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Duma Members Propose New Rules for Food Retailers

Report Categories:

Retail Foods

Agriculture in the News

Agriculture in the Economy

Agricultural Situation

Approved By:

Erik W. Hansen

Prepared By:

ATO Moscow staff

Report Highlights:

On January 21, 2015, Russian deputies submitted to the State Duma proposed amendments to the Law on Trade that would impact Russian retailers. The amendments include a reduction in the amount of allowable retro-bonuses, shortening the payment window to suppliers for goods, and imposing fines to retailers for violating regulations ranging from 2-5 million rubles (\$33,000–\$82,000). Retailers have expressed concern that such proposed changes, along with the ruble depreciation, current food import ban, and increases in rents and taxes place undue hardship on them which could, potentially, lead to a destabilization of the consumer food market. The proposed amendments are currently under review.

General Information:

The Russian federal Law on Trade came into force on February 1, 2010. The Law was aimed at creating transparent conditions of cooperation between suppliers and retailers and boosting competition in the retail sector. The Law contains strict antimonopoly regulations, such as capping store openings once a retailer reaches 25 percent market share within a city or municipal region, 10 percent limit on retailers' bonuses paid by suppliers, and payment terms regulating how fast a retailer has to pay for goods with a certain shelf life, among others. To find more details and to see an unofficial translation of the Law please see the [GAIN report](#).

According to the Law, the Russian government can impose regulatory measures for socially-sensitive products for a period up to 90 days if there has been more than a 30 percent price increase in the previous 30 days. This particular measure has been widely discussed in recent months due to growing prices for food products in the Russian market. Please see the [GAIN report](#) for more information. On February 25, 2015, members of the Russian National Association of Retail Companies (ACORT) declared that their member companies would freeze retail prices for a basket of 20 “socially- important” food products for a period of two months. According to a statement on the ACORT website, this move was coordinated with the Russian Federal Anti-Monopoly Service (RFAS). Food price inflation reached 15 percent in the last quarter of 2014 and is climbing mainly due to the weak ruble which makes all food imports more expensive. <http://www.acort.ru/press-room/news/778-torgovye-seti-vvodyat-spetsialnye-mery.html>.

On January 21, 2015, Russian deputies submitted to the State Duma a list of amendments to the Law on Trade. The proposed changes include a reduction of the allowable retro-bonus, shortening the payment window for goods, and imposing fines for retailers from 2-5 million rubles (\$33,000–\$82,000) for violating the regulations. Retailers frequently voice concerns with over-regulation of their businesses. Market analysts have stated that government involvement in the food market could lead to price hikes and a drop in the assortment of foodstuffs for consumers. They also warned that the shrinking of payment terms that retailers have to pay suppliers would make them more dependent on banking loans and increase their expenses on the payment of interest.

In 2013, the Russian Federal Antimonopoly Service (RFAS) published an annual report on the state of competition where it was mentioned that the Trade Law has proved to be relatively ineffective. RFAS claims that the Law has no practical implications on the relationship between suppliers and retailers making it virtually impossible for the Russian government to punish those in violation of the Law. RFAS also noted that while the Law forbids any bonuses for socially-sensitive foodstuff and only allows a maximum 10 percent retro-bonus (premium paid by suppliers to retailers for sales volume) for the rest of the products, retailers bypass this by taking additional "marketing fees" from suppliers. Retailers counter-argue that their stores are a great advertising platform and suppliers should pay for promotion of their products. In some product categories, etc. alcohol, the in-store advertising is the only method to promote the products since Russia currently bans virtually all forms of advertisements. In 2012, RFAS representatives announced 163 violations of Article 9 of the Trade Law (regulates the conditions of supply including bonuses) but only 34 were followed up upon due to the expiration of administrative responsibility (the limitation period is two months according to the Law).

Table 1. Russia: Proposed Changes to the Trade Law

Subject of Regulation	Current Version	Amended Version
Definition of a Retail Chain	Two or more points of sale managed by the same entity, or two or more points of sale operating under same trademark or another identification mark	Two or more points of sale which legally belong to economic entity or several economic entities forming one group of persons, or two or more points of sale operating under same trademark or another identification mark
The amount of remuneration of retail chains by suppliers	Not more than 10% of the cost of a single delivery	Not more than 3% of the cost of delivery, including marketing fees (the calculation of the cost of the delivery doesn't include VAT and excise)
The payment of other fees	Not allowed	
Deferred payment for the delivery if the shelf life of a product		
Less than 10 days	10 days	5 days
Less than 30 days	30 days	20 days
More than 30 days	45 days	30 days
Fining of retail chains		
For the creation of discriminatory conditions for suppliers	No	From 2 to 5 million rubles
For obstructing suppliers	No	From 2 to 5 million rubles
For violation of pricing	No	From 2 to 5 million rubles
To impose conditions that are prohibited by law	No	From 2 to 5 million rubles
For repeated violation of the law	No	From 2 to 5 million rubles

Retailers have expressed concern that such proposed changes, along with the ruble depreciation, current food import ban, and increases in rents and taxes place undue hardship on them which could, eventually, lead to a destabilization of the consumer market. ACORT, which includes 37 of the largest retail stores in Russia as members, noted that a significant reduction of retro bonuses will lower retail store

purchases which could have a negative impact on production and producer incomes. Plus, shortening the window for payment to suppliers would lead to retailers' absorbing additional debt as they would have to credit suppliers for not-yet-sold products.

On March 11, Prime Minister Dmitry Medvedev chaired a meeting that included major agricultural producers, wholesalers, distributors, trade organizations, retailers, and government officials to discuss efforts to curb rising food prices. Medvedev assured the participants that the Government currently had no plans on creating regulations to control food prices. He also recommended that retailers, producers, and RFAS should work together on the drafting of amendments to the Trade Law (regulating bonuses, mark-ups, days payable etc.) which will be discussed by the State Duma in autumn 2015. The meeting gave retailers the opportunity to be heard by Russian government officials and to provide input to suggested changes to the Law on Trade. Post will follow up and report on any new developments in this sphere.