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Government Inspectors Perform Mass Price Checks

Report Categories:

Agriculture in the News

Agriculture in the Economy

Agricultural Situation

Retail Foods

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Report Highlights:

From January 21-23, 2015, mass inspections were undertaken by representatives of Russia's Prosecutor General Office in retail stores in more than thirty Russian cities. The inspectors were looking at food prices in order to detect violations and "unjustified" markups that lead to higher prices on certain categories of food products. Inspections affected all major retail chains such as Metro Cash & Carry, Auchan, Lenta, X5 Group and etc. The results of the checks indicate the prices many food products went up by 10-150 percent. The prosecutors submitted the result of their inspections to Federal Antimonopoly Service that is expected to follow up with financial penalties. In addition, nearly 100 store managers received "official warnings" from the Prosecutor General's office on the inadmissibility of unjustified price increases.

General Information:

The Prosecutor General of the Russian Federation has instructed the prosecutors of all Russian regions to conduct unannounced checks at retail stores to look at and document spikes in food prices. The reason for these price checks follow public statements by Russian government officials of the sharp rise in food prices seen in December 2014 and January 2015. As a result, mass inspections were undertaken by representatives of Russia's Prosecutor General Office in retail stores in more than thirty Russian cities including Moscow, St. Petersburg, Kazan, and Samara. Some retailers said that the inspectors were armed with a letter from the Prosecutor General authorizing the spot inspections. The inspectors were looking at food prices in order to detect violations and "unjustified" markups that lead to higher prices on certain categories of food products. Inspections affected all major retail chains such as Metro Cash & Carry, Auchan, Lenta, X5 Group and etc. The results of the checks indicate the prices many food products went up by 10-150 percent.

Prosecutors were primarily focused on documenting the pricing for staple or "socially important" goods, analyzing the validity of price increases and preparing reports that will go to Moscow. They also requested retailers to provide customs declarations and invoices while carefully examining the harmonized schedule codes of their products. The list of socially important goods includes more than 20 kinds of products, including various meats, chicken, eggs, frozen fish, milk, butter and sunflower oil, bread, rice, buckwheat, pasta, potatoes, carrots, apples, sugar, salt, etc.

The results of the checks indicate rising prices across the country with some prices shooting up by 10 - 150 percent. The official website of the Prosecutor General reports that price of sugar in Moscow region grew at 40 percent, white cabbage – more than 36 percent, chicken – more than 30 percent, eggs - 40 percent.

In Samara region prosecutors compared the prices of August and December 2014 and found that the price of cabbage, cucumbers and peppers grew by 353 percent, 544 percent and 654 percent, respectively. During the same period there was a high price spike for buckwheat up 276 percent. Price checks also confirmed more than 50 percent price increases in meat products, frozen fish, cheeses, sour cream and potatoes. According to the prosecutors' report, in January the rise in food prices continued: tomatoes grew by 26 percent, cucumbers by 48 percent, carrots by 58 percent, and grapes by 85 percent. According to the prosecutors' reports, in some cases the prices in retail stores were raised unreasonably since they didn't match with the price increases of their suppliers. According to office contacts, the inspectors also found some goods included to the list of banned products in some retail establishments such as Polish apples labeled as Belarusian and Estonian pears labeled as Swiss.

The prosecutors submitted the result of their inspections to Federal Antimonopoly Service that is expected to follow up with financial penalties. In addition, nearly 100 store managers received "official warnings" from the Prosecutor General's office on the inadmissibility of unjustified price increases. According to Kommersant newspaper, the prosecutors' findings can even turn into criminal cases against retailers. For instance, prosecutors from the Perm region, that found a price increase of more than 150 percent for some products, have asked for additional examination of the management of X5, Magnit, Semya and Vivat retail chains under four articles of the criminal law. They are trying to understand if any price manipulation was done by retailers that led to rapid increases for some food

items.

Currently, officials at the Prosecutor General's office are analyzing the information and are considering their next steps. Russian Law on Trade gives the government the right to impose price controls if the cost of "socially important" products rises by more than 30 percent over a 30-day period. In this case the government has the right to set limits on the price rise up to 90 days. The government says it will take into account the findings of the prosecutors when discussing the possibility of introducing price control mechanisms for socially important products.

On January 23, 2015, Russian Prime Minister Dmitry Medvedev stated that retailers and producers should "curb their economic appetite" and drop their level of profit margins on many products. "In this difficult economic situation, those who operate in trade, as well as some in production, should curb their economic appetite. They need to understand that the level of profit should be a bit lower," Medvedev said during a meeting with Federal Antimonopoly Service Head Igor Artemiev. "Of course, they shouldn't work at a loss but attempts to maximize profits by using non-competitive methods in trade and breaches anti-monopoly legislation will not be tolerated," Medvedev added.

According to official statistics, food price inflation in Russia totaled 11.4 percent in 2014 (6.5 percent in 2013), driven by a sharp devaluation of the ruble currency and bans imposed on a range of European and Western food imports. Inflation is expected to accelerate even more in 2015. According to Russian Federal Statistics Service, the cost of the minimum monthly food basket in Russia on average at the end of December 2014 amounted to 3,297.9 rubles (\$87) [1].

^[1] December exchange rate was 1 USD = 37.97 rubles