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Food Processing Ingredients

The Food Processing Sector in Russia

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Report Highlights:

On August 7, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway as a result of the implementation of economic sanctions against Russia due to events in the region. Lack of raw materials pushed the manufacturers to switch to alternative foreign suppliers or substitute the traditional ingredients by locally produced raw materials. The food processing sector has garnered special attention by the Russian Government which implements special supporting programs to improve the efficiency of enterprises, provide diversification of production and improve the competitiveness of manufactured products. In 2013, the industry's output reached 4.18 trillion rubles ($131.36 billion) with 4.2 percent increase in number of businesses and 4.5 percent growth of food production value.

Post:
Moscow ATO

Executive Summary:

SECTION I: MARKET SUMMARY

Current development of Russia's food processing sector is influenced by an economic slowdown in the country and uncertain political and economic environment on the back of the ongoing conflict around Ukraine. On August 7, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway as a result of the implementation of economic sanctions against Russia due to events in the region. The list includes red meat, poultry, fruits, vegetables, dairy products, tree nuts, pulses, and many other commodities. Russia is one of the world's largest food-importing countries having purchased more than $40 billion worth of food, beverages, and agricultural products in 2013. Some food processors purchase more than 70 percent of raw materials for manufacturing food products from abroad before the food ban. Lack of raw materials pushed manufacturers to switch to alternative foreign suppliers or substitute the traditional ingredients by locally produced raw materials. The Russian Government has made import substitution and development of domestic agricultural production a national priority.

Russia recorded its weakest economic growth in 2013 (1.2 percent compared to 3.4 percent in 2012) during any year since the end of the economic crisis in 2008. Experts have identified several reasons for the economic slowdown including the negative investment environment at the end of 2012 and weaker consumer demand. Ruble devaluation against the U.S. Dollar and Euro is one of the factors influencing the industry: in 2013, the average nominal exchange rate per U.S. dollar was equal to 31.82 rubles. On December 20, 2014, the exchange rate reached 60.68 rubles. Food inflation surpassed 11 percent for 2014 and the weak ruble presents a key downside risk to household spending as goods become more expensive, pushing down key indicators such as food retail sales value growth in the process. The recent economic sanctions exaggerated already harsh credit conditions, banned Russian banks from issuing long-term debt and equity in European and U.S. markets, and limited consumer purchasing power.

Prices of the following food products saw the highest increases in price rates in 2014 according to the Russian Federal Statistics Service (Rosstat) - chicken eggs 28.8 percent, butter 18.6 percent, spirits 14.6 percent, milk and dairy products - 13.1 percent. From January – October 2014, the inflation rate reached 7.2 percent, according to Rosstat. Food inflation during this time period showed 8.8 percent growth compared to the same period one year earlier. The Ministry of Economic Development of the Russian Federation (MED) has officially announced increasing estimates for food price growth in 2014 to 12-13 percent versus earlier projections of 7.2-7.4 percent. According to MED, future increases in food prices will slow to 5.5 percent 2015 but will still make a significant contribution to overall national inflation. In the first half of 2015, the increase in prices will be higher than previously predicted, but in the second half of the year it will be lower with a completion of the food ban regime and a significant increase in the supply of goods. (Source: Market analysts at Agronews)

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.

Russia's food processing industry had been growing steadily since 1998. During 2005-2012 compound

annual growth rate of the industry (CAGR) totaled 165 percent. However, after the 2008 crisis, the sector growth rate slowed significantly. The food processing industry's production index in 2013 (0.6 percent) was almost as low as in crisis period in 2009 (0.3 percent). In 2013, the market analysts reported that total food production reached 4.18 trillion rubles ($131.3 billion) with 4.2 percent increase in number of businesses and 4.5 percent growth of food production value. The highest growth was reached in meat and offal production (24.7 percent), semi-finished meat products (9.7 percent), meat and soya containing preserves (8 percent), and confectionary (5.1 percent). At the same time production of some food products decreased: bread and bakery products (minus 3.4 percent), flour (minus 2.9 percent), sausages (minus 2.9 percent), cheese and cottage cheese (minus 2.3 percent), canned fruit and vegetables juices, fruit nectars and drinks, juices for children (minus 3.3 percent), canned fish and seafood (minus 7.7 percent).

The food processing sector has garnered special attention by the Russian Government and market analysts have stated that it could soon become one of the highest yielding sectors in Russian agriculture. Government of Russia (GOR) defines the following targets for the industry: to improve the efficiency of enterprises, to provide diversification of production and to improve the competitiveness of manufactured products. In 2010, the GOR passed the "Principles of the Russian Federation State Policy in the Field of Nutrition until 2020" which is considered by many market players as progress in terms of GOR support for the food processing industry including food ingredients manufacturers. The main objectives of the policy are: expansion of domestic production of basic raw materials that meet modern standards of quality and safety, the development of manufacturing food products enriched with essential components, specialized baby food, functional food products, dietary (curative and preventive) food products and dietary supplements. Also, the GOR pays attention to the development and implementation of innovative technologies in agriculture and the food industry, including biotechnology and nanotechnology, and development of healthy eating educational programs for various groups of the population. In this regard, technical regulations relating to food are expected to be adopted. It is proposed to strengthen the legal responsibility of the manufacturer for production of food products which are consistent with statutory requirements, and to improve quality control mechanisms for food and raw materials produced in Russia and imported from abroad. Also, according to the document, the GOR would provide the conditions for investment in production of vitamins, enzymes for the food industry, probiotics and other food ingredients, consumer foods enriched with vitamins and minerals, as well as would prioritize development of research in the field of modern biotechnological and nanotechnological methods to obtain new sources of food and biomedical estimation of its quality and safety.

Along with the "Principles of the Russian Federation State Policy in the Field of Nutrition until 2020", in order to meet the challenges and develop an innovative environment for the food processing industry, the Ministry of Agriculture of Russia has developed a "Strategy for the Development of the Food Processing Industry of the Russian Federation until 2020", which was approved by the Federal Government in April 2012. The strategy sets the following goals:

- increasing production volume;
- manufacture modernization and expending capacity of food manufacturing enterprises;
- increasing products competitiveness with purpose of import substitution and export potential development;
- development of the food market infrastructure and logistics;
- addressing environmental concerns.

To reach such lofty goals, the GOR plans an influx of investment of 400-778 billion rubles ($13-26 billion) will be necessary to replace obsolete equipment, upgrade food processing, introduce bio- and nanotechnologies, improve efficiencies in production facilities up to 85 percent, implement innovative engines and labor efficiency by applying IT and Enterprise Resource Planning (ERP) business management solutions. According to the 2013-2020 Development Strategy, the GOR expects

construction of 64 processing plants and reconstruction of 296 existing plants. However, these investments will have to be privately funded rather than through public funding.

The food processing industry is made up of foreign and domestic manufacturers with the latter dominating number wise. The biggest Russian food manufacturers are: Baltika Brewery Company, Miratorg Agro, Cherkizovo Group of Companies, Efko Groups of Companies, Yug Rusi oil extracting plant, Unimilk, Rusagro Group of Companies. Among the most well-known foreign food manufacturers in Russia are PepsiCo Russia, Mars, Coca-Cola HBC Eurasia, Unilever Rus', Sun inBev, Danone, Heineken United Breweries. These foreign investors are strengthening their positions with investments and marketing activities that overshadow domestic companies. Many Russian food processing companies are interested in forming strategic alliances with foreign partners. The main goals are access to technical knowledge, strengthening the company's image in the market, access to cheaper financing, and personnel training.
The leaders in this market are focused on consolidation and expansion into regions outside of Moscow and St. Petersburg.

After almost 18 years of negotiations, Russia acceded to the WTO on August 22, 2012 and became its 155th Member. The major WTO membership consequences for the food processing industry are expected to be: a boost in strategic investors' confidence, which could lead to technological innovations in the agricultural and food sectors in terms of the ability to produce healthy functional foodstuff, frozen fruit and vegetables and alcohol-free drinks. To get more information on the market access changes for each key food products that occurred with WTO accession for the U.S. suppliers please see the 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

Table A. Russia: Food Processing Sector 2010-2013

	2010	2011	2012	2013	2013/2012 (% change)
Number of businesses, including beverage and tobacco manufacturers (as of the beginning of the year)	43,064	40,869	41,274	43,016	4.2
Value of food production, in billion RUR	3,262	3,602	4,001	4,180	4.5
Value of food production, in billion USD*	107.44	122.73	128.77	131.36	2
Production index, percentage change from previous year**	103.2	103.9	104.1	100.6	-3.5
Balance, financial (profit less loss), in billion RUR	162.65	114.13	189.17	200.75	6.1
Balance, financial (profit less loss), in billion USD*	5.36	3.89	6.09	6.31	3.6
Bread/bakery products, in thousand tons	6,816	6,626	6,507	6,288	-3.4
Flour, in mil tons	9.9	10	10.2	9.9	-2.9
Pasta products, in thousand tons	1,063	1,035	993	989	-0.4
Confectionery, in thousand tons	2,890	3,037	3,107	3,264	5.1
Meat, incl. offal, in thousand tons	1,184	1,222	1,342	1,674	24.7
Poultry, incl. offal, in thousand tons	2,774	3,028	3,405	3,544	4.1
Sausages, in thousand tons	2,276	2,335	2,352	2,282	-2.9
Semi-finished meat, in thousand tons	1,625	1,934	2,253	2,473	9.7

Fish and fish products, processed and canned, in thousand tons	3,556	3,642	3,690	3,681	-0.2
Milk, in thousand tons	4,944	4,926	5,267	5,345	1.5
Butter, dairy spreads, in thousand tons	212	219	216	222	2.7
Cheese and cottage cheese, in thousand tons	1120	1127	1180	1154	-2.2
Canned/preserved foods, in million cans (Standard can = 335 grams)					
- Vegetable and mushroom preserves	948	1152	1131	1169	3.4
- Fruit and vegetables juices, fruit nectars and drinks, juices for children	8510	7978	8345	8071	-3.3
- Dairy products	883	855	873	860	-1.5
- Meat and soya containing preserves	670.3	652	672.2	726	8
- Fish/seafood***	656	677.8	616.9	569.4	-7.7
Vodka, liquor products, in million deciliters	105.9	93.9	106.7	94.3	-11.6
Table wine, cava, in million deciliters	67.1	62.2	57.2	51.1	-10.6
Beer, in million deciliters	984	994	975	890	-8.7

*The Dollar equivalent of "Value of Food Production" and "Balance, Financial" (i.e. net profit) is calculated based on annual average USD/RUR exchange rate: 2010 – 30.36, 2011 – 29.35, 2012 – 31.07, 2013 – 31.82.
**The "Production Index" is a relative indicator characterizing changes in production output over comparable periods. The aggregate index of production characterizes integrated changes in production of all types of goods and products and reflects changes in value generated in the process of production as a result of quantitative changes of physical volume of production.
*** Canned fish is also included into "Fish and fish products, processed and canned" category.

The factors that have restrained faster growth in the food-processing sector are as follows:

- Dependence on import raw materials and lack of consistently high quality raw materials;
- Ruble devaluation;
- High taxation;
- Higher prices of raw materials;
- Cost of public utilities;
- Significant debt load;
- Lack of experience of introducing innovative products;
- GOST (State Standards) being replaced by less clear Technical Regulations;
- Underdeveloped quality control and testing infrastructure;
- Problems with recruiting qualified personnel;
- Sales and distribution problems of manufactured products;
- Logistics problems and lack of developed distribution system;
- Lack of a developed regional infrastructure and logistical challenges as the obstacle for extension to remote territories like Volga, Ural, Siberia and Far East regions;
- Lack of financing in necessary volumes, terms and at affordable interest rates.

Impact of Food Ban on Food Processing Sector
As a result of the recent ban, Russian importers have had to find new sources for roughly 40 percent of its agricultural imports. In 2013, agricultural imports accounted for 10.4 percent of total imports (USD terms). According to Business Monitor International, the following categories are at the most risk if new trade partners are not found: meat, dairy, fruit and nuts and fish. For a full list of banned items in English please see GAIN report RS1455 Amended List of Banned US Agricultural Products.

Meat and poultry

The list of banned products includes beef, pork, poultry meat and by-products, and also salted, pickled, dried and smoked meat. Despite the steady growth in pork and poultry production, Russia remains dependent on imports of meat, especially bovine. In volume terms, meat imports have gradually decreased - in particular in 2013 as meat imports decreased by 6.1 percent. Russia is less dependent on poultry imports as domestic production has increased substantially over the last decade. The United States was the main supplier of poultry to Russia accounting for 60 percent (or 267,000 metric tons) of all poultry imports in 2013. About 16 percent (72,000 metric tons) came from EU countries. The productive potential for this branch continues to grow every year as the Russian Ministry of Agriculture has approved 55.2 billion rubles (nearly $1.5 billion) for the 2013-2015 Poultry Program in March 2013. The program's main objective is to improve the domestic food security situation by implementing a package of priority measures to ensure the sustainable and competitive development of the Russian poultry industry. According to Ministry of Agriculture officials, domestically produced meat and meat products (not just poultry) accounted for 77.4 percent of the overall sales volume in the Russian market in 2013. The volume of slaughter weight poultry meat for the first half of 2014 is 95,000 metric tons over the last-year criteria. By the end of 2014, local production is expected to cover more than 200,000 metric tons of imports. Some small deficiencies can be covered by supplies from Brazil and Belarus. By the end of 2013, 16 percent of poultry supplies were covered by Brazil.

Beef is the branch which is the most dependent on imports. In 2013, Russia covered only 70 percent of the population's beef needs with domestic products. According to Meatinfo.ru, the total import supplies volume for slaughter weight cattle meat in 2013 reached 736,000 metric tons. The beef manufacturing sector has decreased its production by 6 percent over the last 5 years to 291 thousand metric tons in live weight in 2013. The GOR has set a special program for agricultural development from 2013 to 2020, with meat animal-breeding playing a special role. But the investments projects' payback periods are the longest in this sector, so any significant and sharp changes cannot be expected in the short run. The countries leading in beef imports to Russia in 2013 were Brazil (308 thousand metric tons), Paraguay (138 thousand metric tons), and Belarus (147 thousand metric tons). In August 2014, the Russian Government instituted a one-year ban on the supply of beef (HS codes 0201, 0202, and 0210 – which accounted for nearly all imported beef during the first third of 2014), among other products, from the United States (which shipped only 56 tons of beef in 2013 and 4 tons from January to April 2014), the European Union (which shipped nearly 32,000 tons of beef in 2013 and slightly more than 7,000 tons from January to April 2014), Canada (which shipped nearly 44 tons of beef in 2013 and none from January to April 2014), and Australia (which shipped nearly 27,000 tons of beef in 2013 and almost 1,500 tons from January to April 2014). Beef imports from countries under the embargo reached about 60,000 metric tons or 10 percent from the total amount in 2013. This volume can be covered by increasing the supply volumes from Brazil, Paraguay, Argentina and Uruguay, according to GOR officials.

In 2013, despite the difficult situation in the industry, pig-breeders reached the maximum increase in slaughter pork production in the industrial sector. At the same time, the dynamics is quite inertial as capacities which were built a couple of years before were put into service. As a result, the sector had an 11 percent level of annual growth and the total volume of pork production reached nearly 3 million metric tons. 18 percent of total pork market capacity, which is equal to 642,000 metric tons, belonged to imports in 2013. A one-year ban on the supply of pork (HS codes 0203 and 0210 – which accounted for approximately 94 percent of imported pork during the first third of 2014), among other products, restricts supplies from the United States (which shipped only 6,000 tons of pork in 2013 and did not ship from January to April 2014), the European Union (which shipped nearly 380,000 tons of pork in 2013 and nearly 25,000 tons from January to April 2014), and Canada (which shipped nearly 80,000 tons of pork in 2013 and nearly 43,000 tons from January to April 2014. Note: Australia and Norway were also included in the ban, but did not export pork to Russia in 2013 or during the first third of 2014. The restrictions eliminated roughly 70 percent of the volume of pork imports in 2013 and 54 percent during the first four months of 2014. Although Russia has announced that it is seeking

increased pork exports from some foreign suppliers during the ban (e.g., Brazil), total Russian pork imports from January-April 2014 were nearly 36 percent lower than they were during the first third of 2013 (before the ban on U.S. and EU product was introduced). Brazil accounted for nearly 19 percent of total Russian pork imports in 2013 and 31 percent during the first-third of 2014. While, Brazil's exports to Russia were one percent higher in 2013 than they were in 2012, they were 20 percent higher through April 2014 when compared to the same period in 2013. It is unlikely, even with a growth in exports, that Brazil will be able to fully backfill the absent pork. While Belarus might be expected by some to increase exports, Belarusian pork exports to Russia were down 67 percent in the first third of 2014, following a 30 percent decrease in year-on-year trade in 2013. Some foreign suppliers (e.g., Serbia) have recently increased export to Russia, but the volumes of these exports remain small. Therefore, it is unlikely these countries can increase exports to fully replace absent supplies from the United States and EU. The lack of pork volumes can be partially covered by domestically manufacturing supplies, which have grown by 100,000 metric tons in the first half of 2014 compared to the same period a year earlier. In short, national manufacturers can produce 250,000 metric tons of pork more than in 2013. The remaining 200,000 metric tons can be covered by imports from Belarus and other non-banned suppliers. As a whole, Russian importers are looking to South America and Asian countries for pork supplies.

Representatives from the Russian National Union of Swine-Breeders believe potential investments in the development of the industry at the amount of 180 billion rubles ($3.4 billion) for the next five years. These investments should allow increasing pork production by 1 million metric tons per year, which, according to experts, will increase import substitution for pork by 90 percent. Import restriction and additional financial support for the industry secured by GOR have inspired many investors such as RusAgro, Cherkizovo, Siberian Agrarian Group, Agropromkomplektatsiya, Agroeko, Kamsky Bacon and Agribusiness.

Milk and Dairy Products

Import of dairy products to Russia have grown in recent years, particularly after Russia's accession to the WTO. According to Dairy Australia's research, Russia's 2013 imports of dairy products increased 14 percent compared to 2012 and totaled 628 metric tons, more than a half of this volume were cheeses. In spite of the political tension with Ukraine, the European Union remained the main supplier of dairy products to Russia: its share totaled 70 percent of import in 2013. According to Russian Federal Customs Office, the larger exporters of dairy products in 2013 were Finland (17.8 MT, $19.6 mil), Estonia (8.3 MT, $19.4 mil), Poland (3.8 MT, $8 mil) and Lithuania (3 MT, $7.3 mil). According to the Association of Retailers, as a result of the recent food ban, cheese assortment has been reduced by 25-30 percent, while the premium segment has dropped up to 40-50 percent.

In recent years, roughly 70 percent of all cheeses and cottage cheese (tvorog) were imported from the Netherlands, Ukraine, Germany, Finland and Lithuania. Russia's recent food ban has created significant problems for Russian manufactures who rely on imported raw materials. Reorientation for suppliers from other countries is expensive and local raw materials are not available in sufficient quantities at the required quality levels. However, foreign manufacturers that have been present in the Russian market for a long time have their own production facilities here and mostly use local raw materials. For example, French manufacturer Danone, with one of the most famous yogurt brands Danissimo, is almost independent on imports buying more than 90 percent of dairy raw materials locally. A small percentage its milk powder comes from Belarus and Latin American countries. Danone primarily imports only those ingredients which are not produced locally like exotic fruits for adding to its yogurt production lines.

According to the calculations from the National Union of Milk Producers ("Soyuzmoloko"), as a result of recent food ban, imports of dairy products decreased by 2 million metric tons, while the total volume

of milk production in Russia is just 31 million metric tons. These volumes can be substituted by Russian manufacturers and Belarussian enterprises, which can increase their supplies. Soyuzmoloko's data show that every manufacturer can increase its production in average by 10 percent with existing facilities.
In 2013, cheese consumption in Russia totaled 874 MT half of which was imported (438 MT). 60 percent of imported cheese (263 MT) was supplied by countries that fell in the recent food ban. Russian manufacturers are ready to produce camembert, parmesan, and other popular cheese varieties if they are demanded by consumers. Russia has technologies and the necessary equipment but in earlier times the demand for local products was limited due to competition from the EU.

The recent food ban has not spread to the key categories of high-tech food ingredients, the alternatives for which are difficult to find in the domestic market. The replacement of rennet cheeses which is not available at the moment from the EU can be rennet casein: it can completely replace rennet cheese or cottage cheese in the production of all types of processed cheese. Another option of high demand among cheese manufacturers is the use of milk protein concentrate. Given the shortage of raw milk, MPC (milk protein concentrate) is becoming increasingly popular.

Confectionary

The Russian confectionery market has traditionally demonstrates stability and predictability which has allowed for efficient business planning. Domestic manufacturers dominate the Russian confectionery market whose share accounts for around 88 percent. Though "domestic manufacturer" is a bit misleading since many international companies have set up the manufacturing in the country. During the last four years, domestic production has been increasing. In 2013, production of flour and sugar confectioners' goods increased by 4 and 10 percent respectively that made possible export growth for flour confectioner's goods by 22 percent and for sugar confectioners' goods by 16 percent.

Table B. Russia: Balance of Confectionary Market, in MT

	Production				Import				Export			
	2011	2012	2013	2013/2012 % change	2011	2012	2013	2013/2012 % change	2011	2012	2013	2013/2012 % change
Baked Conf.*	1,564	1,585	1,648	4%	96	113	128	13%	92	102	124	22%
Sugar Conf.**	1,539	1,517	1,665	10%	254	259	247	-5%	184	213	248	16%
Total	3,103	3,102	3,313	7%	350	350	375	1%	276	316	372	18%

*Baked Confectionary; **Sugar Confectionary
Source: Rosstat, Federal Customs Service

Some confectionery companies may suspend the release of a number of products due to the ban on the import of certain raw materials. One of the key raw materials used in the manufacture of chocolate is nuts. For example, the main nut suppliers to confectionary manufacturers in Russia were the United States and the European Union. The recent food ban includes nuts as well. According to the confectionary company "Babayevskiy"' quarterly report, the recent food ban "carries risks for more expensive imported raw materials, as well as the suspension of production of certain products during the search and establishment of relationships with alternative suppliers." According to the report, the price of hazelnuts, for example, rose by 28 percent shortly after the recent food ban was announced.

The economic crisis will certainly affect the development of the industry. First, the industry expects a shift in demand to cheaper segments. Experts predict a rise in popularity of inexpensive analogues of premium products and so-called fast sweets such as chocolate bars, which can be a quick snack under time pressure. Export-oriented confectionery production is expected to become more promising.

Micro-ingredients and additives

Due to enormous efforts by the food ingredients business community, food manufacturers and industry associations, Government Resolution #830 "On Amending Resolution of the Government of the Russian Federation dated August 7, 2014, #778" dated August 20, 2014, excluded the dietary supplements, vitamins and minerals, flavors, protein concentrates and mixtures (animal and plant) dietary fiber and nutritional supplements from the list of agricultural products, raw materials and foodstuffs originating from the United States, European Union, Canada, Australia and Norway valid for one year ban in the Russian Federation. However the market participants are not sure how this amendment will be implemented by the Federal Customs Service in practice as the procedure for identifying complex food ingredients and referring them to a particular code is very complicated.

According to the Russian Union of Food Ingredients, at present the Russian food processing industry uses more than 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 the market volume of Russia's food micro-ingredients totaled $3 million in 2013 and showed 7 percent annual growth. 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 consumers of ingredients are bakery, confectionery, dairy (including ice cream manufacturing), meat processors and canned and bottled food producers.

The major leaders of the global market of micro-ingredients such as ABF Ingredients, Kerry Ingredients & Flavors, Cargill Food Ingredients, IFF, DuPont, Givaudan, Firmenich, Symrise
are almost all represented in Russia by selling their own products through distributors. Several global manufacturers have opened their own production facilities in Russia. Cargill launched its own plant in Efremov, Tula region. In 2010, Symrise (manufacturer of flavors) opened a plant in Podolsk, Moscow region. The plant can produce up to 9,000 metric tons of dry flavors for chips, crackers and instant food.

In contrast to the global market, the Russian market is neither concentrated nor consolidated. Competition in the Russian market of food micro-ingredients takes place between foreign and domestic manufacturers. And, according to market participants, this competition is getting stronger year by year. *RBC Research* estimates that the top 10 players in the Russian market of food micro-ingredients cover about 40 percent of the market (in terms of revenue). Moreover, almost a quarter is accounted for by Cargill (23.8 percent).

The main specific nature of Russian production of food micro-ingredients is strong dependence on foreign supplies of raw materials. The largest Russian food micro-ingredients manufacturers prefer to work with the world's leading suppliers of raw materials and carry out strict selection. This approach is common mainly for major Russian players which have been operating in the domestic market for a long time and pay increased attention to product quality such as "PTI" group of Companies, "Valetek Prodimpeks", etc. The necessary condition for sales is strict quality control at the stage of procurement of raw materials, the reputation and reliability of the supplier. This approach significantly reduces the risks to produce products of better quality and to optimize the production cycle.

The trends of micro-ingredients world market are reflected in Russia. Growth of the Russian market is

averaging 10-15 percent per year - significantly higher than in most countries. The majority of flavors is consumed by the Russian food industry is for production of alcoholic and non-alcoholic beverages (36 and 34 percent respectively).

Intensive development is being seen in the food colorants industry. Market players forecast global growth to reach $5.4 billion by the end of 2016 and up to $20 billion by the end of 2020. The main consumers of this product are producers of non-alcoholic beverages (54.6 percent). The share of Russian market of food colorants is 1.5-2 percent of the world market. As well as the market and food flavorings, the colorants market is dependent on import for almost 100 percent (both in terms of the finished product and from the point of view of raw materials). Natural colorants make up the highest part of Russian imports (85 percent in volume and 80 percent in value terms). The only manufacturer of a full cycle in Russian market is Chemical and Food Aromatics Plant (St. Petersburg), which produces natural food colorants using its own raw materials. The largest suppliers of domestic food colorants in Russian are Ecoresource, Bioline and others. Russian market of sweeteners is strongly represented by domestic producers of table sweeteners and mixed sweeteners for industrial purpose. "Marbiopharm" produces food sorbitol using its own raw materials. Russian companies are now actively engaged in development and production of mixed sweeteners. The major players in the domestic market are WorldMarket, “Arkom” Group of Companies, “Zelyonyi List” , “Aspasvit”, "NovaProdukt AG", "Zelyonye Linii."

Antioxidants are widely used in the production of oil, flour confectionery, dairy products, meat, sausages, frozen foods, fish products, food concentrates, dry soups and broths, cereals, potato chips, etc. The EU is a major supplier of antioxidants to Russia, but lately many of these products have been coming from China. The segment of preservatives has a similar situation: almost all the preservatives used in Russian food industry are imported from China. Russian production of food preservatives is represented by manufacturing acetic acid, sodium nitrite and sodium pyrosulfite.

The trends in most segments of the Russian market of food micro-ingredients show strong dependence on imports: 90 percent of raw materials for micro-ingredients production is supplied to Russia from abroad. The vast majority most of finished food micro-ingredients imports to Russian come from China. In 2012, Chinese products amounted to almost a third of total imports (29 percent) followed by Germany (17.7 percent) and the United States (6.7 percent). 66 percent of foreign supplies in value terms are glutamate (29.7 percent) and food flavors (28.9 percent).

Table C: Russia: Import Shares of Food Micro-Ingredients in Value Terms, in 2012

Micro-Ingredients	Share,%
Glutamate	29.7
Flavors	28.9
Jellifies	13.1
Antioxidant	9.0
Emulsifiers	6.7
Colorants	4.7
Preservatives	2.1
Sweeteners	1.5
Stabilizers	0.2
Other	4.1

ɜC Research

The Russian market is growing rapidly in the context of the world market trends:

- Moving away from artificial additives in favor of natural ingredients;
- The trend of environmental sustainability;
- The growing popularity of low-calorie foods sector;
- Market growth of functional ingredients;
- Development of new food technologies in the field of food ingredients.

The growth of consumer interest in high-quality, natural and environment friendly ingredients leads to the fact that manufacturers gradually switch to the use of organic raw materials and the production of natural ingredients in the Russian market.

Regulatory Framework

Russia operates a complex and often unpredictable system of import controls, including sanitary regulations, import tariffs, import quotas and other restrictions. Barriers to trade have traditionally depended on the type of product, customs clearance location, importer status and other sometimes non-transparent factors.

Many of Russia's food and trade regulations have or are undergoing reform as the Russia-Belarus-Kazakhstan Customs Union (CU) proceeds with policy integration. The process will continue with the anticipated launch of the Eurasian Economic Union on January 1, 2015. For additional details, please see GAIN report RS1478 Eurasian Integration Continues with the Eurasian Economic Union.

Below is the list of Customs Union Technical Regulations governing the import of foodstuffs along with Russian Federal Laws, Russian Government documents, and regulatory documents of the bodies of executive power of the Russian Federation:

- CU Technical Regulation TR TS 005/2011 "On Safety of Packaging" (as amended through June 10, 2014) <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/bezopypakovki.aspx*>

For English translation please see GAIN report RS1253 Customs Union Technical Regulation on Safety of Packaging

- CU Technical Regulation TR TS 015/2011 "On Safety of Grain" (as amended through November 20, 2012) <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/bezpoZerna.aspx*>

For English translation please see GAIN report RS1250 Customs Union Technical Regulation on Safety of Grain

- CU Technical Regulation TR TS 024/2011 "Technical Regulation on Oils and Fats" <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/MasloGirov.aspx*>

For English translation please see GAIN report RS1326 Customs Union Technical Regulation on Fat and Oil Products

- CU Technical Regulation TR TS 021/2011 "On Food Safety" (as amended through June 10, 2014) <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/PischevayaProd.aspx*>

For English translation please see GAIN report RS1233 Customs Union Technical Regulation on Food Safety

- CU Technical Regulation TR TS 022/2011 "On Food Labeling" <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/PischevkaMarkirivka.aspx*> For English translation please see GAIN report RSATO1211Customs Union Technical Regulations on Food Products Labeling
- CU Technical Regulation TR TS 023/2011 "Technical Regulation on Juice Products from Fruits and Vegetables" (as amended through November 13, 2012) <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/SokovayaProd.aspx*>

For English translation please see GAIN report RS1334 Customs Union Technical Regulation on Juice

- CU Technical Regulation TR TS 027/2012 "On Safety of Certain Types of Specialized Food Products, Including Dietary Therapeutic and Dietary Prophylactic Nutrition" <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/bezopSpecProd.aspx*>

For English translation please see GAIN report RS1340 Customs Union Technical Regulation on Specialized Foods

- CU Technical Regulation TR TS 029/2012 "Safety Requirements for Food Additives, Flavorings, and Technological Aids" (as amended through September 18, 2014) <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/bezopPischDobavok.aspx*> For English translation please see GAIN report RS1338 Customs Union Technical Regulation on Food Additives
- CU Technical Regulation TR TS 033/2013 "On Safety of Milk and Dairy Products" <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/%D0%A2%D0%A0-%D0%A2%D0%A1-033.aspx*> For English translation please see GAIN report RS1382 Customs Union Technical Regulation on Milk and Dairy Products
- CU Technical Regulation TR TS 034/2013 "On Safety of Meat and Meat Products" <*http://www.eurasiancommission.org/ru/act/texnreg/deptexreg/tr/Pages/%D0%A2%D0%A0-%D0%A2%D0%A1-034.aspx*> For English translation please see GAIN report RS1384 Customs Union Technical Regulation on Meat

Russia also continues to adjust policies pursuant to its World Trade Organization (WTO) accession on August 22, 2012. Russia and the Customs Union have established the legal framework necessary for Russia to comply fully with the WTO Sanitary and Phytosanitary (SPS) Agreement. In addition, Russia undertook commitments on how it will comply with the SPS Agreement and its other WTO commitments affecting trade in agricultural products. These commitments provide U.S. exporters of agricultural products with an enforceable set of disciplines against non-scientific trade restrictions. Russia also agreed to harmonize Russia's SPS measures with international standards. The Customs Union has a mechanism for recognizing the equivalence of food safety systems of WTO members and rules on inspection of establishments in third-countries, such as the United States, that export product to Russia and the other CU Member States. Russia's commitments also include, in part: increased transparency, including the right to provide comments on SPS measures before they are adopted, and application of transition periods before new measures are applied.

FAS Moscow's Food and Agricultural Import Regulations and Standards reports identify major pieces of legislation that govern food, plant, and animal health, most of which received thorough review during the past few years' WTO accession negotiations:
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Moscow_Russian%20Federation_11-28-2014.pdf
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Certification_Moscow_Russian%20Federation_11-28-2014.pdf

Advantages and Challenges for U.S. Exporters

Companies from all over the world are looking at the Russian market to try and take advantage of improved market and/or regulatory access given Russia's recent WTO accession. Successful imports tend to be those that add to the variety of foods available on the market and products that are not grown in Russia or for which domestic production is insufficient to meet domestic demand. Food ingredients exporters should review some of the advantages and challenges of the Russian retail market when considering their marketing strategy.

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

Advantages	Challenges
Population of 143 million people who are potential consumers. The U.S. is the eighth largest supplier in Russia (by volume) of food and agricultural products.	Economic and political vulnerability, dependence on oil and mineral extraction for economic growth.
Russian food processing ingredients market is widening its assortment.	Increased Dollar rate made prices for imported raw materials and food processing ingredients less affordable for manufacturers.
Demand for food processing ingredients is growing dramatically compared to the other sectors of the food processing industry.	The relatively low purchasing power of many Russian consumers, particularly in the regions, and the consequent lower demand for expensive food products.
Russian food processing sector mostly relies on imports.	Consumers are switching from imported products to cheaper brands or Russian analogs due to Ruble devaluation.
Share of imported ingredients is 86-90% against 10-14% of locally produced.	Growing number of domestically produced generic products; lack of knowledge of American products.
Local processors more and more must meet international quality standards. They pay more attention to the quality of the ingredients they use and local ingredients often do not meet their needs.	Russian processors lack well-developed contacts with U.S. suppliers.
Russian food processing companies continue to expand and modernize their production facilities. This increases their demand for high quality ingredients.	Russian producers of ingredients are improving the quality of their products.
GOR's strategy for food processing industry development ensures increasing production volume, upgrading manufacturing facilities, expending capacity of food manufacturing enterprises, and increasing products competitiveness.	Sales increase of locally produced ingredients is influenced by proximity to end-users, awareness of consumer demand specifics, operative decision of enterprises' technological problems, well-functioning logistics services, lower prices compared to imported products.
GOR has committed to spending billions on infrastructure over the next 10 years, particularly railroads and highways, which should translate to better logistics.	Imperfection of tariff legislation and its constant changes sometimes lead to customs clearance delays, contract disputes, and unpredictable expenses.
Urban life style increases demand for semi-finished and ready-to-cook products.	High credit rates create obstacles for inflow of foreign investment into Russian industry.
Growing demand for healthy food leads to increasing consumer demands for better quality and innovative/functional products, forcing processors to use high quality ingredients.	Cash-in-advance system of payment is still a common trade practice in Russia, due to credit risks and expenses from letter of credit.
Russia's retail sector is growing.	European exporters have geographical advantage, and exporters from the Middle East offer lower prices.
Due to the accession to the WTO Russia is obligated to bind its agricultural tariffs, adding	Russian government bureaucracy and grey market. Contradictory and overlapping

more predictability to the trading relationship and opening export opportunities for the U.S. agricultural industry.	regulations. Official government opposition to growth in food imports. Import substitution policy.
Significant number of consumers can afford purchasing high-quality food products.	Cash-in-advance system of payment is still a common trade practice in Russia, due to credit risks and expenses from letter of credit.
Existence of large importers experienced in importing food products to Russia.	Competition with food products imported from the EU and other countries may rise. Food sanctions' negative effect on trade.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Of course, the best entry strategy for every new-to-market exporter depends on its unique experience, particular circumstances, and specific products. But there are some general recommendations for successful entry into the Russian market.

In order to make Russian processors aware of the assortment and quality of U.S. ingredients, plan to attend specialized exhibitions. There are three major shows held in Moscow that can be recommended for participation.

- INGREDIENTS RUSSIA, held in March, is the only ingredient exhibition in Russia. Ingredients Russia is a key meeting point for all those involved in the Russian ingredients industry. It is an effective way to meet new and existing clients, increase brand awareness and discover the latest news from the Russian ingredients industry. In 2014, almost five thousand visitors from 59 regions of Russia and 33 other countries attended Ingredients Russia. 18 percent visitors represented business owners and general directors, 12 percent – top-managers, 27 percent – heads of departments and 43 percent – technologists of food processing facilities. In 2015, the Ingredients Russia will take place on March 17-19 and 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. (http://www.ingred.ru/).

- PRODEXPO INTERNATIONAL EXHIBITION (Moscow, February) is the largest annual international exhibition in Russia and Eastern Europe promoting high quality foodstuffs. The exhibition promotes high-quality foodstuffs to the domestic market, giving the opportunity for foreign exporters to present their products and to make valuable contacts. In 2014, almost 53thousand visitors from 64 countries attended Ingredients Russia. 94 percent visitors were the industry specialists responsible for making decisions.

- WORLD FOOD (Moscow, September) is attended by serious players in the Russian food market – both well-established and those who are just planning to enter the market. World Food Moscow is an effective platform for processors or dealers. Held annually, this show attracts approximately 1,600 exhibitors from 70 countries and 30,000 trade visitors. Unlike Prodexpo, it contains seafood, fruit and vegetable pavilions.

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 local promotional support. Business relations in Russia depend on personal contacts. For this reason it is important to have a representative office in Russia or to have a well-established contact with a Russian importer. Local partners should be chosen on the basis of references from other foreign exporters or local reputable processing companies. The local partner can help you solve many problems and better understand the peculiarities of the local market that will positively influence the results of your business activities in the targeted market.

Moscow remains the obvious first choice for a representative office in Russia where many food processing companies and representative offices of foreign and regional food companies are concentrated. However, if your contacts are located on the West Coast or will ship through St. Petersburg it might be worth considering St. Petersburg as a home base. Having a representative office in a major Russian city will help you to establish valuable contacts with leading Russian food companies. Moreover, established direct dealership with fast-growing Russian companies will provide more opportunities to meet customers' demands.

Marketing the products to the buyers and end-users is paramount. Russia's leading processing companies employ qualified personnel and use modern processing technology making them good candidates for training programs for technologists. Also, ingredients suppliers should understand that their clients are actually not ingredients manufacturers but the food products' end-users. Keeping consumers in mind along with the importer/distributor will help U.S. exporters be successful in the Russian market.

B. MARKET STRUCTURE

Below are three possible ways of working with ingredient processors in Russia.

- Supply products directly to a local food processor;
- Trade via Russian importer/broker to a local food processor; or
- Supply products via a Russian importer/wholesaler to a local food processor.

In Russia, there are a number of large food ingredients importers and distributors. One of the key market trends is concentration of the largest food importers/distributors/processors in Moscow and St. Petersburg, expanding their reach and influence into regions by forcing out and absorbing small local distributors. In the past, there was one key distributor in a Russian region working with all local large processors and small wholesale companies. A few years ago, large Moscow/St. Petersburg-headquartered companies held all distribution channels using their affiliates and partners in the regions.

Russian food processors prefer working through local wholesalers, as wholesalers can offer the whole range of ingredients with attractive discounts. Processors supply their products to wholesalers and also to large food retailers whose share of the market has recently grown. The latest local market trend is a growing demand for high quality food products despite the higher prices. This is a positive sign for foreign ingredient suppliers, as demand for consistently high quality ingredients has been growing leaving far behind locally produced ingredients in terms of their quality. A key task to solve for the exporter along with establishing distribution channels for selling products throughout Russia is a search of an experienced and reputable customs broker who would be able to solve numerous problems and disagreements related to customs.

C. COMPANY PROFILES

Russian food processors can be divided into the following main groups:

- Large vertically integrated holdings focused on development of their production facilities using their own raw material resources (began in the mid 90s), such as Cherkizovsky meat-processing plant, etc.
- International manufacturers having their production facilities in Moscow or St. Petersburg suburbs and other large regions of the country, such as DANONE (France), Valio (Finland), Mars (U.S.), Kraft (U.S.), San Interbrew (Belgium), etc.
- Russian holding companies with foreign capital, such as OJSC "Baltika" Brewery Company, KamposMos, and others.
- Regional food processing companies that started their activity under the Soviet times and successfully passed through the period of structural management and production reorganization in the second half of the 90s.
- Small regional producers/entrepreneurs most of whom produce and sell their products in the region where they are located.

The following table includes information about major food processors by category. 22 food processing companies made the list of the 400 biggest Russian companies based on sales volume in 2013. The rating was published by EXPERT rating agency at www.raexport.ru.

Table E. Company Profiles

Company (Product types)	Sales in 2013 ($ Mil)	End-Use Channels	Production Location	Procurement Channels
PepsiCo Russia (non-alcohol drinks, dairy products, snacks, baby food)	$4,921	Retail, HRI	Russia (>30)	Importers, Direct, Distributors
Baltica Brewery Company (beer, non-alcohol drinks)	$2,754	Retail, HRI	Russia (10)	Importers, Direct, Distributors
Mars (confectionary, chocolate, ready soups, chewing gum, pet food)	$2,271	Retail, HRI	Russia (9)	Importers, Direct, Distributors
Coca-Cola HBC Eurasia (non-alcohol drinks)	$2,107	Retail, HRI	Russia (14)	Importers, Direct, Distributors
Miratorg Agro Holding (meat products, frozen fruits and vegetables)	$1,687	Retail, HRI	Russia (n/a)	Importers, Direct, Distributors
Cherkizovo Group of Companies (meat products, sausage)	$1,660	Retail, HRI	Russia (6)	Importers, Direct, Distributors
EFKO Group of Companies (oils, fats, mayonnaises, ingredients for dairy, confectionary and bakery production)	$1,578	Retail, HRI, Food Processing	Russia (n/a)	Importers, Direct, Distributors
Yug Rusi oil extracting plant (oil, mayonnaises, flour, confectionary, canned vegetables, snacks, soft drinks	$1,573	Retail, HRI	Russia (11)	Importers, Direct, Distributors
Unilever Rus' (sauces, tea, soups, spices, fats, ice-cream)	$1,455	Retail, HRI, Food Processing	Russia (3)	Importers, Direct, Distributors

Unimilk Company (dairy products, baby food)	$1,261	Retail, HRI	Russia (n/a)	Importers, Direct, Distributors
Sun inBev (beer)	$1,199	Retail, HRI	Russia (7)	Importers, Direct, Distributors
Rusagro Group of Companies (sugar)	$1,147	Retail, HRI, Food Processing	Russia (6)	Importers, Direct, Distributors
Danone Industry (Dairy products, yogurts, baby food)	$1,101	Retail, HRI	Russia (20)	Importers, Direct, Distributors
Heineken United Breweries	$968	Retail, HRI	Russia (8)	Importers, Direct, Distributors
Orimi Trade (tea, coffee)	$901	Retail, HRI	Russia (1)	Importers, Direct, Distributors
Ostankinskiy meat processing plant (sausages, semi prepared met products)	$856	Retail, HRI	Russia (3)	Importers, Direct, Distributors
Prioskolye (poultry products)	$851	Retail, HRI	Russia (4)	Importers, Direct, Distributors
Synergy Croup (alcohol, meat, poultry and dairy products)	$829	Retail, HRI, Food Processing	Russia (13)	Importers, Direct, Distributors
Ferrero Russia (chocolate and confectionary products)	$807	Retail, HRI	Russia (1)	Importers, Direct, Distributors
Solnichnye Producty (mayonnaises, fat-and-oil products)	$791	Retail, HRI, Food Processing	Russia (6)	Importers, Direct, Distributors
Cargill (Efremovskiy glucose-dextrose plant): glucose syrups, starches, fodder products)	$606	Retail, HRI, Food Processing	Russia (n/a)	Importers, Direct, Distributors
Moscow-Efes Brewery	$851	Retail, HRI	Russia (6)	Importers, Direct, Distributors

D. SECTOR TRENDS

Processing Trends

- Russia's food processing industry had been growing rapidly since 1998 with an annual increase of 15-25 percent, but regressed as a result of the 2008 financial crisis. The industry is still in recovery mode.
- Due to the food embargo introduced by GOR, Russian food processors have to switch to alternative foreign and domestic suppliers of raw materials which results in the quality of the products, additional expenses and increased end-users' prices.

- Weakened ruble makes raw materials and ingredients much more expensive which results in lower consumer's demand and decreased sales.
- International food processors are very actively investing in the local food processing industry, establishing their own production facilities or acquiring Russian manufacturing facilities in order to reduce overall costs.
- Consolidation among the leading market players. Many Russian food processing companies are interested in forming strategic alliances with foreign partners. The main goals are access to technical knowledge, strengthening the company's image in the market, access to cheaper financing, and personnel training.
- Consolidation in the retail sector resulted in increased power of the retailers who are able to demand more from suppliers in terms of price and fees.
- Lack of developed regional infrastructure and logistical challenges are the obstacles for expansion to remote territories like Volga, Ural, Siberia and Far Eastern regions.
- Russian processors continue to implement new production technologies. Although these changes in the food-processing sector are spurring demand for domestically produced raw materials for further processing, currently Russia is far from meeting the demand for consistently high quality raw materials in the local food-processing sector.
- The growing network of food processing facilities in the regions is spurring demand for high quality ingredients in the regions as well.
- Modern retailing sees rapid development in Russia. The performance and development seen by modern grocery retailing also had an influence on food processing industry. Growing variety of packaged food products available, more active marketing and promotion at the point-of-sale, cheaper prices and increasing consumer preference for the convenience offered by modern grocery retailers.
- Demographic trends influence demand for specific products: the growing population of children in Russia formed favorable conditions for the development of children specific packaged food.
- Meal solutions see retail volume and value sales growth of 3% and 11%, respectively, in 2013, to reach 5 million tons and RUB1.1 trillion. The convenience trend will have a strong influence on demand. Demand for meal solutions will remain very much dependent on the economic situation in the country and income stability.
- New products remained the driving factor for most dairy categories in 2013. Russian consumers show a desire for new experiences and welcome innovative solutions. This includes products adopting new flavors, forms and packaging.
- Trends in the food products industry reflect those in the specialized ingredients market: growing popularity of innovative dietary products, nontraditional bread varieties with nuts, different seeds, spices, etc., resulting in increased use of high quality and premium food ingredients. Natural ingredients now capture a greater market share. As a consequence, the market is developing in value terms more than in volume. Major users of micro-ingredients include the following sectors: baking, confectionary, dairy, meat and food concentrates, ice cream sector.
- 90% of food ingredients as well as chemical raw materials for ingredients production are imported.

Consumption Trends

Consumers' constantly changing needs and preferences have a significant influence on the food ingredients market. Below are some of the key factors at play:

- Growing middle class leads to increasing demand for prepared foods and higher quality.
- Consumers favor eating at home which boosts consumption of ready meals.

- Consumers make more conscious choice in favor of food products of higher quality and useful for health in sector of dairy, meat, fish products and confectionary.
- Consumers remain cautious and their purchasing behavior reflects a calculated balance between price and quality.
- Russians are rational and practical/thrifty when making routine purchases. In 2014, consumers felt increase in prices stated optimizing their costs. 28 percent avoid unnecessary spending, 20 percent try to search for products on promotions, 19 percent look for lower prices, and less than 5 percent avoid the temptation to buy unnecessary things.
- Consumers' demand for functional foods is growing and expected to go on growing.
- Russia is an important market in that premium and affordable coexist.
- However, the main factors for consumers are value for money and quality.
- The Russian confectionary market is one of the few where expenditure is ahead of that in Europe. Russians spend about 2.5-3% of their income on sweets which is more than in other countries. That said, per capita consumption of sweets is actually lower in Russia than in Western Europe and the United States.
- Baby food is the only sector that had continuous growth even during the financial crisis.
- Russians have started to evince an interest in exotic and so called "ethnic" food products like kumis (fermented horse milk) or cheesecake, igniting growth in the use of special flavoring agents.
- Consumers are aware of country of origin and "GMO free" labeling.
- More and more consumers are suspicious of artificial additives and are looking to purchase foods with natural ingredients.
- Low calorie products are becoming more popular, reflecting consumers' growing interest in health and balanced nutrition.
- Russian consumers are giving more preference to domestically produced (or processed) products because they are perceived as natural (or healthy) with a national taste and more affordable.
- Russian consumers carefully read product labels.
- Russian food consumers are ready to pay more for branded products, associating them with products of high quality.
- Russian consumers have a negative attitude towards genetically modified products, though their awareness of such products is low and incomplete due to lack of objective information. Genetically modified products tend to be associated with U.S. products.

SECTION III. COMPETITION

Local food processors are becoming more and more competitive in terms of quality and consistency. This is partially due to government initiatives. For example, according to a long-term social development program for 2020-2030, more than 900 billion rubles ($29.2 billion) are planned to be invested in the food processing industry, and 55 percent of it is supposed to be used for technological modernization of the industry. At the same time, the Russian government is trying to support domestic food producers with protective measures and import quotas in order to make domestic producers of ingredients more competitive. Quantitative quotas and tariff rate quotas (TRQs) are aimed at lowering the share of imported products into the country and strengthening domestic production of commodities. The details of TRQ policy are available in GAIN reports devoted to poultry and meat products listed in "Other Market Reports" Section.

In 2013, the U.S. was 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 European Union, China, and others. 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.

Table F: Major Supply Sources for Selected Product Categories by Countries

Product Category	Major Supply Source in 2013	Strengths of Key Supply Countries
Poultry Meat Net Import 439 thousand tons $667.845 million	United States – 57% Brazil – 15% Ukraine – 7%	U.S. price competitive, high quality, provides technical support, benefits from country-specific TRQ; Brazil competes on price, offers favorable terms
Pork Fresh or Frozen Net Import 592 thousand tons $ 2,047.369 million	Brazil – 21% Germany – 15% Denmark – 14%	Brazil competes on price/credit terms; Germany competes in quality satisfying Russian food processors/sausage manufacturers
Meat of Bovine Animals Frozen Net Import 539 thousand tons $ 2,339.101 million	Brazil – 56% Paraguay – 26% Uruguay – 11%	Brazil competes on price conditions, long partnership relations with Russia in beef trade
Red Meats Fresh/Chilled/Frozen Net Import 1,398 thousand tons $5,069.837 million	Brazil – 31% Paraguay – 11% Denmark – 5%	Brazil is leading in price, credit and delivery terms and strong Government support of meat exports
Offal Net Import 200 thousand tons $354.592 million	Argentina – 19% Germany – 11% Denmark – 8.52%	Germany has logistical advantages: short shipping time while Argentina offers more competitive prices
Fish & seafood Net Import 866 thousand tons $2,767.264 million	Norway – 33% Iceland – 11% China – 8%	Norway enjoys quality reputation, traditional trade ties, offers strong promotional support
Dairy products (excl. cheese) Net Import 267 thousand tons $911.881 million	Finland – 20% France – 10% New Zealand – 9%	Finland competes in geographical proximity, balance of price and quality
Cheese and Curd Net Import 327 thousand tons $ million	Netherlands – 17% Ukraine – 15% Germany – 12%	Netherlands and German offer traditionally high quality, Ukraine competes in geographic proximity and price
Butter, Fats, Oils from Milk; Dairy Spreads Net Import 99 thousand tons $460.245 million	New Zealand – 24% Finland – 17% Uruguay – 16.6%	New Zealand has reputation for high quality dairy products; enjoys shipments through the Russian Far East
Egg Products		Argentina offers more competitive prices

Net Import 586 thousand tons $ 3.077 million	Argentina – 87% Italy – 8% Sweden – 4%	
Dried Fruit Net Import 51 thousand tons $116.366 million	Turkey – 28% Argentina– 21.8% Chile – 21.6%	Major suppliers enjoy traditional trade ties, competitive prices and short shipping time
Nuts Net Import 49 thousand tons $302.678 million	United States – 60% Iran – 14% Turkey – 11%	U.S. high quality almonds are in growing demand; Iran and Turkey enjoys competitive prices
Fruit & Vegetable Juice Net Import 234 thousand tons $442.671million	Ukraine – 21% China – 20% Netherlands - 11%	Ukraine enjoys short shipping time, China competes on price
Sugar, Sweetener, Beverage Bases Net Import 178 thousand tons $125.741 million	China – 36% Ukraine – 14% Poland – 13.7%	China experiences capacities oversupply and offers competitive prices
Protein Concentrates & Textured Protein Substances Net Import 9.2 thousand tons $20.950 million	China – 41% Serbia –31 % Korea, South – 7.6% United States – 5.3%	China offers competitive prices and meets processors' requirements in quality
Mixtures of Odoriferous Substances Net Import 502 tons $18.674 million	Germany – 36% France – 23% Switzerland – 8% United States – 3%	European suppliers compete in quality, shipping time and enjoy traditional trade ties.
Lac, Gums, Resins & Other Vegetable Saps and Extracts Net Import 1.473 ton $13.834 million	India – 35% China – 17% Germany – 9% United States – 8%	India and China offer competitive prices, Germany enjoys traditional trade ties, competitive prices and short shipping time
Potato Flakes, Flour and Meal Net Import 7.9 thousand tons $9.021million	Germany – 63% Netherlands – 27% Belgium – 6%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time
Essential Oils Net Import	India – 30%	Principal suppliers enjoy traditional trade ties,

288 tons $9.038 million	Germany – 23% United States – 8%	competitive prices and short shipping time
Hops Net Import 2.885 thousand tons $22.675 million	Germany – 70% Czech Republic – 20% United States – 5.6 %	Many brew masters are German or German-trained, favor German hops; short shipping time; competitive prices

SECTION IV. BEST MARKET PROSPECTS

In 2013, U.S. agricultural exports to Russia accounted for $1.6 billion which is 21 percent lower than in 2012, primarily due to lower sales of red meat products. 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.

On August 6, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway as a result of the implementation of economic sanctions against Russia due to events in the region. The ban will be valid for 1 calendar year. The list of agricultural products on the banned list include beef, pork, poultry, fruits, vegetables, fish, seafood, cheese, milk and a variety of other products. Once the ban is lifted, ATO Moscow expects the agricultural products listed below will once again be the best sub-sector prospects in the Russian market.

A. Products Present In the Market That Have Good Sales Potential

- Animal genetics: since Russia's stated the goal to be self-sufficient in categories such as meat and dairy products, it may create new opportunities for U.S. exporters to supply high protein feeds and animal genetics. 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.
- Fish and Seafood: Opportunities for salmon roe, salmon, Alaska Pollock, hake, especially underutilized species, for processing. Growing demand for high value products for HRI and retail such as oysters, scallops, black cod, cold-water shrimps, prawns, live lobsters and cuttle-fish.
- Fresh Fruit (Apples, Pears, Grapes, Citrus): Russia is the world's 2rd largest importer of fresh fruits and is the largest import market for apples and pears. In 2013, per capita fruit consumption in Russia increased 4.7 percent reaching 74.4 kilograms. 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.
- Tree nuts: Russia's commercial nut production is limited. Consumer demand for tree nuts is rising driven by confectionery and baking sectors and a trend toward healthy diets. Iran is the biggest competitor for pistachios, Turkey – for hazelnuts, Ukraine – for walnuts. U.S. almonds and pistachios are enjoying very strong growth. Good potential for American tree nuts exports to Russia are almonds, pistachios and pecan.
- Dried fruits: 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. In spite of tough competition from Iran, Tajikistan, Afghanistan and Uzbekistan for bulk dried fruits, U.S. raisins and prunes are competitive for quality retail and processing markets. Quality prunes, raisins, apricots and other dried fruit are widely used in food processing sector.

- Frozen berries: Imports of frozen cranberries and blueberries reached 16, 245 MT in CY 2013 valued at $16.6 million, up 10 percent respectively. While Russian demand for imported berries has risen markedly in recent years, there is significant room for future growth as the fast paced lifestyle in Russia, which combines more eating out and more emphasis on health and wellness, makes these berries a natural fit for snacking, packaged foods, and food service recipes.
- Hops: Rapidly expanding sector relies heavily on imports from Europe; very limited local commercial production.
- Rennet casein: The replacement of rennet cheeses which is not available at the moment from the EU can be rennet casein: it can completely replace rennet cheese or cottage cheese in the production of all types of processed cheese.
- Milk protein concentrate: Given the shortage of raw milk, milk protein concentrate is becoming increasingly popular.
- Lactose
- Flavor enhancers for processed meat products
- Natural sweeteners and colorants: Healthy eating trend conditions using natural ingredients in food processing.
- Sugar, sweeteners and beverage bases.
- Functional soy concentrates and isolates (primarily for sausage production)
- Butter, milk powder
- Quality Textured Vegetable Protein
- Gluten Powder
- Dextrin and other modified starches
- Complex ingredients including colorants, sweeteners, emulsifiers and preservatives.
- Frozen or soft pasteurized fruits – for yogurt and ice cream production.

Table J. 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 Paraguay and Brazil.	Russia increases poultry and livestock production and needs protein feeds. Russia's soybean crushing capacity is 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%;	High competition	U.S. almonds and

			Pistachios - %5; Pecans - 5%; + 18% VAT (all nuts)	from Iran pistachios. Pecan is not widely known and expensive compared to other nuts.	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 to them. American pistachios are more expensive and differ in taste.	Pistachios are very popular as snack and the consumption of healthy snacks are growing. 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.	
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

**Food products listed in Table F are based on market intelligence, including discussions with retailers and processors, and should not be considered an official endorsement by the United States Department of Agriculture or any affiliated agencies.*

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

- Specialized food ingredients, including carrageenan, emulsifiers, enzymes, pectin, starter cultures, and functional systems (integrated blends of emulsifiers and thickeners)
- Certified organic/natural ingredients: while many local processors are advertising "natural" or "ecologically-clean" food and beverage products, there are no official organic standards and such claims cannot be substantiated.
- Kosher and halal-certified ingredients (sizable Jewish population with growing interest in kosher products; large Moslem consumer base in Russia and CIS counties).

SECTION V. POST CONTACT AND FURTHER INFORMATION

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

FAS Website: www.fas.usda.gov

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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.

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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:

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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.

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://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx

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_11-28-2014.pdf

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http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Certification_Moscow_Russian%20Federation_11-28-2014.pdf

RSATO015 Exporter Guide
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Exporter%20Guide_Moscow%20ATO_Russian%20Federation_7-31-2014.pdf

RSATO 1312 Retail Report / Annual
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Moscow%20ATO_Russian%20Federation_9-3-2013.pdf

RSATO1305 Russian Food Processing Sector
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RSATO1208 Customs Union Technical Regulations on Food Products Labeling
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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

RS1474 Poultry and Products Annual 2014
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Annual_Moscow_Russian%20Federation_10-7-2014.pdf

RS1456 Eurasian Economic Commission Announces 2015 Meat Poultry Whey TRQs
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Eurasian%20Economic%20Commission%20Announces%202015%20Meat%20Poultry%20Whey%20TRQs_Moscow_Russian%20Federation_8-21-2014.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

RSATO1483 Dairy and Products Annual Report
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RSATO09 Consumer Interest Grows for US Cranberries and Blueberries
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Consumer%20Interest%20Grows%20for%20US%20Cranberries%20and%20Blueberries_St.%20Petersburg_Russian%20Federation_4-10-2014.pdf

RS1233 Customs Union Technical Regulation on Food Safety

RS1250 Customs Union Technical Regulation on Safety of Grain

RSATO1211Customs Union Technical Regulations on Food Products Labeling

RS1326 Customs Union Technical Regulation on Fat and Oil Products

RS1334 Customs Union Technical Regulation on Juice

RS1340 Customs Union Technical Regulation on Specialized Foods

RS1338 Customs Union Technical Regulation on Food Additives

RS1253 Customs Union Technical Regulation on Safety of Packaging

Customs Union Technical Regulation on Milk and Dairy Products – RS1382