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Pet Food Market Brief

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Product Brief

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Report Highlights:

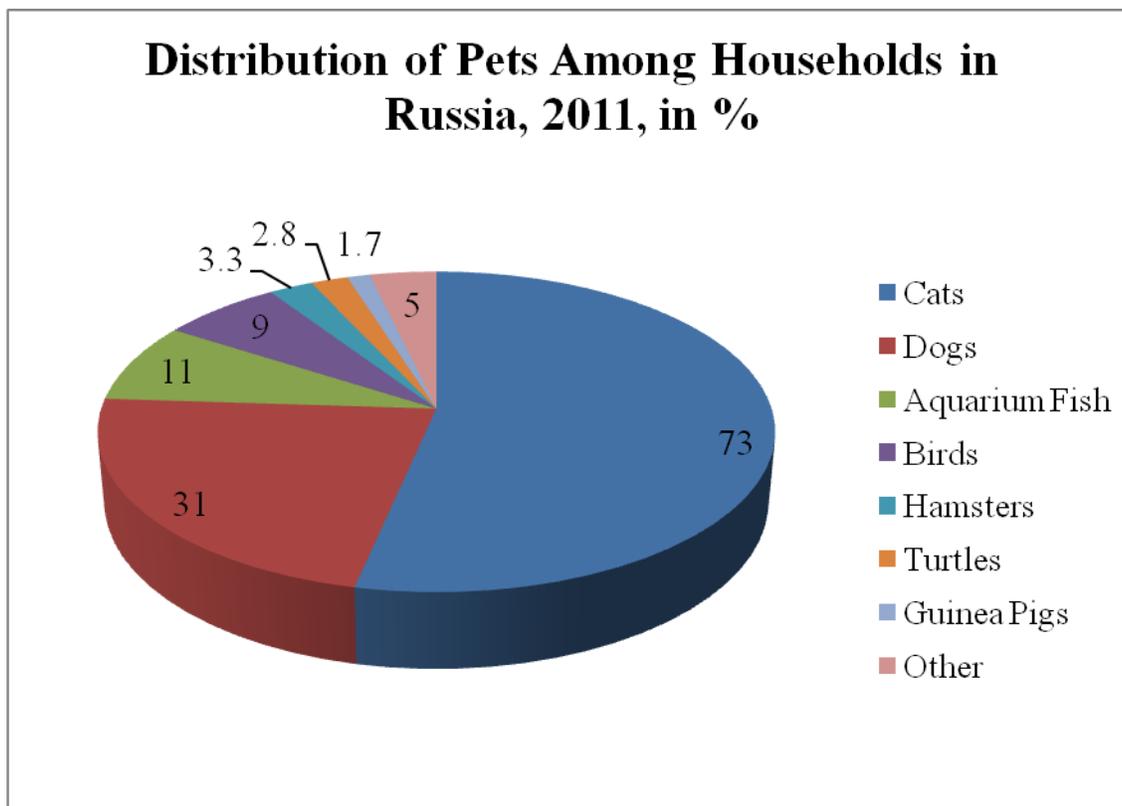
According to some estimates, Russia has the world's second largest pet population per capita after the United States with an estimated 60 million pets. According to official statistics, the average annual value of pet food sales is \$1.3 billion, although independent market research agencies estimate annual sales over \$1.5 billion. According to Euromonitor International, Russia's pet food market is the 3rd fastest growing market worldwide with annual growth of 8.7 percent, after India. According to the same source, Russia's annual sales of pet food may reach \$2.2 billion by 2015. Pet food is seeing a sharp decline in tariffs as a result of the WTO accession, although these changes are gradually being phased in.

General Information:

According to some 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 market worldwide with annual growth of 8.7 percent, after India. According to the same source, Russia's annual sales of pet food may reach \$2.2 billion by 2015. Pet food is seeing a sharp decline in tariffs as a result of the WTO accession, although these changes are gradually being phased in.

Production and Market Structure

According to Russian official statistics, Russia produced 450,000 MT of pet food in 2011 (the latest data available). Industry analysts estimate production in 2012 to have increased by 10 percent, and it is forecast to increase by another 7 percent in 2013. Strong growth is expected to continue as a result of expanding pet numbers, changing feeding patterns, and increased sales in provincial cities (i.e. cities outside Moscow and St. Petersburg).



Source: Comcon-Synovate Research, 2011

The proportion of the pet population by type of pet in Russia has remained fairly stable in recent years. Families who own cats continue to be the majority. According to recent research, there are about 30

million cats and 21 million dogs in Russia. Over 40 percent of Russian families own at least one pet, of which 73 percent own at least one cat and 32 percent own at least one dog. The number of families that own both a cat and a dog has recently increased. The share of pet owners who purchase pet food is estimated at 80 percent. For bird owners, 90 percent are estimated to purchase pet food, followed by aquarium fish owners at 84 percent, cat owners at 77 percent, dog owners at 59 percent and owners of other smaller pets (hamsters, guinea pigs, etc.) at 52 percent.

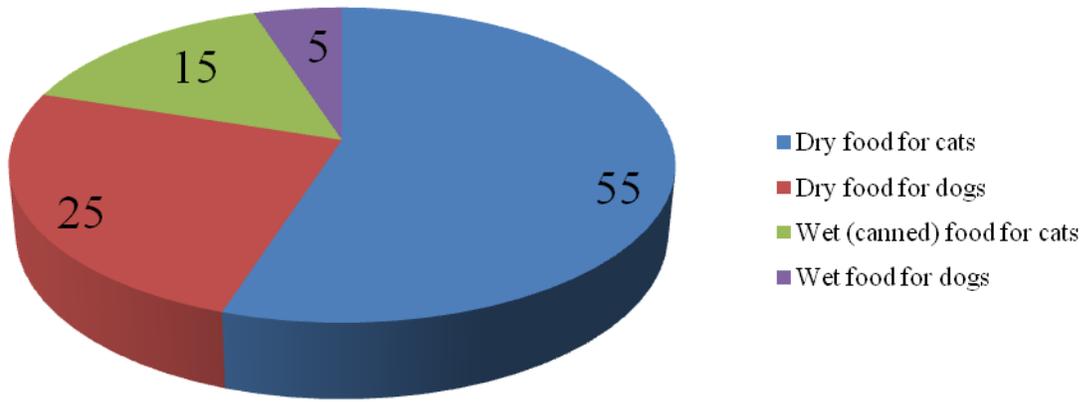
Russia's pet food market is still developing and is very concentrated around big cities such as Moscow, St. Petersburg and Yekaterinburg. According to "Zoobusiness" magazine analysts, almost 50 percent of dog owners in Russia purchase dry food for their pets, spending about \$17 dollars per month. The share of dog owners who purchase wet canned food is much lower and accounts for only about 20 percent of the total number of dog owners. Of these, spending on wet canned food averages \$10 dollars per month.

Industry analysts forecast continued growth and strong demand in the pet food market as household incomes increase and old habits and traditions continue to change. During the Soviet Union, commercially prepared pet products were not available and nearly all pet owners used table scraps and leftovers to feed their pets. Therefore, a strong tradition of using home-made food still exists today, especially in small cities and rural areas. However, these traditions have started to change, and in recent years a shift from this "old style" feeding toward use of commercially prepared pet food. This has boosted growth in demand for pet food for cats and dogs as well as other small pets. The growth is also attributed increasing income and greater demand for specific types of pet food. Currently, products include both wet and dry food in different varieties; economic and premium products and products that meet very specific needs related to age (for young, adult and older animals), lifestyle (high-energy or low fat diets), and health conditions (for diets that prevent allergies or address certain diseases). Experts believe that such market segmentation is at a relatively early stage. The number of consumers interested in healthy pet snacks and treats is gradually increasing. Interest is also high for products that are preservative-free and contain healthy ingredients, such as fruits and cereals.

Almost 80 percent of the pet food market is taken by 2 major companies: Mars Inc., (accounting for about 60 percent) with the major brands-Pedigree, Whiskas, KiteKat, and Chappi-and Nestle-Purina (15-20 percent) with the brands-Friskies and Darling (15-20 percent). In the premium category of pet food 45 percent of the market is taken by Royal Canin (owned by Mars), followed by Hill's at 27 percent, Pro Plan (Nestle-Purina) at 10 percent, and other foreign brands.

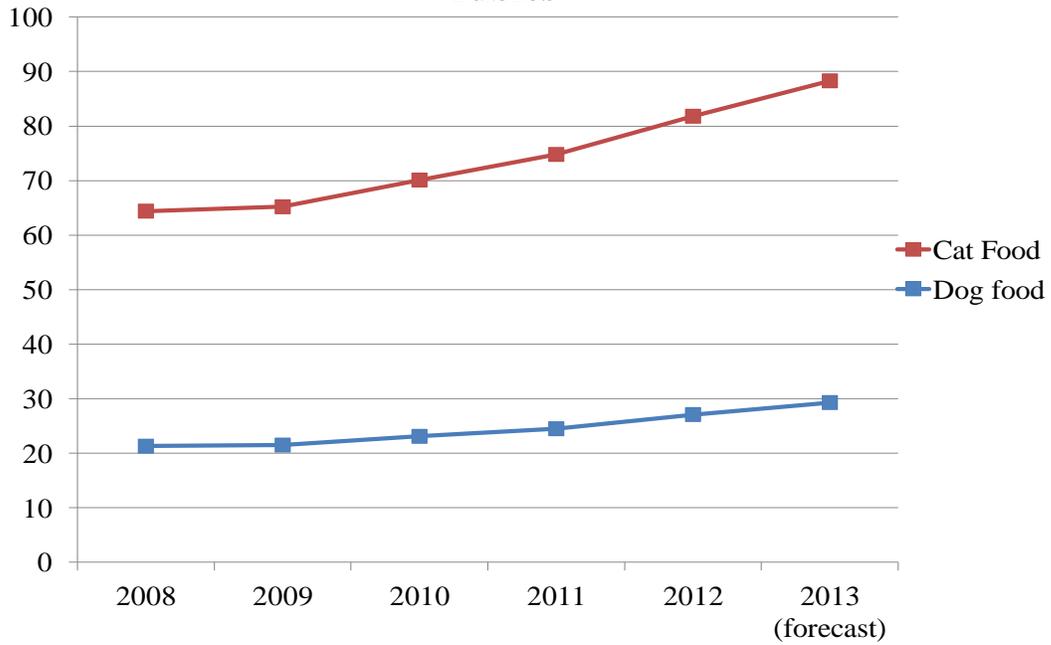
The highest demand in the Russian market is for low-priced (economic) pet food products (up to \$5 per kilogram) which accounts for 70 percent of the total sales of pet food. This type of pet food is either produced locally or imported. The assortment of pet food of premium class is widely diversified: with food for various age groups and breeds, special diets and medicinal feeds. Pet foods in the premium class are mostly imported. The share of super premium food is still very low and estimated at 1 percent of the local market. Last year, experts observed an increased interest in professional pet food, as well as dietary and highly specialized products. Pet owners with higher incomes prefer to buy higher quality products, which include health nutrition values and high levels of vitamins and minerals.

Structure of Food Sales for Cats and Dogs, in 2011, %



Source: Euromonitor

Dynamics of Pet Food Sales in Russia, 2008-2013, in billion rubles

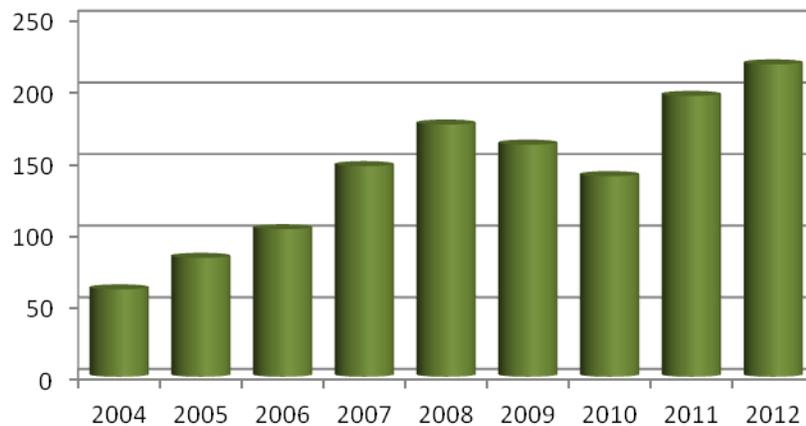


Source: Euromonitor

Trade

Imports of pet food continued to increase in 2012 as a result of renewed economic growth, higher household incomes, an increase in the number of pets within Russian families, and higher demand for new flavors/types and premium products. Pet food imports reached a record high of nearly \$218 million in 2012, a 12 percent increase in value from 2011. Imports have continued to climb in 2013, and from January to August were up 13 percent over the same period in 2012. Although imports from the United States are a relatively small share at less than 4 percent, in 2013 there was strong growth. Imports from the United States in January-August 2013 reached \$5.2 million, an increase of 39 percent over the same period in 2012. France currently is the leading supplier of pet food to Russia with 27 percent of all imports followed by the Netherlands at 20 percent. According to trade sources, the share of dry food for cats and dogs in total imports accounts for 57 percent, while 41 percent is accounted for by canned food and 2 percent comes from other types of food.

Russian Imports of Pet Food Rebound



Source: Customs Committee of Russia (in million \$)

Pet Food Market Access Changes due to WTO Accession

Pet food especially is seeing a sharp decline in tariffs as a result of the WTO accession, although these changes are gradually being phased in.

Medium-term Market Access Gains due to WTO Accession

Dog or Cat Food for Retail: The pre-accession applied rate/post-accession bound rate for dog or cat food is 20 percent (but not less than bnl €0.16 per kg) which by 2016 will be cut by half to 10 percent bnl €0.08 per kg.

Table 1: Reduction in Tariffs as a Result of WTO Accession, by Year:

HS Code	Description	Tariff Upon Accession	2013	2014	2015	2016
2309 10 110 0	- dog or cat food, put up for retail sale: - containing no milk products or containing less than 10% by weight of such products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 130 0	containing not less than 10% but less than 50% by weight of milk products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 150 0	containing not less than 50% but less than 75% by weight of milk products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 190 0	containing not less than 75% by weight of milk products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 310 0	containing no milk products or containing less than 10 % by weight of such products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 330 0	containing not less than 10 % but less than 50 % by weight of milk products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 390 0	containing not less than 50 % by weight of milk products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 510 0	containing no milk products or containing less than 10% by weight of such products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 530 0	containing not less than 10 % but less than 50 % by weight of milk products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309 10 590 0	containing not less than 50 % by weight of milk products	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg
2309	containing no starch, glucose,	20, bnlt 0.16	17.5,	15,	12.5,	10,

10 700 0	glucose syrup, maltodextrine or maltodextrine syrup but containing milk products	€/kg	bnlt 0.14 €/kg	bnlt 0.12 €/kg	bnlt 0.1 €/kg	bnlt 0.08 €/kg
2309 900 0	other	20, bnlt 0.16 €/kg	17.5, bnlt 0.14 €/kg	15, bnlt 0.12 €/kg	12.5, bnlt 0.1 €/kg	10, bnlt 0.08 €/kg