

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Russian Federation

Exporter Guide

Annual 2018

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Report Highlights:

The Exporter Guide provides an economic and food market overview, demographic and consumption trends, and practical tips to U.S. exporters how to conduct business in Russia. The report also describes three market sectors (food retail, food service, and food processing) and the best high-value product prospects.

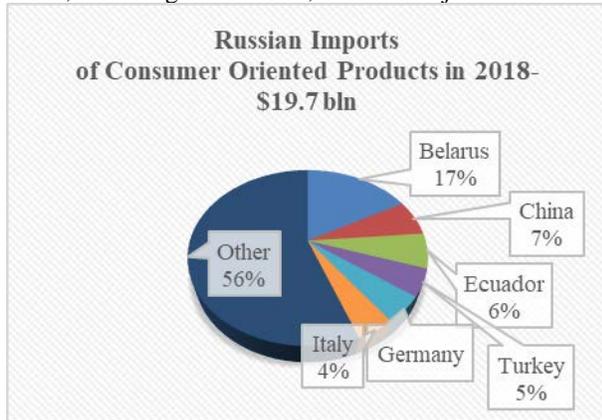
Market Fact Sheet: Russia Federation

Executive Summary

Russia is an upper middle-income country spanning over 6,000 miles, two continents and 11 time zones. In 2018, Russia’s GDP reached \$1.63 trillion, positioning the country as the world’s 12th largest economy. GDP growth surpassed expectations reaching 2.3 percent in 2018. The World Bank forecasts Russian GDP to increase by 1.2 percent in 2019, and by 1.8 percent in 2020 and 2021. In March 2014, the United States joined 30 other countries in imposing sanctions on Russia for violating the territorial integrity of Ukraine. Russia responded by imposing its own countersanctions on many agricultural imports. Since 2014, Russian agricultural production has increased 30 percent.

Imports of Consumer-Oriented Products

While imports of consumer oriented products have fallen by more than 35 percent since 2014, Russia remains a net importer and continues to rely on foreign supplies of fresh and dried fruit, nuts, vegetables, beef, cheese, wine, spirits, food ingredients, and processed foods, including condiments, snacks and juices.



Food Processing Industry

Food processing has increased by an annual average of five percent over the last three years. In 2018, output of the foods and drink manufacturing industry reached \$101 billion (6.4 trillion rubles), 7 percent increase from the previous year. To keep pace with this growth, Russia’s food processing industry continues to invest in new equipment and is expanding purchasing of ingredients

Food Retail Industry

Retail turnover demonstrated growth for the second year in a row. In 2018, food retail turnover grew by 2.1 percent and total \$238.7 billion. The growth forecast for 2019 will slow down. Russia’s top 100 retail chains together account for 39 percent of the market and

consolidation will continue in 2019.

Quick Facts CY2017

Imports of Consumer Oriented Products, total: \$19,655 million

List of Top 10 Growth Products in Russia (imported from the World):

- 1) Cheese
- 2) Wine
- 3) Butter
- 4) Mandarins
- 5) Beer
- 6) Dog and Cat Food
- 7) Bread, pastry, cakes
- 8) Eggs of chicken for incubation
- 9) Coffee roasted
- 10) Food Preparations

Food Industry by Channels (U.S. billion) 2018

Food Industry Output	\$101
Consumer-Oriented Products Imports	\$19.7
Consumer-Oriented Products Exports	\$3.7
Agricultural & Related Products Imports	\$31
Agricultural & Related Product Exports	\$26
Food Retail	\$238.2
Food Service	\$24.1

Top 7 Food Retailers in Russia:

- 1. X5 Retail Group
- 2. Magnit
- 3. Lenta
- 4. Aushan Retail
- 5. SPS Holding (Krasnoye & Beloye)
- 6. DIXI Group
- 7. Metro Group

GDP/Population:

Population: 143 million
GDP: \$1,63 trillion

Strengths/Weaknesses/Opportunities/Challenges

Strengths	Weaknesses
The biggest consumer market in Europe with 143 million consumers	Strong competition from European, Chinese, locally produced products
Opportunities	Threats
Growing Russian food processing sector is looking for quality and innovative ingredients and consumers are increasingly sophisticated, looking for value	Countersanctions limit the list of American products eligible for export to Russia

Data and information Source: Global Trade Atlas, Russian Statistic Committee, industry experts

SECTION I. MARKET OVERVIEW

Russia is an upper middle-income country spanning over 6,000 miles, two continents and 11 time zones. In 2018, Russia's GDP reached \$1.63 trillion (103.6 trillion rubles)¹, positioning the country as the world's 12th largest economy. GDP growth surpassed expectations reaching 2.3 percent in 2018, mostly due to one-off effects of construction and the FIFA World Cup. The World Bank forecasts Russian GDP to increase by 1.2 percent in 2019, and by 1.8 percent in 2020 and 2021. The Russian economy is largely driven by the oil and gas industries; however, manufacturing has grown by an average 2.6 percent for the third consecutive year. Food processing has also increased by an annual average of 5 percent over the last three years. With inflation at 2.9 percent in 2018, real wages increased 6.8 percent year-on-year, and the economy is showing signs of gradual recovery. At the same time, disposal incomes have steadily decreased over the last 6 years due to the rising costs of debt. Turnover in the retail sector grew 2.6 percent in 2018 and by 1.2 percent during the first 5 months 2019. Moderate growth will likely continue throughout 2019.

In March 2014, 31 countries, including the United States, imposed financial sanctions on Russia for violating the territorial integrity of Ukraine. Russia responded by imposing its own countersanctions on many agricultural imports. As a result, since 2014, Russian domestic agricultural production has increased by 30 percent. Russian Government policies generally seek to reduce dependence on imports and promote exports of Russian grain, meat and processed food products.

While imports of consumer oriented products have fallen by more than 35 percent since 2014, Russia continues to rely on foreign supplies of fresh and dried fruit, nuts, vegetables, beef, cheese, wine, spirits, food ingredients, and processed foods, including condiments, snacks and juices. Many imported products are now supplied by countries that are not subject to Russia's countersanctions (Belarus, Turkey, China, Brazil, Ecuador, South Africa, Chile and Argentina). However, even in the face of many challenges, non-sanctioned products from Europe and the United States are in demand creating business opportunities in niche market segments.

Table 1. Advantages and Challenges U.S. Exporters Face in Russian Federation.

Advantages (product strengths and market opportunities)	Challenges (product weakness and competitive threats)
The biggest consumer market in Europe with 143 million consumers; Consumers are increasingly sophisticated, looking for value	Countersanctions limit the list of American products eligible for export to Russia
United States seen as a trend leader in consumer food products, e.g. organic, vegan, etc.	Negative perceptions of the United States influence importers and retailers
Growing Russian food processing sector is looking for quality and innovative ingredients	Strong competition from European, Chinese, locally produced products
Stable ruble exchange is create better conditions for	Terms of credit and financing do not favor

¹ Exchange rate used 63.05Rub per \$1

imports	business development with American exporters
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SECTION II. EXPORTER BUSINESS TIPS

U.S. exporters should consider the following when planning to conduct business in the Russian market:

- Ensure that the product is not included in the Russian sanctions list. For the list of HS codes, please refer to GAIN report [RS 1908 Russia Extended Food Import Ban through End 2020](#)
- Discuss plans with your [USDA Cooperator](#) association to join or initiate activities that can help develop market research, contacts and activities to build relationships with Russian partners.
- Consider exploring opportunities around Russian trade shows like:
 - World Food Moscow, September 2019 - <https://www.world-food.ru/Home>
 - PIR Show, October, 2019 - <https://pirexpo.com/en>
 - Ingredients Russia, February, 2020 - www.ingred.ru
 - Prodexpo, February 2020 - <https://www.prod-expo.ru/en>
- Many Russian buyers also attend international trade shows like [Anuga](#), [SIAL](#), [Gulfood](#), [ProWein](#). U.S. companies planning to attend any of these shows may contact the U.S. Agricultural Trade Office in Russia to discuss ways to connect with Russian buyers.
- Many Russian retail chains are starting to import directly. Russian retailers are very focused on consumer education, brand awareness and broad appeal to an increasingly sophisticated consumer. Consider strategies to effectively introduce your products.
- Experienced Russian importers can guide you through the documentation and certification procedures for export. Generally, an exporter will need to send samples for testing and certification prior to the product shipment. For additional guidance, please refer to the [Food and Agricultural Import Regulations and Standards Report \(FAIRS\)](#).
- Most Russians involved in international trade understand and can write in English.
- While Russians communicate by phone and e-mail, face-to-face meetings are highly valued especially in negotiations and in finalizing commercial agreements.
- Russian partners will usually ask for a stamped and signed contract to finalize the negotiation. The enforcement of a contract would be subject to Russian law.

SECTION III. IMPORT FOOD STANDARDS & REGULATIONS and IMPORT PROCEDURES

Many Russian regulations have or are undergoing reform as Russia continues the process of policy integration with the Eurasian Economic Union (EAEU) – including Armenia, Belarus, Kyrgyzstan and Kazakhstan. The EAEU officially replaced the Customs Union on January 1, 2015. For additional details, please refer to GAIN report [RS1611 Eurasian Economic Union One Year On](#).

Despite Russia's WTO accession in August 2012, Russian import procedures are complicated and very bureaucratic. While the legal framework has been modernized, procedural implementation lacks clarity and can be easily manipulated to serve specific interests. For general information regarding customs clearance, required documentation, labeling requirements, and tariffs, please refer to GAIN Report [RS 1838 Food and Agricultural Import Regulations and Standards Report](#).

The information contained in this report serves as a general guide. USDA strongly recommends that exporters verify specific requirements with their import partners **before** shipping any products.

SECTION IV. MARKET SECTOR STRUCTURE AND TRENDS

Russia is the largest consumer market in Europe and nearly 75 percent of the population lives west of the Ural Mountains. Russian consumers are predominantly urban. Almost 25 percent of Russia's 143 million people live in cities of over one million. Moscow, with 12.4 million inhabitants, is the commercial capital with an average per capita income that is almost two times higher than income in other Russian cities, and four times higher than income in rural areas. St. Petersburg, with 5.2 million inhabitants, is the historic and cultural capital with the main seaport on the Baltic Sea. Together, the cities of Moscow and St. Petersburg are considered to be "trend-setters" and serve as the main gateway for nationwide distribution. Notwithstanding limitations in disposable income, Russian consumers, especially in urban centers, are increasingly sophisticated in searching for quality and value. Five years of economic sanctions have driven Russian consumers to economize and reduce expenditures on expensive imported products.

Consumption Trends and Practices:

Russian consumers continue to be price conscious, but also look for quality, new and healthy products. According to [GfK](#)² survey, last year, 46% of Russians said they were looking for a way to save money and use special offers for this purpose, 54% of Russians say they are looking for stores with low prices.

In addition to saving money, consumers in Russia appreciate convenience. Therefore, ready-made food is gaining popularity and becoming an alternative to traditional home cooking. According to GfK, almost every second (46%) buyer says that he/she visits bakeries and pastry shops at least once a month or more often, every fourth goes to fast-food restaurants (27%) or cafes (24%) at least once a month. Every fifth ordering food with delivery through food delivery services.

Retailers and manufacturers who heard the consumer's request for convenience benefited from this trend. In regions with high consumer potential and high employment, for example, in Moscow, St. Petersburg and a number of other major cities, the demand for ready-made meals

² GfK- Research and analyses on markets and consumers in 100 countries. Data of the consumer panel of 20 thousand households.

and cookery is growing. In 2018, ready-to-eat meals grew in Moscow by 18%³ (in packs), and in St. Petersburg by 12% (in packs).

Outside of the bustling cities, Russia remains a largely traditional and patriarchal society where the family unit is typically run by women who make most of the dietary decisions and cook regularly at home. The most typical Russian diet consists of potatoes, heavy rye bread, pork, chicken and beef, as well as various soups based on seasonal vegetables, mushrooms and rice.

Another significant trend in the Russian FMCG market is increasing interest in a healthy lifestyle. Russians are increasingly worried about their own health. According to Nielsen, more than 84% of them changed their eating habits: 53% reduced fat intake, 65% reduced sugar, and 67% increased the share in the diet of natural and healthy foods. More Russian consumers carefully calculate the calories, more attentively looking for the ingredients, and prefer products with less artificial ingredients, less fat and sugar. A wide range of healthy food has already become an important factor when choosing a store for 62% of consumers, based on the same research. Almost all federal retail chains have departments for healthy products. GfK research, every fourth Russian is interested in farm products and every fifth – in product marked “bio”, “eco” ‘organic’. In 2019, sales of such products in the market should exceed 900 billion rubles, according to the Euromonitor estimation.

Russian consumer increasingly buy food and drinks via internet. Food and drink internet retailing is mainly popular in big cities and major regional centers. The acceleration of the pace of city life and the convenience trend were the main factors in favor of online stores, when consumers economize time, money for visiting stores and do move careful product choice. According to Euromonitor, food and drink internet retailing grew 20% in 2018, to reach \$736 million (46.4 billion rubles) and is forecast to reach \$1.8 billion (115billion rubles) in 2023.

Food Industry Breakdown

After two years of decline (by 4.8 percent in 2016 and 10 percent in 2015), retail turnover grew for the second year in a row. In 2018, retail turnover increased by 2.8 percent, and reached \$501.2 billion (31,548 billion rubles), while food retail turnover grew by 2.1 percent and total \$238.7 billion (15,016.9 billion rubles). From January- April 2019, food retail turnover growth slowed to 1.2 percent. Russian consumers continue to economize, buy rationally with minimal impulse purchases, and also look for healthy, natural and innovative/“trendy” products at affordable prices. Russia’s top 100 retail chains together account for 39 percent of the market with nine trillion rubles of aggregated revenue, according to INFOLine Agency⁴. In light of very slim profit margins, most industry observers predict consolidation in the retail sector. In 2019, top three retailers – X5 Retail Group, “Magnit”, and newly united company -“Krasnoye & Beloye”, “Brisotl” and “DIXI” (whose merger is already widely reported in the press) - will manage 40,000 stores. More and more retailers are importing directly, developing their own private labels, and redefining shopping formats including pop-up stores and in-store dining experiences. This trend most likely will continue throughout 2019.

³ GfK research. Data of the consumer panel of 10 thousand households.

⁴INFOLine is information-analytic agency working since 1999

Russia's food processing industry is comprised of an estimated 46,600 food and beverage manufacturers. Under economic sanctions, the Russian Government has prioritized the development of domestic agricultural production and Russia's food processing sector is an integral part of this development. Food processing has increased by an annual average of 5 percent over the last three years. In 2018, output of the foods and drink manufacturing industry reached \$101 billion (6,371 billion rubles), a 7 percent increase from the previous year. For January- May 2019, output of red meats and meat products, cheese, and vegetable oils increased by an average 10 percent, confectionary products and beer by 1.3 percent. Due to stagnant disposal income, food manufactures try to introduce more new, interesting products to attract consumers. The production of "healthy" products including gluten free, low fat, and sugar free is growing following demand. To keep pace with this growth, Russia's food processing industry continues to invest in new equipment and is expanding purchasing of ingredients, including food additives. In 2018, Russia increased exports of vegetable oils, chocolate and chocolate products, pastry and cakes, beer, and meat products.

In 2018, HRI sector turnover totaled \$24.1 billion (1,520.1 billion rubles), 3.7 percent higher than in 2017. Russians spend 3.3 percent of overall expenditures on food in 2018, according to analysts' estimates. It is more and more common for Russians to visit restaurants for special occasions with family and friends. In addition, more and more Russians are ordering food via internet for home delivery on a regular basis. In 2019, restaurant experts predict a major trend toward simplifying menus (which have tended to be extensive in Russia) and focus on the quality of the ingredients. Food culture strives for responsible and healthy eating and the use of more fresh ingredients, and fermented products.

Despite a 35 percent decrease in food imports since 2014, Russia is still one of the top 15 global importers of food and agricultural products. In 2018, Russian agricultural imports increased 17 percent compared to the previous year, reaching a total of \$31 billion. Two thirds of Russia's imports (\$19.7 billion) were consumer-oriented products.

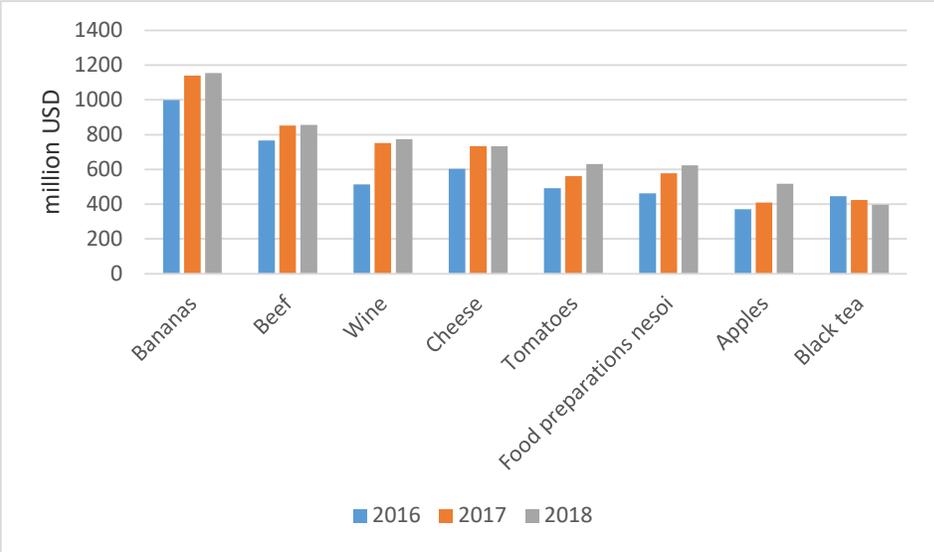
Table 2. Best Consumer-Oriented Products Prospects

Commodity (HS code)	Import, million USD, 2018	Imports from U.S., million USD, 2018 (U.S. market share)	2017-2018 annual import growth
Bananas (HS 080390)	1,154	0	7%
Beef, boneless (HS 020230)	855	0	5%
Wine (HS 220421)	773	7.8 (1%)	13%
Cheese (HS 040690)	735	0	10%
Tomatoes (HS 070200)	630	0	17%
Food Preparations Nesoi (HS 210690)	623	61.7 (10%)	16%
Pet food (HS 230910)	314	3.7(1%)	27%
Cocoa Preparations (HS 180690)	293	0.7(0)	23%
Beer (HS 220300)	287	1.8(0.64%)	50%
Bread, Pastry, Cakes (HS 190590)	241	1.9(0.79%)	22%

Food Preparations for Infants (HS 190110)	240	0	5%
Sauces and Preparations (HS 210390)	190	3.6(1.9%)	20%
Cocoa Paste (HS 180310)	157	9.7(6%)	4.2%

Source: www.gtis.com

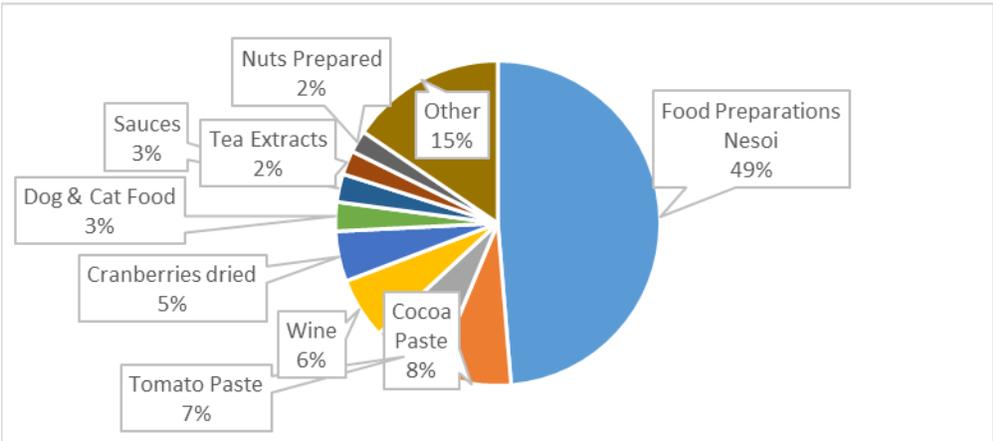
Chart 1. Top 8 Consumer-Oriented Products, 2016-2018, in U.S. Dollars



Source: www.gtis.com

In 2018, U.S. agricultural exports to Russia reached \$440.5 million including \$126.6 million of consumer-oriented foods.

Chart 2. Russian Consumer – Oriented Product Import from the United States



Source: www.gtis.com

Table 3. Russia's Import of Consumer Oriented Products. U.S. Market Share Versus Main Suppliers' Market Share, 2018 figures

Product Category, Imports	Main suppliers, in percentage	Strengths of Key Supply Countries	Market Attractiveness
Food preparations (HS 2106 90) Total imports: 623.1 million USD	1. Germany - 27 2. USA - 10 3. France - 5	Close proximity to Russia and marketing/educational support makes ingredients and additives from EU broadly available.	Demand for sustainable innovative ingredients and additives.
Cacao paste, not defatted (HS 1803 10) Total imports: 157.9 million USD	1. Ghana - 35 2. Cote d'Ivoire - 32 3. Ukraine - 18 5. USA - 6	Product for the major suppliers is more affordable, which for Russian price sensitive market is important advantage.	Growing confectionary production and introduction of innovative products need more ingredients consistent in quality.
Tomato paste, not prepared with vinegar (HS 2002 90) Total imports: 89.8 million USD	1. China - 54.4 2. Italy - 15 3. USA - 10	Easier logistics and better payment terms to Russian importers.	Expanding food manufacturing driving the demand for quality ingredients.
Wine (HS 2204 21) Total imports: 777.3 million USD	1. Italy - 25 2. France - 17 3. Georgia - 15 14. USA - 1	Wines from the European Union and Georgia are traditionally well known in Russia and popular with Russian consumers.	Developing wine culture in Russia encourage interest to for new wines among professionals and consumers.
Cranberries prepared (HS 2008 93) Total imports: 9.4 million USD	1. USA - 68 2. Germany - 23 3. Canada - 6	Competitors propose better prices.	Healthy eating trend drives natural ingredients market. Cranberries are well known and loved by Russian consumers.
Dog and cat food (HS 2309 10) Total imports: 314.9 million USD	1. France - 17 2. Italy - 13 3. Canada - 11 14. USA - 1	Better prices, better payment terms make products from major suppliers more attractive.	Pet food market in Russia is growing.

Sauces, mixed condiments, and seasonings (HS 2103 90) Total imports: 190.6 million USD	1. Germany - 25 2. Austria - 20 3. Estonia - 6 12. USA - 2	EU suppliers have long-term relationships with Russian importers and enjoy high loyalty of final consumers. Russians adopted European cuisine and use many European style sauces and condiments.	Expanding knowledge and growing popularity of the international cuisine create opportunities to American style sauces for grill.
Tea or Mate Extracts/Concentrates (HS 2101 20) Total imports: 30.8 million USD	1. Ireland - 66 2. Serbia - 13 3. USA - 10	Good proposal from major producers.	Russia remains one of the major consumers of tea.
Nuts and seeds prepared (HS 2008 19) Total imports: 37.3 million USD	1. Turkey - 27 2. Belarus - 16 3. Spain - 15 4. USA - 8	Turkey supplies broader varieties of nuts, while Belarus - better prices for roasted almonds.	Healthy eating pattern gaining popularity in Russia leads food manufacturers to use more “natural” and “healthy” ingredients.
Citrus fruits (including mixes) prepared (HS 2008 30) Total imports: 7.1 million USD	1. China - 40 2. USA - 30 3. Thailand - 15		Russia does not grow citrus, and imports all fresh citrus for final consumers and citrus ingredients for juice and confectionary manufacturing.

SECTION V. AGRICULTURAL AND FOOD IMPORTS

Russian imports of agricultural and food products can be downloaded from the following website <https://apps.fas.usda.gov/gats/BicoReport.aspx?type=country>. Please make the following selection: Product Type: exports; Market year: calendar year; Report Type: year-to-date; Country: Russia; Product: agricultural & related products and Download: world.

SECTION VI. KEY CONTACTS AND FURTHER INFORMATION

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