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Russian Federation

Retail Foods

Russian Retail Food Sector Nears Rebound

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Report Highlights:

As a result of the global economic crisis, Russia's retail sector sales declined by 5.5 percent in 2009. Consumers shifted to lower-priced essentials and delayed or cancelled planned purchases of non-food or premium products which led to a change in the retail market turnover structure placing an increased importance on food sales in 2009. Discounters have outpaced hypermarkets and supermarkets in sales and expansion. The economic downturn is expected to accelerate consolidation in the retail market.

Projected sales for 2010 to 2011 are expected to stabilize or grow slightly. The Russian Ruble is strengthening against the U.S. dollar due to higher oil prices. Foreign suppliers continue to be competitive in the Russian market and the improving exchange rate will make imported goods from the United States a better value.

Post:

Moscow ATO

Executive Summary:

Russia's retail sector had been growing at a pace of 20 to 30 percent annually over the past 10 years. This growth was driven by a strengthening economy and by an increase in consumers' incomes. In 2008, Russia was ranked the third most attractive retail market in the Global Retail Development Index. However in 2009, personal consumption declined as a result of the economic downturn and the overall Russian retail market declined 5.5 percent. Top-line growth rates fell 18 percent, compared to the 32 percent growth seen in 2008 due to devaluation of the Russian currency which lost 21.5 percent of its value against the U.S. dollar. The average rate of the Russian Ruble (RUB) was 31.7/USD in 2009 versus RUB 24.9/USD in 2008. Currently the exchange rate is roughly 30.7 RUB/USD.

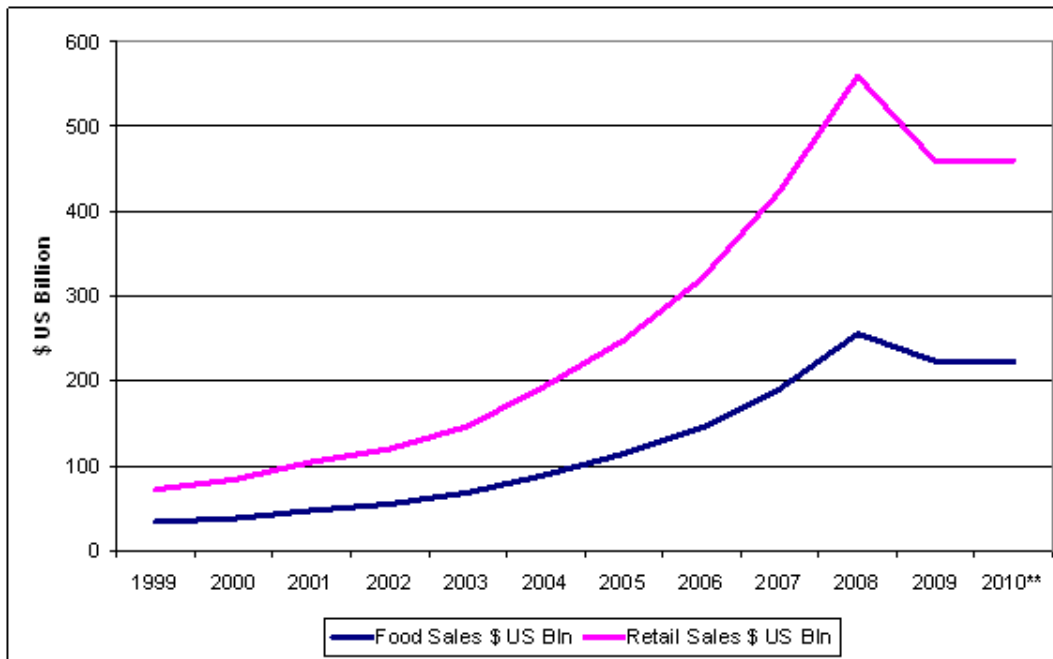
According to data from the Federal State Statistics Service (Rosstat), the Russian food and beverage market was valued at \$222 billion in 2009. Consumers shifted to lower priced essentials and delayed or cancelled planned purchases of non-food or premium products which led to a change in the retail market turnover structure placing an increased importance on food sales in 2009. The share of food in the total retail turnover increased to 48.6 percent from 45 percent in 2008. The value of food sales decreased 2.5 percent compared to 2008.

Over the last five years Russia's real GDP growth has averaged between 7-8 percent. This drove notable increases in real disposable income which has been typically more than 10 percent annually, including 13 percent in 2006 and 11 percent in 2007. The rise in income has affected consumer preferences and resulted in the growth of western-style chain supermarkets and hypermarket centers. However, according to Rosstat the country's GDP declined by 7.9 percent in 2009 from an estimated 6.0 percent growth in 2008 largely due to the drop oil prices.

Food price inflation in Russia continues to be a sensitive issue among consumers and policy makers. The rate of inflation for food products fell from 16.5 percent in 2008 to 6.6 percent in 2009, but is still considered high by Western standards. Russia may stimulate an increase in the inflation rate by 2 – 3 percent over the expected 6-percent increase for CY 2010. Experts estimate that food prices may increase by 10 – 15 percent.

Although the Ruble is recovering and expected to continue, it is still weak against the Dollar and Euro compared to pre-crisis exchange rates and imported food prices have risen respectively. Local food prices follow their imported analogues, including tea, sugar, spirits, fruits, meat, and other categories but they nevertheless remain more affordable for Russian customers. The Federal Customs Service reported the value of imports decreased by approximately 37 percent in 2009, due the Ruble devaluation.

Figure 1. Russia's Retail Turnover*, \$ U.S. billion



Source: Federal State Statistics Service (Rosstat)

* Both Food and Non Food

** Forecast

As a result of the global crisis and weakening of the Russian economy many chains developing in Russia are unable to grow at the pre-crisis pace, but virtually all major players managed to avoid a drop in sales. Chains conducted extensive cost cutting programs and adjusted assortments, contracts with suppliers, and operational procedures.

The Russian government has signaled its willingness to support the retail industry through state-backed loans from Sberbank and VTB. The loans are intended to protect the top 10 retailing companies that the government deems as “strategic” to the economy. X5 Retail Group, Seventh Continent, Magnit, Dixie, Mosmart, Victoria, Kopeyka, Lenta, Holiday, and O’Key, have requested loans, and received about \$ 1.5 billion in 2009.

Government backing could allow larger retailers such as Magnit, X5 and Dixie to buy out smaller players. For example, in 2009 X5 Retail Group purchased the supermarket chain Paterson, which operated 82 stores located in Moscow, the Moscow region, St. Petersburg, Kazan and other cities in European Russia and the Urals. Distressed smaller companies and independent retailers are likely to prove attractive targets with low price tags in the current market. This could drive market consolidation in the retail and consumer goods production segments.

Author Defined:

Section I. Market Summary

Russian retail is still in a unique position given the limited number of multinational players on the domestic market which continues to be led by large retailers with annual turnover exceeding \$1 billion.

Russian retail giants such as the X5 Retail Group, Magnit, Seventh Continent, Dixie and the Kopeyka chains are still among the top Russian retail players.

The share of the retail market is dominated by retail chains in Moscow, St. Petersburg and other urban markets. Nationwide, retail chains occupy about 30 percent of the food retail market, but with higher concentrations in major urban centers (about 50 percent in Moscow and 80 percent in St. Petersburg).

There were 155 fewer open-air markets in Russia in 2009, a decrease of 4 percent from 2008. The volume of sales, however, in street markets and kiosks rose slightly with a 0.4 percent increase over 2008 amounting to 13.6 percent of food sales in Russia in 2009, according to Rosstat.

According to Euromonitor the share of informal retailing in Russia is 10 to 25 percent of total retail sales, depending on the region. For example, in the regions located near Russia's borders, the level of informal retailing may even reach 30 to 35 percent of total retail sales. Informal retailing is due to numerous unofficial entrepreneurs who cross the border and sell goods in Russia at prices lower than in standard retail outlets. In rural areas the level of informal retailing is much higher than in cities.

Currently supermarkets, hypermarkets, discounters, and specialized non-grocery retailers do not see strong threats from informal retailers. Helping the development of modern retailing is the fact that local governments are attempting to stamp out informal retailing.

Before the financial crisis Russian retailers preferred to diversify into different retail formats, seeking niches offering greater margins. Operators of supermarkets and discounters entered the hypermarkets format while specialized retailers developed new brands. For example, Sedmoi (Seventh) Kontinent OAO developed traditional supermarkets, upper-end supermarkets, and hypermarkets under different brands.

However, national retailers now aim to minimize expenditures, and thus are divesting non-core brands and formats. On the other hand, an increasing number of retailers are switching toward lower-price formats with the purpose of retaining customers whose incomes are falling. For example, the X5 Retail Group plans to open 200 to 250 discounters in 2010 and only 15 supermarkets and 7 to 10 hypermarkets. Magnit plans to open 450 to 550 discounters and 25 to 30 hypermarkets, and Dixie plans to spend about \$100 million to open low-cost stores.

Hypermarket and discount food retailer trends in Moscow and St. Petersburg are likely to be repeated in the regional markets. Previously, foreign players tended to open outlets in Moscow and St. Petersburg. Currently Moscow and especially St. Petersburg are saturated with hypermarkets and other modern retail formats. For example, in 2007 in St. Petersburg there was one hypermarket per 150,000 citizens.

Existing Retail Sales Outlet Formats in Russia

The following retail sales outlet formats exist in the Russian market:

- **Discounter.** As a rule, a store with sales space from 300 to 900 sq. meters, with products ranges from 1,000 to 4,000 items, and the most popular goods are low priced (e.g., "Kvartal", "Pyatyorochka", "Kopeyka", "Dixie").

Discount chains posted their highest growth in terms of store openings in 2009 compared to supermarkets, and also achieved higher sales growth compared to hypermarkets. This format is the easiest to develop because it is not capital intensive and does not usually require significant expenditure for real estate. The stores are generally opened in leased property and the format allows the company to open 100 or more small-sized stores per year.

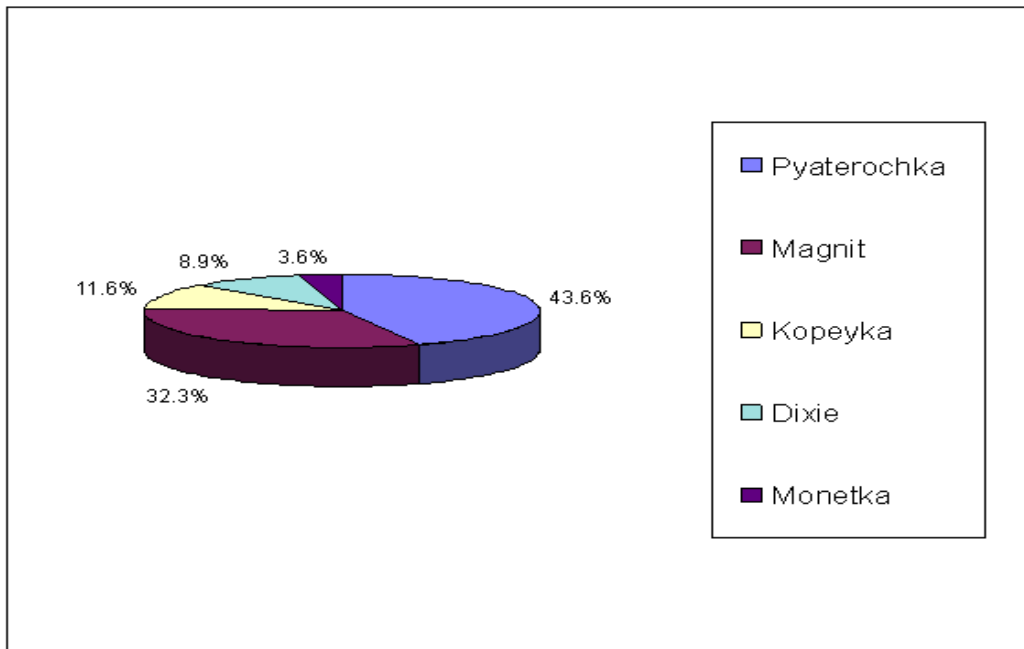
Discounters also had the most significant growth in traffic at the expense of comparable stores and premium retailers. This is because consumers moved to discounters, not only from supermarkets but from hypermarkets given their average lower prices of 3 to 5 percent, convenient locations in residential areas, a frequent pattern of shopping, and an average bill size of \$ 6 to 10 per visit.

According to Euromonitor, the discounter format will continue to outperform hypermarket growth in the short term. Total discounter sales decreased in 2009 by only 2.8 percent (compared with supermarkets at 20 percent and hypermarkets at 14 percent) and amounted \$15.5 billion.

Experts estimate macroeconomic improvement beginning in 2010 and discounters are likely to continue their growth, especially in the regions, with total sales from the segment nearly quadrupling to \$40.4 billion by 2012 from \$13 billion in 2007.

The Russian food discounter segment is the most concentrated retail format, with the four national operators accounting for about 96 percent of total sales by value.

Figure 2. Companies Share of Russian Retail market in 2009: Discounters.



Source: Euromonitor from trade sources/national statistics

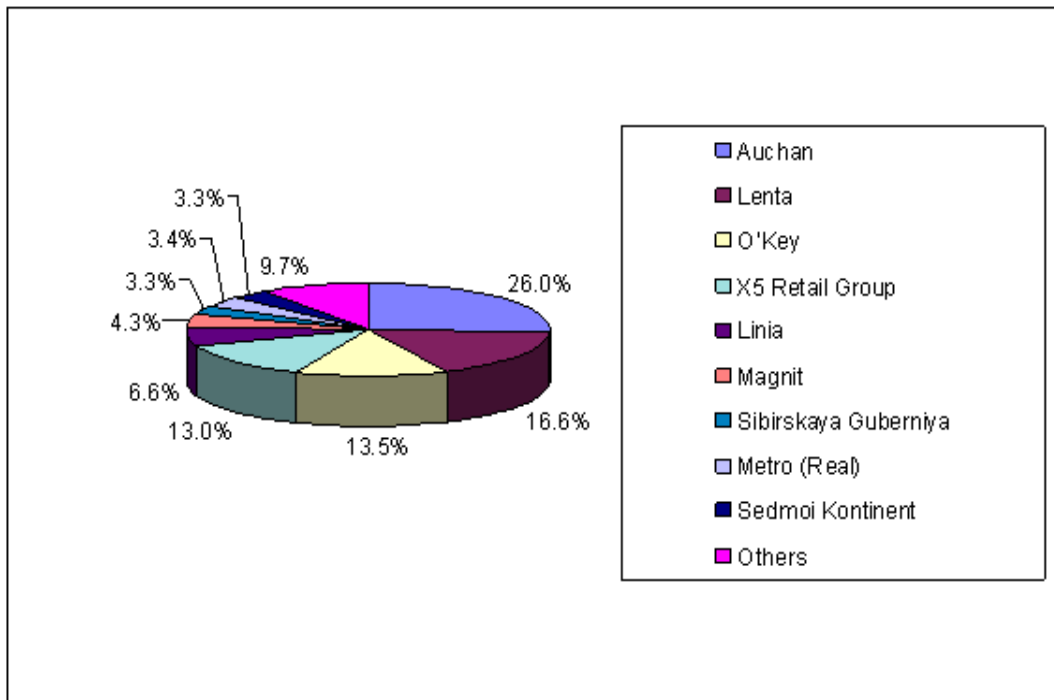
- Hypermarket.** A store with retail space of more than 2,500 sq. meters, where not less than 35 percent of the space is used for sales of non-food products. As a rule, a hypermarket is located on the outskirts of large cities, or is the anchor store of a large urban shopping mall (e.g., Lenta, O'Key,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

Before the financial crisis the hypermarket format used to be considered the most successful format due to its ability to generate the highest sales growth and cash relative to the smaller formats. In 2007 and 2008 hypermarkets continued to be the fastest growing retail format in Russia. Sales were up by 55 percent in 2007 and 47 percent in 2008. This equates to \$9.9 billion in 2007 and \$14.6 billion in 2008. Their increased popularity with consumers and high cash generating ability inevitably attracted new entrants to the market. As a result the number of outlets grew by more than 37 percent in 2007 to roughly 195 stores and 27 percent in 2008 to 250 outlets across Russia. In 2009 consumers shifted to cheaper formats due to reduced incomes and poor consumer confidence. This has led to hypermarkets' share of the market declining to 14 percent accounting for \$12.5 billion.

Given the current financing problems for developers, the hypermarkets show a temporary slow down in growth. Currently companies such as X5 and Magnit, which had initially planned to open 15 to 20 hypermarkets each year, are expected to revise their plans downwards for the next two years.

The competitive environment for the hypermarket industry in Russia remains concentrated although not as competitive as the discounter market. The hypermarket segment is shared by national and multinational operators. Ten major hypermarket chains including Auchan, Lenta, O'Key and Karusel, controlled over 80 percent of sales in 2009. The major share belongs to the French group Auchan (26 percent) and the Russian company Lenta (16.6 percent). Karusel which was acquired and consolidated into the X5 Group held 13 percent of the total hypermarket segment sales in 2009.

Figure 3. Companies Share of Russian Retail market in 2009. Hypermarkets.



Source: Euromonitor from trade sources/national statistics

The French international hypermarket chain, Carrefour, decided to close its business in Russia in 2009 after only four months of operation. The company cited several factors behind its decision such as inadequate growth and acquisition opportunities in the short- and medium-term that would have enabled the company to become the leading retailer in Russia. Carrefour's exit from Russia will undoubtedly affect other international retailers contemplating market entry. Wal-Mart may now be wary of going ahead with its development in the country. On the other hand, it may see this as an opportunity to pick up assets on the cheap and with one less foreign competitor. Wal-Mart has long studied the Russian market and years of careful planning illustrate that it is reluctant to make a quick move. In the meantime, while Russia undoubtedly remains a risky market, the long-term gains from successful market entry could be abundant. Indeed, Carrefour may come back to this country after necessary market reforms and when the country becomes more open to international retailers.

- **Supermarket.** 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., "Perekrestok", "Sedmoi Kontinent", "Kvartal").

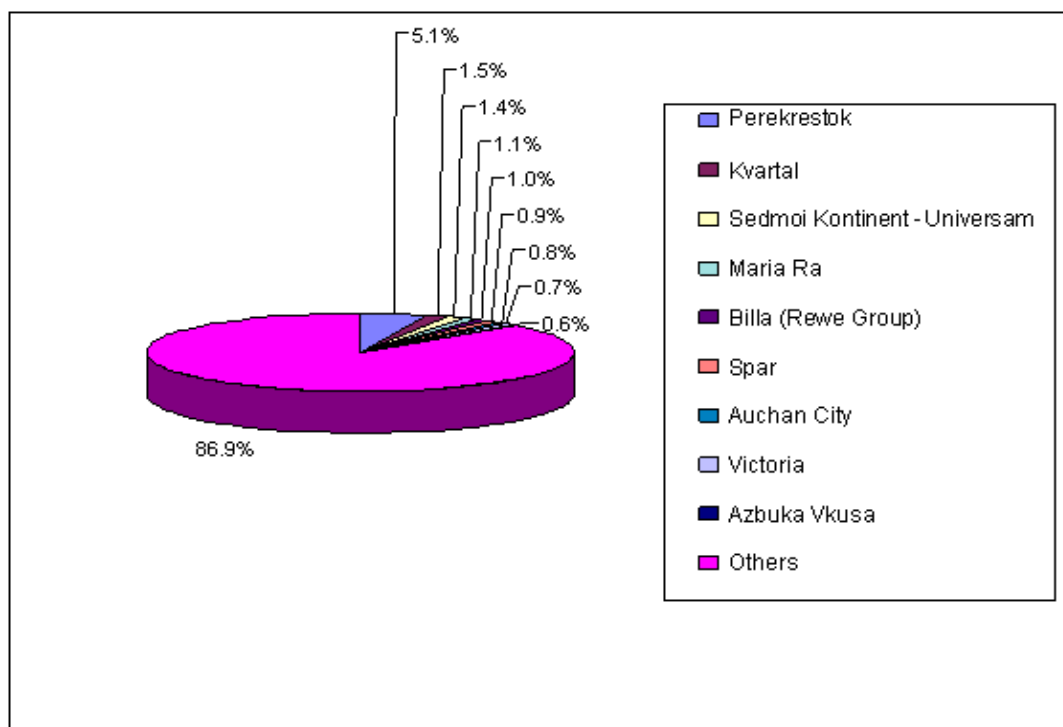
In 2007 supermarket sales accounted for \$46.2 billion or 31.6 percent of the total retail store based food turnover. Supermarket growth of 41.2 percent was the slowest compared to hypermarkets and the discounters. After the recession the supermarket share of the market declined to 20 percent in 2009 in terms of total store-based retail turnover.

Another reason for a sales contraction in the segment is the forced closure of stores by smaller local retailers unable to cope with the financial environment. Although it is quite difficult to foresee the number of store closures within the segment experts estimate that next year the supermarket store count

could either stay flat or decline.

The competitive environment in the supermarket segment also remains highly fragmented, with the top ten players accounting for just 14 percent of total value sales in 2009. In 2009 the major player with 5.1 percent is Perekrestok which is part of the X5 Retail Group. The second largest player is Kvartal holding a 1.5 percent share of the total segment sales.

Figure 4. Companies Share of Russian Retail market in 2009. Supermarkets.



Source: Euromonitor from trade sources/national statistics

- **Cash & Carry.** A retail outlet of roughly 8,000 sq. meters, working under the principles of small wholesaling (e.g., "Selgros", "Metro Cash & Carry").

Currently, three companies operate cash and carry outlets in Russia – German Metro Group, Rewe Group and locally-based Victoria-Group (Victoria-Group operates only one cash and carry outlet: Kesh). These three players accounted for a combined 3 percent of total grocery retailers' value in 2008. Total cash and carry sales increased by 30 percent in 2008 due to the rapid development of the Metro Cash & Carry chain.

International operator Metro Group is the leading cash and carry in Russia. In 2008, the company accounted for around 98 percent of total cash and carry sales in the country. Metro Group has ambitious plans to expand further in Russia. The company plans to operate 65 outlets by the end of 2011 and to achieve a 9 percent share of total grocery sales in Russia.

In 2007 another international operator entered the cash and carry environment in Russia – Rewe Group, in partnership with Otto Group, is developing a chain of Selgros cash and carry outlets in the country. The first outlet was opened at the end of December 2008 in the Moscow region. The next Selgros outlet

was opened in the spring of 2009 in Ryazan city. Over the next 20 years the partners expect to open up to 50 cash and carry outlets in Russia.

Russian consumers often consider cash and carry and hypermarkets to be the same format. This misconception occurs partly because cash and carry operators in Russia are mostly focused on family consumers rather than small business operators. Cash and carries and hypermarkets offer the widest product assortment and have the largest sales areas compared with other retail formats. Both hypermarkets and cash and carry outlets focus on large family packs and operate on a self-service basis. Both also provide additional services such as in-store bakeries or ready meals, along with plentiful parking. Moreover, new chains calling themselves cash and carry outlets have opened, but offer a specialized product range.

There are warehouse clubs in Russia, but they offer specialized ranges of goods or food products. In 2009 there were no warehouse clubs offering a wide range of food and non-food products to small business operators.

Hypermarkets remain the main competitors to cash and carry establishments as families represent the main target group for hypermarkets. Hypermarkets are mostly focused on grocery products, crockery, cosmetics and household care products, while cash and carry outlets offer a wide range of consumer electronics in addition to the product types sold by hypermarkets.

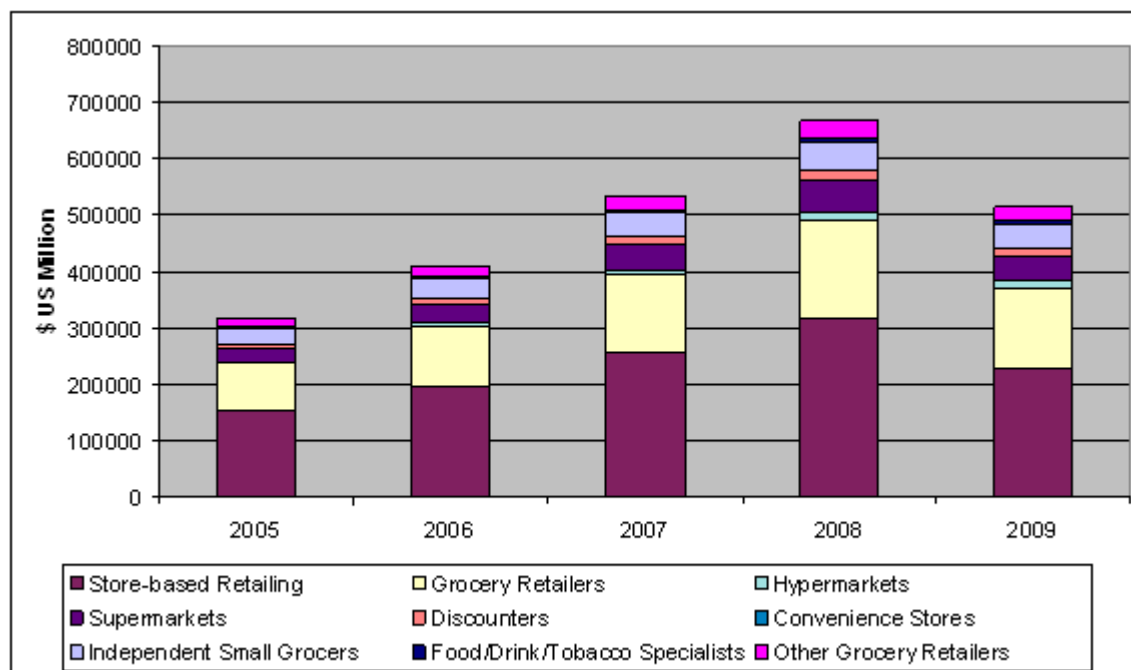
Cash and carry operators have increased the level of competition in both grocery and non-grocery retailing through diversified strategies. For example, Metro Group opened Real hypermarkets in 2005, and the Media Markt durable goods stores in 2006.

- **Convenience stores.** A retail outlet with small sales space (up to 300 sq. meters), located in urban residential areas or gas stations. The store serves the local market, and is often open 24 hours. In Russia, such retail sales points have just started to develop, and increasingly are replacing neighborhood kiosks ("ABK", "Samokhval").

Although larger, newer convenience stores have quite a broad range of items, the selection is still limited compared to supermarkets, and in many stores only 1 or 2 choices are available. Prices in a convenience store are typically higher than at a supermarket, mass merchandise store, or auto supply store (with the exception of the goods such as milk or soda in which convenience stores traditionally do high volume and sometimes use as loss leaders).

- **Coordinated Sales Space.** Retail space up to 10,000 sq. meters with a large number of independent retail operators sharing a building's sales floor, each offering a wide range of products. This type of retail format is very rare in Russia.
- **Wet Markets / Cooperative Markets.** Primitive retail space intended for domestic producers, by government policy to be operated by farmers and farmers' cooperatives.

Figure 5. Russia: Combined Retail Sales of Selected Retail Food Formats (excl sales tax, current values converted using y-to-y exchange rate)



Source: Euromonitor from trade sources/national statistics

Table 1. Russia: Sales in Retailing by Sector: Value 2005 (\$ US Million)

Formats	2005	2006	2007	2008	2009	% change '08-'09	% change '05-'09
Store-based Retailing Total	155046.4	197899.9	256373.7	316676.9	227581.9	-28.1	46.8
Grocery Retailers	82021.7	106739.4	139105.6	175544.3	143439	-18.3	74.9
Hypermarkets	2277	6424.5	9855.1	14621	12523.3	-14.3	450.0
Supermarkets	26104.1	33163.4	43688.5	55102.2	43656.3	-20.8	67.2
Discounters	4871.5	8163.5	11960.5	15985.4	15536.2	-2.8	218.9
Convenience Stores	0	0	2.4	9.9	0.1	-99.0	-
Independent Small Grocers	28094.5	34192.4	42886.6	52529.9	42202.9	-19.7	50.2
Food/Drink/Tobacco Specialists	2963.7	3555.9	4422.4	5321.7	4322.2	-18.8	45.8
Other Grocery Retailers	17437.1	20920.4	25915.2	31553.3	24888.4	-21.1	42.7

Source: Euromonitor from trade sources and national statistics

Table 2. Russia: Forecast Sales in Retailing by Sector: Value 2009-2014 (\$US Million)

Categories	2009	2010	2011	2012	2013	2014
Store-based Retailing	227581.9	232460.2	240601	252601.3	266605	281880
Grocery Retailers	143439	149179.9	155968.9	165136.2	175167.5	185563.7
Hypermarkets	12523.3	13669.4	14872.3	16210.8	17426.6	18629
Supermarkets	43656.3	44311.1	45640.5	48607.1	52009.6	56066.4
Discounters	15536.2	19235.2	22697.5	26442.6	30514.7	34420.6
Convenience Stores	0.1	-	-	-	-	-
Independent Small Grocers	42202.9	42709.3	43777.1	45221.7	46804.5	48302.2
Food/Drink/Tobacco Specialists	4322.2	4361.1	4413.4	4479.7	4578.2	4715.5

Other Grocery Retailers	24888.4	24564.8	24220.9	23809.1	23452	23029.9
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Source: Euromonitor estimates from trade sources and national statistics

Table 3. Russia: Advantages and Challenges for U.S. Exporters

Advantages	Challenges
Population of 141.9 million people who are potential consumers. The U.S. is the third largest importer in Russia (by volume) of food and agricultural products.	The reduced purchasing power of Russian consumers, and the consequent reduction in demand for durable goods, and premium grocery and non-grocery goods.
Russia's retail sector is expected to stabilize in 2010, which creates a number of opportunities for prospective U.S. exporters.	Economic vulnerability, dependence on oil and mineral extraction for most wealth. Substitution of imports for domestic products due to the crisis.
Significant number of consumers can afford purchasing high-quality food products	Volume of sales of higher quality food products is expected to shrink
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, but rather 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	High 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 corruption. Contradictory and overlapping regulations. Official government opposition to growth in food imports
Russian trade and investment policy is converging with international standards.	Dragging on of Russia's World Trade Organization (WTO) accession; presence of non-tariff barriers such as unscientific sanitary and phytosanitary restrictions, including ban on U.S. poultry.
Investors are building more efficient storage facilities, improve infrastructure and logistics	Distance is a major barrier complicating logistics

Major Retail Trends

Mergers and Acquisitions

The current general economic downtrend in Russia is expected to stimulate Mergers and Acquisitions (M&A) activity in the retail industry throughout the country. The Russian retail market is highly fragmented with the 11 largest retailers (by revenue) controlling only 15 percent of the market, versus 80 percent for the 10 largest retailers in the US.

Retail giants such as X5 Retail, Magnit and Dixie have already announced plans to strengthen their competitive positions through the acquisition of troubled competitors. The leading companies comment

that they considered acquisitions earlier, but many deals were denied because of the over-priced target company, difficult processes for further integration, and the lack of financial sources for acquisition. In 2009 stock prices fell, as well, meanwhile, prices for commercial property dropped, and thus, the leading competitors aim to be active with acquisitions in Russia.

The consolidation process among food retailers is most likely to accelerate in the regions. The regions provide future development potential for operators because they typically have lower start-up costs and the ability to grow market share. This is largely due to increased competition and saturation in the Moscow and St. Petersburg markets.

Along with Russian chains, some foreign operators may exploit the situation by acquiring assets among local chains or attractive locations held by now-bankrupt Russian retailers.

Retail strategies in future

Slow development of the retail environment in Russia is expected in 2010 and 2011. Retailers face two main problems: 1) a lack of financing for both strategic development and current operations (expenditure for stock, logistics, deliveries, staff salaries) and 2) the reduced purchasing power of Russian consumers, and lower demand for durable goods, clothes, and premium grocery and non-grocery goods.

The current intentions of leading retailers indicate that competitive battles will soon switch from regional expansion to price wars. The companies will focus on core brands, aiming to survive in light of strengthening competition. As retailers improve their management efficiency they will reduce unit prices and compete for consumer loyalty more actively than in previous years.

Over the last six months of 2009, a few leading retailers announced changes to their corporate strategies. Mosmart ZAO closed the Mosmartik chain of small supermarkets with the purpose of focusing on the hypermarket format. Magnit OAO confirmed that the company has reduced the number of new hypermarket openings in 2009, but plans to increase the number of openings of new discounters.

X5 Retail Group announced a new strategy for growing its Perekrestok supermarket chain, which will include changes in assortment and added services.

The new strategy positions Perekrestok as the supermarket for the middle-class consumer, for whom assortment and quality is no less important than price. The focus of the new Perekrestok strategy is on fresh products: produce, meat, seafood and cheeses, as well as in-house production of convenience items such as salads, baked goods, and prepared meals. By the end of 2010 those products are projected to make up 60 percent of turnover at the supermarkets.

X5 also plans a substantial expansion of private label products. Those products are targeted in 2010 to make up 20 percent of Perekrestok sales among products in the lower-price segment and 30 percent each in the medium- and high-price segments. Private label sales are expected to rise to 28 percent of total revenue by 2011.

The company also plans to expand the range of services, to include payments for housing utilities,

Internet access, mobile communications, and bank loans, and sales of insurance and mobile telephone products. The changes will reduce shopper volume as the stores are more tightly focused on middle-class consumers.

The Pyaterochka chain of discounters is expected to benefit from the trade-down trend in 2009. X5 Retail managers confirm that they will probably reorganize and re-brand some Perekrestok supermarkets as Pyaterochka discounters. Furthermore, the company is completing the re-branding of all hypermarkets to one Karusel brand. This will help to focus on promotional campaigns for one brand and reduce advertising expenditure.

Private Labels

Private label products are predicted to become an increasingly important competitive tool in the mid-term.

Many Russian consumers do not understand the concept of private label products, and regard such offerings as being of inferior quality. Unattractive packaging of private label goods also serves to discourage many consumers for purchasing them. Multiple retailers avoid the risk of putting their name on private label products, and often introduce private label assortments under different brand names. For example, the Kopeyka chain of discounters offers private label products under the brand names Romashkino, Doyarka i Pastukh, Sunway and Hanse. The Magnit chain of discounters offers private label goods under the brands Master Luster, Leda, Selskaya Yarmarka, among others. In 2008 Victoria-Group launched new private label products under the brands Victoria and Vygodno.

Healthy and Ready-to-Cook Products

Busier lifestyles, particularly in the large industrial 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 improved offerings of healthy, low-fat, salt-, and sugar-free foods, fresh exotic fruit and vegetables, chilled and ready-to-cook meals. The assortment is wider particularly in large cities such as Moscow and St Petersburg. High-end supermarkets also began to develop ranges of organic foods, and some entrepreneurs tried to develop supermarkets specialized in organic produce.

The market for domestically-produced organic food in Russia has been hampered by a lack of official legislation. At present, there are various self-certification schemes in operation, as well as technical requirements for organic food production approved by Gosstandard (the government standards committee), but a single legislative base addressing the need for unified organic standards has not yet been developed. Most organic products are imported from Europe and sold in specialist shops in areas where the wealthiest Russians live, as well as other premium shops, like Grunvald and Azbuka Vkusa in Moscow, which are well known for the distribution and promotion of value-added green and healthy products. Domestic manufacturers are searching for ways to gain a larger share in this niche, including voluntary certification.

Notwithstanding the current financial crisis, high-end supermarkets and health food stores remain a prospective niche for Russian retailers. For example, Grunvald supermarket selling all-organic products

announced that their sales increased in 2009 compared with 2008. The company opened their second store in the center of Moscow in 2009. Multi-brand retailers also continued to open a few representative outlets in the premium segment. For example, in 2008 X5 Retail opened outlets under the brand “Perekrestok Green” – supermarkets focused on more affluent consumers with a wider range of premium brands. At the end of 2007 Sedmoi Kontinent introduced the first outlets under the new Sedmoi Kontinent brand – “Gastronomia”, aimed at serving high-end consumers.

More retailers opened 24-hour outlets for consumers who work late, or those who prefer to shop when queues are shortest. For example, all Karusel hypermarkets are open on a 24-hour basis. Some O’Key hypermarkets began to operate on a 24-hour basis beginning in 2006. More independent retailers and supermarkets offer 24-hour services with most grocery retailers work extended hours, closing at 10:00 or 11:00 pm.

Shopping Malls

Consumers in industrial centers prefer to spend less time shopping and consequently choose 1-stop outlets. Shopping centers (malls) and megastore formats such as hypermarkets, durable goods megastores, DIY and hardware megastores have experienced increasing popularity in Russia in recent years. These channels offer several different format outlets under one roof, in addition to cafés, restaurants, cinema halls and sport clubs.

Local government authorities have recognized the advantages of megastores in the 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 vanishing.

In 2007 the number of shopping malls grew 35 percent. Over 100 new outlets were opened in 40 industrial cities of the Russian Federation. According to industry sources, in 2007 there were 420 shopping centers (malls) in Russia and around 120 new outlets were under construction. In 2008 construction of new shopping malls slowed down due to a lack of financing.

In 2009, due to the financial crisis many new shopping malls construction projects were postponed. However, in the mid-term the number of new shopping malls located in regional centers is expected to triple, with the exception of Moscow and St. Petersburg, where demand for new selling space is mature. Recently analysts forecast that rental fees will fall with the increased availability of new selling space. The current financial crisis precipitates the process of reduced rents. Retailers have already forced some property owners to reduce fees, as the companies are short of finance while demand continues to decline.

Non-store Retailing

Non-store retailing – particularly Internet retailing – will benefit from changing consumer lifestyles in coming years. Recently some Internet grocery retailers have enjoyed success in Moscow due to constant traffic jams in the city. Advanced consumers have switched to grocery websites via which they can order standard baskets of packaged, non-perishable food and drink products. The four e-shops share the Internet food and drink retailing sector in Russia are concentrated in Moscow: www.Dostavka.7cont.ru

, www.Service77.ru , www.Nyam-Nyam.ru and www.Korzinka.com all saw strong increases in current value terms over 2007 to 2009.

Utkonos.ru has introduced a new concept store, and competes with both “bricks and mortar” and Internet grocery outlets. The company – Novy – has been developing the Utkonos chain since 2002, but it became profitable only in 2005. The company opened small outlets with a limited assortment of products. All such outlets are located in residential districts of Moscow and Moscow regions. Over 2007 to 2008 it opened 18 outlets, bringing the total to 190. The total range of the Utkonos chain stands at around 65,000 items. Consumers can order goods in advance via the company’s website – www.utkonos.ru – and in a day or two visit the closest outlet, check the order, pay cash and take the goods home. Such concept stores are expected to become more attractive in coming years, particularly in large urban areas.

Legislation Regulating Retail Trade

In the end of 2009 the Russian Parliament has approved a Federal Law on Trade which it hopes will make pricing more predictable and transparent, boost competition in the retail sector and make relations between retailers and suppliers more transparent. The law, which was five years in the making, came into force in February 2010.

The Law contains rather strict antimonopoly regulation, which came into force throughout Russia in July. It stipulates that chains with a market share of 25 percent or more in any city district would be prevented from opening new stores in that area. It might set a barrier for big retailers like X5 and Magnit in opening the new stores especially in the regions. According to the law, the definition of the trade chain - is two or more stores under common control or common business name. It means that the stores of the same owner X5 operating under different brands such as Pyaterochka and Perekrestok represent the different chains.

However, implications for development in small towns seem rather long-term given the fact that there is no data on how to calculate the turnover and a big share of market activity is conducted on the grey economy. On a federal level, there are no implications for large retailer chains that do not breach these criteria, while limitations on X5 Retail Group to grow market share in St Petersburg where it already controls some 30 percent (including Paterson) do exist. According to Vedomosti and Kommersant, the Federal Antimonopoly Service (FAS) proposes that retailers' market share for purposes of the antimonopoly provision of the retail law be calculated annually using data gathered by Rosstat. Retail sales turnover for purposes of the antimonopoly provision will account only for food items. The methodology proposed by the FAS must be approved by the Ministry of Economic development and the Government.

The Law also limits the so-called "bonuses" that suppliers are asked to pay to retailers to a maximum of 10 percent of sales. Currently the so-called bonus to retailers can be as much as 5 thousand dollars for a product. The new law will put a stop to the practice.

The Law fixes terms of payment for delivered goods, with restricted payment delays. Payment must be made to suppliers within a maximum of 10, 30 or 45 days, depending on the shelf life of the product. Retailers should also pay for domestic alcohol products within 45 days.

Analysts suggest that there is a limited downside risk from the proposed regulation on publicly listed retailers' working capital as days payable in these categories fall into the proposed limits (the average days payable for listed retail companies is 62 calendar days, or 45 banking days). However, experts consider that any deterioration in payment terms would be offset by price increases. Figure 6 shows the average days payable for listed Russian food retailers.

Figure 6. Average days payable for listed Russian food retailers, 2008

	X5 Retail Group	Magnit	Dixy	Seventh Continent
Days A/P (calendar)	71	50	56	70
Days A/P (banking)	51	36	41	50

Source: Company data, VTB Capital Research

X5 Retail Group's management estimated that the main effect of the payment terms would come from fresh products (which account for about 30 percent of the company's turnover and have an average 15 days payable). The overall effect on working capital, though, would be marginal.

Pursuant to the Law the Russian Government can impose regulatory measures for essential goods, including food staples, for not more than 90 days, if there has been more than a 30 percent price increase in the last 30 days. Currently, there is an export ban on grain in effect due to an expected crop shortfall (please see Gain Report RS1039 <http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Ban%20on%20Grain%20Exports%20from%20Russia%20Comes%20to%20Force%20on%20August%2015%20Moscow%20Russian%20Federation%208-6-2010.pdf>). Other such declarations in Russia's recent history include Premier Viktor Zubkov's in 2008 before the presidential election, but attempts to freeze prices, particularly for milk, have failed.

The Law stipulates that the terms and conditions of food product supply contracts shall be brought into accord with requirements of the Law within one hundred eighty days from the effective date.

Retailers repeatedly expressed worries about over-regulation of commerce. The Russian ACORT Retailers Association pointed to the risk of a hike in prices and a sharp decrease in the assortment of foodstuffs in Russia. Experts also warned restrictions on payment delays would make retailers more dependent on banking loans and increase expenses on the payment of interest.

Currently retail chains are gradually adapting their activities according to the Law. And although there has been no noticeable effect yet, some retailers are starting to change their assortment strategy, for example, cutting out duplications in some categories as well as slow moving goods. As a result, the number of suppliers also is being refined and reduced, sometimes in favor of big brands, sometimes in favor of local suppliers. At this time it's difficult to predict who will be most affected. We will likely see more effects of the Law on the market in the close future, when all retail activities are brought into accordance with the Law.

Section II. Road Map for Market Entry

Advice to Exporters

The best entry strategy for new exporters depends on several factors, including: the target market, economic conditions, and host country regulatory environment as it relates to the products in question. Exporters can request a brief market assessment for their products and/or a list of Russian importers from the 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).
- Establish a Representative Office: One of the best ways exporters can conduct business in Russia is to open a representative office. Depending on the product and target market, an office might be sited 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.
- Work with a Russian Importer: Selecting the right trade partner is one of the most important decisions for exporters developing their business in Russia. Working with a local partner in Russia significantly expands business opportunities, and minimizes the need for exporters to establish direct contact with multiple retail chains. A local Russian partner familiar with market conditions and the regulatory environment can help exporters navigate the Russian retail market, resolve issues, and increase the likelihood of success.

In order to make the first delivery, usually a large local import company is chosen. The company should have a good reputation and experience in customs clearance, and must have storage facilities and a developed distribution network. Make sure the company has experience working with Western suppliers and has experience in arranging regular supplies of food products. Western companies that strive to supply directly, circumventing Russian mediators, often sustain losses due to lack of local market knowledge. A large domestic import company is usually bettered 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 importers. 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.
- Attend Promotional Events: One of the main challenges to exporters entering the Russian

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

Distribution Channels

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 times range from 20 days to 27 days depending on the origin, with 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.

From Moscow or St. Petersburg, products are shipped further into the interior via truck or rail to cities in Siberia or the Russian Far East (RFE). However, most products destined for the 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 Russian Far East enter through Vladivostok.

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

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

Figure 7. Russia: Distribution Channel for Supermarkets, Import of Transatlantic Products via the Port of Greater St. Petersburg

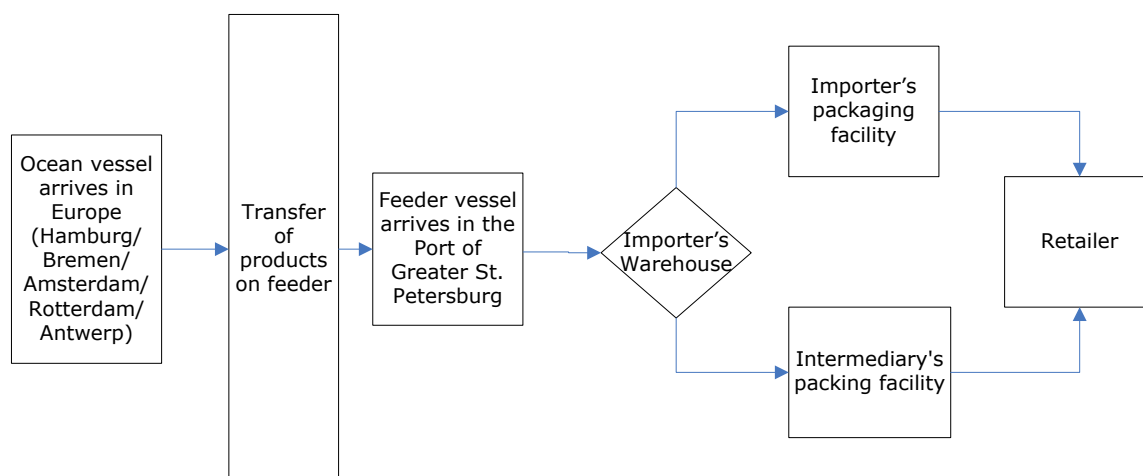
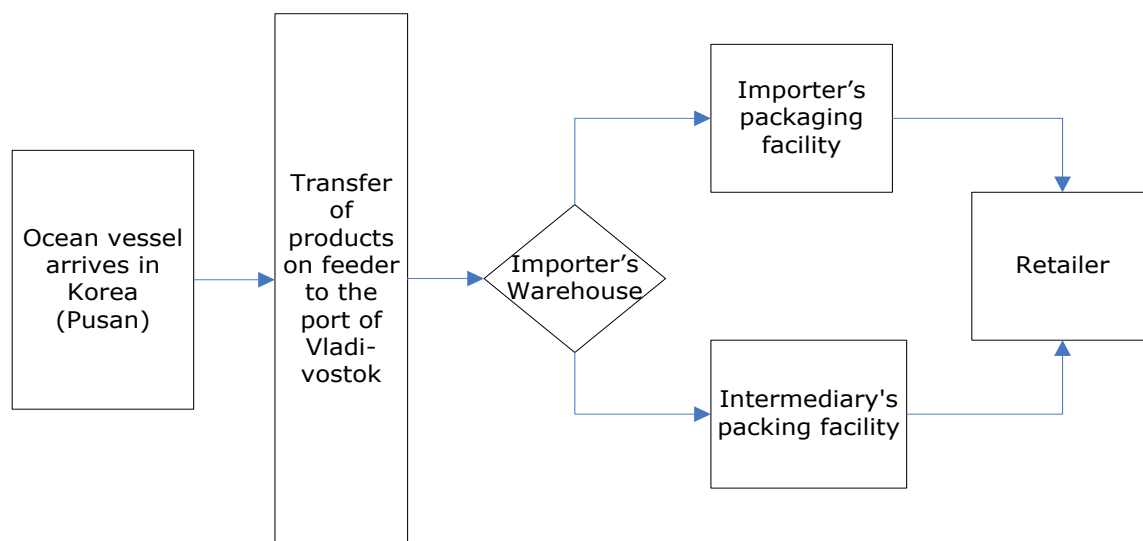


Figure 8. Russia: Distribution channel for food retail chains, delivery from U.S. to the Russian Far East



Company Profiles

Table 4. Russia: Major Retail Chains, 2009 (Retail Value excl Sales Tax)

Retailer name and outlet type	Ownership	Sales in 2009, US \$Million	No. of outlets, 2009	Locations
Pyaterochka, discounters	X5 Retail Group NV, local	6770	1039	Moscow and St. Petersburg, and 16 Russian regions
Magnit, discounters & hypermarkets	Magnit OAO, local	5564	2981	470 Russian cities
Auchan,	Auchan OOO,	3253	24	Moscow and St.

hypermarkets	French			Petersburg regions
Metro Cash& Carry, hypermarkets	Metro AG, German	~2500	52	36 Russian regions
Perekrestok, supermarkets	X5 Retail Group NV, local	2234	275	Moscow, St. Petersburg and 43 Russian cities
Lenta, hypermarkets	Lenta OOO, 60% local, 40% U.S.	2076	36	North-Western Russia and Siberia
Kopeyka, discounters	Kopeyka TD OAO, local	1802	586	Mainly Moscow region and European Russia
O'Key, hypermarkets & supermarkets	Dorinda Holding SA, Luxemburg, local, Estonian	1690	46	St. Petersburg, Moscow and 8 Russian cities
Karusel, hypermarkets	X5 Retail Group NV, local	1628	58	Moscow, St. Petersburg and regions
Diksi, discounters	Dixy Group OAO, local	1379	514	Moscow, St. Petersburg and 11 regions
Sedmoi Kontinent, hypermarkets & supermarkets	Sedmoi Kontinent OAO, local	955	142	Moscow, St. Petersburg, Kaliningrad and Minsk
Liniya, hypermarkets	Korporatsiya GriNN ZAO, local	827	18	9 Russian regions
Kvartal, supermarkets	Victoria-Group OAO, local	671	162	Moscow, St. Petersburg, Kaliningrad and regions
Monetka, discounters	Monetka Torgovaya Set' OOO, local	565	214	Ekaterinburg, Ural region
Maria Ra, supermarkets	Maria Ra PKF OOO, local	498	202	Siberia
Billa, supermarkets	Billa Russia OOO (Rewe Group), German & local	429	45	Moscow and Central region
Azbuka Vkusa, supermarkets	Gorodskoy Supermarket OOO, local	282	26	Moscow

Sources: Euromonitor International, company reports and websites

Section III. Competition

Because retailers demand consistent quality and adherence to contract specifications and penalize suppliers for failure to meet requirements, foreign suppliers continue to be competitive in the Russian

market as they are more accustomed than Russian agricultural producers to meeting such strict specifications.

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. Brazil occupies a dominant position on the Russian meat market because of a preferential duty (25% lower than for U.S. meat), despite chronic outbreaks of foot-and-mouth and other livestock diseases. China dominates the Russian Far East market for fruits and vegetables.

In addition, the Government of Russia took a number of steps to protect domestic producers of food products. This resulted in high import tariffs and a complicated system of sanitary and phytosanitary requirements. The economic crisis decreased individual incomes and drove consumers to purchase cheaper domestically produced products. All of these factors contributed to the robust development of the domestic food-products industry. 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. Introduction of high import duties made legal imports of many foreign food products unprofitable, while the Russian market remained open to food products originating in Russia and other CIS countries. Belarus and recently Kazakhstan, which shares a common customs zone with Russia, enjoy duty-free access to the Russian market for agricultural products and their products do not even appear in Russia's import statistics. Many imports from the EU and the United States cannot compete on price with CIS goods. There is also increasing political pressure on retailers to buy locally.

Table 5. Russia: Top Ten Origins of Agricultural Products Imports 2007-2009, \$US Million

Country	2007	2008	2009	% Market Share, 2009	% change '08-'09
--The World--	23741.7	30624.1	25734.7	100.00	-15.97
European Union	8157.4	10289.1	8805.1	34.21	-14.42
Brazil	3586.8	4068.2	3231.8	12.56	-20.56
United States	1290.5	2091.0	1710.2	6.65	-18.21
Ukraine	1248.1	1727.5	1238.7	4.81	-28.30
Turkey	807.2	979.1	1102.1	4.28	12.56
Argentina	995.1	1072.3	1020.7	3.97	-4.81
China	900.5	1128.8	979.1	3.80	-13.26
Ecuador	747.3	837.0	791.0	3.07	-5.50
Malaysia	329.3	706.3	416.5	1.62	-41.03
Paraguay	167.7	355.5	352.2	1.37	-0.92

Source: Global Trade Atlas

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

Commodity	Rank	Country	2009 Percent Share**	Strength of Key Supplying Countries	Advantages and Disadvantages of Local Suppliers
Fresh fruit					
Net imports, MT	1	Ecuador	15.82	Countries of South America, Spain, Morocco supply citrus fruits at low price	Lack of storage facilities; low cost of local products
4.97 million	2	Turkey	14.08		
Dollar value	3	China	6.50		

3,711.3 million	4	Poland	6.18		
	5	Argentina	5.27		
	6	Morocco	5.20		
	7	Kyrgyzstan	3.89		
	8	Uzbekistan	3.86		
Fresh vegetables					
Net imports, MT	1	Turkey	24.79	High quality of vegetables produced in Western European countries, low prices for the products originated from the CIS states	Lack of modern storage and processing facilities; stable and good quality supplies to the retail chains are complicated
2.27 million	2	China	12.54		
Dollar value	3	Netherlands	10.92		
1,492.82 million	4	Israel	6.44		
	5	Poland	6.21		
	6	Ukraine	4.71		
	7	Spain	4.39		
	8	Uzbekistan	4.37		
Pet food					
Net imports, MT	1	Netherlands	25.72	Import of well-known pet food trademarks to Russia dominate in low segment. U.S. brands are perceived as high quality ones	Traditionally high number of home pets, large market potential; low demand for industrially produced pet food
79,954	2	France	19.93		
Dollar value	3	Germany	14.30		
162.45 million	4	Thailand	8.29		
	5	Hungary	7.51		
	6	Austria	7.46		
	7	Italy	3.80		
	8	United States	2.79		
Poultry					
Net imports, MT	1	United States	68.89	U.S. product is much cheaper; Brazilians have price advantage in whole birds supplies, EU in geographical proximity	Ban for U.S. poultry; Producers can supply chilled product; producing of domestic chicken are totally insufficient.
0.95 million	2	Brazil	12.38		
Dollar value	3	Germany	9.16		
1,064.21 million	4	France	5.63		
Processed fruits and vegetables					
Net imports, MT	1	China	15.44	Well established trade relations and well known trademarks; low price of products	Local producers quickly update the facilities availability of cheap raw materials, traditional local brands
1.3 million	2	Poland	12.71		
Dollar value	3	Tajikistan	7.60		
1,282.37 million	4	Spain	7.32		
	5	Ukraine	5.83		
	6	Turkey	5.19		
	7	Hungary	4.12		
	8	Iran	3.79		
	9	Thailand	3.48		
Rice					
Net imports, MT	1	Thailand	33.87	High quality and low prices in Asian countries	Limited list of rice varieties grown in Russia, lack of

229,198	2	Vietnam	30.04	product which dominate on the market	modern processing equipment
Dollar value	3	China	11.14		
124.42 million	4	Pakistan	7.74		
	5	Uruguay	6.43		
	6	Brazil	4.62		
	7	United States	2.33		
	8	Italy	1.88		
Red meat (fresh, frozen, chilled)					
Net imports, MT	1	Brazil	42.15	Lower prices of Brazil meat because of lower taxes, good quality	Low cost production, Local supplies are not stable in quality and not uniform; Lack of beef cattle and lack of high-quality beef
1.61 million	2	Argentina	12.46		
Dollar value	3	United States	8.25		
4,633.12 billion	4	Germany	7.52		
	5	Uruguay	5.46		
	6	Denmark	4.57		
	7	Paraguay	3.72		
	8	Canada	2.65		
Salmon					
Net imports, MT	1	Norway	88.91	Norway supplies the high quality product. Norwegian exporters use state promotion programs.	Outdated cold storage facilities and fleet, outmoded processing facilities, problems with securing quotas for fishing in international waters
68,466	2	Chile	6.18		
Dollar value	3	Denmark	2.40		
310.66 million	4	Faroe Islands	1.16		
	5	Canada	0.37		
	6	United Kingdom	0.36		
	7	Estonia	0.24		
	8	United States	0.18		
Seafood					
Net imports, MT	1	Norway	41.56	Norway supplies a wide range of high quality products and secures regular deliveries.	Outdated cold storage facilities and fleet, outmoded processing facilities, problems with securing quotas for fishing in international waters
919,436	2	China	11.78		
Dollar value	3	Vietnam	5.83		
731.56 million	4	United Kingdom	4.77		
	5	Denmark	4.49		
	6	Canada	3.27		
	7	Chile	3.25		
	8	Iceland	2.44		
	9	Thailand	1.91		
	10	Spain	1.73		
	11	United States	1.57		
Snack Foods					
Net imports,	1	Ukraine	42.75	Reducing delivery costs	A lot of local producers,

MT				because of the geographical proximity, therefore, prices are lower.	Lack of modern processing facilities
238,051	2	Poland	14.99		
Dollar value	3	Germany	12.50		
707.28 million	4	Italy	4.75		
	5	Belgium	2.53		
	6	Netherlands	2.27		
	7	China	2.27		
	8	Turkey	2.18		
Tree nuts					
Net imports, MT	1	United States	28.20	Iran, Turkey mainly supply hazelnut and pistachios at low prices, Azerbaijan – hazelnut, and the USA - almonds	Lack of large-scale industrial production of nuts; Intensively developing confectionery industry
69,742	2	Iran	16.80		
Dollar value	3	Ukraine	13.11		
291.68 million	4	Vietnam	10.09		
	5	Azerbaijan	8.12		
	6	Turkey	5.63		
	7	Tajikistan	4.34		
	8	Uzbekistan	2.36		
	9	Indonesia	2.20		
Wine and beer					
Net imports, L	1	Italy	23.47	Western Wines are occupy the upper segment and perceived as high quality ones	Low prices; poor positioning of high quality vintage wines; traditional preference to sweetened wines
755.22 million	2	Ukraine	15.04		
Dollar value	3	France	14.33		
870.15 million	4	Spain	8.59		
	5	Germany	6.39		
	6	Moldova	4.85		
	7	Czech Republic	3.78		
	8	Chile	3.78		
** If U.S. is not listed, share is less than 1%					

Source: Global Trade Atlas

Section IV. Best Product Prospects

The Russian Federation is among the top export destinations for U.S. agricultural products. The U.S. is the third largest supplier to Russia (by value of food and agricultural products). Top performing retail-oriented U.S. exports to Russia in 2009 include poultry and red meats, fresh fruit, fish and seafood, and tree nuts.

Based on official data, the U.S. share of Russia's agricultural imports exceeded \$1.4 billion in 2009. Poultry dominates U.S. agricultural trade to Russia and in 2009 accounted for roughly \$762 million, followed by pork, fish and seafood, fruit and nuts. Due to the economic crisis, U.S. agricultural exports to Russia decreased by 23 percent in 2009. The U.S. share of Russia's agricultural imports in 2009 was 6.65 percent.

On average, poultry meat accounted for 38 to 50 percent of the total value of U.S. agricultural exports from 2006 to 2009 and represented roughly 20 percent of Russia's total poultry imports. In 2010, Russia banned U.S. poultry for the majority of the first eight months, and its reentry into the market is underway.

Currently, Russia cannot produce enough poultry to meet its needs, and even after Russia meets its self-sufficiency goals in the coming years, Russia will remain deficit in dark meat, specifically chicken-leg quarters. As official statistics indicate, Russia's annual tightening of the poultry supply has coincided with higher wholesale and retail prices. However, Russian new requirements on the use of disinfectants during poultry processing have increased producer costs both domestically and abroad.

Other top U.S. export products include: food preparations (including ingredients), spirits, processed fruits and vegetables, snack foods (excluding nuts), and hides and skins. The Russian government is providing generous credit terms to support select producers importing livestock and genetics in order to improve the nation's dairy and meat production capability. This has translated into new opportunities for exporters of livestock and genetics from the U.S.

Russians are consuming more tree nuts and fresh fruit from America, particularly the larger sizes of apples and pears.

Table 7 (below) provides additional information on food and agricultural product prospects.

Table 7. Russia: Suggested best prospects for U.S. exporters, by sector

Product	2009 US Import volume (\$ 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
Poultry	733.1	30.3	See GAIN RS5084, RS7008 and RS7041. Tariff-rate quotas apply to some positions. Tariffs change unpredictably.	Competition with Brazilian and EU producers; Quick growth of domestic production; Perception of U.S. product as cheap and of low quality. Veterinary controls and demands transcend international standards. Official goal of "food security" calls for reduction of meat imports.	U.S. product has well-established position; Low prices attract buyers. Local producers will not be able to satisfy demand in near future.

Beef	13.6	11.5	See GAIN RS5084, RS7008 and RS7041. Tariff-rate quotas apply to some positions. Tariffs change unpredictably.	Consumer unawareness of U.S. high quality beef; Sizable domestic production, Complicated import procedures. Veterinary controls and demands transcend international standards. Official goal of “food security” calls for reduction of meat imports.	Insignificant specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development; New health certificates are in place for U.S. origin beef.
Pork	299.0	27.4	See GAIN RS5084, RS7008 and RS7041. Tariff-rate quotas apply to some positions. Tariffs change unpredictably.	Competition from Brazilian pork, complicated import procedures. Veterinary controls and demands transcend international standards. Official goal of “food security” calls for reduction of meat imports.	Shortage of pork in the country; declining production; high prices; Demand for stable deliveries of both cheap and high quality product. New health certificates are in place for U.S. origin pork.
Fish and Seafood	27.7	22.4	10% + 10-18% VAT	Regular deliveries of high quality product from Norway; Shortage of suitable equipment at retail trade outlets; Deficit of proper storage facilities with below – 20C temperature.	Growing demand for higher quality seafood from consumers; Very modest assortment in markets; Significant demand from supermarkets and HRI sector.
Tree nuts	82.2	72.8	Nuts – 18% VAT Pistachios and pecans 18% VAT + 5% import duty	Iran biggest competitor for peanuts and pistachios; Tajikistan for walnuts.	U.S. almonds and pistachios enjoying very strong growth. Good potential for U.S. pecans.
Dried fruits and nuts (exclude. peanuts)	4.1	41.9	Prunes, apricot 10% import duty, raisin -5% import duty + 18% VAT	Sharp competition with Iran and Turkey. Desire of packers to save on raw stock, procuring low quality stock from Iran, Uzbekistan, and Afghanistan	Intensive development of confectionery industry and start of retail sales of rare dried fruits. High quality of U.S. product;

					Development of premium-class confectionery products
Food preparations	14.2	15.7	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.	Gradual rejection of home-produced products; High-quality product niche is not completely filled.
Spirits	22.3	12.9	RUR 191/liter of ethyl alcohol content; VAT 18%	Lack of U.S. whiskey promotion, strong positions of other importers (France, United Kingdom)	Relatively high level of alcohol consumption; Demand for exotic drinks (whiskey, gin, rum, bourbon). Whiskey has tremendous growth potential
Pet food	4.5	23.1	20%, but not less than 0.16 Euros/kg + 18% VAT	Strong tradition of feeding pets with table scraps; Strong local production with foreign investments - Mars has two plants that produce pet food	Traditionally large number of home pets; Increased population incomes followed by growing demand for ready to use pet food.
Fresh Fruit	20.8	21.3	Apples: (Jan 1-Jul 31) 0.1 Euros per kg (Aug 1-Dec 31) 0.2 Euros per kg + 18% VAT Pears: 10% + 18% VAT	Strong competition from Poland, China, Chile, New Zealand, Moldova for apples; Argentina and China for pears.	Good potential as a niche market for U.S. apples, pears, grapes, citrus, especially during February-April period.
Snack Foods	2.0	14.5	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.
Animal genetics (excluding embryos, data for which not available)	0.8	52.1	Zero tariff on live brood animals + 10% VAT. 5% tariff on bull semen + 18% VAT	Veterinary protocols for embryos and live animals were signed	Market is open. Government support makes this a large opportunity.

Source: Global Trade Atlas, U.S. Trade Database, Russian Tariff Database (www.tks.ru)

Section V. Key Contacts and Further Information

Contact Information for FAS Offices in Russia and in the United States

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For General Information on FAS/USDA Market Promotion Programs and Activities:
Office of Trade Programs
U.S. Department of Agriculture
Foreign Agricultural Service
1400 Independence Ave., S.W.
Washington, DC 20250
http://www.fas.usda.gov/OTP_contacts.asp

FAS Website: www.fas.usda.gov

For Trade Policy/Market Access Issues, General Information on the Russian Agricultural Sector, etc.:
Scott Reynolds, Agricultural Minister-Counselor
Mary Ellen Smith, Senior Agricultural Attaché
Morgan Haas, Agricultural Attaché
Office of Agricultural Affairs
American Embassy
(address same as above for ATO Moscow)
Fax: 7 (495) 728-5133 or 728 5102
Tel: 7 (495) 728-5222
E-mail: agmoscow@fas.usda.gov

Other Useful Contacts

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

USA Poultry and Egg Export Council (USAPEEC)

Albert Davleev, Kirill Khrenov, Natalia Izmailova

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Fax: 7 (495) 781-9200

Tel.: 7 (495) 781-9201

E-mail: usapeec@usapeec.ru, albertdavleyev@yahoo.com

<http://www.usapeec.ru>

U.S. Meat Export Federation (USMEF)

Galina Kochubeyeva (Moscow)

Address: 119049 Moscow, Russia, Leninsky Prospekt, 2, 9th Floor, Business Center

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Tel.: 7 (495) 544-9387

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U.S. Wheat Associates

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Fax: 7 (495) 207-4203

Tel.: 7 (495) 956-9081; 7 (495) 208-8124

E-mail: uswmow@dol.ru

www.uswheat.ru

U.S. Grains Council (USGS)

Aleksandr Kholopov

E-mail: akholopov@yahoo.com

Pear Bureau Northwest

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Almond Board of California

RK Marketing Office,

29/1 Generala Tyuleneva Str., 117465, Moscow, Russia

Tel: 7 (495) 729-3080

Fax: 7 (495) 989-2670

E-mail: office@Almonds.ru

<http://www.Almonds.ru>

Washington Apple Commission

RK Marketing Office,

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Fax: 7 (495) 989-2670

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Pet Food Institute

Aleksey German

Address: 119285 Moscow, Russia, Pudovkina str., 4

Fax: 7 (495) 937-9618

Tel.: 7 (499) 143-0308

E-mail: agerman@globalworks.ru

California Table Grape Commission

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Wine Institute of California

Olga Tuzmukhamedova

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E-mail: olgatuz@mail.ru

www.california-wines.org

www.wineinstitute.org

U.S. Dairy Export Council

Dina Ableaeva-Karailieva

Fax: 7 (843) 236-2126

Tel: 7 (987) 290-1780

Ablaeva_dina@yahoo.com

www.usdec.org

The American Chamber of Commerce is another good source for information on doing business in

Russia. The Chamber has offices in Moscow and St. Petersburg.

American Chamber of Commerce in Russia (AmCham)

Ul. Dolgorukovskaya, Building 7, 14th floor

127006 Moscow, Russia

Fax: 7 (495) 961-2142

Tel: 7 (495) 961-2141

Email: amchamru@amcham.ru

<http://amcham.ru/>

American Chamber of Commerce in St. Petersburg

Ulitsa Yakubovicha 24, left wing, 3rd Floor

190000 St. Petersburg, Russia

Fax: 7 (812) 448-1645

Tel: 7 (812) 448-1646

Email: all@spb.amcham.ru

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

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

U.S. Commercial Service

Bolshoy Devyatinskiy pereulok, 8

121099 Moscow, Russia

Fax: 7 (495) 728-5585

Tel: 7 (495) 728-5580

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

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

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>

RS 9304 Exporter Guide / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/EXPORTER%20GUIDE%20ANNUAL_Moscow%20ATO_Russian%20Federation_9-15-2009.pdf

RS 9310 Fresh Deciduous Fruit / Annual

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/
FRESH%20DECIDUOUS%20FRUIT%20ANNUAL
Moscow%20ATO_Russian%20Federation_12-11-2009.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/FRESH%20DECIDUOUS%20FRUIT%20ANNUAL_Moscow%20ATO_Russian%20Federation_12-11-2009.pdf)

RS 1039 Ban on Grain Exports from Russia Comes to Force on August 15

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

RS 1033 Fish and Seafood Production and Trade Update

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

RS 1023 Fishery Sector Update and Price Survey

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fishery%20Sector%20
Update%20and%20Price%20Survey_Moscow_Russian%20Federation_5-4-2010.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fishery%20Sector%20Update%20and%20Price%20Survey_Moscow_Russian%20Federation_5-4-2010.pdf)

RS 1038 Government to Control Prices for Socially Important Food

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

RS 9054 Poultry and Products / Annual

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

RS 1015 Declaration of Conformity Replaces Certification for Many Products

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Declaration%20of%20Confor
mity%20Replaces%20Certification%20for%20Many%20Products_Moscow_Russian%2
0Federation_3-22-2010.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Declaration%20of%20Conformity%20Replaces%20Certification%20for%20Many%20Products_Moscow_Russian%20Federation_3-22-2010.pdf)

RS9020 Meat & Poultry TRQ Mechanism Announced for 2009

<http://www.fas.usda.gov/gainfiles/200903/146347563.doc>

RS9010 Meat and Poultry Prices Update

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

RS9008 Economic Crisis Update

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

RS8096 Poultry and Meat Duties and Volumes Changed for 2009

<http://www.fas.usda.gov/gainfiles/200902/146327314.doc>

