USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 01/30/2004

GAIN Report Number: RS4302

Russian Federation

Food Processing Ingredients Sector

Report

2004

Approved by:
Jeffrey Hesse, ATO Director
U.S. Embassy Moscow

Prepared by:
ATO Staff

Report Highlights:
Russia's food processing sector continues to grow at a strong pace, with total output in 2002 increasing by nearly 14 percent to an estimated $25.9 billion. Growing consumer demand for new and better quality food products, a healthy economy and further investment from both domestic and foreign sources is stimulating the continued rapid expansion in the local food processing sector. Recent favorable changes in Euro/Dollar and Ruble/Dollar exchange rates have also improved the price competitiveness of U.S. products. Despite competition from local and other foreign suppliers, there are good market opportunities for a wide range of U.S. food ingredients, including raw, semi-processed and specialty products.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Moscow ATO [RS4]
[RS]

TABLE OF CONTENTS

SECTION I. MARKET SUMMARY

During the early to mid-1990's, Russian imports of processed food products were growing rapidly and accounted for a large share of retail sales. However, the dramatic ruble devaluation in 1998 gave new life to domestic food processors as Russian consumers were forced to substitute less expensive local products for imported food and beverage products. Subsequently, food processing has become one of the most dynamic sectors of the Russian economy. In fact, total output (value basis) has nearly doubled since 1999, reaching $25.9 billion in 2002. Equally impressive is the fact that net profit for the sector has increased by 50 percent during the same period. The table below details growth for specific product categories:

Table A: Key Indicators For The Russian Food Processing Sector, 1999-2002

	1999	2000	2001	2002	2002/2001 (% change)
Number of businesses (thousand)	22.9	25.4	24.7	23.3	-5.7
Value of food production (billion US$)	14.6	18.7	22.8	25.9	13.6
Net profit (billion US$)	1.0	1.2	1.5	1.5	N/C
Bread/bakery products (million tons)	9.2	9.0	8.6	8.3	-3.5
Pasta products (thousand tons)	707	704	764	831	8.8
Confectionery (thousand tons)	1,509	1,628	1,793	1,952	8.9
Meat, incl. offals (thousand tons)	1,113	1,193	1,284	1,390	8.3
Sausages (thousand tons)	948	1,052	1,224	1,443	17.9
Dairy products (million tons)	5.6	6.2	6.7	7.5	11.9
Canned/preserved foods (million cans) 1/					
Vegetables, ex. juices or tomato products	322	386	417	489	17.3
Fruit juice	340	705	1,419	2,199	55.0
Fruits and berries	193	114	118	153	29.7
Tomato juice, paste, sauces, etc.	190	215	278	323	16.2
Dairy products	538	620	677	714	5.5
Canned fish/seafood	486	531	610	598	-2.0
Mineral water (million decaliters)	74	98	122	157	28.7
Vodka/liquor products (million decaliters)	134	123	131	139	6.1
Wine, grape (million decaliters)	18	24	27	32	18.5
Beer (million decaliters)	445	516	637	702	10.2

1/ Standard can = 335 grams
Source: Goskomstat (Russian State Statistics Committee)

Those processors who have been able to attract further investment have also done a good job of improving the quality of their products and the sophistication of their marketing efforts. In fact, growing consumer demand for more varied and better quality products helped boost direct investment in the food-processing sector during the first six months of 2003 by nearly 63 percent (in dollar terms), with investments increasing from $552 million in 2002 to $898 million in 2003 (Jan-Jun).

While the increasing sophistication of local food processors is creating tougher competition for some imported consumer-oriented food products, the rapid growth of the domestic food-processing sector is creating new import opportunities for a wide range of semi-processed and specialty food ingredients. Also, as the Russian economy continues to grow and consumer incomes improve, local processors are finding it necessary to source new and/or better quality ingredients to help maintain market share.

Recent key developments in the food processing sector include the formation of large vertically integrated agro-industrial companies, the slow-but-steady revival of the Russian farm sector, accelerated investment by foreign companies, and even the first listing of a Russian food processing company, Wimm-Bill-Dann (dairy products/fruit juice), on the New York stock exchange.

Consolidation through merger and acquisition by both local and foreign business groups is also accelerating in the Russian food-processing sector. For U.S. exporters, this could be a positive trend in that Russian companies with the ability to place larger orders for a network of processing plants may be more attractive trading partners.

Such consolidation was first seen several years ago in the brewing industry. However, the trend is now very apparent in the confectionary, dairy, and juice sub-sectors as well. In addition, several national and regional vertically integrated agro-industrial companies are combining grain/oilseed merchandising, feed production, livestock production, and meat and poultry processing (in most cases on company-owned farms rather than through contract farming). The following table provides an estimate of the level of concentration in these sub-sectors:

Table B: Market Concentration In The Food Processing Sector

Product Sub-sector	Market Value 2002 ($Million)	Market Share – 10 Largest Companies (%)
Beer	2.65	71
Confectionery Products	2.13	60
Non-alcoholic Beverages	1.11	57
Dairy Products	3.92	21
Meat Products	4.66	15

Source: UFG

By way of comparison, turnover in the retail food sector was almost $56 billion in 2002 or about 22 percent above the 2001 level. This expansion is the result of the entry and expansion of major foreign retailers (Ramstore, Metro, Auchan, Spar, AVA) and the equally rapid growth of several local chains (Perekryostok, Pyatorochka, Seventh Continent, Kopeika). As these retail chains grow, they are developing the power to demand better quality and greater consistency from local food processors.

As already noted, the rapidly expanding Russian food processing sector offers significant opportunities for U.S. suppliers of a wide range of raw, semi-processed, and specialty food ingredients. The following table summarizes the advantages and challenges for U.S. exporters considering the potentially rewarding entry into the Russian food ingredients market.

ADVANTAGES AND CHALLENGES FOR U.S. EXPORTERS

Advantages	*Challenges*
The Russian economy grew by 7.3 percent in 2003, with consumer incomes increasing at an even faster rate.	Although Russia's middle class is growing, many consumers still have relatively low incomes.
Local producers cannot meet the demand for all inputs of the type, quality and/or quantity required by local processors.	In some categories (e.g. grains, edible oils), local producers are becoming more efficient and displacing imports.
Food processing companies are beginning to expand and modernize, which is encouraging greater use of specialized food ingredients, many not available locally.	European suppliers have a geographic advantage due to closer proximity to Russian processors, which allows quicker delivery.
Consolidation among local processors is creating financially stronger companies that are able to place larger orders.	Changes in import regulations and/or tariffs sometimes lead to customs clearance delays or contract disputes.
Cash-in-advance is still a common trade practice, eliminating credit risk and the expense of letters of credit.	The high cost of local credit places limits on working capital, making it more difficult to purchase high quality inputs.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

While the best entry strategy for new-to-market exporters depends on their particular circumstances and experience, there are several general recommendations that can be made:

- Plan to attend one of the major food trade shows in Russia. *Ingredients Russia*, which is held in November, focuses specifically on the food processing sector and has expanded rapidly over the past several years. *Prodexpo* (February) and *World Food Moscow* (September) are the two largest general food and beverage shows. Each of these shows is well organized and heavily attended by the major Russian food processors and ingredient importers.

- Look for a reputable Russian importer instead of selling directly to the processor - at least initially. Choose a company that can provide strong trade references from other (non-competitor) foreign exporters and the Russian processing companies. Russia is a country where relationships take precedence and importing/distributing is an extremely time-consuming and bureaucratic undertaking. Having a local partner with a clear understanding of local market conditions and the right business connections can mean the difference between success and failure.

- If an exporter is willing to invest the necessary time and effort, even to the extent of establishing a representative office, then dealing directly with fast-growing Russian processing companies will provide better margins and the opportunity to respond more quickly to the clients' demands. If the decision is made to establish local representation, this office should be located in Moscow and run by an experienced Russian national to ensure the most effective market coverage.

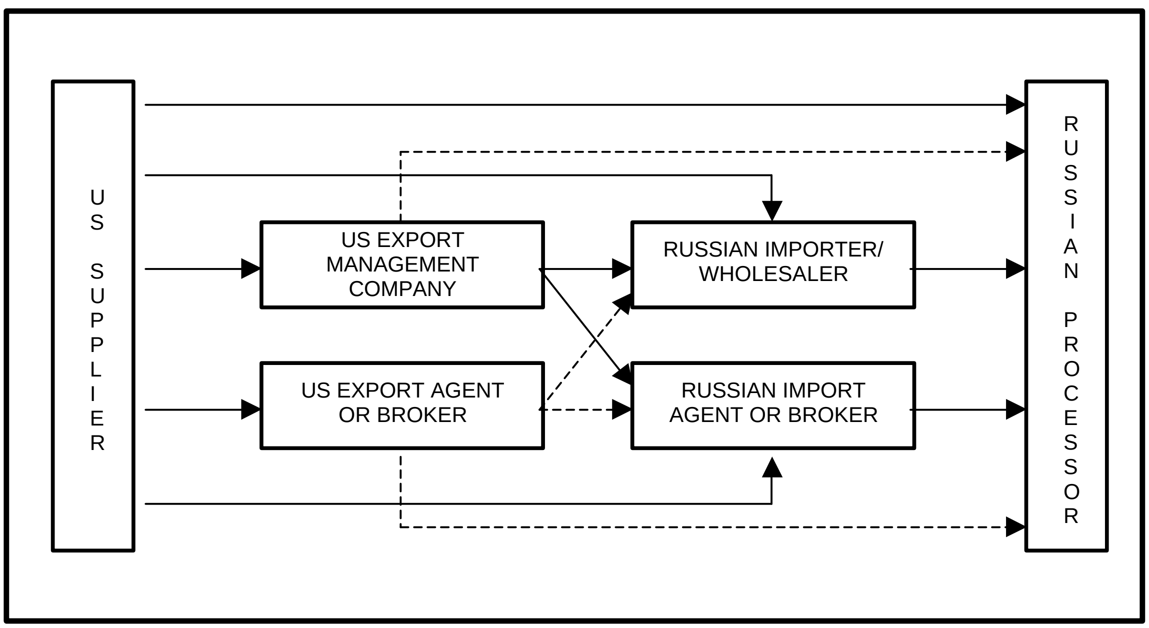
B. Market Structure

While import distribution options in Russia generally do not differ in type from those found in most markets, one key to success is finding an experienced and reputable customs broker, as the border is where most bottlenecks occur.

Clear market leaders have already established themselves among the many Russian importer/distributors. One of the strongest distribution trends is the consolidation and extending reach of Moscow/St. Petersburg-headquartered importer/distributors into the regions, forcing out smaller local distributors. Whereas three years ago most regional distributors were local operations, with two or three key "independent" distributors in each of Russia's 89 regions, today the key distributors are more likely to be branches/affiliates of a Moscow distributor or a "trans-regional" distributor operating across a group of neighboring regions.

On the output side, wholesalers continue to play a key role in the downstream distribution of the food processors' output. However, a growing number of food and beverage processors are distributing products directly to larger retailers. At the same time, Russian food retailers are expanding rapidly, increasing their buying power. This is a positive trend for U.S. exporters as financially strong retailers demanding products of consistent quality will help support the demand for quality imported inputs, especially in the form of specialized food ingredients.

Food Ingredient Distribution Channels



C. Company Profiles

The following table includes the major food processors in various categories. As most of these companies are privately owned, some sales figures are industry estimates.

Company (Product Types)	Sales ($Mil)	End-Use Channels	Production Location	Procurement Channels
Cherkizovsky (beef, pork - sausage)	$350 (2001)	Retail, HRI	Russia (9)	Importers, Distributors
KamposMos (pork - canned, sausage, etc.)	$130 (2002)	Retail, HRI	Russia (1)	Direct, Importers
Omsky Bacon (pork - bacon, sausage, etc.)	$120 (est)	Retail, HRI	Russia (1)	Importers, Distributors
AIG Mikhailovsky (poultry - chilled)	$50 (2001)	Retail, HRI	Russia (1)	Self
Golden Rooster (poultry - chilled)	350,000 birds/wk	Retail, HRI	Russia (1)	Self, Direct
Elinar (poultry – chilled, frozen, processed)	250,000 birds/wk	Retail, HRI	Russia (1)	Self
Produktiy Pitaniya (poultry – frozen, processed)	1200 MT/wk	Retail, HRI	Russia (1)	Direct, Importers
Nord (fish, seafood - frozen fillets, convenience)	n/a	Retail, HRI	Russia (1)	Self, Direct
ROK-1 (fish, seafood - frozen fillets, convenience)	n/a	Retail, HRI	Russia (1)	Self, Direct
Tunaycha (fish, seafood - frozen fillets, convenience, canned)	n/a	Retail, HRI	Russia (1)	Self, Direct
Ledovo (fish, seafood - frozen fillets, convenience)	$25 (est)	Retail, HRI	Russia (1)	Importers, Distributors
Wimm-Bill-Dann (dairy products, fruit juices)	$825 (2002)	Retail, HRI	Russia (21) Ukraine (2) Kyrgyzstan (1)	Direct, Importers, Distributors
Ostankinsky (dairy products)	120 TMT (est)	Retail, HRI	Russia (1)	Importers, Distributors
Prodimeks (canned/condensed milk)	$500 (est)	Retail, HRI	Russia (1)	Importers, Distributors
Altervest (ice cream)	8 TMT (2002)	Retail, HRI	Russia (1)	Importers, Distributors
Ice-Fili (ice cream)	15 TMT (2002)	Retail, HRI	Russia (1)	Importers, Distributors
Nestle (ice cream)	17 TMT (2000)	Retail, HRI	Russia (1)	Direct, Importers, Distributors
Russkiy Holod (ice cream)	27 TMT (2002)	Retail, HRI	Russia (1)	Importers, Distributors
Servis Kholod (ice cream)	9 TMT (2002)	Retail, HRI	Russia (1)	Importers, Distributors
Campina (yogurt)	56 TMT (est)	Retail, HRI	Russia (1)	Importers, Distributors
Danone (yogurt)	70 TMT (est)	Retail, HRI	Russia (1)	Importers, Distributors

Ehrmann (yogurt)	70 TMT (est)	Retail, HRI	Russia (1)	Importers, Distributors
Planeta Management (frozen foods)	$48 (2002)	Retail, HRI	Russia (1)	Importers, Distributors
SladCo (confectionery)	$119 (2002)	Retail	Russia (4)	Importers, Distributors
Babyevsky (confectionery)	$180 (est)	Retail	Russia (4)	Importers, Distributors
Krasny Oktyaber (confectionery)	$126 (2002)	Retail	Russia (8)	Importers, Distributors
Rot Front (confectionery)	$174 (2002)	Retail	Russia (1)	Importers, Distributors
Rossiya (confectionery - Nestle)	$90 (est)	Retail	Russia (2)	Direct, Importers, Distributors
Mars (confectionery)	$100 (est)	Retail	Russia (1)	Direct, Importers, Distributors
Odinstovo (confectionery)	$36 (2002)	Retail	Russia (1)	Importers, Distributors
Dirol/Stirol (chewing gum)	7 TMT (est)	Retail	Russia (2)	Importers, Distributors
Chupa Chups (confectionery)	400 mln pcs (est)	Retail	Russia (1)	Importers, Distributors
Bolshevik (cakes, cookies)	52 TMT (est)	Retail	Russia (1)	Importers, Distributors
Kraker (cakes, cookies, crackers)	20 TMT (est)	Retail	Russia (1)	Importers, Distributors
Nestle (confectionery, coffee, baby food, ice cream, cereal)	$700 (2002)	Retail, HRI	Russia (10)	Direct, Importers, Distributors
Multon (fruit juices)	325 mln ltrs (est)	Retail, HRI	Russia (1)	Importers, Distributors
Lebedyanskiy (fruit juices)	325 mln ltrs (est)	Retail, HRI	Russia (1)	Importers, Distributors
Nidan-Ecofruit (fruit juices)	170 mln ltrs (est)	Retail, HRI	Russia (2) Ukraine (1)	Importers, Distributors
Ekstra-M (pasta)	$48 (2002)	Retail, HRI	Russia (1)	Importers, Distributors
Russkiy Produkt (pasta, soup, instant coffee)	$125 (est)	Retail, HRI	Russia (1)	Importers, Distributors
Makfa (pasta/instant cereal)	$106 (est)	Retail, HRI	Russia (1)	Importers, Distributors

Bistroff (instant cereal)	$37 (est)	Retail	Russia (1)	Importers, Distributors
Best Foods (mayonnaise, soup, stock)	n/a	Retail, HRI	Russia (1)	Direct, Importers, Distributors
Baltimor (ketchup, mayonnaise, margarine, sauces, frozen food)	$150 (2002)	Retail, HRI	Russia (4)	Importers, Distributors
Moscow Fats Combine (veg. oil, margarine, mayonnaise)	$48 (2002)	Retail, HRI	Russia (1)	Importers, Distributors
Rospiritom (vodka/spirits)	$1,500 (est)	Retail, HRI	Russia (110)	Importers, Distributors
Kristall (vodka)	42 mln ltrs (1998)	Retail, HRI	Russia (1)	Importers, Distributors
Baltika Beverage (beer)	$452 (2001)	Retail, HRI	Russia (6)	Direct, Importers, Distributors
Sun-Interbrew (beer)	$413 (2001)	Retail, HRI	Russia (11)	Direct, Importers, Distributors
Ochakovo (beer)	$220 (est)	Retail, HRI	Russia (1)	Importers, Distributors
AO Vena (beer)	$320 (est)	Retail, HRI	Russia (1)	Importers, Distributors
Mars (pet food)	55 TMT (est)	Retail	Russia (1)	Direct, Importers, Distributors
Cargill (glucose)	n/a	Processing	Russia (1)	Direct, Importers, Distributors

Source: company press releases; industry estimates

D. Sector Trends

Processing Trends

- Rapid consolidation among Russian food processors is continuing
- Multinational food companies are establishing local processing facilities
- Powerful vertically-integrated agribusinesses are growing across virtually all sub-sectors
- The expansion of vertically-integrated agro-industrial enterprises is contributing to the revival of local farm production. However, in some cases, it may take years for the domestic farm sector to be in position to supply even a majority of local processors' input requirements
- Brand awareness among Russian food consumers is increasing, forcing local processors to offer food products of higher and more consistent quality
- Premium local food brands requiring higher quality inputs are appearing, although the emphasis is still on producing low cost food products for the majority of consumers
- Local production of specialized food ingredients remains limited, while the demand for such products continues to rise
- Outside of the FSU, Russia is yet not a major exporter of processed food products, although a few processors are trying to push their products into Western markets (e.g., Wimm-Bill-Dann's "Mores", a berry juice drink, to selected EU countries)

Consumption Trends

- Rising incomes among the growing middle class are creating demand for more variety and higher quality food products
- Several local processors (e.g., Korkunov confectionary and Tinkoff beer - both relatively new brands) have found a growing market for high quality products targeted at the middle class
- Consumption of some food products (for example, beer), is growing rapidly and quickly reaching Western levels, while other categories are rising more slowly
- Prepared foods, such as pre-packed salads, instant noodles, sliced and vacuum-packed fish, are becoming increasingly popular due to the large number of working couples and are now available in most food stores
- Despite growing demand for convenience foods, most consumers are still price sensitive, especially in the regions, and the majority buy raw materials to prepare meals at home
- In general, Russian public opinion about food produced with genetically-modified inputs is negative, although there is clearly a lack of objective information on the subject
- Many Russian consumers still prefer traditional Russian recipes and tastes, although new flavors and types of foods are finding their way into the Russian diet
- While specialized products, such as diet and health foods, do not generate great demand at this time, rising incomes and growing concerns about healthy lifestyles will lead to growth in this product category

SECTION III. COMPETITION

Domestic producers are becoming increasingly competitive suppliers of primary processing inputs due to greater investment from Russian and foreign capital sources. However, for many products (soybeans, edible oils, meat and poultry products, dairy products) there is still a window of opportunity for exporters as the rehabilitation of Russian farming is still in its early stages. Key laws have been passed - such as the recent law allowing the buying and selling of agricultural land - but implementation of the law will take time. Further, while investment in Russian farming has dramatically increased over the past several years, it is still a trickle of what is required to bring the productivity of Russian farms up to Western levels.

In an effort to further reduce import dependence and boost local production, the Government of Russia (GOR) imposed tariff rate quotas (TRQs) on poultry and meat in 2003. Not only have these country-specific TRQs limited overall import competition, they have also reduced competition among foreign suppliers by locking in market shares based on historical trade levels. Fortunately, U.S. suppliers have retained a dominant share of the poultry TRQ and smaller portions of the quotas for beef and pork. In the past year, there have been calls for the introduction of quotas on other products, particularly dairy products.

While the TRQs have stimulated greater investor interest in local meat and poultry production, they have also caused an inevitable rise in local consumer prices. Domestic food processors have raised concerns about the impact of these price increases on their production costs and, as a result, their ability to compete with imported processed products. However, it appears that the TRQs will remain in place, at least for the near term.

In the specialized food ingredients sub-sector, European-based companies provide the principal competition for a wide range of products. Competitive prices, short shipping times, and lower freight costs provide a significant advantage for these suppliers. However, a favorable shift in Euro/Dollar and Ruble/Dollar exchange rates is making U.S. food ingredients more competitive.

Table C: Major Suppliers Of Selected Specialized Ingredients

Cultures	Emulsifiers	Pectin	Flavors
Chr Hansen Danisco Rhodia	Danisco IFOP (local) Palsgaard Quest	CP Kelco Danisco Degussa Herbstreit & Fox	Quest Danisco Dragoco IFF Firmenich Aromatika (local)
Stabilisers	**Enzymes**	**Compounds**	
Danisco Hahn Rhodia Palsgaard	Danisco Novo Dohler Wild Aromatika (local)	Danisco	

Despite the current dominance of European suppliers, U.S. exporters may be able to compete in many of these categories. Although European suppliers have the advantage of lower transportation costs due geographic proximity, this is not as great a factor in the supply of high-cost specialized food ingredients as it is, for example, for bulk grains/oilseeds.

Table D: Major Supply Sources For Selected Product Categories

Product Category	Major Supply Sources in 2002	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Poultry Meat Net Imports: 1,407,435 tons $810 million	1. US – 51% 2. Brazil – 25% 3. France – 6% 4. Germany – 4% 5. Netherlands – 3%	**US** price competitive, provides tech support, benefits from country-specific TRQ; **Brazil** competes on price, offers favorable terms	New tariff rate quotas (TRQs) limit imports, but management challenges and high feed costs lead to greater cost of production for domestic suppliers
Pork Net Imports: 602,010 tons $672 million	1. Brazil – 60% 2. China – 11% 3. Denmark – 6% 4. US – 3%	**US** price competitive on some cuts/trimmings; **Brazil/China** compete on price/credit terms	New TRQs limit imports, but management challenges and high feed costs lead to greater cost of production for domestic suppliers
Beef Net Imports: 469,140 tons $589 million	1. Ukraine – 32% 2. Germany – 20% 3. Ireland – 11% 4. US – less than 1%	**Ukraine, Germany, Ireland** enjoy historical trade ties, short shipping time	New TRQs limit imports, but management challenges and high feed costs lead to greater cost of production for domestic suppliers
Offal Net Imports:	1. US – 43% 2. Denmark – 13% 3. Germany – 11% 4. France – 6%	**US** price competitive; **Denmark, Germany** enjoy short shipping time	Management challenges and high feed costs lead to greater cost of production for domestic suppliers

$112 million			
Fish & seafood Net Imports: 626,815 tons $383 million	1. Norway – 41% 2. Latvia – 10% 3. UK – 6% 4. Denmark – 6% 5. US – 1%	**Norway** enjoys quality reputation, traditional trade ties, offers strong promotional support	Significant problems with infrastructure and fishing quota management; much of local production exported to higher priced markets
Egg Products Net Imports: 1,087 tons	1. Denmark – 68% 2. Belgium – 22%	**Denmark, Belgium** enjoy historical trade ties, short shipping time	Management challenges and high feed costs lead to greater cost of production; local processors prefer egg products over raw eggs
Dried Fruit Net Imports: $40 million	1. Tajikistan – 35% 2. Iran – 19% 3. Uzbekistan – 15% 4. Afghanistan – 12% 5. US – <1%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time	Some local production of dried pears and apples, but no major commercial production
Tree Nuts Net Imports: 40,000 tons $23 million	1. US – 26% 2. India – 10% 3. Iran – 9% 4. Azerbaijan – 9%	**US** dominates almond trade, which expands sharply; **India** and **Iran** dominate cashew and pistachio markets, respectively	Some local production of walnuts but overall production limited
Fruit Juices and Concentrates Net Imports: 300 million liters $128 million	1. Brazil – 27% 2. Netherlands – 22% 3. US – <1%	Bottled/packaged juice imports typically sold in premium market; **Brazil** major supplier of orange juice concentrate for processing due to competitive price	Local production of apple and some berry juices accounts for large share of domestic juice processing but imports of tropical and sub-tropical concentrates compete directly
Protein Isolates & Concentrates Net Imports: $21 million	1. Netherlands – 38% 2. Denmark – 18% 3. Israel – 12% 4. Brazil – 10% 5. US – 6%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time	U.S. and foreign companies beginning some local production
Potato Flakes, Flour and Meal Net Imports: $4 million	1. Germany – 46% 2. France – 15% 3. Netherlands – 14% 4. Finland – 10% 5. Belgium – 9% 6. US – 5%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time	Russia major producer of fresh potatoes and potato starch but output of other products is limited
Essential Oils Net Imports: $4 million	1. US – 37% 2. Germany – 20% 3. Austria – 10% 4. UK – 7%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time	Some local production (and export) but food processors largely dependent on imports
Hops Net Imports: $15 million	1. Germany – 80% 2. U.S. – 14% 3. Czech Rep. – 3%	Many brew masters are German or German-trained, favor German hops; short shipping time; competitive prices	Some local production but supply is limited and quality is inconsistent
Lacs, gums, veg extracts Net Imports:	1. Spain – 35% 2. Germany – 23% 3. Italy – 6% 4. Chile – 6%	Principal suppliers enjoy traditional trade ties, competitive prices and short shipping time	

$40 million	5. U.S. – 2%		

Source: Russian State Statistics Committee (Goskomstat); industry estimates

SECTION IV. BEST PRODUCT PROSPECTS

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

- Poultry/beef/pork trimmings and offals
- Fish and seafood products
- Quality prunes, raisins, and other dried fruit - competition from low priced (although inconsistent in quality) suppliers from central Asian/Middle Eastern countries
- Quality almonds, pecans, other tree nuts, and peanuts
- Hops - rapidly expanding sector relies heavily on imports from Europe; very limited local commercial production
- Flavor enhancers for processed meat products
- Functional soy concentrates and isolates - primarily for sausage production
- Lactose
- Quality Textured Vegetable Protein (TVP) - about half for use in sausage and half (high-caliber TVP) for canned meat
- Gluten Powder - Russian wheat typically low in gluten content
- Dextrin and other modified (etherified) starches
- Preservatives and food colors - virtually no domestic production
- Essential oils
- Seasonings/spices/flavorings

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

- Frozen or soft pasteurized fruits - for yogurt and ice cream
- Various specialized food ingredients, including carrageenan, emulsifiers, enzymes, pectins, starter cultures, and functional systems (integrated blends of emulsifiers and thickeners)
- Certified organic/natural ingredients - while many local processors are advertising “natural” or “ecologically-clean” food and beverage products, there are no official organic standards and such claims cannot be substantiated
- Kosher and halal-certified ingredients - sizeable Jewish population with growing interest in kosher products; large (and growing) Moslem consumer base in Russia and CIS countries

Specialized food ingredients (soy products, flavors, stabilizers, etc.) could form one of the best market niches for U.S. exporters. Prior to the 1998 financial crisis, specialized food ingredients were generally found only in the operations of foreign multinationals. However, the use of such ingredients is on the rise as local processors adopt new production methods and retool older plants or build new facilities to produce food products that meet the changing demands of retailers and consumers.

Ingredients Russia, the largest local show focusing on the food-processing sector, offers another example of the range of food ingredients with trade potential. The following table lists the product categories and number of exhibitors represented at the November 2003 show:

Ingredients Russia 2003: Product Categories and Indicative Number of Suppliers

ACIDULANTS	4	ENZYMES	9	MILK PRODUCTS	
ADDITIVES		ESSENTIAL OILS	16	Milk Fat Products	3
Anti-caking agents	4	FAT REPLACERS	10	Caseinates & derivatives	7
Antifoaming agents	3	FATS AND OILS		Lactose	4
Clarifying agents	2	Specialty	24	Milk powders/dairy blends	9
Clouding agents	7	Vegetable	24	Milk products	4
Curing agents	5	Tropical	10	Whey products	5
Firming agents	1	Fatty acids	2	MINERALS	4
Glazing agents	8	Fat powders	2	NUT PRODUCTS	
Lubricants	2	FIBERS, DIETARY	10	Butter, pastes, purees	11
Phosphates	16	FISH & SEAFOOD PRODS		Whole, broken, roasted	13
Raising agents	8	Fish powders/extracts	5	ORGANIC INGREDIENTS	
Release agents	5	Fish - dehydrated/dried	1	Basic & compounds	3
Waxes	5	FLAVORS & AROMAS		Semi-finished prod.	2
Peptides & amino acids	4	Aroma chemicals	6	PRESERVATIVES	24
Antioxidants	11	Flavor enhancers	19	PROTEINS (non-dairy/soy)	9
BAKERY PRODUCTS		Flavors, natural	33	PROTEINS/HYDROLYSATES	6
Bakery fillings	23	Flavors, artificial	30	SAUCES/DRESSINGS	11
Bakery improvers	15	EXTRACTS (non-fish/meat)	17	SEED PRODUCTS	4
Batter/breading/coating	13	FRUIT PRODUCTS		SOYA PRODUCTS	
BLOOD PRODUCTS	3	Juice concentrates	8	Flour	7
BROTHS, STOCKS, BASES	11	Powders	10	Lecithin	6
CEREALS		Fruit, aseptic	5	Proteins	12
Flours, milled cereals	2	Fruit, canned/frozen	1	Soy sauce/fermented	3
Malt products	2	Fruit, dehydrated/dried	15	STARCH & DERIVATIVES	16
CHEESE PRODUCTS		Jams, pastes, candied	10	SUGARS, SWEETENERS	
Cheese powders	7	HERBS, SPICES	36	Sugars, specialty	5
Cheese products	4	STABILIZERS		Sweeteners, bulk/polyols	10
CHOCOLATE/COCOA		Cellulose & derivatives	4	Sweeteners, high-intensity	8
Chocolate products	10	Gelatin	10	Syrups	10
Cocoa products	23	Gums & resins	18	VEGETABLE PRODUCTS	
COLORS		Pectins & derivatives	15	Powders	16
Natural	31	Seaweed hydrocolloids	24	Dehydrated/dried	20
Synthetic	16	Stabilizer blends	29	VITAMINS	6
CONFECTIONERY PRODS	18	MEAT AND POULTRY		YEAST PRODUCTS	6
CULTURES & STARTERS	9	Dehydrated/dried	3	INGREDIENTS FOR	
EGG PRODUCTS	7	Powders & extracts	8	FUNCTIONAL FOODS	17
EMULSIFIERS	34				

Note: Each exhibitor may be listed under more than one category
Source: Ingredients 2003 show catalog

SECTION V. POST CONTACT AND FURTHER INFORMATION

CONTACT INFORMATION FOR FAS OFFICES IN RUSSIA AND THE U.S.

U.S. Agricultural Trade Office
American Embassy
Bolshoy Devyatinskiy Pereulok 8
121099 Moscow, Russia
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069
E-mail: atomoscow@usda.gov

Jeffrey Hesse, Director

For mail coming from the U.S.:
Agricultural Trade Office
PSC 77 AGR

APO, AE 09721

***For international mail*:**
Agricultural Trade Office
U.S. Embassy - Box M
Itainen Puistortie 14
00140 Helsinki, Finland

Covering Northwest Russia (St. Petersburg):
ATO Marketing Assistant
American Consulate General
Nevskiy Prospekt, 25
191186 St. Petersburg, Russia
Tel: 7 (812) 326-2580; Fax: 7 (812) 326-2561
E-mail: Maria.Baranova@usda.gov

Covering the Russian Far East (Vladivostok):
ATO Marketing Assistant
American Consulate General
Ulitsa Pushkinskaya, 32
690001 Vladivostok, Russia
Tel: 7 (4232) 300-070 or 300-089; Fax: 7 (4232) 300-089
E-mail: Svetlana.Ilyina@usda.gov

For General Information on FAS/USDA Market Promotion Programs and Activities:
AgExport Services Division
Room 4939
14^{th} and Independence, SW
Washington, DC 20250
Tel: (202) 720-6343; Fax: (202) 690-0193

USDA/FAS AND ATO PROGRAMS AND SERVICES

The Foreign Agricultural Service and the Agricultural Trade Office/Moscow offer a variety of programs, services, and information resources to help U.S. exporters of food, beverage, and agricultural products learn more about the Russian market, establish initial contact with Russian buyers, and promote their products in the local market. Following is a partial listing of programs and services:

Trade Leads are direct inquiries from Russian buyers seeking U.S. sources for specific food, beverage, or agricultural products. U.S. companies can receive these Trade Leads by contacting the AgExport Services Division, FAS/USDA or by visiting the USDA/FAS Homepage (see contact information at the beginning of this section).

Buyer Alert is a bi-weekly publication providing information on specific food, beverage, and agricultural products offered by U.S. exporters. U.S. companies may place ads in Buyer Alert by contacting the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

U.S. Supplier Lists are drawn from an extensive database of companies that can supply a wide range of U.S. food, beverage, and agricultural products. The ATO Moscow supplies these lists to Russian importers on request. U.S. companies that wish to be included in this database should contact the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

Foreign Buyer Lists are drawn from an extensive database of Russian importers dealing with a wide range of food, beverage, and agricultural products. U.S. companies can order these lists through the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

ATO/Moscow also coordinates U.S. participation in local trade shows (see list of Russian Trade Shows below), sponsors supermarket and menu promotions, provides support for trade missions, and can help arrange appointments for first-time visitors to Russia. For more detail on these and other programs or activities, please contact the ATO/Moscow (see contact information above).

The FAS website (www.fas.usda.gov) is an excellent source of information on other USDA/FAS export promotion/assistance programs, such as the Market Access Program (MAP) and Credit Guarantee Programs, as well as a wide range of information and reports on market opportunities for U.S. food, beverage, and agricultural exports world-wide.

OTHER MARKET REPORTS

Reports on the Russian food and agricultural market are also available on the FAS website. U.S. exporters may also contact ATO/Moscow for copies of these reports (see contact information at the beginning of this section). The following reports may be of particular interest:

Report Title	Report #	Report Summary
Exporter Guide	RS4301	Provides an overview of the Russian food market, identifying opportunities for U.S. food and beverage products in the retail, HRI, and processing sectors
Retail Food	RS4303	Reviews developments in Russian retail food sector, highlighting emerging opportunities for U.S. consumer-oriented food products
HRI Food Service	RS4304	Examines Russian hotel/restaurant/institutional sector, focusing on market opportunities for U.S. products in the food service industry
The Russian Marketplace	RS3310	Quarterly newsletter highlighting developments in the Russian food retail, HRI, and processing sectors
Food and Agricultural Import Regulations and Standards	RS3020	Detailed information on Russia's food import requirements, including certification, labeling and packaging requirements
New Resolution Concerning Use of GMOs in Food Products	RS3031	Overview of new regulations concerning the testing and approval of foods containing of genetically-modified organisms (GMOs)
Livestock and Products Annual	RS3018	Review of the Russian market for beef and pork, including production, consumption and trade.
Poultry and Products Annual	RS3019	Analysis of the Russian market for poultry meat, including production, consumption and trade.
Fishery Products Annual	RS3033	Overview of the Russian market for fish and seafood products meat, including production, consumption and trade.

OTHER USEFUL CONTACTS

American Chamber of Commerce in Russia
Kosmodamianskaya Nab. 52, Building 1, 8th floor
113054 Moscow, Russia
Tel: (095) 961-2141; Fax: (095) 961-2142
Email: amcham@amcham.ru

American Chamber of Commerce in St. Petersburg
25 Nevsky Prospect
191186 St. Petersburg, Russia
Tel: (812) 326-2590; Fax: (812) 326-2591
Email: sbytchkov@amcham.ru

For questions on agricultural machinery, food processing and packaging equipment/materials, refrigeration equipment, etc., please contact the U.S. & Foreign Commercial Service:

Foreign Commercial Service
Bldg. 2, 23/38 Bolshaya Molchanovka
121069 Moscow, Russia
Tel: 7 (095) 737-5030; Fax: 7 (095) 737-5033
E-mail: moscow.office.box@mail.doc.gov

TRADE SHOWS IN RUSSIA

The following are large, well-organized, international shows:

INGREDIENTS RUSSIA

The only food ingredient-specific trade show in Russia. Although relatively new, the show is growing in popularity with exhibitors and food ingredient buyers alike.

Date: November 2004
Location: Olympiskiy Center, Moscow
Website: http://www.ite-exhibitions.com/
Contact: Olga Taybakhtina, Marketing Assistant
ATO Moscow
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069
E-mail: atomoscow@usda.gov

PRODEXPO (with American Café)

Prodexpo is the largest food and beverage show in Russia, with a large number of international exhibitors and many country pavilions.

Date: February 2004
Location: Krasnopresnenskaya Expocenter, Moscow
Contact: Olga Taybakhtina, Marketing Assistant
ATO Moscow
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069
E-mail: atomoscow@usda.gov

WORLD FOOD MOSCOW

The longest-running food and beverage show in Russia, World Food draws well from throughout Russia and from many countries of the Former Soviet Union.

Date: September 2004
Location: Krasnopresnenskaya Expocenter, Moscow
Website: http://www.ite-exhibitions.com/
Contact: Olga Taybakhtina, Marketing Assistant
ATO Moscow
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069
E-mail: atomoscow@usda.gov

INTERFOOD 2004

This show covers the important Northwest region of Russia (St. Petersburg, Kaliningrad, etc.) However, the show also draws visitors from Moscow and other areas of Russia, as well as neighboring countries.

Date: April 2004
Location: Lenexpo Center, St. Petersburg
Contact: Maria Baranova, Marketing Assistant
American Consulate General, St. Petersburg
Tel: 7 (812) 326-2580; Fax: 7 (812) 326-2561
E-mail: Maria.Baranova@usda.gov

IMPORT DUTIES/VAT FOR SELECTED PRODUCTS [1/]

Product/Category	HS Code	Import Duty	VAT
Meat and Meat Products	0201-0206	15%, but not less than 0.2 - 0.25 Euros per kilo [2/]	10%; 18% for veal, beef cuts, tongue
Poultry and Poultry Products	0207	25%, but not less than 0.2 Euros per kilo [2/]	10%; 18% for processed products
Seafood	0301-0307	10%	10%; 18% for some products, incl. salmon, sturgeon, and fish roe
Dairy Products	0401-0406	15%, but not less than 0.18 - 0.30 Euros per kilo	10%
Fresh/Dried Vegetables	0701-0714	5-15%, but not less than 0.08 - 0.12 Euros per kilo	10%
Fresh/Dried Fruit and Nuts	0801-0813	5-10%	18%
Coffee, Tea, and Spices	0901-0910	5-20%, but not less than 0.2 - 0.8 Euros per kilo	18%
Grains	1001-1008	5%; rice - 10%, but not less than 0.03 Euros per kilo	10%
Wheat Flour, Starch, Malt, Grain Preps, Gluten	1101-1109	10%, but not less than 0.03 Euros per kilo	18%; 10% for flour
Oilseeds and Oilseed Products	1201-1214	5%	10%
Sausage, Canned Meat and Seafood	1601-1605	15-20%	18%; 10% for liver sausage and some canned fish, incl. tuna, herring, mackerel
Sugar and Confectionery Products (not including cocoa products)	1701-1704	5%	18%; 10% for sugar and fructose
Cocoa and Cocoa Products	1801-1806	5-10%	18%; 10% for cocoa butter and fat
Pasta and Baked Products	1901-1905	15%, but not less than 0.06-0.15 Euros per kilo	18%; 10% for pasta products
Canned Fruit/Vegetables, Juices	2001-2009	5-15%	10%
Instant Soup, Ice Cream, Baby Food, Food Ingredients	2101-2106	10-20%	18%; 10% for sauces, ketchups, soups, bullions, food mixes
Alcoholic Beverages	2201-2209	15-20%, but not less than 2.0 Euros per liter	18%
Animal Feed	2309	5-20%, but not less than 0.16 Euros per kilo	10%; 18% for pet food packed for retail

1/ The duties listed here are for illustrative purposes only. For specific product information, please contact the Agricultural Trade Office/Moscow.

2/ Tariff rate quotas (TRQs) were introduced for meat and poultry products (HS Code 0201-0207) in 2003. Out-of-quota tariffs are 60-80%.