



# THE Russian Market Place

U.S. AGRICULTURAL TRADE OFFICE - MOSCOW

## DECEMBER HIGHLIGHTS

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with Alexey Portanskiy

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## WTO Within Sight

Last month Russia signed a bilateral trade agreement with the United States, a prerequisite for Russia's accession to the World Trade Organization, promising greater market access. The final rounds were hard fought on both sides, not least by Alexey Portanskiy, director of Russia's WTO Information Center. He characterizes the final stages of the negotiations:

*Bilateral talks between Russia and the US on Russia's WTO accession were rather complicated. The most difficult issues were access to the Russian market of financial services, protection of intellectual property rights (IPR) in Russia, reduction of duties on civil aviation equipment and issues of agricultural trade.*

*Originally, it was planned to sign a bilateral agreement in July, 2006 in St. Petersburg within the G8 summit. However, the intention failed: the stumbling block was agriculture, to be more exact, sanitary control (SPS measures) while exporting American beef, pork and chicken meat to Russia.*

*The negotiations were still of a complicated character, and sometimes there was not enough certainty that the agreement would meet the deadline. Finally, the necessary accords were reached on November 10, 2006 at the talks in Brussels, which opened the way for signing the bilateral deal on November 19, 2006 in Hanoi in the course of the APEC summit.*

*An outstanding role in reaching the final agreement belongs to the US Administration and, in particular, to President George W. Bush. It is known, that the Russian authorities have also highly appreciated President Bush's role in signing the bilateral deal with the US on Russia's WTO accession.*

Russia had to agree with 58 WTO member states, which composed the Working Party on Russia's WTO accession. And now, in 2007, Russia has only to complete the multilateral talks.

The agreement represents a major milestone in trade relations between Russia and the U.S., but full benefit to both parties still hinges on a few decisions. Portanskiy highlights one:

*It is necessary to note that both Russia and the US will be able to experience the positive effect of the deal to its full extent, only after the US Congress grants Russia PNTR. And for that, the Congress should vote first for abolition of the Jackson-Vanik amendment in respect of Russia. We do not know when it will happen, but we'd like to hope for the near future.*

With the multilateral complete and a positive decision by congress, what can exporters expect in terms of market access? Portanskiy remarks:

*The importance of the agreements and compromises has a great meaning both for the bilateral relations between Russia and the US, and for completion of the accession process. However it does not mean an immediate practical effect. The impact of such deals will be felt with years. For instance, in practice, the US and other trade partners will feel a gradual reduction of trade barriers in Russia as a result of import customs duties decrease in the course of 2-7 years. So, the average weighted tariff for industrial goods will go down from 10.2 % to 6.9% during this time.*

Read more about Russia's point of view at its WTO Information Center <http://www.wto.ru/en/newsmain.asp>  
The Agreement and side letters are available at <http://eng.uda.ru> or <http://ustr.gov>

### **Russia's Economy at a Glance**

- The Russian market includes 142.8 million consumers.
- Incomes grew over 20% in 2005. The average monthly wage is \$1,031 in Moscow, \$370 in other regions.
- Per capita GDP reached \$5,300 in 2005, compared to \$4,039 in 2004.
- Moscow consumers spend 70% of their incomes on consumer goods, the highest ratio in Europe.
- In the period of 2002 –2006 the retail market increased an average of 28.6% per year, reaching \$117 billion.
- 44 % of products sold through retail are imported
- The world's fourth fastest growing economy, Russia's GDP grew 6.6 percent to \$570 billion in 2005
- Russia's investment rating went up this year. In the first half of 2006, investments totaled \$23.4 billion, 41.9% higher than the same period in 2005.

Golden Autumn, a food trade show and agricultural exhibition, with American animal genetics companies and a catalog show, has a cultural flair unlike any other. Russian national songs and dances are performed throughout the day at the exhibition hall.



Chef Lazerson, spokesperson for the U.S. Food Safety and Quality Information Program, addresses press at a demonstration held at the Ambassador's residence. If you read Russian, check out [usfoods.ru](http://usfoods.ru), if not log on for the cool pictures.



World Food 2006 provided 45 U.S. companies with an excellent opportunity to inform potential customers of product characteristics and establish business partnerships.



## The Face of U.S. Foods

### Website and News Coverage Giving U.S. Foods a Good Name

One challenge in the Russian food market is the negative propaganda used to stymie imports. The safety and quality of many foreign food products are questioned, and U.S. foods are no exception. This September, USfoods.ru, was unveiled as a key promotional tool for U.S. food products, emphasizing quality and safety. The website is part of a bigger campaign, the U.S. Food Quality and Safety Information Program, to counter misconceptions held by Russian consumers. Producer and exporter associations like the U.S. Poultry and Egg Export Council, the U.S. Meat Export Federation, the Pear Bureau Northwest, the Washington Apple Commission and the U.S. Pea and Lentil Council teamed up with the ATO to initiate the campaign, which will benefit the entire food industry. In addition to the website, other media outlets will be used to inform consumers, especially women, of the U.S. food safety system and the general quality of foods from the U.S. A press conference to announce the website's opening was hosted by Ambassador William J. Burns and resulted in 18 articles in 15 publications and three television reports, reaching an estimated 75 million consumers. The campaign also includes cooking demonstrations by Russia's internationally renowned Chef Ilya Lazerson. Other spokespersons include Dr. Alexander Baturin, M.D., the deputy director of research at the Russian Institute of Nutrition and Dmitry Yanin Chairman of the Confederation of Consumer Societies. A culinary television broadcast, regional press conferences and cooking demonstrations are being planned during the next months. Contact [Eric.wenberg@usda.ru](mailto:Eric.wenberg@usda.ru) for more.

### U.S. Biotechnology Revisited at National Agricultural Celebration

Several sections of the U.S. pavilion at Russia's national agricultural exhibition, Golden Autumn, were designed specifically to provide expert consultation on food safety and quality issues. Dr. Bruce Chassey of the University of Illinois, consulted with agricultural specialists, food policy officials, and scientists from various institutes on biotechnology issues. He also delivered a lecture on products of biotechnology to specialists from the Moscow city government and the Ministry of Agriculture. Ms. Olga Liefert of USDA's Economic Research Service (ERS) consulted on U.S. economic issues and agricultural policies with press and visitors; Dr. Sujatha Sankula of the National Center for Food Policy answered many questions on U.S. agricultural policies. USfoods.ru public relations firm, Global Works, was on hand at Golden Autumn, along with Food Safety and Inspection Service specialist, Dr. Barbara McNiff, to answer questions of journalists and agricultural specialists on the use of chemicals and other safety issues. Contact [Yelena.vassilieva@usda.ru](mailto:Yelena.vassilieva@usda.ru) for more

### Trade Shows 2006

World Food and Golden Autumn are Russia's one-two punch in the food and agriculture sector in early autumn. World Food, held in September, brings together 1100 businesses from 55 countries, making deals happen for food retailers wanting to get a slice of the Russian market. ATO Moscow coordinated the efforts of 45 U.S. exporters in a pavilion complete with sprawling USA banners, internet access, and Russian interpreters. Golden Autumn, held in October, showcases a wider variety of agriculture goods, with technical aspects of food production in the limelight. As such, companies like Pureline Genetics and groups like U.S. Livestock Genetics, the Holstein Association and the Swine Registry fit in well with the biotechnology experts that ATO hosted at its U.S. pavilion. A seminar hosted with ATO's support drew a crowd interested in poultry breeding and led to measurable success.



## Industry Showcase: Seafood and Spirits

### A Good Catch: Seafood Imports Rise

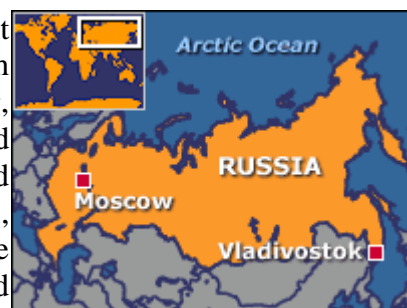
Russian imports of fish and seafood products in 2005 reached nearly \$1 billion, up 48 percent from 2004. According to trade analysts, this trend will likely continue into the near future, reflecting growing consumer income in important metropolitan areas, higher prices for other animal proteins, and changes in consumer preferences from the recent avian influenza scare. Consumption has soared in the ready-to-eat market segment for products like shrimp, crabs, scallops, squids, and mussels, growing an average of 30 percent annually. The United States has boosted exports of fish products to Russia by nearly 100 percent. In 2005, Russia's trade deficit in exports and imports of fish and fish products reached nearly \$500 million, an increase of 55 percent over the previous year. Although Norway remains the most important supplier of fish and fish products to Russia, other countries have increased their share in the Russian market. Contact [Marina.muran@usda.gov](mailto:Marina.muran@usda.gov) for more.

### Alcohol Market Staggers: Ill-conceived Interventions Cause Disruptions

On the heels of a disastrous policy targeted at alcohol over-consumption as a social-ill, the Russian government is proposing even heavier-handed regulation to curb its unintended consequences. As a means to control retail alcohol sales last year, mandatory-labeling regulations caused supply to plummet, finally coming to a standstill in April. Amid the disruption, a black market for pure ethyl alcohol arose, which is unfit for human consumption. The consequences have been severe; Russia has since seen a spike in the number of deaths from alcohol poisoning. Year on year, however, alcohol related deaths are down. Though the original policy has been relaxed and the market has returned to normal, the "ongoing epidemic of alcohol-related illness" is seen as grounds to set up a state alcohol monopoly. Most measures have focused on a monopoly for ethyl alcohol, but Boris Gryzlov, Speaker of the Russian Parliament has commented publicly that retail sale of alcohol should be monopolized by the state. Should the measures succeed, the economic impact would be substantial. Sales of all wines and spirits in Russia totaled \$17.9 billion in 2005, according to Euromonitor, International. The national statistical agency in Russia puts this figure closer to \$35 billion. Contact [Natalia.comizzoli@usda.gov](mailto:Natalia.comizzoli@usda.gov) for more.

### Vladivostok: Reaching Russia's Far East Market

The port city of Vladivostok is becoming an increasingly important hub of trade for food imports to the Russian Far East. Currently fresh fruits, frozen meat and poultry, ingredients for food processing, microwave pop corn, frozen potato products, and seafood are imported from the U.S. directly. Before the 1998 ruble crash, the U.S. shipped other products such as salad dressings, seasonings, cereals, candy bars, canned and frozen vegetables, and juices. Now, with a favorable exchange rate, U.S. products are growing more competitive, and Vladivostok is again seeing an increase of shipments, taking advantage of the rise in consumer income and number of retail grocery chains. Contact [Svetlana.ilyina@usda.gov](mailto:Svetlana.ilyina@usda.gov)



### Other Happenings

- St. Petersburg Marketing Assistant, Ksenia Evdokimova, brought 14 fruit importers to the PMA Fresh Summit trade show in November in San Diego. A Russian market seminar provided a venue for companies to meet, and a retail tour gave ideas on new merchandise solutions. The group returned to Russia and started buying already. Russia is the world's fifth largest fruit importer, but buys little from the U.S. so far.
- In preparation for future development of the St. Petersburg port, Ksenia organized a tour for Russian officials of U.S. ports in Baltimore, Long Beach, Seattle, and D.C., among others. The St. Petersburg port is a strategic entry point, handling 767, 496 metric tons of U.S. exports annually. The tour, supported by a Cochran Fellowship, is part of ongoing efforts to improve trade infrastructure and ensure the quality of U.S. perishables and frozen foods coming to Russia.

## United States – Russian Trade Through September 2006

JANUARY – DECEMBER  
VALUES IN 1000 DOLLARS

JANUARY - SEPTEMBER  
COMPARISONS

2001    2002    2003    2004    2005    2005    2006    %CHNG

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>	%CHNG
<b>POULTRY MEAT</b>	<b>666,213</b>	<b>373,021</b>	<b>383,513</b>	<b>534,454</b>	<b>669,667</b>	<b>443,030</b>	<b>340,837</b>	<b>-23.07</b>
RED MEATS, FR/CH/FR	90,206	79,613	60,546	38,812	67,800	51,174	115,007	124.74
TOBACCO	42,666	11,998	6,814	71,212	65,762	50,610	23,061	-54.43
OTHER INTERMEDIATE	13,241	15,792	38,615	31,044	40,133	28,753	36,617	27.35
OTHER SEAFOOD	3,879	5,494	4,886	19,432	34,662	25,904	28,458	9.86
TREE NUTS	6,584	8,251	16,841	27,404	34,279	17,213	19,655	14.19
OTHER CONSUMER ORIENTED	6,039	7,210	23,356	32,760	23,571	17,235	10,914	-36.68
FRESH FRUIT	2,437	1,514	2,139	6,327	9,994	6,172	4,180	-32.27
SNACK FOODS	2,661	3,433	7,968	15,049	9,192	5,600	7,344	31.14
HIDES & SKINS	322	163	468	966	5,036	3,141	3,785	20.5
PLANTING SEEDS	386	153	358	1,122	4,872	3,531	3,585	1.53
PROCESSED FRUIT & VEG	4,814	5,931	4,404	5,519	4,834	3,257	4,587	40.84
DAIRY PRODUCTS	7,447	826	704	1,386	4,792	3,924	3,379	-13.89
PET FOODS	787	650	1,046	2,365	4,697	2,472	5,505	122.69
SOYBEAN MEAL	21,834	23,033	12,454	5,126	4,534	4,506	6,232	38.3
ANIMAL FATS	7,098	4,470	3,568	1,129	3,900	3,025	940	-68.93
SALMON WHOLE/EVIS	121	595	654	3,026	3,170	2,742	4,739	72.83
RICE	4,385	630	1,716	1,766	2,397	1,803	2,630	45.87
ROE/URCHIN/FISH EGGS	1,714	4,466	5,011	1,458	2,366	1,544	815	-47.22
VEGETABLE OILS (EX SOY)	7,718	1,459	2,090	3,139	2,317	2,115	973	-54
WINE AND BEER	1,109	1,185	1,118	1,810	2,200	1,708	1,552	-9.13
FEEDS & FODDERS	1,323	29	3,955	1,202	2,197	1,303	1,099	-15.66
OTHER BULK	3,782	352	569	789	2,133	1,633	1,624	-0.55
PANEL/PLYWOOD PRODUCTS	413	1,170	1,294	1,774	1,813	1,234	1,121	-9.16
RED MEATS, PREP/PRES	2,772	929	375	1,272	1,713	376	937	149.2
PEANUTS	52	762	760	1,448	1,693	1,188	6,295	429.88
OTHER WOOD PRODUCTS	839	957	744	671	1,341	1,085	912	-15.94
FRESH VEGETABLES	1,409	470	381	699	1,089	84	303	260.71
SURIMI (FISH PASTE)	2,676	240	0	1,080	1,038	1,038	769	-25.92
SUGAR, SWEETNER, BASES	1,016	1,483	1,486	2,073	767	659	731	10.93
COARSE GRAINS	8,360	1,125	641	8,606	594	594	1,689	184.34
WHEAT FLOUR	3,760	77	1,359	888	588	588	267	-54.59
CRAB & MEAT	110	49	50	34	554	422	634	50.24
EGGS & PRODUCTS	736	303	68	143	518	77	576	648.05
BREAKFAST CEREALS	274	142	65	247	420	319	228	-28.53
HARDWOOD LUMBER	0	0	362	150	234	234	219	-6.41
LIVE ANIMALS	351	423	665	1,357	169	90	1,027	1041.11
FRUIT & VEG JUICES	232	182	320	131	163	161	55	-65.84
PULSES	6,143	0	0	0	155	112	50	-55.36
SALMON CANNED	0	272	47	0	115	115	90	-21.74
LOGS AND CHIPS	0	0	0	0	42	4	40	900
SOFT/TREATED LUMBER	28	3	0	9	16	0	0	--
NURSERY PRODUCTS	197	16	9	115	10	6	0	--
COTTON	8	0	224	0	0	0	0	--
SOYBEAN OIL	302	36	0	1,608	0	0	0	--
WHEAT	0	5,902	0	0	0	0	0	--
<b>TOTAL</b>	<b>926,450</b>	<b>564,810</b>	<b>591,641</b>	<b>829,599</b>	<b>1,017,537</b>	<b>690,781</b>	<b>643,461</b>	<b>-6.85</b>

Data Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

## ATO Russia

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**The Russian Market Place  
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### ATO Upcoming Events

**December 5** Culinary Show in Vladivostok for the Food Safety and Quality Information Project [usfoods.ru](http://usfoods.ru) (See "The Face of U.S. Foods" page 3)

**January 30, 2007**

Usfoods.ru Culinary Show in St. Petersburg

**January 28-February 12**

Television Crew from Domashniy TV travels to Georgia, Kentucky, Tennessee and California.

**March 10-14** Buyers Delegation to International Boston Seafood Show

**May 19-22** Buyers Delegation to National Restaurant Association Show in Chicago Illinois

**September 18-21** World Food Moscow, U.S. Pavilion (See article: "Trade Shows" page 3)

**October 12-16** Golden Autumn, U.S. pavilion for production agriculture: genetics, seeds, inputs.

## USDA in Russia

The Agricultural Trade Office (ATO) in Moscow, part of USDA's Foreign Agricultural Service (FAS), with the support of satellite offices in St. Petersburg and Vladivostok, works closely with importers, wholesalers and retailers to promote the import and sale of U.S. food, beverage, and agricultural products throughout Russia. The ATO conducts promotional activities to help introduce new products and promote U.S. food and agricultural products already available in the Russian market. We support the activities of USDA's foreign market development cooperators and U.S. producer and trade associations participating in the Market Access Program (MAP). In Russia, FAS operates an Office of Agricultural Affairs at the U.S. Embassy, directing all of USDA's operations and programs not only in Russia, but also in Georgia, Armenia, and Belarus. While ATO Russia supports USDA's market development efforts, the Office of Agricultural Affairs negotiates for greater market access for U.S. products in Russia, supports USDA's effort to improve Russian agriculture, and operates a reporting program.

The ATO offers a range of programs and activities that are designed to help link U.S. exporters and Russian buyers:

- [Buyer Alert](#)
- [Foreign Buyer Lists](#)
- [Market Reports](#)
- [Trade Shows](#)
- [Trade Missions](#)



The ATO also provides the following services:

- ✓ arranges appointments for first-time visitors;
- ✓ organizes trade team visits;
- ✓ coordinates participation in trade shows, seminars and other activities where U.S. exporters can meet Russian importers;
- ✓ provides advice on market development project plans of U.S. business groups, trade associations and USDA market development cooperators; and provide briefings on Russia's import regulations, trade volume and marketing channels.
- ✓ Operates a strategic communication program to inform Russians about the quality of U.S. foods.
- ✓ Remember to read our website. [Eng.usda.ru](http://Eng.usda.ru)