

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY  
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT  
POLICY

Voluntary  Public

**Date:** 12/9/2015

**GAIN Report Number:** RFATO028

## Russian Federation

**Post:** Moscow ATO

### Retail Foods

**Report Categories:**

Retail Foods

**Approved By:**

Erik W. Hansen

**Prepared By:**

ATO Moscow Staff

### Report Highlights:

Russian retail sales turnover in 2014 grew by 2.5 percent year-on-year (in comparable prices) while, in value terms, the indicator reached \$694 billion. Sales of food, including alcohol and tobacco, accounted for 47 percent of total retail sales in Russia. Grocery retail sales in Russia increased in 2014 as measured in local currency but decrease in dollar terms from \$350 billion to \$326 billion. Ministry of Economic Development officials forecast retail sales to drop 8.2 percent in 2015. Nevertheless, the grocery sector is one of the least affected sectors by the current economic slowdown in the country which creates opportunities for U.S. suppliers of a wide assortment of food and agricultural products.

## **General Information:**

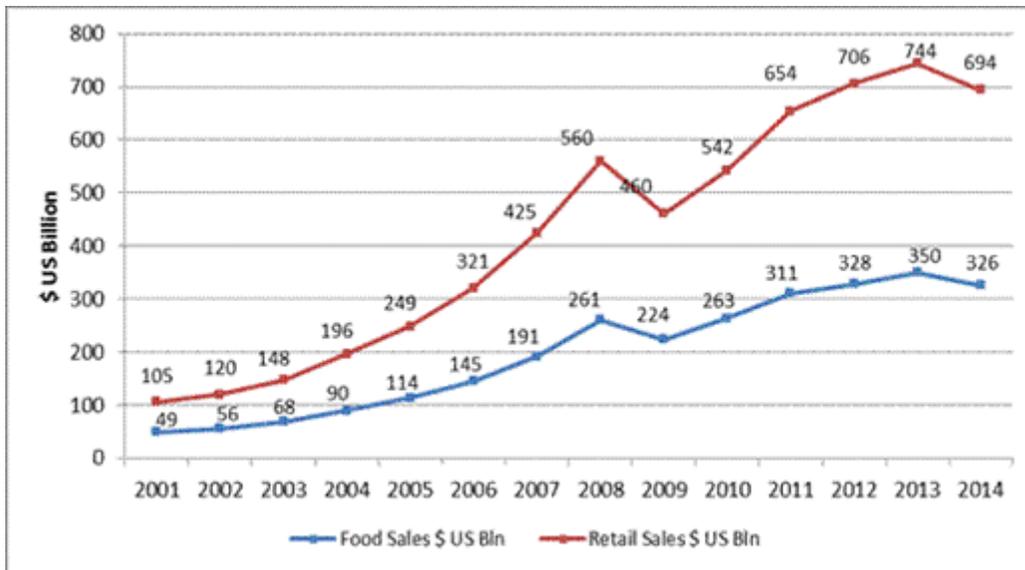
### ***SECTION I. MARKET SUMMARY***

2014-2015 were the difficult years for the Russian retail market, which despite growing in value in ruble terms, noted a decline in dollar terms. Russian consumers are dealing with rising food prices and shrinking salaries which resulted in lower disposable incomes. On the other side, retailers are struggling with supply problems, especially in the case of imported goods, dropping exchange rate of the national currency, as well as falling demand of Russian consumers. Nevertheless, market analysts predict that the Russian retail market will be still able to grow in coming years but a return to double-digit growth rates, observed before the crisis, should not be expected. A large population and the relatively low level of development still make the Russian retail market a promising target for future investment in the medium term (PMR).

According to Russian Federal Statistics Service (Rosstat) data, the retail sales turnover in 2014 grew by 2.5 percent year-on-year (in comparable prices) while, in value terms, the indicator reached \$694 billion (\$744 billion in 2013). Sales of food, including alcohol and tobacco, accounted for 47 percent of total retail sales in Russia, the same as in 2013. However, despite the nominal growth of the sector, food retailers have been showing a negative trend in volume since May, 2014. Currently, the growth of retail turnover is mainly due to double-digit inflation which totaled 11.4 percent in 2014, the highest number since 2009. As a result, grocery retail sales in Russia increased in 2014 as measured in local currency as well, but in dollar terms, a drop in market value was observed. Food sales decreased in value from \$350 billion to \$326 billion.

Nevertheless, the grocery sector was still one of the least affected sectors by the macroeconomic and political situation in the country. The main reason for this is that it offers basic products of high necessity and the market's growth is supported by increasing sales value of large area store chains which continue their expansion in Russia. Even so, in January-September 2015, Russian retail sales turnover fell by 8.5 percent year-on-year (in comparable prices) reaching \$338 billion in value terms. Food sales were down 8.3 percent and totaled \$165 billion.

### **Figure 1. Russia: Retail Turnover in 2001-2014, in Billion USD**

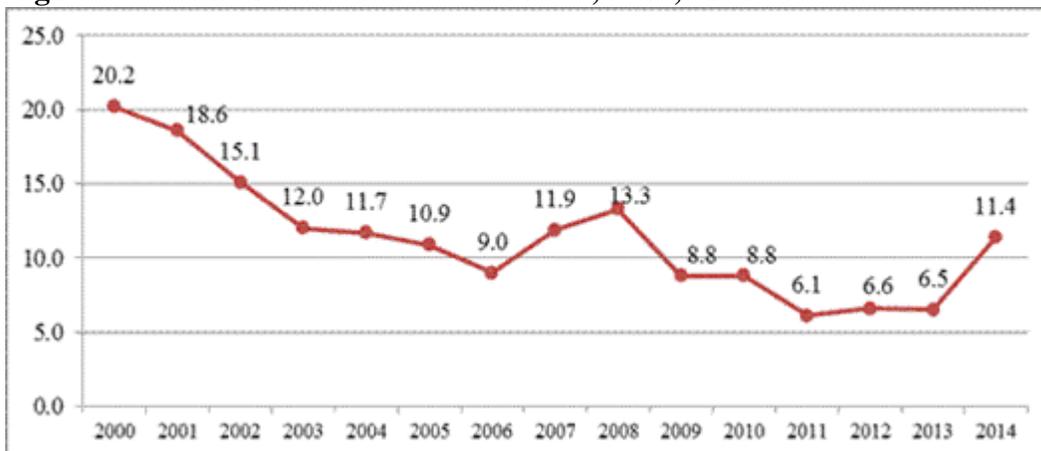


Source: Federal State Statistics Service (Rosstat)

Russia’s ban on a numerous food and agricultural products from Canada, the United States, Europe, Australia and Norway in August 2014 had a tremendous effect on grocery segment and hit retailers and Russian consumers hard. The sudden drop in food supply led to price hikes in several food categories ranging from vegetables to dairy products. Market analysts have stated that even if Russian producers are able to replace all imports eventually, prices are not likely to ever fall back to previous levels. Since introducing the food sanctions in August 2014 (for more information please see [Gain report](#)) most of Russia’s food retailers have managed to adapt by substituting the imported categories with domestically-grown food and food from other non-banned countries. And increasing prices for many food categories (fish, dairy products, fruits and vegetables) have caused customers to seek out lower price substitutes and, in turn, lowered sales of non-essential food products.

According to Rosstat, consumer price inflation in Russia in 2014 rose by 11.4 percent in 2014 – the highest level seen since the financial crisis of 2008 when consumer prices grew by 13.3 percent.

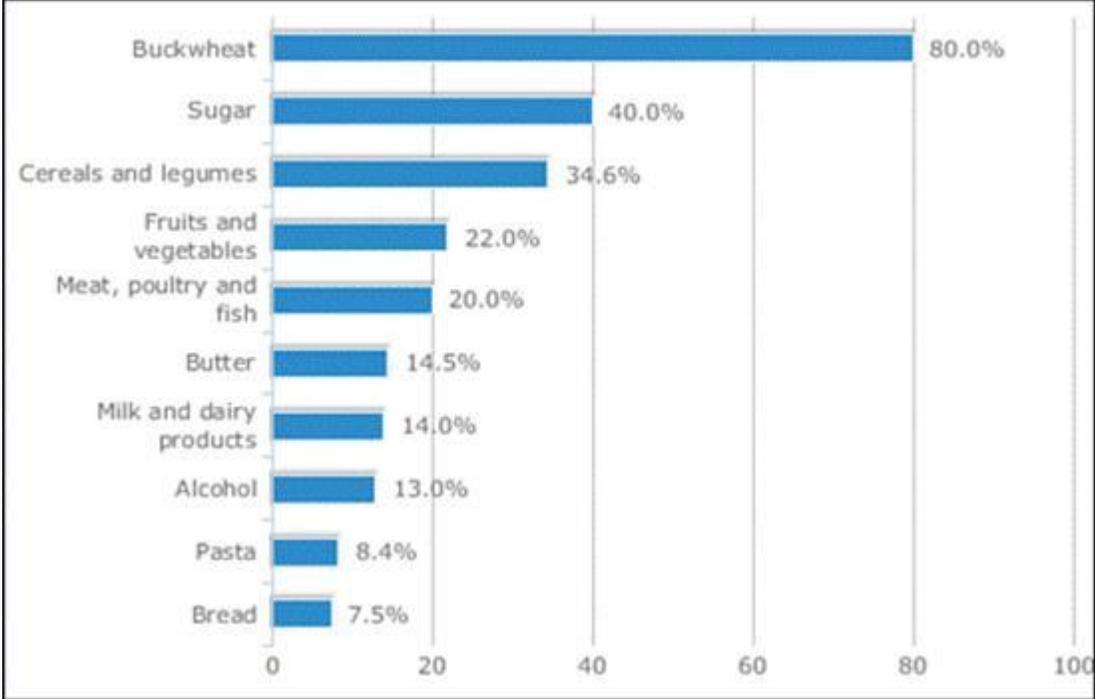
Figure 2. Russia: Consumer Price Inflation, in %, 2000-2014



Source: Rosstat

Food price inflation was a key factor pushing up overall inflation in 2014 where it increased 15.4 percent. This high level was caused mostly by the ruble devaluation and a food import ban imposed by the Russian government in August 2014. Food prices (excluding fruit and vegetables) grew by 14.7 percent in 2014 according to Rosstat data. Retail prices for food items covered by the food import ban surged 17.9 percent after the food import ban was introduced. Cheese, fish, and meat prices rose the fastest as a large percentage of these products have historically been imported from overseas. In addition, retail food prices for items not covered by the food import ban also increased 11.8 percent in 2014. Sugar and cereals prices rose by 40 percent and 34.6 percent respectively in 2014 while fruit and vegetables prices jumped by 22 percent.

**Figure 3. Price Increase of Selected Products in Russia (% y-o-y), 2014**



Source: PMR based on Rosstat data, 2015

In 2014, the Russian ruble depreciated by 70 percent to the U.S. dollar. The ruble depreciation free fall resulted from restricted access to external funding, thanks to economic sanctions applied by Western countries, which was needed to repay external debt. In addition, there was a significant decrease in global oil prices and currency speculation which led to “Black Tuesday” (December 18, 2014) when the exchange rate hit 80 Russian rubles per US dollar. In order to stop the plummeting ruble, the Russian Central Bank hiked its key interest rate to 17 percent from 10.5 percent overnight. The higher key interest rate immediately led to more expensive credits for both businesses and personal loans. The key interest rate on August 3, 2015, was 11 percent. A new wave of the ruble depreciation began in July-August 2015 when the exchange rate began nearing 70 rubles for 1 U.S. dollar. Prime Minister Dmitry Medvedev gave a press conference explain that the ruble depreciation resulted from a fall in world oil prices, devaluation of national currencies of China and Kazakhstan, slowing Chinese economy, and Western economic sanctions - including the imposition of sanctions on Russian banks.

The falling ruble continues to affect Russian consumers today. With a large share of food and consumer goods imported, purchasing power has been severely affected by the large drop in value of the Russian ruble. In previous years, the Russian economy benefited from high oil prices leading millions of Russians to join the middle class. Figure 1 below shows the exchange rate of Russian ruble per U.S. dollar in 2014 and from January to September 2015.

**Figure 4. Russia: Central Bank Exchange Rate of \$1 USD to Ruble, 2014-2015**



Source: The Central Bank of the Russian Federation, 2015

According to the updated forecast from the Russian Ministry of Economic Development (MED), real wages in Russia are expected to drop by more than 9 percent in 2015, real incomes – drop by 6 percent. Inflation in 2015 could reach 12.2 percent (although market analysts are predicting overall inflation may surpass 15 percent). According to this forecast, the retail trade in 2015 will be reduced by 8.2 percent which will be one of the main factors of the projected 3 percent drop in overall gross domestic product (GDP). The share of overall retail trade in GDP is about 15 percent.

In response to the economic difficulties, the Russian government implemented few anti-crisis measures. According to the Ministry of Economic Development of the Russian Federation, the Russian government is ready to provide state guarantees or direct loans from the public budget to the country’s largest retailers. As of now, there were no signs that any of the retail players had applied for the state sponsored help. However, if the crisis continues, this assistance may become necessary, as retailers have lost access to cheap loans and credit lines because of a sharp increase in interest rates (according to PMR).

On the other hand, the government is increasing state control over the grocery segment trying to regulate prices setup. In January 2015, mass inspections were undertaken by representatives of Russia’s Prosecutor General’s Office in retail stores in more than thirty Russian cities. The inspectors were looking at food prices in order to detect violations and “unjustified” markups that led to higher prices on certain categories of food products. For more information please refer to the [Gain report](#).

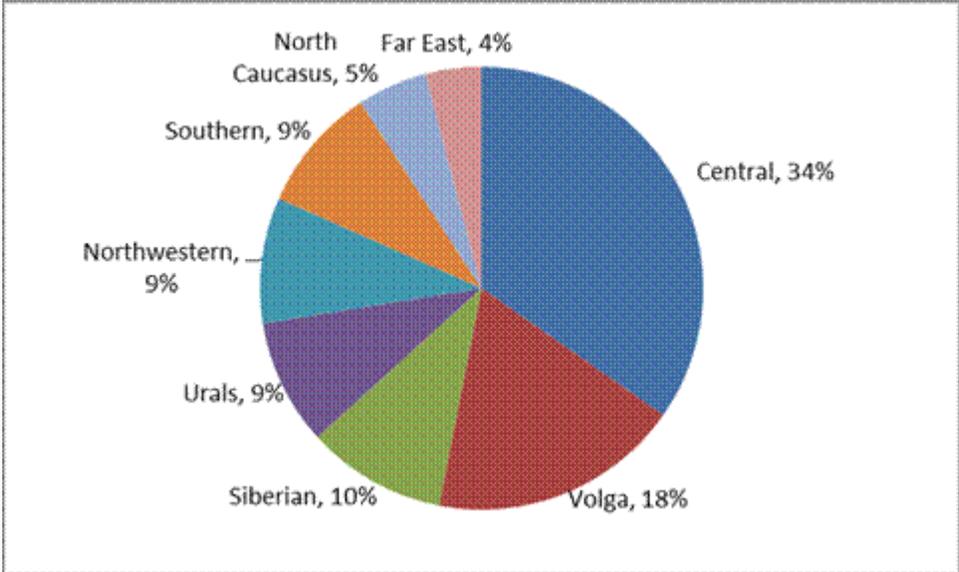
Following the price checks, almost all of the 20 largest grocery retailers in Russia, including Metro, Dixy Group, X5 Retail Group, Lenta and O’Key, froze prices for 20 socially-sensitive product groups.

Moreover, some decided to limit their margins. Officially, the aim of this measure was to support the most vulnerable parts of the public, however, this information was released by the companies shortly after the government informed about the possible introduction of a state-forced price freeze. Therefore, the influence of the government on the introduction of these measures cannot be ruled out. There are currently no official federal price control regulations in place. But Russian law permits the government to set up State regulation of prices when food prices rise by more than 30 percent within 30 days. In such cases, the law allows for Russian government officials to freeze prices for up to 90 days. For more information please see the [Gain report](#).

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 29 percent of consumer expenditure in 2014 (31 percent in 2013) was allocated to the purchase of food and non-alcoholic beverages. The retail market in Russia varies significantly among the Federal Districts both in terms of its value and the nature of its development. The variations result from the number of inhabitants, population density, level of urbanization, as well as average monthly income and expenditures, existing competition and other regional characteristics.

According to Rosstat, the Central Federal District (which includes Moscow) is the smallest yet the most populous region of Russia and remains the largest retail market in the country - accounting for 34 percent of sales Russia-wide in 2014. The majority of the largest retailers in Russia originate in Moscow, which gives the Central Federal District the special status of accommodating both leading domestic operators as well as foreign retailers seeking to establish their presence in Russia. The Russian Far East (RFE) had the lowest share (4 percent) of retail sales among the Federal Districts in Russia. At the same time, the RFE is the largest District in terms of physical area but with a population that comprises of under 6 million residents.

**Figure 5. Russia: Retail Turnover in Russia by Federal District in 2014, %**



Source: Rosstat, 2015

Modern format stores are continuously increasing their share of Russian total grocery retail turnover. In

2014, modern retail channels accounted for around 30 percent of the Russian market (according to PMR research). As for traditional channels (including independent grocery stores, open-air markets, and kiosks), they continue to dominate in Russia. However, they are gradually losing their market share in favor of the modern formats. In 2014, open-air markets accounted for 8.7 percent of total retail sales compared to 9.4 in 2013 (Rosstat). However, the ongoing crisis is starting to push some Russian consumers to go back to grocery shopping in open-air markets and fairs, where they can buy products directly from producers at lower prices. Interestingly, regional authorities in some parts of Russia have considered banning some weekend trading in order to support local fairs and market places (PMR).

In 2014, the three most popular store formats in Russia were discounters, hypermarkets and supermarkets. The first one had the highest market share among all the modern retail channels. The discounter channel was also the largest in terms of store count. Currently, all the discounter chains are Russia-based and operated by the three largest retail groups: Magnit, X5 and Dixy. In 2015, O'Key Group also joined the discounters segment with opening their Da! brand stores in Moscow and Moscow region. The first discounters Plus, a chain belonging to Germany-based Tengelmann, are also scheduled to open in 2015-2016.

**Table 1. Russia: Shares of Grocery Retail Distribution Channels (%), 2011-2015**

| Format                | 2011 | 2012 | 2013 | 2014e | 2015f |
|-----------------------|------|------|------|-------|-------|
| Discounters           | 9.7  | 10.4 | 10.8 | 11.9  | 12.8  |
| Hypermarkets          | 7.7  | 8.0  | 8.0  | 7.9   | 8.0   |
| Supermarkets          | 7.0  | 6.8  | 6.7  | 6.5   | 6.2   |
| Convenience stores    | 1.6  | 1.5  | 1.4  | 1.3   | 1.1   |
| Cash&Carry            | 2.3  | 2.4  | 2.5  | 2.7   | 2.9   |
| Petrol station stores | 0.8  | 0.8  | 0.8  | 0.8   | 0.8   |
| Alternative channels* | 70.9 | 70.0 | 69.8 | 69.1  | 68.2  |

Source; PMR, 2015

\*Note: alternative channels include independent grocery stores, specialist stores, corner stores, market places, online sales and other small points of sale

e – PMR estimate

f – PMR forecast

**Table 2. Russia: Average Yearly Sales in Distribution Channels (USD million), 2011-2015**

| Format             | 2011 | 2012 | 2013 | 2014e | 2015f* |
|--------------------|------|------|------|-------|--------|
| Discounters        | 3.4  | 2.9  | 2.9  | 2.4   | 1.6    |
| Hypermarkets       | 69.4 | 61.6 | 55.8 | 42.9  | 25.5   |
| Supermarkets       | 13.8 | 10.5 | 9.6  | 7.6   | 4.8    |
| Convenience stores | 7.8  | 8.7  | 7.9  | 4.9   | 3.2    |
| Cash&Carry         | 54.2 | 50.6 | 43.9 | 35.1  | 22.0   |

Source; PMR 2015 data based on retail chains listed in the PMR database

\*Note: 2015 numbers are significantly lower due to the exchange rate growth almost in two times

e - estimate

f - forecast

In 2014, the largest player on the Russian grocery market, both in terms of sales value and number of stores, was the Russia-based Magnit. It was followed by other domestic players such as X5 Retail

Group, Dixy Group and O’Key Group. Most of the retail companies operate stores in more than one retail format. Some, like Dixy, are even represented in all the types of modern retail formats. Having many chains in different formats helps retailers to keep customers, even if these customers change their shopping habits. In this case, retailers will not end up losing clients as they will only be changing the place they shop staying within one retail group.

**Table 3. Russia: Top 10 Grocery Retailers in Russia by Sales Turnover, 2014**

|    | <b>Retailer</b>  | <b>Chains</b>  | <b>Country of origin</b> | <b>Sales revenues (\$ bn)</b> | <b>Market share, %</b> | <b>Number of stores</b> |
|----|------------------|--|--------------------------|-------------------------------|------------------------|-------------------------|
| 1  | Magnit           | Magnit, Magnit Semeyny   | Russia                   | 19.6                          | 6.0                    | 8,631                   |
| 2  | X5 Retail Group  | Karusel, Pyaterochka, Perekrestok, Perekrestok Zeleny, Perekrestok Express | Russia                   | 16.6                          | 5.1                    | 5,483                   |
| 3  | Auchan Group     | Auchan, Auchan City, Radouga, Atak, Kazhdy Den                             | France                   | 9.2*                          | 2.8                    | 233                     |
| 4  | Dixie Group      | Dixie, Megamart, Minimart, Victoria Minimart, Kvartal, Deshevo, Cash       | Russia                   | 6.0                           | 1.8                    | 2,195                   |
| 5  | O’Key Group      | O’Key, O’Key Express   | Russia                   | 4.0                           | 1.2                    | 108                     |
| 6  | Metro Group      | Metro Cash & Carry, Fasol  | Germany                  | 3.4                           | 1.0                    | 80                      |
| 7  | Lenta            | Lenta  | Russia                   | 3.1                           | 0.9                    | 135                     |
| 8  | Spar Russia      | Spar, Interspar, Eurospar, Spar Express                                    | Netherlands              | 2.0                           | 0.6                    | 420                     |
| 9  | Sedmoy Kontinent | Sedmoy Kontinent, Nash Hypermarket   | Russia                   | 1.6*                          | 0.5                    | 146                     |
| 10 | Element-Trade    | Monetka  | Russia                   | 1.6*                          | 0.5                    | 700                     |

Source: PMR, 2015

\* - PMR estimations

### **Existing Retail Sales Outlet Formats in Russia:**

#### **Discounters**

A retail outlet with sales space from 300 to 1000 sq. meters, selling goods with a minimum margin from 5 to 7 percent, and whose assortment consists of 500 – 2,000 items with minimum of 50 percent share occupied by private labels. The major players in the discounter segment include local operators e.g. the X5 Retail Group (Pyaterochka), Magnit and Dixy Group (Dixy retail chain).

The discount channel is currently the fastest growing modern retail channel in Russia. The Russian market lacks pure discounters such as German Lidl or Aldi, and all discounter chains present in the market could be referred to as soft discounters. Examples of this include Magnit discounters (described as convenience stores by the retailer) and the Dixy retail chain (described as neighborhood stores by the company).

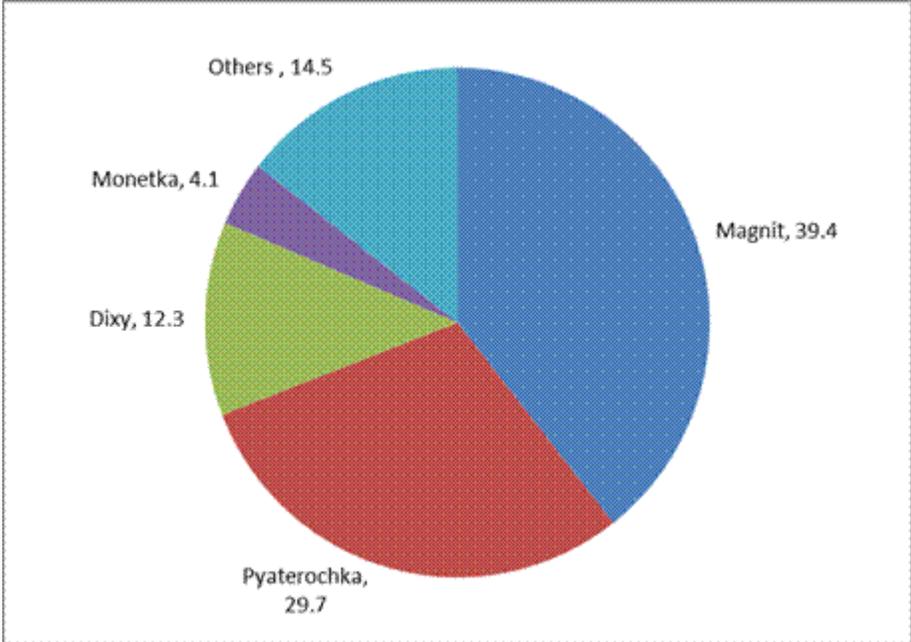
However, the situation may change as O'Key Group, which traditionally operates in the hypermarket format, made a decision to develop a hard discount chain under Da! brand. Moreover, the first Plus discounter, a chain owned by the Germany-based Tengelmann Group, will be open in 2015-2016. Its stores are much closer to the hard discount format than those of its Russian competitors. The company intends to have 150 stores in the country by 2022.

The discounter segment remains highly consolidated. The top four discounters controlled more than 86 percent of the segment in 2014. The leader of the segment, the Magnit retail chain, managed to increase its share in the segment from 37.4 percent in 2013 to 39.4 percent in 2014. All major players in the segment are of Russian origin. As in most other large channels, the top players are Magnit and X5 Retail Group's Pyaterochka. These two players control 69 percent of the discounter segment.

Magnit is also first in terms of the largest store network with 8,631 stores as of the end of 2014. The expansion is expected to continue in 2015. Magnit plans to add about 1,200 stores to its network in 2015, while Dixy intends to open 500 discounters.

The average store size for Magnit was 320 m<sup>2</sup> (selling space), for Pyaterochka 364 m<sup>2</sup> and in the case of Dixy, it was around 300 m<sup>2</sup>. Accordingly, the largest sales per store value was achieved by Pyaterochka.

**Figure 6. Russia: Discounter Sales in Russia, 2014, in %**



Source: PMR, 2015

To see the profiles of the key market players of the segment please refer to the [Gain report](#).

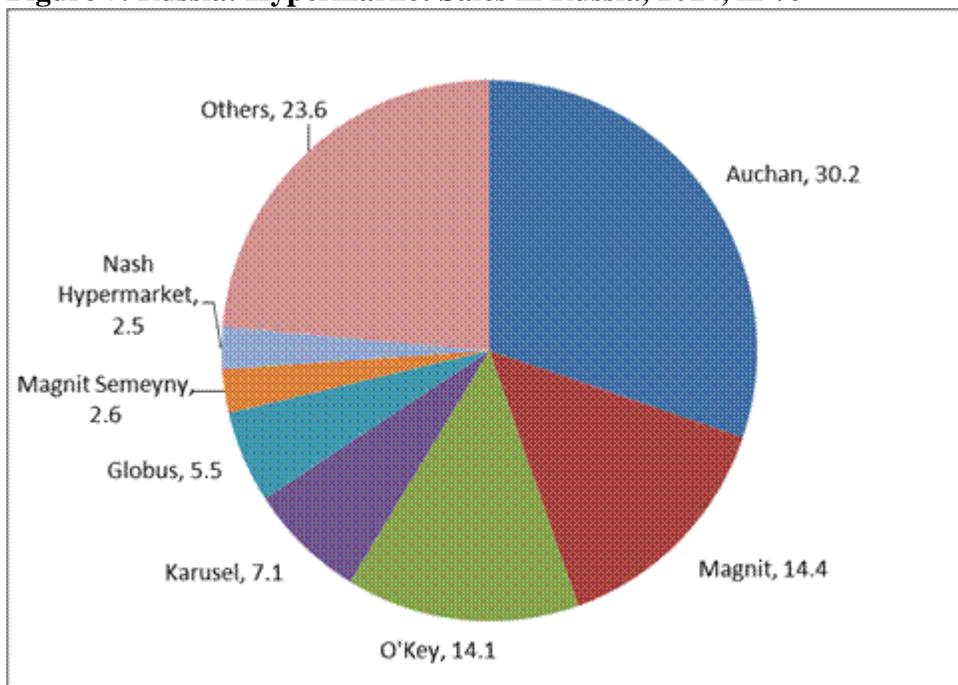
### **Hypermarkets**

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

Hypermarkets were the second most significant modern grocery channel in 2014. There are three foreign chains among the top 10 players. The leader of the segment is France-based Auchan, which controlled over 30 percent of the segment in 2014. The top 3 players accounted for about 59 percent of the segment in 2014. The fastest growing player in the segment was Magnit's recently launched Semeyny brand. Magnit also had the largest number of stores as of the end of 2014.

It is quite common in this segment for players to have more than one format, in order to adjust the size and characteristics of the stores to the respective regions they are located in. The average size of hypermarket stores has decreased recently, because new openings have moved to smaller cities, creating a need for smaller stores. St. Petersburg (along with Krasnodar) leads in terms of hypermarket penetration. This may be explained by the fact that this city gave birth to the O'Key and Karusel federal hypermarket retail chains. Unlike St. Petersburg, Moscow cannot boast a high level of hypermarket penetration. One of the major reasons for this lag is the historical development of the retail property market in Moscow. Thus, the majority of hypermarkets in Moscow are located beyond the boundaries of the Moscow ring road (MKAD).

**Figure 7. Russia: Hypermarket Sales in Russia, 2014, in %**



*Source: PMR, 2015*

To see the profiles of the key market players of the segment please refer to the [Gain report](#).

### **Supermarkets**

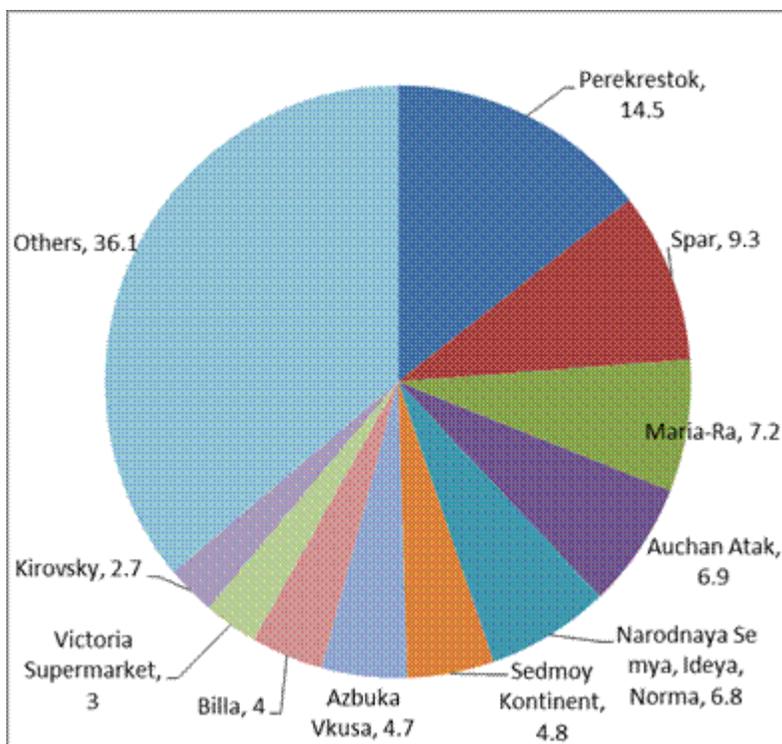
A retail outlet with sales space from 400 to 2,500 sq. meters, where at least 70 percent of the product line is food products and everyday goods (e.g. Perekriostok, Sedmoy Kontinent, Spar).

The segment accounts for the smallest share among the top three large format channels and the segment's growth prospects are currently also the worst among the top three large area formats. This is the segment with the largest number of local and regional chains. The supermarket segment is dominated by domestic operators but there are several successful foreign companies present on the market as well. They include Spar (the Netherlands), the second-ranked chain in the segment (by sales), as well as Auchan Atak (France), and Billa (Germany). The leader of the segment is local X5 Group's Perekrestok chain.

Compared to other formats the supermarket segment maintains a medium level of consolidation. The top three players accounted for about 31 percent of the segment in 2014. In 2014, Intertorg had the most rapid revenue growth on the market. The Maria-Ra chain had the largest store count in 2014.

One of the peculiarities of the supermarket segment is the relatively strong positioning of regional players compared to other segments. Thus, while the leaders of the supermarket segment are the Perekrestok and Sedmoy Kontinent retail chains, operated by large national companies (the X5 Retail Group and Sedmoy Kontinent, respectively), the successful supermarket chains include Maria-Ra (Western Siberia), Azbuka Vkusa (Moscow and Province), Kirovsky (Sverdlovsk Province) and Bakhettle (Republic of Tatarstan).

### **Figure 8. Russia: Supermarket Sales in Russia, 2014, in %**



Source: PMR, 2015

To see the profiles of the key market players of the segment please refer to the [Gain report](#).

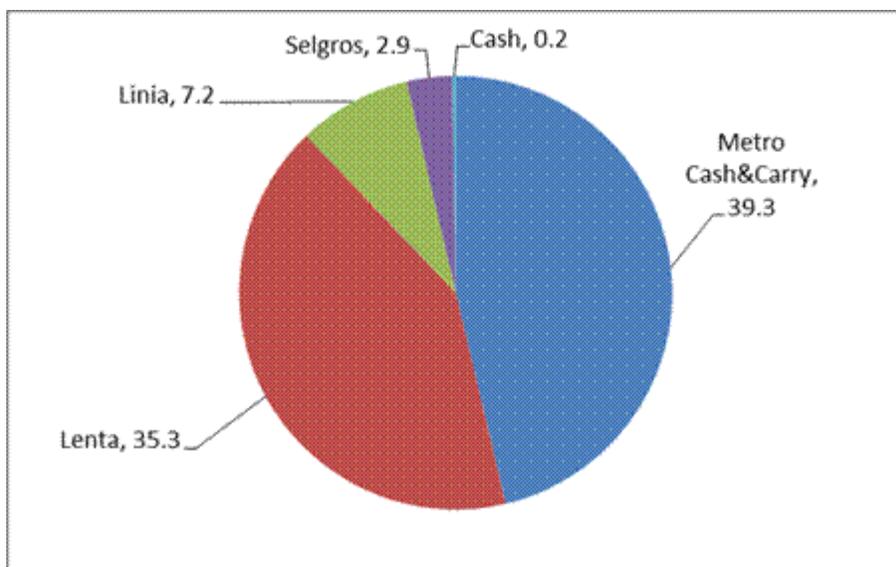
### **Cash & Carry**

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

Cash and carry stores are the fourth-largest format of organized retail in Russia, exceeding only the convenience store segment. Despite the fact that the cash and carry segment is marked by high levels of consolidation (the top two companies accounted for more than 70 percent of the segment in 2014), it is represented by all types of players, including large foreign chains (Germany-based Metro and Selgros) and national chains (St. Petersburg-based Lenta), as well as regional operators (Linia in the Central Federal District; Lakmin in Moscow and Tula Provinces), and local operators (Cash). There is considerable variation in store count (from one Cash store in Kaliningrad to 80 Metro stores all over the country).

The segment is dominated by Germany's Metro Group and Lenta. These two players controlled almost 75 percent of the segment in 2014. The largest network in 2014 was operated by Lenta, followed by Metro and Lenta also was the fastest growing chain in 2014.

**Figure 9. Russia: Cash and Carry Sales in Russia, 2014, in %**



Source: PMR, 2015

To see the profiles of the key market players of the segment please refer to the [Gain report](#).

### **Convenience Stores**

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

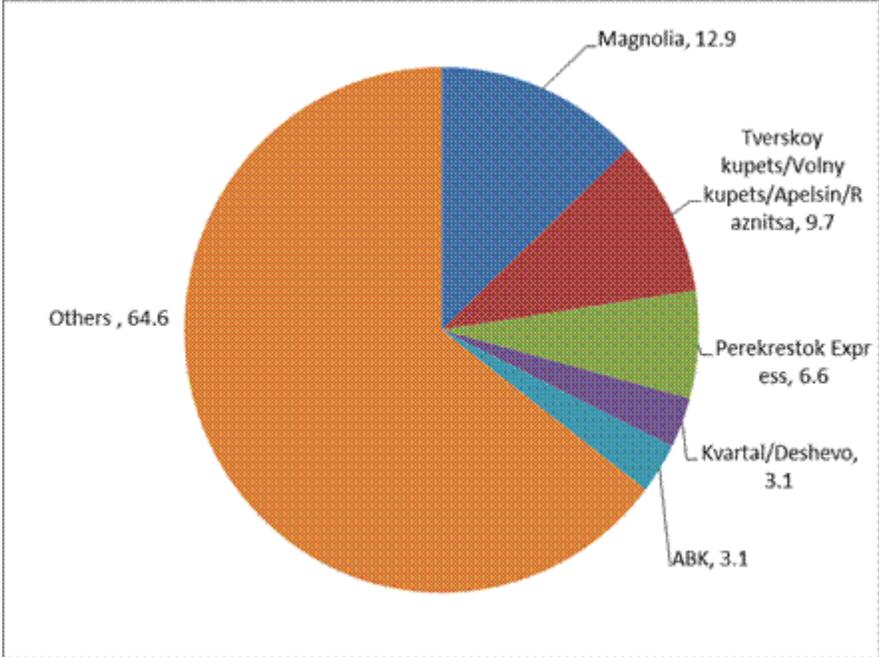
The convenience channel is the smallest modern retail channel in Russia. All major players in the segment are Russia-based. The leader of the segment is the Magnolia chain, followed closely by Ritm-2000 brands. The top three players accounted for about 29 percent of the segment in 2014. The fastest growing chain last year was X5 Group's Perekrestok Express. It also has the largest store network. In the long term, this segment carries the highest growth potential, due to its low level of development; however, convenience shopping has not gained popularity among Russian consumers yet. On the other hand, the current crisis is expected to increase the popularity of convenience stores.

This channel is largely segmented, as retailers' presence is limited to 1-2 regions in most cases. The top six chains controlled over 37 percent of the segment in 2013. The number of stores every player operates is also small, especially comparing to discounter chains. The convenience channel still faces consolidation in the future. The development of franchise convenience chains by large retailers, including Metro (Fasol) and Auchan (Kazhdy Den) will positively influence the channel's development. It will grow mainly on the back of independent store owners joining franchises and reformatting their stores to the convenience format in order to meet the franchisors' criteria.

On the whole, the convenience format remains one of the most promising segments in Russia. It maintains prospects for development even in more saturated retail markets, such as Moscow. One of the factors stimulating growth of the convenience store segment in the capital of the country is

government policy, according to which convenience stores (along with shopping centers with areas of less than 5,000 m<sup>2</sup>) should be priority in trade system development in the city.

**Figure 10. Russia: Convenience Stores Sales in Russia, 2014, in %**



Source: PMR, 2015

To see the profiles of the key market players of the segment please refer to the [Gain report](#).

**Advantages and Challenges for U.S. Exporters**

Successful U.S. businesses operating in Russia are those that find a local importer/distributor(s) that they can work with closely and are those that understand the local market (see below). Even successful companies need to remain engaged in the market and with their customers. For many staple products, domestic production meets 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 difficulty with the regulatory framework and generally efficient production of unsophisticated food products. 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.

Exporters should review some of the advantages and challenges of the Russian retail 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 147 million people who are potential | Economic crisis has had a profound impact |

|   |  |
|---|--|
| consumers. The U.S. is the eighth largest supplier in Russia (by value) of food and agricultural products.  | on Russia and led to a decrease in purchasing power among the middle class.  |
| Paying in dollars is advantageous for exporting to Russia compared to Europe due to the lower cost of the dollar relative to the euro.  | Ruble/\$ exchange rate has led to an increase in the price of U.S. products. Official government opposition to growth in food imports.                                     |
| Russia's retail sector is still growing which creates a number of opportunities for prospective U.S. exporters.   | Economic and political vulnerability, dependence on oil and mineral extraction for economic growth.  |
| Grocery retail is one of the segments least affected by the macroeconomic and political situation due to it offers basic products of high necessity.  | Consumers are switching towards cheaper products of domestic origin.   |
| The ongoing development of the organized grocery retail industry will allow producers to route products to the market more efficiently.   | Complicated business environment due to the current food import ban affecting many U.S. products. An import substitution policy is being pushed by the Russian Government. |
| Russia has the biggest online audience in Europe with 87 million users which boost internet sales steadily.   | Distribution remains major barrier to growth for e-commerce. 30% tax on all goods valued at over \$1,010 imported from foreign online retailers in one month               |
| Urban life style changes increase demand for semi-finished and ready-to-cook products.  | Rapid development of local manufacturers of ready-to-cook products creates tough competition for similar imported goods.   |
| Existence of large importers experienced in importing food products to Russia.  | Corruption, difficulties in finding a reliable partner or distributor.   |
| Due to the 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. | Competition with food products imported from the EU and other countries may rise. Food sanctions' negative effect on trade.  |

## Private Labels

Private label packaged food has increased in popularity in Russia in recent years fueled by constant chained retailer expansion, with most stores offering private label advertisements and promotions which allow people to try new products.

In many cases, consumers prefer private label ranges to usual branded products as the former usually offer similar quality but lower unit prices. As a result, by the end of 2014, with consumer spending decreasing, private label products gained even more popularity due to their affordable unit prices. Customers turn to private labels because they are 20-30 percent cheaper on average than branded products.

Private label products are usually considered to be of lower quality and compete within the lower price

segment throughout the country. However, this situation has changed a lot recently with active development of the mid-price segment as well as active marketing promotion resulting in an expansion of private label products in various packaged food areas in Russia. For example, Azbuka Vkusa and Metro do not only develop cheaper private label products but also have premium own brands in their portfolio.

According to the PMA research based on representatives of the largest Russian grocery retailers, the share of private labels in companies’ total sales was between 10 and 13 percent in 2014. The increase up to 20 percent is expected in 2015.

An obstacle standing in the way of rapid development of private labels in Russia is often the attitude of Russian consumers for whom products and brands are a status symbol. According to Nielsen’s research, conducted at the end of 2014, 60 percent of Russians consider private labels to be the choice of people who cannot afford to buy branded goods. Moreover, 40 percent of Russians would not buy private labels from product categories in which quality is especially important (cheese, milk, meat and seafood, shampoo, toothpaste, infant nutrition). On the other hand, what seems to be especially important in times of economic slowdown, 40 percent of respondents admit that branded goods are more expensive than private labels. Also, 47 percent of respondents believe that the quality of private label products has improved in the last few years, while 38 percent find it the same as before. Two thirds of Russians would like to try new product categories under private labels. Consumers seem to be right about improvements in the quality of private label.

According to the leading grocery retailers, the most promising areas of growth for private labels in Russia are likely to be dairy products, consumer health, alcoholic drinks (especially spirits), and unpackaged/artisanal bakery products (especially products baked fresh by retailers in-store). However, in industries such as soft drinks (especially mineral water) Russia’s retailers are likely to be forced to reduce their private label activities. Packaged food and fresh food are expected to remain dominant in value sales of private label products in Russia over the future. (Euromonitor International)

**Mergers and Acquisitions**

There were only a few M&A transactions in 2014 and early 2015, mainly due to the toughening economic situation in the country. However, there were other factors as well. For example, Russian law prohibits retailers from opening or acquiring new stores in districts where they already have a 25 percent value share in the market. Therefore, acquisitions might only be used by retailers as a measure to enter new regions or to reinforce their position in the regions where they have a very weak presence. Moreover, the decrease in the number of M&A deals is a natural consequence of the market’s development. A couple of years ago, retailers were developing both organically and through acquisitions in order to rapidly gain market share. Since the top of the Russian market is stable and rapid changes are unlikely, large retailers are not eager to allocate significant amounts of money on M&A transactions.

**Table 5. Russia: M&A Deals in Grocery Retail Segment in January 2014-April 2015**

| Date  | Buyer     | Target      | Details   |
|-------|-----------|-------------|---|
| March | X5 Retail | Spar Retail | X5 acquired seven entities of Spar Retail, Spar |

|               |  |                         |  |
|---------------|--|-------------------------|--|
| 2015          | Group                                    |                         | franchisee, operating 26 stores in Moscow, Tver, Ivanovsk and Vladimir Provinces.  |
| December 2014 | Lenta                                    | Bimart                  | Lenta acquired three Bimart hypermarkets, two in Ivanovo and one in Vladimir. Stores will be rebranded Lenta.  |
| December 2014 | Merger of MUUmarket and Prostye produkty |                         | Two St. Petersburg-based grocery retailers offering farmers' products merged. When the deal was signed, MUUmarket had three stores and Prostye produkty – six. Both brands will be preserved, but new stores will be opened only under the MUU market brand. |
| October 2014  | X5 Retail Group                          | AgroTorg Samara         | X5 acquired its former franchisee. AgroTorg operated 116 Pokupochka stores in Samara province; all stores will be integrated into X5's Pyaterochka chain.  |
| June 2014     | Gorodskoy Supermarket                    | SVA-Trading, SVA-Region | Gorodskoy Supermarket, owner of Azbuka Vkusa, acquired 100% of SVA-Trading and SVA-Region, the SPAR franchisees in the Moscow Province. The company received eight supermarkets as well as warehousing and producing facilities.                             |

Source: PMR, 2015

In the next few years, the M&A activity are expected to remain low. On the other hand, domestic retailers will lack access to loans and credit lines, due to the sharp increase in interest rates. They will develop mainly organically or in partnerships with institutions providing space for their stores, as in the case of X5 Retail Group (agreements with Voentorg and Rostelecom). (Source: PMR)

### **Organic, Healthy and Ready-to-Cook Products**

Busier lifestyles, particularly in Russia's largest cities, has created steady growth in demand for products such as chilled ready meals and frozen ready-to-cook products. As a result, supermarkets, hypermarkets, and independent grocery stores have improved offerings of chilled and ready-to-cook meals. In addition, a health-conscious trend has led to a greater offering of healthy, low-fat, salt-and sugar-free foods, fresh exotic fruits and vegetables. High-end supermarkets have begun to develop a range of organic foods, and some entrepreneurs have tried to develop supermarkets specializing in organic produce.

Organic packaged food sales grew by 12 percent at current 2014 prices to reach \$71 million in 2014 (Euromonitor International). Stable growth was largely explained by rising unit prices since most organic packaged food in Russia is imported. Organic baby food saw the fastest growth of 16 percent in current value terms in 2014.

Since the disposable income in Russia is expected to drop along with the falling ruble and rising inflation, all imported products are more expensive for Russian consumers. This is expected to affect sales of higher priced organic products in the near future. However, Euromonitor experts estimate

growth of the category with a constant value of 5 percent yearly to reach \$90 million by the end of 2019.

The Russian government continues to work on the legislation for organic products which expected to boost organic products sales in the future. On September 10, 2014, the Russian State Duma approved and signed into effect the National Standard for Organic Products “Terms and Definitions”. The Standard includes definitions of organic agriculture, organic production, types of organic foods, etc. For more information on this please see the [Gain report](#).

Additional information on Russian organic market legislation you can find in following Gain reports:

[RSATO034 Draft Law of Organic Production Announced](#)

[RSATO032 Draft National Standard for Organic Production Announced](#)

[RSATO022 New Draft Organic Regulations Available for Public Comments](#)

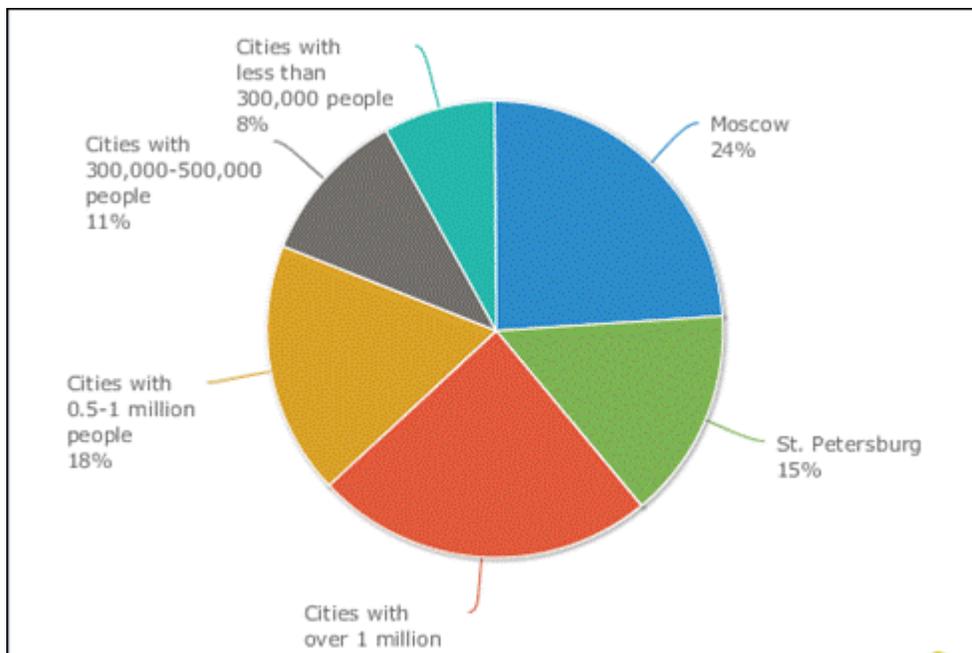
## **Shopping Malls**

The prevalence of high-quality shopping centers in Russia varies considerably. Most such malls are located in cities with populations of at least 500,000 people. There are 36 such cities in Russia. Most regions across the country still have significantly lower saturation rates in comparison with levels seen in developed countries. Substantial differences between saturation levels in shopping center space in Russia and those in Western countries emphasize the considerable growth potential of the retail property market in the country.

In 2014, nearly 2 million m<sup>2</sup> of quality shopping center space were put on the market in Russia, expanding the total leasable area of quality shopping centers in the country to around 18.6 million m<sup>2</sup> by the end of the year. At the end of 2014, 35 shopping centers were operating in Russia, 14 of which were super regional mall modern retail projects developed by IKEA under the MEGA brand name. It should be noted that 14 of the 35 shopping centers are in Moscow, the Moscow Province and St. Petersburg.

In recent years, because of the enduring economic uncertainty and restricted access to funding, an increasing number of retail property investors have preferred to implement construction projects in stages instead of developing a large, one-off project. Another factor which prolongs construction work is the reluctance of retailers at times of difficulty to expand their presence in new, less popular, shopping centers. They prefer to invest in new stores located in the most attractive, tried-and-tested schemes, despite the fact that the rents in these schemes exceed the average.

## **Figure 11. Russia: Shopping Centers Distribution in Russia, 2014, in %**



Source: Colliers International, PMR, 2015

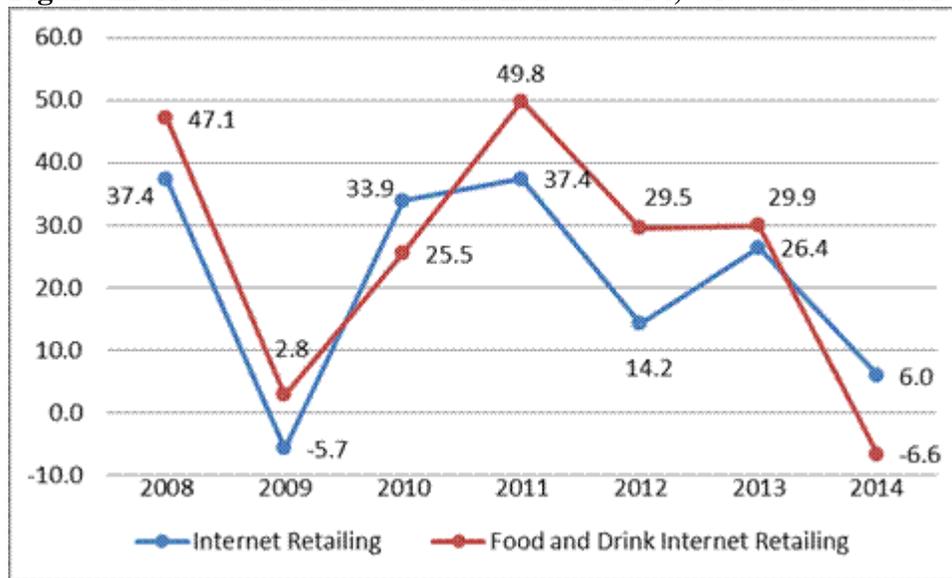
## Internet Retailing

The number of internet users in Russia increased by 5 percent in 2014, rising to 87 million. The biggest growth of new online customers was registered in Russia's regions. It's explained by improved delivery logistics, construction of telecommunication infrastructure, and reduction of tariffs for access to the internet. Sluggish economic development and weaker buying activity by Russian consumers has resulted in a decline in internet retail growth in 2014. However, the sector registered the highest growth of all non-store retailing channels in the country as well as holding 69 percent value share in 2014 - although the value growth fell by 4 percent compared to 2013. (Source: Euromonitor International). While regional expansion remained as the main driver of internet retailing expansion, saturation in the markets of big cities negatively reflected on the channel's overall growth towards the end of 2014.

Although food products are among the top five categories in terms of the number of daily orders, online food retail is still struggling to become profitable in Russia due to the high delivery and order completion costs in comparison with the value of the purchased items. For example, in an average order of non-food products there are usually 1-2 items in the cart but in case of online food retail there are several dozen products in the cart. According to Data Insight, the cost of order completion in online grocery retail can cost up to RUB 400 (\$7).

According to a Profi Online Research study, only 17 percent of Russians order grocery products online. Moscow residents (24 percent) are more open to buying food online than residents found in Russia's regions (11 percent). Respondents asked why they did not buy grocery items online most often mentioned doubts regarding quality and freshness - particularly for fruits and vegetables. In 2014, online grocery market sales in Russia were worth \$427 million and accounted for 2.7 percent of total internet sales. In Ruble terms, the growth of the internet food sales in 2014 totaled 23.7 percent.

**Figure 12. Russia: Internet Sales from 2008-2014, Growth Year-on-Year, in %**



Source: Euromonitor International from trade sources and national statistics, 2015

The most popular payment methods for online transactions are cash payment and bank cards. Cash method is still the most popular as Russian consumers find it more convenient compared to other payments that have to be processed on the webpage of an online store. However, more and more online stores have started to accept card payments so it's expected to continue to gain in popularity in the foreseeable future.

**Table 6. Russia: Internet Sales from 2010-2014, in Million USD**

| Category                          | 2010  | 2011  | 2012   | 2013   | 2014   | Growth, %<br>2013/2014 |
|-----------------------------------|-------|-------|--------|--------|--------|------------------------|
| Internet Retailing                | 6,640 | 9,125 | 11,737 | 14,839 | 15,728 | 6                      |
| Food and Drink Internet Retailing | 172.2 | 258.0 | 351.5  | 456.7  | 426.7  | -6.6                   |

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

Internet retailing is expected to continue to record growth throughout the forecast period, recording a value CAGR of 13 percent at constant 2014 prices to reach 1.1 trillion Rubles in 2019. The main driver for internet retailing will be the continuous growth of internet users, improvement of internet connection in the regions and growing penetration of smartphones. More and more internet players are expected to launch mobile versions of their websites and focus on consumers living in the regions of Russia. The number of internet users in Russia is set to increase to 99 million by 2019, 15 percent higher than 2014. Potential forecast period threats to growth of internet retailing are reduced consumer expenditure in 2015 and its moderate growth in the following years of the forecast period. Weak purchasing power will affect all retailing categories including online sales. Shock from local currency fluctuations in the second half of 2014 led consumers to invest their savings into goods that are highly dependent on import, particularly consumer electronics and appliances. This will affect the future performance of many online players that specialize in these products.

**Table 7. Russia: Selected Online Grocery Stores, 2015**

| Retailer                   | Website           | Launch year | Product range   |
|----------------------------|-------------------|-------------|---|
| O'Key                      | okeydostavka.ru   | 2015        | Food and non-food                                       |
| Auchan                     | auchan.ru/pokupki | 2014        | Non-food  |
| Global Food St. Petersburg | royalfoods.ru     | 2014        | Food  |
| Globus Gurme               | globusgurme.ru    | 2013        | Food and non-food                                       |
| Metro                      | metro-cc.ru/shop  | 2013        | Food and non-food                                       |
| Da-Mart                    | da-mart.ru        | 2011        | Food and non-food (sells assortment of Kirovsky stores) |
| Utkonos                    | utkonos.ru        | 2000        | Food and non-food                                       |
| Doma Vkusnee               | domavkusnee.ru    | n.d.        | Food  |

Source: PMR, 2015

### Legislation Regulating Retail Trade

The Russian Federal Law on Trade came into force on February 1, 2010. This law is aimed at creating transparent conditions for cooperation between domestic suppliers and retailers and boosting competition in the retail sector. The law contains strict antimonopoly regulations, such as capping store openings once a retailer reaches a 25 percent market share threshold within a city or municipal region, a 10 percent limit on bonuses paid to retailers by suppliers, and payment terms regulating how fast a retailer has to pay for goods with a certain shelf life, among other provisions.

On January 21, 2015 the group of deputies submitted to the lower house of the Russian parliament, the State Duma a list of amendments to the Law on Trade. The proposed changes include the reduction of the allowable retro-bonus, shrinking the delay of payments for goods and imposing fines for retailers of 2 to 5 million Rubles (USD \$33,000 – 82,000). In addition, the amendments forbid any additional fees for various marketing and advertising campaigns as well as other services paid by suppliers to retailers. To find more information on this please see the [Gain report](#).

The proposed changes were unanimously approved by the Duma on first reading in May, 2015. Russian retailers and some suppliers are against this changes and hope before the second reading they will be able to cooperate with the authorities to change the draft law with respect to at least some of their interests. Retailers worry that the changes along with the Ruble devaluation, import ban and rent and tax increase will complicate the retailers' financial situation and destabilize the consumer market.

In September 2015, Russian Ministry of Economic Development prepared a negative assessment of the possible regulatory impact of the draft amendments on the country's retail market. Head of the Ministry indicated that the State Duma should adopt the amendments to the trade law in new refined version modified by the government. The Russian government has in general supported parliament's amendments. However, it is working with the businesses on adjusting the country's trade legislation and because it tries to promote self-regulating practices on the market has decided to work with Russian parliamentarians to find compromises before the final approval of the law. The second reading is expected in the end of 2015.

Starting from July 1, 2015, retailers operating in the federal cities of Moscow, St. Petersburg, and Sevastopol (Crimea) must pay a fixed trading fee after President Vladimir Putin signed a new law in December 2014. The new fees will depend on the size, location and specialization of the stores. Moscow authorities expect to add roughly a billion rubles to the local budget but smaller retailers are worried about this additional burden placed on them. To find more information on this please see the [Gain report](#).

In 2014, local authorities created new legislation forcing all retailers with annual turnover over \$1.6 million to accept financial cards. There was a transition period until 2015 when all retailers had to install point-of-sale terminals. Starting from 2015, the fine for not providing consumers an opportunity to pay with cards ranged from \$800 to \$1,300. This measure was introduced to stimulate cashless operations. It was positively accepted by banks, but negatively by smaller retailers which have additional expenses in terms of point-of-sale terminal installation and additional fees for every card payment transaction.

## ***SECTION II. ROAD MAP FOR MARKET ENTRY***

The World Bank's Ease of Doing Business 2015 report ranked Russia 62<sup>nd</sup> out of 185 countries (in 2014, 92<sup>th</sup> out of 185) but most of the improvement comes on the back of changes to the ranking's methodology. Adjusted for methodology changes, the improvement was rather meager – 2 positions up – revealing a contrast to 2014, when Russia ranked among the top-3 reformers, moving 19 notches up. It takes, on average, 5 procedures and 13 days in Russia to open a business. However, the cost of starting a business in Russia is low: only 1.2 percent of per capita income, compared to an average of 5.3 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 or ATO Vladivostok. Additionally, ATO Moscow offers the following recommendations to help exporters select the best approach for supplying the Russian market:

- 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.

## **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.

Imported products arrive in Russia via land, sea, or air freight into ports or customs warehouses for clearance before proceeding to the next destination. The best technically-equipped sea commercial ports in Russia are: St. Petersburg, Primorsk, Murmansk, Kaliningrad, Ust'-Luga, Murmansk, Kaliningrad, Vysotsk, Novorossiysk, Tuapse, Vostochny, Vanino, and 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 United States 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, 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, Vostochnyy, Vanino, Nakhodka and Magadan. Although Vostochnyy is the region's largest port by volume, the majority of U.S. food exports to the RFE enter through Vladivostok.

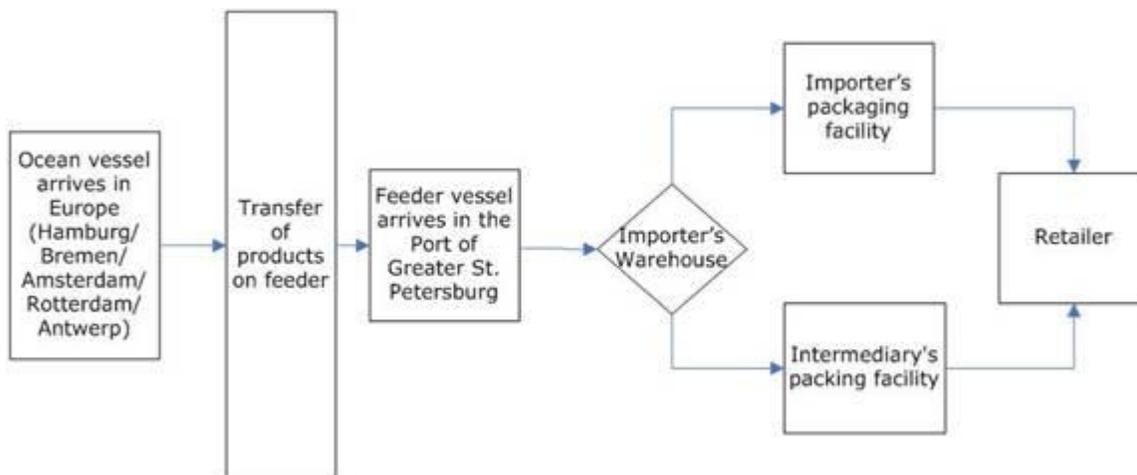
**Figure 13. Russia: Entry Gateways for the U.S. Products by Sea**



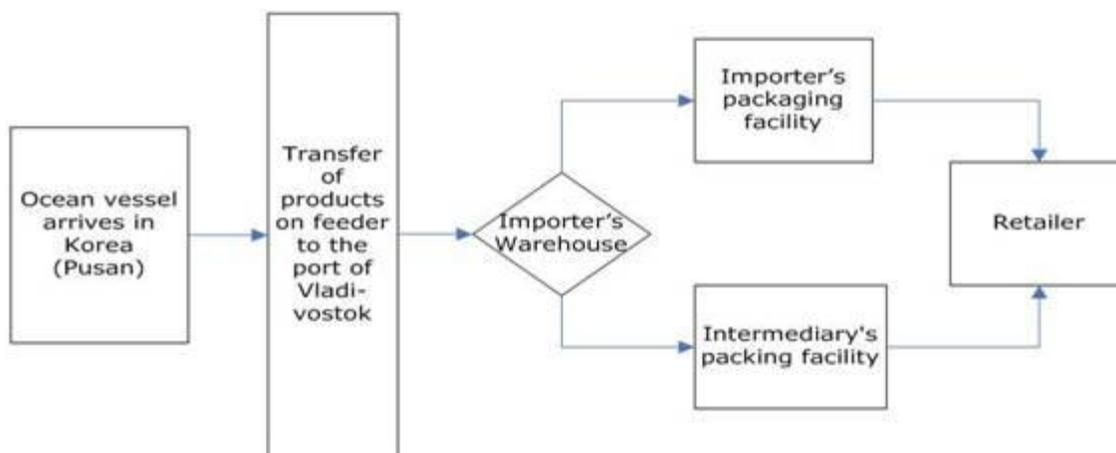
*Source: SVT Group*

Currently several freight 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). From Vladivostok food products are shipped to the other cities in the RFE and Siberia by truck or rail.

**Figure 14. Russia: Distribution Channel for Supermarkets, Import of Transatlantic Products via the Port of Greater St. Petersburg**



**Figure 15. Russia: Distribution Channel for Food Retail Chains, Delivery from U.S. to the Russian Far East**



**Company Profiles:**

**Table 8. Russia: Major Retail Chains, 2014 (Retail Value excl. Sales Tax)**

| N | Retailer name and outlet type            | Ownership         | Sales, \$US Mln. | No. of outlets | Locations                                   |
|---|--|-------------------|------------------|----------------|---|
| 1 | Magnit, convenient stores & hypermarkets | Magnit OAO, local | 19,568           | 8,603          | Moscow, St. Petersburg, and Russian regions |

|    |                                     |  |        |       |   |
|----|-------------------------------------|--|--------|-------|---|
| 2  | Pyaterochka, supermarkets           | X5 Retail Group NV, local                        | 13,246 | 4,430 | Moscow, St. Petersburg, and Russian regions |
| 3  | Lenta, hypermarkets                 | Lenta OAO, local                                 | 6,235  | 126   | North-Western Russia and Siberia            |
| 4  | Auchan, hypermarkets                | Auchan Group SA, French                          | 5.887  | 56    | Moscow, St. Petersburg, and Russian regions |
| 5  | Dixie, supermarkets                 | Dixie Group OAO, local                           | 4,724  | 1,973 | Moscow, St. Petersburg and Russian regions  |
| 6  | O'Key, hypermarkets                 | Dorinda Holding SA, Luxemburg, local, Estonian   | 4,491  | 107   | St. Petersburg, Moscow and Russian regions  |
| 7  | Metro Cash& Carry, hypermarkets     | Metro AG, German                                 | 3,408  | 80    | Moscow, St. Petersburg, and Russian regions |
| 8  | Perekriostok, supermarkets          | X5 Retail Group NV, local                        | 3,208  | 402   | Moscow, St. Petersburg and Russian regions  |
| 9  | Spar, supermarkets                  | Internationale Spar Centrale BV, Dutch and local | 2,005  | 463   | Moscow and Central region                   |
| 10 | Karusel, hypermarkets               | X5 Retail Group NV, local                        | 2,002  | 81    | Moscow, St. Petersburg and regions          |
| 11 | Monetka, supermarkets               | Element-Trade, local                             | 1,953  | 603   | Yekaterinburg, Ural region                  |
| 12 | Maria Ra, supermarkets              | Maria Ra PKF OOO, local                          | 1,718  | 739   | Siberia                                     |
| 13 | Globus                              | Globus Holding GmbH&Co, German                   | 1,5701 | 10    | Moscow, and Russian regions                 |
| 14 | Atac, supermarkets                  | Auchan Group SA, French                          | 1,366  | 155   | Moscow and Russian regions                  |
| 15 | Sedmoi Kontinent, supermarkets      | Sedmoi Kontinent, local                          | 1,145  | 136   | Moscow, St. Petersburg and regions          |
| 16 | Krasnoye & Beloye                   | Labirint-S OOO, local                            | 1,053  | 1,041 | Russian regions                             |
| 17 | Liniya, hypermarkets                | Korporatsiya GriNN ZAO, local                    | 968    | 25    | Russian regions                             |
| 18 | Azbuka Vkusa, high-end supermarkets | Gorodskoy Supermarket, local                     | 933    | 69    | Moscow and Moscow region                    |
| 19 | SemYa                               | Intertorg TD OOO, local                          | 890    | 335   | Moscow, St. Petersburg and Russian regions  |
| 20 | Billa, supermarkets                 | Billa Russia (Rewe                               | 830    | 96    | Moscow and Central                          |

|    |                           |                             |     |     |   |
|----|---------------------------|-----------------------------|-----|-----|---|
|    |                           | Group), German & local      |     |     | region  |
| 21 | Auchan City, supermarkets | Auchan Group SA, French     | 777 | 23  | Moscow and regions                              |
| 22 | Nash Gipermarket          | Sedmoi Kontinent, local     | 742 | 24  | Moscow and Russian regions                      |
| 23 | Victoria, supermarkets    | Dixie Group, local          | 680 | 45  | Moscow, St. Petersburg, Kaliningrad and regions |
| 24 | Kirovsky, supermarkets    | Kirovsky Supermarket, local | 598 | 156 | Yekaterinburg, Ural region                      |
| 25 | Tverskoy Kupets           | Ritm-2000, local            | 550 | 172 |   |

Source: Euromonitor International, company reports and websites, PMR data, 2015

### SECTION III. COMPETITION

Many U.S. exporters face heavy competition among other foreign suppliers for the Russian market. The European Union enjoys a logistical advantage due to its proximity and ability to ship product overland as well as by air and sea. In addition, the Government of Russia has a program of domestic support for domestic producers of food products and a complex system of sanitary and phytosanitary requirements for imported foods. Production of dairy and meat products (sausages, smoked foods), soft drinks, mineral water, juices, beer, confectionery, various appetizers, and chilled chicken meat is still on the increase. Belarus and Kazakhstan, which share a common customs zone with Russia, enjoy duty-free access to the Russian market. Therefore, their agricultural products do not appear in Russia's import statistics. Many imports from the EU and the United States cannot compete on price with regional goods. There is also increasing political pressure on retailers to buy locally. The food sanctions also affect the U.S. suppliers of fruit, meat and poultry products.

**Table 9. Russia: Top 10 Origins of Agricultural Products\* Imports 2012-2014, \$US Mln.**

| Country              | 2012         | 2013         | 2014         | % Market Share, 2014 | % change '13-'14 |
|----------------------|--------------|--------------|--------------|----------------------|------------------|
| --The World--        | 35,053       | 39,523       | 36,669       | 100.00               | -7.22            |
| Brazil               | 2,797        | 2,940        | 3,597        | 9.81                 | 22.34            |
| Belarus              | 0,208        | 2,871        | 3,507        | 9.56                 | 22.16            |
| Turkey               | 1,476        | 1,724        | 1,718        | 4.69                 | -0.33            |
| China                | 1,361        | 1,458        | 1,615        | 4.40                 | 10.75            |
| Netherlands          | 1,772        | 2,008        | 1,582        | 4.31                 | -21.21           |
| Germany              | 2,229        | 2,088        | 1,574        | 4.29                 | -24.62           |
| Italy                | 1,263        | 1,434        | 1,298        | 3.54                 | -9.52            |
| <b>United States</b> | <b>1,963</b> | <b>1,500</b> | <b>1,242</b> | <b>3.39</b>          | <b>-17.2</b>     |
| Ecuador              | 1,162        | 1,256        | 1,197        | 3.26                 | -4.71            |
| France               | 1,297        | 1,400        | 1,174        | 3.20                 | -16.14           |

Source: Global Trade Atlas, 2015

\*Agricultural Total

To review the main delivery sources before the food import ban was implemented in August 2014, please see the [Gain report](#). Since currently the situation on the market is changed due to the food embargo, in the table below the Post is analyzing the after-sanction data for the period August 2014 - August 2015.

**Table 10. Russia: Main Delivery Sources and Volumes of Specific Product Import, August 2014 – August 2015**

| Commodity                        | Rank | Country        | % Share* | Strength of Key Supplying Countries  | Advantages and Disadvantages of Local Suppliers   |
|----------------------------------|------|----------------|----------|--|---|
| <b>Fresh Fruit</b>               |      |                |          |  |   |
| Net Imports<br>4.9 million<br>MT | 1    | Ecuador        | 23.8     | Countries of South Africa, Turkey supplies citrus fruit at low prices. Ecuador has an almost 100 percent market share in bananas.              | Lack of storage facilities; low cost of local products  |
|                                  | 2    | Turkey         | 20.0     |  |   |
| Dollar Value<br>\$3.8 billion    | 3    | China          | 6.8      |  |   |
|                                  | 4    | South Africa   | 6.2      |  |   |
|                                  | 5    | Argentina      | 4.8      |  |   |
|                                  | 6    | Serbia         | 4.7      |  |   |
|                                  | 7    | Egypt          | 4.7      |  |   |
| <b>Fresh Vegetables</b>          |      |                |          |  |   |
| Net Imports<br>2.5 million<br>MT | 1    | Turkey         | 25.1     | High quality of vegetables produced in Western European countries, low prices for the products originated from neighboring countries and China | Lack of modern storage and processing facilities; unpredictable quality of local products                     |
|                                  | 2    | China          | 20.7     |  |   |
| Dollar Value<br>\$1.9 billion    | 3    | Israel         | 11.2     |  |   |
|                                  | 4    | Egypt          | 8.7      |  |   |
|                                  | 5    | Belarus        | 7.9      |  |   |
|                                  | 6    | Iran           | 6.3      |  |   |
|                                  | 7    | Morocco        | 6.2      |  |   |
|                                  | 8    | Azerbaijan     | 5.0      |  |   |
| <b>Pet Food</b>                  |      |                |          |  |   |
| Net Imports<br>93 MT             | 1    | France         | 17.4     | Import of well-known pet food trademarks to Russia dominate in low-cost segment. Imported brands are perceived as higher quality               | Traditionally high number of home pets, large market potential; low demand for industrially produced pet food |
|                                  | 2    | Netherlands    | 14       |  |   |
| Dollar Value<br>\$191 million    | 3    | Germany        | 13       |  |   |
|                                  | 4    | Italy          | 9.3      |  |   |
|                                  | 5    | Czech Republic | 9.3      |  |   |
|                                  | 6    | Canada         | 8.3      |  |   |
|                                  | 7    | Austria        | 7.1      |  |   |
| <b>Poultry</b>                   |      |                |          |  |   |
| Net Imports<br>322,414 MT        | 1    | Brazil         | 49.6     | Almost zero competition for Brazil because of the food ban   | TRQs; local producers can supply chilled product at good prices; local  |
|                                  | 2    | Belarus        | 35.3     |  |   |
| Dollar Value<br>\$552 million    | 3    | Turkey         | 6.3      |  |   |
|                                  | 4    | Argentina      | 5.7      |  |   |

|  |   |               |      |  |  |
|--|---|---------------|------|--|--|
|  | 5 | Kazakhstan    | 1.1  |  | production of chicken is growing   |
| <b>Processed Fruits and Vegetables</b>   |   |               |      |  |  |
| Net Imports<br>1.5 million<br>MT         | 1 | China         | 19.0 | Well established trade relations and well known trademarks;<br>low price of products                                       | Local producers quickly update the facilities; availability of cheap raw materials, popularity of traditional local brands |
|  | 2 | Poland        | 10.5 |  |  |
| Dollar Value<br>\$1.59 billion           | 3 | Spain         | 10.0 |  |  |
|  | 4 | Thailand      | 4.4  |  |  |
|  | 5 | Ukraine       | 4.2  |  |  |
|  | 6 | Chile         | 4.0  |  |  |
|  | 7 | India         | 3.9  |  |  |
|  | 8 | Italy         | 3.8  |  |  |
| <b>Rice</b>                              |   |               |      |  |  |
| Net Imports<br>235,036 MT                | 1 | India         | 30.8 | High quality and low prices in Asian rice which dominate on the market   | Limited list of rice varieties grown in Russia, lack of modern processing equipment  |
|  | 2 | Thailand      | 18.0 |  |  |
| Dollar Value<br>\$126 million            | 3 | Pakistan      | 15.0 |  |  |
|  | 4 | Vietnam       | 11.1 |  |  |
|  | 5 | Myanmar       | 10.4 |  |  |
|  | 6 | Cambodia      | 4.0  |  |  |
|  | 7 | Kazakhstan    | 3.5  |  |  |
|  | 8 | China         | 2.4  |  |  |
| <b>Red Meat (fresh, frozen, chilled)</b> |   |               |      |  |  |
| Net Imports<br>947,473 MT                | 1 | Brazil        | 53.1 | Almost zero competition for Brazil because of the food ban; lower prices and good quality of Brazilian and Paraguayan meat | Local supplies are not stable in quality and not uniform, lack of high-quality domestic beef                               |
|  | 2 | Paraguay      | 14.6 |  |  |
| Dollar Value<br>\$5.1 billion            | 3 | Belarus       | 11.7 |  |  |
|  | 4 | Argentina     | 5.8  |  |  |
|  | 5 | Ukraine       | 3.0  |  |  |
|  | 6 | Chile         | 2.9  |  |  |
|  | 7 | Uruguay       | 2.1  |  |  |
|  | 8 | Serbia        | 1.5  |  |  |
| <b>Salmon</b>                            |   |               |      |  |  |
| Net Imports<br>147,238 MT                | 1 | Chile         | 62.0 | Limited competition for Chile and Faroe Islands due to the food ban nevertheless their prices are high                     | Lack of domestic products on the market; outdated cold storage facilities and fleet, outmoded processing facilities        |
|  | 2 | Faroe Islands | 35.7 |  |  |
| Dollar Value<br>\$884 million            | 3 | Belarus       | 1.9  |  |  |
|  | 4 | Iceland       | 0.2  |  |  |
| <b>Fish and Seafood</b>                  |   |               |      |  |  |
| Net Imports<br>651,879 MT                | 1 | Chile         | 21.3 | Limited competition due to the food ban nevertheless their prices are high   | Lack of domestic products on the market; outdated cold storage facilities and fleet, outmoded processing facilities        |
|  | 2 | China         | 15.5 |  |  |
| Dollar Value<br>\$2 billion              | 3 | Faroe Islands | 14.1 |  |  |
|  | 4 | Belarus       | 11.3 |  |  |
|  | 5 | Iceland       | 9.7  |  |  |

|                                |   |              |      |  |   |
|--------------------------------|---|--------------|------|--|---|
|                                | 6 | Vietnam      | 5.2  |  |   |
|                                | 7 | Thailand     | 2.9  |  |   |
|                                | 8 | Turkey       | 2.7  |  |   |
| <b>Snack Foods</b>             |   |              |      |  |   |
| Net Imports<br>186,416 MT      | 1 | Germany      | 21.3 | Lower delivery costs from EU countries because of the geographical proximity, therefore, product prices in retail are lower  | Many producers; lack of modern processing facilities  |
|                                | 2 | Italy        | 14.0 |  |   |
| Dollar Value<br>\$698 million  | 3 | Poland       | 11.3 |  |   |
|                                | 4 | Belgium      | 7.4  |  |   |
|                                | 5 | Belarus      | 5.8  |  |   |
|                                | 6 | Kazakhstan   | 4.8  |  |   |
|                                | 7 | France       | 4.1  |  |   |
|                                | 8 | Netherlands  | 3.4  |  |   |
| <b>Tree Nuts</b>               |   |              |      |  |   |
| Net Imports<br>40,488 MT       | 1 | Vietnam      | 23.8 | Limited competition on the market due to the food ban. Iran, Turkey strong in supplying hazelnuts and pistachios, Azerbaijan key hazelnut supplier, Vietnam supplies cashew. | Lack of large-scale industrial production of nuts; intensively developing confectionery industry.       |
|                                | 2 | Turkey       | 16.6 |  |   |
| Dollar Value<br>\$225 million  | 3 | Iran         | 11.3 |  |   |
|                                | 4 | Chile        | 9.8  |  |   |
|                                | 5 | Azerbaijan   | 9.7  |  |   |
|                                | 6 | Philippines  | 6.3  |  |   |
|                                | 7 | Indonesia    | 3.9  |  |   |
| <b>Wine and Beer</b>           |   |              |      |  |   |
| Net Imports<br>586 million L   | 1 | Italy        | 29.4 | European wines occupy the upper segment and are perceived as high quality; beer imports negligible   | Low prices; poor positioning of high quality, vintage wines; traditional preference for sweetened wines |
|                                | 2 | France       | 16.4 |  |   |
| Dollar Value<br>\$1.05 billion | 3 | Spain        | 11.4 |  |   |
|                                | 4 | Georgia      | 6.5  |  |   |
|                                | 5 | Germany      | 5.4  |  |   |
|                                | 6 | Abkhazia     | 4.1  |  |   |
|                                | 7 | Chile        | 3.8  |  |   |
|                                | 8 | Ukraine      | 3.2  |  |   |
|                                | 9 | South Africa | 2.2  |  |   |

Source: *Global Trade Atlas, 2015*

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

#### **SECTION IV. BEST PRODUCT PROSPECTS**

According to Russian customs statistics, U.S. agricultural imports in 2014 totaled \$1.2 billion - a figure that is down by 17 percent compared to 2013 mainly due to the Russian's food import ban placed in August 2014 as well as shrinking demand and high exchange rate. The United States was the eighth largest supplier of food, beverages and agricultural products (the same as in 2013) to Russia by value with 3 percent overall market share. The main exporters were Belarus, Brazil, China, Turkey and others (please see Appendix Statistics, Table C). The United States' top agricultural exports to Russia

in 2014 included: soybeans, chicken cuts, food preparations, nuts (almonds, pistachios and peanuts), sunflower seeds, fish and seafood, and other products.

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 took place immediately and will remain in place until August 5, 2016. The agricultural products included in the current food import ban are beef, pork, poultry, fruits, vegetables, fish, seafood, cheese, tree nuts and a variety of other products listed by specific HS codes.

To review the best products prospects before the food import ban was implemented in August 2014, please see the [Gain report](#). Once the food import ban is lifted, U.S. exporters should once again expect to ship similar products to the Russian market as demand for high quality imported food products remains. Taking into account the current situation, below are some of the best prospects for U.S. exporters of food, beverages and agricultural products to Russia:

### **Soybeans**

The Russian government continues to support the poultry, dairy and pork industries and demand for high protein feeds exceeds Russia's ability to produce them domestically. Soybeans and soybean meal remain one of the most important sources of protein feeds. In calendar year 2014, Russia imported 2.7 MMT of soybeans and soybean meal - 2 MMT of soybeans and 682 TMT of soybean meal in soybean equivalent (533 TMT of soybean meal). Major suppliers in 2014 were Paraguay at 965,000 MT, Brazil at 730,000 MT, the United States at 420,000 MT, Argentina at 283,000 MT, Ukraine at 100,000 MT and Uruguay at 32,000 TMT. Soybean imports are expected to remain at similar levels in 2016 due to the high demand for soybean meal from the expanding poultry and livestock industries in European Russia.

### **Live Cattle and Animal Genetics**

Russia is determined to become self-sufficient in various categories, such as meat and dairy products, and is applying significant resources and market access constraints to make it happen. This opens up new market opportunities for U.S. exporters to supply live cattle and animal genetics. As market access for meat and poultry continues to be limited through the August 2014 food import ban and the imposition of trade-restrictive SPS measures, demand and opportunities for higher quality animal genetics is expected to grow. The highest demand for this category are dairy cattle, specifically registered Holsteins, as well as beef cattle, particularly Black Angus.

The Russian government has shown a strong influence in stimulating domestic dairy and beef cattle herd growth. More than 20 billion rubles has been allocated by the Russian government to support beef and dairy projects under new specific sub-programs: "Development of Dairy Cattle Industry and Milk Production" and the "Development of Beef Cattle", and "Development of Purebred Livestock Breeding" in 2015. The main state support programs in livestock sectors are anticipated to remain strong in 2016.

The United States exported 16,386 head of live bovine animals to Russia in 2014 valued at

approximately \$58 million - the largest supplier of purebred breeding cattle to the country. Market demand also continues to grow for bovine semen and embryos in Russia with many Russian buyers looking to the United States as a supplier. In 2015, the United States exported \$3 million of bovine semen and \$1.5 million of bovine embryos to Russia. The United States is well-positioned to be the major supplier for higher quality animal genetics, especially for producers seeking the best quality for value in the global market.

## **Wine**

Russia is one of the largest global growth markets for wine and is the most developed wine market of all the “BRICs” countries. Italy, France and Spain, the three major wine producers globally, are also the top exporters of wine to Russia. U.S. wine sales were on the rise until 2014 (seeing 20 percent growth annually) but began to slow in 2014 due to the depreciation of the Russian ruble, slowing economy and falling consumer purchasing power. In 2014, U.S. wine sales reached \$13.8 million - down 12 percent from 2013. U.S. wines currently comprise of 1.2 percent of total market share but there is tremendous opportunity for growth as Russia’s wine culture blossoms. Russian wine imports reached \$1.142 billion in 2014.

Consumption of wine and sparkling wine in Russia in 2014 surpassed 1 billion liters. Imports of bottled wine account for roughly 30 percent of this volume. Another 40 percent of wine is produced in Russia from imported wine raw materials with only the remaining 30 percent are produced from grapes cultivated in Russia. The highest demand in the Russian market is for low-priced wine products - 70 percent of all wines sell for up to 150 rubles per bottle in retail in 2013-2014. Wine costing up to 300 rubles occupies 15 percent of the market while wine in the 500 ruble range takes up 10 percent. Wine that costs more than 500 rubles per bottle makes up just 5 percent of all wine sales in Russia.

The Russian government froze excise taxes on wine and sparkling wine per liter of anhydrous alcohol for 2015-2016 to the same level as in 2014. Currently, more than 95 percent of wine imported from the United States originates from California. Only one Russian importer brings wines from Washington state which has quickly gained popularity among wine connoisseurs.

## **Distilled Spirits**

Among the world’s top ten spirits markets in volume terms, Russia dramatically increased imports of U.S. bourbon and rum from 2009 to 2013. The United States (including Puerto Rico) is the fourth largest supplier of spirits to Russia and the potential for continued growth is high over the medium term. In 2014, U.S. exports of spirits to Russia totaled \$127 million, down 9 percent due primarily to the depreciation of the Russian ruble which began towards the end of 2014. Total Russian imports of distilled spirits reached \$1.237 billion in 2014, down 17 percent from 2013. All alcoholic beverages saw tariffs fall after Russia acceded to the WTO with full implementation expected by 2016.

However, excise tax rates on distilled spirits had increased steadily and significantly from 2011-2014. As a result, it raised the prevalence of illegal vodka in the Russian market that, according to market analysts, accounts for approximately 60 percent in 2014. In 2014, legal domestic vodka production declined by 22.3 percent reaching only 66.6 million deciliters – the lowest level in modern Russian history. Such dynamics led the Russian government to freeze excise taxes on spirits at 500 rubles per

liter of anhydrous alcohol for 2015-2016 – the same level as in 2014. Most Russian whiskey lovers are familiar with famous American whiskey and bourbon brands and prefer them to Irish and Scotch whisky products.

### **Processed Fruit & Vegetables**

In 2014, the sales of canned/preserved food in Russia grew by 1.1 percent in volume, frozen processed food sales grew by 6 percent, and chilled processed food grew by 4 percent. Canned/preserved food saw the largest increase in average unit price of any area in meal solutions in 2014 (9 percent). This area is dependent on global prices as Russia is unable to supply sufficient raw materials for canned/preserved vegetables and fruit production. The premium trend is putting upwards pressure on prices as well. However, the increase in average unit prices seen across all meal solution areas was mainly in line with inflation. In the canned products sector, even for those branded products that maintain a strong presence in chained retailers, the competition will become significantly more intense due to developing of private label products in terms of marketing and shelf positioning.

### **Condiments and Sauces**

In 2014, the sales of sauces, dressings and condiments grew by 1 percent in volume in Russia. (Euromonitor International) The U.S. share of the sauces and mixed condiments accounted to more than \$5 million representing a 6 percent growth in 2014. The market is positively influenced by the development of Asian consumer food service, with the retail market for packaged Asian food recording stable annual growth especially in sauces. Many sauces producers offer a variety of oriental flavors responding to consumer preferences. In addition, herbs and spices also gained a number of customers aware of Asian spices like curry and various spicy flavors.

Sauces, dressings and condiments are one area where multinational brands dominate over domestic producers. Demand for such products in Russia is growing which provides great opportunities for U.S. suppliers. Sales will be driven by population growth and new product development which will be supported by active promotion and advertising provided by the growing retail sector.

### **Pet Food**

According to trade estimates, Russia has the world's second largest pet population per capita after the United States with an estimated 60 million pets. According to official statistics, the average annual value of pet food sales is \$1.3 billion, although independent market research agencies estimate annual sales over \$1.5 billion. According to Euromonitor International, Russia's pet food market is the 3<sup>rd</sup> fastest growing markets worldwide with annual growth of 8.7 percent, after India's with its annual growth of 9.9 percent, and Saudi Arabia with 13.8 percent. Market analysts have stated that only 60 percent of the Russian pet food market has been developed to date, therefore most foreign producers (specifically European) consider Russia as a market with high potential. For example, the pet food market in France is developed at 97 percent rate and in Germany at 91 percent.

The highest demand in the Russian market is for low-priced (economic) segment of pet food products which accounts for 70 percent of total sales of pet food in the country. This type of pet food is either produced locally or imported. The assortment of pet food of premium class is widely diversified: with

food for various age groups and breeds, special diets and medicinal feeds. Pet foods in the premium class are mostly imported. Due to continued ruble devaluation and lower purchasing power of the population, demand for premium class pet food is falling. The share of super premium food is still very low and estimated at 1 percent of the local market and may shrink further. Pet food imports reached nearly \$267 million in 2014 - a 5 percent increase in value from 2014. The U.S. market share of imported pet food accounted for just 3 percent of the total in 2014.

**Snack Foods**

Snack foods are gaining popularity in Russia. Sales growth is being fueled by growing impulse and indulgence product assortments as well as the shift amongst consumers to more premium products, especially in areas like industrial cakes, chocolate confectionery and snack bars. New product development, especially in snack bars and ice cream is making people eager to try new products and stimulating sales growth. As a result of growing concerns about healthy food, snack bars are recognized as healthy alternatives to chocolate snacks nevertheless snack bars are relatively new in Russia. Due to the popularity of novelty snack bars, sales growth is fastest in impulse and indulgence products, with current value sales rising by 19 percent in 2014.

Please note that the food products listed in Table 11 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.

**Table 11. Russia: Suggested Best Prospects for U.S. Exporters, by Sector, 2014**

| Product     | 2014 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    | 215                        | 110   | 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 | 72                         | 138   | 0%           | Competition from Australian and European cattle suppliers (the latter being true if Russia eliminates ongoing | Russia needs more highly productive cattle to reach its publicly stated food security goals which call for a  |

|   |      |    |  |   |   |
|---|------|----|--|---|---|
|   |      |    |  | trade restrictions with the EU).  | reduction of imported meat and dairy products.  |
| <b>Food preparations</b>                | 152  | 12 | 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.          |
| <b>Wine</b>                             | 13.8 | 18 | RUR 8-25/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.   |
| <b>Spirits</b>                          | 127  | 30 | RUR 500/liter of ethyl alcohol content; VAT 18%  | Lack of U.S. whiskey promotion, strong positions of other importers ( United Kingdom, France, Armenia)  | Bourbon and whiskey are growing in popularity and still have tremendous growth potential.                                     |
| <b>Processed Fruit &amp; Vegetables</b> | 16   | 7  | 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             | High competition from EU products; Strong competition from local producers                              | High-quality product niche is not completely filled.  |
| <b>Condiments and Sauces</b>            | 5    | 21 | 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 EU and CIS countries.   | Good potential for high quality U.S. goods. Lack of high quality product lines and limited assortment of the local producers. |

|                    |   |    |  |   |  |
|--------------------|---|----|--|---|--|
| <b>Pet food</b>    | 8 | 20 | 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. As a result of ruble devaluation and lower consumer purchasing power, pet owners are switching from expensive goods to cheaper products of lower quality. | Traditionally large number of home pets;. Demand is growing towards cheaper segments of pet food. High competition with the EU |
| <b>Snack Foods</b> | 9 | 32 | 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*

## **SECTION V. POST CONTACT AND FURTHER INFORMATION**

Contact Information for FAS Offices in Russia and in the United States

U.S. Agricultural Trade Office Headquarters, Moscow

Email: [atomoscow@fas.usda.gov](mailto:atomoscow@fas.usda.gov)

Erik Hansen, ATO Director

E-mail: [Erik.Hansen@fas.usda.gov](mailto:Erik.Hansen@fas.usda.gov)

Alla Putiy, Marketing Specialist

E-mail: [Alla.Putiy@fas.usda.gov](mailto:Alla.Putiy@fas.usda.gov)

Olga Ivanova, Marketing Specialist

E-mail: [Olga.Ivanova@fas.usda.gov](mailto:Olga.Ivanova@fas.usda.gov)

Tatyana Kashtanova, Administrative Assistant

E-mail: [Tatyana.Kashtanova@fas.usda.gov](mailto:Tatyana.Kashtanova@fas.usda.gov)

*Street address (for express parcels):*

U.S. Agricultural Trade Office  
American Embassy  
Bolshoy Devyatinskiy pereulok, 8  
121099 Moscow, Russia  
Tel: 7 (495) 728-5560  
[www.usfoods.ru](http://www.usfoods.ru)

*For mail coming from the U.S. (delivery may take 2 to 4 weeks):*  
Director, Agricultural Trade Office  
5430 Moscow Place, Box 355  
Washington, DC 20521-5430

*Covering Northwest Russia (St. Petersburg):*  
Svetlana Ilyina, ATO Marketing Specialist  
American Consulate General  
Furshtatskaya Street 15  
191028, St. Petersburg, Russia  
Tel: 7 (812) 331-2880  
E-mail: [Svetlana.Ilyina@fas.usda.gov](mailto:Svetlana.Ilyina@fas.usda.gov)

*Covering the Russian Far East (Vladivostok):*  
Oksana Lubentsova, ATO Marketing Specialist American Consulate General  
Pushkinskaya street, 32  
690001 Vladivostok, Russia  
Tel: 7 (423) 230-00-89  
E-mail: [LubentsovaOx@state.gov](mailto:LubentsovaOx@state.gov)

*For General Information on FAS/USDA Market Promotion Programs and Activities:*  
Office of Trade Programs  
U.S. Department of Agriculture  
Foreign Agricultural Service  
1400 Independence Ave., S.W.  
Washington, DC 20250  
[http://www.fas.usda.gov/OTP\\_contacts.asp](http://www.fas.usda.gov/OTP_contacts.asp)

**FAS Website:** [www.fas.usda.gov](http://www.fas.usda.gov)

*For Trade Policy/Market Access Issues, General Information on the Russian Agricultural Sector, etc:*  
Jonathan P. Gressel, Agricultural Minister-Counselor  
Robin Gray, Senior Agricultural Attaché  
Rachel Vanderberg, Agricultural Attaché  
Office of Agricultural Affairs  
American Embassy  
5430 Moscow Place  
Dulles, VA 20189  
Fax: 7 (495) 728-5133 or 728 5102

Tel: 7 (495) 728-5222

E-mail: [agmoscow@fas.usda.gov](mailto:agmoscow@fas.usda.gov)

### **Other Useful Contacts**

The Agricultural Trade office works with a large number of U.S. industry organizations, several of which are resident in Russia. These cooperators share the view that Russia is a promising market for food products.

### **Alaska Seafood Marketing Institute**

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](mailto:Ksenia@crispconsulting.ru)

[www.alaskaseafood.ru](http://www.alaskaseafood.ru)

### **Almond Board of California**

RK Marketing Office,

29/1 Generala Tyuleneva Str., 117465, Moscow, Russia

Tel: 7 (495) 729-3080

E-mail: [office@Almonds.ru](mailto:office@Almonds.ru)

<http://www.Almonds.ru>

### **California Prune Board**

Mark Dorman

Suite 18, Harborough Innovation Centre

Airfield Business Par, Leicester Road

Market Harborough, Leicestershire

LE16 7QX

UK

Tel: +44 (0) 1858 414218

E-mail: [info@cpbeurope.eu.com](mailto:info@cpbeurope.eu.com)

### **California Table Grape 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](mailto:Ksenia@crispconsulting.ru)

<http://crispconsulting.ru/>

Katerina Akulenko (Vladivostok)

Address: 690090 Vladivostok, Russia, Svetlanskaya str., 37, Office 2

Tel.: 7 (4232) 56-5536

E-mail: [katerina@newmark.ru](mailto:katerina@newmark.ru)

### **Cranberry Marketing Committee**

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](mailto:Ksenia@crispconsulting.ru)  
Web : [www.uscranberries.com](http://www.uscranberries.com)

**Pear Bureau Northwest**

Katerina Akulenko  
Address: 690090 Vladivostok, Russia, Svetlanskaya str., 37, Office 2  
Tel.: 7 (4232) 56-5536  
E-mail: [katerina@newmark.ru](mailto:katerina@newmark.ru)  
<http://www.usapears.ru>

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](mailto:Ksenia@crispconsulting.ru)  
<http://crispconsulting.ru/>

**USA Poultry and Egg Export Council (USAPEEC)**

Albert Davleev  
Address: 123592 Moscow, Russia, Kulakova str., 20, Building 1A  
Tel: 7 (495) 781-9200  
E-mail: [usapeec@usapeec.ru](mailto:usapeec@usapeec.ru), [albertdavleyev@yahoo.com](mailto: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](mailto:moscow@usmef.org), [gkochubeeva@usmef.org](mailto: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](mailto: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](mailto:office@rkmarketing.ru)

**U.S. Wheat Associates**

Valentina Shustova  
Address: 129090 Moscow, Russia, Gilyarovskogo Str., 4, Stroyeniye 5, Office 101  
Fax: 7 (495) 207-4203

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

E-mail: [uswmow@dol.ru](mailto:uswmow@dol.ru)

[www.uswheat.ru](http://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](mailto:Ksenia@crispconsulting.ru)

[www.bestapples.ru](http://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](mailto: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](mailto: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](mailto:amchamru@amcham.ru)

<http://amcham.ru/>

### **American Chamber of Commerce in St. Petersburg**

Ulitsa Yakubovicha 24, left wing, 3<sup>rd</sup> Floor

190000 St. Petersburg, Russia

Tel: 7 (812) 448-1646

Email: [all@spb.amcham.ru](mailto: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](mailto: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.

### **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>

[RS1491 Food and Agricultural Import Regulations and Standards - Certification](#)

[RS1490 Food and Agricultural Import Regulations and Standards - Narrative](#)

[RSATO036 Retail Report / Annual](#)

[RFATO005 Consumer Trends in Food and Retail Sector](#)

[RSATO006 Russian Retailers Modify Strategies as Economy Slows](#)

[RFATO002 Government Inspectors Perform Mass Price Checks](#)

[RFATO019 Retailers in Federal Cities Must Now Pay Operating Fees](#)

[RFATO009 Duma Members Propose New Rules for Food Retailers](#)

[RFATO010 Moscow City Officials Crack Down on Energy Drinks](#)

[RFATO001 Food Import Ban Changing Russian Far East Food Market](#)

[RSATO1002 Trade Law Report](#)

[RSATO034 Draft Law of Organic Production Announced](#)

[RSATO032 Draft National Standard for Organic Production Announced](#)

[RSATO022 New Draft Organic Regulations Available for Public Comments](#)

[RSATO040 Russian Food Processing Sector](#)

[RSATO005 Consumer Trends in Food and Retail Sector](#)

[RSATO Russian HRI Sector](#)

[RSATO13 Franchise Restaurants Doing Well Despite Slowing Economy](#)

[RSATO015 Vegetable Prices Keep Rising](#)

[RSATO031 Fresh Deciduous Fruit / Annual](#)

[RS1554 Poultry and Products Annual](#)

[RSATO 1205 Strategy of the Russian Food Industry Development until 2020](#)

[RS1483 Dairy and Products Annual Report](#)