

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

In 2014, Russia's GDP grew 0.6 percent compared to 1.3 percent in 2013 and fell 3.6 percent in first half of 2015. Retail sales grew 2.5 percent in 2014 (3.9 percent in 2013) and amounted to \$694 billion.

Food sales, including alcohol and tobacco, accounted for 47 percent of total retail sales. Russian consumers have started to optimize expenditures and change food buying habits. Agricultural exports to Russia totaled \$1.2 billion in 2014. Russia continues to be an attractive market for U.S. exporters of processed food products, sauces, confectionary ingredients, beverages, animal genetics, live cattle, and soybeans.

General Information:

SECTION I. MARKET OVERVIEW

The macroeconomic situation in Russia in 2014 was characterized by a gradual stagnating of growth dynamics. The Russian Federal Statistics Service (Rosstat) reported that GDP grew only 0.6 percent in 2014, compared to 1.3 percent growth in 2013, valued at \$1.9 trillion (\$2.1 trillion in 2013). A complex geopolitical situation and economic sanctions, weak demand along with high interest rates and rising inflation led to further worsening of economic growth conditions. In the first half of 2015, Russia's GDP fell 3.6 percent, according to a Ministry of Economic Development (MED) report. MED analysts have forecasted real GDP to decrease by 3 percent in 2015.

Economic stagnation has been the key factor affecting the domestic food market. In 2014, Russian retail sales turnover grew 2.5 percent year-on-year in comparable prices (3.9 percent in 2013) while, in value terms, the indicator reached \$694 billion. The grocery retail market totaled \$326 billion, down 0.1 percent in Ruble terms. The slowdown in grocery sales was a direct consequence of several factors (e.g. record-low oil prices, food import ban, and ruble devaluation) which negatively influenced purchasing power of local consumers. Food sales, including alcohol and tobacco, accounted for 47 percent of total retail sales in Russia - the same as in 2013. Foodservice sales grew 1.6 percent in 2014 (4 percent in 2013) and totaled \$32 billion. Nevertheless, opportunities abound particularly for U.S. exporters of processed food products, sauces, confectionary ingredients, beverages, animal genetics, live cattle, soybeans, and many others products.

From January – July 2015, Russian retail turnover fell 8 percent (grocery sales fell 7.7 percent), and foodservice was down by 6.2 percent. Paid services fell 1.5 percent as well as real disposable incomes, according to Rosstat. The average monthly wage in Russia in 2014 totaled \$856 (\$1 is 37.97 RUB).

MED forecasts a real wages decline of more than 9 percent and real incomes to drop by more than 6 percent in 2015. If true, such a large drop will negatively influence consumer demand which, in turn, will affect retail sales and foodservice sales. MED analysts forecast retail sales to drop 8.2 percent in 2015 as well. Unemployment stood at 5.2 percent in 2014 (5.5 percent in 2013). The number of people living below the poverty line in Russia totaled 16.1 million people in 2014 and accounted for 11.2 percent of the total population. The savings ratio increased by only 7.6 percent in 2014, compared to 19 percent growth in 2013 and 17 percent in 2012.

European Russia is home to more than 75 percent of the total population (143.7 million people). 74 percent of Russians in 2014 lived in urban areas and roughly 8 percent of the total population lived in either Moscow (12 million people) or St. Petersburg (5 million people). There are fifteen cities in Russia (e.g. Novosibirsk, Yekaterinburg, Nizhniy Novgorod, etc.) with a population of more than one million people. Around 30 million people (22 percent of the population) live in these cities which also represent the largest retail and Hotel/Restaurant/Institutional (HRI) markets in the country.

Table 1. Russia: Economic Activity, 2010-2014

	2010	2011	2012	2013	2014
Nominal GDP, billion dollars	1,474	1,860	2,007	2,098	1,880.6
Real GDP growth, % change y-o-y	4.0	4.3	3.4	1.3	0.6

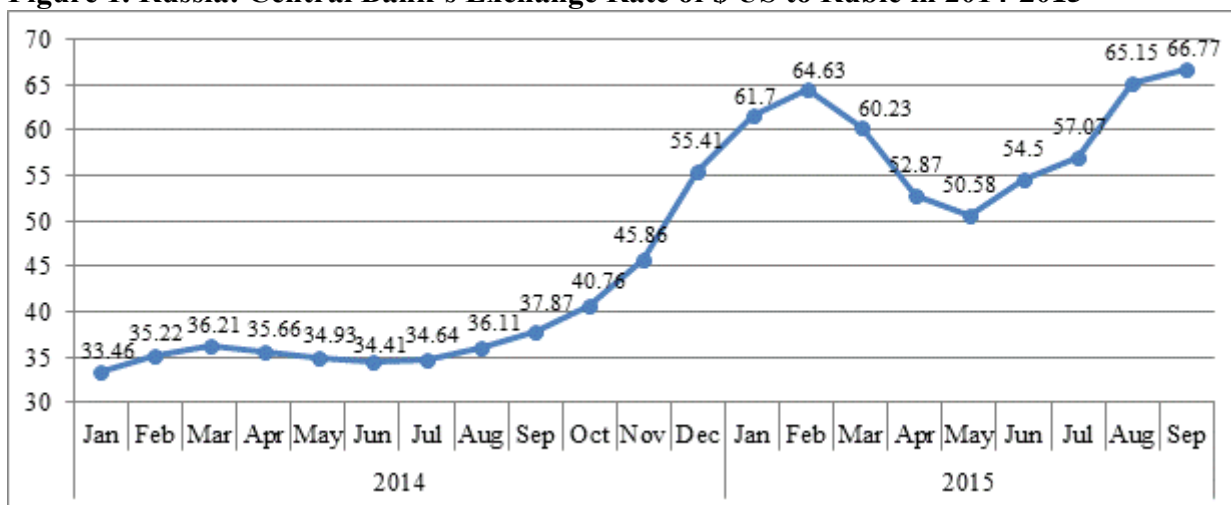
GDP per capita, US\$	10,675	13,324	14,079	14,487	12,736
Population, millions	141.9	142.96	143.1	143.5	143.7
Unemployment, %	7.5	6.6	5.7	5.5	5.2
Inflation, %	8.8	6.1	6.6	6.5	11.4
Exchange rate (per \$1)	30.36	29.35	31.07	31.82	37.97

Source: *The World Bank, Federal State Statistics Service, The Central Bank of Russian Federation, 2015*

In 2014, the Russian ruble depreciated by 70 percent to the U.S. dollar. The ruble depreciation free fall resulted from restricted access to external funding, thanks to economic sanctions applied by Western countries, which was needed to repay external debt. In addition, there was a significant decrease in global oil prices and currency speculation which led to “Black Tuesday” (December 18, 2014) when the exchange rate hit 80 Russian rubles per US dollar. In order to stop the plummeting ruble, the Russian Central Bank hiked its key interest rate to 17 percent from 10.5 percent overnight. The higher key interest rate immediately led to more expensive credits for both businesses and personal loans. The key interest rate on August 3, 2015, was 11 percent. A new wave of the ruble depreciation began in July-August 2015 when the exchange rate began nearing 70 rubles for 1 U.S. dollar. Prime Minister Dmitry Medvedev gave a press conference explain that the ruble depreciation resulted from a fall in world oil prices, devaluation of national currencies of China and Kazakhstan, slowing Chinese economy, and Western economic sanctions - including the imposition of sanctions on Russian banks.

The falling ruble continues to affect Russian consumers today. With a large share of food and consumer goods imported, purchasing power has been severely affected by the large drop in value of the Russian ruble. In previous years, the Russian economy benefited from high oil prices leading millions of Russians to join the middle class. Figure 1 below shows the exchange rate of Russian ruble per U.S. dollar in 2014 and from January to September 2015.

Figure 1. Russia: Central Bank’s Exchange Rate of \$ US to Ruble in 2014-2015



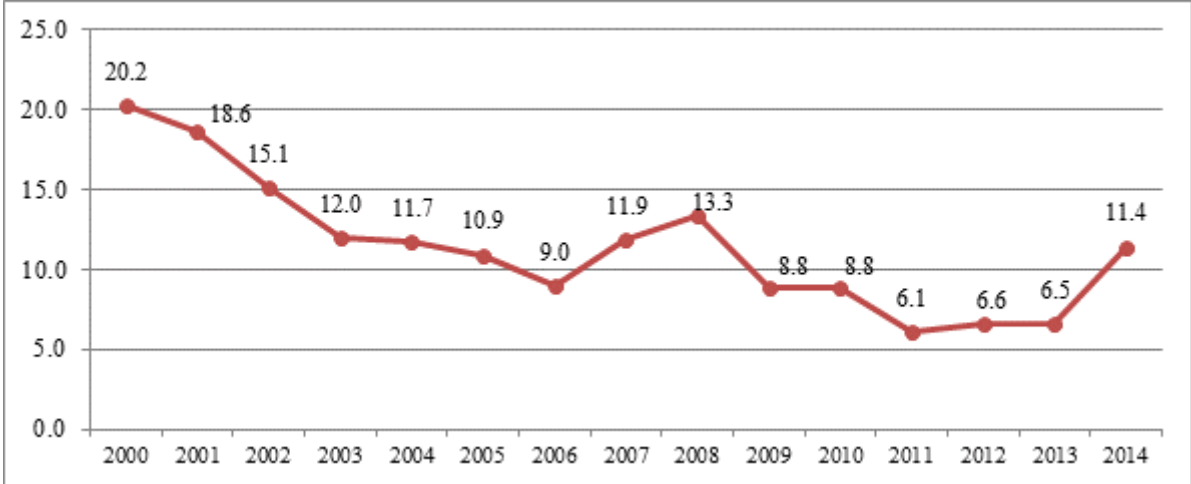
Source: *The Central Bank of the Russian Federation, 2015*

According to Rosstat, consumer price inflation in Russia in 2014 rose by 11.4 percent in 2014 – the highest level seen since the financial crisis of 2008 when consumer prices grew by 13.3 percent. Food price inflation was a key factor pushing up overall inflation in 2014 where it increased 15.4 percent.

This high level was caused mostly by the ruble devaluation and a food import ban imposed by the Russian government in August 2014. Food prices (excluding fruit and vegetables) grew by 14.7 percent in 2014 according to Rosstat data. Retail prices for food items covered by the food import ban surged 17.9 percent after the food import ban was introduced. Cheese, fish, and meat prices rose the fastest as a large percentage of these products have historically been imported from overseas. In addition, retail food prices for items not covered by the food import ban also increased 11.8 percent in 2014. Sugar and cereals prices rose by 40 percent and 34.6 percent respectively in 2014 while fruit and vegetables prices jumped by 22 percent.

According to Rosstat data, from January - July 2015, inflation totaled 9.4 percent in Russia while food price inflation topped out at 10.5 percent. According to the updated forecast from the Russian Ministry of Economic Development (MED), real wages in Russia are expected to drop by more than 9 percent in 2015, real incomes – drop by 6 percent. Inflation in 2015 could reach 12.2 percent (although market analysts are predicting overall inflation may surpass 15 percent). According to this forecast, the retail trade in 2015 will be reduced by 8.2 percent which will be one of the main factors of the projected 3 percent drop in overall gross domestic product (GDP). The share of overall retail trade in GDP is about 15 percent.

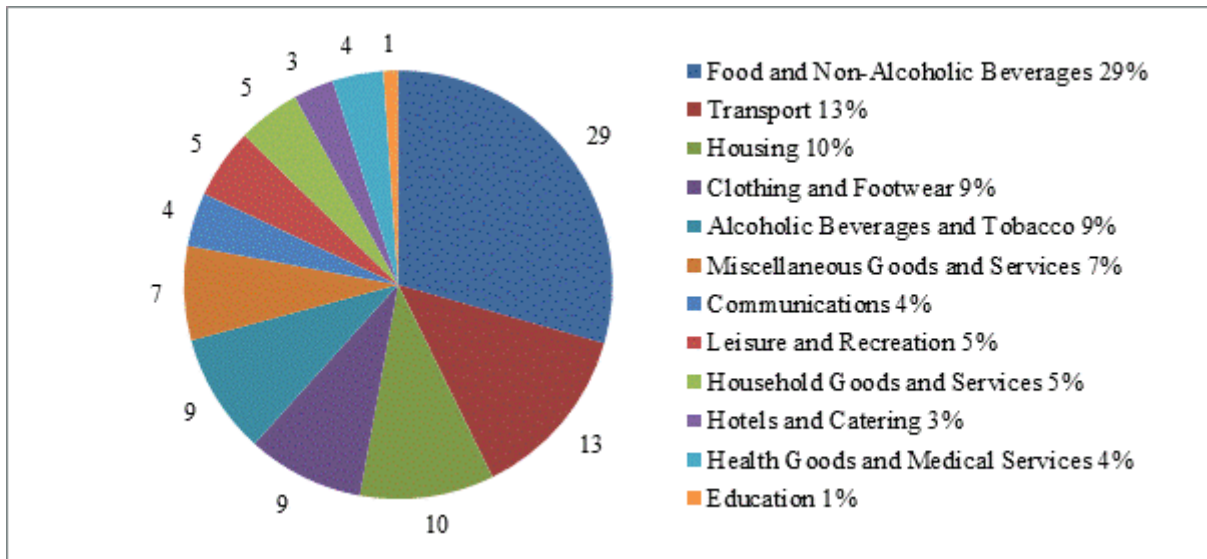
Figure 2. Russia: Consumer Price Inflation, 2000-2014, in Percentage



Source: Rosstat, 2015

The consumer spending landscape in Russia is characterized by regional disparities and consumers placing high priorities on essentials such as food, non-alcoholic beverages and housing. Approximately 29 percent of consumer expenditure in 2014 (31 percent in 2013) was allocated to the purchase of food and non-alcoholic beverages. Figure 3 shows Russian consumers’ expenditures broken down by sector in 2014.

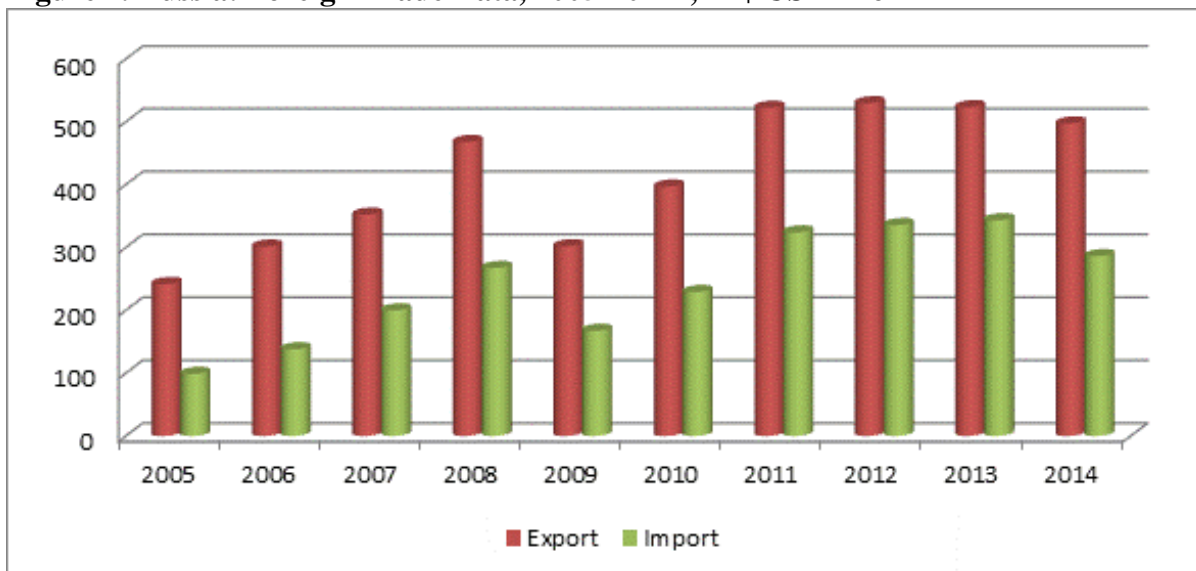
Figure 3. Russia: Consumer Expenditure by Sector in 2014, in Percentage



Source: Euromonitor International from trade sources and national statistics, 2015

According to Rosstat, in 2014 Russia's foreign trade turnover amounted to \$742.4 billion (5.1 percent lower than in 2013), with \$459.1 billion (3.1 percent down) in exports and \$283.3 billion (8.3 percent down) in imports. In the first half of 2015, Russia's foreign trade turnover totaled \$276.5 billion (32.3 percent down from same period in 2014), including exports – \$182.5 billion (28.5 percent down) and imports at \$94 billion dollars (38.6 percent down). The trade balance remained a positive \$88.6 billion during the first half of 2015 (\$102.2 billion during same period in 2014).

Figure 4. Russia: Foreign Trade Data, 2005-2014, in \$ US Billion



Source: Rosstat, 2015

On August 6, 2014, Russia announced a one-year ban on numerous food and agricultural products from the United States, European Union, Australia, Canada and Norway. The list is broken down by HS codes and includes most categories of red meats, poultry, fish, dairy products, fruits, vegetables and

many others. To see the complete list of products affected by the ban, please refer to this [GAIN Report](#). Later in June 2015, President Putin signed decree extending Russia’s food import ban until August 5, 2015 (please see the [GAIN Report](#) for more detailed information). You can find more information on how the ban affected Russian retail, foodservice in FAS GAIN reports (please see “Other relevant reports” section of this report).

In 2014, Russia's imports of foodstuff contracted by 8 percent to \$39.7 billion. In the second half of 2014, food imports plummeted by 14.2 percent in comparison with a slight decline of 1.2 percent during the first half of 2014. The biggest decline in agricultural imports in 2014 was seen with wheat down 55.4 percent, vegetable oils down 51.4 percent, barley down 42.3 percent, and cocoa containing products down 27.5 percent. Raw and refined sugar topped the list of products that saw a surge in imports in 2014, up 257.3 percent and 25.6 percent respectively. A low sugar beet harvest was the main cause of the large import growth seen in 2014.

The food import ban was one of the main reasons for falling food imports in 2014. Russia has significantly reduced imports of many types of agricultural commodities and food products. However, 60 percent of the decrease was offset by a growth in domestic production, primarily of pork and poultry, and the remainder was covered by imports from alternative countries. From September - December 2014, the CIS countries have boosted exports of meat to Russia by 21.4 percent, butter by 86.1 percent, citrus fruits by 25.4 percent, sausages and canned meat by 36.2 percent compared to the same period in 2013.

Table 2. Russia: Total Imports of Agricultural Products, 2010-2014

	2010	2011	2012	2013	2014
Agricultural Imports, in billion U.S. Dollars	36.4	42.5	40.7	43.2	39.7
Growth Year on Year, %		16.8	-4.2	6.1	-8.1
5-Year Average Annual Growth Rate, %					2.65

Source: Rosstat, 2015

In 2014, the United States was Russia’s third largest supplier of food and agricultural products where total U.S. - Russia bilateral trade amounted to \$29 billion.

Table 3. Russia: U.S. – Russia Overall Bilateral Trade in 2014

Russian Total Trade	\$805 billion
Exports	\$497 billion
Imports	\$308 billion
Trade Balance	Plus \$189 billion
U.S.-Russia Trade	\$29.2 billion
Russian Exports to U.S.	\$10.7 billion
Russian Imports from U.S.	\$18.5 billion
Passive Trade Balance	Minus \$7.8 billion
U.S.-Russia Ag. Trade*	\$1.3 billion

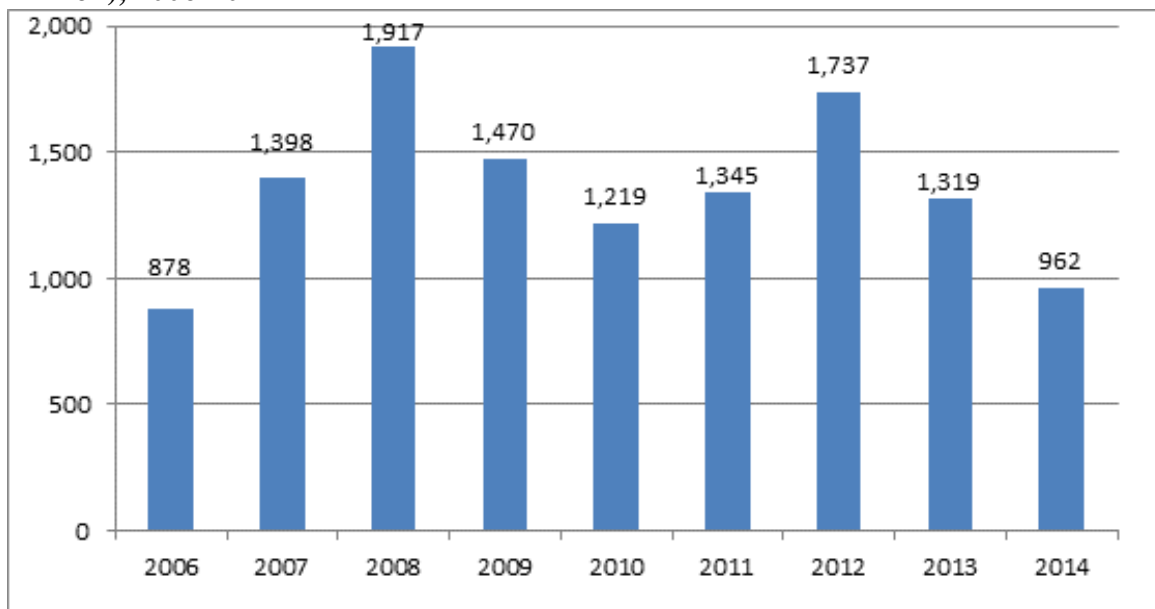
Russian Exports to U.S.	\$0.1 billion
Russian Imports from U.S.	\$1.2 billion
Trade Balance	Minus \$1.1 billion

Source: Rosstat, Global Trade Atlas, 2015

* Agricultural, Fish and Forestry Products

According to Russian customs statistics, U.S. agricultural imports in 2014 totaled \$1.2 billion, down 17 percent compared to 2013. This is due mainly to Russia’s food import ban placed in August 2014 as well as shrinking consumer demand for imported products caused by the high exchange rate. In 2014, the United States was the eighth largest supplier of food and agricultural products to Russia (the same as in 2013) supplying 3 percent of Russia’s total agricultural imports. The U.S.’s top agricultural exports to Russia in 2014 included soybeans, poultry meat, food preparations, nuts (almonds, pistachios), peanuts, sunflower seeds, fish and seafood, and other products. Total bilateral agricultural trade (\$1.3 billion) in 2014 represented just 4 percent of overall trade between the two countries.

Figure 5. Russia: U.S. Exports of Agricultural, Fish & Forestry Products to Russia (in \$ US Million), 2006-2014



Source: Global Trade Atlas, 2015

Note: These figures are based on U.S. Customs export data, and will differ from Global Trade Atlas data on Russian imports from the U.S., which are based on Russian Customs import data.

U.S. suppliers of a wide variety of products and services are active in the Russian market. The Russian chapter of the American Chamber of Commerce includes more than 850 members successfully operating in Russia. Among them are such American companies as Kraft, Mars, DuPont, Wrigley, Cargill, PepsiCo and many others. In recent years, Moscow was ranked as the third most attractive cities for international retailers following London and Paris, according to a survey of 150 leading international retailers in 55 countries in Europe conducted by Jones Lang LaSalle.

Exporters should review some of the advantages and challenges of the Russian market (please see Table 4 below) when considering their marketing strategies.

Table 4. Russia: Advantages and Challenges for U.S. Exporters

Advantages	Challenges
Population of 143.7 million people who are potential consumers.	Economic crisis has had a profound impact on Russia and led to a decrease in purchasing power among the middle class. Economic vulnerability, dependence on oil and mineral extraction for most wealth.
Paying in dollars is advantageous for exporting to Russia compared to Europe due to the lower cost of the dollar relative to the euro.	Ruble/\$ exchange rate has led to an increase in the price of U.S. products. Official government opposition to growth in food imports.
Russia is still an attractive market for a large number of U.S. grocery products including sauces, spices, confectionary ingredients, pastas, beverages, etc.	Complicated business environment due to the current food import ban affecting many U.S. products. An import substitution policy is being pushed by the Russian Government.
Russia has the biggest online audience in Europe with 87 million users which boost internet sales steadily.	Distribution remains major barrier to growth for e-commerce. 30% tax on all goods valued at over \$1,010 imported by foreign online retailers in one month
Significant number of consumers can afford purchasing high-quality food products.	Per capita spending in the regions outside Moscow and St. Petersburg remains quite low.
Urban lifestyle changes increase demand for semi-finished and ready-to-cook products.	Rapid development of local manufacturers of ready-to-cook products and Government Strategy to modernize food processing sector creates tough competition for similar imported goods.
American-made food and drinks are still new for the majority of the population, and popular among the younger generation.	Growing number of domestically produced products; lack of knowledge of American products.
Existence of large importers experienced in importing food products to Russia.	Despite improvements in English language competency of many Russians it's still to be expected that many firms will not communicate effectively in English.
Russian trade and investment policy is converging with international standards.	Elevated interest rates currently at 15% (Central Bank rate) and therefore tight financing. Decelerating western investment. Current presence of non-tariff barriers such as sanitary and phytosanitary restrictions.
Investors are building more efficient storage facilities, improve infrastructure and logistics.	Despite huge potential, regional markets require substantial up-front investment in infrastructure and facilities, and transportation infrastructure between cities and regions remains extremely poor.
Due to Russia's accession to the WTO Russia is obligated to bind its agricultural tariffs, adding	Competition with food products imported from countries which are not in the banned list has

more predictability to the trading relationship and opening export opportunities for the U.S. agricultural industry.	risen.
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SECTION II. EXPORTER BUSINESS TIPS

Eating Habits

Russia remains a largely traditional and patriarchal society where the family unit is typically run by wives and mothers who cook regularly at home and make most of the dietary decisions. The most typical dietary regime consists of potatoes, heavy rye bread, pork, chicken and beef, as well as various soups based on seasonal vegetables, mushrooms and rice. Meat is usually either boiled or fried and various forms of barbecued meat are popular during the summer season. Lamb is one of the most expensive and least eaten meats in Russia, while chicken and pork are the most popular.

Russia remains a country where demand for ready-to-eat meals is low save for instant noodles and soup recipes. As a result, there is large demand for fresh ingredients - especially poultry, sausages and processed meats. The primary vegetables that are found in almost every home are tomatoes, cucumbers, bell peppers, onions and eggplants, while others such as celery, brussel sprouts, avocados and chilies remain fairly marginal.

Most Russians have a tradition of eating out at business lunches, where special-deal menus offer them discount prices and affordable daily meals. The most common preferences are home-food style cuisine although fast food is also becoming widely consumed. However, as opposed to Western fast food brands, there is growing demand for traditional fast food based on authentic Russian cuisine such as dumplings, jacket potatoes and various patties. The prevalence of sushi has also made it one of the most popular take-away options. Research by business network RBK showed that pizza and sushi were the most popular meals for delivery while at work. (Source: Euromonitor International)

Consumer Tastes and Preferences

The Russian macroeconomic environment is changing from stable development to gradual stagnating. Local consumers have great experience of dealing with economic difficulties and they started to optimize expenditures. As the retail prices significantly increased in the second half of 2014, Russian consumers had to revise their consumption habits. They focused on optimization of their family budget and spent more carefully on groceries by choosing better prices and reviewing the number of purchased products.

Consumers also started visiting stores with less frequently distancing themselves from the temptation to buy more than is really needed. In all outlets, the assortment of groceries has changed significantly since the food import ban went into place in August 2014 – particularly in those sections where imported products were prevalent. Consumers were no longer able to find some of the imported brands and had to adjust their eating preferences to products of domestic origin. While surveys show that most consumers have not feel a lack of milk products in stores, they have noted that the quality of

domestically-produced substitutes do not meet the same standards as found in previously-imported products. According to Nielsen research conducted among 1,000 respondents from Russia's cities with more than 50,000 residents in March 2015, 44 percent of Russian buyers confirmed that they reduced the volume of their fast-moving consumer goods (FMCG) purchases during January-March 2015 as a result of rising food prices. The Nielsen research also showed that Russian consumers acquired nearly a quarter less products from the FMCG segment than in December 2014.

Today, consumers' choice of retailers mostly depends on the prices offered rather than convenience they provide. With declining consumer purchasing power, most Russians tend to buy groceries in those outlets where they find the most attractive price offered. At the same time, they expect the same level of service that they are used to receiving. In 2014, some of retailers started to improve their services and are expected to continue working on making the shopping process faster and more convenient.

Packaged Food Sales

The fall of the Russian ruble in 2014 significantly affected price growth in the majority of packaged food areas. As a result of growing economic instability in the country, consumer incomes did not rise in 2014, with spending falling. In response, consumers became more rational in terms of spending, planning purchases in advance and reducing spontaneous purchases. However, modern retail channels such as supermarkets and hypermarkets continue to expand throughout Russia. The expansion stimulates packaged food distribution, with the sales share of unpackaged products declining. The fact that chained retailers set high quality standards forces packaged food companies to meet requirements and to provide the market with appropriate products. As a result, they pay much attention to preserving product freshness, quality of packaging materials, long expiration dates, product related information on packaging and brand awareness.

With growing demand, Russia's increasing packaged food market presents opportunities for U.S. suppliers and totals more than \$100 billion. In 2014, the packaged food growth rates slowed down due to decreasing consumer consumption power. As consumer incomes rose at a lower rate than food prices, consumers are buying less and limited purchases to what they think they really need. Exports in almost all categories of packaged products saw moderate growth in 2014 in value terms. The most noticeable growth year-on-year was shown by soup (6.8 percent), frozen processed food (6.1 percent), and ready-to-eat meals (5.1 percent). The growth in the soup category was achieved due to the fact that the area was developing from a small base. Soup, however, as well as other packaged food categories, recorded lower increases than in previous years due to slower economic growth forcing consumers to spend less on non-essential packaged food products.

Table 5. Russia: Packaged Food Sales through Retail Stores, 2010-2014, in \$US Billion in y-o-y Exchange Rate

	2010	2011	2012	2013	2014	2013/2014 % Growth
Packaged Food Total	79.257	90,329	94,845	102.915	99.498	-3.3
Dairy	18.648	21.240	22.263	24.818	23.307	-6.1
Confectionery	11.293	13.168	13.132	14.168	12.942	-8.7
Frozen Processed Food	6.859	8.186	8.740	9.693	9.785	0.9

Baked Goods	6.916	7.933	8.428	8.958	8.065	-10.0
Chilled Processed Food	6.358	7.063	7.404	7.975	7.701	-3.4
Oils and Fats	5.482	6.022	6.066	6.377	6.480	1.6
Sauces, Dressings and Condiments	4.697	5.314	5.612	6.071	5.781	-4.8
Ready Meals	3.677	4.260	4.476	4.924	4.949	0.5
Baby Food	3.457	4.201	4.586	5.063	4.875	-3.7
Canned/Preserved Food	3.950	4.445	4.582	4.819	4.669	-3.1
Sweet and Savory Snacks	3.237	3.723	3.865	4.065	3.862	-5.0
Biscuits and Snack Bars	2.789	3.148	3.402	3.716	3.459	-6.9
Dried Processed Food	2.811	3.012	3.160	3.355	3,176	-5.3
Ice Cream and Frozen Desserts	2.300	2.333	2.585	2.849	2.773	-2.6
Pasta	1.344	1.462	1.589	1.708	1.635	-4.3
Soup	.529	.625	.689	.781	.788	0.9
Noodles	.654	.724	.788	.816	.767	-6.1
Spreads	.474	.571	.609	.677	.647	-4.4
Breakfast Cereals	.487	.559	.580	.630	.628	-0.3

Source: Euromonitor International from trade sources and national statistics, 2015

Significant market opportunities exist for U.S. exporters of non-alcoholic beverages and many of these are already experiencing growth in Russia. According to Euromonitor International, the sales of sport and energy drinks reached 20.5 percent growth in volume year-on-year in 2014. Ready-to-drink coffee increased by 11 percent followed by ready-to-drink tea (6 percent) and bottled water (4 percent). The growth in sales of sports and energy drinks was due mostly to the novelty of the products on the market as well as their active promotion in media.

Private label packaged food has increased in popularity in Russia in recent years. In many cases, consumers prefer private label ranges to usual branded products as the former usually offer similar quality but lower unit prices. As a result, by the end of 2014, with consumer spending decreasing, private label products gained even more popularity due to their affordable unit prices. Private label development is being fueled by constant chained retailer expansion, with most stores offering private label advertisements and promotions which allow people to try new products. Private label products are usually considered to be of lower quality and compete within the lower price segment throughout the country. However, this situation has changed a lot recently with active development of the mid-price segment as well as active marketing promotion resulting in an expansion of private label products in various packaged food areas in Russia.

Meal solutions continued to develop in 2014. Promotional activities, the wider presence of products on retail shelves, and growing consumer awareness of meal solution products all contributed to the increase in demand in 2014. Frozen processed food remains the largest meal solutions sector. Besides the strong tradition of eating *pelmeni* and *vareniki*, which account for a significant share of frozen processed food sales, the area was also driven by the convenience trend and the increasingly hectic pace of modern life. Due to the offering of a time-saving and convenient solution, frozen ready meals remain highly popular amongst consumers, accounting for 48 percent of value sales within frozen processed food in 2014.

(Source: Euromonitor International)

Business Climate in Russia

The World Bank's Ease of Doing Business 2015 report ranked Russia 62nd out of 185 countries (in 2014, 92th out of 185) but most of the improvement comes on the back of changes to the ranking's methodology. Adjusted for methodology changes, the improvement was rather meager – 2 positions up – revealing a contrast to 2014, when Russia ranked among the top-3 reformers, moving 19 notches up. It takes, on average, 5 procedures and 13 days in Russia to open a business. However, the cost of starting a business in Russia is low: only 1.2 percent of per capita income, compared to an average of 5.3 percent of per capita income in the Eastern Europe and Central Asia region.

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

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

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.

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 middle men, often sustain losses due to lack of local market knowledge. A large domestic import company is usually better adjusted to local conditions, with established trade ties and contacts in state structures.

Exporters representing U.S. companies may contact the Moscow ATO for importer lists. Performing

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

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

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

Trade Shows in Russia

Participation in one of several established trade shows in Russia allows exporters to take a first-hand look at the local market, to meet potential importers, and to gauge the competitiveness of their products compared to similar products promoted at the show.

World Food Moscow

Moscow, ExpoCenter

September 12-15, 2016

<http://www.world-food.ru/en-GB/about.aspx>

World Food Moscow is a USDA-supported show, and is essentially the “main event” for U.S. exporters interested in market opportunities in Russia. ATO Moscow and the Office of Trade Programs (in Washington) organize American pavilions in the grocery, fruit, and seafood sections offering “turn-key” service. USDA industry organizations (aka Cooperators) typically organize a pavilion in the meat hall. In 2014, this 4-day show drew more than 1,600 exhibitors from 72 countries and attracted more than 30,000 importers, wholesalers, retailers, and processors from all parts of Russia and from many neighboring countries.

PIR Hospitality Industry

Moscow, Crocus ExpoCenter

October 2016

<http://www.pir.ru/>

The PIR Hospitality Industry exhibition is the leading show for the hotel, restaurant, and industrial catering sector (HRI) and is affiliated with the Restaurateurs and Hoteliers Federation of Russia. In 2014, more than 700 exhibitors from 25 countries participated in the PIR show. The PIR show attracted approximately 50,000 visitors from the Russian hospitality industry.

Golden Autumn

Moscow, All-Russian Exhibition Center (VVC)

October 2016

<http://goldenautumn.moscow/en/>

The Golden Autumn trade show is organized by the Russian Ministry of Agriculture, and is the largest Russian trade show for production agriculture. In 2014, more than 2,500 companies and organizations from 70 Russian regions and 50 foreign countries exhibited at the show. Golden Autumn occupied over 60,000 meters of space, including open grounds, displaying over 700 items of agricultural equipment, both Russian and foreign. More than 80,000 visitors attended the event, most of who are involved in farming and livestock production, food processing, agri-business, research, or business financing. At this annual trade show, the USDA pavilion displays animal and plant genetics, high-grade feeds, animal nutrients, and feed additives.

AgroFarm

All Russian Exhibition Center (VDNH)

January 26-28, 2016

<http://www.agrofarm.org/12.html>

With more than 12,000 visitors, the AgroFarm exhibition in Moscow on February 3 – 5 2015, reached its best attendance figures yet, with Russian farmers travelling from as many as 70 different regions to attend this leading agricultural event that has been held annually since 2007. AgroFarm provides practical solutions for the Russian livestock industry with 360 exhibitors from 29 countries covering primarily, dairy, cattle, pig and poultry sectors spread over 16,000 square meters of indoor space. An area was also dedicated to goat and rabbit production.

Prodexpo

Moscow, Expocenter

February 8-12, 2016

<http://prod-expo.ru/en/>

Prodexpo is Moscow's largest international trade show highlighting foodstuffs manufactured in Russia and Eastern Europe. In 2015, Prodexpo hosted more than 2,000 exhibitors from 65 countries and attracted more than 54,000 visitors.

Ingredients Russia

Moscow, All-Russian Exhibition Center (VVC)

March 1-4, 2016

<http://www.ingred.ru/>

Ingredients Russia is a specialized trade show for suppliers and buyers of ingredients worldwide. In 2015, the Expo attracted 5,528 attendees of which 92 percent were key decision makers including food technologists and management of the food processing companies and importers.

Logistics and Transportation

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 best technically-equipped sea commercial ports in Russia are: St. Petersburg, Primorsk, Murmansk, Kaliningrad, Ust'-Luga, Murmansk, Kaliningrad, Vysotsk, Novorossiysk, Tuapse, Vostochny, Vanino, and Vladivostok. 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 including those from the United States enter through St. Petersburg or Moscow for customs clearance. Most American products are delivered to the Russia in containers by sea and around 90 percent enter via the Port in St. Petersburg. MAERSK LINE, APL, OOCL, Hapag Lloyd, Evergreen, CMA-CGM shipping lines deliver cargos from the United States to Rotterdam, Hamburg, or Bremerhaven in Northern Europe.

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

Outside of Russia, imports are also delivered to Baltic ports and then shipped by truck or rail to St. Petersburg or Moscow. Baltic and Finnish ports had offered greater efficiency, fewer problems with loss or damage, and lower port fees. However, changes in Russian import requirements have largely redirected these shipments to Russian ports: St. Petersburg, Ust-Luga, Vysotsk, Kronshtadt, Novorossiysk and Vladivostok. The cleared products are then shipped further into the interior via truck or rail to Moscow, Yekaterinburg, Novosibirsk, Rostov-on-Don, Kazan, Samara, Ufa, and other major population centers in Russia, the main markets for the high end products.

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

Figure 6. Russia: Entry Gateways for the U.S. Products by Sea



Source: SVT Group

Currently several freight forwarders make shipments from the U.S. west coast to Vladivostok: Hyundai

Merchant Marine, MAERSK LINE, APL, and Hapac Loyd. Average transit time from the U.S. west coast to Vladivostok takes 18 days: ocean vessels bring containerized goods to the Korean Port of Pusan (it takes 9 to 13 days), then, feeders transfer them to the Port of Vladivostok (it takes 4 to 7 days).

MAERSK LINE has the longer transit time, because it goes through Japan first, and then delivers goods to Korea (Pusan). From Vladivostok food products are shipped to the other cities in the RFE and Siberia by truck or rail.

Distribution Channels

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

Figure 7. Russia: Distribution Channel From U.S. to the Port of Greater St. Petersburg

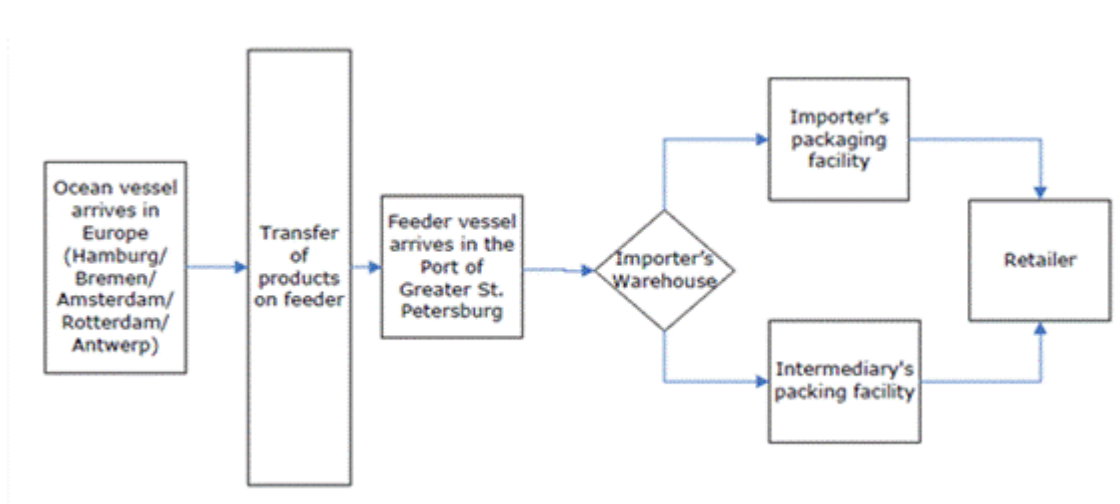
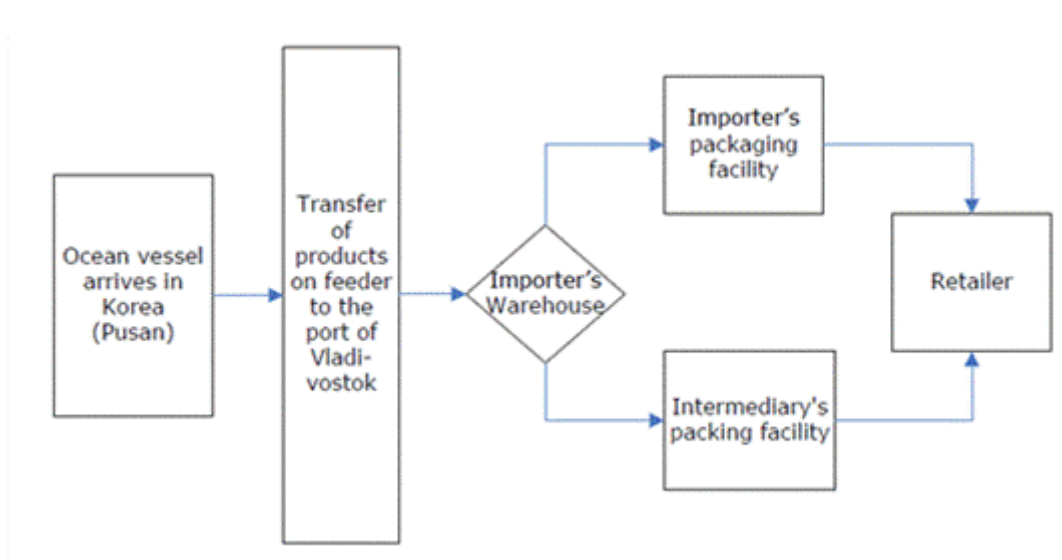


Figure 8. Russia: Distribution Channel From U.S. to the Russian Far East



Most hotels and restaurants choose to purchase the majority of their products through food service importers/distributors in the hotel, restaurant, and industrial (HRI) sector, both large and small.

Credit and Payment Terms

In 2014, Russian consumers continued to change their payment culture by switching little by little from cash operations to card payments. This process is not very quick, as Russian consumers are quite conservative and addicted to cash, but at this point it is becoming unstoppable. Local authorities, banks and financial card operators actively invest into development of proper legislation, various card products and consumers' financial literacy. One of the most efficient ways to equip local consumers with card products is payroll plans. Initially, financial cards were used mainly to withdraw salary from ATMs, but in 2014 the value share of card payments increased to 21 percent compared to only 5 percent in 2009.

Apart from payroll plans, banks actively use loyalty programs connected to cards to attract new consumers and keep the interest of existing ones. The most popular and useful loyalty schemes are those having cashback option. This option allows consumers to receive from 1 percent up to 20 percent back to their cards in the form of money or special bonus points, which can be used while purchasing goods and services in partners' outlets. The most popular loyalty program, containing 14 million users, is organized by financial cards' outstanding leader Sberbank.

Credit cards demonstrated 16 percent growth in number of cards and 27 percent growth at current 2014 prices to reach 817 billion rubles (\$21.5 billion) in 2014. The category slowed down its development rates compared to a compound annual growth rate (CAGR) of 32 percent in number of cards and a CAGR of 53 percent in value terms over the review period. The main reason for this tendency was the worsening economic situation in the country (Source: Researchandmarkets).

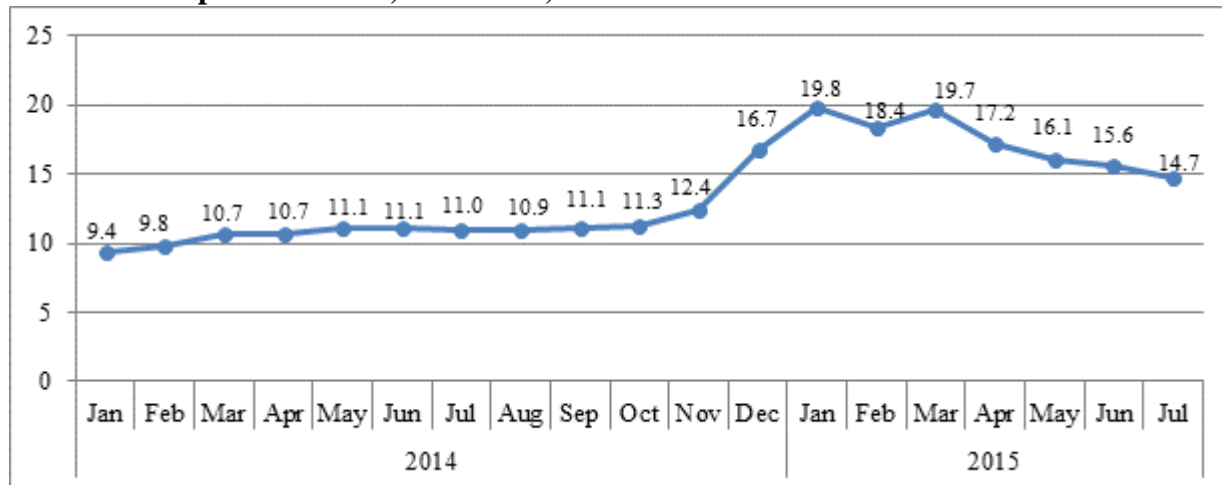
In 2014, local authorities created new legislation forcing all retailers with annual turnover over \$1.6 million to accept financial cards. There was a transition period until 2015 when all retailers had to install point-of-sale terminals. Starting from 2015, the fine for not providing consumers an opportunity to pay with cards ranged from \$800 to \$1,300. This measure was introduced to stimulate cashless operations. It was positively accepted by banks, but negatively by smaller retailers which have additional expenses in terms of point-of-sale terminal installation and additional fees for every card payment transaction.

Many banks in Russia are authorized to open foreign currency accounts and they also have general licenses enabling them to undertake a full range of foreign currency transactions. Many of these banks have correspondent banks in the United States. Further, several American and foreign banks such as Citibank, Raiffeisenbank, Societe Generale, and Credit Suisse are licensed to operate in Russia.

Securing credit can be costly, however, and there can be obstacles to securing credit in Russia if the company is 100 percent foreign-owned. Russian bank fees are often high, and it can take much longer to open letters of credit or transfer funds than is common in the United States.

In December, 2014 the Russian Central Bank hiked its key interest rate to 17 percent from 10.5 percent overnight trying to stop the falling ruble. Increased key interest rate immediately led to more expensive credits for both business and personal purposes. Later in 2015, the Central Bank started to gradually decrease the key interest rate. Since the beginning of 2015, there have been 5 changes of the key rate and as of August 3, 2015 it stabilized at 11 percent. But credits continue to be overly expensive for small and medium-sized companies and individuals.

Figure 9. Russia: Average Interest Rates on Ruble-Denominated Credit to Nonfinancial Institutions Up to One Year, 2014-2015, in %



Source: Central Bank of Russian Federation, 2015

Prospective borrowers should expect Russian banks to request a package of documents, including a balance sheet showing profits for the last three quarters and proof of assets to mitigate the bank’s risk.

Regarding payment terms, many U.S. exporters require 100 percent up-front payment especially for new trading partners. Russian importers are accustomed to making a 100 percent pre-payment prior to shipment. As the business relationship develops, Russian importers may eventually expect exporters to ship on credit, with payment due upon arrival in the Russian port. The importer may alternatively make a pre-payment and pay the balance when the product arrives to the importer’s storage facility.

In established business relationships, bank transfers are sometimes made on the basis of payment–on-delivery, or payment after an agreed number of days. A letter of credit (LC) may be used when required by the foreign supplier, but Russian importers consider LCs expensive and difficult to arrange.

Document Collections work relatively well at ports, and importers are accustomed to these procedures. Nevertheless, until exporters and importers build relationships and reach a level of trust, exporters may find letters of credit worthwhile.

Food Standards and Regulations

Russia has complex food import regulations. Exporters should carefully question importers regarding certification and documentation requirements, as well as procedures for clearance of shipments into the Russian Federation. Many of Russia’s food and trade regulations are undergoing reform as the recently expanded Armenia-Belarus-Kazakhstan-Kyrgyzstan-Russia Eurasian Economic Union (EAEU) continues policy integration. Russia also continues to adjust policies pursuant to its World Trade

Organization (WTO) accession on August 22, 2012.

For more detailed information on certification, customs procedures, documentation, tariffs, and safety and labeling requirements please see the following GAIN reports:

[RS1491 Food and Agricultural Import Regulations and Standards - Certification](#)

[RS1490 Food and Agricultural Import Regulations and Standards - Narrative](#)

As the unification of the EAEU sanitary norms and technical regulations continues, please check the Eurasian Economic Union Ag Times in the FAS GAIN system for regular updates on the EAEU developments.

Pricing

Retail prices in Russia can vary significantly; however pricing has become more competitive as large retail chains increase their aggregate market share. On the regulatory side, exporters should consider the effect of the Russian tax regime when making pricing and margin decisions. Again, please continue to monitor GOR tariffs and other duties as WTO accession moves forward. Some of the taxes assessed include:

Import duties are applied to most goods and typically range from 5 to 20 percent of products' customs values. However, some agricultural products are subject to specific tariffs that are calculated by volume, weight or quantity. Excise taxes, depending on the commodity exported, apply to goods such as alcohol and tobacco products. For checking excise taxes rates please contact ATO Moscow.

Russia typically levies an 18 percent Value Added Tax (VAT) on imported goods; however, some food products (e.g. sugar, salt, milk, bread, pasta, vegetables, baby food, end etc.) are subject to a reduced rate of 10 percent

Customs clearance charges add about 1.25 percent. The wholesale mark-up is typically 12 to 15 percent, while retail mark-up runs 35 percent or more, depending on the product and the retailer; and,

A 39 percent profit tax is assessed on gross margin.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Retail Food Sector

According to the Russian Federal Statistics Service (Rosstat), Russian retail sales turnover in 2014 grew by 2.5 percent year-on-year (in comparable prices) while, in value terms, the indicator reached \$694 billion. Sales of food, including alcohol and tobacco, accounted for 47 percent of total retail sales in Russia the same as in 2013. In 2014, grocery retail sales in Russia increased as measured in local currency, although in dollar terms, a drop in market value was observed. Food sales decreased in value

from \$350 to \$326 billion representing 0.1 percent drop year-on-year in comparable prices. The slowdown in grocery sales is a direct consequence of several factors that have hit Russian economy in 2014 e.g. record-low oil prices, food import ban, and ruble depreciation, which negatively influenced purchasing power of local consumers and complicated the business environment throughout the country.

However, grocery retail is one of the segments least affected by the macroeconomic and political situation. The main reason for this is that it offers basic products of high necessity and the market’s growth is supported by increasing sales value of large area store chains which continue their expansion in Russia. Even so, in January-September 2015, Russian retail sales turnover fell by 8.5 percent year-on-year (in comparable prices) reaching \$338 billion in value terms. Food sales were down 8.3 percent and totaled \$165 billion.

The Russian grocery retail market is still vastly dominated by alternative channels of distribution, including open-air markets, specialized stores and online sales, among others. Nevertheless, it is home to many modern retail groups the majority of which are of domestic origin – only five of the top 20 largest players are foreign. Modern retail channels accounted for around 30 percent of the market in 2014. The dominant channel among modern retailers are discounters which have the best growth prospects until 2020, according to industry analysts (PMR). The discounter channel is also the largest in terms of store count.

The ongoing crisis is starting to push some Russian consumers to go back to grocery shopping in open-air markets and fairs, where they can buy products directly from producers at lower prices.

Interestingly, regional authorities in some parts of Russia have considered banning some weekend trading in order to support local fairs and market places (PMR).

In 2014, the largest player on the Russian grocery market, both in terms of sales value and number of stores, was the Russia-based Magnit. It was followed by other domestic players such as X5 Retail Group, Dixie Group and O’Key Group. The majority of these retailers operate in more than one store format.

Table 6. Russia: Top 10 Grocery Retailers in Russia by Sales Turnover, 2014

N	Retailer	Chains	Country of origin	Sales revenues (\$ bn)	Market share, %	Number of stores
1	Magnit	Magnit, Magnit Semeyny	Russia	19.6	6.0	8,631
2	X5 Retail Group	Karusel, Pyaterochka, Perekrestok, Perekrestok Zeleny, Perekrestok Express	Russia	16.6	5.1	5,483
3	Auchan Group	Auchan, Auchan City, Radouga, Atak, Kazhdy Den	France	9.2*	2.8	233
4	Dixie Group	Dixie, Megamart, Minimart, Victoria	Russia	6.0	1.8	2,195

		Minimart, Kvartal, Deshevo, Cash				
5	O'Key Group	O'Key, O'Key Express	Russia	4.0	1.2	108
6	Metro Group	Metro Cash & Carry, Fasol	Germany	3.4	1.0	80
7	Lenta	Lenta	Russia	3.1	0.9	135
8	Spar Russia	Spar, Interspar, Eurospar, Spar Express	Netherlands	2.0	0.6	420
9	Sedmoy Kontinent	Sedmoy Kontinent, Nash Hypermarket	Russia	1.6*	0.5	146
10	Element- Trade	Monetka	Russia	1.6*	0.5	700

Source: PMR, 2015

* - PMR estimations

According to Russian research agency INFOLine, based on data from the Federal Customs Service (FTS) of Russian Federation, the seven largest Russian grocery retailers Magnit, X5 Retail Group, Auchan, Dixy, Metro Group, O'Key and Lenta increased their direct calendar year food imports by 9.7 percent, year on year, to \$2.37 billion in 2014, despite the food import ban imposed by the Russian government. In 2014, the main suppliers of food and agricultural products were China, Turkey and Ecuador (same as in 2013). Foodstuffs accounted for the majority of Russian chains' direct imports, while fresh fruits and vegetables accounted for nearly half (44.4 percent) of all of their imported goods, according to INFOLine. However, in the 4th quarter of 2014, all of the largest seven retailers reduced their total import purchases due to the ruble depreciation and the food import ban taking effect in August 2014. Many imported foodstuffs have been replaced by local products. Please see the "[Retail Foods Annual 2014](#)" report for more information on the retail sector in Russia. The next updated Retail Report will be available in late 2015. To get to the USDA GAIN reports search engine, please visit the following link: <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

Hotel, Restaurant, and Institutional (HRI) Sector

Consumer foodservice remains one of the most promising industries in the Russian economy. The development of chained consumer foodservice and increasing regional penetration are being accompanied by increasing competition in the market. However, the changing economic situation in 2014 has caused a slowdown in Russian consumer foodservice growth. Deteriorating consumer purchasing power, stagnating wage growth, increased rent costs and GDP decline have had a negative impact on previously-seen fast market growth. Nevertheless, consumer foodservice remains comparatively unsaturated and continues to draw the interest of major multinational chains that increasingly enter the Russian public catering market.

Table 7. Russia: Food Service Industry Statistics

	2010	2011	2012	2013	2014	January- June 2015
RUR, billion	781.4	903.6	1,019.6	1,131	1,232	593
Growth Year on Year, %		15.6	12.8	10.9	8.9	-5.9

US Dollars, billion	25.63	30.77	32.62	35.54	31.15	10.20
Average exchange rate	30.48	29.35	31.07	31.82	39.34	58.14
Inflation rate	8.8	6.1	6.6	6.5	11.4	15.3

Source: Federal State Statistics Bureau (Rosstat), Central Bank of Russia

According to the Russian Federal Statistics Service (Rosstat), restaurant, bars, and cafe turnover in Russia grew by 8.9 percent reaching 1.2 trillion rubles in 2014. In the first half of 2015, the turnover fell by 5.9 percent to 593 billion rubles in comparison to the same period of 2014. Fast food outlets and cafes are the most popular and fastest-growing sectors in Russia and are in a better situation in comparison to fine dining and mid-ranged restaurants.

The Russian food service sector has faced a number of serious challenges during the past year. A smoke ban in restaurants and bars went into effect on June 1, 2014, which has hurt the growing cafe culture as well as many bars and pubs. Shortly afterwards, in August 2014, Russia banned a food import ban from Australia, Canada, Norway, the United States, and the European Union for one year in response to Western economic sanctions. On June 24, 2015, President Putin signed decree No. 320 extending Russia's ban on the import of agricultural products from the affected countries until August 6, 2016. In addition, the Russian currency has depreciated significantly pushing up food price inflation while dropping consumer purchasing power.

Russia is very dependent on exports of oil and natural gas. In recent months, global oil prices have declined to their lowest level since 2010, putting substantial depreciation pressure on the Russian ruble. Since the beginning of 2014, the value of the Russian ruble has dropped by 51 percent against the U.S. dollar. The ruble fell to 65.45 rubles/1 USD and 78.87 rubles/1 uro on December 15, 2014. The Russian ruble currently sits at around 65 rubles/1 USD.

The number of cafes, restaurants, and other food outlets in Russia currently stands at about 88,000 and almost 85 percent of the outlets are independent (non-chain) cafes and restaurants. According to Francon data service, the total number of franchises in Russian foodservice industry totaled 182 in 2013 and jumped to 203 in 2014 - up 11.5 percent. Currently there are 6,500 foodservice franchise outlets in Russia and its share is 8 percent of total Russian restaurant market. McDonald's, Subway, Rosinter Restaurant Holding, Arkadiy Novikov Restaurants, Ginza project, Markon, Shokoladnitsa, and Coffee House are the largest restaurant chains in different foodservice segments in Russia.

Currently the largest cities in Russia, Moscow and St. Petersburg, account for 41 percent and 15 percent respectively in terms of chain outlets on the overall consumer foodservice market. Moscow and St. Petersburg remain the leaders in HRI concentration and growth as well as the industry trend-setters. These two cities control 14 percent of the Russian foodservice market. High operational costs in Moscow and St. Petersburg, and the fact that the foodservice market in both cities is highly saturated, are forcing the main players to consider regional expansion in order to sustain their market share. The foodservice market in the regions of Russia is still relatively underdeveloped and has strong potential for further growth.

Franchising and sub-franchising has become a very popular tool for multinational and local players in Russia. Franchising offers an easier way for investors to enter the Russian market with a lower level of investment, since the materials required for the setting up of outlets and apparatus are often included as

part of the franchise agreement. Russia has seen double digit growth in the total number of franchises in the last few years – and this growth is expected to continue as lower cost restaurants will do well during the current economic slowdown. American fast food formats dominate the market in Russia.

Table 8. Russia: Leading International Foodservice Brands, July 2014

Brand	# outlets in Russia	% y-o-y change 2014	Holding company	Type	Country of origin	Year est. in Russia
Subway	691	18.7	Subway	QSR	USA	1994
McDonald's	433	14.6	McDonald's	QSR	USA	1990
Baskin Robins	300	8.5	BRPI	QSR	USA	1992
KFC	268	16.5	Yum!Brands		USA	1993
Burger King Rus	228	101.8	Burger King	QSR	USA	2010
Sbarro	147	2.1	G.M.P. Planeta Gostepreimstva	QSR + casual	USA	1997
Cinnabon	111	8.8	Cinnabon	QSR + casual	USA	2009
Coffeeshop Company	82	12.3	Schärf Coffeeshop GmbH		Austria	2008
Starbucks	75	17.1	Starbucks Corp.	Coffee	USA	2007
Papa John's	74	N/A	Papa John's	QSR	USA	2005
Dunkin' Donats	32	N/A	Donuts project	QSR	USA	1996/2010
Krispy Kreme	6	N/A	Novikov Group	QSR	USA	2013
Wetzel's Pretzels	6	N/A	Wetzel's Pretzels	QSR	USA	2013
T.G.I. Friday's	23	0	Rosinter	Casual	USA	1997
American Bar & Grill	8	0	Rosinter	Casual	USA	1994

Source: FoodService Magazine 2014

Baskin Robbins, the world's largest chain of ice cream specialty shops, entered Russia in 1990. Currently Baskin-Robbins' network in Russia has 300 ice cream salons and kiosks in 115 cities, most of them franchises.

The average check amount in restaurants dropped by 20-25 percent compared to one year earlier according to market analysts. They also report that restaurant sales are down 10 to 30 percent due a big drop in traffic reduction. Mid-range restaurants with average check up to 2,000 rubles are the ones feeling the biggest drop in clientele while the lower cost (fast food) style restaurants are still reporting good sales.

Many restaurants import a large percentage of their ingredients from overseas, creating opportunities for

U.S. exporters of many products such as wines, rice, distilled spirits and specialty foods.

Please see the reports for further information on the HRI sector in Russia:

[Food Service -Hotel Restaurant Institutional Franchise Restaurants Doing Well Despite Slowing Economy](#)

Food Processing Sector

Russia's food processing industry had been growing rapidly since 1998 with an annual increase of 15-25 percent, but regressed as a result of the 2008 financial crisis. According to Rosstat, in 2014, Russian food industry production increased by 12 percent and was valued at 4.7 trillion rubles (\$123.37 billion [1]). The food processing sector is expected to grow in 2015 and 2016 supported by the Russian government policy of import substitution. In 2014, output of the following processed foods has increased steadily: vegetable oil (21 percent), meat and offals (12.8 percent); semi-finished meat products (6.8 percent); poultry and offals (7.5 percent), butter (11.5 percent); pasta (8.3 percent); sugar (5.1 percent); cheese and cottage cheese (11.5 percent), canned vegetables and mushroom preserves (17.6 percent) and mineral water (5.9 percent).

The food processing industry in Russia is recognized by the government as a strategic sector which could potentially supply the entire 143 million Russian population with quality food products. It numbers over 30 sub-sectors contributing more than 16.3 percent of Russia's economic production [2] and employing 1.2 million people. Russia is the largest processed food market in Europe and one of the world's largest importers of ingredients for food processing. Currently, the food processing industry is made up of foreign and domestic manufacturers with the latter dominating number wise. Among the biggest Russian food manufacturers are Baltika Brewery Company, Miratorg Agro Holding, Cherkizovo Group of Companies, EFKO Group of Companies, Yug Rusi Group, Unilever Rus', Unimilk Company, SuninBev and RusAgro. Among the most well-known foreign food manufacturers in Russia are PepsiCo, Mars, Coca-Cola, Danone, Heineken and Cargill which have invested heavily in Russia. The foreign investors and Russian manufacturers compete and invest in modernization and expansion in order to strengthen their position in the market. These lead to the growing demand in innovative technologies and high quality ingredients.

The majority of raw materials and ingredients used by Russian food processors/manufacturers are imported. Demand for higher-quality ingredients is increasing as more local food processors strive to meet international quality standards. That demand could lead to increased imports given that around 86 percent of the products used by the Russian food industry are imported, including meat, dry milk, nuts, dried fruits, frozen vegetables, frozen berries and fruits, juice concentrates, etc. Virtually all tree nuts, peanuts, and dried fruits, 80 percent of frozen vegetables and mushrooms for frozen semi products packing, and 70 percent of all raw materials in meat processing plants are imported.

However, due to the food import ban introduced by the Russian government in August 2014, Russian food processors had to switch to alternative foreign and domestic suppliers of raw materials which resulted in the lower quality, additional expenses and increased end-user prices. The weak ruble makes raw materials and ingredients much more expensive which has led to lower consumer demand and falling sales.

Micro-ingredients and additives are also largely imported to Russia. According to the RBC research, the Russian market accounts for about 9 -10 percent of the \$28.3 billion world market of food ingredients. The Russian market was estimated to be worth around \$2.8 billion in 2013. Market analysts characterize the ingredients and additives market in Russia as developing and non-saturated with good room for growth.

Table 9. Russia: Food Ingredients Market’s Consumption and Rate of Growth, 2006-2015

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Consumption (\$ billion)	1.7	2.0	2.3	2.0	2.1	2.3	2.6	3.0	3.4	3.9
Rate of growth, %	n/a	15%	15%	10%	5%	10%	10%	15%	15%	15%

Source: Union of Food Ingredients of Russia

According to the Union of Food Ingredients of Russia, at present, the Russian food processing industry uses more than 20 types and about 1,000 varieties of food ingredients and additives such as acidity regulators, sweeteners, bleachers, colorants, emulsifiers, thickeners, preservatives, nutrition fortifiers, flavors, pectins, starches, fats, stabilizers, and so on. RBC Research states that Russia’s food ingredients market is weighted as follows: flavors (29 percent), preservatives (24 percent), colorings (19 percent), antioxidants (13 percent), food acids (6 percent), and cloud emulsions (2 percent). The main users of ingredients are bakeries, confectioners, dairies (including ice cream manufacturing), meat processors and canned and bottled food producers.

Russian food industry is dependent on imported food ingredients and additives. Due to enormous efforts by the food ingredients business community, food manufacturers and industry associations, Government Resolution #830 “On Amending Resolution of the Government of the Russian Federation dated August 7, 2014, #778” dated August 20, 2014, excluded dietary supplements, vitamins and minerals, flavors, protein concentrates and mixtures (animal and plant) dietary fiber and nutritional supplements from the list of banned agricultural products, raw materials and foodstuffs originating from the United States, European Union, Canada, Australia and Norway. Manufacturers of baby food and specialized food products got into the most difficult situation since the major ingredients for clinical food and breast milk substitute formulas were imported from the EU and had no adequate substitution options.

Domestic production of micro-ingredients is planned to be supported by a special federal program until 2025, the project of which is under development. The program supposes the measures targeted at: providing Russian food processing industry with domestic micro-ingredients equal to foreign analogues in safety, quality and economical performances; decreasing Russia’s dependence on import of micro-ingredients for food industry and increasing food safety of the country; increasing safety and quality of food products using domestic micro-ingredients and avoiding foreign counterfeit. The results of the program will correlate with “The Strategy of Food Processing Industry of Russian Federation until 2020” and “State Program for Development of Agriculture in 2013-2020”.

According to market analysts at RBC Research, most food additives and ingredients which are used by Russian companies are made from imported raw materials. Based on the same source, China is the larger supplier of ingredients to Russia with 15.4 percent of the market. Lithuania holds 12.5 percent of the market, Germany - 11.2 percent, the Netherlands - 9.7 percent. The United States exports some

ingredients to Russia and ranks as the 11th biggest supplier with market share of 3.1 percent. Market analysts characterize the ingredients and additives market in Russia as “developing” and “unsaturated” with good room for growth in upcoming years.

However, Russian is very competitive market and China has been a constant supplier of less expensive products to Russia. European companies invest in education and training programs for the food processing companies and help their importers to build/strengthen demand for their products in Russia. Also, the Dollar/Euro strengthened against Ruble in 2014 making U.S. and European products much more expensive for Russia’s food processing sector.

The major players in the global micro-ingredients market are ABF Ingredients, Kerry Ingredients & Flavors, Cargill Food Ingredients, IFF, DuPont, Givaudan, Firmenich, Symrise which are all represented in Russia that sell their own products through distributors. Several global manufacturers have opened their own production facilities in Russia. For example, Cargill launched its own plant in Efremov, Tula region. In 2010, Symrise (manufacturer of flavors) opened a plant in Podolsk, Moscow region. The plant can produce up to 9,000 metric tons of dry flavors for chips, crackers and instant food.

In contrast to the global market, the Russian market is neither concentrated nor consolidated. Competition in the Russian market of micro-ingredients takes place between foreign and domestic manufacturers. And, according to market participants, this competition is getting stronger. *RBC Research* estimates that the top 10 players in the Russian market of food micro-ingredients cover about 40 percent of the market (in terms of revenue). Moreover, almost a quarter is accounted for by Cargill (23.8 percent).

The micro-ingredients that have strong sales potential in the market are:

Rennet casein: The replacement of rennet cheeses which is not available at the moment from the EU can be rennet casein: it can completely replace rennet cheese or cottage cheese in the production of all types of processed cheese.

Milk protein concentrate: Given the shortage of raw milk, milk protein concentrate is becoming increasingly popular.

Lactose

Flavor enhancers for processed meat products

Natural sweeteners and colorants: Healthy eating trend conditions using natural ingredients in food processing.

Sugar, sweeteners and beverage bases.

Functional soy concentrates and isolates (primarily for sausage production)

Butter, milk powder

Quality Textured Vegetable Protein

Gluten Powder

Dextrin and other modified starches

Complex ingredients including colorants, sweeteners, emulsifiers and preservatives.

Frozen or soft pasteurized fruits – for yogurt and ice cream production.

Table 10. Russia: Imports of Micro-Ingredients in 2013-2014, in MT

Product	2013	2014
Food Acids:		
Citric Acid	19.1	21.35
Dihydroxysuccinic Acid	3.38	3.12
Lactic Acids	7.2	5.04
Gluconic Acid	1.62	1.69
Sweeteners:		
Sorbitol	30.7	25.6
Mannitol	1.01	0.8
Saccharin	0.25	0.26
Preservatives:		
Acetic Acid	17.8	1.7
Benzoic Acid	8.1	7.3
Formic Acid	6.4	5.2
Propionic Acid	0.91	0.98
Thickeners and Gelling Agents:		
Pectin	2.57	3.11
Agar-agar	0.27	0.437
Locust Tree and Cluster Bean Gum	5.6	5.6
Other Vegetable Thickeners	2.8	3.1
Gelatin,	6.7	5.7
Modified Starches	67.1	-
Water-retaining Food Additives:		
Glycerin	104.7	106.4
Propylene Glycol	24.9	21.3
Lecithin	4.2	5.5
Glutamic Acid and its Salts	9.2	8.75
Vanillin	0.325	0.352
Ethyl Vanillin	0.051	0.058

Source: All-Russian Research Institute of Food Additives

The best way to learn more about market trends and meet potential buyers is by exhibiting in the Ingredients Russia Expo (Moscow, March 1-4, 2016). This event is a key meeting point for all those involved in the Russian ingredients industry. In 2015, the Expo attracted 5,528 attendees of which 92 percent were key decision makers, including food technologists and management of the food processing companies, as well as importers. Please contact ATO Moscow for more information about this event and to learn more about how the ATO can provide assistance.

The Ingredients Russia Expo is the ideal platform to promote products, to develop business, to research Russian market and to meet specialists from different regions of Russia. Manufacturers, suppliers and distributors present natural extracts, dietary supplements, flavors and natural ingredients for the production of health food and drink products. Please learn about the show here:

<http://www.ingred.ru/en-GB>

The show organizers can be reached at:

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Please find more information about food processing sector in [FAS report](#).

Internet Sales

The number of internet users in Russia increased by 5 percent in 2014, rising to 87 million. The biggest growth of new online customers was registered in Russia's regions. It's explained by improved delivery logistics, construction of telecommunication infrastructure, and reduction of tariffs for access to the internet. Sluggish economic development and weaker buying activity by Russian consumers has resulted in a decline in internet retail growth in 2014. However, the sector registered the highest growth of all non-store retailing channels in the country as well as holding 69 percent value share in 2014 - although the value growth fell by 4 percent compared to 2013. (Source: Euromonitor International).

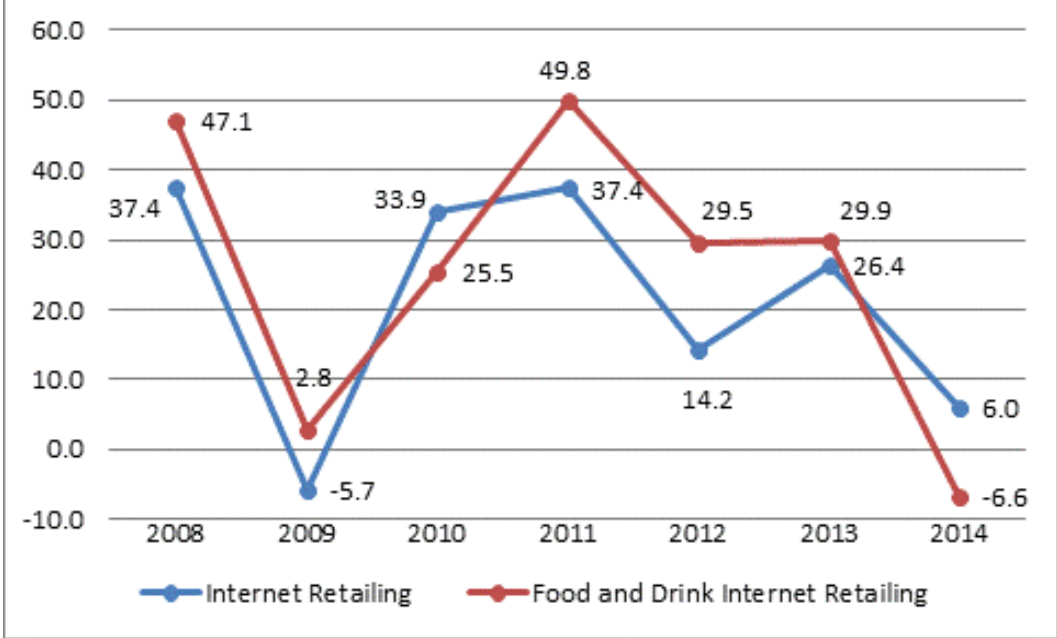
While regional expansion remained as the main driver of internet retailing expansion, saturation in the markets of big cities negatively reflected on the channel's overall growth towards the end of 2014.

Although food products are among the top five categories in terms of the number of daily orders, online food retail is still struggling to become profitable in Russia due to the high delivery and order completion costs in comparison with the value of the purchased items. For example, in an average order of non-food products there are usually 1-2 items in the cart but in case of online food retail there are several dozen products in the cart. According to Data Insight, the cost of order completion in online grocery retail can cost up to RUB 400 (\$7).

According to a Profi Online Research study, only 17 percent of Russians order grocery products online. Moscow residents (24 percent) are more open to buying food online than residents found in Russia's regions (11 percent). Respondents asked why they did not buy grocery items online most often

mentioned doubts regarding quality and freshness – particularly for fruits and vegetables. In 2014, online grocery market sales in Russia were worth \$427 million and accounted for 2.7 percent of total internet sales. In Ruble terms, the growth of the internet food sales in 2014 totaled 23.7 percent.

Figure 10. Russia: Internet Sales from 2008-2014, Growth Year-on-Year, in %



Source: Euromonitor International

The most popular payment methods for online transactions are cash payment and bank cards. Cash method is still the most popular as Russian consumers find it more convenient compared to other payments that have to be processed on the webpage of an online store. However, more and more online stores have started to accept card payments so it’s expected to continue to gain in popularity in the foreseeable future.

Internet retailing is expected to continue to record growth throughout the forecast period, recording a value CAGR of 13 percent at constant 2014 prices to reach 1.1 trillion Rubles in 2019. The main driver for internet retailing will be the continuous growth of internet users, improvement of internet connection in the regions and growing penetration of smartphones. More and more internet players are expected to launch mobile versions of their websites and focus on consumers living in the regions of Russia. The number of internet users in Russia is set to increase to 99 million by 2019, 15 percent higher than 2014. Potential forecast period threats to growth of internet retailing are reduced consumer expenditure in 2015 and its moderate growth in the following years of the forecast period. Weak purchasing power will affect all retailing categories including online sales. Shock from local currency fluctuations in the second half of 2014 led consumers to invest their savings into goods that are highly dependent on import, particularly consumer electronics and appliances. This will affect the future performance of many online players that specialize in these products.

Table 11. Russia: Internet Sales from 2010-2014, in \$ US Million

Category	2010	2011	2012	2013	2014	Growth, %
----------	------	------	------	------	------	-----------

						2013/2014
Internet Retailing	6,640	9,125	11,737	14,839	15,728	6
Food and Drink Internet Retailing	172.2	258.0	351.5	456.7	426.7	-6.6

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

Tourism Sales

Russian consumers have tightened their travel budgets in the face of the falling Ruble and slowing economy. Demand for holiday tours to Europe has decreased significantly, according to Russian Deputy Culture Minister Alla Manilova. “The decline of Russian tourists can reach from 15 to 30 percent in some countries. The scale will be defined by the end of the 2015 season,” Manilova recently told the Rossiyskaya Gazeta daily newspaper.

Russian consumers have started to do more domestic tourism, which was largely unfashionable in Russia until recently. The hotel market, which has been traditionally underserved in Russia, is growing quickly and growth in the tourism sector will spur further development of Russia’s hotels and restaurants. This is expected to lead to better quality services and offer new opportunities for U.S. exporters of food and beverages to Russia. The country’s Black Sea beach resorts are extremely congested during the peak summer months.

Holiday Gifts Sales

Russia has a rich calendar of public holidays and most are celebrated with large meals at home with family, with consumers making big purchases for groceries and stocking up on distilled spirits, soft drinks, meats and vegetables/fruits. Greeting cards are not part of Russia’s celebratory tradition and are only really exchanged for birthdays. Most gifts consist of flowers and chocolate for females, spirits for males, and confectionery for children. New Year’s Day is the only celebration when everyone purchases substantial gifts, akin to Christmas presents. (Source: Euromonitor International)

Nevertheless, the Russian economy is slowing, according to a Deloitte 2014 survey, the average holiday budget in 2014 reached 15,107 Rubles (\$260), which is 6 percent higher in Ruble terms than actual festive spending in 2013. However, experts estimate actual holiday spending in 2015 may be 25-35 percent lower than 2014 budget and total between 9,820 – 11,330 Rubles.

Russian consumers usually start thinking gift shopping in December and buy gifts, for the most part, during the last week before the holiday season. Russians tend to buy presents primarily in hypermarkets, with second place given to specialized shops, and the third place given priority being open-air-markets.

SECTION IV. BEST PRODUCT PROSPECTS

According to Russian customs statistics, U.S. agricultural imports in 2014 totaled \$1.2 billion - a figure that is down by 17 percent compared to 2013 mainly due to the Russian’s food import ban placed in August 2014 as well as shrinking demand and high exchange rate. The United States was the eighth largest supplier of food, beverages and agricultural products (the same as in 2013) to Russia by value

with 3 percent overall market share. The main exporters were Belarus, Brazil, China, Turkey and others (please see Appendix Statistics, Table C). The United States' top agricultural exports to Russia in 2014 included: soybeans, chicken cuts, food preparations, nuts (almonds, pistachios and peanuts), sunflower seeds, fish and seafood, and other products.

On August 6, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway as a result of the implementation of economic sanctions against Russia due to events in the region. The ban took place immediately and will remain in place until August 5, 2016. The agricultural products included in the current food import ban are beef, pork, poultry, fruits, vegetables, fish, seafood, cheese, tree nuts and a variety of other products listed by specific HS codes.

To review the best products prospects before the food import ban was implemented in August 2014, please see the [GAIN report](#). Once the food import ban is lifted, U.S. exporters should once again expect to ship similar products to the Russian market as demand for high quality imported food products remains. Taking into account the current situation, below are some of the best prospects for U.S. exporters of food, beverages and agricultural products to Russia:

Soybeans

The Russian government continues to support the poultry, dairy and pork industries and demand for high protein feeds exceeds Russia's ability to produce them domestically. Soybeans and soybean meal remain one of the most important sources of protein feeds. In calendar year 2014, Russia imported 2.7 MMT of soybeans and soybean meal - 2 MMT of soybeans and 682 TMT of soybean meal in soybean equivalent (533 TMT of soybean meal). Major suppliers in 2014 were Paraguay at 965,000 MT, Brazil at 730,000 MT, the United States at 420,000 MT, Argentina at 283,000 MT, Ukraine at 100,000 MT and Uruguay at 32,000 TMT. Soybean imports are expected to remain at similar levels in 2016 due to the high demand for soybean meal from the expanding poultry and livestock industries in European Russia.

Live Cattle and Animal Genetics

Russia is determined to become self-sufficient in various categories, such as meat and dairy products, and is applying significant resources and market access constraints to make it happen. This opens up new market opportunities for U.S. exporters to supply live cattle and animal genetics. As market access for meat and poultry continues to be limited through the August 2014 food import ban and the imposition of trade-restrictive SPS measures, demand and opportunities for higher quality animal genetics is expected to grow. The highest demand for this category are dairy cattle, specifically registered Holsteins, as well as beef cattle, particularly Black Angus.

The Russian government has shown a strong influence in stimulating domestic dairy and beef cattle herd growth. More than 20 billion rubles has been allocated by the Russian government to support beef and dairy projects under new specific sub-programs: "Development of Dairy Cattle Industry and Milk Production" and the "Development of Beef Cattle", and "Development of Purebred Livestock Breeding" in 2015. The main state support programs in livestock sectors are anticipated to remain strong in 2016.

The United States exported 16,386 head of live bovine animals to Russia in 2014 valued at approximately \$58 million - the largest supplier of purebred breeding cattle to the country. Market demand also continues to grow for bovine semen and embryos in Russia with many Russian buyers looking to the United States as a supplier. In 2015, the United States exported \$3 million of bovine semen and \$1.5 million of bovine embryos to Russia. The United States is well-positioned to be the major supplier for higher quality animal genetics, especially for producers seeking the best quality for value in the global market.

Wine

Russia is one of the largest global growth markets for wine and is the most developed wine market of all the “BRICs” countries. Italy, France and Spain, the three major wine producers globally, are also the top exporters of wine to Russia. U.S. wine sales were on the rise until 2014 (seeing 20 percent growth annually) but began to slow in 2014 due to the depreciation of the Russian ruble, slowing economy and falling consumer purchasing power. In 2014, U.S. wine sales reached \$13.8 million - down 12 percent from 2013. U.S. wines currently comprise of 1.2 percent of total market share but there is tremendous opportunity for growth as Russia’s wine culture blossoms. Russian wine imports reached \$1.142 billion in 2014.

Consumption of wine and sparkling wine in Russia in 2014 surpassed 1 billion liters. Imports of bottled wine account for roughly 30 percent of this volume. Another 40 percent of wine is produced in Russia from imported wine raw materials with only the remaining 30 percent are produced from grapes cultivated in Russia. The highest demand in the Russian market is for low-priced wine products - 70 percent of all wines sell for up to 150 rubles per bottle in retail in 2013-2014. Wine costing up to 300 rubles occupies 15 percent of the market while wine in the 500 ruble range takes up 10 percent. Wine that costs more than 500 rubles per bottle makes up just 5 percent of all wine sales in Russia.

The Russian government froze excise taxes on wine and sparkling wine per liter of anhydrous alcohol for 2015-2016 to the same level as in 2014. Currently, more than 95 percent of wine imported from the United States originates from California. Only one Russian importer brings wines from Washington state which is quickly gaining popularity among wine connoisseurs.

Distilled Spirits

Among the world’s top ten spirits markets in volume terms, Russia dramatically increased imports of U.S. bourbon and rum from 2009 to 2013. The United States (including Puerto Rico) is the fourth largest supplier of spirits to Russia and the potential for continued growth is high over the medium term. In 2014, U.S. exports of spirits to Russia totaled \$127 million, down 9 percent due primarily to the depreciation of the Russian ruble which began towards the end of 2014. Total Russian imports of distilled spirits reached \$1.237 billion in 2014, down 17 percent from 2013. All alcoholic beverages saw tariffs fall after Russia acceded to the WTO with full implementation expected by 2016. However, excise tax rates on distilled spirits had increased steadily and significantly from 2011-2014. As a result, it raised the prevalence of illegal vodka in the Russian market that, according to market analysts, accounts for approximately 60 percent in 2014. In 2014, legal domestic vodka production declined by 22.3 percent reaching only 66.6 million deciliters – the lowest level in modern Russian history. Such

dynamics led the Russian government to freeze excise taxes on spirits at 500 rubles per liter of anhydrous alcohol for 2015-2016 – the same level as in 2014. Most Russian whiskey lovers are familiar with famous American whiskey and bourbon brands and prefer them to Irish and Scotch whisky products.

Processed Fruit & Vegetables

In 2014, the sales of canned/preserved food in Russia grew by 1.1 percent in volume, frozen processed food sales grew by 6 percent, and chilled processed food grew by 4 percent. Canned/preserved food saw the largest increase in average unit price of any area in meal solutions in 2014 (9 percent). This area is dependent on global prices as Russia is unable to supply sufficient raw materials for canned/preserved vegetables and fruit production. The premium trend is putting upwards pressure on prices as well. However, the increase in average unit prices seen across all meal solution areas was mainly in line with inflation. In the canned products sector, even for those branded products that maintain a strong presence in chained retailers, the competition will become significantly more intense due to developing of private label products in terms of marketing and shelf positioning.

Condiments and Sauces

In 2014, the sales of sauces, dressings and condiments grew by 1 percent in volume in Russia. (Source: Euromonitor International) The U.S. share of the sauces and mixed condiments accounted to more than \$5 million representing a 6 percent growth in 2014. The market is positively influenced by the development of Asian consumer food service, with the retail market for packaged Asian food recording stable annual growth especially in sauces. Many sauces producers offer a variety of oriental flavors responding to consumer preferences. In addition, herbs and spices also gained a number of customers aware of Asian spices like curry and various spicy flavors.

Sauces, dressings and condiments are one area where multinational brands dominate over domestic producers. Demand for such products in Russia is growing which provides great opportunities for U.S. suppliers. Sales will be driven by population growth and new product development which will be supported by active promotion and advertising provided by the growing retail sector.

Pet Food

According to trade estimates, Russia has the world's second largest pet population per capita after the United States with an estimated 60 million pets. According to official statistics, the average annual value of pet food sales is \$1.3 billion, although independent market research agencies estimate annual sales over \$1.5 billion. According to Euromonitor International, Russia's pet food market is the 3rd fastest growing markets worldwide with annual growth of 8.7 percent, after India's with its annual growth of 9.9 percent, and Saudi Arabia with 13.8 percent. Market analysts have stated that only 60 percent of the Russian pet food market has been developed to date, therefore most foreign producers (specifically European) consider Russia as a market with high potential. For example, the pet food market in France is developed at 97 percent rate and in Germany at 91 percent.

The highest demand in the Russian market is for low-priced (economic) segment of pet food products

which accounts for 70 percent of total sales of pet food in the country. This type of pet food is either produced locally or imported. The assortment of pet food of premium class is widely diversified: with food for various age groups and breeds, special diets and medicinal feeds. Pet foods in the premium class are mostly imported. Due to continued ruble devaluation and lower purchasing power of the population, demand for premium class pet food is falling. The share of super premium food is still very low and estimated at 1 percent of the local market and may shrink further. Pet food imports reached nearly \$267 million in 2014 - a 5 percent increase in value from 2013. The U.S. market share of imported pet food accounted for just 3 percent of the total in 2014.

Snack Foods

Snack foods are gaining popularity in Russia. Sales growth is being fueled by growing impulse and indulgence product assortments as well as the shift amongst consumers to more premium products, especially in areas like industrial cakes, chocolate confectionery and snack bars. New product development, especially in snack bars and ice cream is making people eager to try new products and stimulating sales growth. As a result of growing concerns about healthy food, snack bars are recognized as healthy alternatives to chocolate snacks nevertheless snack bars are relatively new in Russia. Due to the popularity of novelty snack bars, sales growth is fastest in impulse and indulgence products, with current value sales rising by 19 percent in 2014.

Table 12. Russia: Suggested Best Prospects for U.S. Exporters, by Sector, 2014

Product	2014 US Import (\$US mln.)	Average Growth of Import over the Last 5 Years, %	Import Taxes	Key Constraints to Market Development	Attractiveness of the Market for US Exporters
Soybeans	215	110	0%	Russia increases soybean area and domestic production. Tight competition from Paraguay and Brazil.	Russia increases poultry and livestock production and needs protein feeds. Russia’s soybean crushing capacity is expanding faster than domestic soybean production.
Live Cattle	72	138	0%	Competition from Australian and European cattle suppliers (the latter being true if Russia	Russia needs more highly productive cattle to reach its publicly stated

				eliminates ongoing trade restrictions with the EU).	food security goals which call for a reduction of imported meat and dairy products.
Food preparations	152	12	20% but not less than 0.25 Euro/kg plus 18% VAT for position 1704; generally 5% + 18% VAT for items in 180620, but varies in other positions	High competition from EU products; Cheap canned food niche occupied by Russian trademarks.	Fewer Russians are making food products (e.g. canning) at home; High-quality product niche is not completely filled.
Wine	13.8	18	RUR 8-25/liter of ethyl alcohol content; VAT 18%	Lack of U.S. wine promotion, strong positions of other importers (France, Italy, Spain, and Argentina).	California wine is growing in popularity and has good potential for growth.
Spirits	127	30	RUR 500/liter of ethyl alcohol content; VAT 18%	Lack of U.S. whiskey promotion, strong positions of other importers (United Kingdom, France, Armenia)	Bourbon and whiskey are growing in popularity and still have tremendous growth potential.
Processed Fruit & Vegetables	16	7	5% - 15%, but not less than 0.15 – 0.075 Euro/kg (duty depends on product, size of package, sugar	High competition from EU products; Strong competition from local producers	High-quality product niche is not completely filled.

			content, etc.) + 10% - 18% VAT			
Condiments and Sauces	5	21	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 EU and CIS countries.	Good potential for high quality U.S. goods. Lack of high quality product lines and limited assortment of the local producers.	
Pet food	8	20	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. As a result of ruble devaluation and lower consumer purchasing power, pet owners are switching from expensive goods to cheaper products of lower quality.	Traditionally large number of home pets;. Demand is growing towards cheaper segments of pet food. High competition with the EU	
Snack Foods	9	32	5% - 15%, but not less than 0.15 – 0.075 Euro/kg (duty depends on product, size of package, sugar content,	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.	

			etc.) + 10% - 18% VAT			
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Source: *Global Trade Atlas, U.S. Trade Database, Russian Tariff Database*

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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U.S. Department of Agriculture

Foreign Agricultural Service

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FAS Website: www.fas.usda.gov

For Trade Policy/Market Access Issues, General Information on the Russian Agricultural Sector, etc:

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Rachel Vanderberg, Agricultural Attaché

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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.

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

American Chamber of Commerce in Russia (AmCham)

Ul. Dolgorukovskaya, Building 7, 14th floor
127006 Moscow, Russia
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American Chamber of Commerce in St. Petersburg

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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

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The U.S. Commercial Service office at the U.S. Embassy in Moscow assists American exporters by identifying potential partners through the Gold Key Matching Service. The program features: appointments (typically four per day) with prescreened Russian firms; background and contact information on each potential partner, such as: the size of the company; number of years in business; product or service lines; and capability to provide after-sales service;

customized market briefing with U.S. Commercial Service staff; and, available market research on the relevant industry sector.

**TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCTS
(CONSUMER-ORIENTED AG TOTAL)**

№	Country	Million United States Dollars		
		2012	2013	2014
1	Belarus	0.2	2,728	3,196
2	Brazil	1,845	2,127	2,567
3	Turkey	1,355	1,567	1,552
4	China	1,023	1,118	1,253
5	Netherlands	1,356	1,643	1,246
6	Ecuador	1,160	1,255	1,196
7	Germany	1,613	1,537	1,109
8	Italy	1,089	1,230	1,108
9	Poland	1,205	1,491	1,055
10	Spain	1,235	1,113	813
11	Ukraine	1,778	1,657	781
12	France	874	941	749
13	Argentina	521	597	666
14	United States	1,355	874	664
15	Paraguay	568	652	603
	World	25,843	29,692	26,845

Source: *Global Trade Atlas, 2015*

TOP 15 SUPPLIERS OF FISH & SEAFOOD PRODUCTS

№	Country	Million United States Dollars		
		2012	2013	2014
1	Norway	1,049	1,129	555
2	China	292	331	392
3	Chile	125	279	378
4	Belarus	0	156	237
5	Iceland	158	173	234
6	Faroe Islands	77	112	173
7	Vietnam	79	84	96
8	India	37	50	77
9	Canada	119	120	73
10	Thailand	56	56	65
11	Turkey	22	34	60
12	Ecuador	15	32	44
13	United States	39	78	42
14	Latvia	41	45	37
15	Argentina	21	23	36

	World	2,554	3,151	2,853
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Source: *Global Trade Atlas, 2015*

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>

FAS Reports:

[RS1491 Food and Agricultural Import Regulations and Standards - Certification](#)

[RS1490 Food and Agricultural Import Regulations and Standards - Narrative](#)

[RSATO036 Retail Report / Annual](#)

[RFATO005 Consumer Trends in Food and Retail Sector](#)

[RSATO006 Russian Retailers Modify Strategies as Economy Slows](#)

[RFATO001 Food Import Ban Changing Russian Far East Food Market](#)

[RFATO009 Duma Members Propose New Rules for Food Retailers](#)

[RSATO1002 Trade Law Report](#)

[RSATO040 Russian Food Processing Sector](#)

[RSATO005 Consumer Trends in Food and Retail Sector](#)

[RSATO Russian HRI Sector](#)

[RSATO13 Franchise Restaurants Doing Well Despite Slowing Economy](#)

[RSATO015 Vegetable Prices Keep Rising](#)

[RSATO031 Fresh Deciduous Fruit / Annual](#)

[RS1554 Poultry and Products Annual](#)

[RSATO 1205 Strategy of the Russian Food Industry Development until 2020](#)

[RS1483 Dairy and Products Annual Report](#)

