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DEMAND FOR U.S. NUTS IS BOOMING

Report Categories:

Tree Nuts

Food Processing Ingredients

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Report Highlights:

Russia is entirely dependent on imports of tree nuts to meet growing domestic demand. In 2012, Russia set a new record by importing 88,597 metric tons (MT) of tree nuts valued at over \$425 million - a 1.2 percent increase in volume and 8.75 percent in value terms over 2011. Import volume growth slowed down in 2012 due to the significant decline in supply of Iranian pistachios and Ukrainian walnuts. California almonds and pistachios and Turkish hazelnuts increased exports and closed the growing demand for nuts from the retail and food processing sectors. In 2012, U.S. tree nut sales to Russia grew by 26% and set a new record of \$143.7 million, covering 94% of almond market and 26% of pistachios. The trend is continuing in 2013. In the first half of 2013, U.S. tree nut exports have increased 57 percent compared to the same period in 2012. The United States is the largest supplier to Russia, and currently has surpassed 50 percent market share.

General Information:

Russia's commercial nut production of tree nuts is limited to pine nuts making it entirely dependent on imports to meet growing domestic demand. In 2012, Russia set a new record by importing 88,597 metric tons (MT) of tree nuts valued at over \$425 million - a 1.2 percent increase in volume and 8.75 percent in value terms over 2011. In 2012, volume growth significantly lowered compared to previous years (15.9% in 2011, 8.3% in 2010) due to the shortened supply of pistachios from Iran, walnuts from Ukraine, and hazelnuts from Azerbaijan. Russia closed the demand by increased imports of California almonds, California pistachios, Turkish hazelnuts, and coconuts from Indonesia. In future the unstable supply and accompanying it growing prices can slow down the growth of tree nuts exports to Russia.

In 2012, the United States was the largest supplier of tree nuts to Russia. U.S. sales in FY 2012 grew by 26 % to a new record of \$143.7 million. In the first half of 2013, U.S. tree nut exports have increased 57 percent compared to the same period in 2012 and currently has surpassed 50 percent total market share in value and 42 percent in volume estimation. Almonds make up the majority of U.S. shipments - 70 percent of total - with pistachios accounting for 27 percent. Pecans make up 1.1 percent. Due to expanding demand, exports of U.S. almonds, pistachios, and pecans to Russia are expected to continue to boom in the foreseeable future.

The major suppliers of tree nuts to Russia are: the United States (almonds and pistachios), Iran (pistachios), Ukraine (walnuts), Vietnam (cashews), Azerbaijan (hazelnuts), Turkey (hazelnuts), and the Philippines (coconuts).

Chart 1. Russia: Tree Nut Imports in millions, U.S. dollars

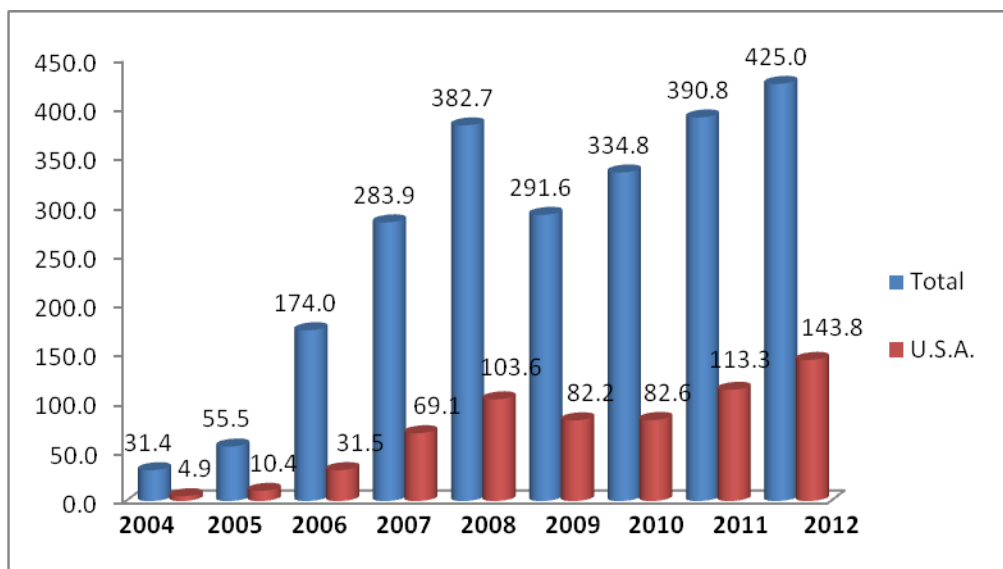
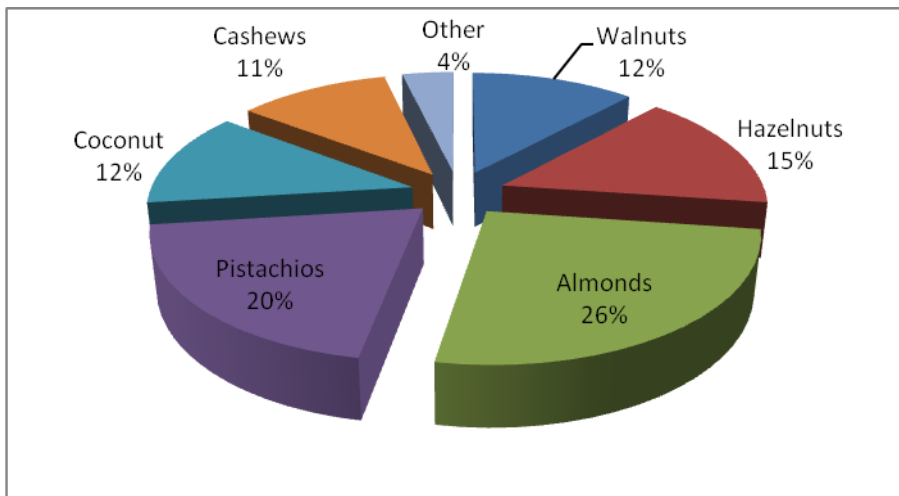


Chart 2. Russia: Tree Nut Imports in Volume by Type, 2012.



The Russian tree nut market is far from saturated and has good potential for further expansion. Per capita tree nut consumption is only around 0.73 kg¹, which is significantly lower than consumption levels in European countries, the United States, Japan and China. A number of trends in the market are stimulating nut consumption and sales in Russia.

1. The food manufacturing sector uses over 65% of all nuts as ingredients. According to Euromonitor, the Russian processed food market displayed healthy growth of 4% in volume terms, reached 967 billion Rubles in 2012 and sales of processed foods are going up. For example, the sales of packaged confectionary products in 2012 reached 1,093,950 MT, up 2% over 2011, dairy products – 7,053,650 MT, up 2%, snack bars – 820 MT, up 11%, ice cream - 290,150 MT, up 4%, and baby food – 228,160 MT, up 2%.
2. Heightened consumer awareness of the health benefits of eating nuts is creating more demand for nuts as a healthy snacking alternative. Nut snacks sales are increasing and are expected to reach 47,440 MT in 2015 from 44,570 MT in 2012 (based on Euromonitor forecasting).
3. Shopping in retail outlets is becoming the de facto choice for Russian consumers. Since retailers are offering a better assortment of nuts at different price points consumers are exposed to the product and can afford it. In 2011, retail sales in Russia finally reached their pre-2008 crisis level and the industry recorded revenues of \$654 billion, in 2014 it is forecast to be around \$792.7 billion.
4. The leading chains like METRO, X-5 group, LENTA introduced dried fruits and nuts snacks packaged under their private labels. These products are moderately priced and can help boost sales among middle to lower income consumers.

However, Russia remains a price sensitive market. According to recent economic indicators, income growth in the largest cities has slowed down in the first half of 2013. Today's buyer makes more rational and thought out purchases; pays less attention to brands; and searches for products that offer a balance between price and quality. Food processors are trying to produce quality products at affordable prices which lead some manufacturers to vary their ingredients based on price. For example, the

¹ There is no official data for nut consumption. Based on imports and local production records, Post estimates that in 2012, Russian tree nut consumption was around 104,500 MT and per capita consumption accordingly is estimates

confectionery industry switches off between almonds, hazelnuts, and cashews in mass product manufacturing depending on the market price.

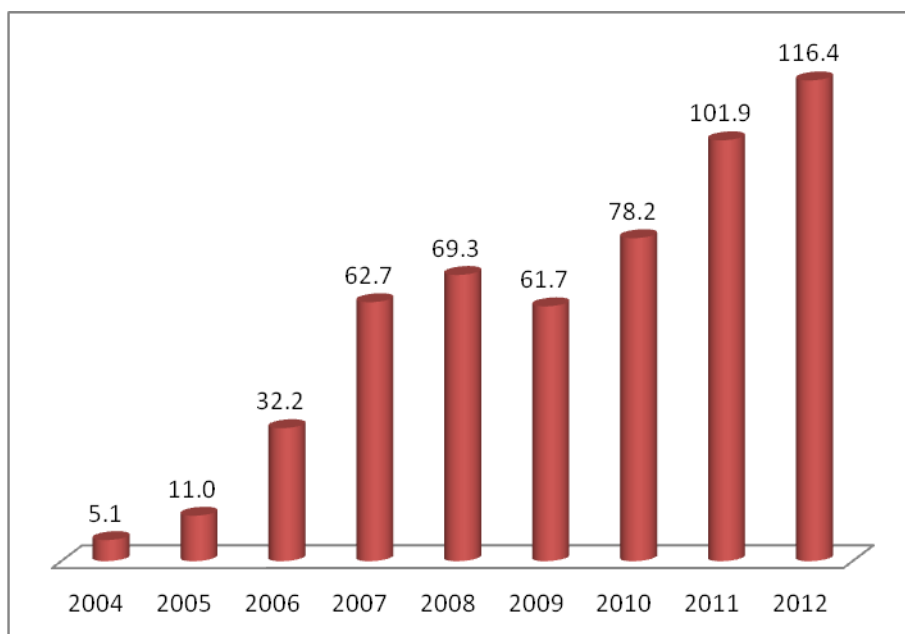
Almonds:

Russia doesn't grow almonds and imports 100% for consumption. Since 2005, the consumption of almonds has experienced yearly growth driven by demand of the food processing sector and better awareness by final consumers about the nutritional value.

In 2012, Russian imported 22,634 MT of almond valued at \$116.6 million. Since 2004, almond imports grew by compound annual growth rate (CAGR) 14.3% per year in volume (except for 2006 and 2009 when declines took place). In value terms, U.S. almond exports to Russia jumped from \$4.8 million in 2004 to \$110.8 million in 2012. Post expects that Russia will continue to increase imports of almonds in 2013 and 2014 due to growing demand by retailers and food processors.

Virtually all almonds are imported "natural" in bulk packaging. Non-processed almonds enjoy zero customs duty and the processed almonds face a 10% customs duty. So, in the vast majority of cases, importers ship raw almonds to Russia and then the nuts are roasted, diced, and packed in country. 95 % of all nuts arrive shelled. However, within the last years imports of shelled almonds have been increasing and in 2012 reached 1,217 MT, 5% of total almonds imports. Russia also import some almond forms like sliced, diced almonds, and marzipan from Spain and Germany. But the volumes are not very significant.

Chart 3. Russia: Almond Imports from 2004 - 2012, by Value, in Million USD



Consumption:

Almonds are growing increasingly popular among Russian consumers as the message on the health benefits of consuming almonds every day is reaching the masses. Demand by the retail industry and

food processing industry for almonds is forecast to grow by double digits in the foreseeable future.

Almond consumption in Russia is driven by foodservice and food processors, which accounted for 75.7%, of total almond consumption, according to Euromonitor. Food processing uses almonds as ingredients in confectionary, dairy, bakery, cereals, and ice cream production. Importers buy less expensive almond varieties as ingredient base. For example, California 27/30, 30/32, and 32/34 are often used in finished confectionary products and smaller sizes are diced and used as base. For premium product and decorative purpose, more expensive Nonpareil varieties are used. According to the industry exports, almond is popular ingredient because of the good taste, stable quality, and less rancidness than other nuts. As Russian food processing output is growing, post expects that demand from this sector will moderately grow, if the price stays competitive compared to other nuts.

The Russian foodservice industry is also using almonds more broadly in a number of dishes such as cakes, desserts and salads. Almond slices, diced almonds, almond powder, and marzipan are increasingly used in dessert making and whole almonds are served as snacks and in snack mixes.

According to the Euromonitor, retail channels accounted for the remaining 24.3% of almond consumption. In 2012, Russian retail market of almonds was estimated to reach 6,500 MT (\$160.5 million in value terms) and is forecasted to grow up to 8,500 MT by 2014. Almonds are sold in packaging as well as “loose”. The nuts are available in 40/100/150/200/250/500 grams packaging natural, roasted, roasted sweated, salted, glazed, and flavored. Consumers prefer to see the product via transparent window in packaging, or they may buy the product in nontransparent packaging if they trust the brand. According the retail specialists, flavored almonds are growing in popularity among final consumers, as well as natural almonds. Sales of almonds in small portions are expanding as consumers more often use them for healthy snacking. Almonds are often included in fruit and nut mixes, which are growing in popularity as snack products in Russia. Consumption of in-shell almonds also is increasing. Natural almonds in bigger packaging and loose are often purchased for home baking and cooking.

While almond sales are growing, its popularity depends primarily on price, physical appeal, and taste. The brand is not very important to Russian customers. Most Russian consumers don't know and don't care much about the country of origin of almonds (same is true for other nuts).

Retail almond prices grew by 20% compared with 2010 due to higher wholesale prices and high inflation rate. However, currently, almond prices are competitive with other nuts. One kilogram (kg) of nuts costs from 450 Rubles² (\$13.80) to 1,250 Rubles (\$40.70) per kg. The price depends a lot on the almond quality, packaging, brand, and the store format. A price survey completed in mid July 2013 at an independent store of St. Petersburg revealed that the 1 kg of loose natural almonds, cashews, and walnuts cost about 450 rubles (\$13.80), of hazelnuts - 440 Rubles (\$13.50), of salted pistachios 65 Rubles (\$1.90) and pine nuts - 1,250 Rubles (\$38.40). In other retail formats, prices for loose almonds are also very close to cashews, walnuts, and hazelnuts.

According to Euromonitor, supermarkets and hypermarkets held the largest share of almonds sold in retail channels in 2011 - 52.5% of all almond volumes sold via the retail sector. In 2014, 58.4% of almonds are expected to be sold via supermarkets and hypermarkets. Consumers value the secure and

² The exchange rate is 32.54 Rubles per one U.S. dollar on the 17th of July 2013. Please see the exchange rate daily fluctuation on <http://bankir.ru/kurs>

comfortable supermarket/hypermarket shopping experience, thus almond volume share is increasing rapidly. Independent food stores accounted for 8.7% of almond sales in 2011. Convenience stores accounted for 4.2% of total almond retail volume sales in 2011. This share is expected to increase, reaching 5.3% in 2014. Many consumers in Russia prefer to save time by stopping at a neighborhood corner shop for groceries rather than driving to supermarkets/hypermarkets. Convenience stores such as gas stations also started to open food shops. In 2011, open markets were still a popular retail channel for almonds with 19.8% of all almonds being sold through this channel. However, open markets are expected to lose market share to supermarkets/hypermarkets in 2014, and will account for only 17.7% of all almond volumes sold through retail channels in Russia.

Trade:

The United States is the main supplier of almonds to Russia and captured 95.7% of the market in 2012.

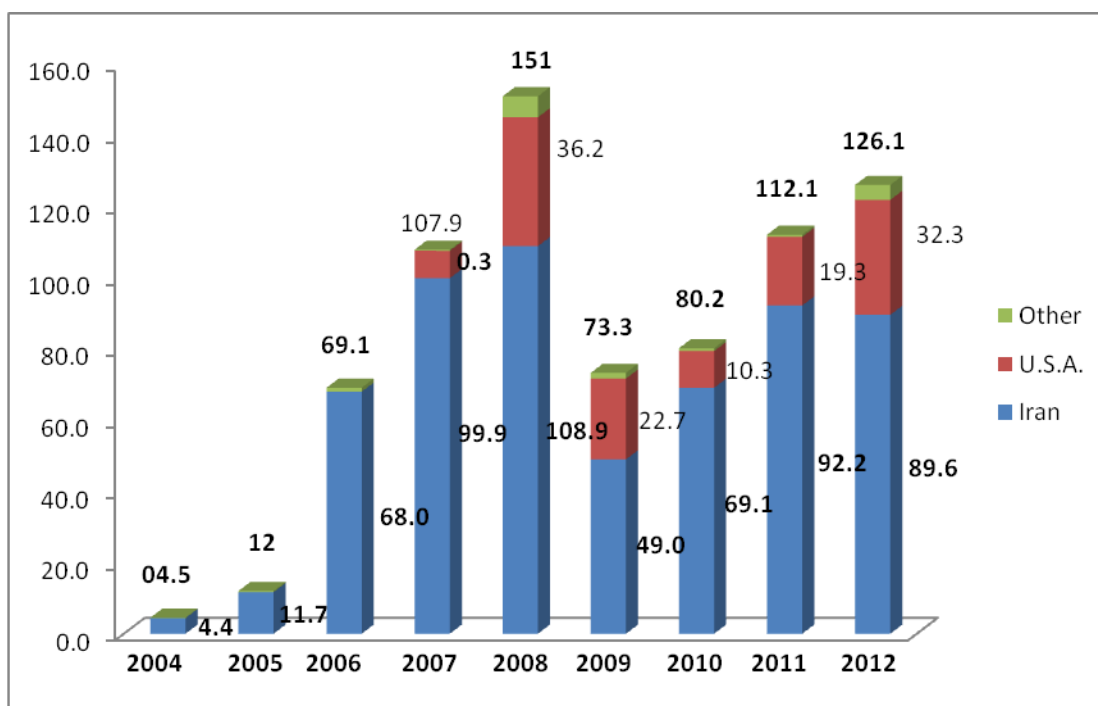
In 2012, Russian almonds imports reached a new record 21,678 MT for \$106.2 million, a 20% increase in volume and value compared with the previous year. The growth is expected to continue in 2013 as demand from the retail sector continues to grow. The closest competitor to the United State is Spain, which exported to Russia 682 MT of almonds in 2012 (3% of the market). Spanish almonds tend to be very expensive. As a result, Post doesn't expect a drastic increase of supply of Spanish product in the future. In 2012, other countries exported less than 1% of total almonds shipped to Russia.

Russian importers are well educated about California nuts varieties and grades. U.S. suppliers have good reputation among Russian importers because of the constant quality of the product and stable supply. Importers supply almonds (and other nuts) to the processing sector, retail chains, wholesalers, and regional distributors. Some importers do roasting, packing, and distribute processed nuts within the country as well. Within the last few years, big packers tried to develop direct purchases of raw nuts to decrease costs and get more competitive prices for the raw product. Market analysts expect that big retail chains will also try to buy directly product for packing under their own private labels. Currently the major of retail chains continue to work via importers.

Pistachios:

Russia doesn't produce pistachios and, therefore, relies on imports for 100% of consumption. Russia is one of the largest global importers of pistachios. 2012 is the third year of growth in a row of pistachios – a strong recovery after the drastic decline in 2009, which resulted from high global prices following bad harvests in Iran and the United States. In 2012, Russia imported 18,131 MT of Pistachios valued at \$126.1 million - an 18% increase in volume and 72% in value compared to 2009. Iran is the main supplier of pistachios with 75% of market share followed by the United States. In 2012, Iranian pistachio exports to Russia dropped 10% percent and totaled at 13,671MT for \$89.6 million due to unstable harvest. U.S. imports have risen considerably over the past three years, from 1,597 MT in 2010 to 3,909 MT in 2012. In value, American exports of pistachios jumped to \$ 32.3 million, a 67% increase compared to the previous year. Rising global prices for pistachios made U.S. pistachios more competitive in Russia. Post expects U.S. pistachio imports to continue on their upward trend in 2013 to satisfy growing demand in Russia. However, American pistachio sales are directly affected by the crop situation in Iran, the main supplier of pistachios to Russia.

Chart 4. Russia: Pistachios Imports by Country, 2004-2012, Million Dollars



Consumption:

According to Euromonitor, the retail sector is driving the consumption of pistachios, and accounted for 52.2% of the total Russian consumption in 2011. Pistachio retail sales will continue to grow and in 2014 possibly surpassing 12,000 MT. The popularity of pistachios as a snack product is increasing in Russia, particularly for the salted roasted variety. Pistachios are often consumed with beer and can be found in numerous bars and restaurants in Russia. Russians enjoy consuming pistachios with on-the-go snacking and view them as a healthy alternative to potato chips. 30-40 gram packages of pistachios are broadly available throughout all retail formats including food kiosks on the street. In general pistachios are sold packaged 30/40/100/150/200/250/500 and “loose”.

Russian consumers are more familiar with Iranian pistachios, which are quite different compared to U.S. product. Historically, Iranian pistachios have dominated the Russian market so Russian consumers got used to them. Also Iranian pistachios are less expensive and broadly available in the different retail formats. However, Russians are now developing a taste for California pistachios as survey after survey shows that Russians like the taste and big size of U.S. pistachios. California pistachios are sold in package in supermarkets and hypermarkets and loose in specialized nuts and dry fruit stores and on the markets.

The retail price for one kilogram of pistachios ranges from 550 Rubles (\$16.90) to 1,359 Rubles (\$41.70). The price depends greatly on the quality of the pistachios, the store format, and packaging.

The retail price for loose pistachios increased from 490 Rubles per kg (\$15) in 2011 to 550 Rubles per kg (\$16.90) in 2013. Pistachios are more expensive than hazelnuts, almonds, cashews. Price increases can slow down the consumption growth of pistachios since there is room for substitution.

Nearly half of all pistachio imports are use in food processing as ingredients - particularly baking,

confectionary, dairy, ice cream production, and deli meat processing. Food manufacturers tend to order cleaned pistachios, at times requesting pistachios with intense green color. As sales of the confectionary, ice cream, and other dairy products are growing in Russia, so will the demand for pistachios which have consistent quality and flavor.

Walnuts:

According to the Russian Federation Statistics Committee (ROSSTAT), in 2012³, Russia aggregated production of walnuts was 10,800 MT - 10 percent of consumption. Domestic tree nut production increased 30% from 2007. However, the acreage of the nut orchards decreased 15 percent since 2007 and totaled just 7,700 hectares in 2012. Virtually all walnuts grown are on private plots for personal use or for sale in the local market.

Post data shows that in 2012, walnut production was around 3,888⁴ MT - mostly cultivated by households for personal consumption and for sale in the local markets over the short. Russia is not likely to develop commercial production of walnuts in the near future, as the areas suitable for commercial production of walnuts are limited to small area in the southern parts of the Russian Federation. Those lands are already being used other crops. In the upper northern areas of Russia, yields per walnut tree are essentially lower and nuts are smaller in sizes. Locally produced walnut volumes don't even come close to satisfy market demand leading Russian importers to buy three times the amount of walnuts produced domestically.

Consumption:

Based on the import and production data, Russian consumption increased from 13,060 MT in 2007 to 14,400 MT in 2012. Euromonitor reports that the walnut market in Russia is starting to show signs of saturation. New nuts enter the market on a regular basis, but these are usually more expensive and exotic varieties. Hence demand for walnuts remains stable.

Of all the tree nuts available in the market, Russians have historically preferred walnuts. Uzbekistan and Tajikistan were the main suppliers of walnuts to Russia during the Soviet period making them available year around in Russia's markets. This makes walnuts much more well known by Russian consumers for home cooking then other nuts which are commonly used for salads, meat dishes and desserts.

Domestic consumption of walnuts was driven by foodservice and industrial processors with a combined share of 59.4% in 2011, based on the Euromonitor. The food processing industry continues to consider walnuts as one of the most popular ingredients in confectionary, cereals, and granola bars. In the foodservice sector, walnuts are the main nut ingredient in traditional dishes in Caucasus and Middle East cuisines. These types of ethnic restaurants are growing in popularity and continue to expand in Russia.

Retail channels accounted for 40.6% of walnut consumption in 2011, based on the Euromonitor.

³ The data not include peanuts grown in wild forests of the Siberia and the Russian Far East.

⁴ According the All-Russia Census of Agriculture 2006, walnuts occupy 36 % of total nuts acreage in Russia. Post use the same proportion to calculate production of walnuts based on the total nut production.

Walnuts remain as one of the most popular nut choices among consumers. The product is sold primarily natural which is used as a snack and for the home cooking. Walnuts are available loose and in 100/150/300/500 grams packaging in the stores. The average price for walnuts is quite comparable with other key nuts. One kg of loose walnuts costs in nut street kiosk 480 Rubles per kg (\$14.75), in the supermarkets/hypermarket - around 511 Rubles (\$15.7). The price for very loose quality “butterfly” Chilean walnuts in specialized healthy snack kiosks can reach up to 1,250 rubles (\$38.41) per kg.

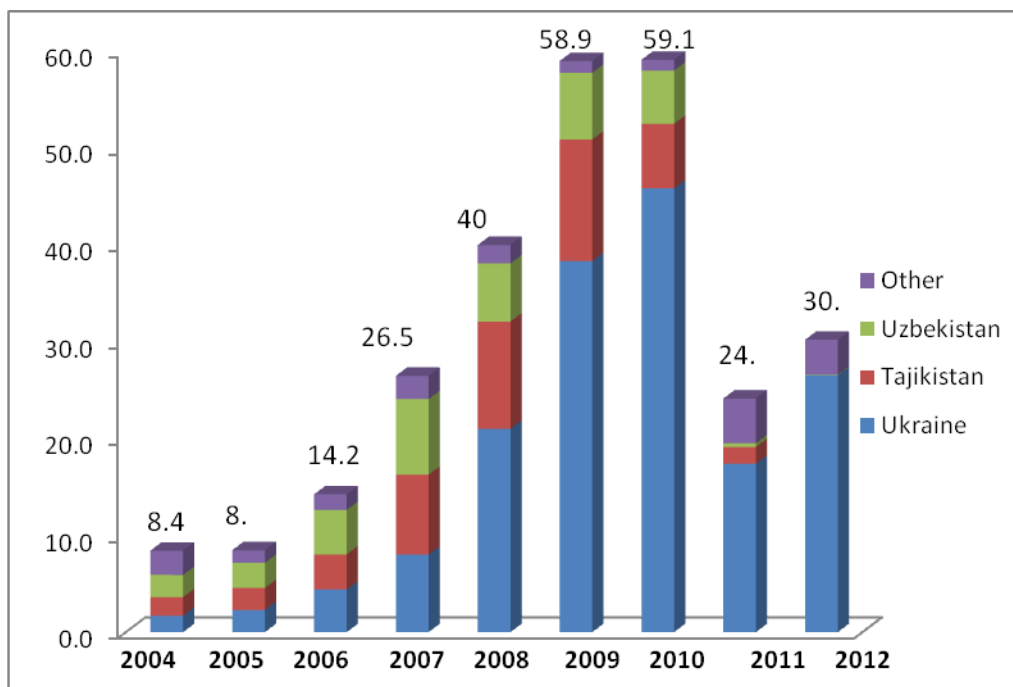
Walnuts are available in all retail formats. According to the Euromonitor, in 2011, supermarkets/hypermarkets had the biggest share of walnut distribution with 54.8%, and their share will increase up to 57% by 2014. The independent food store share has been stable throughout the years and accounted for 7% of walnuts sales in 2011. Their share is expected to remain the same through 2014. Rapidly expanding convenience stores account for 3.9% of total walnut retail volume sales in 2011. This share is growing and is estimated to reach 4.5% in 2014. Open markets were still a very popular retail channel for walnuts. In 2011, 16.2% of all walnuts sold through retail were sold via this channel. Open markets sell less expensive product mostly imported from Uzbekistan, Tajikistan, and Ukraine loose. However, open markets are expected to lose market share to supermarkets/hypermarkets. The other channel for walnuts, retail sales, which consists of kiosks and stalls, is still quite big but is losing ground. In 2011, 18.1% of walnuts retail sales took place through this channel. However, the number is expected to drop to 16.4% in 2014. More and more customers prefer to visit large supermarkets/retailers by car once or twice a week to complete their weekly shopping.

Trade:

According to the Global Trade Atlas, from 2005 to 2009 walnut imports to Russia grew by CAGR of 33% per year. In 2009, imports reached 20,934 MT valued \$61.6 million. Since 2010, walnut imports volumes has been decreasing – down 5.2% in 2010, down 38% in 2011, and down 14% in 2012. In 2012, Russia imported 10,505 MT of walnuts valued at \$31.4 million. The main cause for this drastic decline was shrinking of supplies from the major exporters of walnuts to Russia: Ukraine, covering 70% of walnut imports, Tajikistan, and Uzbekistan. Ukraine started to expand sales to Iran and Turkey, and lowered exports to Russia by 40% from 2010-2012. Accumulative exports from Tajikistan and Uzbekistan also declined significantly from 3,733 MT in 2010 to 87 MT in 2012. The decrease of walnut exports to Russia was not that drastic as an additional 2,000 MT entered Russia via Kazakhstan and Belarus – Customs Union partners with Russia. For example, according to the Customs Union Statistical data, imports of tree nuts #0802 from Kazakhstan to Russia in 2012 reached 1,372 MT for \$1.7 million.

In 2012, The United States exported only 74 MT of walnuts to Russia valued at \$288,411. American walnuts make up just 0.7% of total walnut imports to Russia. U.S. walnuts are very expensive in the Russian market - twice as expensive as Ukrainian walnuts. However, U.S. walnuts are known among importers for having excellent quality leading some big almond buyers bring these small amounts for assortment. US producers always have a chance to improve their volumes if they make their prices more attractive.

Chart 5. Russia Walnuts Imports by Country, 2004-2012, million dollars



Pecans:

Russian import of pecans has been growing (from 7 MT in 2004 to 100 MT in 2012) now valued at \$1.5 million. The main suppliers of pecans to Russia are Mexico and the United States. In 2012, the United States exported 48 MT of pecans to Russia - valued at \$800,000. In 2013, imports of U.S. pecans are expected to increase. From January–May 2013, American pecan exports grew by 522% in volume worth \$1.1 million.

Pecans are used largely in high end confectionary and bakery products manufacturing. This sector targets consumers with higher income levels, who look for natural and healthy foods, and are open to trying new and exotic products. The demand from the confectionary and baking sector will likely grow in the 2014 as Russian incomes continue to rise. Pecans are known mostly to a small circle of professionals in the confectionary sector in Russia. Regular consumers are not familiar with pecans and often mix it with walnuts by appearance. Pecans are available in very few high end supermarkets and specialized nut stores and often found loose and in packaging. The price for the 1 kg of loose pecans in high end supermarkets in St. Petersburg was 1,700 Rubles (\$52.24).

To increase demand for pecans in Russia, educational seminars for confectioners and consumer promotions should be undertaken to broaden awareness of the nutritional value and new applications in food manufacturing. The United States and Mexico are the main suppliers of pecan in Russia.

Policy:

Nuts are subject to sanitary-epidemiologic and phytosanitary inspections. Every shipment should be accompanied with phytosanitary certificates. Some importers also ask for fumigation certificates from the exporter. The sanitary–epidemiological requirements can be found on the website of the Customs Union: <http://www.tsouz.ru/db/techregulation/sanmeri/Documents/PishevayaCennost.pdf> and phytosanitary requirements - in GAIN report RS1102 _ Russia Updates Quarantine Regulations of Imported Products _ Moscow _ Russian Federation _ 1/18/2011

(http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russia%20Updates%20Quarantine%20Regulations%20of%20Imported%20Products_Moscow_Russian%20Federation_1-18-2011.pdf), which provides the list of quarantine objects that shall be controlled in products imported from the United States.

Nuts are cleared based on the harmonized codes and tariffs of the on the Customs Union Tariff Schedule, which came into effect on August 22, 2012.

Almonds in shell (0802 11) and shelled (0802 12) enjoy 0 customs duty.

Customs duty for walnuts in shell (0802 31 000 0) and shelled (0802 32 000 0) is 5% from customs value.

Customs duty for pistachios in shell (0802 51 000 0) and shelled (0802 52 000 0) is 5%.

Customs duty for pecans (0802 90 100 0) is 5%.

Tariff schedule for all products is available on the Customs Union web site in Russian <http://www.tsouz.ru/db/ettr/ettwto/Pages/default.aspx>

Also importers pay 18% of value added tax of accumulative customs value and customs duty.