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Retail Foods

Russian Retail Market Continues Expansion

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Report Highlights:

While the Russian economy suffered a setback in 2009 due to slumping oil export sales and the effects of the global economic crisis, the retail sector remains a growth leader. Positive growth in Russian grocery retailers helped to ring in good retail value sales in 2010. Russia's monthly retail sales averaged about \$50 billion, and overall retail sales in 2010 were \$542.4 billion, which equals 17.8 percent growth compared to 2009. Food retailers contributed 48.6 percent to total retail market turnover last year. Grocery retailers increased the value of in-store sales in 2010 to reach 65 percent. The leading grocers reported the active development of low-end supermarkets. Internet retailing growth rates remained high, exceeding the growth rates of offline retailing. Foreign suppliers continue to be competitive in Russia. Market opportunities for U.S. products include red meats, poultry, fish and seafood products, tree nuts, fresh and dried fruits, food preparations and pet foods.

Post:

Moscow ATO

Executive Summary:

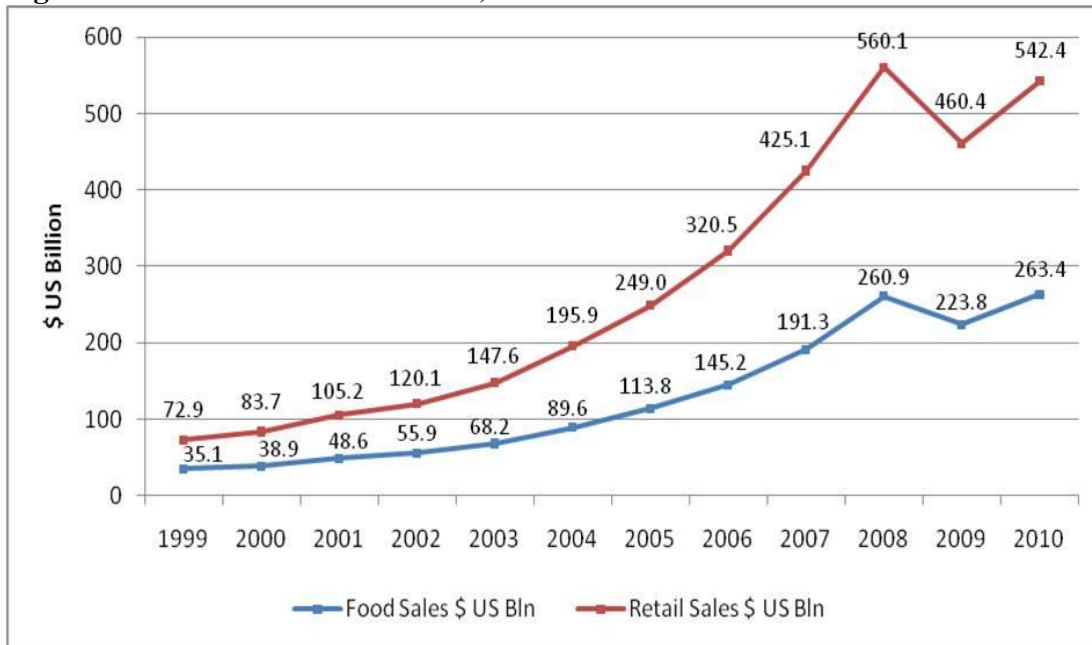
Among the consumer-oriented sectors in Russia, retail is of primary importance. Starting from 1998, Russia has experienced a consumer boom, largely the result of nearly nine years of economic prosperity, fueled by high oil and natural gas prices. As a result, retail sales value grew at a pace of 20 to 30 percent annually. With this, the large newly-affluent urban population in Russia's cities provided a big boost to the development of the retail market in the country.

In 2009, personal consumption declined as a result of the economic downturn of 2008 and the overall Russian retail market lost 5.5 percent. Consumers shifted to lower-priced essentials and delayed or cancelled planned purchases of non-food or premium products. However, in 2010 Russia began the process of recovery. The Russian government stepped in at the right time to help the retail sector. Russia's ten largest food retailers received loans from the government to the tune of \$1.5 billion to tide them over the recession.

Helped by the improving oil prices and government efforts, the Russian economy gradually recovered as consumers began spending again. Real GDP rebounded in 2010 to grow by 4.3 percent, following the major decline in 2009. According to Rosstat, in 2010 the real disposable income of the Russian population increased by 10.2 percent, compared to the corresponding period in 2009. Despite this improvement, the average monthly salary remained low at US\$688 (RUB20,438). The rate of unemployment in Russia decreased by one percent in 2010 to reach 7.5, according to Rosstat.

Monthly retail sales in Russia average about \$50 billion, while the industry recorded revenues of \$542.4 billion in 2010, which is 17.8 percent growth compared to 2009. Food retailers contributed to 48.6 percent of the total retail market turnover last year. According to Euromonitor International, grocery retailers increased their share of store-based retail value sales in 2010 to reach 65 percent. The leading grocers reported the active development of low-end supermarkets. Internet retailing growth rates remained solid during 2010, exceeding the growth rates of offline retailing while still remaining a relatively small percent of the overall market. Internet sales increased 30 percent over last year and they are expected to double in 2011, according to Euromonitor's forecast.

Figure 1. Russia's Retail Turnover, \$ U.S. billion



Source: Federal State Statistics Service (Rosstat)

Food price inflation in Russia continues to be a sensitive issue. Prices for food products including potatoes and buckwheat jumped in 2010 after unseasonably hot weather destroyed harvests across the country. In particular, fruit and vegetables prices went up by 45.6 percent, registering the highest growth since 1999, and prices for cereals and legumes rose by 58.8 percent for the full year. In general, food prices rose by 12.9 percent in 2010 as against 6.1 percent in previous year. With grain crops forecast to rebound this year, price pressure should be somewhat moderated.

One of the consequences of the unstable economic situation is the change in consumption patterns in Russia. Consumers have become more cautious and pragmatic in their product choices. Thus, Russian consumers have been looking for best quality-to-price ratios when shopping. Grocery retailers have been reorganizing their stores as economy formats in order to fit with the consumers' reorientation towards the lowest available prices.

Author Defined:

Section I. Market Summary

Given the limited number of multinational players on the domestic market, Russian food retail continues to be led by large domestic retailers with annual turnover exceeding \$2 billion. Russian retail giants such as the X5 Retail Group, Magnit, Seventh Continent and Dixie chains are still among the top Russian retail players. That said, in addition to domestic companies, the French Auchan Group, German Metro AG and others have earned significant market shares during last decade. Nationwide, retail chains occupy about 18 percent of the food retail market, but with higher concentrations in major urban centers (about 21 percent in Moscow and 48.3 percent in St. Petersburg, according to Rosstat).

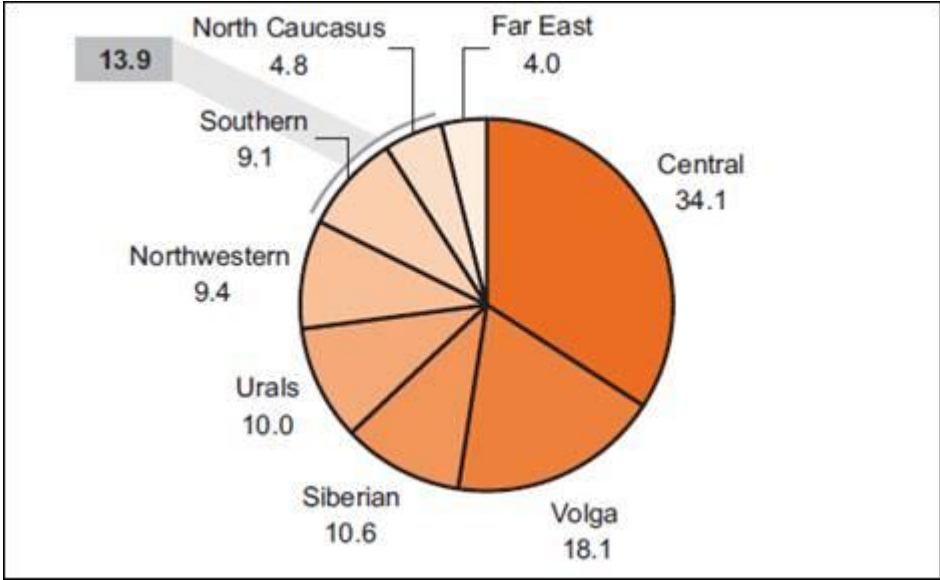
Traditional retail formats such as kiosks, street markets and small grocery stores keep declining in

upper-tier urban Russia with open-air markets reducing in number. Food street markets decreased in number by 5 percent in 2010, amounting to 12.5 percent of retail sales in Russia in 2010, according to Rosstat. Traditional retail has the weakest position in Moscow and Saint Petersburg.

The retail market in Russia varies significantly among the Federal Districts both in terms of value and the nature of its development. The variations result from the number of inhabitants, population density, level of urbanization, as well as average monthly income and expenditures, existing competition and other regional characteristics.

According to PMR, the Central Federal District (which contains Moscow) is the smallest yet the most populous region of Russia and remains the largest retail market in the country, accounting for 34.1 percent of country sales in 2010. The majority of the largest retailers in Russia originate from Moscow, which gives the Central Federal District the special status of the region accommodating the leading domestic operators as well as foreign retailers establishing their presence in Russia. The Southern and Volga Federal Districts contributed to the Russian growth evenly. The Far East had the lowest share of retail sales among the Federal Districts in Russia. At the same time, the Far East is the largest District in terms of area with the population that comprises only 6 percent of Russians.

Figure 2. Retail Turnover in Russia by Federal District in 2010*, %



Source: PMR Publications

*The North Caucasus Federal District was formed in 2010, as separate from the Southern Federal District

According to Euromonitor, the share of informal retailing in Russia is 10 to 25 percent of total retail sales, depending on the region. For example, in the regions located near Russia’s borders, the level of informal retailing may even reach 30 to 35 percent of total retail sales. Informal retailing is due to numerous unofficial entrepreneurs who cross the border and sell goods in Russia at prices lower than in standard retail outlets. In rural areas the level of informal retailing is much higher than in cities. Currently supermarkets, hypermarkets, discounters, and specialized non-grocery retailers do not see strong threats from informal retailers. Helping the development of modern retailing is the fact that local

governments are attempting to stamp out informal retailing.

Strong competition and high rents in large cities limit the profitability of retailers and forces them to seek further growth opportunities in Russia's regions. During 2010, many regional companies strengthened, and they are ready to compete strongly with federal chains in the capital.

Existing Retail Sales Outlet Formats in Russia

The following retail sales outlet formats exist in the Russian market:

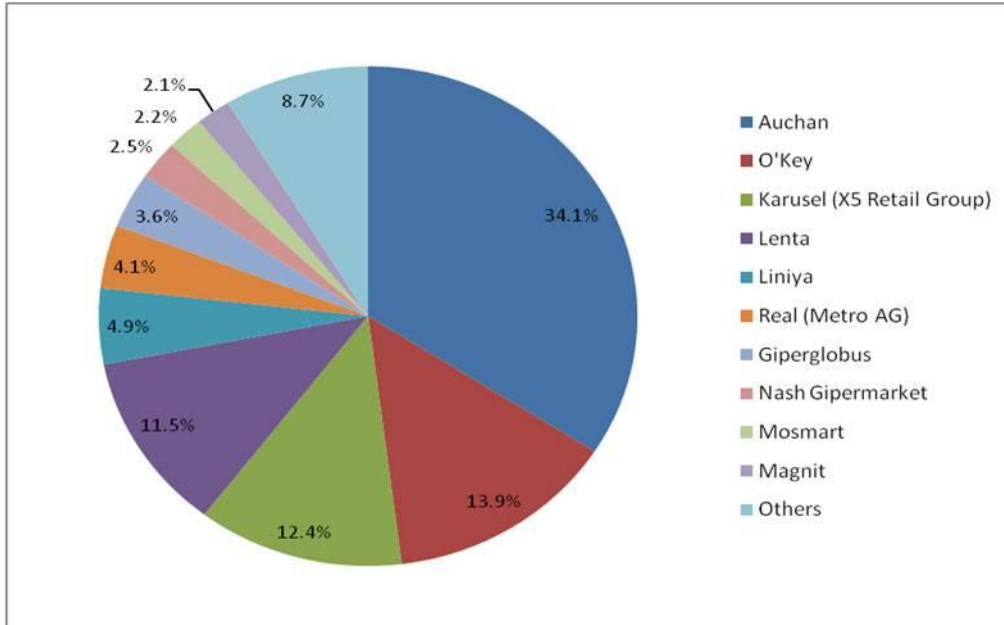
- **Hypermarket.** A store with retail space of more than 2,500 sq. meters, where not less than 35 percent of the space is used for sales of non-food products. As a rule, a hypermarket is located on the outskirts of large cities, or is the anchor store of a large urban shopping mall (e.g., Auchan, O'Key, Lenta.).

Hypermarkets target car-owning households of all income levels who seek higher-quality products, more services and wider assortments. So-called "Family shopping", when many products are purchased on a weekly shop, has become very popular in Russia. In 2010, food products accounted for about 83 percent of retail value sales in hypermarkets, according to Euromonitor.

In 2008-2009 the sales turnover, selling areas and the number of hypermarket outlets declined significantly compared with previous years. The Grossmart and Ramstore chains withdrew from hypermarkets in Russia in 2008, followed by Carrefour in 2009 (for more information please see Gain report http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Carrefour%20Abandons%20Russian%20Food%20Retail%20Market_Moscow%20ATO_Russian%20Federation_11-24-2009.pdf)

However, in 2010 hypermarkets regained ground and their sales grew by 26 percent compared to 2009 to reach \$18 billion. This sector remains concentrated in the hands of national and multinational operators. Ten major hypermarket chains including Auchan, Lenta, O'Key and Karusel controlled over 91 percent of sales in 2010. The major share belongs to the French group Auchan (34.1 percent) followed by O'Key company (13.9 percent). Karusel which was acquired and consolidated into the X5 Group, held 12.4 percent of total hypermarket segment sales in 2010.

Figure 3. Russian Retail Market Share By Company in 2010. Hypermarkets.



Source: Euromonitor from trade sources/national statistics

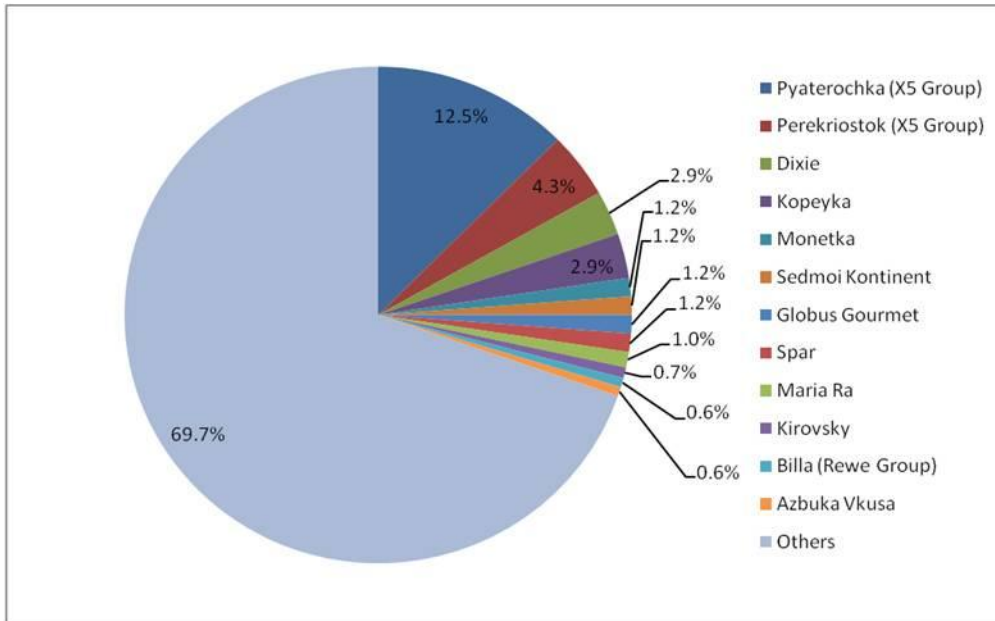
- Supermarket.** A retail outlet with sales space from 400 to 2,500 sq. meters, where at least 70 percent of the product line is food products and everyday goods (e.g., "Perekriostok", "Sedmoi Kontinent", "Spar").

The main consumer targets for low cost supermarkets like Pyaterochka and Monetka include low-income households, the elderly people and students. As a rule, these consumers do not own a car, and they often prefer to shop in the outlets closest to home. Most supermarket operators benefit from convenient locations in residential areas.

Supermarkets compete with hypermarkets, convenience stores and independent small grocers as they focus on the same consumer groups. Almost all retail operators offer a range of ready-to-eat food and chilled ready-to-cook products. The share of food sales versus non-food sales in supermarkets increased in 2010 to reach 91 percent. The number of supermarket outlets increased by 5 percent in 2010, following a 7 percent decline in 2009. New stores have been opening up while inefficient ones are being closed down.

In 2010 supermarkets accounted for the highest retail sales within grocery retailing. X5 Retail Group remained the leading player through its Pyaterochka and Perekriostok chains. Overall, the company accounted for a 17 percent share of retail sales in supermarkets in 2010.

Figure 4. Russian Retail Market Share By Company in 2010. Supermarkets.



Source: Euromonitor from trade sources/national statistics

- Discounter.** A retail outlet with sales space from 300 to 1000 sq. meters, selling goods with a minimum margin from 5 to 7 percent, and whose assortment consists of 500 – 2,000 items with minimum of 50 percent share occupied by private labels.

According to Euromonitor International and other industry experts, there is no clear discounter format in Russia according to Western standards. As a rule, local stores like Pyatyorochka, Monetka and Dixie work as low-end supermarkets with sales space from 350 to 900 sq. meters, product ranges from 3,500 to 5,200 items, and with mark-ups accounting for 13 – 23 percent, while the share of private label items occupies from 10 to 15 percent. At the same time, the common Western meaning of a Discounter is a store with sales space from 300 to 1000 sq. meters, selling goods with a minimum margin from 5 to 7 percent, and whose assortment consists of 500 – 2,000 items with minimum of 50 percent share occupied by private labels. Sometimes the share of private labels in Europe may reach 80 percent. Examples of discounter format in Europe are German chains Aldi and Lidl, where the share of private labels accounts up to 95 percent.

- Cash & Carry.** A retail outlet of roughly 8,000 sq. meters, working under the principles of small wholesaling (e.g., "Selgros", "Metro Cash & Carry").

Cash and carry, also known as self-service wholesale store retailing, is a wholesale format aimed specifically at trade customers, generally large-scale big-box stores providing a wide range of goods, primarily grocery but including some non-grocery items. Customers must normally prove they represent a registered business in order to be allowed to shop at such stores.

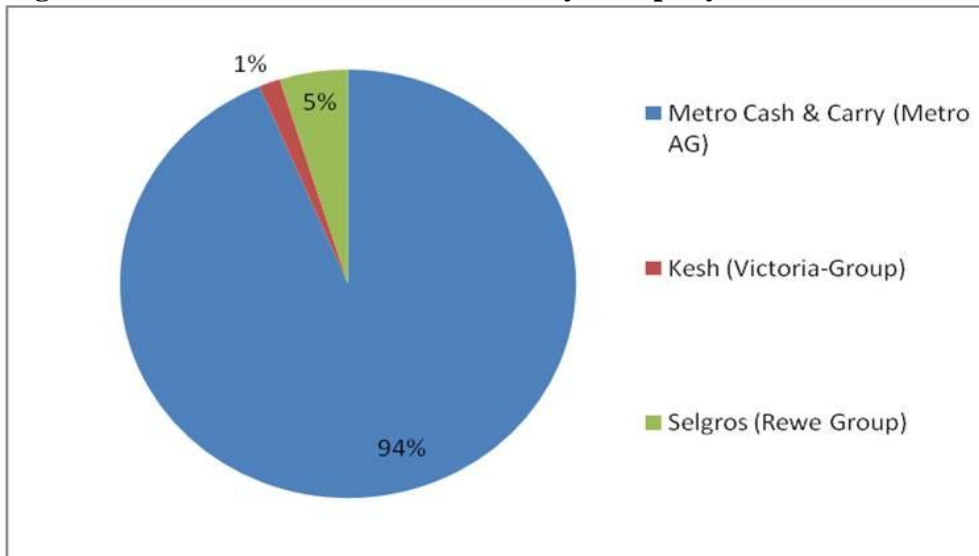
In 2010 three companies operated cash and carry outlets in Russia: German Metro Group, Rewe Group and locally-based Victoria Group (Victoria Group operates only one cash and carry outlet, Kesh). Total cash and carry sales increased by 6.6 percent in 2010 and accounted \$4.2 million.

International operator Metro Group is by far the leading cash and carry outlet in Russia. In 2010, the

company accounted for 94 percent of total cash and carry sales in the country. The company opened five more outlets in 2010 and it plans to reach a total of 65 stores by the end of 2011. Selgros operates 4 stores in Russia and expects to open up to 50 cash and carry outlets over the next 20 years.

Russian consumers often consider cash and carry and hypermarkets to be the same format. Cash and carries and hypermarkets offer the widest product assortment and have the largest sales areas compared with other retail formats. Both hypermarkets and cash and carry outlets focus on large family packs and operate on a self-service basis. Both also provide additional services such as in-store bakeries or ready meals, along with plentiful parking.

Figure 5. Russian Retail Market Share By Company in 2010. Cash&Carry.



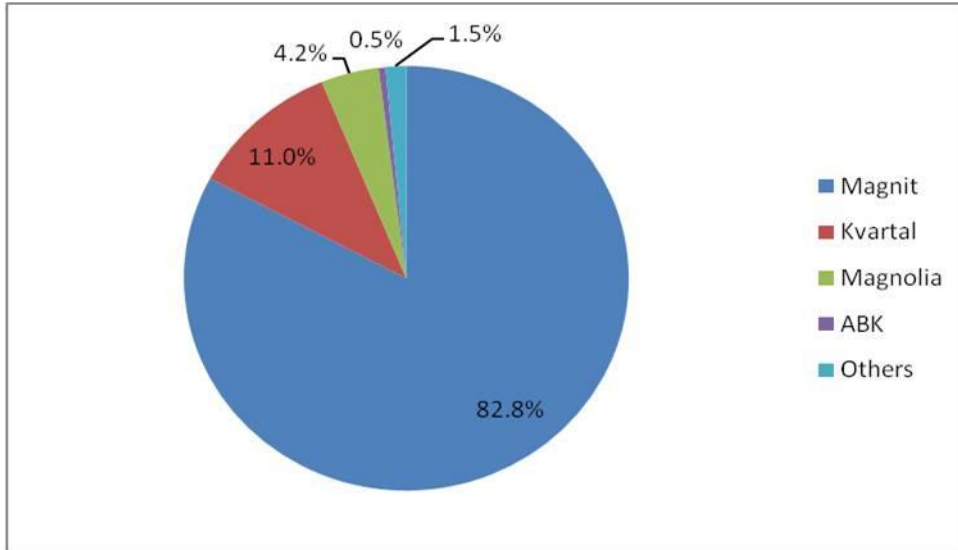
Source: Euromonitor from trade sources/national statistics

- **Convenience stores.** Chained grocery retail outlets selling a wide range of groceries with small sales space (up to 300 sq. meters), located in urban residential areas. The store serves the local market, and is often open 24 hours. In Russia, such retail sales points are increasingly replacing neighborhood kiosks ("Magnit", "ABK", "Kvartal").

A trend towards convenience in grocery retailing is evident in Russia. Consumers are keen to save time on shopping and they are willing to visit the local neighborhood store on the go instead of a large supermarket or hypermarket. More and more small neighborhood stores, open 24-hours, are appearing. These outlets offer home and personal care products, newspapers and magazines, groceries, alcohol and sometimes flowers in one place.

The convenience store format has been growing rapidly in Russia in terms of number of outlets and retail sales. In 2010, sales grew by 19 percent to reach \$7.3 billion, while the number of convenience stores increased by 11 percent to reach 4,000 units. Magnit is the leading player in convenience stores in Russia, accounting for an 83 percent share of retail value sales.

Figure 6. Russian Retail Market Share By Company in 2010. Convenience stores.

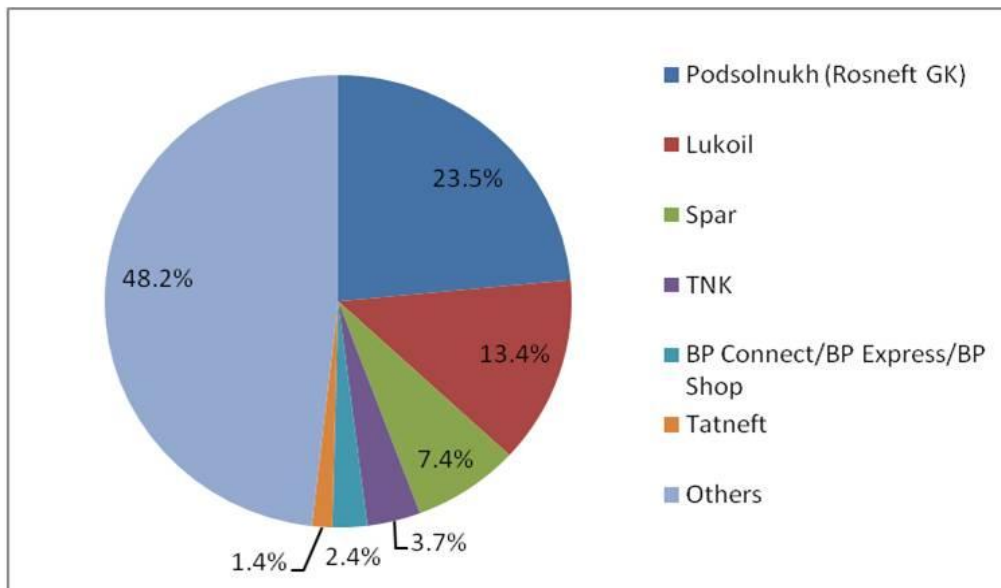


Source: Euromonitor from trade sources/national statistics

- Forecourt retailers.** Grocery retail outlets selling a wide range of groceries from a gas station forecourt. As a rule, the stores have extended opening hours, selling area of less than 400 sq. meters, and handle two or more of the following product categories: audio-visual goods (for sale or rent), take-away food (sandwiches, rolls or hot food), newspapers or magazines, cut flowers or potted plants, greetings cards, automotive accessories (BP Connect, Shell Select).

Forecourt retailers remained an underdeveloped format in Russia, compared to U.S. standards; only 25 percent of all petrol stations in the country had a forecourt store in 2010. With the entrance of foreign petrol stations onto the market, their growth is accelerating. Modern foreign brands (BP Connect, Shell Shop and Statoil) focus mainly on high-end consumers, offering higher-priced confectionery, ice cream and beverages, etc. This results in higher retail value sales per outlet. Most national operators have difficulty in establishing efficient logistics for non-core grocery retailing. Nonetheless, the domestic player Neft Activ (Podsolnukh, the former Yukos brand) led chained forecourt retailers with a 25 percent share of retail value sales in 2010.

Figure 7. Russian Retail Market Share By Company in 2010. Forecourt Retailers.



Source: Euromonitor from trade sources/national statistics

Table 1. Russia: Sales in Retailing by Sector in 2010, \$ US Million

Formats	2006	2007	2008	2009	2010	% change '09-'10	% change '06-'10
Store-based Retailing	195284.7	250340.9	308116.3	248457.4	292574.5	17.76	49.82
Grocery Retailers	106824.8	139808.0	176414.9	155810.5	188760.4	21.15	76.70
Food/Drink/Tobacco Specialists	3555.9	4422.4	5052.7	4355.8	5162.9	18.53	45.19
Hypermarkets	6509.9	10559.9	15709.0	14315.4	18066.0	26.20	177.52
Small Grocery Retailers:	37562.8	47955.6	59211.2	52987.0	62969.5	18.84	67.64
Convenience Stores	3051.1	4694.1	6260.5	6136.3	7331.0	19.47	140.27
Forecourt Retailers	319.3	374.9	420.8	331.4	400.3	20.79	25.37
Independent Small Grocers	34192.4	42886.6	52529.9	46519.4	55238.1	18.74	61.55
Supermarkets	38275.8	50954.8	64886.3	57269.6	71703.0	25.20	87.33
Other Grocery Retailers	20920.4	25915.2	31555.7	26882.6	30858.9	14.79	47.51
Non-Store Retailing	6417.8	9214.8	12017.4	10692.7	13251.3	23.93	106.48
Direct Selling:	2122.2	2678.0	3398.6	2772.9	3230.4	16.50	52.22
Food and Drink Direct Selling	67.9	95.2	125.6	-	-	-	-
Home Shopping:	1553.1	2338.8	2850.7	2578.1	3132.9	21.52	101.72
Food and Drink Home Shopping	-	-	-	-	-	-	-
Internet Retailing:	2497.7	3830.6	5261.8	4963.5	6464.0	30.23	158.80
Food and Drink Internet Retailing	37.0	90.7	133.4	137.3	175.9	28.11	375.41
Vending:	244.8	367.5	506.2	378.2	424.0	12.11	73.20
Packaged Drinks Vending	82.2	121.1	169.6	130.4	144.0	10.43	75.18
Packaged Foods Vending	35.5	45.1	59.0	54.2	66.8	23.25	88.17
Unpackaged Drinks Vending	107.7	163.3	226.7	173.1	194.2	12.19	80.32

Other Products Vending	19.1	37.7	50.4	20.1	18.5	-7.96	-3.14
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Source: Euromonitor from trade sources and national statistics

Table 2. Russia: Advantages and Challenges for U.S. Exporters

Advantages	Challenges
Population of 141.9 million people who are potential consumers. The U.S. is the sixth largest importer in Russia (by volume) of food and agricultural products.	The relatively low purchasing power of many Russian consumers, particularly in the regions, and the consequent reduction in demand for durable goods, and premium grocery and non-grocery goods.
Russia's retail sector is growing rapidly (nearly 18% from 2009-2010), which creates a number of opportunities for prospective U.S. exporters.	Economic vulnerability, dependence on oil and mineral extraction for most wealth.
The ongoing development of the mass grocery retail industry will allow producers to route products to the market more efficiently.	Distance in Russia is one of the major barriers complicating logistics for the retail chains.
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 life style changes increase demand for semi-finished and ready-to-cook products.	Rapid development of local manufacturers of ready-to-cook products 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 generic products; lack of knowledge of American products.
In general retailers are open to new products in order to attract customers.	Strong competition with suppliers of similar products from Russia and European Union.
Existence of large importers experienced in importing food products to Russia.	High corruption, difficulties in finding a reliable partner or distributor.
Paying in dollars is advantageous for exporting to Russia compared to Europe due to the lower cost of the dollar relative to the euro.	Russian government bureaucracy and corruption. Contradictory and overlapping regulations. Official government opposition to growth in food imports.
Russian trade and investment policy is converging with international standards.	Dragging on of Russia's World Trade Organization (WTO) accession; presence of non-tariff barriers such as unscientific sanitary and phytosanitary restrictions.
Investors are building more efficient storage facilities, improving infrastructure and logistics.	Despite huge potential, regional markets require substantial upfront investment in infrastructure and facilities, and transportation infrastructure between cities and regions remains extremely poor.
The Russian government has committed to spending billions on infrastructure over the next 10 years, particularly railroads and highways, which should translate to better logistics for expanding retailers.	Lack of reform in the Russian agricultural sector has led to high raw-material costs and shortages for processors.

Major Retail Trends

Mergers and Acquisitions

The economic crisis stimulated Mergers and Acquisitions (M&A) in the retail industry throughout the country. Nevertheless, the Russian retail market is still highly fragmented with the 11 largest retailers (by revenue) controlling only 18 percent of the market, versus 80 percent for the 10 largest retailers in the US.

In 2010, consolidation resulted mainly from several bankruptcies. Acquisitions occurred as a result of high indebtedness and the lack of finance for operating purposes. Some retailers closed their unprofitable operations in order to survive and pay off their debts as consumer traffic switched to strengthening competitors.

X5 Retail Group acquired the Kopeyka chain of supermarkets. The company rebranded Kopeyka outlets as Pyaterochka and Perekriostok supermarkets. The player diversified into internet retailing through the acquisition of e-shops belonging to eHouse Holding. X5 Retail Group continues to consolidate its franchise operation. In 2009, the company acquired Artorg-Rostov OOO, a franchisee, for \$13 million, while such a deal could have cost as much as \$48 million before the financial crisis.

In early 2011, Dixie Group announced plans to purchase Victoria Group. Both companies are among the top 20 store-based retailers in Russia. This deal is scheduled to be finalized in 2011. As a result, Dixie Group is expected to significantly improve its position and break into the top five in retailing in Russia.

Over the years, Wal-Mart made several acquisition attempts in Russia. It had a strategy of entering the Russian market via acquisitions, since this would have given the retailer a strong presence quickly. However, discussions with potential partners (e.g. Lenta) never panned out. As a result, Wal-Mart has announced that while it remains interested in entering retailing in Russia through attractive acquisitions, it has closed its Moscow office.

The biggest ever deal in Russia's consumer sector came in December 2010 when PepsiCo announced its \$3.8 billion takeover of Wimm-Bill-Dann, the country's biggest dairy products and juice company. PepsiCo hopes the acquisition will help increase revenues three-fold from its nutritional segment by 2020. The deal will also make Russia Pepsi's top international market, replacing Mexico. PepsiCo's purchase comes after rival Coca-Cola acquired Nidan, one of the leading juice makers in Russia early in 2010. This is Pepsi's second major acquisition in Russia after it took over Russian juice maker Lebedyansky for about \$2 billion in 2008. The transaction will enable Pepsi make Russia the hub for the production and distribution of nutritional food products worldwide.

According to Euromonitor's forecast, the consolidation process will intensify in next few years, due to both the departure of weak competitors, and the revival of mergers and acquisitions from 2010, although the government is expected to set more obstacles to monopolies in retailing channel. The core regulation of the new Federal Law restrains the potential dominance of a single retailer in one region. The retailing

laws are expected to be amended over the next several years due to pressure from industry and in order to create a healthy retail environment in Russia.

Private Labels

According to Euromonitor, private label's share of retail sales was stable at 3 percent in 2010. Companies offering private label products are still not used to competing with brands. Retailers confirm that it is difficult to establish long-lasting and trusting relationships with contractors, as private label manufacturing brings little profit. Besides, many Russian consumers are still brand-orientated, and they are not ready to buy private label products in the necessary large volumes. Nonetheless, retailers see private label products as offering strong advantages in terms of price competition in the longer term. According to industry experts, private label's share of total retail sales may reach 10 percent during the next year.

In particular, grocery retailers have noticed the benefits of a private label strategy during the economic downturn. An increasing number of consumers have become loyal to private label goods in recent times. The leading retailers are investing in better packaging and improving the quality of private label offerings. X5 Retail Group plans to develop premium private label products for distribution through its hypermarkets and high-end Perekriostok Green supermarkets. Azbuka Vkusa launched its Pochti Gotovo private label in its high-end supermarkets in October 2010. In the short-term, the company plans to offer premium private label products made on Russian farms.

In the medium-term, grocery retailers will be more active in developing private label products. X5 Retail Group aims to increase private label's share of the total range in Perekriostok supermarkets to 30 percent, to 50 percent in Pyaterochka outlets and 10 percent in Karusel hypermarkets. Optimistic plans have been reported by all low-end supermarkets. These retailers aim to increase private label's share of total sales in their outlets to 25- 30 percent in the short-to-medium term.

Organic, Healthy and Ready-to-Cook Products

Busier lifestyles, particularly in the large industrial cities, has created a steady growth in demand for products such as chilled ready meals and frozen ready-to-cook products. As a result, supermarkets, hypermarkets, and independent grocery stores have improved their offerings of chilled and ready-to-cook meals. In addition, a health-conscious trend has led to a greater offering of healthy, low-fat, salt- and sugar-free foods, fresh exotic fruits and vegetables. The assortment is wider particularly in large cities such as Moscow and St Petersburg and in Vladivostok where fresh fruits and vegetables are available from the Western United States and China. High-end supermarkets also began to develop ranges of organic foods, and some entrepreneurs have tried to develop supermarkets specializing in organic produce.

The sales value of organic packaged food in 2010 grew by 14 percent to reach \$220.6 million. Organic baby food shows the fastest development with growth of 25 percent in current sales value and 11 percent in volume. Experts estimate future sales of organic products could reach \$255 million in 2011. The growth is expected to be most significant in the larger cities, such as Moscow and St. Petersburg, where consumers are wealthiest and most open to following Western trends.

The market for domestically-produced organic food in Russia has been hampered by a lack of official legislation. At present, there are various self-certification schemes in operation, as well as technical requirements for organic food production approved by Gosstandard (the government standards committee), but a single legislative base addressing the need for unified organic standards has not yet been developed.

Most organic products are imported from Europe and sold in specialty shops in areas where the wealthiest Russians live, as well as other premium shops, like Grunvald and Azbuka Vkusa in Moscow, which are well known for the distribution and promotion of value-added green and healthy products. Domestic manufacturers are searching for ways to gain a larger share in this niche, including voluntary certification.

For more information on Russian organic market please see the Gain report <http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Organic%20Market%20Taking%20Root%20Moscow%20ATO%20Russian%20Federation%204-27-2011.pdf>

Shopping Malls

Consumers in industrial centers prefer to spend less time shopping and consequently choose one-stop outlets. As a rule, shopping malls located in city centers have one or more cinemas, restaurants, grocery retailers, durable goods retailers, souvenir stores, beauty retailers and beauty salons. Some property developers allocate space for sports and fitness clubs under the roof of a shopping mall.

Local government authorities have recognized the advantages of megastores in the cities and created a favorable environment for the rapid development of hypermarkets, megastores of all types and shopping malls. Shopping malls and megastores are appearing on the sites of former outdoor markets, which have been vanishing. In 2010, there were around 300 malls and shopping centers in Russia, with selling space varying from 2,000-80,000 sq. m. The total selling space reached seven million sq. m., around 10 percent of the total selling space in the country.

Internet Retailing

Russian consumers mainly shop online for non-grocery products. However, internet retailing's growth rates remained high last year. In 2010, sales grew by 30 percent to reach \$6.5 billion which has exceeded the growth rates of store-based retailing. Companies are entering the online channel in search of high potential sales and annual growth rates. Even during the recession of 2009, when consumer demand decreased considerably, e-commerce recorded considerable sales growth. The main reasons for growth are: stronger presence and competition, discount prices, the development of broadband connections in Russia's regions, and the desire of Russian consumers to make savings.

One of the obstacles to the faster development of internet retailers is the underdeveloped system of e-payments. Currently most e-shop operators accept cash on delivery. It is still true that Russian consumers do not trust e-payments. Only 10 percent of e-shops offer the option to pay by debit/credit cards. Industry experts explain that e-shop operators prefer to call to consumers before the final confirmation of purchase. The PayPal system of security for e-payments has recently opened a subsidiary in Russia, but it mainly serves foreign e-shop operators. In Moscow, traffic may also be a

factor limiting internet and delivery sales.

The largest store-based grocery retailers offer the same product ranges and prices online. Industry experts consider the development of online grocery stores to be immature. Russian consumers are not used to shopping for groceries online, and they have difficulty using the technology for this purpose. It is still perceived to be less stress and less time consuming to visit the local supermarket than to shop for groceries online. However, this situation is regarded as temporary and online grocery retailing has great potential.

Russian regions will gradually increase their purchasing activity due to independent small operators as well as the penetration of major store-based federal chains which have recently entered the niche. For example, last year Auchan Group announced plans to become a visible Internet retailer in Russia. X5 Retail completed the logistical and IT platform necessary for Internet retailing. Such operators have the benefit of distribution centers covering several regions of Russia, which will help develop Internet retailing in the regions more actively in future.

Legislation Regulating Retail Trade

The Russian Federal Law on Trade came into force on February 1, 2010. The Law is aimed at creating transparency between suppliers and retailers and boosting competition in the retail sector. The Law contains strict antimonopoly regulations, such as capping store openings once a retailer reaches a 25 percent market share within a city or municipal region, a 10 percent limit on retailers' bonuses paid by suppliers, and payment terms regulating how fast a retailer has to pay for goods with a certain shelf life, among others. Currently, the government expects to coordinate the amendments to the Federal Law on administrative offences, relating to its application. It is suggested that penalties will be set at the following levels: \$1,000-\$1,500 for officials and heads of companies; up to \$300,000 for legal persons or 1-3 year disqualifications.

Russian retailers repeatedly expressed worries about overregulation of commerce, pointing to the risk of a hike in prices and a sharp decrease in the assortment of foodstuffs in Russia. At the same time, the new Federal Law does seem to remove some restrictions on retailers. For example, the Federal Antimonopoly Service gave approval to X5 Retail Group's acquisition of the Kopeyka chain, albeit with some small limitations. Thus, it obliged X5 Retail Group to close or sell around 30 stores out of its 700-strong network. Nonetheless, this shows that the new legislation is not simply creating restrictions to the development of retail chains.

Currently retail chains are gradually adapting their activities according to the Law. And although there has been no noticeable effect yet, some retailers are starting to change their assortment strategy, for example, cutting out duplications in some categories as well as slow moving goods. As a result, the number of suppliers also is being refined and reduced, sometimes in favor of big brands, sometimes in favor of local suppliers. At this time it's difficult to predict who will be most affected. We will likely see more effects of the Law on the market in the close future, when all retail activities are brought into accordance with the Law.

For more information on Russian Federal Law on Trade please see Gain Report RS1039
[http://gain.fas.usda.gov/Recent%20GAIN%](http://gain.fas.usda.gov/Recent%20GAIN%20Reports%20by%20Country%20and%20Commodity%20Category)

[20Publications/ Ban% 20on% 20Grain% 20Exports% 20from% 20Russia% 20Comes% 20to% 20Force% 20on% 20August% 2015% 20 Moscow Russian% 20Federation 8-6-2010.pdf](#)).

Section II. Road Map for Market Entry

Advice to Exporters

The best entry strategy for new exporters depends on several factors, including: the target market, economic conditions, and host country regulatory environment as it relates to the products in question. Exporters can request a brief market assessment for their products and/or a list of Russian importers from the ATO Moscow, St. Petersburg and Vladivostok. Additionally, ATO Moscow offers the following recommendations to help exporters select the best approach for their firm:

- 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).
- Establish a Representative Office: One of the best ways exporters can 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.
- 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 mediators, often sustain losses due to lack of local market knowledge. A large domestic import company is usually bettered adjusted to local conditions, with established trade ties and contacts in state structures.

Exporters representing U.S. companies may contact the Moscow ATO for assistance in locating importers. 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.

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.

Distribution Channels

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 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 enter through St. Petersburg or Moscow for customs clearance. Transit times range from 20 days to 27 days depending on the origin, with 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.

From Moscow or St. Petersburg, products are shipped further into the interior via truck or rail to cities in Siberia or the Russian Far East (RFE). However, most products destined for the RFE enter through the ports of Vladivostok, Vostochnyy, Vanino, Nakhodka and Magadan. Although Vostochnyy is the region's largest port by volume, the majority of U.S. food exports to the Russian Far East enter through Vladivostok.

Currently several forwarders make shipments from 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, then delivers goods to Korea (Pusan). In 2008 FESCO launched a direct line from Everett, Washington to RFE ports (Vladivostok, Korsakov, Petropavlovsk, and Magadan). Direct voyages are scheduled approximately once per month and the average transit time is 14 days. From Vladivostok food products are shipped to the other cities in the RFE and Siberia by truck or rail.

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

Figure 8. Russia: Distribution Channel for Supermarkets, Import of Transatlantic Products via the Port of Greater St. Petersburg

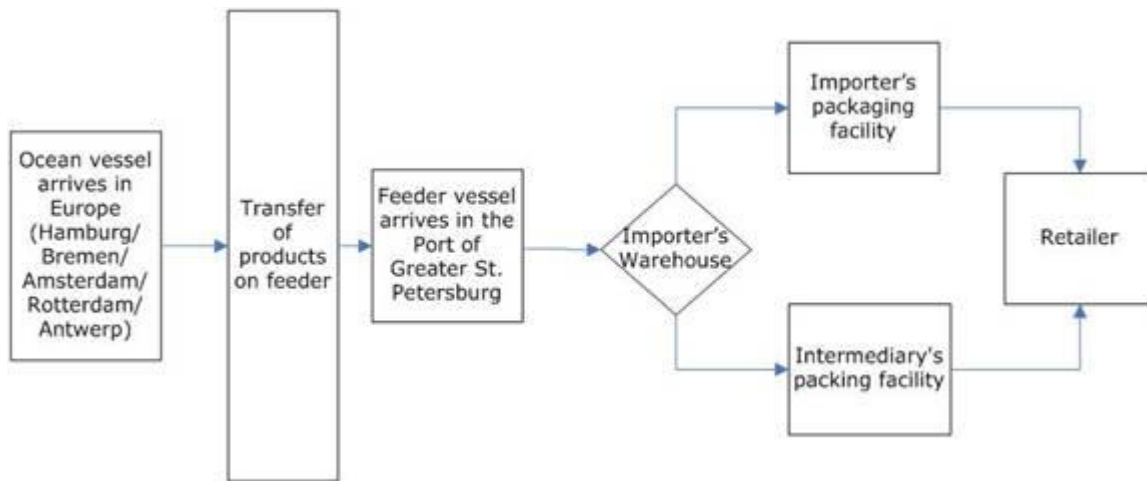
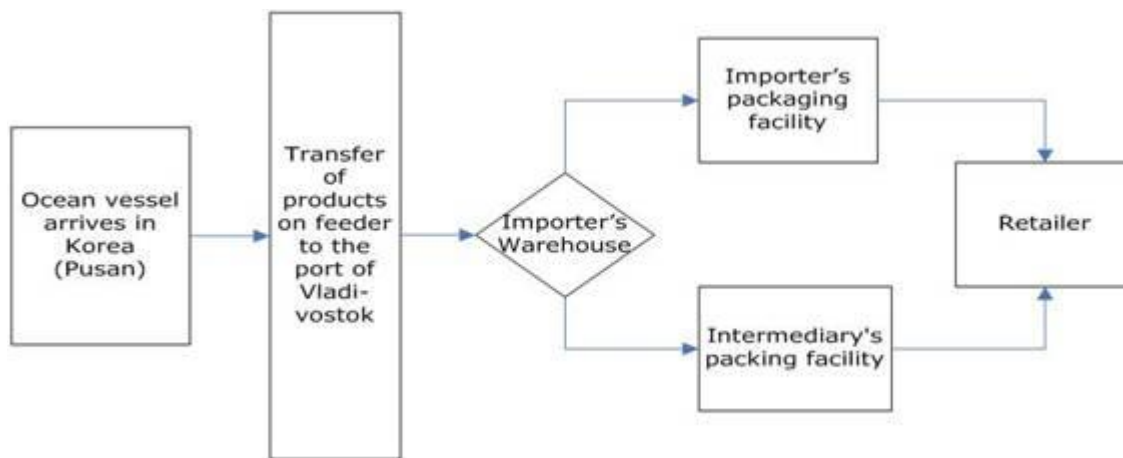


Figure 9. Russia: Distribution channel for food retail chains, delivery from U.S. to the Russian Far East



Company Profiles

Table 3. Russia: Major Retail Chains, 2010 (Retail Value excl. Sales Tax)

Retailer name and outlet type	Ownership	Sales in 2010, \$US Mln.	No. of outlets, 2010	Locations
Pyaterochka, discounters	X5 Retail Group NV, local	8,936	1,712	Moscow and St. Petersburg, and 16 Russian regions
Magnit, discounters & hypermarkets	Magnit OAO, local	6,068	4,055	470 Russian cities
Auchan, hypermarkets	Auchan Group SA, French	5,715	26	Moscow and St. Petersburg, Russian regions
Metro Cash& Carry, hypermarkets	Metro AG, German	3,893	57	36 Russian regions
Perekriostok, supermarkets	X5 Retail Group NV, local	3,081	332	Moscow, St. Petersburg and 43 Russian cities
O'Key, hypermarkets & supermarkets	Dorinda Holding SA, Luxemburg, local, Estonian	2,606	50	St. Petersburg, Moscow and 8 Russian cities
Karusel, hypermarkets	X5 Retail Group NV, local	2,233	65	Moscow, St. Petersburg and regions
Lenta, hypermarkets	Lenta OOO, 60% local, 40% U.S.	2,076	37	North-Western Russia and Siberia
Dixie, discounters	Dixie Group OAO, local	2,074	548	Moscow, St. Petersburg and 11 regions
Kopeyka, discounters	Kopeyka TD OAO, local	2,054	591	Mainly Moscow region and European Russia
Liniya, hypermarkets	Korporatsiya GriNN ZAO, local	891	21	9 Russian regions
Monetka, discounters	Monetka Torgovaya Set' OOO, local	886	228	Ekaterinburg, Ural region
Spar, supermarkets	Internationale Spar Centrale BV, Dutch and local	885	219	Moscow and Central region
Sedmoi Kontinent, hypermarkets & supermarkets	Sedmoi Kontinent OAO, local	852	95	Moscow, St. Petersburg, Kaliningrad and Minsk
Globus Gourmet, high-end supermarkets	Stolichnaya Torgovaya Kompania OOO, local	848	7	Moscow
Kvartal, supermarkets	Victoria-Group OAO, local	803	167	Moscow, St. Petersburg, Kaliningrad and regions
Maria Ra, supermarkets	Maria Ra PKF OOO, local	752	243	Siberia

Real, hypermarkets	Metro AG, German	737	18	Central part of Russia
Giperglobus, hypermarkets	JR east Retail Net Co Ltd, German	642	5	Moscow region
Kirovsky, supermarkets	Kirovsky Supermarket ZAO, local	496	144	Ekaterinburg, Ural region
Alpi, supermarkets	AMK-farma ZAO, local	479	54	Siberia
Billa, supermarkets	Billa Russia OOO (Rewe Group), German & local	457	46	Moscow and Central region
Nash Gipermarket	Sedmoi Kontinent OAO, local	451	13	Moscow and Russian regions
Auchan City, supermarkets	Auchan Group SA, French	444	14	Moscow and Moscow region, St. Petersburg, Novosibirsk, and Ekaterinburg
Mosmart, supermarkets	Mosmart GK, local	404	17	Moscow and St. Petersburg, Russian regions
Azbuka Vkusa, supermarkets	Gorodskoy Supermarket OOO, local	399	40	Moscow and Moscow region

Sources: Euromonitor International, company reports and websites

Section III. Competition

Retailers demand consistent quality and adherence to contract specifications and penalize suppliers for failure to meet requirements. As a result, foreign suppliers continue to be competitive in the Russian market as they are more accustomed to meeting such strict specifications than Russian agricultural producers.

U.S. exporters face heavy competition among other foreign suppliers for the Russian market. The European Union enjoys a logistical advantage due to its proximity and ability to ship product overland as well as by air and sea. Brazil occupies a dominant position on the Russian meat market because of a preferential duty (25 percent lower than for U.S. meat), despite chronic outbreaks of foot-and-mouth and other livestock diseases. China dominates the Russian Far East market for fruit and vegetables.

In addition, the Government of Russia took a number of steps to protect domestic producers of food products. This resulted in high import tariffs and a complicated system of sanitary and phytosanitary requirements. The economic crisis decreased individual incomes and drove consumers to purchase cheaper domestically produced products. All of these factors contributed to the robust development of the domestic food-products industry. Production of dairy and meat products (sausages, smoked foods), soft drinks, mineral water, juices, beer, confectionery, various appetizers, and chilled chicken meat is still on the increase. Introduction of high import duties made legal imports of many foreign food

products unprofitable. Belarus and Kazakhstan, which share a common customs zone with Russia, enjoy duty-free access to the Russian market. Therefore, their agricultural products do not appear in Russia's import statistics. Many imports from the EU and the United States cannot compete on price with CIS goods. There is also increasing political pressure on retailers to buy locally.

Table 4. Russia: Top Ten Origins of Agricultural Products Imports 2008-2010, \$US Mln.

Country	2008	2009	2010	% Market Share, 2010	% change '09-'10
--The World--	30,590.0	25,711.1	30,599.3	100.00	19.01
Brazil	4,070.6	3,233.2	3,826.1	12.50	18.34
Germany	1,949.9	1,714.4	2,190.0	7.16	27.74
Ukraine	1,726.2	1,238.7	1,752.1	5.73	41.44
Netherlands	1,588.6	1,329.2	1,699.8	5.55	27.88
Turkey	981.0	1,103.3	1,443.7	4.72	30.86
United States	2,092.8	1,711.8	1,277.6	4.18	- 25.37
China	1,129.9	980.3	1,140.3	3.73	16.32
France	1,063.2	825.8	1,091.8	3.57	32.21
Poland	727.1	800.4	999.0	3.26	24.82
Spain	815.9	689.7	941.0	3.08	36.43

Source: Global Trade Atlas

Table 5. Russia: Main Delivery Sources and Volumes of Specific Product Import, 2010

Commodity	Rank	Country	2010 Percent Share**	Strength of Key Supplying Countries	Advantages and Disadvantages of Local Suppliers
Fresh Fruit					
Net imports, MT	1	Turkey	16.21	Countries of South America, Spain, Morocco, Turkey supply citrus fruits at low price	Lack of storage facilities; low cost of local products
5.4 million	2	Ecuador	14.01		
Dollar value	3	China	5.21		
4,571 million	4	Poland	5.08		
	5	Spain	4.86		
	6	Uzbekistan	4.84		
	7	Morocco	4.59		
Fresh Vegetables					
Net imports, MT	1	Turkey	22.97	High quality of vegetables produced in Western European countries, low prices for the products originated from the CIS states	Lack of modern storage and processing facilities; stable and good quality supplies to the retail chains are complicated
2.95 million	2	Netherlands	13.36		
Dollar value	3	China	11.15		
2,025 million	4	Israel	6.83		
	5	Uzbekistan	5.77		
	6	Poland	5.61		
	7	Spain	3.91		
	8	Ukraine	3.54		
Pet Food					

Net imports, MT	1	Netherlands	26.53	Import of well-known pet food trademarks to Russia dominate in low segment. U.S. brands are perceived as high quality ones	Traditionally high number of home pets, large market potential; low demand for industrially produced pet food
65,066	2	France	16.87		
Dollar value	3	Germany	10.43		
139 million	4	Thailand	7.95		
	5	Italy	6.49		
	6	Canada	5.42		
	7	Hungary	5.27		
	8	Austria	4.87		
	9	United States	3.32		
Poultry					
Net imports, MT	1	United States	38.39	U.S. product is much cheaper; Brazilians have price advantage in whole birds supplies, EU in geographical proximity	Restrictions U.S. poultry; TRQs; Producers can supply chilled product; producing of domestic chicken are totally insufficient
0.65 million	2	Brazil	29.87		
Dollar value	3	Germany	14.36		
862 million	4	France	4.67		
	5	Denmark	2.98		
	6	Netherlands	2.26		
	7	Hungary	1.73		
Processed Fruits and Vegetables					
Net imports, MT	1	China	16.88	Well established trade relations and well known trademarks; low price of products	Local producers quickly update the facilities availability of cheap raw materials, traditional local brands
1.4 million	2	Poland	12.74		
Dollar value	3	Spain	8.02		
1,457 million	4	Ukraine	6.55		
	5	Tajikistan	5.62		
	6	Turkey	4.8		
	7	Thailand	4.52		
	8	Chile	3.87		
Rice					
Net imports, MT	1	Thailand	27.26	High quality and low prices in Asian countries product which dominate on the market	Limited list of rice varieties grown in Russia, lack of modern processing equipment
222,248	2	Vietnam	26.34		
Dollar value	3	Pakistan	20.81		
122 million	4	China	5.86		
	5	Uruguay	4.46		
	6	Myanmar	4.06		
	7	United States	3.53		
	8	Kazakhstan	2.64		
Red Meat (fresh, frozen, chilled)					
Net imports, MT	1	Brazil	36.87	Lower prices of Brazil meat because of lower duties, good quality	Low cost production, Local supplies are not stable in quality and not uniform; Lack of beef cattle and lack of high-quality beef
1.6 million	2	Germany	10.45		
Dollar value	3	United States	7.23		

4,615 million	4	Uruguay	6.21		
	5	Denmark	5.52		
	6	Paraguay	4.91		
	7	Canada	4.54		
	8	Australia	4.45		
	9	Argentina	4.42		
Salmon					
Net imports, MT	1	Norway	92.43	Norway supplies high quality product.	Outdated cold storage facilities and fleet, outmoded processing facilities, problems with securing quotas for fishing in international waters
90,530	2	Denmark	2.4	Norwegian exporters use state promotion programs	
Dollar value	3	Chile	2.05		
524 million	4	Estonia	0.84		
	5	United Kingdom	0.67		
	6	Canada	0.44		
	7	Turkey	0.3		
	8	United States	0.28		
Fish and Seafood					
Net imports, MT	1	Norway	39.98	Norway supplies a wide range of high quality products and secures regular deliveries	Outdated cold storage facilities and fleet, outmoded processing facilities, problems with securing quotas for fishing in international waters
965,366	2	China	10.91		
Dollar value	3	Iceland	4.45		
2,150 million	4	Canada	4.29		
	5	United Kingdom	3.74		
	6	Chile	3.68		
	7	Vietnam	3.43		
	8	Denmark	3.24		
	9	Japan	2.7		
	10	United States	2.41		
Snack Foods					
Net imports, MT	1	Ukraine	48.83	Reducing delivery costs because of the geographical proximity, therefore, prices are lower	A lot of local producers, Lack of modern processing facilities
282,117	2	Poland	12.97		
Dollar value	3	Germany	9.38		
910 million	4	Italy	4.55		
	5	China	3.05		
	6	Belgium	2.85		
	7	France	1.86		
	8	Switzerland	1.73		
Tree Nuts					
Net imports, MT	1	United States	24.66	Iran, Turkey mainly supply hazelnut and pistachios at low prices, Azerbaijan –	Lack of large-scale industrial production of nuts; Intensively developing confectionery industry
75,549	2	Iran	20.64		
Dollar value	3	Ukraine	13.69		

335 million	4	Vietnam	10.19	hazelnut, and the USA - almonds	
	5	Turkey	7.71		
	6	Azerbaijan	6.27		
	7	Indonesia	2.29		
	8	Tajikistan	2.11		
	9	Brazil	1.88		
Wine and Beer					
Net imports, L	1	Italy	28.88	European wines occupy the upper segment and are perceived as high quality; beer imports negligible	Low prices; poor positioning of high quality vintage wines; traditional preference for sweetened wines
829 million	2	France	16.92		
Dollar value	3	Ukraine	11.5		
1,075 million	4	Spain	9.4		
	5	Germany	5.96		
	6	Moldova	4.47		
	7	Chile	3.76		
	8	Czech Republic	3.39		
	9	Bulgaria	2.56		

Source: Global Trade Atlas

** If U.S. is not listed, share is less than 1%

Section IV. Best Product Prospects

The Russian Federation is among the top export destinations for U.S. agricultural products. The U.S. is the sixth largest supplier to Russia (by value of food and agricultural products). Top performing retail-oriented U.S. exports to Russia in 2010 included poultry and red meats, fresh and processed fruit and vegetables, nuts, fish and seafood, spirits and snack foods.

Based on official data, the U.S. share of Russia's agricultural imports exceeded \$1.2 billion in 2010. On average, poultry meat accounted for 38 to 50 percent of the total value of U.S. agricultural exports from 2006 to 2009 and represented roughly 20 percent of Russia's total poultry imports. In 2010, Russia banned U.S. poultry for three-quarters of the year. Despite Russia's resumed import of U.S. poultry from October 1, 2010 the share of poultry in U.S. exports to Russia decreased by 56 percent in 2010.

Nevertheless, in 2010 poultry still dominates U.S. agricultural trade to Russia and accounted for roughly \$331 million, followed by pork, beef, tree nuts, fish and seafood. Due to the economic crisis and shrinking of poultry sales, U.S. agricultural exports to Russia decreased by 25 percent in 2010. The U.S. share of Russia's total agricultural imports in 2010 was 4.18 percent compared with 6.65 percent in 2009.

Due to consumption patterns, Russia will remain an attractive market for poultry imports for the next several years, particularly for affordable and frozen poultry cuts that do not compete against domestically produced chilled whole birds (for more information please see Gain report

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Annual_Moscow_Russian%20Federation_8-16-2011.pdf)

The most dynamic growth in the high-valued sector compared to 2009 was shown by such categories of products as jams and fruit jellies, tomato ketchup and other tomato sauces, frozen potatoes, prunes, nonalcoholic beverages (excl. fruit and veg. juices), fresh grapes, ice cream, and almonds.

In 2010, the United States exported 14,572 MT of tree nuts to Russia and became the second largest supplier of tree nuts following the Ukraine. The main driver of this growth was the increase in California almond exports. California pistachios are also present in the market but volumes fluctuate based on price competitiveness, particularly with Iranian pistachios (for more information on Russian nuts market please see Gain report RSATO1108 <http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russia%20Going%20Nuts%20Over%20Almonds%20St.%20Petersburg%20Russian%20Federation%204-20-2011.pdf>).

Given the potential of the Russian agricultural market, the U.S. high value products can penetrate some niche markets, especially for those products which are not produced in Russia or are produced in limited quantities. In many cases, Russian agriculture is not capable yet of producing products of consistently high quality (e.g. high quality beef steaks). There are markets for baby food or for specialty products including low-fat, low-salt and sugar-free products, cake & bread mixes, corn meal, and chocolate chips. U.S. suppliers could also supply new market segments that are just beginning to develop. This includes organics, microwaveable and semi prepared food as well as TV-dinners. Potential importers must be aware that promotion of innovative or new to market products is expensive.

Table 6 (below) provides additional information on food and agricultural product prospects [1].

Table 6. Russia: Suggested Best Prospects for U.S. Exporters by Sector

Product	2010 US Import volume (\$ US mln.)	Average growth of import over the last 5 years, %	Import taxes	Key Constraints to Market Development	Attractiveness of the market for the USA
Poultry	331.2	2.1	See GAIN RS5084, RS7008 and RS7041. Tariff-rate quotas apply to some items. Tariffs change unpredictably.	Competition with Brazilian and EU producers; Quick growth of domestic production; Perception of U.S. product as cheap and of low quality. Veterinary controls and demands do not follow international standards. Official goal of “food security” calls for reduction of meat imports.	U.S. product has well-established position; Low prices attract buyers. Local producers will not be able to satisfy demand in near future.
Pork	177.7	22	See GAIN RS5084, RS7008 and RS7041.	Competition from Brazilian pork, complicated import	Shortage of pork in the country; declining

			Tariff-rate quotas apply to some items. Tariffs change unpredictably.	procedures. Veterinary controls and demands do not follow international standards. Official goal of “food security” calls for reduction of meat imports.	production; high prices; Demand for stable deliveries of both cheap and high quality product. New health certificates are in place for U.S. origin pork.
Food preparations	96.9	1.6	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.
Beef	94.4	21.8	See GAIN RS5084, RS7008 and RS7041. Tariff-rate quotas apply to some items. Tariffs change unpredictably.	Consumer unaware of U.S. high quality beef; Growing domestic production; Complicated import procedures. Veterinary controls and demands do not follow international standards. Official goal of “food security” calls for reduction of meat imports.	Insignificant specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development; New health certificates are in place for U.S. origin beef.
Tree nuts	82.6	60.2	Nuts – 18% VAT Pistachios and pecans 18% VAT + 5% import duty	Iran biggest competitor for peanuts and pistachios; Tajikistan for walnuts.	U.S. almonds and pistachios enjoying very strong growth. Good potential for U.S. pecans.
Fish and Seafood	51.9	16.9	10% + 10-18% VAT	Regular deliveries of high quality product from Norway; Shortage of suitable equipment at retail trade outlets; Deficit of proper storage facilities with below –20C temperature; Unaware of quality and value of U.S. shellfish.	Growing demand for higher quality seafood from consumers; Very modest assortment in markets; Significant demand from supermarkets and HRI sector.
Fresh Fruit	29.3	18.6	Apples: (Jan 1-Jul 31) 0.1 Euros per kg (Aug 1-	Strong competition from Poland, China, Chile, New Zealand,	U.S. has good sales already and good potential for growth

			Dec 31) 0.2 Euros per kg + 18% VAT Pears: 10% + 18% VAT	Moldova for apples; Argentina and China for pears.	U.S. apples, pears, grapes, citrus, especially during February- April period.
Spirits	24.6	12.4	RUR 210/liter of ethyl alcohol content; VAT 18%	Strong positions of other importers (France, United Kingdom). Highly complex and nontransparent regulation.	Relatively high level of alcohol consumption; Demand for exotic drinks (whiskey, gin, rum, bourbon). Whiskey and rum have tremendous growth potential.
Dried fruit	12.7	38.4	Prunes, apricot 10% import duty, raisin -5% import duty + 18% VAT	Sharp competition with Iran and Turkey. Desire of packers to save on raw stock, procuring low quality stock from Iran, Uzbekistan, and Afghanistan.	Intensive development of confectionery industry and start of retail sales of rare dried fruits. High quality of U.S. product; Development of premium-class confectionery products.
Pet food	4.6	12.8	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.	Traditionally large number of home pets; Increased population incomes followed by growing demand for ready to use pet food.
Snack Foods	3.3	16.6	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 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.

Source: Global Trade Atlas, U.S. Trade Database, Russian Tariff Database (www.tks.ru)

^[1] *Food products listed in Table 6 are based on market intelligence, including discussions with retailers and data analysis efforts, and should not be considered an official endorsement by the United States Department of Agriculture or any affiliated agencies.*

Section V. Key Contacts and Further Information

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121099 Moscow, Russia
Fax: 7 (495) 728-5069
Tel: 7 (495) 728-5560
<http://eng.usda.ru>

For mail coming from the U.S. (delivery may take 4 to 6 weeks):

Director, Agricultural Trade Office
5430 Moscow Place
Washington, DC 20521-5430

For international mail, especially from Europe:

Agricultural Trade Office
U.S. Embassy - Box M
Itainen Puistotie 14
00140 Helsinki, Finland

Covering Northwest Russia (St. Petersburg):

Svetlana Ilyina, ATO Marketing Specialist
American Consulate General
Furshtatskaya Street 15
191028, St. Petersburg, Russia
Fax: 7 (812) 331-2675

Tel: 7 (812) 331-2880

E-mail: Svetlana.Ilyina@fas.usda.gov

Covering the Russian Far East (Vladivostok):

Oksana Lubentsova, ATO Marketing Specialist

American Consulate General

Ulitsa Pushkinskaya, 32

690001 Vladivostok, Russia

Fax: 7 (423) 230-00-89

Tel: 7 (423) 230-00-89

E-mail: Oksana.Lubentsova@fas.usda.gov

For General Information on FAS/USDA Market Promotion Programs and Activities:

Office of Trade Programs

U.S. Department of Agriculture

Foreign Agricultural Service

1400 Independence Ave., S.W.

Washington, DC 20250

http://www.fas.usda.gov/OTP_contacts.asp

FAS Website: www.fas.usda.gov

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

Scott Reynolds, Agricultural Minister-Counselor

Levin Flake, Senior Agricultural Attaché

Morgan Haas, Agricultural Attaché

Office of Agricultural Affairs

American Embassy

(address same as above for ATO Moscow)

Fax: 7 (495) 728-5133 or 728-5102

Tel: 7 (495) 728-5222

E-mail: agmoscow@fas.usda.gov

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.

USA Poultry and Egg Export Council (USAPEEC)

Albert Davleev, Kirill Khrenov, Natalia Izmailova

Address: 127051 Moscow, Russia, Kulakova str., 20, Building 1A
PO Box 305
Fax: 7 (495) 781-9200
Tel.: 7 (495) 781-9201
E-mail: usapeec@usapeec.ru, albertdavleyev@yahoo.com
<http://www.usapeec.ru>

U.S. Meat Export Federation (USMEF)
Galina Kochubeyeva (Moscow)
Address: 119049 Moscow, Russia, Leninsky Prospekt, 2, 9th Floor, Business Center
Fax: 7 (495) 230-6849
Tel.: 7 (495) 544-9387
E-mail: moscow@usmef.org, gkochubeeva@usmef.org

Yuriy Barutkin (St. Petersburg)
Address: 190031 St. Petersburg, Russia, Yefimova str., 4a, office 303
Fax: 7 (812) 309-71102
Tel.: 7 (812) 309-1101
E-mail: stpete@usmef.org

U.S. Wheat Associates
Valentina Shustova
Address: 129090 Moscow, Russia, Gilyarovskogo Str., 4, Stroyeniye 5, Office 101
Fax: 7 (495) 608-8124
Tel.: 7 (495) 956-9081
E-mail: uswmow@dol.ru
www.uswheat.ru

Pear Bureau Northwest
Katerina Akulenko
Address: 690090 Vladivostok, Russia, Svetlanskaya str., 37, Office 2
Fax: 7 (4232) 63-8411
Tel.: 7 (4232) 56-5536
E-mail: katerina@newmark.ru
<http://www.usapears.ru>

Ksenia Evdokimova (St. Petersburg)
Address: 194223, St. Petersburg, Russia, Orbeli str., 25/3, office 7
Tel: 7 (921) 637-4199
E-mail: Ksenia@crispconsulting.ru
<http://crispconsulting.ru/>

Almond Board of California
RK Marketing Office,
29/1 Generala Tyuleneva Str., 117465, Moscow, Russia
Tel: 7 (495) 729-3080
Fax: 7 (495) 989-2670
E-mail: office@Almonds.ru
<http://www.Almonds.ru>

Washington Apple Commission
Ksenia Evdokimova (St. Petersburg)
Address: 194223, St. Petersburg, Russia, Orbeli str., 25/3, office 7
Tel: 7 (921) 637-4199
E-mail: Ksenia@crispconsulting.ru
www.bestapples.ru

Katerina Akulenko (Vladivostok)
Address: 690090 Vladivostok, Russia, Svetlanskaya str., 37, Office 2
Fax: 7 (4232) 63-8411
Tel.: 7 (4232) 56-5536
E-mail: katerina@newmark.ru

California Table Grape Commission
Ksenia Evdokimova (St. Petersburg)
Address: 194223, St. Petersburg, Russia, Orbeli str., 25/3, office 7
Tel: 7 (921) 637-4199
E-mail: Ksenia@crispconsulting.ru
<http://crispconsulting.ru/>

Katerina Akulenko (Vladivostok)
Address: 690090 Vladivostok, Russia, Svetlanskaya str., 37, Office 2
Fax: 7 (4232) 63-8411
Tel.: 7 (4232) 56-5536
E-mail: katerina@newmark.ru

Wine Institute of California
Olga Tuzmukhamedova
Address: 127521 Moscow, Russia, Staromarinskoe shosse, 14-77
Tel: 7 (495) 616-3829
E-mail: olgatuz@mail.ru
www.california-wines.org

www.wineinstitute.org

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

Fax: 7 (495) 961-2142

Tel: 7 (495) 961-2141

Email: amchamru@amcham.ru

<http://amcham.ru/>

American Chamber of Commerce in St. Petersburg

Ulitsa Yakubovicha 24, left wing, 3rd Floor

190000 St. Petersburg, Russia

Fax: 7 (812) 448-1645

Tel: 7 (812) 448-1646

Email: all@spb.amcham.ru

<http://amcham.ru/spb/>

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

Bolshoy Devyatinskiy pereulok, 8

121099 Moscow, Russia

Fax: 7 (495) 728-5585

Tel: 7 (495) 728-5580

E-mail: moscow.office.box@mail.doc.gov

<http://www.buyusa.gov/russia/en/>

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>

RSATO1013 Exporter Guide / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Carrefour%20Abandons%20Russian%20Food%20Retail%20Market_Moscow%20ATO_Russian%20Federation_11-24-2009.pdf

RSATO 1109 Organic Market in Russia

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Organic%20Market%20Taking%20Root_Moscow%20ATO_Russian%20Federation_4-27-2011.pdf

RSATO1006 Fresh Deciduous Fruit / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fresh%20Deciduous%20Fruit%20Annual_Moscow%20ATO_Russian%20Federation_11-1-2010.pdf

RSATO 1108 Nuts Report

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russia%20Going%20Nuts%20Over%20Almonds_St.%20Petersburg_Russian%20Federation_4-20-2011.pdf

RS 1033 Fish and Seafood Production and Trade Update

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fish%20and%20Seafood%20Production%20and%20Trade%20Update_Moscow_Russian%20Federation_7-9-2010.pdf

RS 1134 Fishery Sector Production and Trade Update

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fishery%20Sector%20Production%20and%20Trade%20Update_Moscow_Russian%20Federation_7-27-2011.pdf

RS 1038 Government to Control Prices for Socially Important Food

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Government%20to%20Control%20Prices%20for%20Socially%20Important%20Food%20_Moscow_Russian%20Federation_7-30-2010.pdf

RS 1139 Poultry and Products / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Annual_Moscow_Russian%20Federation_8-16-2011.pdf

RS 1124 Dairy and Products Semi-annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Dairy%20and%20Products%20Semi-annual_Moscow_Russian%20Federation_5-17-2011.pdf