Overview

Russian agricultural imports from all countries as of September 2008 were up approximately 26% over the previous year, and were on track to hit $28 billion by year’s end. Russia is among the top export destinations for many U.S. agricultural products.

Top performing U.S. exports to Russia in 2008 include poultry, pork, food preparations, beef offals, tobacco and tree nuts. U.S. poultry exports are the largest contributor to the total value of agricultural exports to Russia, accounting for over 60% of the total value of U.S. agricultural exports in 2008. Impressive growth in U.S. fruit and nuts continues.

Other top U.S. export products include: fish, peanuts, snack foods (excluding nuts), wine, and hides and skins. Butter exports were a new opportunity in 2008, benefitting from the use of the GSM-102 program. The Russian Government’s financial support to the domestic livestock sector through the import of genetics increased opportunities for U.S. exports and this trend is expected to continue.

Russia’s retail sector has grown at a pace of 20% to 30% annually and has been one of the fastest growing sectors of the Russian economy. Starting at $35 billion in 2000, the volume of the food and beverage retail market has risen five-fold. According to the data from the Federal State Statistics Service (Rosstat), the value of the food and beverage market in Russia reached $191 billion in 2007 and contributed more than 44% to total retail sales. In the first 10 months of 2008, sales of food increased 9%. Because retailers demand consistent quality and adherence to contract specifications, and penalize suppliers for failure to meet requirements, foreign suppliers continue to be competitive in the Russian market as they are more accustomed to meeting such demands than are Russian agricultural producers. Despite worsening economic conditions that emerged in Russia in the last half of 2008, major retailers such as Victoria and Magnit report that they are maintaining the level of imported products on their shelves, an average of 20% to 25%.
In addition to the increase in size of the Russian food retail market as mentioned above, the structure of the market is changing as well. The structural evolution has been led by large retailers with annual turnover exceeding $1 billion. The expansion has been focused mainly on developing modern retail formats in large urban areas such as Moscow and the surrounding areas (50%) and St. Petersburg (30%); however, some retailers have made considerable efforts to expand into Russia’s regions. The Russian food retail market is highly fragmented due to a large number of companies operating in the market. The top 10 food retail chains currently occupy about 13% of the retail food market and constitute no more than 40% of the modern retail formats according to “Discovery Research Group.” Market fragmentation, the liquidity crisis, devaluation of the ruble, and the overall poor economic forecast could accelerate consolidation of the modern retail market in Russia which may translate into a market entry opportunity for foreign retailers.

Open-air markets and older Soviet-style stores, including wet markets, have been declining in popularity and losing market share to modern retail formats such as hypermarkets, supermarkets, and discounters. The older formats still occupy 67% of the total market but some forecasts predict this share will shrink to 45% by 2010. Of the modern retail formats, hypermarkets, and discounters are the fastest growing food retail formats, which control 27% and 43%, respectively. Hypermarkets are generally located in suburban areas outside larger cities. They attract consumers through lower prices and a large selection of products. St. Petersburg is the leader in these modern formats with sales at these establishments accounting for 22% of all sales citywide. Convenience stores have also grown in popularity in residential areas because of their accessibility and large selection of products compared with traditional small Russian outlets.

When evidence that the worldwide economic crisis had spread to Russia in the last quarter of 2008, retailers changed their strategy from expansion to market maintenance and survival. Many large retailers have frozen development projects in order to cut overhead to free up cash for operating expenses. For example, leading Russian retailer X5 Retail Group had invested $1 billion for capital expenditures in 2008, but has cut that figure in half for 2009 according to market research conducted by “Rosbusiness Consulting”. Interviews with retailers indicate that they have reduced their workforce by 10% to 30%, mostly administrative personnel and those working in the development departments.

According to Rosstat, inflation in 2008 reached 13.3%, far exceeding the Russian government’s forecast of 7% (which was adjusted upward several times throughout the year). Growth in food prices is a primary contributor to higher-than-expected inflation and is popularly perceived as having greatly exceeded Rosstat’s estimated 2008 food price inflation, 17.7%, especially for staples.

Agricultural finance improved from 2005 through 2008 due to infusions of government money into the charter capital of the Russian Agricultural Bank and expansion of its branch network into all
provinces of Russia in 2007-2008. Nonetheless, capital remains in short supply relative to demand and has been hampered by the global liquidity crisis at the end of 2008. Only 30% of agricultural land is even theoretically usable as mortgage collateral and less than 11% has been properly registered to permit it to be mortgaged, which constrains investment in agriculture. Vertical integration remains a major tool of producers and processors due to under investment in services, marketing infrastructure, and input supply chains.

The 2005-2007 National Priority Project for agriculture has been succeeded by a five-year program of agricultural development and market regulation, set to run from 2008 through 2012. Modeled after European Union and U.S. farm legislation, this program of support is intended to revive the Russian livestock sector and to provide basic forms of farm support.

Official statistics underreport agricultural trade due to heavy transshipments to Russia through Europe, particularly for fresh fruits and vegetables and for live horses.

The Russian Customs Service published a new list of points of entry authorized to handle customs declarations of meat and meat products that took effect February 14, 2008. Many customs declaration points in the Russian Far East Customs Directorate and the North West Customs Directorate, which together handle more than 85 percent of Russian meat imports, are currently missing from the list of approved entry points and are seeking inclusion in the list. Meat importers and processors expect the list of declaration points to be expanded, as the current order would cause considerable disruption to imports.

**Best Prospects/Services**

*Lists*

As of January 1, 2009, the Russian Federal Veterinary and Phytosanitary Surveillance Service (VPSS) has stopped issuing certificates for U.S. pet food, animal feed and animal feed additives. VPSS officials have advised that trade can resume only after USDA’s Animal and Plant Health Inspection Service (APHIS) provides lists of U.S. manufacturers that currently export to Russia. A similar list has been requested for milk and dairy before March 1, 2009. While list have been a long standing requirement for pork, poultry and beef, VPSS has requested that USDA review and provide a new list of facilities by April 1, 2009. The rigid control also extends to fish and seafood entering Russia. According to the Russian regulation starting January 1, 2009, all imported fish and seafood have to be shipped from foreign facilities approved by VPSS inspectors. However, the requirement will not apply to shipments of U.S. fish and seafood until July 1, 2009.
VPSS has requested that the United States certify that facilities included on the lists for all commodities meet all Russian import requirements.

**Poultry**

In 2007 poultry meat was a $1.1 billion market from all origins, including $635 million (60%) from the United States. In June 2005 the United States and Russia signed a meat agreement establishing a tariff rate quota (TRQ) for meat and meat products until 2010, including poultry. However, in late 2008, Russia requested consultations with its trading partners to discuss modifying the agreement for 2009. After long discussions, an agreement was reached between Russia and the United States cutting the U.S. poultry TRQ in 2009 to 750,000 MT and increasing out-of-quota tariffs to 95%. Under the deal Russia cut its 2009 quota for poultry imports from all countries from 1.25 million to 952,000 MT. In 2009 the volume of poultry imports eligible for reduced tariffs (25% ad valorem, but no less than 0.20 Euro per kg) under the TRQ is 952,000 MT from all origins, including up to 750,000 MT from the United States. Out-of-quota poultry meat is subject to a 95% ad valorem, but no less than 0.80 Euro per kg, tariff. Poultry meat and meat by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria.

**Beef**

In 2007, Russia imported nearly $1.8 billion worth of beef and beef by-products from all origins. U.S. beef exports to Russia were halted December 24, 2003 due to the outbreak of bovine spongiform encephalopathy (BSE, or "mad-cow disease") in the United States, but in 2007 the United States and Russia negotiated a new veterinary health certificate for beef based on standards of the International Organization for Animal Health. Beef and beef by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria. To date Russia’s veterinary service has listed 29 establishments as eligible to export to Russia following a round of plant inspections. Since the adoption of the beef veterinary certificate, the BSE status of the United States has been upgraded, and efforts are underway to negotiate a less restrictive veterinary health certificate reflecting that improved animal health status. Beef and beef by-products are subject to TRQs; in 2009, a total of 29,500 MT of fresh or chilled beef and 450,000 MT of frozen beef is eligible for the reduced tariffs (15% ad valorem, but no less than 0.20 Euro per kg for fresh/chilled and 0.15 Euro per kg for frozen). The U.S. country allocation in 2008 is 18,500 MT of frozen beef or beef by-products. High-quality ("Hilton") beef is not subject to the TRQ, but rather to a 3.00 Euro per kg ad valorem tariff.

**Pork**

Pork imports were a $1.7 billion market (all origins) in 2007, of which the U.S. share was $185 million (12%). In June 2005 the United States and Russia signed a meat agreement establishing a TRQ for meat and meat products until 2010, including pork. However, in late 2008 Russia
requested consultations with the United States to discuss modifying the agreement for 2009. After long discussions, an agreement was reached between Russia and the United States increasing the U.S. pork TRQ in 2009 to 100,000 MT and increasing out-of-quota tariffs to 75%. Under the deal Russia increased its 2009 quota for pork imports from all countries from 502,200 to 531,900 MT. In 2009 the volume of pork imports eligible for reduced tariffs (15% ad valorem, but no less than 0.25 Euro per kg) under the TRQ is 531,900 MT from all origins, including up to 100,000 MT from the United States. Out-of-quota pork meat is subject to a 75% ad valorem, but no less than 1.5 Euro per kg, tariff.

In 2007, the United States and Russia negotiated a new veterinary health certificate that allows frozen pork to be sold at retail and abolishes a previous requirement that all pork for retail sale undergo trichinoscopy. Pork meat and meat by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria.

Major competitors include Brazil, Canada, and Denmark, as well as rising domestic production spurred by the 2005-2007 National Priority Project for Accelerated Development of the Agroindustrial Complex and its successor the Government Program for Agriculture and for Market Regulation 2008-2012. Best prospects in the near term include frozen retail cuts as well as unprocessed pork as raw material for the sausage and food processing industries.

Livestock and Poultry Genetics

Following completion of the 2005-2007 National Priority Project for Accelerated Development of the Agroindustrial Complex, the Russian government adopted a five-year agricultural development program intended to create a new beef sector as well as to stimulate continued development of the poultry and pork sectors. The United States and Russia have successfully negotiated veterinary health certificates for live cattle, live swine, live horses and bovine embryos, which opened the door for imports of these items in 2008. Bovine semen imports from all origins totaled $1.2 million in 2007, and are on track to exceed $2.0 million in 2008, including $700,000 worth from the United States. Live horses for breeding and racing are a major item estimated at $60 million (precise data are unavailable due to transshipments via Europe).

Food Ingredients/Food Processing

Quality is becoming increasingly important to Russian consumers, meaning U.S. suppliers remain competitive for provision of inputs to the rapidly expanding food processing industry in Russia. Specialized ingredients for the meat processing, confectionary, juice and dairy processing sectors are in strong demand. Anti-biotechnology sentiment continues to rise, however, and actions by the Moscow City Council to require GMO labeling on packaged foods may induce importers to demand information on GMO content of ingredients.
**Edible Tree Nuts**

Since 2005, nut consumption in Russia has increased, driven largely by rising incomes, the increased awareness of the health benefits of nuts, and a trend toward maintaining a health-conscious diet. Tree nut imports tripled between 2006 and 2007 and outpaced projected sales for the year by reaching $240 million from all origins. The United States is the second largest supplier of nuts to the Russian market (after Iran), having shipped $67.8 million (28%) in 2007. Almond imports from the United States reached $60 million in 2007, double the 2006 record. U.S. pistachios entered the Russian market in 2007 and according to 2008 third quarter data, Russia has imported $27.3 million worth, 24% of total pistachio imports to Russia. Based on data for the first nine months of 2008, Russian imports of nuts are on track to far exceeded 2007 sales, with nine-month sales of pistachios and almonds alone at $77.3 million. Almonds, hazelnuts, and pistachios are the most popular nuts with consumers. The majority of imported nuts are packaged in Russia into consumer-ready packs or used in the confectionary and baking industries.

The financial crisis is expected to impact the industry. Nut traders began reporting a decrease in orders for almonds at the end of 2008 and are predicting the industry will shift away from expensive nut varieties in order to keep input costs low so the final product will remain affordable for consumers.

**Fish and Seafood**

Russian imports of fish and seafood exceeded $1.7 billion in 2007, an increase of 43% over 2006. Imports from the United States are estimated at $51.7 million up 17% versus 2006. Total Russian imports of fish and seafood are expected to reach about $1.8 billion in 2008, based on third-quarter data. According to Rosstat, retail prices for fish and seafood in Russia increased 12% in 2008. For 2009 we expect higher demand for fish in lower-priced segments such as herring, hake and perch, compared with more expensive fish and value-added products. Most companies have attributed this change to the current economic slowdown and decreasing purchasing power of the middle class. Fish consumption patterns depend heavily on household income and preferences within the population. According to Rosstat, consumption patterns indicate a 27% preference for herring, 26% for pollock; 18% for mackerel, 10% for salmon and trout, and 19% for other species. Frozen fish is also traditionally popular with the Russian population.

**Fresh Fruit (Apples, Pears, Grapes, Citrus)**

Russia is a net importer of fruit. While Russia is expected to continue investing in domestic production of apples on a commercial scale, the market remains highly dependent on fruit imports. In 2008, total fruit imports in Russia reached 3.5 million MT valued at more than $2.6 million, a 17.2% increase over 2007. Russia is the world’s largest importer of apples (731,000 MT) and pears (298,000 MT) and is one of the top five importers of grapes and stone fruit.
Russia imports fruit from all over the world. Apples and pears are traditionally imported from European countries. Grapes are imported from the Middle East, and pears, grapes, and exotic fruits are imported from the Southern Hemisphere. CIS countries such as Uzbekistan, Tajikistan, Ukraine, and Kazakhstan have also increased sales of fresh fruit to Russia. Last year, China became the main supplier of apples to Russia. U.S. fruit exports exceeded $10 million and reached 20,000 tons in volume. Sales of U.S. apples rose 40%, reaching 14,000 MT or $7.1 million. Sales of U.S. pears in 2007 grew to 5,868 MT, a 25% increase over 2006.

Test shipments of nectarines, peaches, and plums are coming to the Russian Far East. The trade and production record indicates that per capita fruit consumption in Russia rose to 42 kg. Healthier lifestyles are becoming more popular in Russia as diets are changing, and consumers are choosing more fresh and dried fruit as a substitute for other snacks. Fruit-based deserts are increasingly available in foodservice, and people are drinking more freshly squeezed juices. In addition to the economic uncertainty affecting all food import sectors, major issues facing fresh fruit imports are counterfeit product from other third countries and port congestion in St. Petersburg, a chokepoint for trade in perishables.

**Wine and Spirits**

Russian wine imports rebounded in 2007 with a 44% increase over the previous year and sales reaching $777 million. A portion of the gains can be attributed to the reopening of the market to Moldovan and Georgian wines which were banned in April 2006. Wine imports from Moldova resumed in November 2007 and imports from Georgia resumed in January 2008. As of September 2008 wine imports were up 27% over the previous year, but the United States remained underrepresented, with only $3.7 million (0.5%) of sales in 2007. U.S. wine sales for the first nine months of 2008 were up by about 71%. The major competitors are EU countries, especially France, Italy, Spain and Bulgaria, which enjoy geographic advantages and historic trade ties in this market. In 2008, Italy overtook Spain for second place in wine sales, and Moldova, which had been the market leader before the import ban, is still trying to regain market share and currently stands in sixth place behind Bulgaria. Aggressive marketing of U.S. wines has yielded results. The spirits trade continues to expand, with Russian imports of hard liquor exceeding $1 billion in 2007, an increase of more than 58% over 2006 figures. U.S. spirits exports to Russia hit $24.6 million in 2007 and were up 149% over the previous year. Hard liquor imports in the first three quarters of 2008 were $15.5 million alone (primarily Tennessee Whiskey and Kentucky Bourbon). American whiskies have begun to penetrate urban markets, competing with the market-dominant Scotch whiskies and European brandies and vodkas.

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