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Russian Federation

Retail Foods

Retail Sector Impacted By Slowing Economy and Inflation

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Report Highlights:
Retail sales turnover in 2013 grew 3.9 percent year-on-year (valued at $744 billion) compared to growth of 6.3 percent in 2012. The grocery retail market increased in value from $321 billion in 2012 to $350 billion in 2013 representing 2.5 percent growth year-on-year compared to 3.6 percent growth in the previous year. Food sales accounted for 47 percent of total retail sales in Russia in 2013 – virtually unchanged from 2012. In 2014, market analysts expect the grocery market to continue to decrease as rising inflation, possibly reaching 10 percent by year’s end, and the Ruble devaluation are affecting consumers’ purchasing power and overall retail sales respectively.

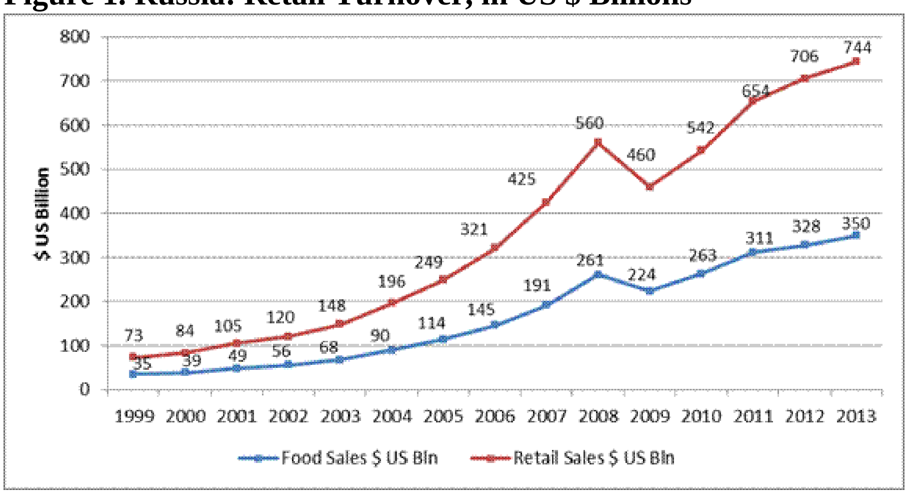
Post:
Moscow ATO

SECTION I. MARKET SUMMARY

Retailing has been one of the fastest growing industries within the Russian economy over the last decade. The rapid rise of modern grocery retailers has led to major changes in purchasing habits of Russian people stimulating demand for high-quality products and motivating consumers to abandon traditional grocery channels such as open markets and kiosks. In 2013, Russian retail turnover decelerated mirroring the slowdown of the Russian economy. Russia recorded its weakest economic growth in 2013 (1.2 percent compared to 3.4 percent in 2012) during any year since the end of the economic crisis in 2008. Experts have identified several reasons for the economic slowdown including the negative investment environment at the end of 2012 and weaker consumer demand. However, retailing still recorded positive growth during 2013 within both store-based and non-store retailing categories. Russian retail sales turnover in 2013 grew 3.9 percent year-on-year (6.3 percent in 2012) while in value terms the indicator reached $744 billion, according to the Russian Federal Statistics Service (Rosstat). The grocery retail market increased in value from $321 billion in 2012 to $350 billion in 2013 representing 2.5 percent growth year-on-year compared to 3.6 percent growth in 2012. Rapid expansion of the leading retail chains throughout much of the country and the steady demand for basic groceries were the main reasons for this positive growth.

Sales of food including alcohol and tobacco accounted for 47 percent of total retail sales in Russia in 2013 versus 46.5 percent in 2012. In the product range of grocery retailers the share of food items varies between 80 and 91 percent, depending on the format. For example, the X5 Retail Group reported that food goods accounted for 90.9 percent of the company's total sales in 2013. For Magnit, the share of food was 80 percent in the hypermarket format and 88.5 percent in the convenience format. (Source: PMR)

Figure 1. Russia: Retail Turnover, in US $ Billions



Source: Federal State Statistics Service (Rosstat)

On August 6, 2014, Russia announced a one-year ban on numerous food and agricultural products from the United States, EU, Australia, Canada and Norway. The list includes red meats (both fresh and frozen), poultry, fish, dairy products, fruits, vegetables and many others. To see the complete list of products affected by the ban, please refer to GAIN Report: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russia%20Announces%20Ban%20on%20Variety%20of%20US%20Agricultural%20Products_Moscow%20ATO_Russian%20Federation_8-7-2014.pdf

In November 2014, the Russian Federal Customs Service (FCS) reported that imports from banned countries fell sharply in the third quarter of 2014 compared to the same period a year earlier. The supply of dairy products is down by 26 percent in real terms, meat down 26 percent, fish down 48 percent, and fruit down 8 percent. However, according to ROMIR information agency research, after the food ban was implemented, Russians did not start consuming less. Consumer expenditures on food rose in August by 18 percent compared to the corresponding period in 2013 - and grew by another 5 percent in September. People were actively buying long-shelf life products such as pasta and cereals, and in addition to the items placed on the banned list that were in the stores. In October 2014, according to ROMIR, Russian spending for groceries grew again by 17.5 percent.

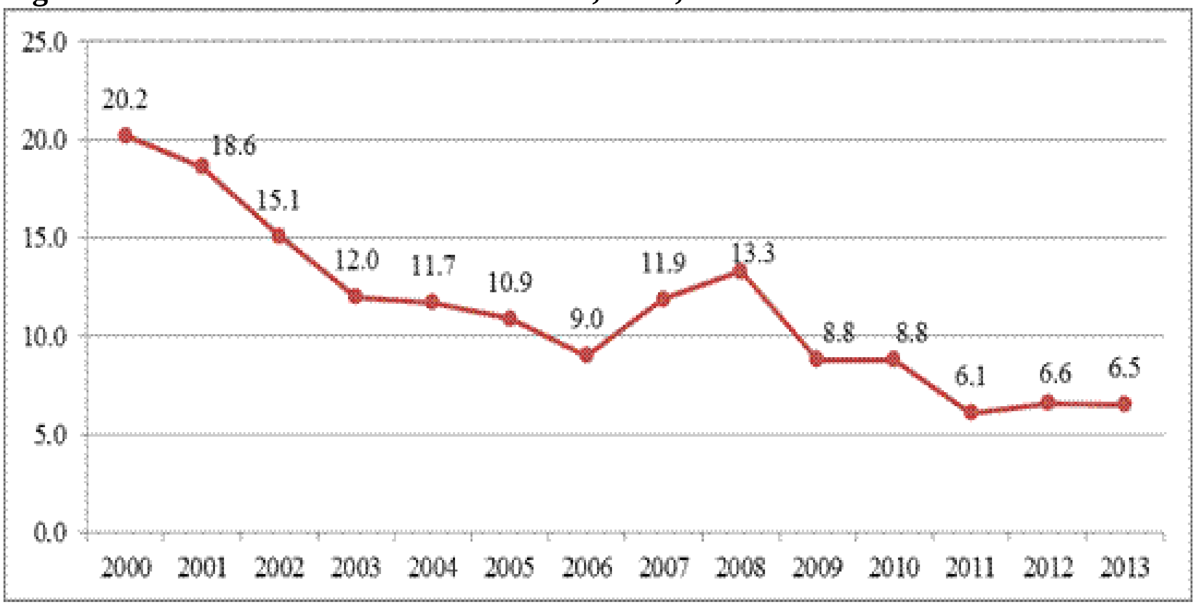
After the implementation of the August food ban, Russian food retailers began to immediately look for new partners to purchase food products that were included in the food ban from affected countries. This proved difficult in the beginning as the vast majority of imported food products found in Russian grocery shelves originated from the banned countries. Reailers operating in the discounter format, such as Dixy or Pyaterochka (X5 Group), have been less affected by the sanctions as these stores import very little from abroad and, instead, focus on using local and regional products. Magnit, the largest Russian food retailer in terms of revenues, is estimated to import 10 percent of its food assortment and only 1 percent comes from the European Union or United States (Source: PMA data). High-end stores such as Azbuka Vkusa and Globus Gourmet are having more serious problems as these retailers are said to import up to 90 percent of products on their shelves from the countries affected by the food ban.

According to the Russian Retail Association (AKORT), the import share of food products offered in grocery chains in Russia amounts to 25-35 percent. These come from all over the world. Russian retailers are looking at Latin America (e.g. meat from Argentina), China (fruit, vegetables and pork), Pacific countries (fish), India (meat and fruits), Morocco (fruits) and Turkey (fruits and nuts). China has already announced plans for a cross-border trade zone aimed at fruit and vegetable exports to Russia in Heilongjiang Province (Source: PMR).

Post expects the consequences of the food ban on retailers to be more notable within few months when remaining supplies currently held in warehouses are exhausted. Prices for fruits and vegetables are also expected to rise sharply in winter when seasonal Russian products are out of stock. In 2014, experts estimate the pace of growth of the grocery market to continue decreasing compared to the previous year due to low growth in disposable incomes for the majority of the Russian population, raising inflation and devaluation of the national currency. Growth in the Russian economy and growth in productivity are also expected to remain slow. Finally, the unstable geopolitical situation will continue to have a negative influence on future developments in the Russian retailing industry.

Consumer price inflation in Russia in 2013 stood at 6.5 percent (6.6 in 2012). Food inflation, which totaled 7.3 percent, and services (8 percent) were the main factors pushing inflation up. Non-food inflation totaled 4.5 percent in 2013. Prices of the following food products saw the highest increases in price rates - chicken eggs 28.8 percent, butter 18.6 percent, spirits 14.6 percent, milk and dairy products - 13.1 percent.

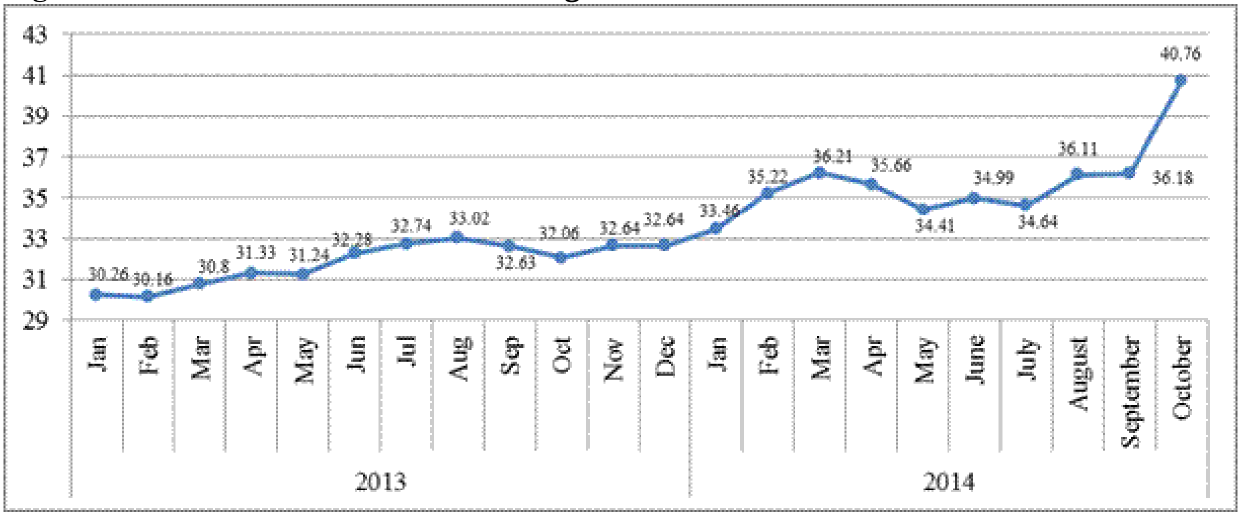
Figure 2. Russia: Consumer Price Inflation, in %, 2000-2013



Source: Rosstat

From January – October 2014, the inflation rate reached 7.2 percent, according to Rosstat. Food inflation during this time period showed 8.8 percent growth compared to the same period one year earlier. The Ministry of Economic Development of the Russian Federation (MED) has officially announced increasing estimates for food price growth in 2014 to 12-13 percent, versus earlier projections of 7.2-7.4 percent. According to MED, future increases in food prices will slow to 5.5 percent 2015 but will still make a significant contribution to overall national inflation. In the first half of 2015, the increase in prices will be higher than previously predicted, but in the second half of the year it will be lower with a completion of the food ban regime and a significant increase in the supply of goods. (Source: Agronews)

Figure 3. Russia: Central Bank's Exchange Rate of $1 USD to Ruble, 2013-2014

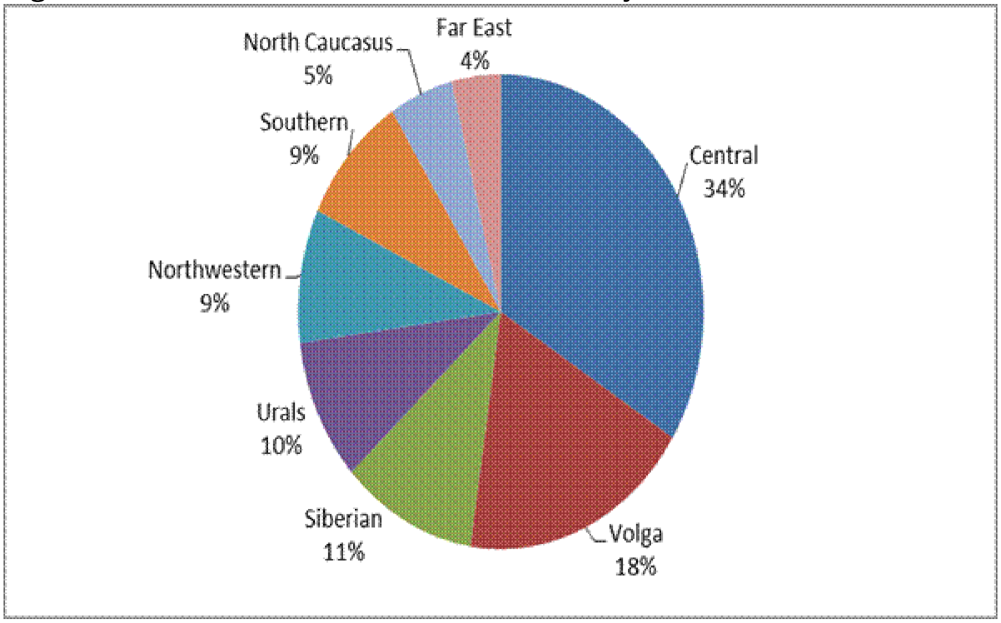


Source: The Central Bank of the Russian Federation, 2014

The consumer spending landscape in Russia is characterized by regional disparities and consumers placing high priorities on essentials such as food, non-alcoholic beverages and housing. Approximately 35 percent of consumer expenditure in 2013 was allocated to the purchase of food and non-alcoholic beverages. The retail market in Russia varies significantly among the Federal Districts both in terms of its value and the nature of its development. The variations result from the number of inhabitants, population density, level of urbanization, as well as average monthly income and expenditures, existing competition and other regional characteristics.

According to Rosstat, the Central Federal District (which includes Moscow) is the smallest yet the most populous region of Russia and remains the largest retail market in the country - accounting for 34 percent of sales Russia-wide in 2013. The majority of the largest retailers in Russia originate in Moscow, which gives the Central Federal District the special status of accommodating both leading domestic operators as well as foreign retailers seeking to establish their presence in Russia. The Russian Far East (RFE) had the lowest share of retail sales among the Federal Districts in Russia. At the same time, the RFE is the largest District in terms of physical area but with a population that comprises of under 6 million residents.

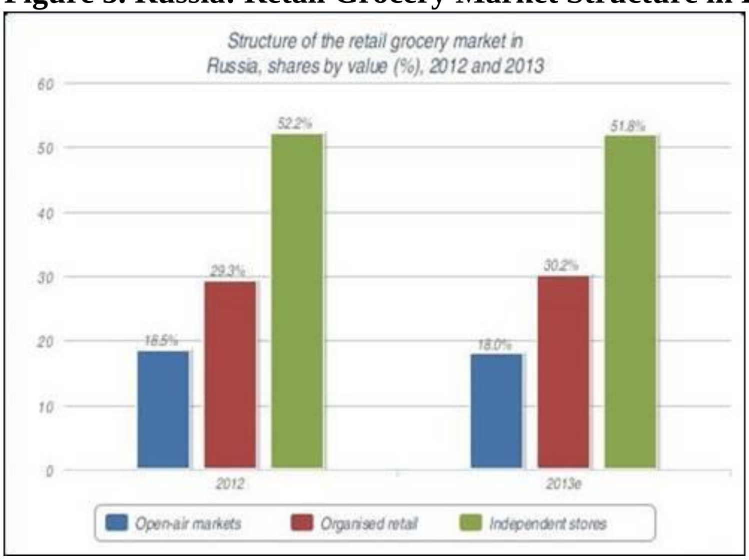
Figure 4. Russia: Retail Turnover in Russia by Federal District in 2013, %



Source: Rosstat

Modern format stores are continuously increasing their share of total grocery retail turnover in Russia -- from 28.5 percent in 2011 to 29.3 in 2012 and 30.2 percent in 2013 (according to PMR research). As for traditional channels (including independent grocery stores, open-air markets, and kiosks), they continue to dominate in Russia. However, they are gradually losing their market share in favor of the modern formats. In 2013, open-air markets accounted for 18 percent of grocery retail sales compared to 19 in 2012 and its numbers continue to shrink. The number of open-air markets in Russia in 2013 decreased 27 percent according to PMR.

Figure 5. Russia: Retail Grocery Market Structure in Russia, 2012 - 2013, in %



Source: PMR, 2014

Discounters and hypermarkets remain the largest distribution channels within the sector. In 2013, they generated 19.6 percent of total grocery sales in Russia, according to PMR. Russian food retail development continues to be led by large domestic retailers such as the X5 Retail Group, Magnit, Seventh Continent and Dixie chains are still among the top Russian retail players. In addition to domestic companies, the French Auchan Group, German Metro AG and others have earned significant market shares during last decade. The top 10 largest grocery retailers accounted for close to 20 percent of the Russian retail market in 2013 (versus 18 percent in 2012). Thus, the market is still rather fragmented although consolidation is slowly increasing.

Table 1. Russia: Top 10 Grocery Retailers in Russia by Sales Turnover, 2013

	Retailer	Chains	Country of origin	Sales revenues ($ mln)	Market share	Number of stores
1	Magnit	Magnit, Magnit Semeyny, Magnit Kosmetik	Russia	17,840	5.3%	7,087
2	X5 Retail Group	Karusel, Pyaterochka, Perekrestok, Perekrestok Zeleny, Perekrestok Express, Kopeyka	Russia	16,696	5%	4,532
3	Auchan Group	Auchan, Auchan City, Radouga, Atak, Auchan Sad	France	9,531	2.8%	196
4	Dixie Group	Dixie, Megamart, Minimart, Victoria Supermarket, Kvartal/Deshevo/Kopilka, Cash	Russia	5,658	1.7%	1,799
5	O’Key Group	O’Key, O’Key Express	Russia	4,383	1.3%	97
6	Metro Group	Metro Cash & Carry, Real, Media Markt	Germany	4,026	1.2%	73
7	Lenta	Lenta	Russia	2,720	0.8%	77
8	Sedmoy Kontinent	Sedmoy Kontinent, Nash Hypermarket	Russia	2,265	0.7%	159
9	Element-Trade	Monetka	Russia	1,785*	0.5%	550
10	Spar Russia	Spar, Interspar, Eurospar, Spar Express	Netherlands	1,648*	0.5%	363

Source: PMR, 2014
*** PMR estimations**

In 2013, Magnit overtook X5 as the leading player in the Russian grocery market. According to PMR data, Magnit managed to increase its revenues by more than 28 percent, while X5 jumped by only 8.5 percent. Both companies use a multi-format strategy but Magnit focuses on the hypermarket and discounter segments while X5 operates stores in all the modern grocery formats. Magnit’s success was primarily due to its strong presence and rapid expansion across Russia’s regions. These two players are significantly larger than the other grocery retailers and together controlled around 10 percent of the entire grocery market in 2013. The third largest player is the Auchan Group, which also operates two formats in Russia: hypermarkets and supermarkets. Auchan recorded the highest increase in value sales of all companies operating in grocery retailers in Russia during 2013 as the company's value sales increased 35 percent over the course of the year. This also led to the company's value share in grocery retailers increasing to 5 percent over the course of the year, up from 4 percent in 2012. The modernization of the Auchan chain in Russia during 2012 was the main reason for the sharp increase registered in its value share during 2013. Moreover, at the beginning of 2013, the France-based multinational retailer acquired 16 hypermarkets in Russia previously operated by Germany-based Metro Group under the Real chain. All of these former Real stores were converted into Auchan hypermarkets shortly after the acquisition was completed.

Though large domestic and foreign retail operators enjoy leading positions in the grocery market in Russia, regional players have considerable market power as well. It is expected that competition between national and regional retail chains will intensify in the short to medium-term. While foreign grocery retail operators (Auchan Group and Metro Group) are likely to continue developing organically (the large formats in which they operate require the construction of new retail centers), national players may develop via both organic growth and acquiring regional companies.

Existing Retail Sales Outlet Formats in Russia:

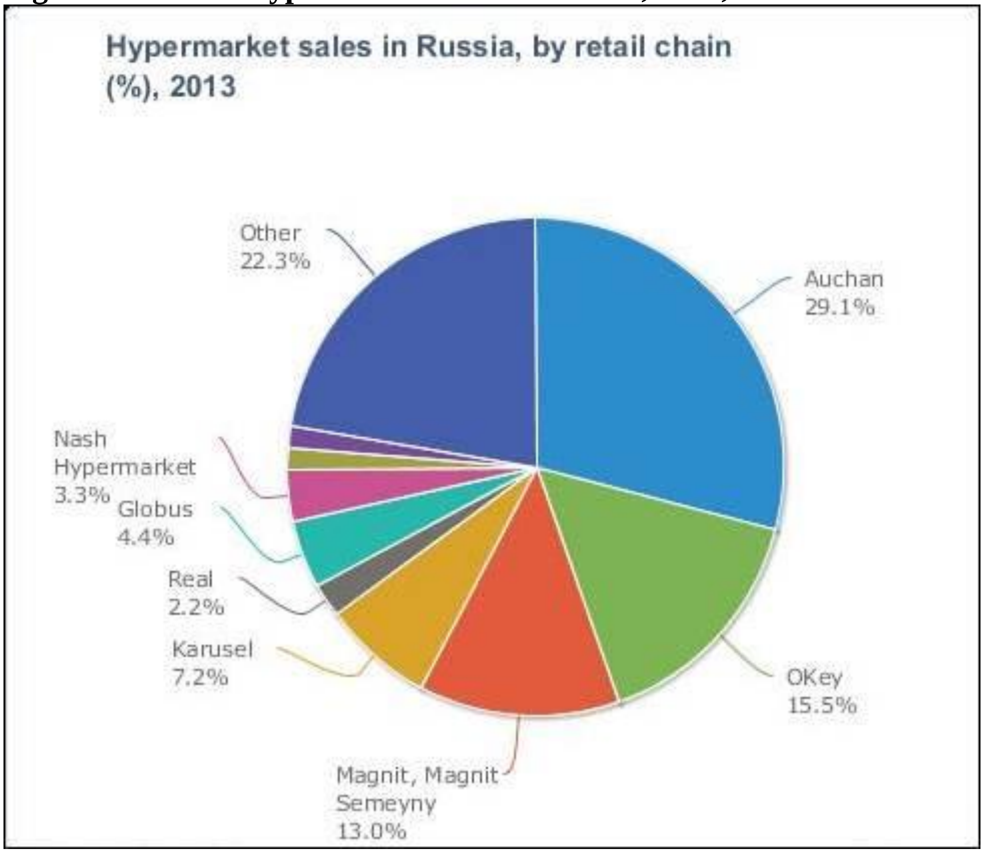
Hypermarkets

A store with retail space of more than 2,500 sq. meters, where not less than 35 percent of the space is used for sales of non-food products. As a rule, a hypermarket is located on the outskirts of large cities, or is the anchor store of a large urban shopping mall (e.g., Auchan, O'Key, Karusel).

In 2013, hypermarkets increased their share of the country's grocery retail sales to 8.4 percent (from 8.1 percent in 2012). In value terms, this translates into an increase to $28 billion. Accounting for 27.7 percent of organized retail, hypermarkets are the second-largest modern format in Russia. Compared to other formats, the hypermarket segment boasts a high level of consolidation. The top 10 hypermarket chains controlled 77.7 percent of the segment in 2013.

The hypermarket segment is represented by both national (St. Petersburg-based O'Key and Karusel, and Krasnodar-based Magnit) and foreign retail companies (France-based Auchan and Real, recently sold to Auchan Group, and Globus). St. Petersburg and Krasnodar are the leaders in terms of hypermarket penetration. This may be explained by the fact that St. Petersburg gave birth to the federal hypermarket retail chains O'Key and Karusel. Moreover, the Finnish-based hypermarkets chains Prisma and K-Ruoka initiated development in Russia from St. Petersburg. The city of St. Petersburg accommodates hypermarkets by six retail chains, namely O'Key, Karusel, Auchan, Prisma, Sezon and K-Ruoka. Unlike St. Petersburg, Moscow cannot boast a high level of hypermarket penetration. One of the major reasons for this lag is the historical development of the retail property market in Moscow. Thus, the majority of hypermarkets in Moscow are located beyond the boundaries of the Moscow ring road (MKAD).

Figure 6. Russia: Hypermarket Sales in Russia, 2013, in %



Source: PMR, 2014

Profiles of Key Market Players:

Auchan
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The first Auchan hypermarket was opened in Moscow in 2002. The hypermarkets are located in suburban areas where large establishments are easier to build and land is cheaper. The chain has adopted a strong discount position by offering products at prices 10-20 percent lower than their competitors. By the end of 2013, in the Russian grocery segment, the Auchan Group ran a chain of 78 hypermarkets (53 Auchan, 20 Auchan City and 4 Radouga) and 118 Atak supermarkets. Besides these, the company operated five stores under the Auchan Sad brand. In 2013, Russia was among the most active markets for the retailer, which opened 15 new hypermarkets and six Auchan City stores.

In May 2013, the Auchan Group completed the acquisition of Real hypermarkets from Metro Group. According to the agreement, Auchan became the owner of Real hypermarkets in the Central and Eastern Europe market, including 16 existing Real stores, one hypermarket under construction, and seven shopping malls in Russia. Overall, the project required investments of about $21 million. In 2014, the company plans to open 10-14 new stores. In the future, the company aims at opening at least 10 stores annually, including about five Nasha Radouga stores in cities with populations of 300,000-700,000 in central Russia.

O'Key
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The O'Key Group was established in 2001.O'Key hypermarkets offer 35,000 SKUs in its everyday product range and up to 64,000 SKUs of seasonal products. O'Key hypermarkets boast a high share of fresh food products (43 percent) and non-food items (24 percent). The total number of private label items at O'Key stores amounts to almost 3,400 SKUs (over 100 in food and almost 3,300 in non-food categories). The company's portfolio includes three types of private label brands.

The typical locations of O'Key hypermarkets include areas near main public transportation hubs, areas with low or limited competition (compared to O'Key supermarkets, which are typically located in the residential districts). The target audience includes people living within 10 minutes by car and 30 minutes by public transport (people living within five minutes by car and 15 minutes walking distance in case of supermarkets). Hypermarkets account for 91 percent of the selling space of the company. O'Key hypermarkets boast a higher average purchase compared to its competitors (Karusel, Magnit, etc), at $27 per person and manages the highest store equity among large-format stores and operates a highly efficient loyalty card program (close to 90 percent of revenues were generated by loyalty card holders).

Magnit
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Website: www.magnit-info.ru

Magnit hypermarkets have been developed by Tander since 2006. As of 2013, the average size of the Magnit hypermarkets was 7,126 m^2 with a sales space of 2,999 m2. The product range includes 12,803 SKUs on average (though it may vary depending on the format). These numbers suggest a small downsizing of the hypermarket space and product range compared to previous years. Private label items account for 7.3 percent of retail sales. Magnit hypermarkets are positioned as hypermarkets in convenient locations easily accessed by public transport. The target group of the hypermarkets includes people living within 15 minutes by car or 30 minutes by public transport from the store (an effective radius of 7 km). The share of foods in the total sales of the chain continued growing in 2013: to 80 percent (in RUB terms) compared to 76 percent in 2010. The average purchase at Magnit hypermarkets amounted to $17 in 2013. In 2014, Magnit plans to increase its store count by 70-80 new hypermarkets. By 2018-2020, the retailer hopes to be operating 500 stores in this format.

Karusel
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E-mail: info@x5.ru
Website: www.pyaterochka.ru, www.x5.ru

The Karusel chain run by the X5 Retail Group was launched in St. Petersburg in 2005. In April 2008, Karusel was included in the portfolio of the X5 Retail Group, as it acquired 100 percent of the shares in Formata Holding, Karusel's managing company. Karusel hypermarkets offer up to 25,000 SKUs on average. The average sales space after the downsizing is around 4,500 m2. The Karusel hypermarket concept implies reasonable one-stop shopping with a wide range of quality food and supplementary non-food assortment, efficient service at checkout, and engaging weekly catalogues. The pricing policy of its hypermarkets implies it has the lowest prices on the market for its basic product range and fair prices for its wider assortment.

In 2013, the chain's net sales reached $2 billion, demonstrating an increase of 4.6 percent. Private labels generated 8.7 percent of net sales for the chain. In 2013, the company opened five hypermarkets. As a result, by the end of 2013 the chain included 83 stores. All hypermarkets in the chain are located in the European part of the country.

Globus
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The Germany-based company entered the Russian market in 2006 when the first store was opened in Moscow Province. By the end of 2008, it operated five hypermarkets in the country. A sixth and seventh stores appeared later in 2012 and 2013 (both in Moscow Province). In upcoming years, the company plans to open 2-3 stores annually. Furthermore, the company is planning to build a multipurpose complex in Pushkino (in the Moscow Province). Overall, in the upcoming five years, Globus plans to invest about $930 million in development of the chain. Globus' total product line accounts for over 40,000 SKUs. In addition, the company offers a range of private label products (over 1,000 SKUs). One of the major competitive advantages of the chain is its own products (butchery, bakery, brewery) which generates about 20 percent of total sales.

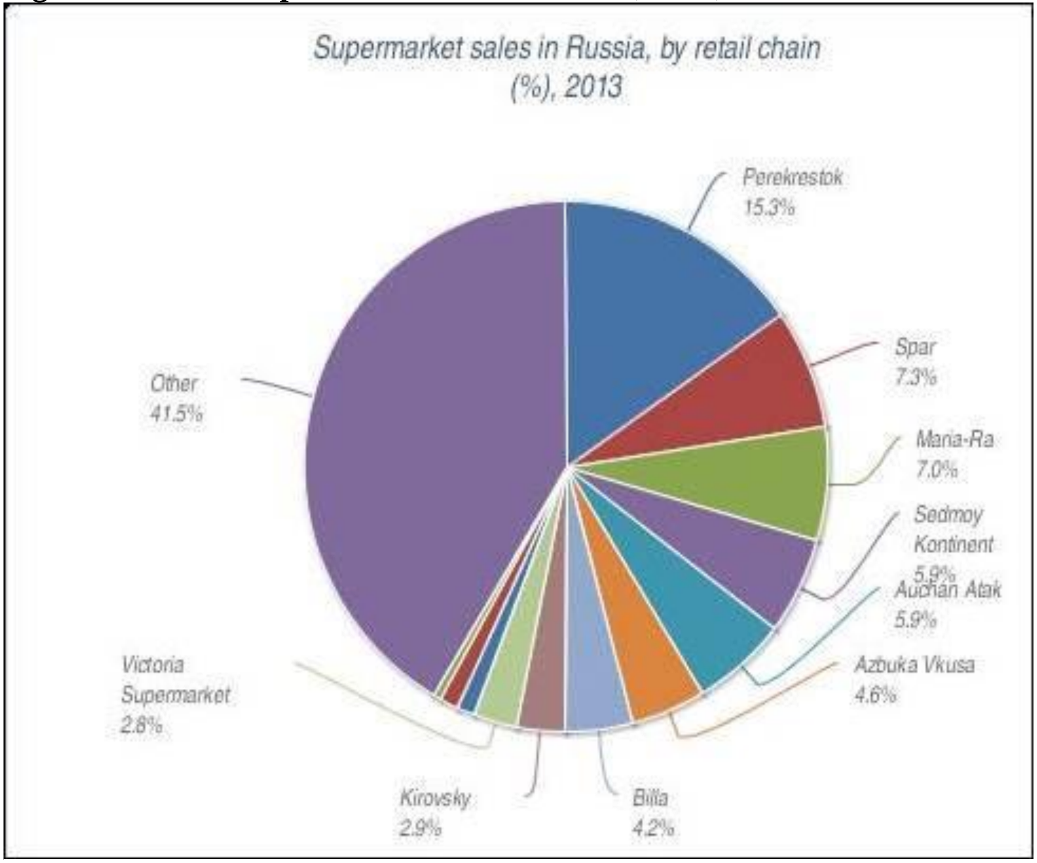
Supermarkets
A retail outlet with sales space from 400 to 2,500 sq. meters, where at least 70 percent of the product line is food products and everyday goods (e.g. Perekriostok, Sedmoy Kontinent, Spar). The supermarket segment is dominated by domestic operators but there are several successful foreign companies present on the market as well. They include Spar (the Netherlands), the second-ranked chain in the segment (by sales), as well as Auchan Atak (France), and Billa (Germany).

In 2013, the share of supermarkets in the total grocery retail sales in Russia remained at 6.7 percent valued at $23 billion. Supermarkets continue to lag discounters and hypermarkets in the share of total sales of organized retailers (22.2 percent in 2013). Compared to other formats the supermarket segment maintains a medium level of consolidation. Thus, the top 10 chains controlled close to 57 percent of the segment. Auchan Group's Atak brand became the most dynamically growing retail chain in the segment, increasing its share from 4.6 percent in 2012 to 5.9 percent in 2013.

One of the peculiarities of the supermarket segment is the relatively strong positioning of regional players compared to other segments. Thus, while the leaders of the supermarket segment are the Perekrestok and Sedmoy Kontinent retail chains, operated by large national companies (the X5 Retail Group and Sedmoy Kontinent, respectively), the successful supermarket chains include Maria-Ra (Western Siberia), Azbuka Vkusa (Moscow and Province), Kirovsky (Sverdlovsk Province) and Bakhetle (Republic of Tatarstan).

One of the major trends in the market is the growing activity of local and regional retailers specializing in the format of supermarkets. For example, in May 2013 the St. Petersburg-based Land supermarkets chain operating in the upper price segment (10 stores as of December 2013) introduced the franchising program for further development. Federal retail operators aim to expand geographically as well. Thus, the Dixy Group's Victoria supermarkets are considering the launch of full-size supermarkets in small cities with high population densities as one of its top priorities.

Figure 7. Russia: Supermarket Sales in Russia, 2013, in %



Source: PMR, 2014

Profiles of Key Market Players:

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The Perekrestok supermarket chain was founded in 1995. In 2006 it became part of the X5 Retail Group. Perekrestok supermarkets offer about 11,000 SKUs on an average sales space of 1,000 m2. The concept of the Perekrestok supermarket is to have a differentiated offer for medium- and upper-income class customers who value quality and service and a wide choice of fresh goods at fair prices, and which is supported by original promotions and advertising campaigns. In 2008, the X5 Retail Group established a new premium supermarket chain under the Zeleny Perekrestok brand. By the end of 2013, the X5 Retail Group operated 15 Perekrestok Zeleny stores. These supermarkets have gained in popularity among upscale customers who look for a high level of service and competitive prices on an attractive range of premium and specialty items.

In 2013, the redefinition of the Perekrestok brand was the focus, with the aim to be the first choice of consumers when it comes to shopping for fresh products, e.g. fruits, vegetables, bread or fish. Accordingly, 338 stores were equipped with onsite bakeries. In addition, 12 New Ocean shop-in-shop areas were opened so far, offering fresh fish and seafood products. In 2013, the supermarket format generated 21 percent in net sales for the company, 1 percent less than in 2012. Private labels generated 7.1 percent of net sales for the chain. In 2013, the company opened 20 new supermarkets. As of the end of 2013, the chain had 378 stores.

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Netherlands-based Spar is an association of independent retailers operating worldwide. The company entered Russia in 2000 and the first supermarket was opened in Moscow in 2001.
In Russia, the company operates in four formats, including two types of supermarkets (under the Spar and Eurospar brands), Interspar hypermarkets, and Spar Express minimarkets.
The Spar format is the most prominent in the company, representing supermarkets with sales spaces ranging from 200 m2 to 1,000 m2. Eurospar supermarkets boast larger sales spaces, namely 1,000-3,000 m2. Currently, the private label product range includes about 600 items. The company plans to expand the product range offered under private labels by 300 SKUs. Moreover, one of the company's priorities is the expansion of imported goods offered within the private label assortment. The imported goods are offered under the Spar Premium and Spar Taste the World labels. The company's estimated annual retail sales in Russia reached $1.6 billion in 2013, demonstrating an increase of 7.3 percent compared to the previous year. Russia was among the top seven Spar countries at the end of 2013 by retail sales, and is on track to be in the top five Spar countries by 2015.

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Maria-Ra is one of the largest grocery retailers in Siberia. The company was founded in 1993 and originally operated convenience stores. Later, in 2003, the company launched supermarkets. The product range of the company's supermarkets (700-2,500 m2) includes 10,000-15,000 SKUs, with food accounting for 80 percent of them. The company is active in private label development. Maria-Ra prefers to exploit multiple trademarks rather than use an umbrella brand in its private-label development. The portfolio of the company includes 31 private labels. The product range includes more than 700 SKUs offered under private labels. More than 740,000 customers visit the chain's supermarkets daily. By the end of 2013 the chain had opened 619 stores and was present in 172 towns and cities in the Siberian Region. In 2013, the company's sales increased by 22 percent to $1.6 billion. As of April 2014, the chain operated 635 stores. In 2014 Maria-Ra intends to maintain the rate of growth in its revenue and the number of new establishments. The retailer will also continue to develop its portfolio of private labels.

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In addition to Sedmoy Kontinent supermarkets, the company runs Nash Hypermarkets. There were no openings in 2013 in the supermarket segment but the company opened two new hypermarkets last year. The company offers a range of private label products (over 1,100 SKUs). Supermarkets remain the major format employed by the company accounting for 59 percent of total sales. In the future, Sedmoy Kontinent plans to further enhance the positions of its supermarkets in the Moscow market. Among the planned measures, the company has indicated the development of a premium segment of stores.

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The first grocery supermarket under the Azbuka Vkusa brand was opened by the company in 1997. In 2002, it was decided to start development of the chain. The product range of the chain's stores includes 18,000 SKUs of fresh food, deli foodstuffs, ready-to-eat meals produced by Azbuka Vkusa, and premium alcoholic beverages. In addition, the product range comprises some exclusively distributed items. The company has its own production facilities providing about 15 percent of all products offered in the chain's stores. One of the main peculiarities of the chain is its delivery service for customers (the chain's website incorporates an online store). The latest opening took place in April 2014, bringing the store count to 65. Along with the regional expansion, the retailer plans to change the price positioning by adding medium-price goods in its product range. Currently, the target audience of the chain is represented by customers with monthly incomes exceeding $2,500 per capita. Changes in pricing policy will allow it to attract people with incomes over $1,300.

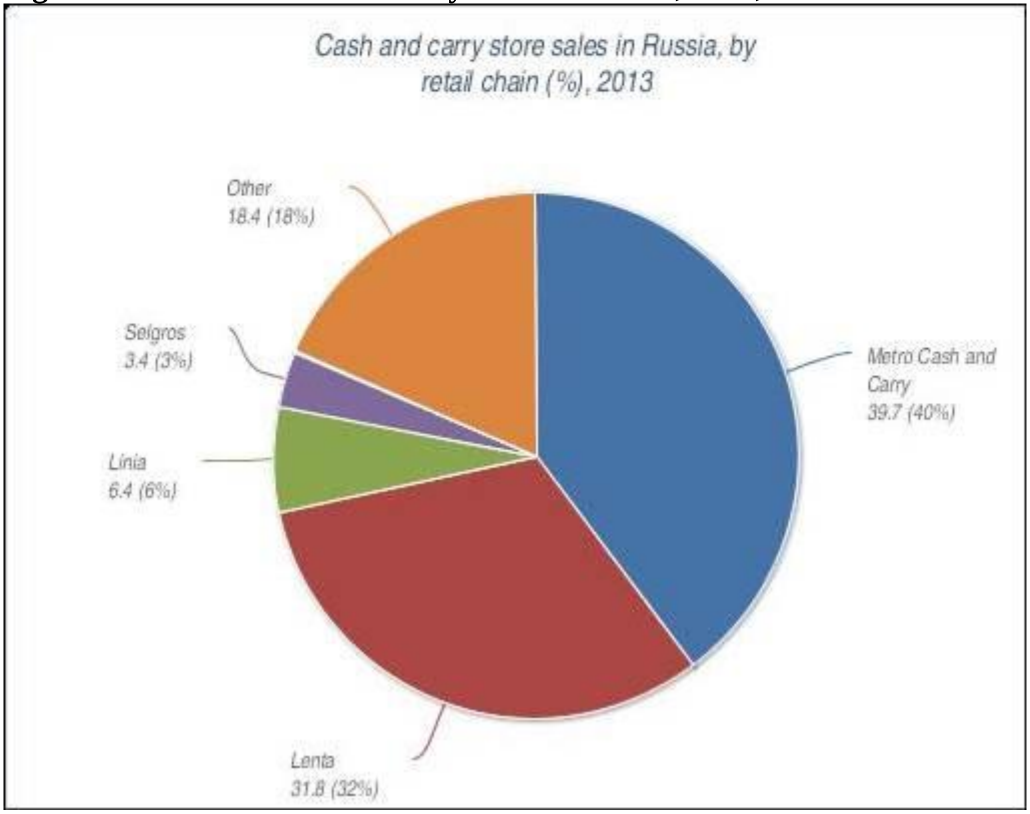
The company is considering opportunities for development in the regions of Russia via franchising. In the upcoming five years, Azbuka Vkusa plans to construct 15 shopping malls in Moscow region and Leningrad Province. The reason for the premium grocery retailer to enter into the development and construction market is the lack of premises suitable for the chain to develop. The shopping malls will be up to 4,000 m^2, with the retailer's supermarkets covering an area of 2,000 m^2. The rest of the space will be leased to tenants such as fast-food restaurants, laundry and dry-cleaning services, hairdresser services and others. Azbuka Vkusa is to launch two new formats in Moscow and Moscow Province. The new stores will operate as supermarkets and small fruit and vegetable stores under the working title of Fresh Market. The supermarkets will feature goods at prices lower than in traditional Azbuka Vkusa stores.

Cash & Carry

A retail outlet of roughly 8,000 sq. meters, working under the principles of small wholesaling (e.g. Selgros, Metro Cash & Carry). In 2013, cash and carry stores (retail sales only) increased their share in total grocery retail sales in Russia to 2.5 percent. In value terms, this translates into a segment value of $8.5 billion. Cash and carry stores are the fourth-largest format of organized retail in Russia, exceeding only the convenience store segment. Despite the fact that the cash and carry segment is marked by high levels of consolidation (the top two companies accounted for more than 70 percent of the segment in 2013), it is represented by all types of players, including large foreign chains (Germany-based Metro and Selgros) and national chains (St. Petersburg-based Lenta), as well as regional operators (Linia in the Central Federal District; Lakmin in Moscow and Tula Provinces), and local operators (Cash). There is considerable variation in store count (from one Cash store in Kaliningrad to 73 Metro stores all over the country).

Despite the active growth of strong players such as the Metro Group and Lenta and consistent development by smaller players such as Linia, cash and carry remains a less-developed format of organized retail in the country. It makes the segment attractive to new investors. Thus, Bix Box company, run by the former co-owners of Lenta Cash & Carry plans to establish a new cash and carry retail chain. In the upcoming three years, it plans to open 10 stores in the new format in St. Petersburg (during the first year, three stores will be built in the city). Each store will be about 14,000 m^2. The product range will include about 3,500-4,000 SKUs. The probable name for the chain is New Lenta (NL). The company has already acquired 10 plots in St. Petersburg and two in Moscow for the construction of cash-and-carry stores. The concept for the new chain will be similar to the one of U.S.-based Costco or Sam's Club. The format used by Costco and Sam's Club involves membership cards that cost $30-$100 annually and a narrow product range of up to 6,000 SKUs at a low-price premium (14 percent on average). The retail model is not represented in Russia at all. The target audience of NL stores will be small and medium-size companies. The stores will not offer products by well-known brands. On the opposite, the product range will focus on local suppliers.

Figure 8. Russia: Cash and Carry Sales in Russia, 2013, in %



Source: PMR, 2014

Profiles of Key Market Players:

Metro Cash & Carry
Metro Group
Address: 71G, Leningradskoye shosse
Moscow 125445
Tel. +7-800-700-10-77
Fax: +7 (495) 502-15-12
Website: www.metro-cc.ru

The Metro Group, one of the largest international retailing companies, entered the Russian market in November 2000 with the construction of the first Metro Cash & Carry store. The sales space of the chain's stores varies from 8,000 to 10,000 m^2. The product range includes up to 30,000 SKUs. The Metro Cash & Carry business targets the hotel, restaurant, and catering (HoReCa) market, kiosk operators, small food retailers, hospitals, small-to-medium enterprises (SMEs), etc. The company started to develop private labels in Russia in 2001 when it entered the market. The chain's private label portfolio includes six basic brands. They provide the chain's customers with complete solutions as a basis for their business. In 2013, the Metro Cash & Carry chain increased its store count to 73 compared to 62 in 2011, covering 45 regions of Russia. The sales of the Metro Cash & Carry retail chain in Russia increased from $5 billion in 2012 (including wholesale trade) to $5.6 billion. In September 2013, Metro launched its online store offering stationery and kitchen supplies in Moscow and Moscow Province.

Besides these activities, the company plans to arrange the delivery of food to HoReCa clients. The first market to welcome an online store will be Moscow and Moscow Province as well. The store operates in test mode, which is expected to end by Q1 2014. In coming years, Metro is planning to invest $750 million in Russia, according to a recent statement by the company CEO.

Lenta
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E-mail: pr@lenta.ru
Website: www.lenta.com

Founded in 1993, Lenta was the first store to operate in the cash and carry format in St. Petersburg. In 2008, the founder of Lenta sold his 35.4 percent stake in the chain to the American investment funds TPG Capital and VTB Capital. Later, in 2011, TPG Capital and VTB Capital increased their stake in the retailer to more than 70 percent. Today, the company positions the chain as a format combining the elements of classic retail large-format (hypermarkets), wholesaler (cash and carry), and discounter. Lenta has become one of the first companies to implement the concept of one-stop shopping in Russia: the stores in the chain traditionally provide services such as dry-cleaning, a box office, mobile communications, photo services, cafes, drugstores and travel agencies. A consumer may find everything needed for everyday consumption under one roof.

On average, Lenta cash and carry stores cover 7,000 m^2 of sales space. The company offers a product range of more than 20,000 SKUs in food and non-food items. The chain is developing a portfolio of private labels in different price segments. Thus, it offers more than 700 SKUs of foods under the private labels. In 2013 the number of net new openings reached 11 stores. As of December 2013, the chain consisted of 70 stores (excluding seven supermarkets). The company plans to invest $560-$700 million annually in the development of the chain up to 2016. The chain plans to open 18 new stores each year in the future.

Selgros
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Website: www.selgros.ru

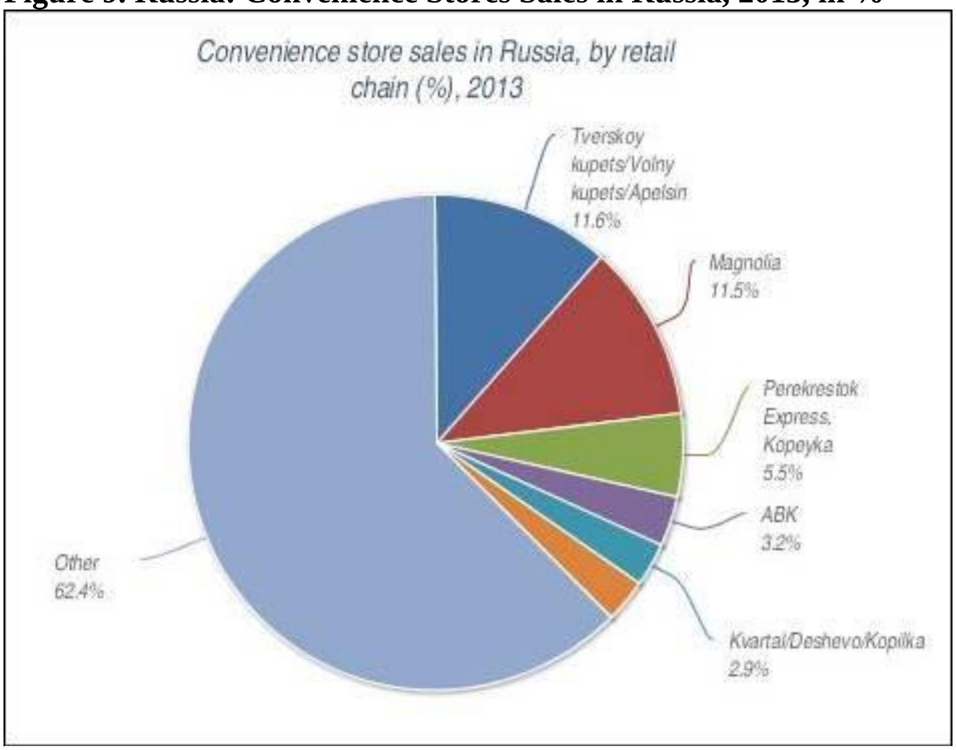
The Selgros retail chain operates in the typical format of a cash and carry. The sales space of a Selgros store can reach 10,000 m^2. The product range includes about 20,000 SKUs of food and non-food items (foods consist of more than 20,000 SKUs). The company opened an office in

Russia in 2006. Initially the chain belonged to the Rewe Group. In January 2011, Switzerland-based Coop took control of transGourmet Holding, which runs Selgros. The latest opening took place in Volgograd in the first quarter of 2014. It became the chain's eighths store in the country. In the short term, the company plans to build and launch new Selgros cash and carry stores in Moscow and in the regions of Russia.

Convenience Stores

Grocery retail chain outlets selling a wide range of groceries in a small sales space (up to 300 sq. meters), located in urban residential areas. The store serves the local neighborhood market, and is often open 24 hours. In Russia, such retail sales points are increasingly replacing neighborhood kiosks ("Magnit", "ABK", "Kvartal"). In 2013, the share of convenience stores in total retail sales in Russia decreased to 1.3 percent compared to 1.5 percent in 2012, according to PMR estimates. Sales in this segment are estimated at $4.5 billion in 2013. Convenience stores remained the smallest modern grocery format in the country, accounting for 4.4 percent of organized retailing. Compared to other formats, the convenience store segment has low levels of consolidation. The top six chains controlled over 37 percent of the segment in 2013. On the whole, the convenience format remains one of the most promising segments in Russia. It maintains prospects for development even in more saturated retail markets, such as Moscow. One of the factors stimulating growth of the convenience store segment in the capital of the country is government policy, according to which convenience stores (along with shopping centers with areas of less than 5,000 m^2) should be priority in trade system development in the city.

Figure 9. Russia: Convenience Stores Sales in Russia, 2013, in %



Source: PMR, 2014

Profiles of Key Players:

Magnolia
Address: 16 Berzarina
Moscow
Tel.: +7 495 921 32 34
E-mail: magnolia@tcfoods.ru
Website: www.mgnl.ru

The Magnolia Group is a chain of convenience stores operating in the Central Federal District of Russia since 2002. The stores in the Magnolia chain are usually located in areas of high population density and at key motorways. It provides a sustainable inflow of store visitors for Magnolia. All stores operate in a 24/7 mode. The product range of the Magnolia stores includes 5,000 SKUs on average. The Magnolia Group cooperates with more than 500 suppliers, though the share of each in the product mix does not exceed 5 percent. The range of Magnolia's own products includes more than 50 SKUs. Additionally, the company is developing a private label. In 2013, the estimated revenues of the chain reached $515 million.

ABK
Address: 51A Proyezd Shokalskovo
Moscow
Tel.: +7 495 363 92 92
E-mail: info@abk.ru
Website: www.abk.ru

The ABK grocery chain is operated by the ABK Group, which was founded in 1992. The sales space of the chain's stores varies from 200 to 350 m^2 (the total space of each store is over 250 m2). Traditionally, ABK stores are located uptown, close to residential areas. The average number of employees at each store is 15. Each store in the chain is equipped with three or four checkout stations. ABK's product range is about 4,500 – 5,000 SKUs. The company is developing private labels. ABK stores boast on average 1,157 visitors daily. The average purchase is $8.00. In 2013, the company's sales increased by 20 percent to $140 million, according to PMR estimates. As of December 2013, the chain included 37 stores in Moscow and Moscow Province.

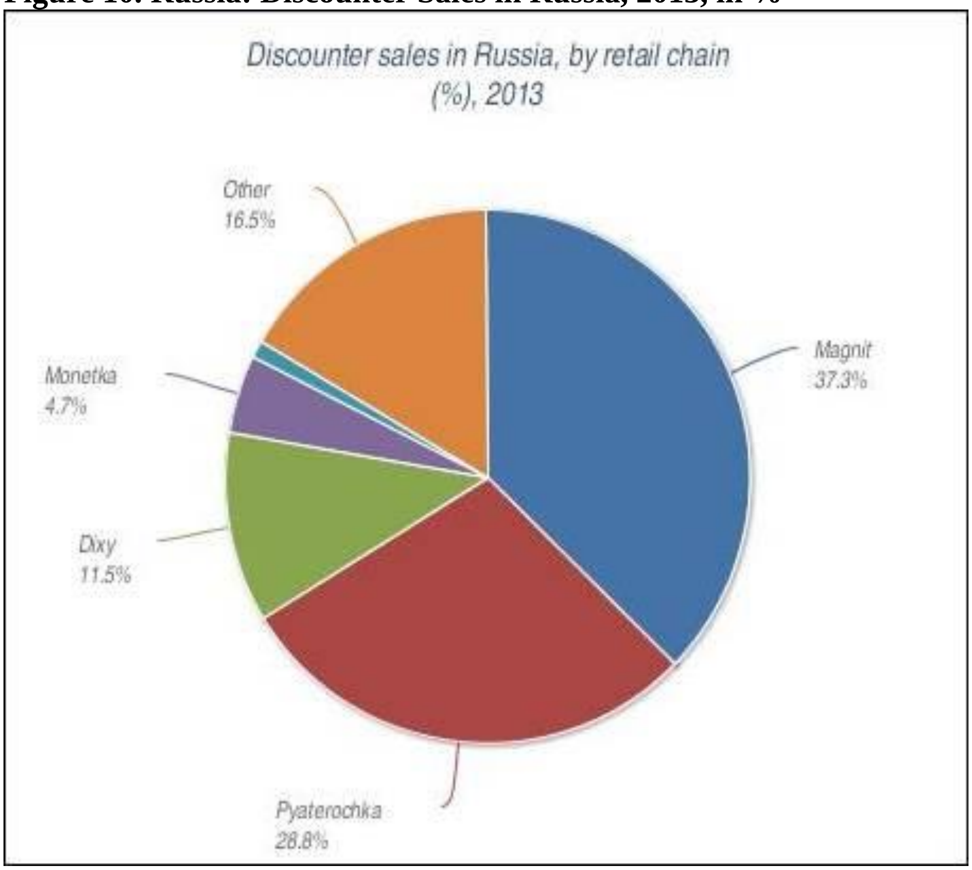
Discounters

A retail outlet with sales space from 300 to 1000 sq. meters, selling goods with a minimum margin from 5 to 7 percent, and whose assortment consists of 500 – 2,000 items with minimum of 50 percent share occupied by private labels. The major players in the discounter segment include local operators e.g. the X5 Retail Group (Pyaterochka), Magnit and Dixy Group (Dixy retail chain). In 2013, discounters increased their share of total grocery retail sales in Russia, reaching 11.2 percent compared to 10.5 percent in 2012. In value terms, this translates into an increase to $38 billion. Discounters accounted for 37.7 percent of organized retail which makes them the largest modern format in the country.

The discounter segment remains highly consolidated. The top five discounters controlled more than 83 percent of the segment in 2013. The leader of the segment, the Magnit retail chain, managed to increase its share in the segment from 35.2 percent in 2012 to 37.4 percent in 2013. As for the second-largest discount chain, Pyaterochka, its share decreased to 28.9 percent in 2013 (from 30.7 percent in 2012). The concept of discounters in Russia is diluted. Thus, several retailers developing stores that may definitely be referred to as discounter format actually position their chains as convenience stores. Examples of this include Magnit discounters (described as convenience stores by the retailer) and the Dixy retail chain (described as neighborhood stores by the company).

Further, the Russian market lacks pure discounters such as Lidl or Aldi, and all discounter chains present in the market may be referred to as soft discounters. However, the situation may change in the medium term as O'Key, which traditionally operates in the hypermarket format, made a decision to develop a hard discount chain. It registered the Da! trademark in October 2011 for this purpose. Investment in opening 100 discounters by 2016 is estimated at $500 million. It is expected that the first discounters by O'Key will appear in Moscow and Moscow Province in 2014.

Figure 10. Russia: Discounter Sales in Russia, 2013, in %



Source: PMR, 2014

Profiles of Key Market Players:

Magnit
OAO Magnit
Address: 15 Solnechnaya, 5
Krasnodar 350072
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E-mail: info@gw.tander.ru
Website: www.magnit-info.ru

The discounter format is the dominant format for the company providing 78 percent of its total revenues in 2013. The product range included 3,051 SKUs on average. Private label items accounted for 14.7 percent of retail sales. Magnit discounters are positioned as ground floor or freestanding stores open 12 hours a day/7 days a week and located within walking distance from home. The target group of discounters includes people living within 500 m of the store. The share of food products in the total sales of the chain stagnated in 2013: to 88.5 percent (in RUB terms) compared to 87.2 percent in 2010. The average purchase continued to increase in 2013 as well to $6.44. In 2014, the company plans to increase its discounters store count by 1,100 new stores (to nearly 8,300 at the end of the current year). Thus, Magnit aims to preserve its pace of active development.

Pyaterochka
X5 Retail Group
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Website: www.pyaterochka.ru, www.x5.ru

As part of the X5 Retail Group, Pyaterochka stores are positioned as soft discounters. Pyaterochka discounters offer about 3,500 SKUs on average on 364 m2 of selling space. The Pyaterochka discounter's concept implies convenient and efficient stores for everyday shopping with private label offerings and attractive promotions for the diverse low- and middle- income customer base. In 2013, Pyaterochka generated 65.4 percent of the net sales of the company. Thus, the chain's net sales reached $10.9 billion, demonstrating growth of 9.6 percent. Private labels generated 18.6 percent of net sales for the chain in 2013, around 50 percent more than a year earlier. In 2013, the company managed to open 662 discounters, thus the number of stores reached 3,882 stores by the end of the year.

Dixie
Dixy Group
Address: 47A Ochakovskaya, 1
Moscow 119361
Tel.: +7 495 933 14 50
Fax: +7 495 933 02 59
Website: www.dixy.ru

The first Dixy store was opened in Moscow in 1999. The average sales space of a Dixy discounter is 250-350 m2. The product range varies from 2,000 to 3,500 SKUs. By March 2014, the number of private label SKUs reached 113. In the first quarter of 2014, sales of private label products increased by one-third and accounted for around 2 percent of the chain's revenues due to the increasing recognition of the brand by consumers. By 2015, the company plans to increase the share of the private label to 15 percent which they plan to achieve by an outdoor and TV advertising campaign launched in 2014. By the end of 2013, the number of Dixy stores reached 1,681 nationwide.

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Website: www.shop.monetka.ru

The first Monetka store was opened in Yekaterinburg in April 2001. In its 10 years of operations, the company has managed to become one of the leading retailers in Yekaterinburg and in the Urals region. The company is developing its private labels. In June 2013, the founders of Kopeyka announced their intention to sell the Monetka retail chain in Moscow. The deal is estimated at $200 million. Negotiations with potential buyers have already started. For now, Magnit is considering the opportunity of taking over the Monetka stores. The chain in the Moscow region consisted of 92 stores as of June 2013, including 35 stores in Moscow city. The Monetka chain generated $1.8 billion in 2013. In total, the chain operated 550 stores at the end of 2013 and an online store.

Chibis
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Fax: +7 384 234 51 70
Website: www.sistemaregionmart.ru

The Chibis retail chain was established in Kemerovo (Siberian Federal District) in 1992. The company is developing stores in two formats -- discounter and hypermarket. Chibis developed private labels with more than 300 SKUs. Private labels account for 7.5 percent of the turnover of small-format stores and 5 percent of large-store sales. The company generated estimated revenues of $434 million in 2013.

Advantages and Challenges for U.S. Exporters

Successful U.S. businesses operating in Russia are those that find a local importer/distributor(s) that they can work with closely and are those that understand the local market (see below). Even successful companies need to remain engaged in the market and with their customers. For many staple products, domestic production meets demand. Certain imported food and agricultural products have difficulty competing with domestic products due to the high cost of foreign exchange, high import duties and/or difficultly with the regulatory framework and generally efficient production of unsophisticated food products. Companies from all over the world are looking at the Russian market to try and take advantage of improved market and/or regulatory access given Russia's recent WTO accession. Successful imports tend to be those that add to the variety of foods available on the market and products that are not grown in Russia or for which domestic production is insufficient to meet domestic demand.

Exporters should review some of the advantages and challenges of the Russian retail market (please see Table 2 below) when considering their marketing strategy.

Table 2. Russia: Advantages and Challenges for U.S. Exporters

Advantages	Challenges
Population of 143 million people who are potential consumers. The U.S. is the eighths largest supplier in Russia (by volume) of food and agricultural products.	The relatively low purchasing power of many Russian consumers, particularly in the regions, and the consequent lower demand for durable goods, and premium grocery and non-grocery goods.
Russia's retail sector is growing which creates a number of opportunities for prospective U.S. exporters.	Economic and political vulnerability, dependence on oil and mineral extraction for economic growth.
The ongoing development of the organized grocery retail industry will allow producers to route products to the market more efficiently.	Distance in Russia is one of the major barriers complicating logistics for retail chains.
Significant number of consumers can afford purchasing high-quality food products.	Per capita spending in the regions outside Moscow and St. Petersburg remains low.
Urban life style changes increase demand for semi-finished and ready-to-cook products.	Rapid development of local manufacturers of ready-to-cook products creates tough competition for similar imported goods.
American-made food and drinks are still new for the majority of the population, and popular among the younger generation.	Growing number of domestically produced generic products; lack of knowledge of American products.
In general, retailers are open to new products in order to attract customers.	Strong competition with suppliers of similar products from Russia and European Union.
Existence of large importers experienced in importing food products to Russia.	Corruption, difficulties in finding a reliable partner or distributor.
Paying in dollars is advantageous for exporting to Russia compared to Europe due to the lower cost of the Dollar relative to the Euro.	Russian government bureaucracy and grey market. Contradictory and overlapping regulations. Official government opposition to growth in food imports. Ruble devaluation.
Due to the accession to the WTO Russia is obligated to bind its agricultural tariffs, adding more predictability to the trading relationship and opening export opportunities for the U.S. agricultural industry.	Competition with food products imported from the EU and other countries may rise. Food sanctions' negative effect on trade.

To get more information on the market access changes for each key food products that occurred with WTO accession for the U.S. suppliers please see the report:

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

Private Labels

According to industry experts, the development of private labels was among the most important trends in retailing in Russia during 2013. It is expected that the largest Russian retailers will continue to take steps to boost the proportion of their value sales derived from private labels.

The development of Russia’s modern retail industry has led to an increase of the private label sales which still remained relatively low in Russia at the end of 2013. According to industry experts, the share of private label in packaged food in Russia remains between 3 and 4 percent. Most Russian consumers consider private labels as a low-cost and low-quality alternative to branded goods. However, the retailers continue developing and promotion of their private label assortment including basic products for which brand names are not particularly important e.g. bread, pasta, olive oil, frozen processed fish/seafood, and pastries. The leading players in sales of private label goods in Russia remain grocery retailers. During 2013, the Magnit and Auchan performed well in the area of private label in comparison with their rivals. Auchan is also now considered as the most effective retailer in terms of private label following the 2013 development of its Nasha Semya private label.

The majority of chained grocery retailers operating in Russia including Auchan, Metro, Spar and X5 Retail Group share the ambition to increase value sales of private label over the next two years. Overall, sales of private label generated higher growth rates than general retailing towards the end of the review period, while growth in value sales of private label is expected to be stronger through grocery retailers as the majority of large retail chains with the capacity to develop and market private label product lines are present in grocery retailers.

According to the leading grocery retailers, the most promising areas of growth for private labels in Russia are likely to be dairy products, consumer health, alcoholic drinks (especially spirits), and unpackaged/artisanal bakery products (especially products baked fresh by retailers in-store). However, in industries such as soft drinks (especially mineral water) Russia’s retailers are likely to be forced to reduce their private label activities. Packaged food and fresh food are expected to remain dominant in value sales of private label products in Russia over the future. (Source: Euromonitor international)

Organic, Healthy and Ready-to-Cook Products

Busier lifestyles, particularly in Russia’s largest cities, has created steady growth in demand for products such as chilled ready meals and frozen ready-to-cook products. As a result, supermarkets, hypermarkets, and independent grocery stores have improved offerings of chilled and ready-to-cook meals. In addition, a health-conscious trend has led to a greater offering of healthy, low-fat, salt-and sugar-free foods, fresh exotic fruits and vegetables. The assortment is wider particularly in large cities such as Moscow and St. Petersburg and in Vladivostok where fresh fruits and vegetables are available from the western United States and China. High-end supermarkets have begun to develop a range of organic foods, and some entrepreneurs have tried to develop supermarkets specializing in organic produce.

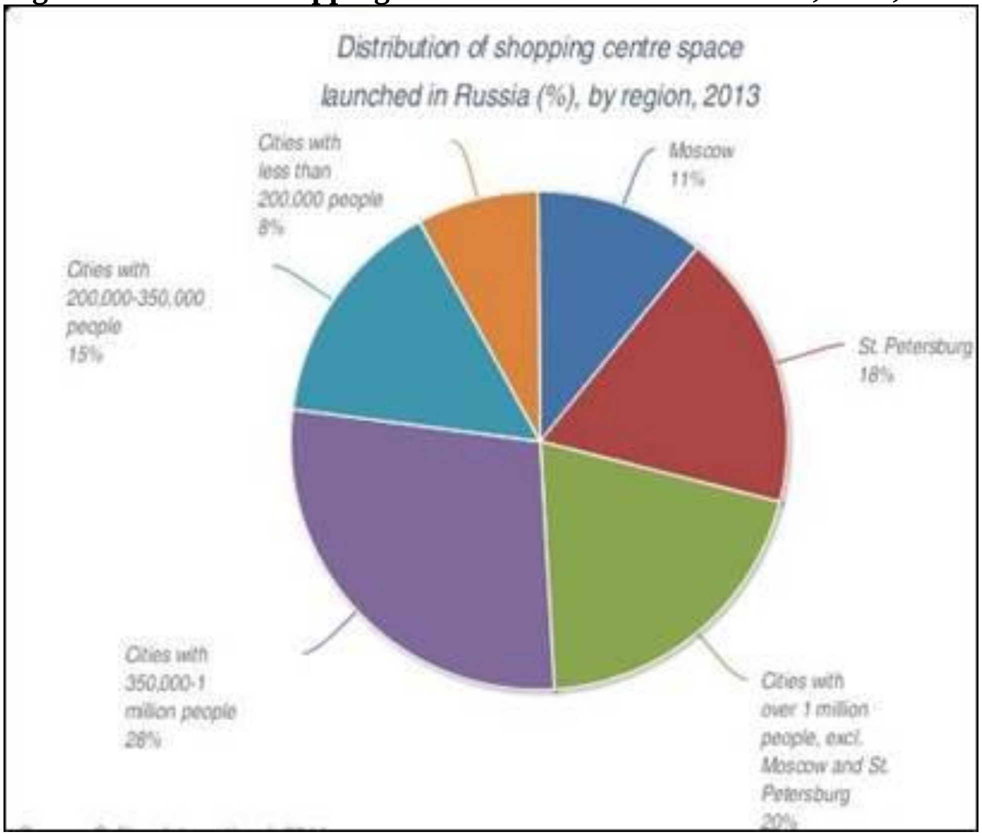
The demand for eco-brands and organic products is growing. In 2013, organic sales in Russia reached $135 million, up 12.8 percent compared to 2012 (Source: Euromonitor updated statistics). The Russian government continues to work on the legislation for organic products which expected to boost organic products sales in the future. For more information on Russian organic market legislation please see the Gain report: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/New%20Draft%20Organic%20Regulations%20Available%20for%20Public%20Comments_Moscow%20ATO_Russian%20Federation_9-12-2014.pdf

Shopping Malls

Consumers in urban areas prefer to spend less time shopping and consequently choose one-stop shopping malls. As a rule, shopping malls located in city centers have one or more cinemas, restaurants, grocery retailers, durable goods retailers, souvenir stores, cosmetic retailers and beauty salons. Some property developers also allocate space for sports and fitness clubs under the roof of a shopping mall. Local government authorities have recognized the advantages of megastores in cities and created a favorable environment for the rapid development of hypermarkets, megastores of all types and shopping malls. Shopping malls and megastores are appearing on the sites of former outdoor markets, which have been slowly vanishing.

During 2013 about 1.7 million m² of quality shopping center space were put on the market in Russia, expanding the total leasable area of quality shopping centers across the country to around 16.7 million m² by the end of the year. At the end of 2013, 31 shopping centers were operating in Russia, 14 of which were super regional mall modern retail projects developed by IKEA under the MEGA brand name. These malls are located exclusively in cities with populations of least 1 million inhabitants.

Figure 11. Russia: Shopping Centers Distribution in Russia, 2013, in %



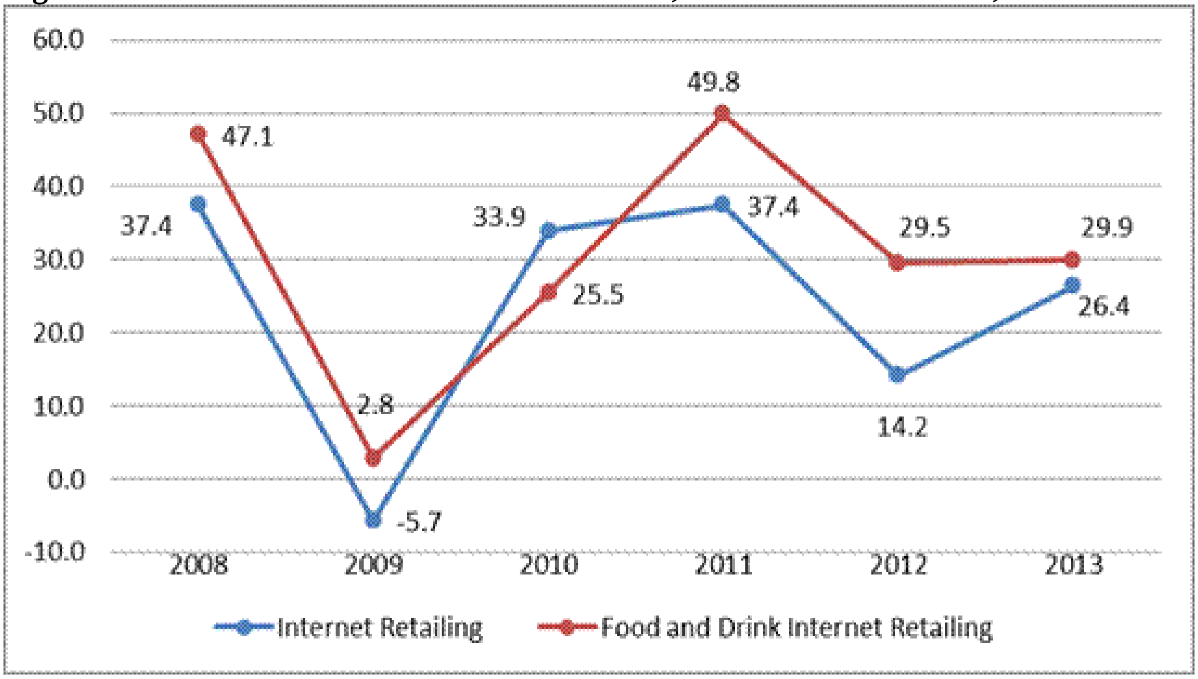
Source: Colliers International, PMR, 2014

Moscow remains the most important city for retail property developers in Russia. They are moving gradually to the regions with new projects but redevelopment initiatives are gaining ground in Moscow. As a result of a dwindling number of available high quality sites for new shopping centers in the city, developers have been obliged to go to the outskirts for new projects. In 2013, five new shopping centers were activated in Moscow. Outside Moscow and St. Petersburg, Krasnodar is the leading city in terms of shopping space saturation in Russia. The rental rates in Moscow's shopping centers are very high in the range of $500-$4,000 (per sq. m. per year) depending on the size of the retail unit and the type of retailer. In other Russian cities rental rates are 30 to 60 percent below Moscow or St. Petersburg levels.

Internet Retailing

In 2013, growth of internet retailing in Russia remained high and exceeded growth rates of store-based retailing. According to Euromonitor data, internet sales in Russia grew 26.4 percent valued at $14.8 billion in 2013. The number of online buyers in Russia has risen 30 percent to 30 million people, 70 percent of which are located outside Moscow (Source: Datalnsight research). The average bill of online sale is about $300. Experts estimate internet sales turnover will grow by 21 percent in 2014 to reach $18 billion.

Figure 12. Russia: Internet Sales from 2008-2013, Growth Year-on-Year, in %



Source: Euromonitor International from trade sources and national statistics, 2014

Some 57.3 percent of the Russian population was regular Internet users in 2013 - an increase from 53.3 percent in 2012. As in most countries, the under-35s are the largest drivers behind E-Commerce. Most consumers cite convenience, value for money and the potential for price comparisons as the main reasons for shopping online.

However, there are some obstacles to the faster development of internet sales in Russia. Many consumers are highly skeptical of making purchases online and are uncomfortable with transactions in which they cannot inspect products beforehand. The logistical challenges of home deliveries remain unsolved. The federal mail system has a poor reputation for parcel service and the market for home delivery has been too small for large parcel delivery services to expand nationwide. It is still true that Russian consumers do not trust e-payments. Only a few customers complete payment transactions online with cash payments on delivery still the most common payment method. Only 10 percent of E-shops offer the option to pay by debit/credit cards. A potentially major obstacle of the internal sales development is the 30 percent tax levy being considered by the Russian state on all goods valued at over $200 imported by foreign online retailers, which the government announced in early 2014.

Russian consumers mainly shop online for non-grocery products. An industry survey found that only 20 percent of Russian online customers order household shopping (food, drinks, cleaning goods) from a website. There is a general feeling among the wider population that physical goods such as foods have to be seen and touched in order to determine their quality with consumers simply not trusting businesses enough to order them virtually. It is still perceived to be less stress and less time consuming to visit the local supermarket than to shop for groceries online. However, significant annual growth of food and drink internet sales in recent years shows that online grocery retailing has great potential. In 2013, online grocery market in Russia was worth $457 million and accounted for 3.1 percent of total internet sales.

Table 3. Russia: Internet Sales from 2009-2013, in Million USD

Category	2009	2010	2011	2012	2013	Growth, % 2012/2013
Internet Retailing	4,947	6,640	9,125	11,737	14,839	26.4
Food and Drink Internet Retailing	136.8	172.2	258	351.5	456.7	29.9

Source: Euromonitor International from trade sources and national statistics, 2014

Utkonos remains the leading player in the internet retailing of grocery products. According to Utkonos estimates, the company accounted for between 70 and 80 percent of all grocery products ordered online in Russia during 2013. In addition, since closing all of its store-based retail outlets in early 2013, Utkonos has focused exclusively on internet retailing. Despite the difficulties they face, it is expected that competition will become increasingly intense in the internet retailing of grocery items in Russia during the forecast period. The leading players in the store-based retailing of groceries are expected to take steps towards developing internet retailing websites, posing high levels of competition to the internet retailers which already offer groceries online.

Internet retailing is expected to increase in value at a CAGR of 14 percent in constant 2013 terms over the forecast period, rising to $28.6 billion in 2018. (Source: Euromonitor International)

Legislation Regulating Retail Trade

The Russian Federal Law on Trade came into force on February 1, 2010. This law is aimed at creating transparent conditions for cooperation between domestic suppliers and retailers and boosting competition in the retail sector. The law contains strict antimonopoly regulations, such as capping store openings once a retailer reaches a 25 percent market share threshold within a city or municipal region, a 10 percent limit on bonuses paid to retailers by suppliers, and payment terms regulating how fast a retailer has to pay for goods with a certain shelf life, among other provisions. For more information on Russian Federal Law on Trade please see Gain Report:
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/The%20Russian%20Federal%20Law%20on%20Trade%20_Moscow%20ATO_Russian%20Federation_8-30-2010.pdf

Legislation is one of the factors which have influenced the shift towards modern grocery retailers in Russia. Specifically, state control of the sale of tobacco and alcoholic drinks has been tightened. From January 1, 2013, beer is no longer allowed to be sold after 11 p.m. in any retail outlets, while the sale of beer is now completely forbidden in retail outlets with less than 50 square meters. of total selling space. A ban on the sale of cigarettes through kiosks came into force on June 1, 2014 and this, combined with the restrictions placed on the sale of beer, has already resulted in a number of traditional grocery retailers closing down, with many more likely to close down during the future. (Source: Euromonitor International)

SECTION II. ROAD MAP FOR MARKET ENTRY

The World Bank's Ease of Doing Business 2014 report ranked Russia 94 out of 185 countries (in 2013, 111 out of 183). It takes 7 procedures and 15 days in Russia to open a business. However, the cost of starting a business in Russia is low: only 1.3 percent of per capita income, compared to an average of 8 percent of per capita income in the Eastern Europe and Central Asia region.

USDA/FAS Services

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

- A prospective entrant is advised to estimate market prospects for their product with respect to consumer preferences and incomes, local competition and sales channels (marketing research from a specialized consulting firm may be required). A thorough review of Russian regulations is also advised including a review of any changes to the tariff post-WTO-accession.

- One of the main challenges to exporters entering the Russian market is product promotion. A cost-effective way exporters can promote their products is to participate in one of the largest general food and beverage trade shows in Russia, World Food Moscow, held annually in September. If exporters are targeting specific regions within Russia, the Moscow ATO recommends participating in regional exhibitions. Participation fees for regional exhibitions are lower, and are aimed at local consumers and retail food chains. The Russian retail market is competitive; exporters should allocate time to visit Russia and earmark funds in their sales plans for local promotional support.

- Selecting the right trade partner is one of the most important decisions for exporters developing their business in Russia. Working with a local partner in Russia significantly expands business opportunities, and minimizes the need for exporters to establish direct contact with multiple retail chains. A local Russian partner familiar with market conditions and the regulatory environment can help exporters navigate the Russian retail market, resolve issues, and increase the likelihood of success.

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

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

- Provide Sales Support: Exporters must help market the products they sell in Russia. Russian importers and wholesalers expect exporters to participate in the sales process, either by providing event marketing support, advertising assistance, training, packaging/handling advice, or point of sales materials.

- Establish a Representative Office: Once a company has established firm contacts and has a solid prospect for sales, one of the best ways to conduct business in Russia is to open a representative office. Depending on the product and target market, an office might be situated in Moscow, a city that hosts a large concentration of retailers and representative offices; St. Petersburg, the port city through which the largest volume of sea-borne freight passes; or Vladivostok, the principal transpacific gateway to the Russian Far East.

Distribution Channels

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

Imported products arrive in Russia via land, sea, or air freight into ports or customs warehouses for clearance before proceeding to the next destination. The transportation system for shipping U.S. high value food products into Russia via St. Petersburg and Moscow is well established. Most consumer-oriented food and beverage products enter through St. Petersburg or Moscow for customs clearance. Transit time from the U.S. to St. Petersburg ranges from 20 days to 27 days with an additional four days shipping time for final delivery by rail or truck to Moscow.
Most American products are delivered to the Russia in containers by sea and around 90 percent enter via the Port in St. Petersburg. MAERSK LINE, APL, OOCL, Hapag Lloyd, Evergreen, CMA-CGM shipping lines deliver cargos from the United States to Rotterdam, Hamburg, or Bremerhaven in Northern Europe.

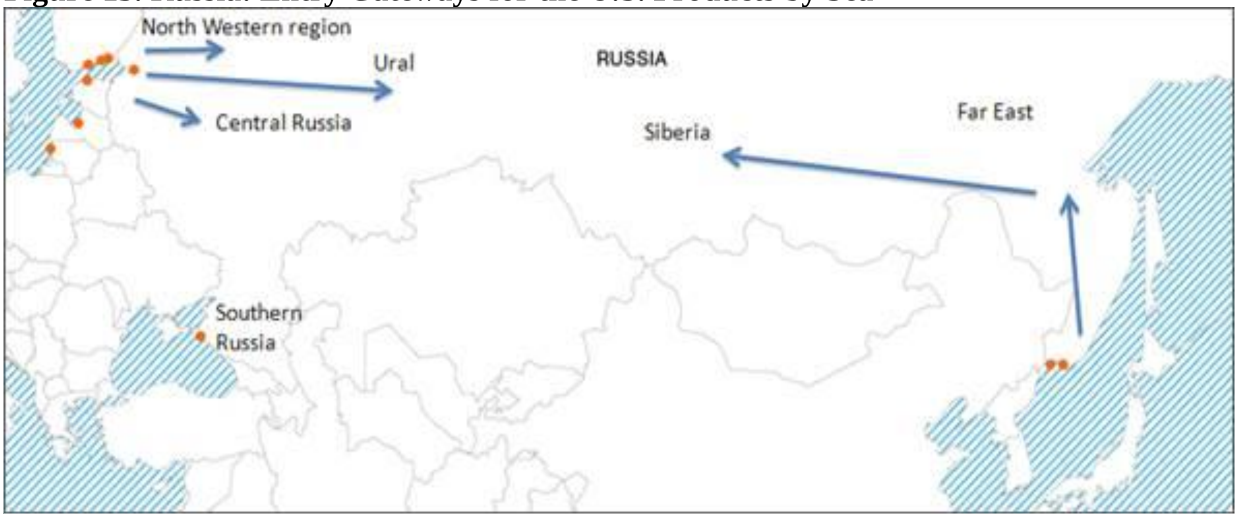
The transatlantic shipment can take from 17 to 30 days depending of the departure port and number of ports the vessel calling on the way to Europe. In Northern European ports, the containers are reloaded onto feeder vessels and travel an additional five days to St. Petersburg. It then takes an additional four days shipping time for final delivery by rail or truck to Moscow.

Outside of Russia, imports are also delivered to Baltic ports and then shipped by truck or rail to St. Petersburg or Moscow. Baltic and Finnish ports had offered greater efficiency, fewer problems with loss or damage, and lower port fees. However, changes in Russian import requirements have largely redirected these shipments to Russian ports: St. Petersburg, Ust-Luga, Vysotsk, Kronshtadt, Novorossiysk and Vladivostok.

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

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

Figure 13. Russia: Entry Gateways for the U.S. Products by Sea



Source: SVT Group

Currently several forwarders make shipments from the U.S. west coast to Vladivostok: Hyundai Merchant Marine, MAERSK LINE, APL, and Hapac Loyd. Average transit time from the U.S. west coast to Vladivostok takes 18 days: ocean vessels bring containerized goods to the Korean Port of Pusan (it takes 9 to 13 days), then, feeders transfer them to the Port of Vladivostok (it takes 4 to 7 days). MAERSK LINE has a longer transit time, though Japan, before stopping in Korea (Pusan). In 2008, FESCO transportation company launched a direct line from Everett, Washington to Russian Far East ports (Vladivostok, Korsakov, Petropavlovsk, and Magadan). Direct voyages are scheduled approximately once per month and the average transit time is 14 days. From Vladivostok food products are shipped to the other cities in the RFE and Siberia by truck or rail.

Figure 14. Russia: Distribution Channel for Supermarkets, Import of Transatlantic

Products via the Port of Greater St. Petersburg

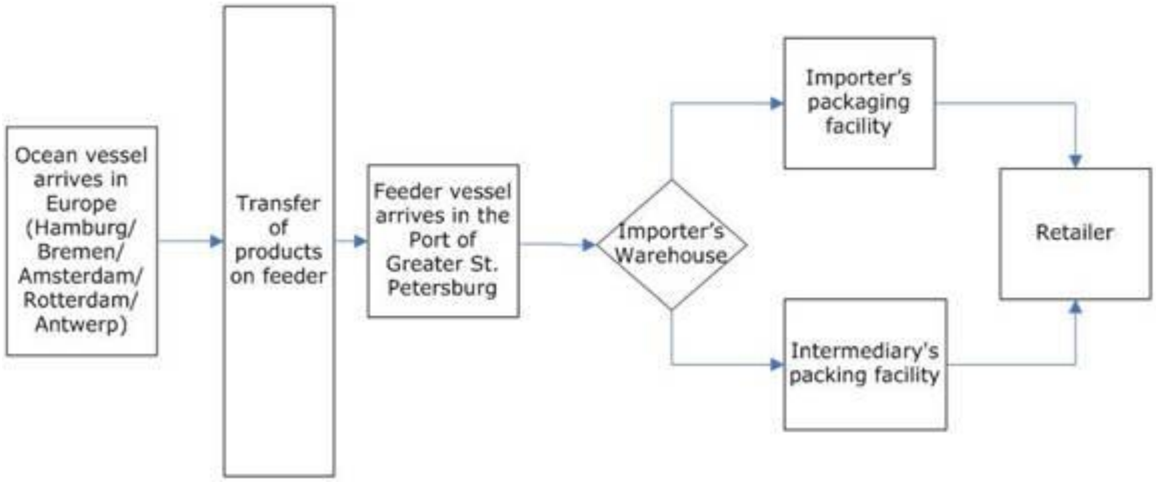
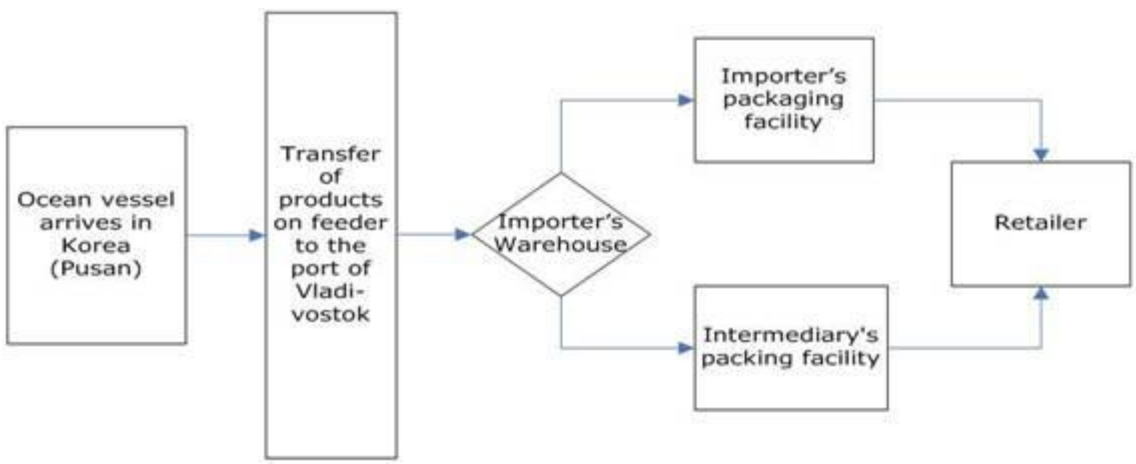


Figure 15. Russia: Distribution Channel for Food Retail Chains, Delivery from U.S. to the Russian Far East



Company Profiles:

Table 4. Russia: Major Retail Chains, 2013 (Retail Value excl. Sales Tax)

Retailer name and outlet type	Ownership	Sales, $US Mln.	No. of outlets	Locations
Magnit, convenient stores & hypermarkets	Magnit OAO, local	18,278	7,355	Moscow, St. Petersburg, and Russian regions
Pyaterochka, supermarkets	X5 Retail Group NV, local	12,253	3,691	Moscow, St. Petersburg, and Russian regions
Auchan, hypermarkets	Auchan Group SA, French	7,366	55	Moscow, St. Petersburg, and Russian regions
Metro Cash& Carry, hypermarkets	Metro AG, German	5,373	70	Moscow, St. Petersburg, and Russian regions
Lenta, hypermarkets	Lenta OAO, 60 percent local, 40 percent U.S.	4,990	75	North-Western Russia and Siberia
O'Key, hypermarkets	Dorinda Holding SA, Luxemburg, local, Estonian	4,364	99	St. Petersburg, Moscow and Russian regions
Dixie, supermarkets	Dixie Group OAO, local	4,229	1,480	Moscow, St. Petersburg and Russian regions
Perekriostok, supermarkets	X5 Retail Group NV, local	3,492	371	Moscow, St. Petersburg and Russian regions
Karusel, hypermarkets	X5 Retail Group NV, local	1,967	78	Moscow, St. Petersburg and regions
Maria Ra, supermarkets	Maria Ra PKF OOO, local	1,619	562	Siberia
Monetka, supermarkets	Element-Trade, local	1,540	556	Yekaterinburg, Ural region
Spar, supermarkets	Internationale Spar Centrale BV, Dutch and local	1,396	311	Moscow and Central region
Sedmoi Kontinent, supermarkets	Sedmoi Kontinent, local	1,146	139	Moscow, St. Petersburg, Kaliningrad and Minsk
Atac, supermarkets	Auchan Group SA, French	1,074	100	Moscow and Russian regions
Giperglobus, hypermarkets	JR east Retail Net Co Ltd, German	1,047	6	Moscow region
Krasnoye & Beloye	Labirint-S OOO,	932	832	Russian regions

	local			
Liniya, hypermarkets	Korporatsiya GriNN ZAO, local	921	23	Russian regions
SemYa	Intertorg TD OOO, local	881	231	Moscow, St. Petersburg and Russian regions
Nash Gipermarket	Sedmoi Kontinent, local	876	23	Moscow and Russian regions
Billa, supermarkets	Billa Russia (Rewe Group), German & local	790	100	Moscow and Central region
Azbuka Vkusa, high-end supermarkets	Gorodskoy Supermarket, local	774	59	Moscow and Moscow region
Auchan City, supermarkets	Auchan Group SA, French	696	20	Moscow and Moscow region, St. Petersburg, Novosibirsk, and Yekaterinburg
Kirovsky, supermarkets	Kirovsky Supermarket, local	687	143	Yekaterinburg, Ural region
Prisma, hypermarkets	S Group, Finnish	593	19	St. Petersburg
Victoria Kvartal, supermarkets	Dixie Group, local	494	32	Moscow, St. Petersburg, Kaliningrad and regions

Sources: Euromonitor International, company reports and websites, PMR data

SECTION III. COMPETITION

Many U.S. exporters face heavy competition among other foreign suppliers for the Russian market. The European Union enjoys a logistical advantage due to its proximity and ability to ship product overland as well as by air and sea. In addition, the Government of Russia has a program of domestic support for domestic producers of food products and a complex system of sanitary and phytosanitary requirements for imported foods. Production of dairy and meat products (sausages, smoked foods), soft drinks, mineral water, juices, beer, confectionery, various appetizers, and chilled chicken meat is still on the increase. Belarus and Kazakhstan, which share a common customs zone with Russia, enjoy duty-free access to the Russian market. Therefore, their agricultural products do not appear in Russia’s import statistics. Many imports from the EU and the United States cannot compete on price with regional goods. There is also increasing political pressure on retailers to buy locally. The food sanctions will also affect the U.S. suppliers of fruit, meat and poultry products.

Table 5. Russia: Top 10 Origins of Agricultural Products* Imports 2011-2013, $US Mln.

Country	2011	2012	2013	% Market Share, 2013	% change '12-'13
--The World--	36,301	35,053	35,685	100.00	1.80
Brazil	3,825	2,797	2,899	8.12	3.65
Germany	2,605	2,229	2,066	5.79	- 7.35
Netherlands	1,966	1,772	1,978	5.54	11.64
Ukraine	1,941	1,929	1,863	5.22	- 3.40
Turkey	1,528	1,476	1,693	4.74	14.71
Poland	1,020	1,297	1,587	4.45	22.35
United States	**1,510**	**1,963**	**1,503**	**4.21**	**- 23.42**
China	1,491	1,361	1,434	4.02	5.33
Italy	1,275	1,263	1,424	3.99	12.80
France	1,295	1,297	1,387	3.89	6.92

Source: Global Trade Atlas, 2014
****Agricultural Total***

Table 6. Russia: Main Delivery Sources and Volumes of Specific Product Import, 2013

Commodity	Rank	Country	% Share*	Strength of Key Supplying Countries	Advantages and Disadvantages of Local Suppliers
Fresh Fruit					
Net imports, MT 5.9 million	1	Ecuador	16.7	Countries of South Africa, Spain, Morocco, Turkey supplies citrus fruit at low prices. Ecuador has an almost 100 percent market share in bananas.	Lack of storage facilities; low cost of local products
	2	Turkey	14.6		
Dollar value 5.63 billion	3	Poland	8.3		
	4	Spain	6.6		
	5	China	5.0		
	6	South Africa	4.5		
	7	Egypt	4.4		
Fresh Vegetables					
Net imports, MT 2.3 million	1	Turkey	21.9	High quality of vegetables produced in Western European countries, low prices for the products originated from neighboring	Lack of modern storage and processing facilities; unpredictable quality
	2	China	13.5		
Dollar value 2.56 billion	3	Netherlands	10.3		
	4	Israel	9.4		
	5	Spain	9.3		
	6	Poland	7.2		
	7	Iran	4.5		
	8	Morocco	4.2		

				countries and China	
Pet Food					
Net imports, MT 104,755	1	France	22.8	Import of well-known pet food trademarks to Russia dominate in low-cost segment. U.S. brands are perceived as high quality	Traditionally high number of home pets, large market potential; low demand for industrially produced pet food
	2	Netherlands	18.6		
Dollar value 248 million	3	Germany	11.7		
	4	Italy	9.4		
	5	Canada	6.2		
	6	Austria	5.7		
	7	Thailand	4.0		
Poultry					
Net imports, MT 439,432	1	United States	49.9	U.S. product is much cheaper; Brazil has a price advantage in whole birds, and the EU in geographical proximity	TRQs; local producers can supply chilled product at good prices; local production of chicken is growing
	2	Brazil	21.8		
Dollar value 668 million	3	Ukraine	11		
	4	France	3.4		
	5	Hungary	2.4		
	6	Argentina	2.0		
	7	Poland	1.7		
Processed Fruits and Vegetables					
Net imports, MT 1.4 million	1	China	17.2	Well established trade relations and well known trademarks; low price of products	Local producers quickly update the facilities; availability of cheap raw materials, popularity of traditional local brands
	2	Poland	12.7		
Dollar value 1.52 billion	3	Spain	8.2		
	4	Ukraine	7.4		
	5	Thailand	4.7		
	6	Turkey	4.4		
	7	Chile	4.2		
	8	Hungary	3.3		
Rice					
Net imports, MT 218,495	1	Vietnam	32.8	High quality and low prices in Asian rice which dominate on the market; U.S. short grain rice is popular in sushi restaurants	Limited list of rice varieties grown in Russia, lack of modern processing equipment
	2	Myanmar	18.8		
Dollar value 126 million	3	Thailand	11.2		
	4	Pakistan	10.2		
	5	India	7.8		
	6	United States	7.3		
	7	China	3.3		
	8	Italy	3.3		
Red Meat (fresh, frozen, chilled)					
Net imports, MT 1.4 million	1	Brazil	35.1	Lower prices and good quality of Brazilian meat	Local supplies are not stable in quality and not
	2	Paraguay	12.8		

Dollar value 5.1 billion	3	Denmark	7.1		uniform, lack of high-quality domestic beef
	4	Germany	6.5		
	5	Canada	4.9		
	6	Australia	3.7		
	7	Argentina	3.5		
	8	Uruguay	3.5		
	9	Spain	3.1		
Salmon					
Net imports, MT 147,238	1	Norway	81.35	Norway supplies high quality product and exporters use state promotion programs	Outdated cold storage facilities and fleet, outmoded processing facilities, problems with securing quotas for fishing in international waters
	2	Chile	14.7		
Dollar value 884 million	3	Faroe Islands	1.8		
	4	Canada	0.5		
	5	Denmark	0.4		
	6	United Kingdom	0.3		
	7	Estonia	0.3		
	8	Lithuania	0.2		
Fish and Seafood					
Net imports, MT 965,578	1	Norway	37.9	Norway supplies a wide range of high quality products and ensures regular deliveries	Outdated cold storage facilities and fleet, outmoded processing facilities, problems with securing quotas for fishing in international waters
	2	China	11.0		
Dollar value 3 billion	3	Iceland	9.0		
	4	Canada	5.8		
	5	Faroe Islands	3.8		
	6	Vietnam	2.8		
	7	United States	2.6		
	8	Thailand	1.9		
Snack Foods					
Net imports, MT 321,590	1	Ukraine	37.8	Low delivery costs from Ukraine and EU countries because of the geographical proximity, therefore, product prices in retail are lower	Many producers; lack of modern processing facilities
	2	Germany	13.7		
Dollar value 1.15 billion	3	Italy	8.1		
	4	Poland	7.7		
	5	Belgium	4.7		
	6	Netherlands	4.0		
	7	Turkey	2.4		
	8	China	2.4		
Tree Nuts					
Net imports, MT 73,081	1	United States	47.8	Iran, Turkey strong in	Lack of large-scale industrial
	2	Iran	13.0		

Dollar value 384 million	3	Vietnam	12.5	supplying hazelnuts and pistachios at low prices, Azerbaijan key hazelnut supplier; USA strongest almond supplier	production of nuts; intensively developing confectionery industry.
	4	Turkey	8.4		
	5	Azerbaijan	3.4		
	6	Philippines	3.0		
	7	Indonesia	2.0		
	8	Ukraine	1.9		
	9	Chile	1.1		
Wine and Beer					
Net imports, L 774 million	1	Italy	29.8	European wines occupy the upper segment and are perceived as high quality; beer imports negligible	Low prices; poor positioning of high quality, vintage wines; traditional preference for sweetened wines
	2	France	18.0		
Dollar value 1.53 billion	3	Ukraine	8.9		
	4	Spain	7.3		
	5	Germany	5.3		
	6	Georgia	5.3		
	7	Chile	3.3		
	8	Abkhazia	2.6		
	9	Moldova	2.4		

Source: Global Trade Atlas, 2014

*** If U.S. is not listed, share is less than 1 percent**

SECTION IV. BEST PRODUCT PROSPECTS

According to Russian customs statistics, U.S. agricultural imports in 2013 accounted for $1.6 billion – a figure that is down by 21 percent compared to 2012, primarily due to lower sales of red meat products. The U.S. is the eighth largest supplier (fifth in 2012) to Russia by value of agricultural, fish and forestry products with 4 percent of Russia's agricultural imports behind Brazil, the European Union, China, and others (please see Appendix Statistics, Table C). The U.S.'s top agricultural exports to Russia in 2013 included: live cattle, poultry, food preparations, nuts (almonds, pistachios and peanuts), soybeans, prunes, fresh fruit, fish and seafood.

Russia's accession to the World Trade Organization (WTO) has helped to bring some of the country's legal and regulatory regimes closer in line with internationally accepted practices. Also, while Russia's stated goal to be self-sufficient in categories such as meat and dairy products may, to some extent, limit U.S. exports of those products, these goals may also create new opportunities for U.S. exporters to supply high protein feeds and animal genetics.

On August 6, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway as a result of the implementation of economic sanctions against Russia due to events in the region. The ban took place immediately, according to the decree, and will be valid for 1 calendar year.

The list of agricultural products on the banned list include beef, pork, poultry, fruits, vegetables, fish, seafood, cheese, milk and a variety of other products. Once the ban is lifted, Post believes that the products listed below will once again be the best sub-sector prospects in the Russian market.

Sub-Sector Best Prospects Includes:

Animal Genetics

While Russia's stated goal to be self-sufficient in categories such as meat and dairy products may, to some extent, limit U.S. exports of those products, these goals may also create new market opportunities for U.S. exporters to supply high protein feeds and animal genetics. The Russian government has adopted several plans to stimulate development of the dairy, poultry, pork, and beef sectors. As market access for meat and poultry continues to be limited through quotas and/or the imposition of trade restrictive SPS measures, the demand and opportunity for higher quality animal genetics is expected to continue to grow. Demand exists for both dairy cattle, specifically registered Holsteins, as well as beef cattle, particularly Angus.

For example, Russian government subsidies and current development projects facilitated the import of 37,725 head of cattle in 2010, 94,468 in 2011,137,613 in 2012, and 96,826 in 2013, from around the world. The United States is well-positioned to be a major supplier into the future, especially for producers seeking the best genetics in the global market. The United States was the largest exporter of live bovine animals to Russia in 2013 and the market also continues to grow for semen and embryos.

In addition, hatching eggs and chick exports to Russia remain important for the expanding Russian poultry and egg sector, and, as a result, most import tariffs are set at zero. Swine genetics also remain an area of opportunity.

Edible Tree Nuts

Russia's commercial nut production is limited to pine nuts and, therefore, Russia is entirely dependent on imports for all other tree nuts. In 2013, imports of tree nuts reached 73,081 metric tons (MT) valued at $384.4 million – down 18 percent in volume and down 10 percent in value compared with 2012. The overall drop in 2013 resulted from a bad harvest of pistachios in Iran – a major supplier to Russia. The Russian tree nut market is far from saturated and has good potential for further expansion. Per capita tree nut consumption is only around 0.69 kilograms (kg) including imported sweetened nuts and seeds, which is significantly lower than consumption levels in European countries, the United States, Japan, and China. According import statistics, the most popular nut in Russia is the almond (25 percent of the market in volume terms), followed by pistachio (20 percent), hazelnut (14.5 percent), coconut (12 percent), walnut and cashew (10 percent each).

The major suppliers of tree nuts to Russia are the United States (almonds), Iran (pistachios), Indonesia (coconuts), Turkey (hazelnuts), Ukraine (walnuts), and Vietnam (cashews). In 2013, the United States was the largest supplier of tree nuts to Russia with a 40 percent market share of which the U.S. had 90 percent share of almonds and 16 percent of pistachios. U.S. sales in calendar year (CY) 2013 grew by 28 percent to a new record of $184 million. The best prospects for American tree nuts exports to Russia are as follows:

Almonds: Russia imports roughly 90 percent of all its almonds from the United States on any given year. In CY 2013, U.S. almond sales exceeded $125 million setting a new record. The trend is expected to continue driven by growing demand from the confectionary, bakery, and other food processing industries (consuming 65 percent of shelled almonds) and growing consumption of nuts as a healthy snack leading to sales of high grades of shelled and in-shell almonds.

Pistachios: Russia is one of the largest importers of pistachios in the world in 2013, with market volume at 12,474 MT valued at $107 million. Virtually all imported pistachios are in shell, most of which goes to snack packing or sold "loose" via retail. The popularity of pistachios as a snack product, along with rising incomes, in Russia are driving the demand for quality pistachios and offers a great opportunity for U.S. pistachio exporters. Iran is the main supplier of pistachios with roughly 75 percent market share followed by the United States. In 2013, U.S. sales grew by over 46 percent reaching 5,528 MT valued at more than $55.5 million – a new record. Growth in this market is expected to continue as Russia's confectionary and food processing sectors continue to develop. However, American pistachios sales are directly affected by the crop situation in Iran, the main supplier of pistachios to Russia.

Pecans: In 2013, Russian imported 534 MT of pecans valued at $4.7 million, up 288 percent compared to the previous year – a new record. Mexico and the United States are the main suppliers with close to 50 percent share. Due to high prices for pecans compared to other nuts as well as insufficient knowledge about nutrition and application options for pecans in the confectionary industry, demand is somewhat unstable. However, taking into account growing interest in high quality natural ingredients in Russia, increased pecan exports are expected especially with greater informational outreach to the confectionary industry and consumers.

Fish and Seafood: During CY 2013, Russia's imports of fish and fish products reached almost $3 billion, a 16 percent increase from 2012. Fish and seafood exports from the United States to Russia rebounded significantly in 2013 and reached a record $77 million, double the level of 2012. The increase in imports from the United States is mostly attributed to higher imports of salmon roe due to better than expected harvest of salmon in Alaska. Salmon roe imports from the United States reached $33.4 million in 2013, accounting for a market share of 43 percent share of all fish and seafood imports from the United States. In addition to salmon roe, the other major fish species imported from the United States to Russia include: Alaska Pollock, Frozen (HS30494), with a market share of 16 percent or $12.5 million, frozen hake (HTS 030366), equating to 11.5 percent of U.S. fish and seafood trade to Russia, followed by Fish meat, Frozen (HS030499) with 4.6 percent share. The U.S. still currently supplies only about 2 percent of total fish and seafood products to Russia, which indicates that there is massive room for growth. . Because of this growing market, U.S. fish and seafood producers will continue to be able to find new market opportunities in Russia as consumers' incomes rise, demand continues to boom, and consumer habits continue to change.

The importation of high value seafood, such as cold-water shrimps and prawns, live lobsters and cuttle fish has also significantly increased, due to consumer preference and rising incomes. Fish consumption patterns will continue to depend heavily on household income, prices, and preferences within the population. Russian consumers tend to prefer the following: herring, pollock, mackerel, salmon and trout. Frozen fish is also traditionally popular in Russia.

Fresh Fruit (Apples, Pears, Grapes, Citrus): Russia is the world's 2rd largest importer of fresh fruits and is the largest import market for apples and pears. In 2013, Russian imports reached $5.63 billion - a 1.8 percent increase compared with 2012. The United States exported 22,788 MT of fresh fruits to Russia valued at $33.7 million, up 43 percent in volume and up 47 percent in value compared to 2012. Apples, pears, grapes, and pomegranates are the major fruits varieties that traditionally come from the United States, and, if priced appropriately for the market, have opportunities for expansion.

Fruit sales in general are on a long term steady increase in Russia. In 2013, per capita fruit consumption in Russia increased 4.7 percent reaching 74.4 kilograms. Russians are still hesitant, however, to go back to their pre-2008 crisis high spending levels despite signs that purchasing power is increasing due to the higher income and lower unemployment. Consumers remain cautious and their purchasing behavior reflects a calculated balance between price and quality. In 2014, fruit consumption is expected to grow supported by the growing "healthy eating" trend in Russia. Russians mainly buy apples, bananas, pears, and citrus.

Imports have grown from 3.8 million MT in 2005 to 5.9 MT in 2013, while the value during this time nearly tripled to $5.63 billion in 2013. The largest overall fruit suppliers to Russia are Ecuador (bananas), Poland (apples), Turkey (citrus, grapes, and stone fruits), China (apples, citrus, stone fruits), Argentina (apples, pears, and citrus), and Chile (grapes). Russia is the priority export market for many former Soviet republic countries, European countries, Turkey, and Northern African producers due to the close proximity to Russia and long term relations with Russian buyers.

Apples: Apples are, without questions, the favorite fruit in Russia. In 2013, Russia was the largest importer of apples in the world having purchased 1.28 million MT valued at $759.1 million. The United States' market share in Russia is very low - around 1 percent as U.S. apples are typically more expensive and compete with Italy, Belgium, Germany, and the Netherlands in the higher-cost and quality segment. The total share of these higher-quality apples in Russia is around 20 percent. With decreasing tariffs as a result of World Trade Organization (WTO) accession, these quality apples will be somewhat more affordable in Russia. U.S. apples have the potential for increased sales to Russia especially considering that Russian consumers like large, richly colored apples - characteristics that U.S. suppliers can normally provide.

Pears: Pears are one of the most popular fruits in Russia following apples, citrus, and bananas and consumption is growing. Russia doesn't produce this fruit commercially and is the world's largest importer of pears. In 2013, pear imports decreased by 14 percent compared to 2012 valued at $375 million. While most of Russia's main pear suppliers lost market share in 2013, U.S. sales of pears increased 42 percent compared to the previous year. American pears have seen remarkable growth in recent years, rising from just over $1 million worth in 2004 to over $12 million worth in 2013. Market share of U.S. pears remains low in Russia at only 3 percent of the total pear market. U.S. pears will always face strong competition from European pears but the huge Russian market allows for ample opportunity for expansion. In order to diversify product offerings, importers have strong interest in U.S. Anjou pears, which are not a typical European grown variety.

Prunes and Other Dried Fruit: Russia is the biggest importer of prunes in the world. In 2013, prune imports to Russia grew by 8 present and reached 31,459 MT valued at $64.5 million compared to 2012. Prunes are one of the most popular dried fruits in Russia often used in home cooking and the food processing sector. The food manufacturing and snack packing industries are major consumers of prunes and demand is expected to grow following the "eating healthy" trend that has taken hold in Russia.

The Unites States is among the three largest suppliers of prunes to Russia, along with Chile and Argentina. In 2013, U.S. prune exports jumped 70 percent in volume to 4,411 MT valued at $9.3 million. According to market analysts, U.S. prunes are more expensive compared with product from Chile and Argentina due to superior quality and taste and have good potential for expanding sales.

Wine and Spirits: Russia is the 10th largest wine market in the world with per capita wine consumption estimated at 7.2 liters in 2013 and growing each year. Russia is one of the largest global growth markets for wine and is, without question, the most developed wine market of all the "BRICs". Italy, France and Spain, the three major wine producers globally, are also the top exporters of wine to Russia. U.S. wine sales have risen in recent years and surpassed $15 million in 2013, up 30 percent from 2012. Despite this, U.S. wine currently only has about 1.5 percent market share but there is tremendous opportunity for growth as Russia's wine culture blossoms. Russian wine imports reached $1.331 billion in 2013, up 14 percent from 2012.

Among the world's top ten spirits markets in volume terms, Russia has dramatically increased imports of U.S. bourbon and rum since 2009. The United States (including Puerto Rico) is the sixth largest supplier of spirits to Russia and the potential for continued growth is high over the medium term. In 2013, U.S. exports of spirits to Russia were worth $124 million, reaching a new record. Russian imports of hard liquor totaled $1.392 billion in 2013 – no change from 2012.

All alcoholic products saw tariffs fall after Russia acceded to the WTO with full implementation expected by 2016. However, excise tax rates on distilled spirits have been significantly increasing in recent years in addition to import guarantees and other regulatory requirements which add significant bumps to final retail prices.

Table 7 (below) provides additional information on food and agricultural product prospects [/1].

Table 7. Russia: Suggested Best Prospects for U.S. Exporters, by Sector, 2013

Product	2013 US Import ($US mln.)	Average Growth of Import over the Last 5 Years, %	Import Taxes	Key Constraints to Market Development	Attractiveness of the Market for the USA
Soybeans	355	435	0%	Russia increases soybean area and domestic production.	Russia increases poultry and livestock production

				Tight competition from Paraguay and Brazil.	and needs protein feeds. Russia's soybean crushing capacity is expanding faster than domestic soybean production.
Live Cattle	176	138	0%	Competition from Australian and European cattle suppliers (the latter being true if Russia eliminates ongoing trade restrictions with the EU).	Russia needs more highly productive cattle to reach its publicly stated food security goals which call for a reduction of imported meat and dairy products.
Tree nuts	183	23	Almonds -0%; Pistachios - %5; Pecans - 5%; + 18% VAT (all nuts)	High competition from Iran pistachios. Pecan is not widely known and expensive compared to other nuts.	U.S. almonds and pistachios enjoying very strong growth due to growing consumption of healthy snacks. potential for U.S. pecans broader applications in the confectionary.
Food preparations	157	16	20% but not less than 0.25 Euro/kg plus 18% VAT for position 1704; generally 5% + 18% VAT for items in 180620, but varies in other positions	High competition from EU products; Cheap canned food niche occupied by Russian trademarks.	Fewer Russians are making food products (e.g. canning) at home; High-quality product niche is not completely filled.
Spirits	83	44	RUR 400/liter of ethyl alcohol content; VAT 18%	Lack of U.S. whiskey promotion, strong positions of other importers (France, United Kingdom.	Whiskey are growing in popularity and have tremendous growth potential.
Fish and Seafood	77	41	10% + 10-18% VAT	Regular deliveries of high quality product from Norway; Shortage of suitable equipment at retail	Growing demand for higher quality seafood from consumers; Very modest assortment

				trade outlets; Deficit of proper storage facilities with below – 20C temperature; Unaware of quality and value of U.S. shellfish.	in markets; Significant demand from supermarkets and HRI sector. Importers are looking for product diversification. Price competitiveness with European shellfish.
Pistachios, In Shell	54	25	5% +18% VAT	Iranian pistachios dominate the Russian and Russian consumers got used to them. American pistachios are more expensive and differ in taste.	Pistachios are very popular as snack and the consumption of healthy snacks are growing. Russians are now developing a taste for California pistachios and like the taste and big size of U.S. pistachios.
Fresh Fruit	34	17	Apples: 0.052-0.17 per kg depending on the season; Pears: 8.3%; + 18% VAT	Strong competition from Poland, China, Chile, New Zealand, Moldova for apples; Argentina and China for pears.	U.S. apples and pears is recognized for good quality and long shelf life. In the Russian Far East America is the second biggest supplier of fresh produce after China. Western Russia has good sales when American fruits can compete in price with EU especially during February-April period.
Wine	16	26	RUR 7-24/liter of ethyl alcohol content; VAT 18%	Lack of U.S. wine promotion, strong positions of other importers (France, Italy, Spain, and Argentina).	California wine is growing in popularity and has good potential for growth.
Prunes	9	31	5% +18% VAT	Strong Competition from Chile and Argentina. American prunes are	Russia is the largest importer on prunes in the world. American prunes are

				very often more expensive.	well known for quality. Low crops in South America increase demand for California prunes drastically.
Pet food	7	18	20%, but not less than 0.16 Euros/kg + 18% VAT	Strong tradition of feeding pets with table scraps; Strong local production with foreign investments - Mars has two plants that produce pet food.	Traditionally large number of home pets; Increased population incomes followed by growing demand for ready to use pet food.
Snack Foods	8	46	5% - 15%, but not less than 0.15 – 0.075 Euro/kg (duty depends on product, size of package, sugar content, etc.) + 10% - 18% VAT	Strong competition from local producers, including some foreign brands such as Lay's (PepsiCo) and Estrella (Kraft) – Pringles from Europe.	Good potential for high quality U.S. snacks: popcorn, nuts, and dried fruits mixes.

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

[1/] *Food products listed in Table 7 are based on market intelligence, including discussions with retailers and data analysis efforts, and should not be considered an official endorsement by the United States Department of Agriculture or any affiliated agencies.*

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FAS Website: www.fas.usda.gov

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

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

American Chamber of Commerce in Russia (AmCham)
Ul. Dolgorukovskaya, Building 7, 14th floor
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http://amcham.ru/

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http://amcham.ru/spb/

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

U.S. Commercial Service
Bolshoy Devyatinskiy pereulok, 8
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E-mail: Moscow.Office.Box@trade.gov
http://export.gov/russia/

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

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

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

Other Relevant Reports:

Attaché reports on the Russian food and agricultural market are available on the FAS Website; the search engine can be found at
http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp

The latest FAIRS Report can be found at
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Moscow_Russian%20Federation_12-20-2013.pdf

RS1394 Food and Agricultural Import Regulations and Standards – Certification
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20%20Certification_Moscow_Russian%20Federation_12-19-2013.pdf

RSATO 1312 Retail Report / Annual
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Moscow%20ATO_Russian%20Federation_9-3-2013.pdf

RSATO1305 Russian Food Processing Sector
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Processing%20Ingredients_Moscow%20ATO_Russian%20Federation_07.05.2013.pdf

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http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Service%20-%20Hotel%20Restaurant%20Institutional_Moscow%20ATO_Russian%20Federation_12-27-2013.pdf

RSATO1319 Fresh Deciduous Fruit / Annual
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fresh%20Deciduous%20Fruit%20Annual_Moscow%20ATO_Russian%20Federation_12-2-2013.pdf

RSATO1109 Russian Organic Market
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Organic%20Market%20Continues%20to%20Grow_Moscow%20ATO_Russian%20Federation_2-15-2013.pdf

RSATO1301 Development of a National Standard for Organic Products in Russia
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Development%20of%20a%20National%20Standard%20for%20Organic%20Products%20in%20Russia_Moscow%20ATO_Russian%20Federation_2-8-2013.pdf

RSATO1208 Customs Union Technical Regulations on Food Products Labeling
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Customs%20Union%20Technical%20Regulations%20on%20Food%20Products%20Labeling_Moscow%20ATO_Russian%20Federation_7-18-2012.pdf

RS1416 Livestock and Products Semi-Annual Report
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_Moscow_Russian%20Federation_3-14-2014.pdf

RS1419 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_3-18-2014.pdf

RSATO 1205 Strategy of the Russian Food Industry Development until 2020
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Strategy%20of%20the%20Russian%20Food%20Industry%20Development%20until%202020_Vladivostok_Russian%20Federation_6-7-2012.pdf

RSATO1318 Dairy and Products Annual Report
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Dairy%20and%20Products%20Annual%20Report_Moscow%20ATO_Russian%20Federation_11-14-2013.pdf