



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 03/21/2000

GAIN Report #RS0017

Russian Federation

Retail Food Sector Report

2000

Approved by:

Geoffrey W. Wiggin

U.S. Agriculture Trade Office, Moscow

ATO Staff

Report Highlights:

This report discusses the Russian retail sector before and after the August 1998 financial crisis. The retail sector was seriously affected by the financial crisis of August 1998 due to the ruble devaluation and subsequent diminished buying power of consumers. However, over the past year and a half, the sector has stabilized. Although sales are still 25 percent to 30 percent below pre-crisis levels, demand is picking up, especially for more competitively priced products. The report identifies a list of products that may have the best prospects in the short to near term for U.S. exporters interested in exporting to Russia.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1], RS

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Acknowledgment

This market study was funded by a grant from the Emerging Markets Office, Foreign Agricultural Service, USDA, to promote American exports to developing markets. The primary research was conducted by the Center for International Agrobusiness , Russian Academy of National Economy.

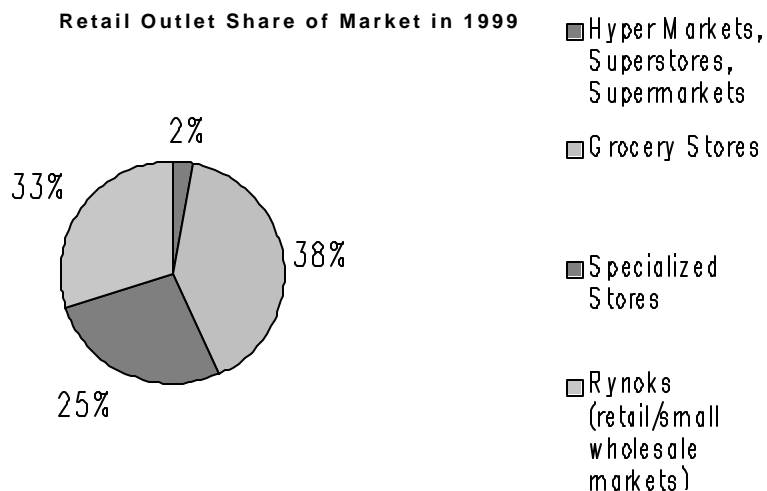
SECTION I. MARKET SUMMARY

Russia is a multinational, multiethnic country with a population of close to 147 million. The majority of this population live in urban areas (107 mln. people, or 73%).

The financial crisis of August 1998 has seriously affected the purchasing power of the population. Retail sales of food and beverages in CY1998 was USD 53.4 billion, a decrease of USD 19.6 billion or 26.9% when compared to CY1997. The demand for food items during the earlier part of 1999 continued to fall: total volume of food and beverages retail sales was USD 41.7 billion, less than half of the volume in CY1997.

Nevertheless, despite the negative effects brought on by the financial crisis, the retail sector in the 1990's was probably the most dynamic and rapidly developing sector of the Russian economy thanks to the efforts made towards the development of a free market economy.

The increased flow of capital brought into the retail sector by the reforms has had a positive impact on Russian cities and towns. All over Russia, food stores have been able to upgrade their technology and



new cafeterias and restaurants started springing up. Traditionally, retail trade of food and beverage products takes place in mixed “rynoks”(outdoor markets) and small food stores, especially among the population with lower incomes. In the more remote and rural areas, food retailing was traditionally provided by outlets of consumers’ cooperative system and by kolkhoz (collective farms) markets. In recent years, with the disintegration of this system, the rural population is supplied with food from backyard farming and farm markets, by trade “at the side-of-the-road”, retailing "on-wheels" with such essential goods as vegetables, bread, salt, preserves, pasta, etc.

In large cities such as Moscow, St. Petersburg and, to a lesser extent, in Ekaterinburg and Vladivostok, the last several years have seen retail trade make its way from such traditional venues to

hyper/supermarkets such as Ramstore, Perekrestok, and Seventh Continent.

Russian consumers spend about 60 percent of their income for purchasing food products (20 percent for meat and fish products). Retail prices for food items in Russia are much lower than in the USA. For example, in Moscow in 1999 , the retail price for chilled boneless beef was USD 2.27-2.65 per kilo, for frozen bone-in beef - USD 1,7-1,9 per kilo. Pork has similar prices. Full fat milk (3.5% fat) costs about USD 0.36 per liter, white bread - USD 0.18 for a loaf (0.4-0.5 kg), apples - USD 0.76 or seasonal USD 0.38 per kilo, bananas from USD 0.53 per kilo.

Since 1995, there has been a great deal of fluctuation in food prices for the same food items throughout Russia. The regional prices are influenced by numerous factors, including underdeveloped market infrastructure and different natural and climatic conditions in Russian regions. In addition, the unstable political and economic environment in Russia hampers the development of the food market:

Advantages and Challenges Facing U.S. Products in Russia

Advantages	Challenges
Russian consumers spend nearly 60 % of their income on food products. Most Russian customers go shopping for food products nearly every day and visit an average of 5 retail outlets per week.	Russia does not yet have an integrated national food market infrastructure.
Retail sector in the 90-s was probably the most dynamic and rapidly developing sector of Russian economy.	The Europeans subsidize their production to compete in the Russian market
American food and agricultural products are recognized to be of good quality.	Financial crisis of 1998 has seriously affected the purchasing power of consumers
	Due to credit constraints and consequent preference for quick deliveries, Russian importers tend to favor European suppliers who have a significant geographical advantage over their American counterparts

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Hyper Markets, Superstores, Supermarkets

The way to enter Russian market is basically the same for all sub-sectors.

Products are mostly imported by Moscow or St. Petersburg suppliers who may also be a wholesaler and/or distributor. One of the greatest challenges of doing business in Russia is the confusing and constantly changing regulations which partly correspond to international standards. Any imported food product sold in Russia must undergo a multi-stage certification process. Apart from duties and taxes, an importer must provide Certificate of Origin, Certificate of Hygiene, Certificate of Conformity, and Veterinary Certificate (for meat products) to clear food products.

To sell American (or other foreign) food products on the Russian market the importers have to meet Russian labeling requirements. The information printed on the label in Russian must include name and type of products, country of origin, producing company, weight or volume, ingredients, nutritional value, conditions of storage (if necessary), expiration date, and instructions for use.

Once the Certificate of Origin and Certificate of Hygiene is obtained, an American company must obtain a Certificate of conformity according to GOSSTANDARD (National body for Certification of goods) requirements. The Russian government does not recognize foreign quality marks such as "clinically tested", UL, or GMP. The only foreign quality marks accepted in Russia are the German DIN-GOST-TUV and the British SGS. Goods can be tested at one of a number of testing laboratories within Russia or through the New Jersey branch of SGS, the only testing agency in the U.S. recognized by Russia to issue GOSTANDARD certification. The certificate of conformity must be presented at Customs upon arrival of the goods to the Russian Federation and shall be required upon sale of the goods.

An American firm operating without a local agent will pay higher customs fees and face more difficult inspection procedures than a domestic company. For these reasons, finding a local intermediary or sales office is highly recommended. The local representative may also be the importer and distributor of similar food products. This agent will help facilitate the penetration of a U.S. product into the Russian market. A model used by many successful Western companies operating in Russia is using a Moscow-based trading company to act as primarily customer and facilitator of imports.

The other factor which makes Moscow purchases more desirable for regional distributors is the fact that Moscow importers can make very large purchases and take advantage of volume discounts which regional distributors could never hope to match.

American companies should consider major retailers as potential customers. In many cities there are retailers which run retail chains and can afford container size purchases. The firm makes container load purchases directly from importers in Moscow. These retailers typically control the former state owned downtown food and general retail stores and as a result have strong local connections and well established local distribution.

Major Supermarket Profile

Name of Retailer and Type of Outlet	Ownership	Sales 1999 (\$ million)	No. Of Outlets	Location	Type of Purchasing Agent
Ramstor, Hyper	Turkish	120 - 140	2	Moscow	Distributors, Wholesalers
Perekryostok, supermarket	Russian	70 - 80	10	Moscow	Distributors, Wholesalers
Seventh Continent, supermarket	Russian	50 - 70	6	Moscow	Distributors, Wholesalers

Three major retail chains -- Ramstore, Seventh Continent, and Perekryostok -- use about 500 wholesale food suppliers in Moscow.

Superstores and supermarkets are becoming more and more popular because of their location in residential or "bedroom" districts of large cities with a high concentration of residential consumers. Built 2-4 years ago and targeted to middle-class and lower income class consumers, the above mentioned retail chains implemented state-of-the-art technology, including scanner checkouts, computers, and discount programs. The large supermarket chains sell food products of high quality at a comparatively lower price. In large Russian cities there are more opportunities for expansion as the existing stores can not yet satisfy the growing demand for retail outlets.

B. Grocery Stores, Specialized Stores

Distribution channels and the entry strategy for grocery and the specialized stores sub-sector is basically the same as for superstores and supermarkets.

Grocery Stores and Specialized Stores Profile

Name of Retailer and Type of Outlet	Ownership	Sales 1999 (\$ million)	No. Of Outlets	Location	Type of Purchasing Agent
Grocery Stores	Russian	0.1-0.5	113600	Nationwide	Distributors, Wholesalers
Specialized Stores	Russian	0.1-0.5	76680	Nationwide	Distributors, Wholesalers

Well developed all over the country, grocery and specialized stores in cities and towns are the primary sources for everyday purchasing of staple foods such as bread, milk and dairy products, vegetables and fruits for most Russian consumers.

C. Rynoks (Outdoor Markets)

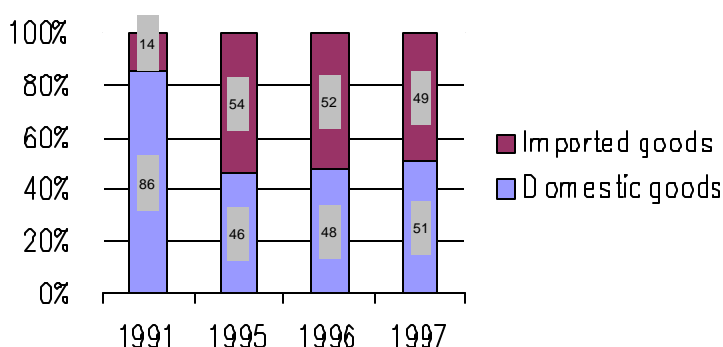
Rynoks (Retail/small wholesale Markets) Profile

Name of Retailer and Type of Outlet	Ownership	Sales 1999 (\$ million)	No. Of Outlets	Location	Type of Purchasing Agent
Rynoks	Russian	10 - 60	1500	Nationwide	Distributors, Wholesalers

Rynoks remain the primary source of food products for most Russian consumers. Food products sold at rynoks are much cheaper than similar types of food products in supermarkets and food stores. Local administrations indirectly subsidize the development of rynoks. Most rynoks sell domestic and imported food products. Although the total number of rynoks is far fewer than that of grocery and specialized stores, they occupy a substantial share of the market.

III. COMPETITION

Under the current economic conditions in Russia, consumers' demand for certain food products are constantly changing. The reasons are varied, but mostly have to do with income levels of different population groups, seasons, national traditions, etc. Among these factors, the most decisive is price. The structure of the supply of retail commodities has changed radically in the course of reforms in Russia. Locally produced products covered 86% of retail demand in 1991 and 51% in 1997. Imported goods made up 14% in 1991, compared to 49% in 1997.

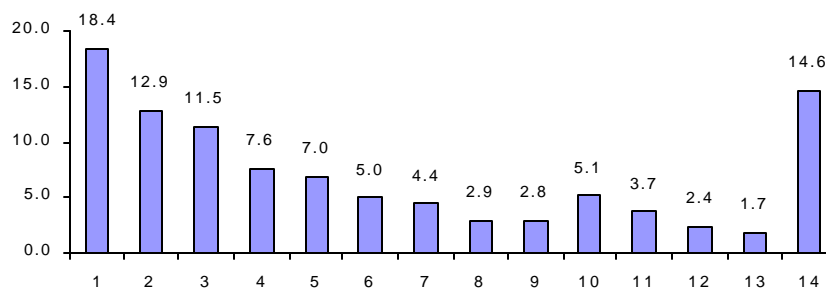
Retail Sector Balance (Percentage)

Food imports play an important role in the retail market. In 1992-1993, when the Russian government first opened its borders for imports, demand for all imported goods in Russia was at an all time high. Only in 1995-1997 did the share of imported goods in retail sector become more stable.

Food import fluctuations

Year	Billion US dollars	% to the similar period of the previous year
1995	13.2	123.2
1996	12.0	90.8
1997	13.4	112.6
1998	10.3	79.9
1999	-	-

**Structure of Russian import in 1998
for basic foods and agricultural raw materials.**



Imported supplies of basic foods and agricultural raw materials to Russia in 1998 is as follows:

1 - meat and meat products	- 18.4 % (\$1.8956 billion)
2 - sugar and confectionery	- 12.9 % (\$1.3338 billion)
3 - raw tobacco and cigarettes	- 11.5 % (\$1.1864 billion)
4 - alcoholic and alcohol-free beverages	- 7.6 % (\$784.7 million)
5 - fruits and nuts	- 7.0 % (\$719.4 million)
6 - oil and tallow; ready for consumption oil	- 5.0 % (\$511.1 million)
7 - dairy products, eggs, natural honey	- 4.4 % (\$454.7 million)
8 - ready-made goods from cereals, flour, starch, etc.	- 2.9 % (\$296.5 million)
9 - ready-made meat and fish products	- 2.8 % (\$288.3 million)
10 - other foods	- 5.1 % (\$526.5 million)
11 - processed vegetables, fruits, nuts	- 3.7 % (\$380.9 million)
12 - cereals	- 2.4 % (\$248.5 million)
13 - wastes and residues of food industry, pet food	- 1.7 % (\$178.7 million)
14 - other commodities	- 14.6 % (\$1.5 billion)

Overall, the share of imported foods in retail sales was 19% in 1998 and 14% in January-August 1999.

Below is a percentage breakdown of the shares of imported foods in different categories of the retail market:

Item	Percentage share
• meat, sausages, butter	22 – 30
• mayonnaise, margarine, meat preserves, pasta	36 – 41
• cheese	50
• poultry	57
• vegetable oil	56

Below is the percent of owners and managers of food stores and food wholesalers in Russia preferring to purchase goods from the following countries:

• European countries	31 %
• China, Korea, Hong Kong	15.1%,
• USA and Canada	11.2%,
• Japan	3.3%.

Most goods with lower quality and price are usually imported from Turkey, India, Indonesia, Malaysia, Vietnam, Bulgaria, Moldova, Belarus, and the Ukraine.

In the past 2-3 years, a “defend domestic producers” campaign has been waged on all levels of Russian society. Stricter import regulations and other measures have considerably affected the import of certain types of goods (namely, butter, and white sugar). Nevertheless, the volume of food imports was most affected by the August 1998 financial crisis.

In the months immediately after the crisis, many experts claimed that it was the beginning of the end of Russian food imports, especially of high-value food products. However, in large cities such as Moscow and St. Petersburg, it seems that imported products are making a comeback, at least in large supermarkets whose clientele are the more well-to-do of the population.

The overwhelming majority of customers in these stores do not economize on food, particularly where beverages and tobacco goods are concerned. However, at this stage, they are not rushing to buy expensive imported goods, either, especially when a less expensive domestic substitute is available. Partly as a result of the crisis which helped the domestic food processing industry, there are a number of large domestic producers offering a wide selection of products that are comparable in quality to some imports. Among the most popular domestic brands are products from the Moscow Fats Plant (mayonnaise, margarine, vegetable oil); packaged smoked meat products of Moscow meat factories (for example, “Cherkizovo”, “Kampomos”, “Tump”, “Tzaritzino”); poultry foods from factories “Elinar”, “Stavropol Broiler” and others; and dairy foods “Domik v Derevne” and “Milaja Mila” (“Little Village Home”, “Nice Mila”).

The United States is one of the main suppliers of food and agricultural raw materials to Russia. In 1998, the U.S.'s share of these imported goods to Russia was 11.7% in monetary terms – \$1.2 billion, a decrease of \$255.8 million from 1997. Again, this substantial decrease is attributed to the Russian financial crisis of August 1998.

In 1998, three quarters of all American imports could be divided into the following two product groups: meat and meat products (43.4% of sales) and tobacco and cigarettes (31.2 % of sales). The U.S. share of the Russian imports of frozen meat and edible poultry by-products was 75.6%; and of chicken legs and by-products, in particular, was 92.3%.

The Russian financial crisis has had almost no effect on the import of American tobacco and cigarettes, but has reduced the import of meat, alimentary meat products and ready-to-eat meat cuts by \$900 million, excluding food aid.

Grain, soybeans, corn, and cigarettes are in strong demand in Russia, as well as a number of numerous semi-finished foods, including pizza and other frozen products.

IV. BEST PRODUCT PROSPECTS.

For the American exporter, some of the best product prospects for the short to near term include inputs for the food processing industry, in addition to certain high-valued consumer food products for the retail market. Access to credit or credit guarantees can facilitate the following export projections:

- **Grains and oilseeds** - During the next few years, Russia likely will import from the USA 1.5–2.0 million metric tons of soybeans and soybean meal, 1.5-2.0 million metric tons of corn and other fodder grain (total amount of US\$600-700 million).
- **Meat and meat products** - Traditionally, Russia is the largest world importer of these goods. In the coming 2 or 3 years the U.S. may gain half of this market (US\$1.0 –1.2 billion). Taking into account the present situation in the Russian pig farming industry and the high demand for pork, pork imports from the U.S. may rise to US\$200-250 million a year.
- **Oil and tallow of animal and vegetable origin** - Russia is an importer of vegetable oil. Russian commercial importers (about 12 companies) are ready to order U.S. soybean and sunflower oil up to the total amount of US\$250-300 million a year and inedible animal fats for about US\$50-60 million.
- **Milk and dairy products** - Although the USA's share in this market is still rather small, imports from the U.S. of products such as butter, dry milk, certain types of cheese have the potential to grow (up to US\$40-50 million a year).
- **Alcoholic and non-alcoholic beverages** - U.S. suppliers of these products, including malt beer, soft drinks, and ethanol, have the best prospects in the Russian market. For example, imports of ethanol non-denatured may grow up to US\$100-150 million a year.
- **Precooked frozen foods and meals from cereals, flour, starch, etc.** - Russian consumers,

particularly in urban areas, have welcomed the import of these products. The development of domestic production of these products, including breakfast cereals and pizza, is rather slow, and is well behind market demand. U.S. companies may easily increase the export of the above products to up to US\$100 million a year.

- **Fruits and nuts** - The import of high quality U.S. products such as fruit and nuts, including apples, pears, oranges, lemons, tangerines, grapefruits, various types of nuts and dried fruits could reach US\$100 million a year
- **Pet food** - The pet food market is still a relatively small (about US\$25 million) in Russia. The U.S. has approximately 25% of this market. Taking into account the underdeveloped pet food industry in Russia and the popularity of pets (dogs, cats, other animals and birds) in Russian urban areas in recent years, pet food imports may increase 3-4 times, up to US\$ 20-25 million a year.
- **Canned fruit and vegetables** - Russian imports of these products, including juices, sweet corn, peanuts, and olives, total US\$500 million a year. American suppliers have very good prospects in increasing their market share up to US\$80-100 million a year.
- **Sugar and confectionery** - Russia is one of the world's largest importers of raw and white sugar. Although the market of relatively new products such as glucose-fructose, fructose, various types of syrups and starch is still rather small, sugar imports, however, will grow up to US\$ 200-300 million a year, as sugar processing is capital-intensive and the industry is still underdeveloped in Russia,

V. POST CONTACT AND FURTHER INFORMATION

For more information on how to access the Russian market for consumer foods and beverages, please contact:

Agricultural Trade Office
Embassy of the United States
Novinsky Bulvar, 19/23, 121099, Moscow Russia
Tel: (7-095) 728-5560
Email: agtrade@corbina.ru

(We are in the midst of changing over to a new phone system. Our new fax number is not available at this time. Please check our Web Site - www.agmoscow.post.ru - for updated numbers after May 9, 2000)

You may also visit the USDA/FAS Home Page (<http://www.fas.usda.gov>) for more information on how to export U.S. agricultural products to Russia.

Additional Trade Contacts:

The Russian- American Chamber of Commerce in Moscow. USA Tel: (303) 745-0757, Fax: (303) 745-0776, Email: russia@rmi.net, Internet: <http://www.rmi.net/racc>

Trade Shows:

Of the many industry trade shows held in Russia each year the following two are the best:

- Prodexpo-2000. Held annually in Moscow. Next show: February, 2001.
- World Food-2000. Held annually in Moscow. Next show: September 18-22, 2000.

Contact Expocenter: Russia Tel: +7 (095) 255-3733, Fax: +7 (095) 205-60-55, E-mail: centr@expocentr.ru, Internet: <http://www.expocentr.ru>.

Key trade news sources and journals:

- **Interfax Food and Agriculture Report** (Weekly, in English or in Russian): Interfax-America, Inc.: U.S.A. Tel: (303) 825-1510, Fax (303) 825-1513, Email: america@interfax-news.com, Internet:<http://www.interfax-news.com>.
- **Vitrina** (Bimonthly, in Russian): Russia Tel: +7 (095) 232-3200, Fax: +7 (095) 150-3462
- **You and Your Store** (Monthly, In Russian): Russia Tel: +7 (095) 933-4078, Email: elena.romanova@william-reed.co.uk
- **Russian Food World** (Quarterly, in Russian with English summaries): Russia Tel/Fax: +7 (812) 252-7785, Email: info@foodmarket.spb.ru
- The following trade journals are available only in Russian: **Food Processing Industry** (monthly); **Food Ingredients** (biannually); **Beer and Beverages** (quarterly); **Baking in Russia** (bimonthly); **Fat and Oil Processing Industry** (quarterly) and **Food, Taste and Aroma** (quarterly). Russia Tel: +7 (095) 207-1770, Fax: +7 (095) 207-2861, Email: foodprom@ropnet.ru

Internet

- **www.aris.ru** - official site of the Ministry of Agriculture and Food of the Russian Federation
- **www.fadr.msu.ru** - Foundation of Agrarian Development and Research
- **www.agrorus.ru** - collection of links