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## **Russian Federation**

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### **Food Service Sector Snapshot in Russian Far East**

**Report Categories:**

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**Report Highlights:**

In 2014, the food service sector in the Russian Far East faced a number of serious challenges including a food import embargo placed on a variety of food products from the United States, European Union, Canada, Norway and Australia in response to economic sanctions; implementation of a nationwide smoking ban in restaurants and bars; and a depreciating ruble, currency fluctuations, and dropping consumer purchasing power. Nevertheless, the restaurant sector in the region has adapted by offering more middle and lower-end establishments and sourcing more ingredients from domestic suppliers. According to representatives of the Far East Restaurant Agency, when looking at quality of restaurants, number of seats per capita, and average check amounts, Vladivostok still competes as a national leader.

### General Information:

In 2014, the food service sector in the Russian Far East faced a number of serious challenges. In August 2014, the Russian government announced a food embargo on a variety of products from the United States, European Union, Canada, Norway and Australia in response to economic sanctions. In addition, the Russian government announced a smoking ban in restaurants and bars nationwide which led many Russian consumers to eat and entertain more at home. 2014 also saw a depreciating ruble, currency fluctuations, dropping consumer purchasing power which has seriously impacted Russian hotels, restaurants, and institutions (HRI) sector.

The Primorye restaurant market is far from saturated especially in the middle-priced segment. The Primorskiy regional office of Russian Federal Statistics Service (Rosstat) reported that the number of HRI enterprises grew 1.1 – 6 percent during 2010-2014. As of January 1, 2014, the HRI sector in Primorskiy region totaled 1,472 businesses. The share of profitable enterprises is estimated at 72.7 percent with profit total equaling to 259.8 million rubles. In Vladivostok, entrepreneurial activity in the restaurant sector is rather active compared to other regions in the Far East taking into account the number of newly opened restaurants. Even with the slowing economy and lower consumer purchasing power, consumers in the region continue to visit restaurants at a high rate. Many of the higher end restaurants have seen a drop in customers but middle and lower-prices restaurants continue to do well.

**Table 1. Russia: Number of HRI Businesses in Primorskiy Region, 2010-2014**

Year	2010	2011	2012	2013	2014
Number of enterprises	1,258	1,343	1,359	1,439	1,472

Source: <http://primstat.gks.ru/>

According to representatives of the Far East Restaurant Agency, the restaurant business in Vladivostok is developing similarly to western Russia and is expected to be a top five Russian city with regards to quality and number of restaurants available per capita. They added that it is difficult to compare local food service level with Moscow and St. Petersburg when Vladivostok's population is only 600,000 inhabitants. However, when looking at quality level of some institutions, the number of seats per capita, the average check and other factors known to professionals, Vladivostok is a national leader. The competition in the regional restaurant sector is not as competitive as in some western countries where up to 2/3 of newly opened restaurant facilities close during the first two years of operation.

According to Rosstat, in January 2015, the average cost for lunch in a café in Vladivostok was 42 percent lower than in Moscow and the average cost of a dinner in restaurant (including alcohol) in Vladivostok cost 2,287 Rub compared to 3,287 Rub in Moscow. Data on average costs of lunches in cafes and dinners in restaurants in Vladivostok compared with other cities of the Russian Far East and Central Russia cities is in the table below.

**Table 2. Russia: Average cost of Lunch in Cafés, Rubles per Person, 2013-2015**

City/Year	January 2013	January 2014	January 2015
Moscow	456.91	453.20	485.32

St. Petersburg	294.89	265.44	297.17
<b>Vladivostok</b>	<b>224.79</b>	<b>175.02</b>	<b>202.35</b>
Magadan	359.46	472.51	559.31
Yuzhno-Sakhalinsk	269.74	276.29	308.98
Khabarovsk	481.47	298.98	294.75
Yakutsk	303.66	212.48	290.84
Petropavlovsk-Kamshatskiy	224.42	236.25	274.47
Anadyr	244.21	260.66	272.56
Birobidzhan	149.98	170.38	188.02
Blagoveschensk	157.21	142.31	182.28

Source: gks.ru

**Table 3. Russia: Average cost of Dinner (Including Alcohol) in Restaurants, Rubles per Person, 2013-2015**

City/Year	January 2013	January 2014	January 2015
Moscow	2,982.62	3,068.73	3,287.37
St. Petersburg	1,949.04	1,995.93	2,102.50
<b>Vladivostok</b>	<b>2,092.24</b>	<b>2,141.54</b>	<b>2,287.06</b>
Yakutsk	2,380.69	2,927.88	3,186.20
Khabarovsk	2,256.66	2,541.48	2,816.94
Magadan	2,305.00	2,476.80	2,554.99
Petropavlovsk-Kamshatskiy	1,982.35	2,299.32	2,428.81
Yuzhno-Sakhalinsk	1,855.30	1,876.86	1,901.32
Blagoveschensk	1,323.08	1,322.89	1,581.28
Birobidzhan	897.33	1,057.79	1,218.61

Source: gks.ru

### Far Eastern Cuisine

Asia is closer to Primorye than Europe which has a strong influence on consumers in the region. Of course, this also applies to food preferences. Spicy Thai soup and raw scallops are much more appreciated by local consumers than French onion soup or truffles. Proximity to the sea and to Asian style cooking defines the trends of regional cuisine. In Primorye, many restaurants and cafes offer so called "Far Eastern Cuisine" which for locals means fusion of Japanese, Korean, and Chinese cuisines. In geographical terms this definition implies the Pacific territory of Russia, in gastronomic terms it reflects taste preferences of the residents of the Russian Far East and the products whose origin come from the area. In local restaurants, visitors are offered dishes with sea cucumber, crab, scallops, and oysters. Regional cuisine is a part of the overall Far Eastern culinary traditions, primarily Korean, and Chinese. All the marine waters along the Russian coast of the Sea of Japan and the southern part of the Sea of Okhotsk are abundant in scallops, mussels, oysters, and surf clam); echinoderms (sea urchins and sea cucumbers); crustaceans (crabs, shrimp); squid and octopus; and seaweed. Beside sea fishery diversity, there are freshwater aquaculture farms producing sturgeon, carp, and catfish. There are no fish markets in the Russian Far East like in Busan, Korea but a modern fish market of local products has been gradually forming. Fashion for Japanese cuisine quickly spread around the world thanks to the efforts of U.S. restaurateurs back in the 1980's. Proximity to Japan has led to growing interest in

authentic Japanese cuisine among Primorye residents. Local residents often visit Japan for work and/or vacation.

### **Effects of Economic Crisis and Food Import Ban**

Towards the end of 2014, many restaurants and cafes began shutting down as a result of the slowing economy accompanied by increasing rental costs, reduced customer flows, dropping average check amounts and increasing cost of food ingredients. Many restaurants in Primorye initially refrained from completely passing on their higher costs to the customers for fear that it would lower the number of visitors even further. Others have had no choice but to increase prices to avoid shutting down. As a result, the average restaurant check in Vladivostok has grown from 1,200 rubles per person to 1,500 rubles. In the second half of 2014, the number of corporate parties in Primorye reduced by as much as 40-50 percent according to market analysts. Some of the outlets change the format of their operations: instead of full week, restaurants are open now from Wednesday to Sunday starting only at noon or just during evening hours depending on the format of the venue. Some many-storied outlets keep only one floor open on certain days in an effort to cut costs.

### **Mobile Fast Food Sector**

Primorskiy region is a national leader in the amount of mobile “pit-stop” type restaurants. According to AlfaStrakhovanie insurance company, in 2013, there were 547 cars per 1,000 residents in Primorye making pit-stops an excellent platform for providing affordable food to a mobile community. The cost of entry to this market segment ranges from 300,000 rubles to 3 million rubles depending on size and services offered. According to pit-stop owners, investments are paid off much faster than normal “stationary” fast food service restaurants. Competition in pit-stop fast food has grown in recent years.

### **Federal and International Chains**

The region does not have a large number of national and international restaurant chains. There are two outlets of “Shokoladnitsa” café chain in Vladivostok. McDonalds has never reached the Russian Far East. In 2013, Subway opened in Vladivostok but is no longer present. In April 2015, Burger King opened its first restaurant in Vladivostok which is the second in Primorskiy region. According to the press, Burger King plans to expand its operations in the Russian Far East and open more venues in the near future.

### **Suppliers for the Food Service Sector**

Most restaurants in the region use separate suppliers for each product category (i.e. produce, meat, or desserts) and very often work simultaneously with three to four suppliers for their principal ingredients to ensure steady supply. A few restaurants use fresh produce markets as suppliers as well. Both large and small importers and distributors supply the HRI sector in Primorye and a few work across a wide variety of products. The distribution market is fragmented and there are a variety of arrangements between suppliers and customers. Imports make up the vast majority of HRI products (more than 65 percent), with domestic suppliers filling the gaps. Proximity to Asian and Pacific countries makes it possible for food service businesses to have stable supplies of food products from China, Korea, Japan, Vietnam, Thailand, New Zealand and Australia. Before the food import ban was introduced by the Russian government in August 2014, the regional food service sector enjoyed high quality pork, beef, chicken, apples, pears, oranges, and grapes from United States delivered directly to Vladivostok from the U.S. west coast. Currently local restaurateurs in Primorye are sourcing beef from New Zealand, Brazil and Argentina; lamb from New Zealand; and pork and chicken meat from Brazil, China and

domestically.

For more details on the situation in Russian Food Service Sector please refer to GAIN report:

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Service%20-%20Hotel%20Restaurant%20Institutional\\_Moscow%20ATO\\_Russian%20Federation\\_12-31-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Service%20-%20Hotel%20Restaurant%20Institutional_Moscow%20ATO_Russian%20Federation_12-31-2014.pdf)