coca-Cola HBC Eurasia (non-alcohol drinks)	\$1,134	Retail, HRI	Russia (14)	Importers, Direct, Distributors
Cherkizovo Group (beef, pork, sausage)	\$1,023	Retail, HRI	Russia (7)	Importers, Direct, Distributors
United Confectionary Manufacturers Holding (chocolate, confectionary)	\$1,013	Retail	Russia (15)	Importers, Direct, Distributors
Kraft Foods Rus (coffee, chocolate, confectionary, chewing gum)	\$923	Retail, HRI	Russia (6)	Importers, Direct, Distributors
Efes Breweries	\$857	Retail, HRI	Russia (5)	Importers, Direct, Distributors
Danone Industry (yogurts, baby food, drinking water)	\$780	Retail, HRI	Russia (2)	Importers, Direct, Distributors
Heiniken United Breweries	\$774	Retail, HRI	Russia (10)	Importers, Direct, Distributors
Efko Group of Companies (oils, fats, mayonnaises, ingredients for dairy, confectionary and bakery production)	\$722	Retail, HRI, Processing	Russia (3)	Importers, Direct, Distributors
SABMiller Rus (beer)	\$638	Retail, HRI	Russia (3)	Importers, Direct, Distributors
Synergy Group of Companies (alcohol, meat, poultry and dairy products)	\$570	Retail, HRI, Processing	Russia (13)	Importers, Direct, Distributors
Russian Alcohol Group of Companies (hard liquors, low-alcohol beverages)	\$560	Retail, HRI	Russia (4)	Importers, Direct, Distributors
Ostankinskiy meat processing plant (sausages, semi prepared meat products)	\$640	Retail, HRI	Russia (3)	Importers, Distributors
Wrigley (chewing gum, confectionary, snacks)	\$528	Retail, HRI	Russia ()	Importers, Direct, Distributors

Orimi Trade (tea, coffee)	\$525	Retail, HRI	Russia (1)	Importers, Direct, Distributors
Nizhegorodskiy fat and oil plant (fat-and-oil products, mayonnaises)	\$522	Retail, HRI, Processing	Russia (5)	Importers, Direct, Distributors
VAMIN Tatarstan (cheeses, dairy, sausage, pasta and bakery products)	\$412	Retail, HRI, Processing	Russia (38)	Importers, Direct, Distributors
Frito Lay Manufacturing (snacks)	\$389	Retail, HRI	Russia (1)	Importers, Direct, Distributors
Solnechnye Producty (mayonnaises, fat-and-oil products)	\$385	Retail, HRI, Processing	Russia (5)	Importers, Direct, Distributors
Efremovskiy glucose-dextrose plant (glucose syrups, starches, fodder products)	\$371	Retail, HRI, Processing	Russia (1)	Importers, Direct, Distributors
ROSHEN (chocolate, confectionary)	\$320	Retail, HRI	Russia (2), Ukraine (4), Lithuania (1)	Importers, Direct, Distributors

*Note: Wimm Bill Dann was recently purchased by PepsiCo

Source: Various sources.

D. Sector Trends

Processing Trends

- Russia's food processing industry had been growing rapidly since 1998 with an annual increase 15-25%, but regressed as a result of the financial crisis and fall in consumption and demand especially for premium products.
- Food processors often build their production facilities close to a source of raw materials.
- International food processors are very actively investing in the local food processing industry. This enables them to have control over the company's management as well.
- Most foreign companies have decided to move their production inside Russia in order to reduce costs, so consumer-ready products imports have decreased.
- Many Russian food processing companies are interested in forming strategic alliances with foreign partners. The main goals are access to technical knowledge, strengthening the company's image in the market, access to cheaper financing, and personnel training.
- Trends in the food products industry reflect those in the food ingredients market: growing popularity of innovative dietary products, nontraditional bread varieties with nuts, different seeds, spices, etc., resulting in increased use of high quality and premium food ingredients. As a consequence, the market is developing in value terms more than volume.

- The Russian bakery products market has good prospects. According to the forecasts by TD Marketpublishers Ltd analytical agency, by 2011 the market will grow more than 20% in monetary terms and the enriched bread segment will show growth of about 40% mainly due to exclusive varieties of bakery products containing healthy ingredients.
- The issue of healthy eating is a national policy priority; which is why a special program to promote healthy baked goods was developed. In it, there are provisions for increasing the share of functional bread up to 10-15% of the production volume in the country.
- Major ingredients consumers are baking, confectionary, milk, meat and food concentrates industries. Also significant volume of ingredients is purchased for ice cream production.
- The confectionary industry is one of the major consumers of food additives: confectionary manufacturers use about 350 items from nearly 500 food additives with E-index.
- Production of combined additives including aromatic extracts (flavors), emulsifiers, preservative agents, phosphates, etc., is increasing.
- Growth in the confectionary and milk industries resulted in increasing demand for pectin. The demand is also connected with the reformulation of recipes and opportunities to use pectin with high tech characteristics such as standardizing jellifying power, good solubility and thermal tolerance.
- Russian processors continue to implement new production technologies. Although these changes in the food-processing sector are spurring demand for domestic producing of raw materials for further processing, currently Russia is far from meeting the demand for consistently high quality raw materials in the local food-processing sector.
- The growing network of food processing facilities in the regions is spurring demand for high quality ingredients in the regions as well.
- The Government has been developing and introducing technical regulations meant to control food product quality and ensure consumer safety. Such food products as ice cream, dairy products, cheese, juice and confectionary are already manufactured in accordance with new technical regulations. Given that the new technical regulations are strict, many small companies may find it difficult to meet them. As a result we might find that only strong and stable companies are able to meet the new standards.

Consumption Trends

Consumers' constantly changing needs and preferences have a significant influence on the food ingredients market. Below are some of the key factors at play:

- Growing middle class leads to increasing demand for prepared foods and higher quality.
- Consumers favor eating at home which boosts consumption of ready meals.
- Demand for premium food products was growing prior to the crises and created demand for a wide variety of high quality food. Premium products' sales were down in 2008-2009 because of the crisis but are rebounding in 2010, and are expected to increase in coming years because of growing incomes.
- Consumers' demand for functional foods is expected to grow.
- Russia is a unique market in that premium and affordable coexist.
- However, the main factors for consumers are value for money and quality. The Russians are getting more rational in their approach to food products purchase.

- As a result of the crisis, chocolate consumption skyrocketed as consumers switched from more expensive gifts to chocolate in their gift-giving.
- The Russian confectionary market is one of the few where expenditure is ahead of that in Europe. Russians spend about 2.5-3% of their income on sweets which is more than in other countries. That said, per capita consumption of sweets is actually lower in Russia than in Western Europe and the United States. Consumption of chocolate per capita in Russia reached 5.3 kg, according to the official data of the Federal State Statistics Service.
- Baby food is the only sector that had continuous growth even during the financial crisis.
- Russians are starting to evince an interest in exotic and so called “ethnic” food products like kumis or cheesecake, igniting growth in the use of special flavoring agents.
- Consumers are becoming aware of Country of origin and “GMO free” labeling.
- More and more consumers are suspicious of artificial additives and are looking to purchase foods with natural ingredients.
- Low calorie products are becoming more popular, reflecting consumers’ growing interest in health and balanced nutrition.
- Russian consumers are giving more preference to domestically produced (or processed) products because they are perceived as natural (or healthy) with a national taste and more affordable.
- Russian consumers carefully read product labels.
- Russian food consumers are ready to pay more for branded products, associating them with products of high quality.
- Russian consumers have a strong negative attitude towards genetically modified products, though their awareness of such products is low and incomplete due to lack of objective information. Genetically modified products tend to be associated with U.S. products.

SECTION III. COMPETITION

Most ingredients used in Russia are imported. The main suppliers are: Denmark, Belgium, France, Germany, Austria, Great Britain, and the United States.

Local food processors are becoming more and more competitive on quality and consistency. This is partially due to government initiatives. For example, according to long-term social development program for 2020-2030, more than 900 billion rubles are planned to be invested in the food processing industry, and 55 percent of it will be used for technological modernization of the industry. At the same time, the Russian government is trying to support domestic food producers with protective measures and import quotas in order to make domestic producers of ingredients more competitive. Quantitative quotas and tariff rate quotas (TRQs) are aimed at lowering the share of imported products into the country and strengthening market competitiveness of Russian producers. The details of TRQ policy are available in GAIN reports devoted to poultry and meat products listed in “Other Market Reports” Section.

Russian food ingredients manufacturers are strengthening their positions as well. “Zelyonye

Linii”, “Milord”, “Technomol”, “Aromaros”, “PTI” and other food ingredients manufacturers are among the leaders. According to forecasts, by 2015 Russian manufacturers will have at least 65% of the local food ingredients market. Currently, Russia’s share of food ingredient manufacturing is not more than 10-12% because it lags behind the level of industry development in foreign countries. Russian companies still lack the whole spectrum of modern technologies and know-how existing in other countries. Even if the raw materials were available, local production cannot meet current needs because of the lack of processing technologies and qualified personnel.

The Russian food processing market is not dominated by one or two large firms and therefore doesn’t present serious obstacles to new operators entering the industry. It is in the development stage and far from being saturated. So, in Russia ingredients for the meat industry are supplied by several types of operators: direct importers such Solae, Shaller, Cargill and others; official representatives of foreign manufacturers, for example Moguntia-Interrus (Moguntia), Biofud Spice (Zaltech), Matimex (ALMI) and others; supplier agents involved in preparing complex mixes such as Aromaros-M, Milord, Vremya iK, Omega – Pischevye Technologii and others.

Table C. Major Suppliers of Selected Specialized Ingredients in Russia

Compounds	Dohler,	Pectin	Yerbsteith & Fox KG
	Wold, Etol		Danisco
	Frutarom,		CP Kelco
Emulsifiers	Danisco	Preserving agents	Factoria-Trade
	Palsgaard		Neomart
	Kerry Bio-Science		MTK
			Khimpischeholding
			Giord
Flavorings	Givaundan	Enzymes	DSM Food Specialties
	Firmenich		Chr. Hansen
	IFF		AB Enzymes
	Symrise		Six Ltd.
	Sensient		CSK food enrichment
	Bell		Biocatalysts
	Esarom		
	Mane		
Coloring agents	Roha Dychem		
	Biocolor		
	Wild		
	DSM		

Source: <http://bfi-online.ru>

European food ingredient suppliers are the major competitors of U.S. exporters in the sub-sector of specialized ingredients. Apart from competition on price, European suppliers have an incontestable advantage over U.S. suppliers due to the proximity i.e. quick delivery and low transportation costs. However, under the current favorable the U.S. dollar/euro rate and creation of a high standard distribution network, U.S. suppliers can more easily compete with European suppliers.

Table D: Major Supply Sources for Selected Product Categories by Countries

Product Category	Major Supply Source in 2009	Strengths of Key Supply Countries
Poultry Meat Net Import 948 thousand tons \$ 1,064.212 million	United States – 73.84% Brazil – 9.72% Germany – 7.29%	U.S. price competitive, high quality, provides technical support, benefits from country-specific TRQ; Brazil competes on price, offers favorable terms
Pork Fresh or Frozen Net Import 636 thousand tons \$ 1,860.679 million	Brazil – 39% United States – 17% Germany – 13%	U.S. price competitive on some cuts/trimmings; Brazil competes on price/credit terms
Beef Frozen Net Import 624 thousand tons \$ 2,195.178 million	Brazil – 52% Argentina – 22% Uruguay – 11%	Brazil competes on price conditions
Offal Net Import 298 thousand tons \$ 404.600 million	Germany – 25% United States – 17% Argentina – 13 %	Germany has logistical advantages: short shipping time
Fish & seafood Net Import 856 thousand tons \$1, 628.023 million	Norway – 44% China – 7% Vietnam – 7%	Norway enjoys quality reputation, traditional trade ties, offers strong promotional support
Egg Products Net Import 1 thousand tons \$3.076 million	Denmark – 55% Argentina – 45% Sweden – 6%	Denmark enjoys historical trade ties, short shipping tie
Dried Fruit Net Import 123 thousand tons \$176.192 million	Tajikistan – 63% Turkey – 11% Uzbekistan – 8% Argentina – 5%	Major suppliers enjoy traditional trade ties, competitive prices and short shipping time
Nuts Net Import	United States – 28% Ukraine – 25 %	U.S. high quality almonds are in growing

55 thousand tons \$241.726 million	Iran – 14%	demand, Ukraine is developing nut business actively, Iran enjoys competitive prices
Fruit & Vegetable Juice Net Import 220 thousand tons \$286.849 million	China – 25% Brazil – 16% Netherlands – 11% Ukraine – 11%	China competes on price, Ukraine enjoys short shipping time
Protein Concentrates & Textured Protein Substances Net Import 8 thousand tons \$9.471 million	China – 44% Serbia – 28% United States – 13%	China offers competitive prices
Potato Flakes, Flour and Meal Net Import 10 thousand tons \$9.826 million	Germany – 46% Netherlands – 48% Belgium – 15%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time
Butter, Oils from Milk Net Import 59 thousand tons \$156.244 million	New Zealand – 45% Finland – 29% Argentina – 5%	New Zealand has reputation for high quality dairy products; enjoys shipments though the Russian Far East
Lacs, gums, veg extract Net Import 25 thousand tons \$110.479 million	India- 28% Germany – 23% China – 12%	India offers competitive prices, Germany enjoys traditional trade ties, competitive prices and short shipping time
Essential Oils Net Import \$7.182 million	Germany – 51% India – 17% United States – 12%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time
Hops Net Import 2 thousand tons \$17.511 million	Germany – 68% Czech Republic – 12% United States – 8%	Many brew masters are German or German-trained, favor German hops; short shipping time; competitive prices

Source: Global Trade Atlas

SECTION IV. BEST MARKET PROSPECTS

A. Products Present In The Market That Have Good Sales Potential

- Meat including pork, beef, poultry, and edible offal
- Fish and Seafood (Opportunities for ground fish and salmon, especially underutilized species, for processing. Growing demand for high value products for HRI and retail.)

- Tree nuts (Iran is the biggest competitor for peanuts and pistachios, Tajikistan – for walnuts. U.S. almonds and pistachios are enjoying very strong growth. Good potential for U.S. pecans.)
- Dried fruits: quality prunes, raisins, apricots and other dried fruit (In spite of tough competition from Iran, Tajikistan, Afghanistan and Uzbekistan for bulk dried fruits, U.S. raisins and prunes are competitive for quality retail and processing market.)
- Hops (Rapidly expanding sector relies heavily on imports from Europe; very limited local commercial production.)
- Flavor enhancers for processed meat products
- Functional soy concentrates and isolates (primarily for sausage production)
- Lactose
- Quality Textured Vegetable Protein
- Gluten Powder
- Dextrin and other modified starches
- Preservatives and food colors
- Essential oils
- Seasoning/spices/flavorings
- Frozen or soft pasteurized fruits – for yogurt and ice cream
- Milk powder

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

- Specialized food ingredients, including carrageenan, emulsifiers, enzymes, pectin, starter cultures, and functional systems (integrated blends of emulsifiers and thickeners)
- Certified organic/natural ingredients – while many local processors are advertising “natural” or “ecologically-clean” food and beverage products, there are no official organic standards and such claims cannot be substantiated
- Kosher and halal-certified ingredients (sizeable Jewish population with growing interest in kosher products; large Moslem consumer base in Russia and CIS countries)

SECTION V. POST CONTACT AND FURTHER INFORMATION

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

U.S. Agricultural Trade Office Headquarters

American Embassy
 Bolshoy Devyatinskiy Pereulok 8
 121099 Moscow, Russia
 Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069
 E-mail: atomoscow@fas.usda.gov
<http://eng.usda.ru>

Deanna Ayala, Director
 E-mail: Deanna.Ayala@fas.usda.gov

Alla Putiy, Marketing Specialist
E-mail: Alla.Putiy@fas.usda.gov

Olga Kolchevnikova, Marketing Specialist
E-mail: Olga.Kolchevnikova@fas.usda.gov

Alina Streltsova, Administrative and Financial Assistant
E-mail: Alina.Streltsova@fas.usda.gov

For mail coming from the U.S.:
Director, Agricultural Trade Office
5430 Moscow Place
Washington, DC 20521-5430

For international mail, especially from Europe:
Agricultural Trade Office
U.S. Embassy - Box M
Itainen Puistotie 14
00140 Helsinki, Finland

Covering Northwest Russia (St. Petersburg):
Svetlana Ilyina, ATO Marketing Specialist
American Consulate General
15, Furshtatskaya St.,
St. Petersburg, Russia
Tel: 7 (812) 331-2880; Fax: 7 (812) 331-2675
E-mail: Svetlana.Ilyina@fas.usda.gov

Covering the Russian Far East (Vladivostok):
Oksana Lubentsova, ATO Marketing Specialist
American Consulate General
32, Pushkinskaya St.
690001 Vladivostok, Russia
Tel: 7 (4232) 300-070 or 300-089; Fax: 7 (4232) 300-089
E-mail: Oksana.Lubentsova@fas.usda.gov

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:

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 Russia 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 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) 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 USEFUL CONTACTS

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

U.S. Commercial Service

Bolshoy Devyatinskiy Pereulok, 8

121099 Moscow, Russia

Tel: 7 (495) 728 5580; Fax 7 (495) 728 5585

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

<http://www.buyusa.gov/russia/en>

OTHER MARKET REPORTS

Reports on the Russian food and agricultural market are also available on the FAS website, the search engine can be found at

<http://gain.fas.usda.gov/Pages/Default.aspx>

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:

RS9304 Exporter Guide / Annual

<http://gain.fas.usda.gov/Recent%20GAIN%20Publications/EXPORTER%20GUIDE%20ANNUAL%20Moscow%20ATO%20Russian%20Federation%209-15-2009.pdf>

Food and Agricultural Import Regulations and Standards Country Report 2009

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Moscow_Russian%20Federation_11.08.2009.pdf

RS1038 Government to control Prices for Socially Important Food

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Government%20to%20Control%20Prices%20for%20Socially%20Important%20Food%20_Moscow_Russian%20Federation_7-30-2010.pdf

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

RS1036 Custom Union Update July 2010

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Custom%20Union%20Update%20July%202010_Moscow_Russian%20Federation_7-26-2010.pdf

RS1058 Customs Union List of Imported Products under Phytosanitary Control

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Customs%20Union%20List%20of%20Imported%20Products%20under%20Phytosanitary%20Control_Moscow_Russian%20Federation_10-4-2010.pdf

RS9008 Economic Crisis Update

<http://www.fas.usda.gov/gainfiles/200902/146327327.pdf>

RSATO1003 Russian Retail Food Sector

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Moscow%20ATO_Russian%20Federation_8-30-2010.pdf

RS1022 Grain and Feed / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Moscow_Russian%20Federation_4-9-2010.pdf

RS1039 Ban on Grain Exports from Russia Comes to Force on August 15

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Ban%20on%20Grain%20Exports%20from%20Russia%20Comes%20to%20Force%20on%20August%2015%20_Moscow_Russian%20Federation_8-6-2010.pdf

RS1066 Dairy and Products Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Dairy%20and%20Products%20Annual_Moscow_Russian%20Federation_11-9-2010.pdf

RSATO1006 Fresh Deciduous Fruit / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fresh%20Deciduous%20Fruit%20Annual_Moscow%20ATO_Russian%20Federation_11-1-2010.pdf

RS1060 Russian Potato Crop and Import Prospects

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Potato%20Crop%20and%20Import%20Prospects_Moscow_Russian%20Federation_10-7-2010.pdf

RS1061 Effects of the Summer Drought and Fires on Russian Agriculture

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Effects%20of%20the%20Summer%20Drought%20and%20Fires%20on%20Russian%20Agriculture_Moscow_Russian%20Federation_10-26-2010.pdf

RS9054 Poultry and Products / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/POULTRY%20AND%20PRODUCTS%20ANNUAL_Moscow_Russian%20Federation_31.08.2009.pdf

RS1052 Poultry and Products / Semi-annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Semi-annual_Moscow_Russian%20Federation_9-21-2010.pdf

RS1053 Livestock and Products Semi-annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_Moscow_Russian%20Federation_9-21-2010.pdf

RS1025 GOR Resolution No 306 Establishes TRQ Reallocation

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/GOR%20Resolution%20No%20306%20Establishes%20TRQ%20Reallocation%20_Moscow_Russian%20Federation_5-11-2010.pdf

RS9010 Meat and Poultry Prices Update

<http://www.fas.usda.gov/gainfiles/200903/146327404.pdf>

RS8096 Poultry and Meat Duties and Volumes Changed for 2009

<http://www.fas.usda.gov/gainfiles/200902/146327326.pdf>

RS1033 Fish and Seafood Production and Trade Update

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fish%20and%20Seafood%20Production%20and%20Trade%20Update_Moscow_Russian%20Federation_7-9-2010.pdf

RS1023 Fishery Sector Update and Price Survey

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fish%20and%20Seafood%20Production%20and%20Trade%20Update_Moscow_Russian%20Federation_7-9-2010.pdf

TRADE SHOWS IN RUSSIA

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

FOOD INGREDIENTS, ADDITIVES AND FLAVOURINGS

14th International Exhibition for Food Ingredients, Additives & Flavorings. Ingredients Russia is

the only exhibition dedicated to the ingredients in Russia. It is popular with exhibitors and food ingredient buyers alike.

Date: March 15-18, 2011
Location: All-Russian Exhibition Centre (VVC), Moscow
Website: www.ingred.ru
Contact: ATO Moscow
Tel.: 7 (495) 728-5560; Fax: 7 (495) 728-5069
E-Mail: atomoscow@fas.usda.gov

WORLD FOOD MOSCOW

20th International Exhibition for Food and Drink Products

Date: September 13-16, 2011
Location: Expocentr, Moscow, Russia
Website: www.worldfood.ru
Contact: Olga Kolchevnikova, Marketing Specialist
ATO Moscow
Tel.: 7 (812) 326-2580; Fax: 7 (812) 321-2675
E-Mail: atomoscow@fas.usda.gov

PRODEXPO

18th International Exhibition of Food, Beverages & Food Raw Materials

Date: February 7-11, 2011
Location: Expocentr, Moscow, Russia
Website: www.prod-expo.ru
Contact: ATO Moscow
Tel.: 7 (495) 728-5560; Fax: 7 (495) 728-5069
E-Mail: atomoscow@fas.usda.gov