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Russian Federation

Exporter Guide

Retail Sales Grow While Russian Economy Slows

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Report Highlights:

Russia's economy in 2013 grew 1.3 percent compared to 3.4 percent in 2012. Nevertheless, retail sales grew 3.9 percent in 2013 and amounted to 744 billion USD. Sales of food accounted for 47 percent of total retail sales in Russia in 2013 versus 46.6 percent in 2012. U.S. agricultural exports to Russia in 2013 totaled 1.6 billion USD – down by 21 percent compared to 2012 due to the Russian government's restriction placed on U.S. beef and pork in February 2013. The United States was the eighth largest supplier to Russia in 2013 by value of agricultural, fish and forestry products and there are opportunities to increase exports to this market particularly of live animals, fish and seafood products, tree nuts, fresh and dried fruits, food preparations/ingredients and pet food. The Russian middle class stands at about 100 million fueling consumer purchasing power.

Post:

Moscow ATO

Author Defined:**SECTION I. MARKET OVERVIEW**

The Russian consumer market is the largest in Eastern Europe by the country's vast size and population of 143 million people who are potential customers. Russia is the world's 9th largest economy in terms of nominal Gross Domestic Product (GDP). And even though Russia was not ranked as an ideal country in which to do business (94 out of 185 in 2013), growth was strong in past years due to rising incomes and increasing middle class. However, domestic demand weakened in 2013, disrupted by high inflation and interest rates, and Russia's economy has slowed after three years of robust growth.

According to official statistics, Russia's economy in 2013 grew 1.3 percent compared to 3.4 percent in 2012 and totaled 2.1 trillion USD (2 trillion USD in 2012). A detailed breakdown shows that growth in the consumer sector remained relatively strong, with the financial services sector up to 11.5 percent year-on-year. However, in comparison, the construction and gas sectors saw negative year-on-year growth in 2013. Wholesale and retail trade as a part of GDP showed 1.1 percent growth in 2013. Experts estimate the GDP to grow by 1.5 percent to 1.8 percent in 2014.

In 2013, retail sales in Russia amounted to 744 billion USD or up 3.9 percent year-on-year, according to the Russian Federal Statistics Service (Rosstat). Sales of food including alcohol and tobacco accounted for 47 percent of total retail sales in Russia in 2013 versus 46.6 percent in 2012. Foodservice sales grew by 4 percent and totaled 36 billion USD. Real disposable income was up 3.3 percent in 2013. The average monthly wage remained strong in 2013 at 12.3 percent growth and totaled 940 USD. Unemployment in Russia continues to decline and stood at 5.5 percent in 2013 (5.7 in 2012). The number of people living below the poverty line in Russia decreased to 17.8 million of people in the first nine months of 2013 (17.2 in Jan-Nov, 2012) and accounted about 12.6 percent of the total population. Russian consumers have increased their savings levels as the economic environment has improved alongside disposable incomes. The savings ratio more than doubled from 6.7 percent of disposable income in 2000 to 13.4 percent in 2013, according to Euromonitor International.

The Russian middle class stands at about 100 million people fueling consumer purchasing power. This segment of the population is projected to rise 16 percent between now and 2020, at which point it is expected to represent 86 percent of the population and amount to 1.3 trillion USD in spending -- up to 40 percent from 2010, based on a global study of the emerging middle class and related databases by Dr. Homi Kharas of The Brookings Institution. While the top 20 percent of income earners in Russia represent 47 percent of the country's total income, the middle 60 percent accounts for 48 percent, according to state statistics from The Bank of Russia (2013). The bottom 20 percent comprise the remaining five percent of income (Source: Nielsen research, 2013).

European Russia, geographically west of the Urals, is home to over 75 percent of the total population (143 million people). 74 percent of Russians in 2013 lived in urban areas and over 8 percent of the total population lived in either Moscow (12 million people) or St. Petersburg (5 million people). There are fifteen cities in Russia (e.g. Novosibirsk, Yekaterinburg, Nizhniy Novgorod, etc.) with a population of

more than one million people. More than 30 million people (22 percent) of the population live in these cities which also represent the largest retail and Hotel/Restaurant/Institutional (HRI) markets in the country.

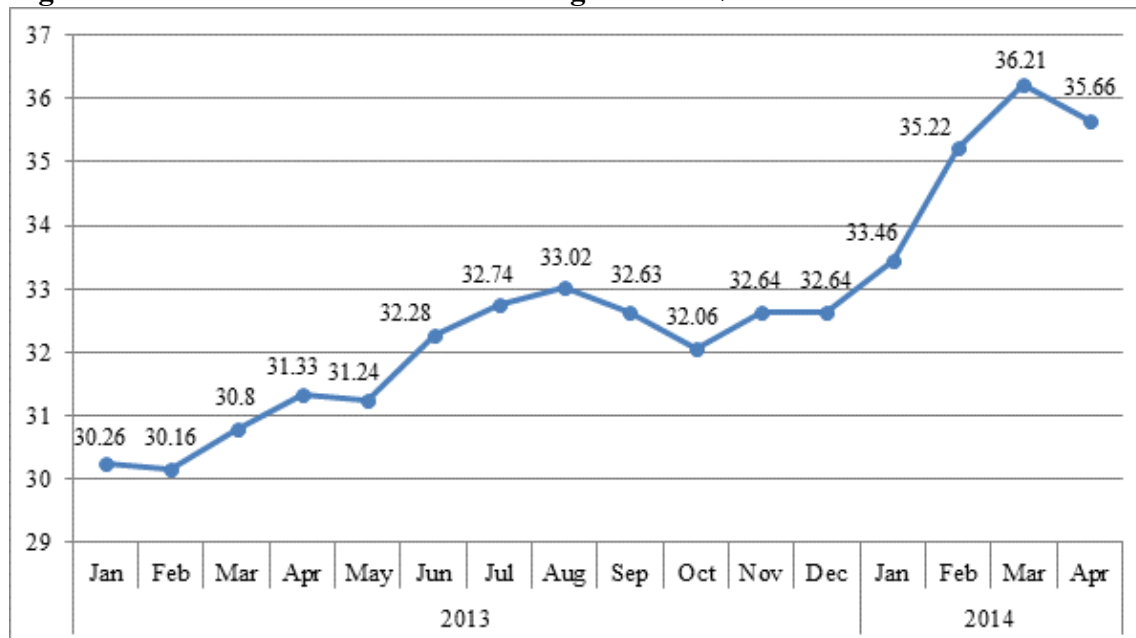
Table 1. Russia – Economic Activity, 2009-2013

	2009	2010	2011	2012	2013
Nominal GDP, billion dollars	1,293	1,474	1,860	2,007	2,098
Real GDP growth, % change y-o-y	-7.9	4.0	4.3	3.4	1.3
GDP per capita, US\$	8,682	10,315	16,700	17,687	14,584
Population, millions	141.9	141.9	142.96	143.1	143.5
Unemployment, %	8.2	7.5	6.6	5.7	5.5
Inflation, %	8.8	8.8	6.1	6.6	6.5
Exchange rate (per \$1)	31.76	30.36	29.35	31.07	31.82

Source: Federal State Statistics Service, The Central Bank of Russian Federation, 2014

In 2013, the Russian ruble exchange rate decreased 7.8 percent to the dollar and 11.8 percent to the Euro. Market analysts gave several reasons for the Ruble's fall including a slowdown in the Russian economy, depreciation of developing countries' currencies in general, and capital outflow from the country. It is estimated that the exchange rate will be stabilize at around 35 rubles/1 USD by the end of 2014. Figure 1 below shows the exchange rate of U.S. Dollar to Russian Ruble in 2013 and beginning of 2014.

Figure 1. Russia: Central Bank's Exchange Rate of \$1 USD to Ruble in 2013-2014

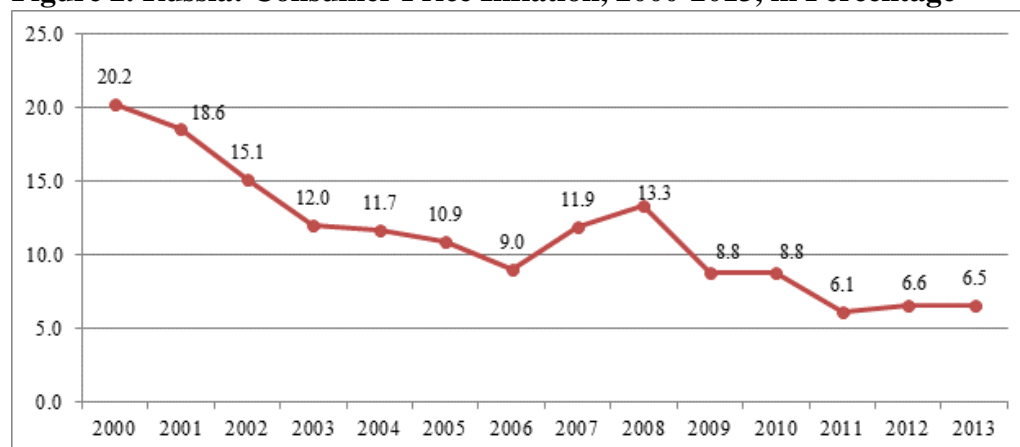


Source: The Central Bank of the Russian Federation, 2014

Consumer price inflation in Russia in 2013 stood at 6.5 percent (6.6 in 2012). Food inflation, which totaled 7.3 percent, and services (8 percent) were the main factors pushing inflation up. Non-food inflation totaled 4.5 percent in 2013. Prices of the following food products saw the highest increases in

price rates -- chicken eggs 28.8 percent, butter 18.6 percent, spirits 14.6 percent, milk and dairy products – 13.1 percent. Russian authorities estimate food inflation in 2014 will rise around 6-7 percent.

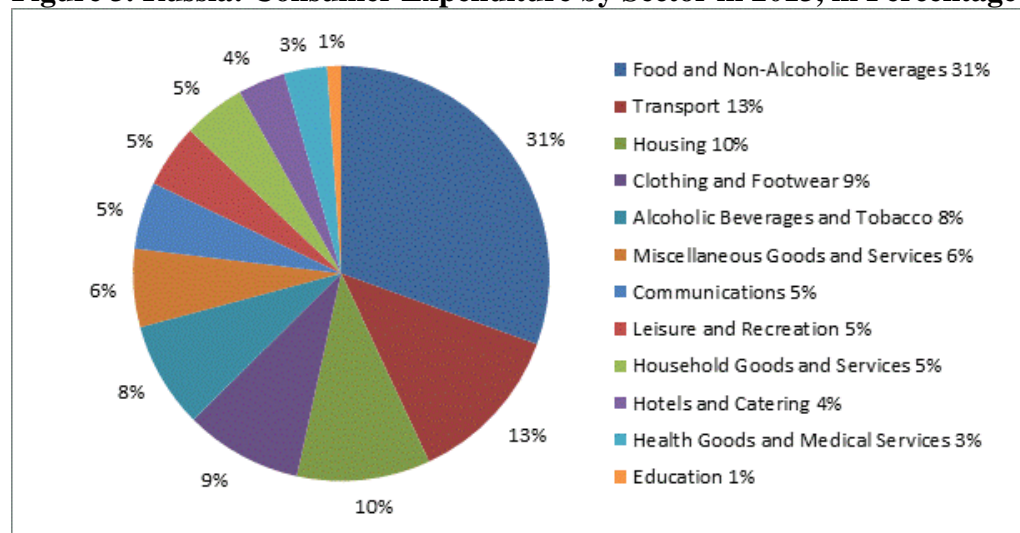
Figure 2. Russia: Consumer Price Inflation, 2000-2013, in Percentage



Source: Rosstat, 2014

The consumer spending landscape in Russia is characterized by regional disparities and consumers placing high priorities on essentials such as food, non-alcoholic beverages and housing. Approximately 31 percent of consumer expenditure in 2013 was allocated to the purchase of food and non-alcoholic beverages, totaling about 350 billion USD. Figure 3 shows Russian consumers' expenditures by sector in 2013.

Figure 3. Russia: Consumer Expenditure by Sector in 2013, in Percentage

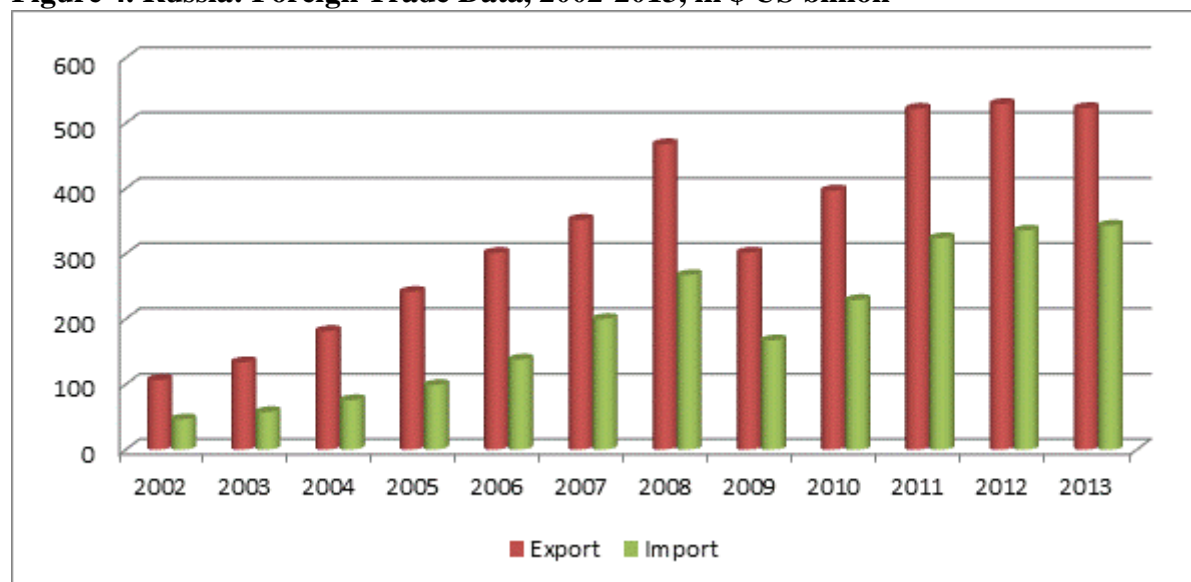


Source: Euromonitor International from trade sources and national statistics, 2013

According to Euromonitor, Russia's consumer expenditure is forecast to grow by 41.4 percent in real terms from 2013-2020, compared to 22.1 percent real growth recorded over 2007-2012. Education, miscellaneous goods and services (including financial services and luxury goods) and transport are categories expected to perform well in the period to 2020.

In 2012-2013, Russian exports and imports slowed down significantly due mainly to low direct foreign investments and weak external demand due to the recession in the European Union. In 2013, import sales increased by 2.1 percent and export decreased by 0.8 percent, according to Rosstat.

Figure 4. Russia: Foreign Trade Data, 2002-2013, in \$ US billion



Source: Rosstat, 2014

At the same time, imports of agricultural products to Russia increased 4.7 percent in January-November 2013 compared to January-November 2012 and totaled 38 billion USD, according to Rosstat. In total, Russia's imports of agricultural products have grown 143 percent since 2006. This indicates an opportunity for future growth suggesting that U.S. exporters can benefit from increasing Russian demand for imported food products.

Table 2. Russia: Imports of Agricultural Products to Russia, 2009-2013

	2009	2010	2011	2012	Jan-Nov 2013
Agricultural Imports, in billion US Dollars	30	36.5	42.4	40.2	38.2
Growth Year on Year, %	-	21.7	16.2	-5.5	4.7
5-Year Average Annual Growth Rate, %					9.3

Source: Rosstat, 2014

The U.S. and Russia maintain strong trade relations and cooperate through trade and investment, energy, development and governance, and educational and cultural partnerships. The United States is Russia's third largest import source and in total U.S. - Russia bilateral trade amounted to 24 billion USD in 2013.

Table 3. Russia: U.S. – Russia Overall Bilateral Trade in 2013

Russian Total Trade	\$866 billion
Exports	\$523 billion

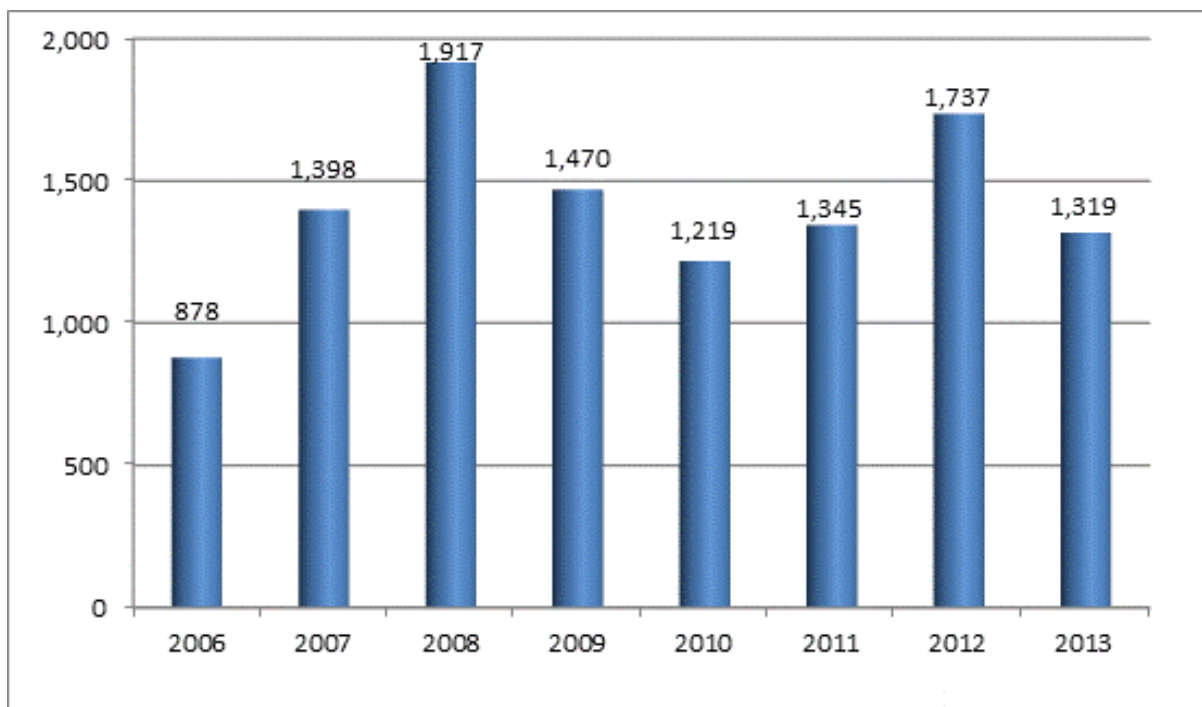
Imports	\$343 billion
Trade Balance	Plus \$180 billion
U.S.-Russia Total Bilateral Trade	\$24 billion
Exports from Russia to U.S.	\$8 billion
Imports to Russia from U.S.	\$16 billion
Passive Trade Balance	Minus \$8 billion
U.S.-Russia Ag. Bilateral Trade*	\$1.8 billion
Exports from Russia to U.S.	\$0.2 billion
Imports to Russia from U.S.	\$1.6 billion
Trade Balance	Minus \$1.4 billion

Source: Rosstat, Global Trade Atlas, 2013

** Agricultural, Fish and Forestry Products*

According to Russian customs statistics, U.S. agricultural imports in 2013 totaled 1.6 billion USD – a figure that is down by 21 percent compared to 2012 due to the Russian government’s ban placed on U.S. beef and pork in February 2013. The U.S. is the eighth largest supplier (fifth in 2012) to Russia by value of agricultural, fish and forestry products with 4 percent of Russia’s agricultural imports behind Brazil, the EU, China, and others (please see Appendix Statistics, Table C). The U.S.’s top agricultural exports to Russia in 2013 included: live cattle, poultry, soybeans, food preparations, nuts (almonds, pistachios and peanuts), prunes, fresh fruit, fish and seafood, and other products. U.S. exports of soybeans, almonds, peanuts, fish and seafood all reached record levels. Total U.S. - Russia agricultural trade, approximately 1.8 billion USD, represents about 8 percent of total trade between the two countries.

Figure 5. Russia: U.S. Exports of Agricultural, Fish & Forestry Products to Russia (in Million USD), 2006-2013



Source: *Global Trade Atlas*.

U.S. suppliers of a wide variety of products and services are active in the Russian market. The Russian chapter of the American Chamber of Commerce includes more than 850 members successfully operating in Russia. Among them are such American companies as Kraft, Mars, DuPont, Wrigley, Cargill, PepsiCo and many others. Moscow has been ranked as the third most attractive city for international retailers after London and Paris, according to a survey of 150 leading international retailers in 55 countries in Europe conducted by Jones Lang LaSalle.

Russian companies are raising their game in order to compete for customers. For some staple products, domestic production meets local demand. Certain imported food and agricultural products have difficulty competing with domestic products due to the high cost of foreign exchange, high import duties and/or difficult regulatory framework and generally efficient production of unsophisticated food products. Successful imports tend to be those that add to the variety of foods available on the market and those that are not grown in the country or for which domestic production is insufficient to meet domestic demand. Exporters should review some of the advantages and challenges of the Russian market (please see Table 4 below) when considering their marketing strategy.

Table 4. Russia: Advantages and Challenges for U.S. Exporters

Advantages	Challenges
Population of 143 million people who are potential	The relatively low purchasing power of many

consumers.	Russian consumers, particularly in the regions and the consequently lower demand for durable goods, premium grocery, and non-grocery goods.
Russia's retail sector is growing, which creates a number of opportunities for prospective U.S. exporters. The ongoing development of the mass grocery retail industry will allow producers to route products to the market more efficiently.	Economic vulnerability, dependence on oil and mineral extraction for most wealth. Substitution of imports for domestic products as part of the Russian Government's policy of self-sufficiency. Distance is one of the major barriers complicating logistics for the retail chains.
Russia has the biggest online audience in Europe with 60 million users which boost internet sales steadily.	Distribution remains major barrier to growth for e-commerce. 30% tax on all goods valued at over \$220 imported by foreign online retailers
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.
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 lifestyle changes increase demand for semi-finished and ready-to-cook products.	Rapid development of local manufacturers of ready-to-cook products and Government Strategy to modernize food processing sector 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 products; lack of knowledge of American products.
Existence of large importers experienced in importing food products to Russia.	Language remains an obvious barrier for many entrepreneurs from both small and large companies. Despite improvements in English language competency of many Russians it's still to be expected that many firms will not communicate effectively in English.
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.	Current presence of non-tariff barriers such as sanitary and phytosanitary restrictions.

Investors are building more efficient storage facilities, improve infrastructure and logistics.	Despite huge potential, regional markets require substantial up-front 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 on 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.
Due to Russia's accession to the WTO Russia is obligated to bind its agricultural tariffs, adding more predictability to the trading relationship and opening export opportunities for the U.S. agricultural industry. WTO membership will also require Russia to abide by science-based sanitary and phytosanitary standards that will help facilitate U.S. farmers' access to the market.	Competition with food products imported from EU and other countries may rise.

As part of its WTO accession agreement, Russia has committed to reducing and binding import tariffs to all agricultural goods, thereby providing more predictability on its duties. For Russia's WTO commitments please see: <http://tariffdata.wto.org/ReportersAndProducts.aspx>.

To see Russia's current applied rates please refer to the Customs Union schedule: <http://www.tsouz.ru/db/ettr/ettwto/Pages/default.aspx>.

The average tariff for agricultural products was reduced from 13.2 percent to 10.8 percent. For more information on market opportunities please see the following report: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Market%20Opportunities%20for%20Key%20U.S.%20Products%20in%20Russia_Moscow_Russian%20Federation_3-20-2012.pdf

SECTION II. EXPORTER BUSINESS TIPS

Eating Habits

Russia remains a largely traditional and patriarchal society where the family unit is typically run by wives and mothers who cook regularly at home and make most of the dietary decisions. The most typical dietary regime consists of potatoes, heavy rye bread, pork, chicken and beef, as well as various soups based on seasonal vegetables, mushrooms and rice. Meat is usually either boiled or fried and various forms of barbecued meat are popular during the summer season. Lamb is one of the most expensive and least eaten meats in Russia, while chicken and pork are the most popular.

Russia remains a country where demand for ready-to-eat meals is very low save for instant noodles and soup recipes. As a result, there is large demand for fresh ingredients - especially poultry, sausages and processed meats. The primary vegetables that are found in almost every home are tomatoes, cucumbers,

bell peppers, onions and eggplants, while others such as celery, brussel sprouts, avocados and chillies remain fairly marginal.

Most Russians have a tradition of eating out at business lunches, where special-deal menus offer them discount prices and affordable daily meals. The most common preferences are home-food style cuisine although fast food is also becoming widely consumed. However, as opposed to Western fast food brands, there is growing demand for traditional fast food based on authentic Russian cuisine such as dumplings, jacket potatoes and various patties. The prevalence of sushi has also made it one of the most popular take-away options. Research by business network RBK showed that pizza and sushi were the most popular meals for delivery in 2013 while at work. (Source: Euromonitor International)

General Consumer Tastes and Preferences

Consumers Look to Healthy Food

Many consumers in Russia have embraced the healthy eating trend and are consuming more fruit and vegetables. Higher income consumers are seeking out low fat, natural and functional foods. As Russia's urban zones continue to expand and the quality of food on offer suffers from the industrialization of the country side, local consumers are increasingly yearning for clean, healthy and organic goods. More consumers turn to specialized organic retailers, either by visiting their stores or by ordering goods online. Although the price of organic goods are certainly much higher, usually double the price, around 60 percent of urban residents in Moscow and St. Petersburg are happy to pay more for eco-friendly produce. However, organic product sales in Russia are still limited due to lack of regulation concerning organic production. For more information on the Russian organic market please see ATO Moscow's Organic Market report: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Organic%20Market%20Continues%20to%20Grow_Moscow%20ATO_Russian%20Federation_2-15-2013.pdf

Another trend is a growing demand for healthier fast food products. For example, Subway has seen rapid growth in Russia as consumers see it as a middle choice between the "perceived" unhealthy burgers and fried chicken on offer and the healthier but unglamorous Russian diners that serve up home cooking. Environmental awareness is expected to continue growing in Russia as a result of new legislation and pressure from other developed markets, opening opportunities for greener, healthier and more natural products.

Consumers Seek out Russian Brands although Imported Goods are Still Valued

Russian brands have long been something of a hallmark for poor quality and questionable origin locally yet consumers are beginning to choose domestically produced goods believing them to be at a similar standard to foreign imports. This trend has been most clear in food and alcoholic drinks with the usually cheaper prices of domestic goods such as yoghurts, cheeses and pasta attracting more rubles while premium local vodka and chocolate brands have a high regard among the populace as competitive luxury products.

Niche foreign beers and wines are on trend among urban and middle class households that aspire to

Western drinking habits and Russian brands are taking notice of this trend by releasing similarly styled but Russian versions of boutique beers and spirits. However, the idea of “import goods” as being better or “trendier” is still greatly valued among Russians which makes domestic brands less suitable for gifts and other occasions where the idea is to impress.

Baby Products are Booming

Products for infants, including baby food, steadily increase in popularity and sales. In 2013, the number of babies and infants in Russia (aged 0-2) reached 5.3 million, an increase of 200,000 over 2012 as a result of stronger government support programs for parents and improved economic performance. This number is expected to continue to grow to reach 5.5 million by 2016. The convenience of home delivery and busier lifestyles of working mothers have led to more purchases of baby products online. According to recent surveys, most mothers search for value for money. However, in Moscow and St Petersburg many families pay top rates for luxury baby nappies, organic baby food and other such premium goods.

Packaged Food Sales

With growing demand, Russia is increasingly dependent on imports of retail and packaged food products, and this presents opportunities for U.S. suppliers. Russia’s packaged food market is amongst the fastest growing in the world reaching 100 billion USD by some estimates. In 2013, the market was boosted by steady growth in almost all categories of packaged food. Sales in this sector increased 9.9 percent in 2013 supported by rising incomes as well as more availability of imported products on the market.

Table 5. Russia: Packaged Food Sales through Retail Stores, 2009-2013, in Million USD

	2009	2010	2011	2012	2013	2012/2013 % Growth
Dairy	15,444	18,543	21,224	22,398	24,773	10.6
Confectionery	9,225	10,860	12,705	13,129	14,379	9.5
Bakery	8,469	10,043	11,411	12,097	13,164	8.8
Frozen Processed Food	5,842	6,852	8,149	8,566	9,530	11.3
Chilled Processed Food	5,139	6,358	7,063	7,404	8,144	10.0
Oils and Fats	4,695	5,482	6,022	6,066	6,510	7.3
Sauces, Dressings and Condiments	4,126	4,697	5,331	5,655	6,213	9.9
Baby Food	2,928	3,521	4,276	4,662	5,238	12.4
Canned/Preserved Food	3,525	4,070	4,623	4,748	5,137	8.2
Ready Meals	3,213	3,677	4,249	4,422	4,864	10.0
Sweet and Savory Snacks	2,877	3,265	3,755	3,888	4,220	8.5
Dried Processed Food	2,507	2,811	3,012	3,160	3,416	8.1
Ice Cream	1,754	2,284	2,316	2,567	2,975	15.9
Pasta	1,211	1,344	1,462	1,589	1,745	9.8
Noodles	591	654	724	788	850	7.9
Soup	429	529	625	689	794	15.2

Spreads	378.	462	557	595	662	11.2
Snack Bars	14	17	22	25	30	19.8
Packaged Food Total	66,962	79,307	90,521	95,026	104,474	9.9

Source: Euromonitor International from trade sources and national statistics, 2014

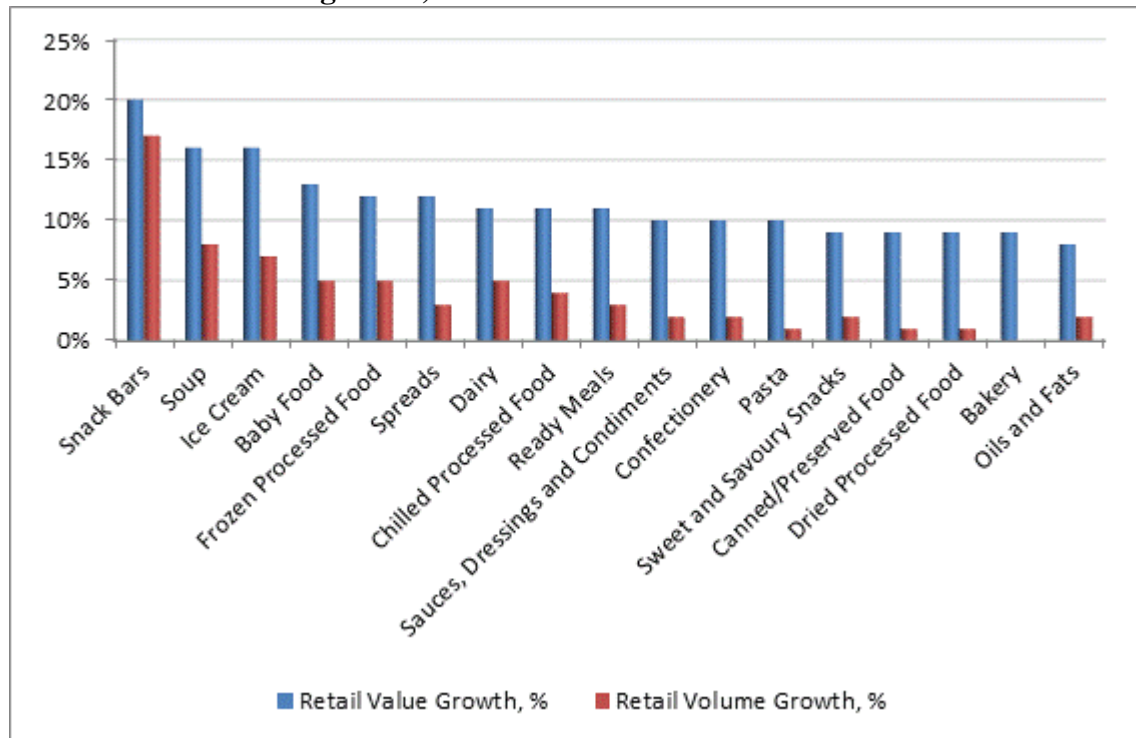
The constantly increasing pace of life in Russia resulted in strengthening demand for products suited to on-the-go consumption. Consumer desire for convenience resulted in higher demand for packaged food. Convenient storage and longer shelf-life made packaged food products more appealing to modern consumers. Ready to consume solutions, such as sliced bread, sliced cheese and ready meals, were only possible with the use of proper packaging. Well defined single portions found favor amongst consumers more aware of their diets and calorie intake. All of these factors positively impacted demand for packaged food in 2013.

Modern retailing developing rapidly in Russia positively impacted packaged food in 2013. The influence of modern grocery retailers was mainly felt through the increasing variety of packaged food products available, declining unit prices, active marketing and promotion at the point-of-sale, and the convenience offered to consumers by modern formats. Moreover, retailers set high standards in terms of preservation of product freshness, quality of packaging materials, long expiration dates, product related information on the packaging and brand awareness. Modern retailers have forced packaged food producers to provide consumers with the best solutions in terms of price and quality. Russian consumers will continue to benefit from the ongoing development of modern retailing over the forecast period.

In terms of product variety, Moscow was the most saturated market for packaged food in Russia in 2013 with a much wider assortment of products available in comparison to other cities. Moscow accounted for a 15 percent share of the retail value sales of packaged food in Russia in 2013. Due to their higher disposable income levels, Muscovites were the main drivers of the “premiumization” trend across packaged food categories in Russia. The majority of international companies entering the packaged food sector in Russia tend to use Moscow as their starting point. As a result of this, Moscow had a strong presence of imported packaged food products compared to other regions of the country.

The influence of Western consumption habits in Russia has led to an increasing penchant among Russian consumers for snacking between meals, making the snacks category a growth market. Since 2000, sales of snacks have grown rapidly due to new product launches and the heavy promotion of national brands. The chart below shows how the Snack Bars category reached record volume with 16 percent growth year-on-year. Almost all categories of packaged products also saw noticeable growth in 2013 in both volume and value terms.

Figure 6. Russia: Packaged Food Sales Through Retail Stores, 2012-13, in % Growth, in Million USD in Y-O-Y Exchange Rate)

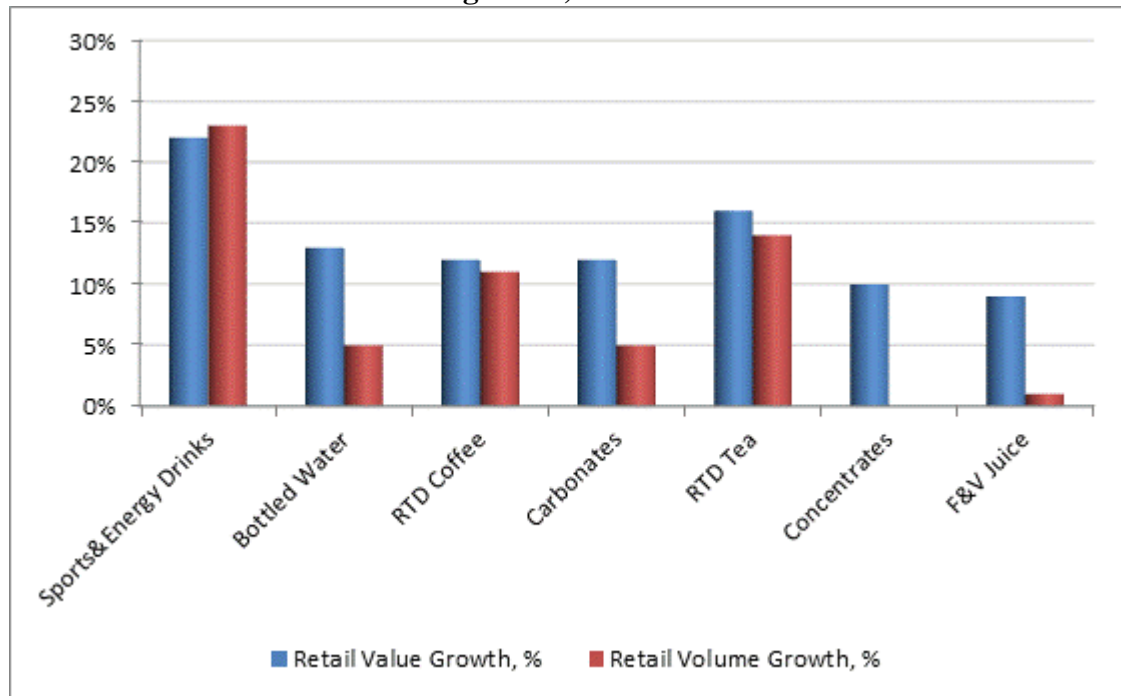


Source: Euromonitor International, 2014

Health concerns are driving demand for snack products, although the appearance of healthy products has also been observed within other categories such as confectionery, bakery, and sweet snacks. More high-fiber cookies appeared over the last two years aimed at healthy and flavorsome snacking. Health positioning continued to be developed within crackers.

Significant market opportunities exist for U.S. exporters of non-alcoholic beverages and many of these are already experiencing strong growth in Russia. According to Euromonitor, in 2013 the sales of sport and energy drinks reached 22 percent growth year-on-year. Bottled water increased by 13 percent followed by ready-to-drink coffee (12 percent) and carbonates (12 percent). Significant growth in sports and energy drinks sales was due to the novelty of the products on the market as well as their active promotion in media.

Figure 7. Russia: Drink & Beverages Sales Through Retail Stores, 2012-13, in % Growth, in Million USD in Y-O-Y Exchange Rate)



Source: Euromonitor International, 2014

* Note: RTD - ready-to-drink

Starting Business with Russia

The World Bank's Ease of Doing Business 2014 report ranked Russia 94th out of 185 countries (in 2013, 111th out of 183). It takes 7 procedures and 15 days in Russia to open a business. However, the cost of starting a business in Russia is low: only 1.3 percent of per capita income, compared to an average of 8 percent of per capita income in the Eastern Europe and Central Asia region.

Exporters can request a brief market assessment for their products and/or a list of Russian importers from ATO Moscow, ATO St. Petersburg and ATO 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). A thorough review of Russian regulations is also advised including a review of any changes to the tariff post WTO-accession.
- 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.

- **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 middle men, often sustain losses due to lack of local market knowledge. A large domestic import company is usually better adjusted to local conditions, with established trade ties and contacts in state structures.

Exporters representing U.S. companies may contact the Moscow ATO for importer lists. 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.
- **Establish a Representative Office:** Once a company has established firm contacts and has a solid prospect for sales, one of the best ways to 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.

Trade Shows in Russia

Participation in one of several established trade shows in Russia allows exporters to take a first-hand look at the local market, to meet potential importers, and to gauge the competitiveness of their products compared to similar products promoted at the show.

World Food Moscow

Moscow, Expocenter
September 15-18, 2014
www.world-food.ru/eng

World Food Moscow is a USDA-supported show, and is essentially the “main event” for U.S. exporters interested in market opportunities in Russia. ATO Moscow and the Office of Trade Programs (in Washington) organize American pavilions in the grocery, fruit, and seafood sections offering “turn-key” service. USDA industry organizations (aka Cooperators) typically organize a pavilion in the meat hall. In 2013, this 4-day show drew more than 1,600 exhibitors from 70 countries and attracted more than 27,000 importers, wholesalers, retailers, and processors from all parts of Russia and from many neighboring countries.

PIR Hospitality Industry

Moscow, Crocus Expocenter
October 1-4, 2014
<http://www.pir.ru/>

The PIR Hospitality Industry exhibition is the leading show for the hotel, restaurant, and industrial catering sector (HRI) and is affiliated with the Restaurateurs and Hoteliers Federation of Russia. In 2013, more than 675 exhibitors from 25 countries participated in the PIR show. The PIR show attracted approximately 50,000 visitors from the Russian hospitality industry.

Golden Autumn

Moscow, All-Russian Exhibition Center (VVC)
October, 8-11, 2014
<http://www.goldenautumn.ru/en/>

The Golden Autumn trade show is organized by the Russian Ministry of Agriculture, and is the largest Russian trade show for production agriculture. In 2014, more than 2,500 companies and organizations from 70 Russian regions and 50 foreign countries exhibited at the show. Golden Autumn occupied over 60,000 meters of space, including open grounds, displaying over 700 items of agricultural equipment, both Russian and foreign. More than 80,000 visitors attended the event, most of who are involved in farming and livestock production, food processing, agri-business, research, or business financing. At this annual trade show, the USDA pavilion displays animal and plant genetics, high-grade feeds, animal nutrients, and feed additives.

Prodexpo

Moscow, Expocenter
February 9-13, 2015
<http://prod-expo.ru/en/>

Prodexpo is Moscow’s largest international trade show highlighting foodstuffs manufactured in Russia and Eastern Europe. In 2014, Prodexpo hosted more than 2,300 exhibitors from 60 countries and attracted more than 50,000 visitors.

Ingredients Russia

Moscow, All-Russian Exhibition Center (VVC)

March 17-19, 2015

<http://www.ingred.ru/>

Ingredients Russia is a specialized trade show for suppliers and buyers of ingredients worldwide. In 2014, more than 250 companies and organizations from 33 countries exhibited at the show. More than 6,000 specialists visited the show last year searching for new contacts and different kinds of ingredients for food processing (e.g. confectionery, meat, fish, dairy, etc).

Logistics and Transportation

Imported products arrive in Russia via land, sea, or air freight into ports or customs warehouses for clearance before proceeding to the next destination. Best technically equipped sea commercial ports in Russia are: St. Petersburg, Primorsk, Murmansk, Kaliningrad, Ust'-Luga, Murmansk, Kaliningrad, Vysotsk, Novorossiysk, Tuapse, Vostochny, Vanino, Vladivostok. 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 including those from the U.S. enter through St. Petersburg or Moscow for customs clearance.

Most American products are delivered to the Russia in containers by sea and around 90 percent enter via the Port in St. Petersburg. MAERSK LINE, APL, OOCL, Hapag Lloyd, Evergreen, CMA-CGM shipping lines deliver cargos from the United States to Rotterdam, Hamburg, or Bremerhaven in Northern Europe.

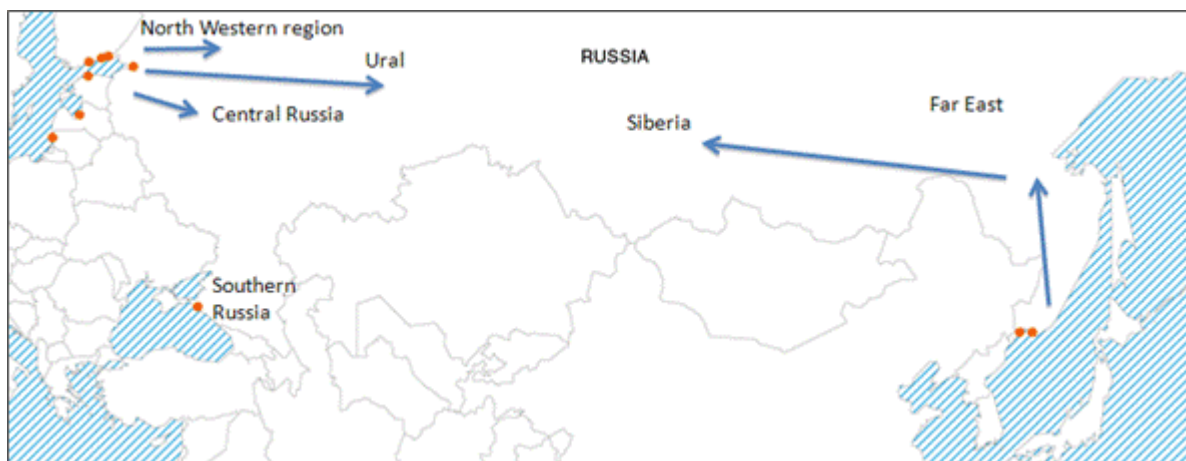
The transatlantic shipment can take from 17 to 30 days depending of the departure port and number of ports the vessel calling on the way to Europe. In Northern European ports, the containers are reloaded onto feeder vessels and travel an additional five days to St. Petersburg. It then takes an additional 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.

The cleared products are then shipped further into the interior via truck or rail to Moscow, Yekaterinburg, Novosibirsk, Rostov-on-Don, Kazan, Samara, Ufa, and other major population centers in Russia, the main markets for the high end products.

Products destined for the Russian Far East (RFE) enter through the ports of Vladivostok, Vostochniy, Vanino, Nakhodka and Magadan. Although Vostochniy is the region's largest port by volume, the majority of U.S. food exports to the RFE enter through Vladivostok.

Figure 8. Russia: Entry Gateways for the U.S. Products by Sea



Source: SVT Group

Currently several forwarders make shipments from the 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, and 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.

Distribution Channels

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

Figure 9. Russia: Distribution Channel for Food Retail Chains, Import of Transatlantic Products via the Port of Greater St. Petersburg

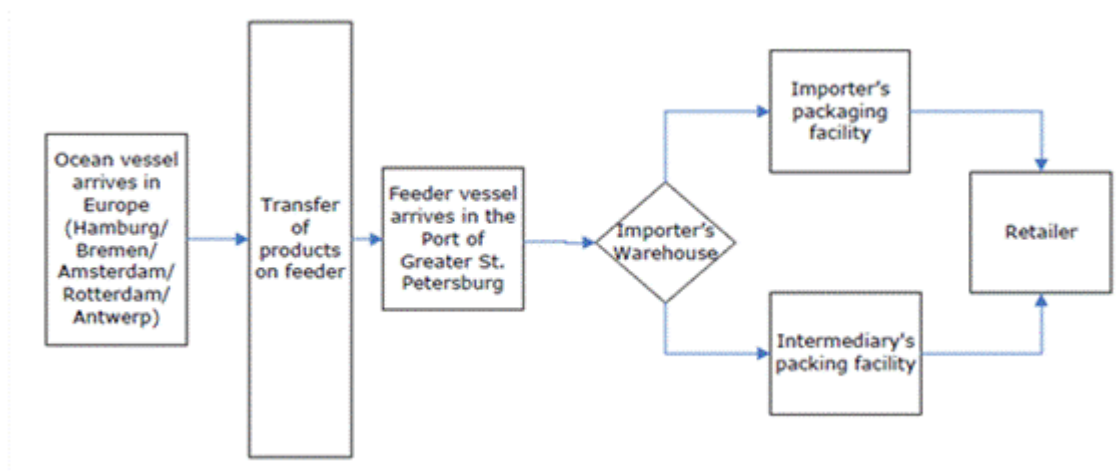
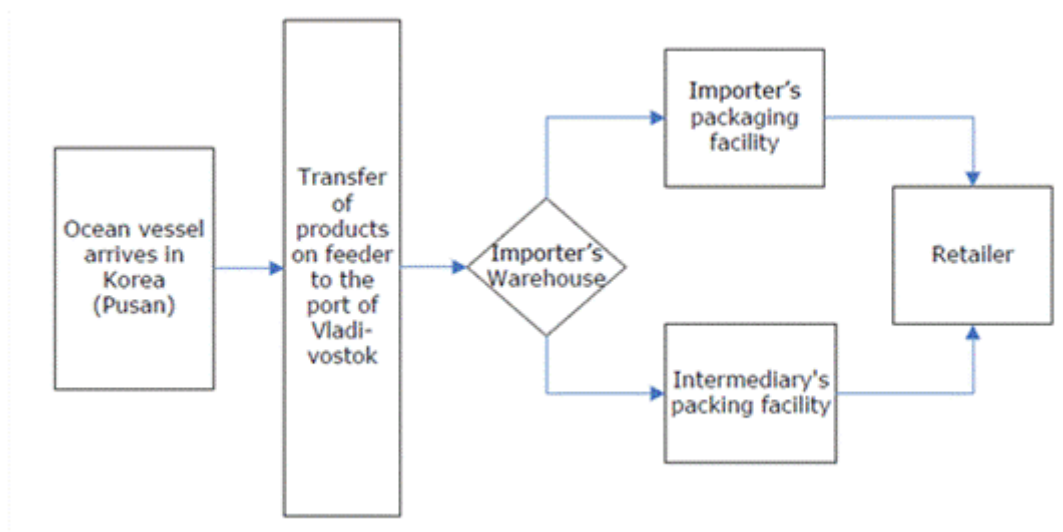


Figure 10. Russia: Distribution Channel for Food Retail Chains, Delivery from U.S. to the Russian Far East



Most hotels and restaurants choose to purchase the majority of products through food service importers/distributors in the hotel, restaurant, and industrial (HRI) sector, both large and small.

Credit and Payment Terms

Despite strong progress in the electronic payments market, Russia remains largely a cash economy. Cash is responsible for the majority of daily transactions by consumers and it is most valued as a form of payment method. This habit is partly dictated by the fact that even in urban centers such as Moscow and St. Petersburg not all businesses accept electronic payment especially at open-air markets, kiosks or small private enterprises. Even state-funded infrastructure, such as Moscow's metro, does not accept cashless payments for services.

According to the World Bank research, around half the population in Russia say they do not trust debit or credit cards, mentioning privacy and security as their biggest concerns. Even the country's large E-

Commerce space largely relies on cash payments upon delivery. Checks do not exist in the Russian market at all. Nonetheless, the state is implementing measures to drive out cash trends, which it perceives as negative. Measures implemented include a focus on stamping out cash salaries and the banning of large cash payments for goods.

Nevertheless, Russians are consumption-hungry and shopping is a major part of the local lifestyle, with consumers looking to aspirational goods as motivation for increasing their access to credit. A typical loan deal, which can be obtained with just two identification documents, offered by a street bank is a sum of 2,300 USD on a repayment scheme of six years. More consumers are turning to credit cards as the country's credit market is surging. The amount outstanding on all types of consumer lending grew by nearly 98 percent over the period 2010 to 2013 and the outstanding balance on credit card loans rose by 302 percent (in real terms) over the same period.

Both debit and credit cards are still undergoing rapid expansion. The number of debit cards in circulation increased from 169 million in 2012 to 192 million by 2013, and this figure is set to reach 265 million by 2016. (Source: Euromonitor International)

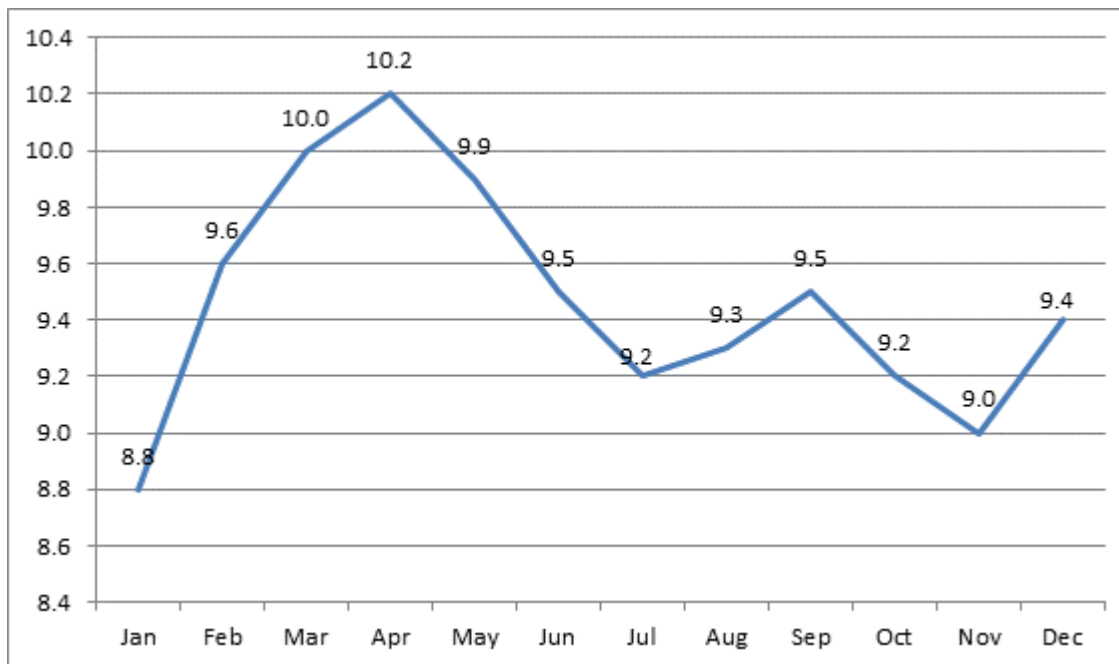
Many banks in Russia are authorized to open foreign currency accounts and they also have general licenses enabling them to undertake a full range of foreign currency transactions. Many of these banks have correspondent banks in the United States. Further, several American and foreign banks such as Citibank, Raffeissenbank, Societe Generale, and Credit Suisse are licensed to operate in Russia. Securing credit can be costly, however, and there can be obstacles to securing credit in Russia if the company is 100 percent foreign-owned. Russian bank fees are often high, and it can take much longer to open letters of credit or transfer funds than is common in the United States.

In the second half of 2013, the Bank of Russia focused on strengthening the banking sector. In addition to the policy limiting the growth of risky unsecured consumer lending, the regulator actively identified the banks that related to money laundering and conversion-into-cash transactions. Banks-violators were deprived of licenses. In 2013, licenses were revoked from 33 Russian banks.

However, the Russian banking industry remains unconsolidated with a large number of small banks, and it is still considered underdeveloped with low penetration of banking services and strong growth potential. The largest State banks play a huge role in the domestic banking sector. Sberbank and VTB have a combined market share of over 42 percent of Russian banking sector assets. Sberbank dominates in both retail deposits and retail loans (45 percent and 33 percent market shares respectively) with over 100 million retail clients in total. (Source: Sberbank Report, 2013)

Prospective borrowers should expect Russian banks to request a package of documents, including a balance sheet showing profits for the last three quarters and proof of assets to mitigate the bank's risk. Interest rates on credit became lower in 2011-2013 after a significant rise in 2009-2010 (up to 13.9 percent) making credit more available for Russian businesses.

Figure 11. Russia: Average Interest Rates on Ruble-Denominated Credit to Nonfinancial Institutions Up to One Year, 2013, in Percentage



Source: Central Bank of Russian Federation, 2013

Regarding payment terms, many U.S. exporters require 100 percent up-front payment especially for new trading partners. Russian importers may not be accustomed to making a 100 percent pre-payment prior to shipment and moreover may struggle to finance it. As the business relationship develops, Russian importers may eventually expect exporters to ship on credit, with payment due upon arrival in the Russian port. The importer may alternatively make a pre-payment and pay the balance when the product arrives to the importer's storage facility.

In established business relationships, bank transfers are sometimes made on the basis of payment-on-delivery, or payment after an agreed number of days. A letter of credit (LC) may be used when required by the foreign supplier, but Russian importers consider LCs expensive and difficult to arrange. Document Collections work relatively well at ports, and importers are accustomed to these procedures. Nevertheless, until exporters and importers build relationships and reach a level of trust, exporters may find letters of credit worthwhile.

The GSM credit guarantee program offered through the United States Department of Agriculture (USDA) provides credit guarantees to encourage financing of commercial exports of U.S. agricultural products. The GSM Credit Guarantee allocation for Russia for FY 2014 (October 2013 – September 2014) is 125 million USD for all commodities excluding live animals with 12.5 million USD specifically for all commodities excluding beef, pork, poultry and live animals. The GSM-102 program is widely used due to the difficult financial environment and lack of financing available commercially in Russia. GSM-102 reduces risk to the U.S. exporter's bank and facilitates shipments of U.S. commodities to markets that may not be able to import these same products without the guarantee offered by the Commodities Credit Corporation. The list of approved participating foreign banks in the GSM-102 program is available at FAS web-site:

<http://www.fas.usda.gov/excredits/foreignbanks.html#RUSSIA>. The list is regularly updated upon the review of incoming financial information and applications from banks that desire to participate in the

GSM-102. For further information on these programs, please visit the FAS website: <http://www.fas.usda.gov/excredits/ecgp.asp>).

Food Standards and Regulations

Russia has complex food import regulations. Exporters should carefully question importers regarding certification and documentation requirements, as well as procedures for clearance of shipments into the Russian Federation. Many of Russia's food and trade regulations are undergoing reform as the Russia-Belarus-Kazakhstan Customs Union (CU) continues policy integration. Russia also continues to adjust policies pursuant to its World Trade Organization (WTO) accession on August 22, 2012.

For more detailed information on certification, customs procedures, documentation, tariffs, and safety and labeling requirements please see the following GAIN reports:

[RS1394 Food and Agricultural Import Regulations and Standards – Certification Moscow Russian Federation 12-19-2013.doc](#)

[RS1395 Food and Agricultural Import Regulations and Standards – Narrative Moscow Russian Federation 12-20-2013.doc](#)

As the unification of the CU sanitary norms and technical regulations continues, please check the Customs Union Ag Times in the FAS GAIN system for regular updates on the Customs Union developments.

Pricing

Retail prices in Russia can vary significantly; however pricing has become more competitive as large retail chains increase their aggregate market share. On the regulatory side, exporters should consider the effect of the Russian tax regime when making pricing and margin decisions. Again, please continue to monitor GOR tariffs and other duties as WTO accession moves forward. Some of the taxes assessed include:

- Import duties are applied to most goods and typically range from 5 to 20 percent of products' customs values. However, some agricultural products are subject to specific tariffs that are calculated by volume, weight or quantity. Excise taxes, depending on the commodity exported, apply to goods such as alcohol and tobacco products. For checking excise taxes rates please contact ATO Moscow.
- Russia typically levies an 18 percent Value Added Tax (VAT) on imported goods; however, some food products (e.g. sugar, salt, milk, bread, pasta, vegetables, baby food, end etc.) are subject to a reduced rate of 10 percent
- Customs clearance charges add about 1.25 percent. The wholesale mark-up is typically 12 to 15 percent, while retail mark-up runs 35 percent or more, depending on the product and the retailer; and,

- A 39 percent profit tax is assessed on gross margin.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Retail Food Sector

Russian retail sales turnover in 2013 grew 3.9 percent year-on-year (in comparable prices) while, in value terms, the indicator reached 744 billion USD. The grocery retail market increased in value from 321 billion USD in 2012 to 350 billion USD in 2013 representing 2.5 percent growth year-on-year (in comparable prices). Sales of food including alcohol and tobacco accounted for 47 percent of total retail sales in Russia in 2013 versus 46.5 percent in 2012, according to the Russian Federal Statistics Service (Rosstat).

Figure 12. Russia: Retail Turnover, 2005-2013, in Billion USD



Source: Rosstat, 2014

Modern format stores are continuously increasing their share of total grocery retail turnover in Russia -- from 28.5 percent in 2011 to 29.3 in 2012 and 30.2 percent in 2013 (according to PMR research). As for traditional channels (including open-air markets, independent grocery stores and kiosks), they continue to dominate in Russia. However, they are gradually losing their market share to the modern formats. In 2013, open-air markets accounted for 18 percent of grocery retail sales compared to 19 in 2012 and its numbers continue to shrink. The number of open-air markets in Russia in 2013 decreased by 27 percent.

Russian food retail development continues to be led by large domestic retailers. Russian retail giants such as the X5 Retail Group, Magnit, Seventh Continent and Dixie chains are still among the top Russian retail players. In addition to domestic companies, the French Auchan Group, German Metro AG and others have earned significant market shares during last decade. The leading company in terms

of revenue in 2013 was Magnit that operates grocery and cosmetics stores in Russia. Magnit overtook the previous leader the X5 Group by achieving a 29 percent growth rate in 2013, compared to the 8.7 percent annual growth rate of the X5 Group. The Auchan Group was the third-ranked retailer in 2013.

Table 6. Russia: Top 10 Grocery Retailers in Russia by Sales Turnover, 2013

N	Retailer	Chains	Country of origin	Sales revenues (\$ mln)	Market share	Number of stores
1	Magnit	Magnit, Magnit Semeyny, Magnit Kosmetik	Russia	17,840	5.3%	7,087
2	X5 Retail Group	Karusel, Pyaterochka, Perekrestok, Perekrestok Zeleny, Perekrestok Express, Kopeyka	Russia	16,696	5.0%	4,532
3	Auchan Group	Auchan, Auchan City, Radouga, Atak, Auchan Sad	France	9,531	2.8%	196
4	Dixie Group	Dixie, Megamart, Minimart, Victoria Supermarket, Kvartal/Deshevo/Kopilka, Cash	Russia	5,658	1.7%	1,799
5	O'Key Group	O'Key, O'Key Express	Russia	4,383	1.3%	97
6	Metro Group	Metro Cash & Carry, Real, Media Markt	Germany	4,026	1.2%	73
7	Lenta	Lenta	Russia	2,720	0.8%	77
8	Sedmoy Kontinent	Sedmoy Kontinent, Nash Hypermarket	Russia	2,265	0.7%	159
9	Element-Trade	Monetka	Russia	1,785*	0.5%	550
10	Spar Russia	Spar, Interspar, Eurospar, Spar Express	Netherlands	1,648*	0.5%	363

Source: PMR, 2014

* PMR estimations

The top 10 largest grocery retailers accounted for close to 20 percent of the Russian retail market in 2013 (versus 18 percent in 2012). Thus, the market is still rather fragmented although consolidation is slowly increasing. One of the major events which is likely to influence the competitive landscape of retailing in Russia is the acquisition of Real hypermarkets by the Auchan Group from the Metro Group in May, 2013. Auchan has become the owner of Real hypermarkets in the Central and Eastern Europe market, including 16 existing Real stores, one hypermarket under construction and seven shopping malls in Russia.

Discounters and hypermarkets remain the largest distribution channels within the sector. In 2013, they generated 19.6 percent of total grocery sales in Russia, according to PMR. In the product range of grocery retailers the share of food items varies between 80 and 91 percent, depending on the format. For

example, the X5 Retail Group reported that food goods accounted for 90.9 percent of the company's total sales in 2013. For Magnit, the share of food was 80 percent in the hypermarket format and 88.5 percent in the convenience format. (Source: PMR)

Private label packaged food products saw increasing popularity in Russia in 2013. Consumers became more price-sensitive and rational in their purchasing decisions. This led to the strong development of private label in the country. In addition, the ongoing expansion and development of retail chains lent momentum to the introduction and promotion of private label lines. In 2013, private label packaged food saw sales growth of 19 percent to reach 2.5 billion USD. (Source: Euromonitor) 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. Please see the "Retail Foods Annual 2013" report for more information on the retail sector in Russia: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Moscow%20ATO_Russian%20Federation_9-3-2013.pdf

The next updated Retail Report will be available in July-August, 2014. For search engine please visit <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

For information on legislation regulating Russian retail trade please see the report: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/The%20Russian%20Federal%20Law%20on%20Trade%20Moscow%20ATO_Russian%20Federation_8-30-2010.pdf

Hotel, Restaurant, and Institutional (HRI) Sector

HRI sales grew by a respectable 11.6 percent in 2013, on par with pre-crisis sales growth of 10 to 12 percent (2005 to 2008). Returning consumer confidence brought customers back to HRI dining establishments. Most notably the HRI sector's growth was in the fast food and coffee shop segments. Since imports make up the vast majority of HRI products (more than 65 percent), opportunities for U.S. products are significant.

Table 7. Russia: Food Service Industry Sales, in Billion Rubles

	2009	2010	2011	2012	2013
RUR, billion	711.2	781.4	903.3	1013.6	1131
Growth Year on Year, %		9.8	15.6	12.2	11.6
US Dollars, billion	22.42	25.63	30.77	32.62	35.54
Average exchange rate	31.72	30.48	29.35	31.07	31.82

Source: Federal State Statistics Bureau (Rosstat)

The number of cafes, restaurants, and other food outlets in Russia currently stands at about 88,000 and almost 85 percent of the outlets are independent (non-chain) cafes and restaurants. According to FoodService magazine, there are currently more than 370 restaurant chains operating in Russia, each of which manages between 3 - 560 outlets. According to Euromonitor, the total number of restaurant chains in Russia is roughly 10,500 outlets. McDonald's, Subway, Rosinter Restaurant Holding, Arkadiy Novikov Restaurants, Ginza project, Markon, Shokoladnitsa, and Coffee House are the largest restaurant chains in different foodservice segments in Russia.

The consumer markets are flourishing in Moscow and St. Petersburg as the incomes of their residents grow. As a result, Moscow and St. Petersburg are Russia's largest restaurant cities with market shares of 15 percent in Moscow and 5.6 percent in St. Petersburg in 2013. After some consolidation in the industry during the crisis years (2008-2010), in 2011-2014 more and more local as well as international chains are active in the Russian foodservice market and are planning further regional expansion into other wealthy cities. Currently the largest cities in Russia, Moscow and St. Petersburg, account for 41 percent and 15 percent respectively in terms of chain outlets on the overall consumer foodservice market. According to Russian Business Consulting, more than 55 international restaurant chains currently are operating in Russia.

The fast-food sector is the fastest-growing restaurant category in Russia with an annual growth rate of 20 to 30 percent. Russia's fast food market still isn't saturated in spite of the development that has taken place for the past decade. Experts predict that the fast-food and street-food market will not reach saturation until 2015. Franchising is one of key expansion methods for foodservice chains in Russia. Franchising models dominate in fast food as more than 90 percent of fast food chains in Russia work under various franchise agreements. Fast-food is an increasingly attractive market for overseas investors and many famous American fast-service operators have appeared in Russia.

Table 8. Russia: U.S. Fast Food Restaurant Chains in Russia

Chain name	Country of origin	Year est. in Russia	# outlets 2013	# outlets in Moscow
Subway	USA	1994	582	216
McDonald's	USA (Canada)	1990	378	175
Baskin Robbins	USA	1992	274	84
KFC	USA	1993	230	97
Sbarro	USA	1998	144	69
Burger King	USA	2010	113	72
Cinnabon	USA	2009	108	13
Dunkin Donuts	USA	1996/2010	26	26
Carl's Junior	USA	2007	28	0
Papa John's	USA	2004	49	34
Chili's Grill & Bar	USA	2011	2	2
Wendy's	USA	2011	8	8
Moe's Southwest Grill	USA	2012	3	2
Krispy Kreme	USA	2013	1	1

Source: Trade press, companies' websites

McDonald's, which entered Russia in 1990 and created two generations of fast food eaters, has remained the absolute leader with a 43 percent value share of fast-food chain sales. Subway is one of the most rapidly developing fast food chains in Russia. As of 2013, Subway had 582 outlets in all Russian regions, including the Far Eastern Federal District. Subway has an ambitious plan of expansion and had caught up to McDonald's in terms of number of outlets in 2011.

Most of the international companies which decide to enter consumer foodservice in Russia open their

first outlets in Moscow. Only two foodservice players launched their restaurants from St. Petersburg: Subway and Carl's Jr.

Burger King, one of the largest fast food corporations in the world, established a presence in Russia by opening its first restaurant in Moscow on January 2010. Currently, Burger King's franchisees operate more than 120 restaurants and intend to open several hundred Burger King outlets in Russia over the next few years. Dunkin' Donuts, the U.S. doughnut eatery chain that left Russia after a three-year stint in 1999, returned to Moscow in 2010 with big plans for rapid expansion.

The coffeehouse business in Russia boomed in the early 2000s. Today, there is an increasingly high concentration of the leading chains, including Shokoladnitsa, Coffee House, McCafé, Starbucks, and Coffeeshop Company, in Moscow and St. Petersburg, so in the short term many coffeehouse chains plan to expand to the Russian provinces. The world leader, Starbucks Coffee Company, opened its first outlet in Moscow in September 2007 and currently is number three by coffee sales after Shokoladnitsa and Coffee House. Currently Starbucks operates about 70 coffee shops in Russia.

Baskin Robbins, the world's largest chain of ice cream specialty shops, entered Russia in 1990. Currently Baskin-Robbins' network in Russia has 300 ice cream salons and kiosks in 115 cities, most of them franchises.

Many restaurants import the vast majority of their ingredients, creating opportunities for U.S. exporters of meat, seafood, wine, rice, spirits and specialty foods.

Please see the "HRI Sector Growing at Double Digit Rate Each Year" 2013 report for further information on the HRI sector in Russia

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Service%20-%20Hotel%20Restaurant%20Institutional_Moscow%20ATO_Russian%20Federation_12-27-2013.pdf

Food Processing Sector

Russian food processing has been expanding since 2005 in average by 15 percent annually. According to Rosstat, in 2013, Russian food industry production increased by 4.5 percent and valued at 4.2 trillion Rubles (119.7 billion USD [1]). The food processing sector is expected to grow in 2014 and 2015 albeit at a slower pace following the general trend in Russian economy. Over the last two years, output of the following processed foods has increased steadily: meat and offals; meat products; dry milk and cream; butter; canned milk; pasta; sugar; confectionery; frozen fruits and vegetables; and mineral water.

The food processing industry in Russia is recognized by the government as a strategic sector which could potentially supply the entire 143 million Russian population with quality food products. It numbers over 30 sub-sectors contributing more than 16.2 percent of Russia's economic production [2] and employing 1.4 million people. Russia is the largest processed food market in Europe and one of the world's largest importers of ingredients for food processing, for example Russia is the world's largest importer of dairy products. Currently, the food processing industry is made up of foreign and domestic manufacturers with the latter dominating number wise. Among the biggest Russian food manufacturers are: Baltika Brewery Company, Yug Rusi Group, "United Confectionaries", "Cherkizovo", "Efko" Group, RusAgro and Miratorg. Among the most well-known foreign food manufacturers in Russia are

Kraft Foods and PepsiCo which have invested heavily in Russia. The foreign investors and Russian manufacturers compete and invest in modernization and expansion in order to strengthen their position in the market. These lead to the growing demand in innovative technologies and high quality ingredients.

The majority of raw materials and ingredients used by Russian food processors/manufacturers are imported. Demand for higher-quality ingredients is increasing as more local food processors strive to meet international quality standards. That demand will lead to increased imports given that around 86 percent of the products used by the Russian food industry are imported, including meat, dry milk, nuts, dried fruits, frozen vegetables, frozen berries and fruits, juice concentrates, etc. More than a half of the meat and milk products in large Russian cities are provided by import suppliers. 100 percent of nuts and dried fruits, 80 percent of frozen vegetables and mushrooms for frozen semi products packing, 70 percent of the raw materials in meat processing plants are imported.

The food ingredients and additives are also largely imported to Russia. According to the RBC research, the Russian market accounts for about 9 -10 percent of the 28.3 billion USD world market of food ingredients. So, Russian market is estimated at around 2.8 billion USD in 2013. The food experts characterize ingredients and additives market in Russia as developing and non-saturated with good room for growth.

Table 9. Russia: Food Ingredients Market's Consumption and Rate of Growth, 2006-2015

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Consumption (\$ billion)	1.7	2.0	2.3	2.0	2.1	2.3	2.6	3.0	3.4	3.9
Rate of growth, %	n/a	15%	15%	10%	5%	10%	10%	15%	15%	15%

Source: Union of Food Ingredients of Russia

^[1] The exchange rate is 34.90 Rubles per one U.S. dollar on the 6th of June 2014. Please see the exchange rate daily fluctuation on <http://bankir.ru/kurs>

^[2] Excluding the natural resource extraction and energy producing sectors.

According to the Union of Food Ingredients of Russia, at present the Russian food processing industry uses over 20 types and about 1,000 varieties of food ingredients and additives such as acidity regulators, sweeteners, bleachers, colorants, emulsifiers, thickeners, preservatives, nutrition fortifiers, flavors, pectins, starches, fats, stabilizers, and so on. RBC Research states that Russia's food ingredients market is weighted as follows: flavors (29 percent), preservatives (24 percent), colorings (19 percent), antioxidants (13 percent), food acids (6 percent), and cloud emulsions (2 percent). The main users of ingredients are bakery, confectionery, dairy (including ice cream manufacturing), meat processors and canned and bottled food producers.

The table below displays what portion of ingredients and additives (in percentage, as compared to the total volume of processed raw material) was used in food processing sectors in Russia in 2012.

Table 10. Russia: 2012 Ingredients Used in Food Processing Sectors, in Percentage

Food processing Sector	Food Ingredients and Additives
Confectionary	56.6
Bakery	38.4

Dairy, Butter & Cheese	33.0
Soft beverages	25.2
Fats & mayonnaise	24.1
Meat processing	23.0
Ice cream	19.1
Fruit jams	18.0
Snacks & chips	16.6
Vegetables & sauces	16.4
Fish processing	14.3
Other	8.9

Source: Union of Food Ingredients of Russia

Russian food industry in general is dependent on imported food ingredients and additives. According to RBC Research, most food additives and ingredients which are used by Russian companies are made from imported raw materials. Based on the same source, China is the larger supplier of ingredients to Russia with 15.4 percent of the market. Lithuania holds 12.5 percent of the market, Germany - 11.2 percent, the Netherlands - 9.7 percent. The United States exports some ingredients to Russia and ranks as the 11th biggest supplier with ingredients exports with market share 3.1 percent. In 2013, the United States exported around 80 million USD worth of ingredients and additives, 15 percent more than in 2008 but less than 2012. Market analysts characterize the ingredients and additives market in Russia as “developing” and “unsaturated” with good room for growth in upcoming years. However, Russian is very competitive market and China has been a constant supplier of less expensive products to Russia. European companies invest in education and training programs for the food processing companies and help their importers to build/strengthen demand for their products in Russia. Also, the Dollar/Euro strengthened against Ruble in 2013 making U.S. and European products more expensive for the Russian food processing sector. Market analysts have stated that the currency exchange should stabilize by the end of 2014.

The best prospects for American products in this sector are: mixtures odoriferous substance (3302 10), Lac, gum, resins vegetable saps and extracts (1302 10), sugar and sugar confectionary (17), cocoa and cocoa preparations (18), malt extract (1901) in Russia.

<http://www.foodnavigator.ru/inform/nauka/rynok-pishhevyx-ingredientov-sovremennye-trendy-i-orientiry-razvitiya.html>

Table 11. Russia: U.S. Exports of Ingredients and Additives to Russia, in million USD

Product	2011	2012	2013
Mixtures odoriferous substance (3302 10)	19.2	19.4	18.7
Lac, gum, resins, and other vegetable saps and extracts (1302 10)	14.2	25.4	13.7
Sugar and sugar confectionary (17)	12.5	12	13.6
Cocoa and cocoa preparations (18)	8.9	9.5	11
Malt extract (1901)	2.2	5.5	9.7
Dextrins and other modified starches (3505)	7.6	8.8	8.9
Peptones and derivatives (3504)	1.2	1.3	1.2
Essential oils, concentrate, and absolutes (3301)	2.9	1.9	1
Glycerol (Glycerine), Glycerol waters and glycerol lyes (1520)	0	0.08	0.9

Vegetable fats and oils and their fractions (1516 20)	0.7	0.6	0.6
Margarine; Edible Mixtures or preparations of animal or vegetable fats or oils (1517)	0.3	0.3	0.5

Source: Union of Food Ingredients of Russia

The best way to learn more about market trends and meet in person with potential buyers is exhibiting in Ingredients Russia Expo (Moscow, March 17-19, 2015), a key meeting point for all those involved in the Russian ingredients industry. In 2014, the Expo attracted 4,900 attendees of which 92 percent were key decision makers including food technologists and management of the food processing companies and importers. Please contact ATO Moscow for more information about this event and to learn more about how the ATO can provide assistance.

In 2015, Ingredients Russia 2015 will focus on organic and health ingredients. Manufacturers, suppliers and distributors will present natural extracts, dietary supplements, flavors and natural ingredients for the production of health food and drink products.

Please learn about the show here: <http://www.ingred.ru/en-GB>

The organizers' contacts are below:

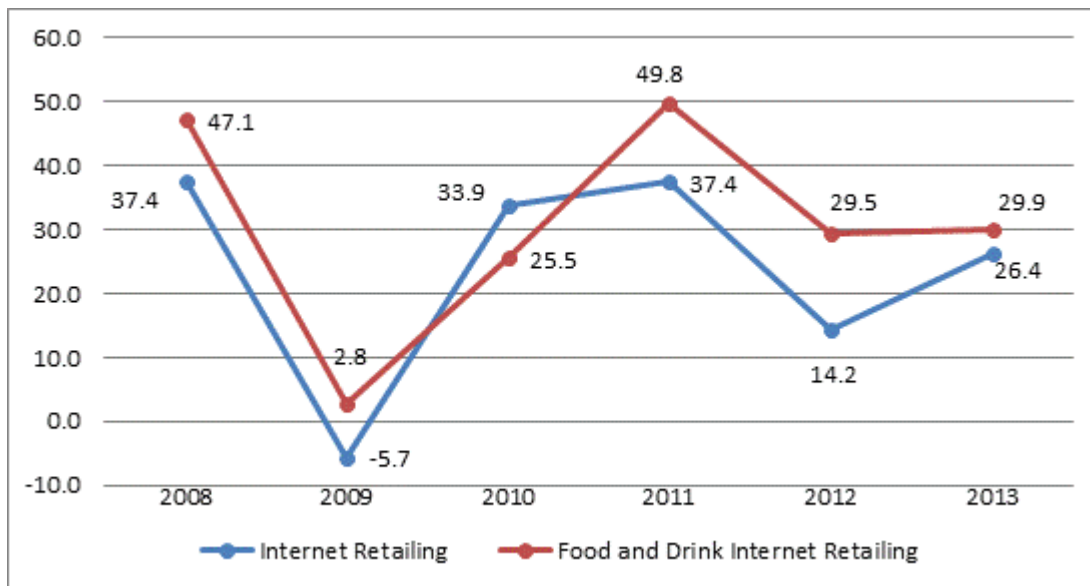
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Please find more information about food processing sector in FAS report:
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Processing%20Ingredients_Moscow%20ATO_Russian%20Federation_07.05.2013.pdf

Internet Sales

In 2013, growth of internet retailing in Russia remained high and exceeded growth rates of store-based retailing. According to Euromonitor data, internet sales in Russia grew 26.4 percent valued at 14.8 billion USD in 2013. The number of online buyers in Russia has risen 30 percent to 30 million people, 70 percent of which are located outside Moscow (Source: DataInsight research). The average bill of online sale is about 300 USD. Experts estimate internet sales turnover will grow by 21 percent in 2014 to reach 18 billion USD.

Figure 13. Russia: Internet Sales from 2008-2013, Growth Year-on-Year, in Percentage



Source: Euromonitor International from trade sources and national statistics, 2014

Some 57.3 percent of the Russian population was regular Internet users in 2013, an increase from 53.3 percent in 2012. As in most countries, the under-35s are the largest drivers behind E-commerce. Most consumers cite convenience, value for money and the potential for price comparisons as the main reasons for shopping online.

However, there are some obstacles to the faster development of internet sales in Russia. Many consumers are highly skeptical of making purchases online and are uncomfortable with transactions in which they cannot inspect products beforehand. The logistical challenges of home deliveries remain unsolved. The federal mail system has a poor reputation for parcel service and the market for home delivery has been too small for large parcel delivery services to expand nationwide. It is still true that Russian consumers do not trust e-payments. Only a few customers complete payment transactions online with cash payments on delivery still the most common payment method. Only 10 percent of E-shops offer the option to pay by debit/credit cards. A potentially major obstacle of the internal sales development is the 30 percent tax levy being considered by the Russian state on all goods valued at over 200 USD imported by foreign online retailers, which the government announced in early 2014.

Russian consumers mainly shop online for non-grocery products. An industry survey found that only 20 percent of Russian online customers order household shopping (food, drinks, cleaning goods) from a website. There is a general feeling among the wider population that physical goods such as foods have to be seen and touched in order to determine their quality with consumers simply not trusting businesses enough to order them virtually. It is still perceived to be less stress and less time consuming to visit the local supermarket than to shop for groceries online.

However, significant annual growth of food and drink internet sales in recent years shows that online grocery retailing has great potential. In 2013, online grocery market in Russia was worth 457 million USD and accounted for 3.1 percent of total internet sales.

Table 12. Russia: Internet Sales from 2009-2013, in Million USD

Category	2009	2010	2011	2012	2013	Growth, % 2011/2012
Internet Retailing	4,947	6,640	9,125	11,737	14,839	26.4
Food and Drink Internet Retailing	136.8	172.2	258.0	351.5	456.7	29.9

Source: Euromonitor International from trade sources and national statistics, 2014

Tourism Sales

The strong growth in household disposable incomes has driven a travel boom in Russia with access to budget trips through a growing number of travel agents meaning more frequent holidays. A typical Russian family is likely to go abroad once a year while more mobile couples and young professionals will vacation at least twice. Locations such as Egypt, Turkey and Thailand are the most widely visited due to the large number of budget options available there while more upmarket locations include countries in Western Europe, the Caribbean and Mexico. Spring, summer and winter months are the most popular times for holidays. Ten days to two weeks is the most common period of time spent abroad on vacation, according to numerous travel agencies in Moscow. Turkey is the leader in the number of tours sold in Russia. Package holidays have certainly registered the greatest rise in demand among consumers with per capita expenditure on package holidays rising from 73 USD in 2005 to 116 USD in 2013, with this figure expected to continue increasing to 140 USD by 2016.

Currently, internal tourism in Russia is relatively underdeveloped with the possible exception of the city of St. Petersburg. Therefore, Russia has unique opportunities both for the development of internal tourism and for reception of foreign travelers. A variety of landscapes (mountains, sea, rivers, woods, tundra) allows forth development of different kinds of tourism, e.g. beach vacation, ecotourism, ski vacation, etc. In 2011, Russian President Vladimir Putin announced a government initiative called “Development of domestic tourism in Russia” with 7 billion Rubles (233 million USD) allocated from the federal budget in order to realize enhance tourism in Russia from 2011-2016 (source: Rossiyskaya Gazeta).

The hotel market, which has been traditionally underserved in Russia, is growing quickly and growth in the tourism sector will spur further development of Russia’s hotels and restaurants. This is expected to lead to better quality services and offer new opportunities for U.S. exporters of food and beverages to Russia. Russian consumers have started to do more domestic tourism, which was largely unfashionable in Russia until recently. The country’s Black Sea beach resorts are extremely congested during the peak summer months even though it is more economical to go abroad. Few visitors can afford to stay in hotels in elite Russian beach resorts.

However, niche tourism has developed rapidly in the country catering to specific Russian tastes for non-family tourism, which includes adventure travelling, health tourism and skiing. Hunting in the country’s wild interior is especially popular among males, both old and young, while off-roading in both cars and snowmobiles is a popular form of adventure travel. Holy sites and places associated with natural healing are also popular among older populations.

Table 13. Russia: Tourism in Russia (USD per capita, at Constant Prices)

Category	2005	2011	2012	2013	2016
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Domestic tourism receipts and expenditure					
Accommodation	21.4	24.4	24.1	25.4	31.8
Entertainment	7.4	11.8	11.4	11.7	14.1
Excursions	4.2	3.5	3.4	3.4	4.0
Food	24.8	27.6	25.7	25.7	27.8
Shopping	26.1	16.7	15.9	16.1	18.5
Travel within the country	79.2	58.1	53.6	53.1	55.9
Other domestic tourist expenditure	12.8	7.4	6.6	6.3	5.8
Outgoing tourism receipts and expenditure					
Accommodation	77.4	71.3	73.5	77.8	94.7
Entertainment	19.8	20.4	21.2	22.6	27.7
Excursions	12.2	12.8	13.2	13.3	16.3
Food	30.6	33.5	31.6	33.7	41.4
Shopping	77.9	72.4	75.8	80.9	100.1
Travel within the country	9.6	9.8	10.1	10.7	13.0
Other outgoing tourist expenditure	17.5	14.4	14.6	15.3	18.1

Source: Euromonitor International, 2014

Holiday Gifts Sales

Russia has a rich calendar of public holidays and most holidays are celebrated with a rich feast at home with family, with consumers making big purchases for groceries and stocking up on alcohol, soft drinks, meats and vegetables/fruits. Greeting cards are not part of Russia's celebratory tradition and are only really exchanged for birthdays. Most gifts consist of flowers and chocolate for females, spirits for males, and confectionery for children. New Year's Day is the only celebration when everyone purchases substantial gifts, akin to Christmas presents. (Source: Euromonitor International)

While the Russian economy appears to be slowing, consumer confidence is going up in regards to year-end holiday spending. According to a Deloitte 2013 survey, the average amount of money Russians allocated for their festive budget included spending on food, gifts and entertainment of about 600 USD, about 13 percent more than in 2012 with about 270 USD allotted for gifts, 230 USD for food, and 100 USD for entertainment. Consumers in Russia usually start to think of their gift shopping near to the middle of December and buy gifts, for the most part, during the last week before the holiday season. Russians tend to buy presents primarily in hypermarkets, with second place given to specialized shops, and the third place given priority being open-air-markets.

SECTION IV. BEST PRODUCT PROSPECTS

According to Russian customs statistics, U.S. agricultural imports in 2013 accounted for 1.6 billion USD – a figure that is down by 21 percent compared to 2012, primarily due to lower sales of red meat products. The U.S. is the eighth largest supplier (fifth in 2012) to Russia by value of agricultural, fish and forestry products with 4 percent of Russia's agricultural imports behind Brazil, the EU, China, and others (please see Appendix Statistics, Table C). The U.S.'s top agricultural exports to Russia in 2013 included: live cattle, poultry, food preparations, nuts (almonds, pistachios and peanuts), soybeans, prunes, fresh fruit, fish and seafood.

Russia's accession to the World Trade Organization (WTO) has helped to bring some of the country's legal and regulatory regimes closer in line with internationally accepted practices. Also, while Russia's stated goal to be self-sufficient in categories such as meat and dairy products may, to some extent, limit U.S. exports of those products, these goals may also create new opportunities for U.S. exporters to supply high protein feeds and animal genetics.

Sub-Sector Best Prospects Includes:

Animal Genetics

While Russia's stated goal to be self-sufficient in categories such as meat and dairy products may, to some extent, limit U.S. exports of those products, these goals may also create new market opportunities for U.S. exporters to supply high protein feeds and animal genetics. The Russian government has adopted several plans to stimulate development of the dairy, poultry, pork, and beef sectors. As market access for meat and poultry continues to be limited through quotas and/or the imposition of trade restrictive SPS measures, the demand and opportunity for higher quality animal genetics is expected to continue to grow. Demand exists for both dairy cattle, specifically registered Holsteins, as well as beef cattle, particularly Angus.

For example, Russian government subsidies and current development projects facilitated the import of 37,725 head of cattle in 2010, 94,468 in 2011, 137,613 in 2012, and 96,826 in 2013, from around the world. The United States is well-positioned to be a major supplier into the future, especially for producers seeking the best genetics in the global market. The United States was the largest exporter of live bovine animals to Russia in 2013 and the market also continues to grow for semen and embryos.

In addition, hatching eggs and chick exports to Russia remain important for the expanding Russian poultry and egg sector, and, as a result, most import tariffs are set at zero. Swine genetics also remain an area of opportunity.

Edible Tree Nuts

Russia's commercial nut production is limited to pine nuts and, therefore, Russia is entirely dependent on imports for all other tree nuts. In 2013, imports of tree nuts reached 73,081 metric tons (MT) valued at 384.4 million USD – down 18 percent in volume and down 10 percent in value compared with 2012. The overall drop in 2013 resulted from a bad harvest of pistachios in Iran – a major supplier to Russia. The Russian tree nut market is far from saturated and has good potential for further expansion. Per capita tree nut consumption is only around 0.69 kilograms (kg) including imported sweetened nuts and seeds, which is significantly lower than consumption levels in European countries, the United States, Japan, and China. According to import statistics, the most popular nut in Russia is the almond (25 percent of the market in volume terms), followed by pistachio (20 percent), hazelnut (14.5 percent), coconut (12 percent), walnut and cashew (10 percent each).

The major suppliers of tree nuts to Russia are the United States (almonds), Iran (pistachios), Indonesia (coconuts), Turkey (hazelnuts), Ukraine (walnuts), and Vietnam (cashews). In 2013, the United States was the largest supplier of tree nuts to Russia with a 40 percent market share of which the U.S. had 90 percent share of almonds and 16 percent of pistachios. U.S. sales in calendar year (CY) 2013 grew by 28 percent to a new record of 184 million USD. The best prospects for American tree nuts exports to

Russia are as follows:

Almonds: Russia imports roughly 90 percent of all its almonds from the United States on any given year. In CY 2013, U.S. almond sales exceeded 125 million USD setting a new record. The trend is expected to continue driven by growing demand from the confectionary, bakery, and other food processing industries (consuming 65 percent of shelled almonds) and growing consumption of nuts as a healthy snack leading to sales of high grades of shelled and in-shell almonds.

Pistachios: Russia is one of the largest importers of pistachios in the world in 2013, with market volume at 12,474 MT valued at 107 million USD. 95 percent of imported pistachios are in shell, most of which goes to snack packing or sold “loose” via retail. The popularity of pistachios as a snack product, along with rising incomes, in Russia are driving the demand for quality pistachios and offers a great opportunity for U.S. pistachio exporters. Iran is the main supplier of pistachios with roughly 75 percent market share followed by the United States. In 2013, U.S. sales grew by over 46 percent reaching 5,528 MT valued at more than 55.5 million USD – a new record. Growth in this market is expected to continue as Russia’s confectionary and food processing sectors continue to develop. However, American pistachios sales are directly affected by the crop situation in Iran, the main supplier of pistachios to Russia.

Pecans: In 2013, Russian imported 534 MT of pecans valued at 4.7 million USD, up 288 percent compared to the previous year – a new record. Mexico and the United States are the main suppliers with close to 50 percent share. Due to high prices for pecans compared to other nuts as well as insufficient knowledge about nutrition and application options for pecans in the confectionary industry, demand is somewhat unstable. However, taking into account growing interest in high quality natural ingredients in Russia, increased pecan exports are expected especially with greater informational outreach to the confectionary industry and consumers.

Fish and Seafood

During CY 2013, Russia’s imports of fish and fish products reached almost 3 billion USD, a 16 percent increase from 2012. Fish and seafood exports from the United States to Russia rebounded significantly in 2013 and reached a record 77 million USD, double the level of 2012. The increase in imports from the United States is mostly attributed to higher imports of salmon roe due to better than expected harvest of salmon in Alaska. Salmon roe imports from the United States reached 33.4 million USD in 2013, accounting for a market share of 43 percent share of all fish and seafood imports from the United States. In addition to salmon roe, the other major fish species imported from the United States to Russia include: Alaska Pollock, Frozen (HS30494), with a market share of 16 percent or 12.5 million USD, frozen hake (HTS 030366), equating to 11.5 percent of U.S. fish and seafood trade to Russia, followed by Fish meat, Frozen (HS030499) with 4.6 percent share. The U.S. still currently supplies only about 2 percent of total fish and seafood products to Russia, which indicates that there is massive room for growth. . Because of this growing market, U.S. fish and seafood producers will continue to be able to find new market opportunities in Russia as consumers’ incomes rise, demand continues to boom, and consumer habits continue to change.

The importation of high value seafood, such as cold-water shrimps and prawns, live lobsters and cuttle fish has also significantly increased, due to consumer preference and rising incomes. Fish consumption patterns will continue to depend heavily on household income, prices, and

preferences within the population. Russian consumers tend to prefer the following: herring, pollock, mackerel, salmon and trout. Frozen fish is also traditionally popular in Russia.

Fresh Fruit (Apples, Pears, Grapes, Citrus)

Russia is the world's 2nd largest importer of fresh fruits and is the largest import market for apples and pears. In 2013, Russian imports reached 5.63 billion USD - a 1.8 percent increase compared with 2012. The United States exported 22,788 MT of fresh fruits to Russia valued at 33.7 million USD, up 43 percent in volume and up 47 percent in value compared to 2012. Apples, pears, grapes, and pomegranates are the major fruits varieties that traditionally come from the United States, and, if priced appropriately for the market, have opportunities for expansion.

Fruit sales in general are on a long term steady increase in Russia. In 2013, per capita fruit consumption in Russia increased 4.7 percent reaching 74.4 kilograms. Russians are still hesitant, however, to go back to their pre-2008 crisis high spending levels despite signs that purchasing power is increasing due to the higher income and lower unemployment. Consumers remain cautious and their purchasing behavior reflects a calculated balance between price and quality. In 2014, fruit consumption is expected to grow supported by the growing "healthy eating" trend in Russia. Russians mainly buy apples, bananas, pears, and citrus.

Imports have grown from 3.8 million MT in 2005 to 5.9 MT in 2013, while the value during this time nearly tripled to 5.63 billion USD in 2013. The largest overall fruit suppliers to Russia are Ecuador (bananas), Poland (apples), Turkey (citrus, grapes, and stone fruits), China (apples, citrus, stone fruits), Argentina (apples, pears, and citrus), and Chile (grapes). Russia is the priority export market for many former Soviet republic countries, European countries, Turkey, and Northern African producers due to the close proximity to Russia and long term relations with Russian buyers.

Apples: Apples are, without questions, the favorite fruit in Russia. In 2013, Russia was the largest importer of apples in the world having purchased 1.28 million MT valued at 759.1 million USD. The United States' market share in Russia is very low - around 1 percent as U.S. apples are typically more expensive and compete with Italy, Belgium, Germany, and the Netherlands in the higher-cost and quality segment. The total share of these higher-quality apples in Russia is around 20 percent. With decreasing tariffs as a result of World Trade Organization (WTO) accession, these quality apples will be somewhat more affordable in Russia. U.S. apples have the potential for increased sales to Russia especially considering that Russian consumers like large, richly colored apples - characteristics that U.S. suppliers can normally provide.

Pears: Pears are one of the most popular fruits in Russia following apples, citrus, and bananas and consumption is growing. Russia doesn't produce this fruit commercially and is the world's largest importer of pears. In 2013, pear imports decreased by 14 percent compared to 2012 valued at 375 million USD. While most of Russia's main pear suppliers lost market share in 2013, U.S. sales of pears increased 42 percent compared to the previous year. American pears have seen remarkable growth in recent years, rising from just over 1 million USD worth in 2004 to over 12 million USD worth in 2013. Market share of U.S. pears remains low in Russia at only 3 percent of the total pear market. U.S. pears will always face strong competition from European pears but the huge Russian market allows for ample opportunity for expansion. In order to diversify product offerings, importers have strong interest in U.S. Anjou pears, which are not a typical European grown variety.

Prunes and Other Dried Fruit: Russia is the biggest importer of prunes in the world. In 2013, prune imports to Russia grew by 8 percent and reached 31,459 MT valued at 64.5 million USD compared to 2012. Prunes are one of the most popular dried fruits in Russia often used in home cooking and the food processing sector. The food manufacturing and snack packing industries are major consumers of prunes and demand is expected to grow following the “eating healthy” trend that has taken hold in Russia.

The United States is among the three largest suppliers of prunes to Russia, along with Chile and Argentina. In 2013, U.S. prune exports jumped 70 percent in volume to 4,411 MT valued at 9.3 million USD. According to market analysts, U.S. prunes are more expensive compared with product from Chile and Argentina due to superior quality and taste and have good potential for expanding sales.

Wine and Spirits

Russia is the 10th largest wine market in the world with per capita wine consumption estimated at 7.2 liters in 2013 and growing each year. Russia is one of the largest global growth markets for wine and is, without question, the most developed wine market of all the “BRICs”. Italy, France and Spain, the three major wine producers globally, are also the top exporters of wine to Russia. U.S. wine sales have risen in recent years and surpassed 15 million USD in 2013, up 30 percent from 2012. Despite this, U.S. wine currently only has about 1.5 percent market share but there is tremendous opportunity for growth as Russia’s wine culture blossoms. Russian wine imports reached 1.331 billion USD in 2013, up 14 percent from 2012.

Among the world’s top ten spirits markets in volume terms, Russia has dramatically increased imports of U.S. bourbon and rum since 2009. The United States (including Puerto Rico) is the sixth largest supplier of spirits to Russia and the potential for continued growth is high over the medium term. In 2013, U.S. exports of spirits to Russia were worth 124 million USD, reaching a new record. Russian imports of hard liquor totaled 1.392 billion USD in 2013 – no change from 2012.

All alcoholic products saw tariffs fall after Russia acceded to the WTO with full implementation expected by 2016. However, excise tax rates on distilled spirits have been significantly increasing in recent years in addition to import guarantees and other regulatory requirements which add significant bumps to final retail prices. Table 14 (below) provides additional information on food and agricultural product prospects ^{/1}.

Table 14. Russia: Suggested Best Prospects for U.S. Exporters, by Sector, 2013

Product	2013 US Import (\$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
Soybeans	355	435	0%	Russia increases soybean area and domestic production. Tight competition from	Russia increases poultry and livestock production and needs protein feeds. Russia’s soybean crushing capacity is

				Paraguay and Brazil.	expanding faster than domestic soybean production.
Live Cattle	176	138	0%	Competition from Australian and European cattle suppliers (the latter being true if Russia eliminates ongoing trade restrictions with the EU).	Russia needs more highly productive cattle to reach its publicly stated food security goals which call for a reduction of imported meat and dairy products.
Tree nuts	183	23	Almonds -0%; Pistachios - %5; Pecans - 5%; + 18% VAT (all nuts)	High competition from Iran pistachios. Pecan is not widely known and expensive compared to other nuts.	U.S. almonds and pistachios enjoying very strong growth due to growing consumption of healthy snacks. potential for U.S. pecans broader applications in the confectionary.
Food preparations	157	16	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.
Spirits	83	44	RUR 400/liter of ethyl alcohol content; VAT 18%	Lack of U.S. whiskey promotion, strong positions of other importers (France, United Kingdom.	Whiskey are growing in popularity and have tremendous growth potential.
Fish and Seafood	77	41	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. Importers are looking for product diversification. Price competitiveness with European shellfish.
Pistachios, In Shell	54	25	5% +18% VAT	Iranian pistachios dominate the Russian and Russian consumers got used	Pistachios are very popular as snack and the consumption of healthy snacks are growing.

				to them. American pistachios are more expensive and differ in taste.	Russians are now developing a taste for California pistachios and like the taste and big size of U.S. pistachios.
Fresh Fruit	34	17	Apples: 0.052-0.17 per kg depending on the season; Pears: 8.3%; + 18% VAT	Strong competition from Poland, China, Chile, New Zealand, Moldova for apples; Argentina and China for pears.	U.S. apples and pears is recognized for good quality and long shelf life. In the Russian Far East America is the second biggest supplier of fresh produce after China. Western Russia has good sales when American fruits can compete in price with EU especially during February- April period.
Wine	16	26	RUR 7-24/liter of ethyl alcohol content; VAT 18%	Lack of U.S. wine promotion, strong positions of other importers (France, Italy, Spain, and Argentina).	California wine is growing in popularity and has good potential for growth.
Prunes	9	31	5% +18% VAT	Strong Competition from Chile and Argentina. American prunes are very often more expensive.	Russia is the largest importer on prunes in the world. American prunes are well known for quality. Low crops in South America increase demand for California prunes drastically.
Pet food	7	18	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	8	46	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

* Growth available for 2012/2013

^{1/} Food products listed in Table 13 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.

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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.

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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

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

Tel.: 7 (812) 309-1101

E-mail: stpete@usmef.org

USA Dry Pea and Lentil

Irina Koziy

Address: 117465, Moscow, Russia, Generala Tuleneva str., 29/1

Tel: 7 (495) 729-3080

Fax: 7 (495) 989-2670

Email: office@rkmarketing.ru

U.S. Wheat Associates

Valentina Shustova

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Fax: 7 (495) 207-4203

Tel.: 7 (495) 956-9081; 7 (495) 208-8124

E-mail: uswmow@dol.ru

www.uswheat.ru

Washington Apple Commission

Ksenia Gorovaya (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

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: +7 926-389-5745

E-mail: olgatuz@mail.ru

<http://www.discovercaliforniawines.com/>

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

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

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
 Tel: 7 (495) 728-5580
 E-mail: Moscow.Office.Box@trade.gov
<http://export.gov/russia/>

The U.S. Commercial Service office at the U.S. Embassy in Moscow assists American exporters by identifying potential partners through the Gold Key Matching Service. The program features:

- appointments (typically four per day) with prescreened Russian firms;
- background and contact information on each potential partner, such as: the size of the company; number of years in business; product or service lines; and capability to provide after-sales service;
- customized market briefing with U.S. Commercial Service staff; and,
- available market research on the relevant industry sector.

The World Bank and the U.S. Agency for International Development also maintain missions in Russia.

APPENDIX – STATISTICS

TABLE A. KEY TRADE & DEMOGRAPHIC INFORMATION, 2012

Agricultural Imports From All Countries (\$Mln) / U.S. Market Share (%) ^{1/}	35,053/5.6
Consumer Food Imports From All Countries (\$Mln) / U.S. Market Share (%) ^{2/}	25,843/5.2
Edible Fishery Imports From All Countries (\$Mln) / U.S. Market Share (%) ^{3/}	2,554/1.5
Total Population (Millions) / Annual Growth Rate (%)	143.5/+0.2
Urban Population (Millions) / Annual Growth Rate (%)	106/+0.2
Number of Major Metropolitan Areas ^{4/}	15
Size of the Middle Class (Millions) / Growth Rate (%) ^{5/}	48/2.8
Per Capita Gross Domestic Product (U.S. Dollars)	14,584
Unemployment Rate (%)	5.5
Per Capita Food Expenditures (U.S. Dollars)	6,472
Percent of Female Population Employed ^{6/}	95
Exchange Rate (US\$1 = RUR), 2013 ^{7/}	31.82

1/Source: 2014, *Global Trade Atlas* (Agricultural Total, Group 2)

1/2/Source: 2014, *Global Trade Atlas*

2/ 3/Source: 2014, *Global Trade Atlas*

3/ 4/ Population in excess of 1,000,000

4/ 5/Sources: Various - based on estimate of individuals earning US\$500-\$1,150 per month

5/ 6/Source: 2014 Rosstat data. As percentage of economically-active female population (employed or actively seeking employment). Female workers account for 49.2 percent of the total economically-active population

7/See Figure 1. Russia's Central Bank exchange rate of \$1 USD to Ruble in 2013

TABLE B. CONSUMER FOOD & EDIBLE FISHERY PRODUCT IMPORTS, CY 11-13

Imports from the World (Million Dollars)	Imports from the U.S. (Million Dollars)	U.S Market Share (Percent)
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	2011	2012	2013	2011	2012	2013	2011	2012	2013
CONSUMER-ORIENTED AG, Total	25,325	25,843	26,590	1,143	1,355	865	4.5	5.2	3.3
Snack Foods (Excl. Nuts)	1,165	1,192	1,153	4.9	5.1	8.1	0.4	0.4	0.7
Breakfast Cereals & Pancake Mix	25	25	32	1.4	0.9	0.5	0.6	0.4	0.2
Red Meats, Fresh/Chilled/Frozen	5,090	5,820	5,070	413	592	20	8.1	10.2	0.4
Red Meats, Prepared/Preserved	271	255	219	4.9	6.2	6.0	1.8	2.4	2.7
Poultry Meat	572	707	668	307	338	334	53.7	47.9	49.9
Dairy Products (Excl. Cheese)	618	573	912	0.06	0.09	0.4	0.01	0.02	0.04
Eggs & Products (Excl. Cheese)	153	176	209	21.6	25.3	16.1	14.1	14.4	7.7
Fresh Fruit	5,462	5,527	5,625	32.1	22.8	33.7	0.6	0.4	0.6
Fresh Vegetables	2,858	2,260	2,556	1.9	1.5	1.1	0.07	0.07	0.04
Processed Fruit & Vegetables	1,621	1,417	1,524	27.4	18.8	24.4	1.7	1.3	1.6
Fruit & Vegetables Juices	441	485	443	4.6	4.2	3.9	1.1	0.9	0.9
Tree Nuts	391	425	384	113	144	184	29	34	48
Wine & Beer	1,265	1,384	1,527	9.7	12.3	15.7	0.8	0.9	1.0
Pet Foods (Dog & Cat Food)	196	219	248	8.7	6.8	6.9	4.4	3.1	2.8
Other Consumer Oriented Products	2,786	2,921	3,409	190	173	206	6.8	5.9	6.0
FISH & SEAFOOD PRODUCTS TOTAL	2,564	2,554	2,962	60	39	77	2.4	1.5	2.6
Salmon	604	704	884	0.3	0.2	0.2	0.1	0.01	0.0
Mollusks	88	90	101	4.1	3.5	2.5	4.7	3.9	2.4
Crustaceans	325	302	406	0.5	1.2	4.3	0.1	0.4	1.1
Other Fishery Products	1,304	1,270	1,354	37.8	25.7	58	2.9	2	4.3
AGRICULTURAL PRODUCTS TOTAL	36,301	35,053	35,685	1,510	1,963	1,503	4.2	5.6	4.21
AG, FISH AND FORESTRY TOTAL	40,271	39,199	40,372	1,608	2,023	1,602	4	5.2	3.97

Source: Global Trade Atlas

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCTS (CONSUMER-ORIENTED AG TOTAL)

№	Country	Million United States Dollars		
		2011	2012	2013
1	Brazil	1,698	1,845	2,092
2	Ukraine	1,613	1,778	1,634
3	Netherlands	1,403	1,356	1,624
4	Turkey	1,408	1,355	1,539
5	Germany	1,882	1,613	1,525
6	Poland	932	1,205	1,472
7	Ecuador	1,189	1,160	1,242
8	Italy	1,088	1,089	1,223

9	Spain	1,135	1,235	1,103
10	China	1,089	1,023	1,098
11	France	893	874	934
12	United States	1,143	1,355	865
13	Paraguay	196	568	648
14	Denmark	516	442	619
15	Argentina	526	521	592
	World	25,325	25,843	26,590

Source: *Global Trade Atlas, 2014*

TABLE D. TOP 15 SUPPLIERS OF FISH & SEAFOOD PRODUCTS

№	Country	Million United States Dollars		
		2011	2012	2013
1	Norway	929	1,049	1,122
2	China	309	292	327
3	Chile	112	126	273
4	Iceland	163	158	172
5	Canada	115	119	118
6	Faroe Islands	29	77	112
7	Vietnam	95	79	82
8	United States	60	39	77
9	Thailand	49	56	55
10	Denmark	69	46	54
11	India	34	37	50
12	Latvia	45	41	45
13	Bangladesh	20	17	35
14	Ukraine	31	41	35
15	Turkey	24	36	34
	World	2,564	2,554	2,962

Source: *Global Trade Atlas, 2014*

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>

The latest FAIRS Report can be found at

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Moscow_Russian%20Federation_12-20-2013.pdf

RS1394 Food and Agricultural Import Regulations and Standards – Certification

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Certification_Moscow_Russian%20

[Federation_12-19-2013.pdf](#)

RSATO 1312 Retail Report / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Moscow%20ATO_Russian%20Federation_9-3-2013.pdf

RSATO1002 Trade Law Report

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/The%20Russian%20Federal%20Law%20on%20Trade%20_Moscow%20ATO_Russian%20Federation_8-30-2010.pdf

RSATO1305 Russian Food Processing Sector

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Processing%20Ingredients_Moscow%20ATO_Russian%20Federation_07.05.2013.pdf

RSATO1320 Russian HRI Sector

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Service%20-%20Hotel%20Restaurant%20Institutional_Moscow%20ATO_Russian%20Federation_12-27-2013.pdf

RSATO1319 Fresh Deciduous Fruit / Annual

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Fresh%20Deciduous%20Fruit%20Annual_Moscow%20ATO_Russian%20Federation_12-2-2013.pdf

RSATO1109 Russian Organic Market

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Russian%20Organic%20Market%20Continues%20to%20Grow_Moscow%20ATO_Russian%20Federation_2-15-2013.pdf

RSATO1301 Development of a National Standard for Organic Products in Russia

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Development%20of%20a%20National%20Standard%20for%20Organic%20Products%20in%20Russia_Moscow%20ATO_Russian%20Federation_2-8-2013.pdf

RSATO1208 Customs Union Technical Regulations on Food Products Labeling

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Customs%20Union%20Technical%20Regulations%20on%20Food%20Products%20Labeling_Moscow%20ATO_Russian%20Federation_7-18-2012.pdf

RS1416 Livestock and Products Semi-Annual Report

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_Moscow_Russian%20Federation_3-14-2014.pdf

RS1419 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_3-18-2014.pdf

RSATO 1205 Strategy of the Russian Food Industry Development until 2020

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Strategy%20of%20the%20Russian%20Food%20Industry%20Development%20until%202020_Vladivostok_Russian%20Federation_6-7-2012.pdf

RSATO1318 Dairy and Products Annual Report

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Dairy%20and%20Products%20Annual%20Report_Moscow%20ATO_Russian%20Federation_11-14-2013.pdf