

Survey of the Russian Food and Beverages Sector

Opportunities for Dutch Companies

December 2007

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1. INTRODUCTION

1.1 Why the Russian food and beverages sector?

There is no reason not to be active in the Russian food and beverages sector:

1. Russia represents an unsaturated consumer market of 143 million consumers with rapidly increasing disposable incomes.
2. Russia was ranked as the second most attractive retail market in the Global Retail Development Index of 2006. It is also the largest grocery retail market in Eastern Europe with sales amounting to 124.1 billion Euros in 2006.
3. The Russian food market is growing much quicker than the global and European food markets. According to ACNielsen, the Russian food market grew 11% in cash terms from 2005 to 2006 compared to 4% for the global market and 3% for the European markets.
4. The sector is highly dependent on imports. In some sectors, imports account for 80% of the total consumption. Overall, imports make up about 40% of the total consumption of food and beverages products. This significant dependence on imports creates opportunities for Dutch companies.
5. The entire sector is going through a period of rapid modernization of its production, processing, distribution and retail facilities. This creates a demand for modern equipment and technology which is largely met through imports. Therefore, the sector represents opportunities for Dutch producers of equipment and technology for the food and beverages sector.¹
6. Russian consumers still spend a large part (30-35%) of their disposable income on food compared to consumers in the EU (12-15%).
7. Modern retail outlets are increasing their share in the total sales of food and beverages products in Russia. By 2010, they will increase their share to 40% from 21% in 2005. Also, they are rapidly expanding into the regions. This expansion is crucial in order to increase the number of consumers that can be supplied with Dutch food and beverages products.

However, the window of opportunity is slowly closing so it is crucial to enter the market rather sooner than later:

1. The rapid market growth is slowing down. The Compound Annual Growth Rate (CAGR) of retail food sales is expected to drop to 14% during 2006 to 2011 from 25% for the period from 2001 to 2006.²
2. Although Russian consumers still spend 30 to 35% of their disposable income on food, expenditure on food is slowly being replaced with expenditure on household facilities, recreation, education, transport and cultural services. These five groups made up 41.7% of total expenditure in 2006.

¹ A survey of the Russian food processing and packaging machinery market is available at the Economische Voorlichtingsdienst (<http://www.evd.nl>).

² The Compound Annual Growth Rate is the year over year growth rate applied to an investment or other part of a company's activities over a multiple-year period. The formula for calculating CAGR is (Current Value/Base Value) multiplied by (1/# of years) - 1. It is sometimes also used to describe growth rates of sectors of the economy.

3. The competition from Russian companies is becoming stronger. They are improving the quality of their products through modernization of their production, processing and distribution facilities. These companies also have a good understanding of the consumer preferences to which they adapt their products. Examples of strong Russian companies include the dairy and juice company Wimm Bill Dann and juice and baby food producer Lebedyanski.

1.2 Structure of the survey

This survey of the following parts:

1. The present introduction.
2. A short overview of the Russian economy.
3. A description of the nine main product groups of the Russian food and beverages sector. This section discusses the production, consumption, problems and opportunities and threats of each sector. The distribution and retail of food and beverages is relevant for all products and therefore discussed separately in § 4.7 and 4.8. An intermediate conclusion setting out the opportunities in the Russian food and beverages sector forms the last part of this section.
4. A practical guide for a successful entry on the Russian food and beverages sector.
5. Main conclusions and advice form the last part of the survey.
6. A number of annexes with a schematic overview of all nine products groups, key contacts, import and customs clearance procedures, import policies and duties and a bibliography.

Finally, some tables in the survey are incomplete as not all figures are available.

2. THE RUSSIAN ECONOMY

The Russian economy has grown quickly since the rouble crisis of 1998. The average annual GDP growth from 1999 to 2006 amounted to 6.7% and was largely the result of the high natural resources commodity prices such as oil and gas during this period. The income from oil and gas contributes 15 to 20% to the GDP. The annual growth of the GDP is expected to average 5% over the period from 2008 to 2011.

Table 1: Economic indicators (2001-2006)

Indicators	2001	2002	2003	2004	2005	2006
GDP growth (%)	5.1	4.7	7.3	7.2	6.4	6.7
Industrial production growth (y-o-y, %)	4.9	3.7	7.0	8.3	4.0	3.9
Fixed capital investment growth (y-o-y, %)	8.7	2.6	12.5	10.9	10.5	12.6
Federal government balance (% of GDP)	3.0	2.3	1.7	4.2	7.5	7.5
Inflation (y-o-y, %)	18.6	15.1	12.0	11.7	10.9	9.0

Source: Russian Federal State Statistics Service (Goskomstat)

The disposable income of the Russian population grew at an even quicker pace, hovering around an annual growth of 10% during the past 5 years. However, the following figures serve as an indication of a growing disparity between rich and poor. Consumers with high purchasing power make up about 15% of the population and the wealth is concentrated in the large cities in Western Russia. Russia has 119,000 millionaires and 53 billionaires. Lastly, Russia's 100 richest businessmen increased their wealth from 96.2 billion Euros in 2005 to 169.2 billion Euros in 2005.³

Table 2: Development of income, wage and unemployment (2003-2007)

Indicators	2003	2004	2005	2006	1Q 2007
Real disposable income growth	14,9	9,9	8,8	10,2	11,5
Real wage growth	10,9	10,6	10	13,4	18,5
Unemployment (ILO definition)	8,6	8,2	7,6	7,1	7,1

Source: Russian Federal State Statistics Service (Goskomstat)

The rapid economic growth has resulted in a growing demand for consumption goods, innovative products, value-added services and modern equipment and technologies. This development can also be seen in the food and beverages sector. The growing disposable income has provided the sector with an enormous boost since Russians spend 75% of their income on consumption. Consumers are increasingly turning to more expensive products of higher quality. Quality is slowly replacing price as the prime criterion on which consumers base their purchases. Also, the entire sector is going through a rapid process of modernization which creates a strong demand for

³ In this report, all figures are given in Euros. The exchange rate as of 08/12/2007 (1 USD = 0.682380 Euro) is used.

modern equipment and technologies to replace the outdated existing equipment and technologies. Therefore, the market for all food and beverages products has grown as a result of the rising disposable income of Russian consumers.

The economic growth is expected to drop slightly in the coming years, but will remain at a healthy average annual GDP growth of 5% over the period from 2008 to 2011. Any major economic crisis like the rouble crisis of 1998 seems unlikely in the near future. Russia is expected to remain stable for a number of reasons:

1. The prices for oil and gas are expected to remain high in the coming years.
2. The low level of consumer credit and mortgage lending in Russia. The Russian owns his house, car and summer house. Most Russians received their houses for free during the privatization in the 1990s.
3. The Russian consumer can easily temporarily reduce his consumptive spending.
4. Russians choose consumption over democracy. The succession of President Putin in March 2008 can lead to some unrest as much depend on his personal power. However, the succession is expected to take place smoothly and Putin will remain influential, albeit in a different position.
5. Foreign investments increased by 150% in 2007 and reached 61 billion Euros. This is an indication that foreign investors are confident Russia will remain stable and are therefore prepared to make long-term investments.

Despite the clear business opportunities in Russia, its negative image in Western Europe still acts as a barrier for Western companies to enter the Russian market. Russia is usually associated with the mafia and oligarchs like Abramovich and Berezovsky. Other images include the Russian bear, the cold weather and the idea that Russians are unreliable. This image is largely based on prejudices. The large number of successful foreign companies active on the Russian market indicates that success in doing business in Russia is possible.

3. THE MAJOR RUSSIAN FOOD AND BEVERAGES SECTORS

In this chapter the nine main food and beverages sectors are described. Key figures, the local production and imports, consumer trends, problems and opportunities and threats for Dutch companies are treated.

3.1 Meat

3.1.1 Introduction

Many strong local producers are active in the Russian meat sector. The share of beef in total meat consumption will fall dramatically in the years to come. Currently, the growth in the sector is limited by a number of problems throughout the value chain.

The key figures of the Russian meat sector are provided in table 3 below.

Table 3: Key figures of the Russian meat sector

Value	
1. Billion Euros (2006)	14.33
2. Annual growth	n/a
3. Future growth p.a.	n/a
Consumption	
1. Total (million tonnes, 2006)	7.3
2. Per capita (kg, 2006)	50
3. Netherlands (kg per capita, 2006)	84.4
Domestic production	
1. Current (million tonnes, 2006)	5
2. Future (million tonnes, 2010)	10
Imports	
1. Current (billion Euros, 2006)	3.069
2. Current (million tonnes, 2006)	1.31

Sources: Various

3.1.2 Production

Cattle breeding and the processing of meat are concentrated in the Volga, Siberian, Southern and Central federal districts. Most of the international meat cattle breeding companies are located in the Central and North-West federal districts as these districts have the highest concentration of wealthy consumers.

The Russian meat sector has a low degree of vertical integration. Meat processing companies are usually not involved in cattle breeding. Most of the companies use domestic contracted farms or imported meat. Only a small number of large companies have their own farms, slaughterhouses, meat processing plants and distribution systems.

Currently, there are 3,450 meat processing companies in Russia of which 550 are large. A large number of strong regional players with large market shares in their respective regions are active on the Russian meat market. Few foreign companies are active on the Russian market. Seven companies jointly account for 38% of the market.

Table 4: Market share of meat processing companies (2004)

Producer	Market share (in %)
APK Cherkizovsky	12
Mikoyanovsky MK	8
Tsarytsinsky MK	5
KampoMos	4
Omsk Bekon	4
Ostankinsky	3
Parnas	2

Source: Russian Federal State Statistics Service (Goskomstat)

Local cattle breeders account for about 70% of the total consumption of raw meat. Domestic brands have a share of 98% in the market for processed meat products. The main meat exporting countries to Russia and the position of the Netherlands can be found in table 5 below.

Table 5: Main meat exporting countries to Russia

Exporting country	Value (in million Euros)	Share in total (in %)
Brazil	1126.17	54.8
EU 25	610.66 ⁴	
USA	488.2	23.8
The Netherlands	49.6	2.4

Source: Comtrade

3.1.3 Consumption

Currently, poultry, pork and beef (including veal) each make up about a third of the total consumption of meat. By 2010, the share of beef and veal is expected to drop to 17%, while pork will hold a share of 28%. Poultry will increase its share to 55%.

Price is still the main factor on which Russian consumers base their purchase of meat products. However, quality is already an important factor in the large cities. Quality will also become more important for regional consumers due to the increase in purchasing power. This rise will allow regional consumers to buy more expensive products with a better quality. Therefore, the demand for high-quality, expensive meat products is increasing in both the large cities and the regions.

⁴ Figure of the year 2005.

3.1.4 Problems

The Russian meat sector is suffering from a range of problems throughout the entire value chain from production to retail:

1. Fodder problems: low quality yet expensive, seasonal availability and lack of concentrated and enriched fodder.
2. Veterinary problems at cattle breeding companies caused by a lack of knowledge and suitable medicine cause losses of cattle.
3. Obsolete equipment and technologies throughout the value chain and a lack of equipment for initial processing of raw meat at cattle breeders.
4. Shortage of skilled staff at cattle breeding and meat processing companies.
5. Poor financial situation of most cattle breeders and meat processing companies.
6. Inefficient production process caused by livestock losses during breeding and wastage of raw meat and by-products during processing.
7. Low quality of raw and retail meat, especially in rural areas.
8. Distribution problems such as shortage of specialized meat transport, shortage of modern refrigerating chambers and low standards of quality and hygiene of end products.
9. Underdeveloped marketing and advertising of meat products.

3.1.5 Opportunities and threats

The following opportunities and threats for Dutch producers of meat products have been identified.

Table 6: Opportunities of the Russian meat sector

1. Import and / or local production of fodder additives and concentrates.
2. Import and leasing of pedigree livestock.
3. Selling or leasing of equipment used for breeding, slaughtering, processing, storing and transporting of meat.
4. Construction of storage facilities for raw and processed meat.
5. Installation of equipment and technologies for using by-products of meat production.

Table 7: Threats of the Russian meat sector

1. Limited size of imports due to quotas on meat imports.
2. Difficulties in obtaining veterinary certifications for importing raw meat.
3. Shortage of skilled staff at meat producing and processing companies.
4. Obsolete equipment and technologies throughout the value chain.
5. Strong competition from local producers of processed meat products.

3.2 Poultry

3.2.1 Introduction

Much like for meat, a large number of local producers are active on the poultry market. The sector is expected to become more consolidated in the years to come through mergers and acquisitions. Poultry is becoming increasingly popular and is expected to account for over half of the total meat consumption by 2010.

The key figures of the Russian poultry sector are provided in table 8 below.

Table 8: Key figures of the Russian poultry sector

Value	
1. Billion Euros	n/a
2. Annual growth (% , 2000-2006)	15-20
3. Future growth p.a. (% , 2007-2009)	10-15
Consumption	
1. Total (million tonnes, 2006)	1656.5
2. Per capita (kg, 2006)	11.6
3. Netherlands (kg per capita, 2006)	21.9
Domestic production	
1. Current (million tonnes, 2006)	1373
2. Future	n/a
Imports	
1. Current (billion Euros, 2006)	0.629
2. Current (million tonnes, 2006)	1274

Sources: Various

3.2.2 Production

In terms of production, the poultry sector is more developed than the beef and pork sector in terms of used technology, the quality of the end product and the distribution chain. The production is growing quickly due to the increasing demand for poultry products.

The poultry sector is less consolidated than the meat sector. A large number of local producers are active in the poultry sector and only three companies have a substantial market share. They are listed in table 9 below. However, the market is expected to become more consolidated in the next three to five years as the result of mergers and acquisitions.

Table 9: Market share of poultry producers (2004)

Producer	Market share (in %)
Agro Invest Brinky	6.6
Prioskolie	6.6
Kurinoe Carstvo	4.6

Source: Russian Federal State Statistics Service (Goskomstat)

The main poultry exporting countries to Russia and the position of the Netherlands can be found in table 10 below.

Table 10: Main poultry exporting countries to Russia

Exporting country	Value (in million Euros)	Share in total (in %)
USA	370.83	59.2
Brazil	146.62	23.4
Germany	34.01	5.4
The Netherlands	4.53	0.72

Source: Comtrade

3.2.3 Consumption

Poultry is very popular among Russian consumers with 94% of Russians eating poultry regularly. The highest consumption of poultry is found among consumers with medium and below medium incomes.

Poultry is expected to increase its share in the total meat consumption from 35% in 2006 to 55% in 2010. The main trend in the Russian poultry market is the increasing variety of products. In the past years, chilled poultry products have become increasingly popular and they now account for 50% of the market.

3.2.4 Problems

The Russian poultry sector is suffering from similar problems as the meat sector, including:

1. Low quality and expensive fodder.
2. Veterinary problems.
3. Obsolete equipment and technologies.
4. Inefficiencies in the production process.
5. Problems in the distribution of poultry products.
6. Underdeveloped marketing and advertising.

Recently, the Russian government made a start with addressing the problems faced by local producers of poultry products. Around 50 Russian companies producing poultry are involved in projects financed by the National Project 'The Development of Agribusiness' since the beginning of 2007.

3.2.5 Opportunities and threats

The opportunities and threats for Dutch companies in the poultry sector are comparable to those in the meat sector. One main additional opportunity is the fast growth of the share of poultry in the total meat consumption. This development will create additional opportunities for companies active in the production, processing and transport of poultry products.

3.3 Fish and seafood

3.3.1 Introduction

The fish and seafood sector has recovered from a sharp decline in output. However, the sector still relies heavily on imports to meet demand and production is extremely fragmented. Seafood delicacies are popular among the urban consumers.

The key figures of the Russian fish and seafood sector are summarized in table 11 below.

Table 11: Key figures of the Russian fish and seafood sector

Value	
1. Billion Euros (2006)	11.5
2. Annual growth (% , 2006)	15
3. Future growth p.a. (% , 2007-2011)	10-12
Consumption	
1. Total	n/a
2. Per capita (kg, 2005)	12.6
3. Netherlands	n/a
Domestic production	
1. Current (million tonnes, 2006)	2799
2. Future	n/a
Imports	
1. Current (billion Euros, 2006)	0.821
2. Current (million tonnes, 2006)	1274

Sources: Various

3.3.2 Production

The production of fish products is concentrated in the Far Eastern, North-Western and Southern federal districts. These three districts jointly account for over 80% of the total production. In the last two to three years, the fish processing industry has shown signs of recovery after a sharp drop in output. New small and medium sized fish processing and packaging enterprises have sprung up. The highest growth rates were recorded in frozen, smoked, dried and marinated fish products and in the sectors of snacks and culinary products.

The domestic production of raw fish continues to be insufficient to meet demand. In 2005, the Russian trade deficit in fish and fish products reached 375 million Euros, an increase of 55% compared to the previous year. Russia will continue to rely on imports to meet the demand for fish products. Over 2/3 of the imported fish is frozen. The share in the total imports of fish of the three main fish exporting countries to Russia and the Netherlands are listed in table 12 below.

Table 12: Main exporters of fish and seafood products to Russia (2006)

Exporting country	Value (in million Euros)	Share in total (in %)
Norway	297.63	36.25
Vietnam	72.45	8.83
China	61.29	7.47
The Netherlands	1.29	0.16

Source: Comtrade

The market for fish products is very fragmented with many local companies each holding small market shares. No company holding a share exceeding 1% in the segment of chilled fish and seafood products and chilled smoked fish and seafood products in 2005. Only the companies Oliva-Fakel and Russkoye More hold a significant market share of 14% each in the segment of chilled processed fish and seafood products. The Russian companies Ledovo, Sernernaya Company and the Danish companies Nordic Seafood, Agama, and Albatros are also active on the market.

3.3.3 Consumption

A number of factors are driving the growth of the market for fish:

1. Improved marketing of fish.
2. Increase availability of products as a result of increased investment in production facilities.
3. Changes in consumers preferences to more healthy, nutritious and low-fat food products.

Two different consumption patterns can be distinguished:

1. Consumers in large cities prefer expensive, high-quality, packed fish products. These consumers purchase delicatessen seafood such as shrimp, crabs, scallops, squid and mussels once or twice a week.
2. Consumers in the regions generally prefer cheaper, low-quality fish products as their incomes are considerably lower than those of their urban counterparts. They only purchase delicatessen seafood for holidays or festivities.

3.3.4 Problems

The Russian fish sector is faced with the following problems:

1. Obsolete equipment and outdated technologies.
2. Lack of funds.
3. Underdeveloped distribution channels.
4. Until recently, deficient federal legislation and the absence of a federal policy for the fish sector.

3.3.5 Opportunities and threats

The following opportunities and threats have been identified for Dutch companies active in the fish and seafood sector:

Table 13: Opportunities of the Russian fish and seafood sector

1. Import and/or local production of high-quality, processed fish products such as shrimps, crabs, scallops, squid and mussels.
2. Supply of high-quality fresh and processed fish and seafood to restaurants and cafes.
3. Selling or leasing of fishing vessels with refrigerating holds and isothermal containers.
4. Selling and/or leasing of equipment for catching, processing, storing, packaging and transporting fish and seafood.
5. Construction of storage facilities for storing raw fish and processed fish products.

Table 14: Threats of the Russian fish and seafood sector

1. Non-transparent and deficient legislation of fish sector results in great risks in doing business.

3.4 Dairy products

3.4.1 Introduction

The dairy sector is one of the largest sectors within the Russian food and beverages sector. Yoghurt is becoming increasingly popular among Russian consumers. However, the entire dairy sector is suffering from the low quantity of domestically produced milk.

The key figures of the Russian dairy sector are summarized in table 15 below.

Table 15: Key figures of the Russian dairy sector

Value	
1. Billion Euros (2006)	14.74
2. Annual growth (% , 2000-2006)	7.8
3. Future growth (% , 2007-2010)	7.2
Consumption	
1. Total	n/a
2. Per capita	n/a
3. Netherlands (kg per capita, 2006)	116.6
Domestic production	
1. Current	n/a
2. Future	n/a
Imports	
1. Current (million Euros, 2006)	624.59

Sources: Various

3.4.2 Production

Russia produces low quantity milk of poor quality, which acts as a break on the development of the dairy sector. The production of yoghurt is expected to level out due to the saturation of the market. The production of cheese, butter and ice cream is expected to increase slowly in the coming years.

The main dairy exporting countries to Russia and the position of the Netherlands can be found in table 16 below.

Table 16: Main exporters of dairy products to Russia (2006)

Exporting country	Value (in million Euros)	Share in total (in %)
Germany	136.66	21.8
Ukraine	95.65	15.3
Finland	84.86	13.6
The Netherlands	38.95	6.2

Source: Comtrade

3.4.3 Consumption

The Russian dairy sector is one of the largest sectors of the Russian food sector. Growth is expected to remain around 7% annually in the near future. This growth is chiefly driven by rising raw milk prices and the increasing popularity of enriched and bio dairy products.

Dairy products are popular throughout Russia, yet some differences in product preferences exist as a result of the uneven economic development. More expensive products such as high-end cheeses (brynza, mozzarella and brie) and drinking yoghurts are more popular in large cities like Moscow and St. Petersburg. Consumers in provincial areas prefer locally produced, traditional and cheaper dairy products such as hard cheeses and sour milk (kefir). Yet these regions account for 96% of the total value of the dairy market, with Moscow and St. Petersburg responsible for the remaining 4%.

3.4.4 Problems

The Russian dairy sector faces a number of problems:

1. The main problem faced by the Russian dairy sector is the lack of centralisation of both the production and processing of milk. A large part of the milk produced comes from regional suppliers that are spread all over the country. This milk is often of poor quality and unsuitable for further processing by large companies.
2. Furthermore, every city with over 20,000 inhabitants has its own dairy processing plant as the distances involved in Russia are too great to transport the milk to a number of centrally located processing plants. These local dairy processing plants have outdated processing equipment which is in urgent need of replacement. Large companies such as Wimm Bill Dann are addressing this problem by constructing large dairy processing plants in the regions.

3.4.5 Opportunities and threats

The following opportunities and threats have been identified for Dutch companies active in the dairy sector:

Table 17: Opportunities of the Russian dairy sector

1. The shortage of local supply of additives and value-added ingredients for the production of dairy products offers opportunities for Dutch companies that supply these products, especially given the rapid growth of the market segment of more expensive dairy products to which additives and value-added ingredients are added.
2. The dairy sector suffers from outdated technology and underdeveloped infrastructure for the production and distribution of raw milk. The demand for raw milk is growing in Russia, especially given the rapid growth of the market for dairy products that are based on raw milk. Dutch companies can provide modern technology for the production and distribution of raw milk.
3. Demand for more expensive, imported cheese is growing in Russia. The Netherlands has a good reputation for its cheese and Dutch companies could use this name to start, or expand, their position on the Russian market.

Table 18: Threats of the Russian dairy sector

1. The local supply of raw milk and high value milk additives for the production of dairy products is a problem. This means that these products would have to be sourced from abroad, which affects the production costs. Companies could address this issue by producing these products themselves, but this also carries extra costs.
2. The distribution of dairy products is problematic. Dutch companies can consider working through an agent or distributor to avoid these problems or set up production near the market of their respective goods.

3.4.6 Overview of dairy products

Milk, cheese, yoghurt, butter and ice cream are discussed in more detail below. The key figures of these products are listed in table 19.

Table 19: Key figures of the various dairy products

Value	Milk	Cheese	Yoghurt	Butter	Ice cream
1. Billion Euros (2005)	1.06	1.10	0.44	n/a	n/a
2. Annual growth (% , 2005)	5.7	28	7.5	n/a	n/a
3. Future growth p.a. (% , 2005-2010)	2.7	n/a	n/a	1-2	n/a
Consumption					
1. Total (000s tonnes, 2006)	12 155*	663	n/a	420	405
2. Per capita (kg, 2005)	85*	6	n/a	2.9	2.8
3. Netherlands (kg per capita, 2005)	61.2	16.7	19.5	3.3	n/a
Domestic production					
1. Current (000 tonnes, 2006)	10 000	397.8	n/a	n/a	387
2. Future	n/a	n/a	n/a	n/a	n/a
Imports					
1. Current (000 tonnes, 2006)	10 661	265.2	5.63	100	5.7
2. Current (million Euros, 2006)	9.2	403.9	6.37	119.6	6.2

Sources: Various

*: Figures for 2006.

** : Figures for 2000-2006.

***: Figures for 2007-2010.

3.4.6.1 Milk

The domestic production of milk in Russia has fallen by around 41% since the demise of the Soviet Union. The production targets for 2007, set out in Russia's National Priority Project, will not be met. The slow growth in production, coupled with a growing domestic demand for milk as input for the production of cheese, has resulted in a price increase of 12%. Rising prices in turn have meant the Russian milk market is growing quicker in value terms than in volume terms.

Imports of milk formed around 1/3 of the total consumption of milk in Russia in 2006. The main milk exporting countries to Russia are listed in table 20.

Table 20: Main exporters of milk to Russia (2006)

Exporting country	Value (in million Euros)	Share in total (in %)
Finland	4.78	52.2
Germany	1.4	15.3
Belgium	1.09	11.9
The Netherlands	n/a	n/a

Source: Comtrade

The Russian milk market is relatively fragmented. Local producers formed about 66% of the market in 2004 and often directly sell their milk to their customers. The Russian company Wimm Bill Dann was the market leader with a market share of 18% in 2004.

3.4.6.2 Cheese

Russians consumers eat relatively little cheese, around 6 kilograms per capita in 2006, compared to Dutch consumers with 16.7 kilograms in the same year. However, more expensive imported cheeses are becoming more popular as producers are intensifying their marketing and advertising campaigns.

The developments in the Russian cheese market show some similarities with those in the milk market:

1. The market growth in value terms is outpacing the growth in volume terms as a result of the increasing sales of more expensive imported cheeses.
2. Imports form a large part of the total consumption of cheese.
3. The cheese market is relatively fragmented with local producers accounting for 62% of the market in 2004. Valio St. Petersburg was the market leader with a relatively small market share of 8.3%.

The main cheese exporting countries to Russia are listed in table 21.

Table 21: Main exporters of cheese to Russia (2006)

Exporting country	Value (in million Euros)	Share in total (in %)
Ukraine	117.97	29.2
Germany	79.6	19.7
Lithuania	53.1	13.1
The Netherlands	28.47	7.05

Source: Comtrade

3.4.6.3 Yoghurt

There are indications that the yoghurt market is reaching its point of saturation in the larger Russian cities despite its healthy growth rates. Also, the demand for yoghurt in the regions is growing slowly as consumers prefer more traditional dairy products.

In 2005, fruit yoghurt formed the largest part of the market with 65%, followed by drinking yoghurt with 20.4% and biological and flavoured yoghurt with 7.4% and 7.2% respectively.

Contrary to the milk and cheese market, the Russian yoghurt market is dominated by four players that jointly held a market share of 71% in 2004.

Table 22: Market share of yoghurt producers (2004)

Producer	Market share (in %)
Wimm Bill Dann	33.2
Danone	14.5
Campina	13.5
Ehrmann	10.2

Source: Euromonitor

The main yoghurt exporting countries are listed in table 23.

Table 23: Main exporters of yoghurt to Russia (2006)

Exporting country	Value (in million Euros)	Share in total (in %)
Poland	2.5	39.2
Belgium	1.4	22.0
Slovakia	1.02	16.0
The Netherlands	n/a	n/a

Source: Comtrade

3.4.6.4 Butter

The Russian butter market is expected to register slow growth in the coming years. Few factories in Russia specialize in the production of butter as butter is imported in large quantities. A peculiarity of the consumer preferences in Russia is that butter is considered healthier than margarine, while in Western Europe this is the other way around.

3.4.6.5 Ice cream

The Russian ice cream is going through a process of consolidation with the ten largest companies making up almost half of the market in 2005, while in 2004 only the 15 largest companies held such a market share. As indicated by the table on the next page, the market is dominated by regional producers. Further growth of the market is hampered by the lack of consolidation, low profitability and a lack of investments.

Table 24: Market share of ice cream producers (2005)

Producer	Location	Market share (in %)
Inmarko	Novosibirsk and Omsk	10.4
Talosto	St. Petersburg	8.3
Iceberry	Moscow	5.2
Rusky Xolod	Moscow region	4.9
Nestlé Zhukovskoe Morozhenoe	Moscow region	4.9
Holding Snezhnij Gorodok	Kemerovskaya region	3.3
Alterbest	Moscow region	3.2
Tselni-Xolod	Tatarstan	2.8
Belgorodsky Xladokombinat	Belgorod	2.5
Iceberg	Tula	2.5

Source: Euromonitor

Most of the ice cream is sold in ice cream kiosks, which explains why most of the products are packed in small portions and the relatively low average annual consumption of around 3 kilograms.

3.5 Fruit and vegetables

3.5.1 Introduction

Russia produces a relatively limited variety of fruit and vegetables. The fruit and vegetables processing industry relies largely on imports for its inputs due to the low quality of domestically produced fruits and vegetables. The demand for fresh fruit and vegetables is seasonal due to the fact that many Russians grow their fruit and vegetables at their summerhouses.

The key figures of the Russian fruit and vegetables sector are summarized in table 25 below.

Table 25: Key figures of the Russian fruit and vegetables sector

Value	Fruit	Vegetables
1. Billion Euros (2006)	7-7.5	n/a
2. Annual growth	n/a	n/a
3. Future growth p.a. (% , 2006-2010)	15	20
Consumption		
1. Total (000 tonnes, 2006)	4857.2	13108.6
2. Per capita (kg, 2006)	38	92
3. Netherlands (kg per capita, year)	n/a	n/a
Domestic production		
1. Current (000 tonnes, 2006)	n/a	15600
2. Future (volume, year)	n/a	n/a
Imports		
1. Current (million Euros, 2006)	2018.7	632.7

Source: Various

3.5.2 Production

The domestic production of fruit and vegetables is concentrated in the Central and Volga federal districts. A relatively limited variety of fruit and vegetables form the bulk of the harvest. Cabbage, tomatoes, carrots, onion, cucumbers and red beet account for around 80% of the total harvested volume. For fruits, apples have the largest share followed by grapes, cherries, plums and berries.

The quality of domestically produced processed fruit and vegetables is generally lower than imports due to the underdeveloped distribution, storage and packaging of processed fruit and vegetables.

Large producers of vegetables are mostly former collective farms of which the company 'Belaya Dacha' is the largest. These companies own greenhouses and large plots of land near major cities through which they supply directly to their customers. Both fruit and vegetables producers are investing in high-tech equipment for packaging and storage as their current equipment is outdated.

The three large trading companies JFC, Sunway Traders and Sorus control about 80% of the Russian retail market for fresh fruit and vegetables.

The main fruit and vegetables exporting countries to Russia and the position of the Netherlands can be found in table 26 and 27 below.

Table 26: Main exporters of fruit to Russia (2006)

Exporting country	Value (in million Euros)	Share in total (in %)
Ecuador	292.89	14.5
Turkey	221.98	11.0
Argentina	123.86	6.1
The Netherlands	23.67	1.2

Source: Comtrade

Table 27: Main exporters of vegetables to Russia (2006)

Exporting country	Value (in million Euros)	Share in total (in %)
China	101.59	16.1
The Netherlands	80.78	12.7
Turkey	65.03	10.3

Source: Comtrade

3.5.1 Consumption

Russia is the sixth largest market for fruit and vegetables in the world. The market has consistently grown since the year 2000 and is expected to continue to grow in the coming years. The segment of canned vegetables is one of the fastest growing market segments with an annual growth rate between 20 and 30%. The Russian fruit and vegetables processing industry is expected to grow 10 to 15% per year in the coming years. Canned and frozen fruit and vegetables are the fastest growing segment of this industry.

The consumption pattern of fruit and vegetables among Russian consumers is different to that seen in Western Europe:

1. The variety of consumed fruit and vegetables is relatively small. Apples and bananas are the most popular fruits. Cabbage, tomatoes, carrots, onion, cucumbers and red beet form the majority of the consumed vegetables. Consumer preferences are slowly changing to more exotic fruits and vegetables, especially among middle and high-class consumers.
2. The demand for fresh fruit and vegetables has strong seasonal variations. Russian consumers rely on their own reserves of fresh and pickled vegetables from their summer houses during winter and spring. Furthermore, the consumption of fresh fruits peaks in summer when these fruits are relatively cheaper compared to winter.
3. Russians prefer to buy their fruit and vegetables in open markets and kiosks as these are cheaper and sell products of higher quality than modern format retail chains.

3.5.2 Problems

The Russian fruit and vegetables sector is confronted with a number of problems which are slowing down its development:

1. The quality of the production and packaging of domestically produced fruit and vegetables is generally inferior to imported products. This makes it difficult for domestic producers to compete with imports. Also, wholesalers and producers of processed fruit and vegetables prefer to work with imported goods as they are of higher quality and are packed more conveniently.
2. The main markets for fruit and vegetables are located in the central and northern parts of Russia, while the production is concentrated in the southern parts. This causes problems with the distribution of products as there is a shortage of specialized storage facilities and transport to store and transport the products to their markets. Poor logistics results in fruit rotting in the fields in southern Russia.
3. The marketing of fruit and vegetables is underdeveloped, especially outside Moscow and St. Petersburg. Brand logos are rarely used in marketing.

3.5.3 Opportunities and threats

The following opportunities and threats have been identified for Dutch companies active in the fruit and vegetables sector.

Table 28: Opportunities of the Russian fruit and vegetables sector

1. Supplying (seeds of) fruit and vegetables, which are intended for processing.
2. Sale and leasing of equipment for the growing, processing, packaging and refrigerating of fruit and vegetables.
3. Transport and logistics services, including delivering fresh and processed fruit and vegetables to regions that are poorly supplied with these products;
4. Assisting Russian fruit and vegetables companies with the marketing and promotion of their products.

Table 29: Threats of the Russian fruit and vegetables sector

1. The low organization level of the market with a large role of unorganized retail forms such as kiosks and markets.
2. Restrictions or banning of imports of fresh fruit and vegetables by the Russian federal government.
3. Banning of imports of processed fruit and vegetables because of the use of banned preservatives.
4. Bans on imports of seeds and equipment in the framework of the National Programme for agriculture.

3.6 Confectionery

3.6.1 Introduction

The Russian confectionery market is dominated by a small number of producers. Chocolate accounts for the majority of the confectionery market. The market in the Central federal district is relatively saturated, but the regional markets still have room for growth.

The key figures of the Russian confectionery sector are summarized in table 30 below.

Table 30: Key figures of the Russian confectionery sector

Value	
1. Billion Euros (2006)	5.9
2. Annual growth (% , 2002-2006)	9-10
3. Future growth p.a. (% , 2007-2009)	3
Consumption	
1. Total	n/a
2. Per capita	n/a
3. Netherlands	n/a
Domestic production	
1. Current	n/a
2. Future	n/a
Imports	
1. Current (million Euros, 2006)	290

Source: Various

3.6.2 Production

The Russian confectionery market is dominated by a small number of multinational companies and the Russian company Obiedinenye Konditery that hold over half of the market. Small local companies are active on the regional market, but these companies have a small market share that usually does not exceed 2%.

Table 31: Market share of confectionery producers (2005)

Producer	Country of origin	Market share (%)
Obiedinenye Konditery UK OOO	Russia	16
Nestlé	France	12.4
Wrigley Jr. Co.	USA	6
Kraft Foods Inc.	USA	5.8
Mars Inc.	USA	5.6
Cadbury Schweppes Plc.	UK / France	4.3

Source: Euromonitor

3.6.3 Consumption

The market in the Central federal district, especially in and around Moscow, is close to saturation. Market growth can be achieved by increasing the variety of confectionery products and through improved marketing and packaging of products.. The regional markets are still far from saturated. In these markets, developing the medium price segment can result in increased sales of confectionery products.

Russians consume 4.4 kilograms of chocolate per year, which is higher than per capita consumption in France. The demand for sweets is decreasing in the urban areas, but they remain popular among consumers with low incomes in the regions.

3.6.4 Problems

The Russian confectionery market is relatively developed, but suffers from two main problems:

1. The distribution channels of confectionery products outside the large cities are relatively underdeveloped.
2. Sweets are still often sold in loose instead of packaged form.

Therefore, the sector can grow if the distribution channels and the packaging of confectionery products are developed.

3.6.5 Opportunities and threats

The following opportunities and threats have been identified for Dutch companies active in the confectionery sector.

Table 32: Opportunities of the Russian confectionery sector

1. Growing demand for both premium chocolate and chewing gum.
2. Demand for confectionery goods in the medium price segment in the regions.
3. Demand for support in developing attractive packaging of confectionery products that are offered in retail chains.

Table 33: Threats of the Russian confectionery sector

1. Russian consumers prefer domestically produced chocolate.
2. Ukrainian and Belorussian chocolate producers are strengthening their position on the market.
3. Distribution channels in the regions are underdeveloped, making it harder to reach the consumers.

3.6.6 Overview of confectionery products

Three confectionery products are discussed in more detail below.

3.6.6.1 Chocolate

Chocolate accounts for 65% of the Russian confectionery market in value terms. According to Euromonitor, the market is expected to grow by 14% annually until 2011, compared to the 2 to 3% growth of the global chocolate market.

Quality is displacing price as the basis for purchasing chocolate, especially in the cities. This is shown by the fact that sales in the premium price segment are growing quicker than sales in the low and medium price segment.

Dark chocolate is the most popular chocolate and accounts for 53% of the total consumption of chocolate. This popularity can be primarily explained by the supposed beneficial health effects of chocolate that contains a high percentage of cocoa.

Foreign companies are increasingly active on the Russian chocolate market. The French company Nestlé is the market leader and the Swiss company Barry Callebaut opened a factory in the Moscow region in September 2007 that will produce 27,5 tonnes of chocolate per year.

3.6.6.2 Chewing gum

After chocolate, chewing gum is the fastest growing market segment with an annual growth of 3% in value terms. The market is nearing saturation, but moderate growth can be achieved through introducing new products and developing the distribution channels. Wrigley and Dirol Cadbury, which both produce locally and maintain stable prices, dominate the market.

3.6.6.3 Sweets

This segment can grow by switching from selling loose sweets to packaged sweets and by distributing the products through retail chains.

3.7 Baby food

3.7.1 Introduction

Baby food is one of the fastest growing sectors of the food and beverages sector with a growth rate of 18% in 2006. The market is expected to grow 17 to 20% in the coming years. The market is relatively consolidated with seven companies dominating the market. Since production facilities do not meet international standards, foreign companies still import rather than produce locally.

The key figures of the Russian baby food sector are summarized in table 34 below.

Table 34: Key figures of the Russian baby food sector

Value	
1. Billion Euros (2006)	0.48
2. Annual growth (% , 2006)	18
3. Future growth p.a. (%)	17-20
Consumption	
1. Total (000s tonnes, 2006)	93.9
2. Per capita	n/a
3. Netherlands	n/a
Domestic production	
1. Current	n/a
2. Future	n/a
Imports	
1. Current (million Euros, 2006)	45.15
2. Current (000s tonnes, 2006)	20.4

Source: Various

3.7.2 Production

At present, local production facilities do not meet international standards and therefore require large investments for modernization. As a result, many foreign producers still import rather than invest in local production. However, given the large potential of the Russian baby food market domestic and foreign producers are starting to make large investments in new production facilities to meet local demand. Also, many companies are opening factories in the regions to avoid the high costs related to distribution into the regions. An example in point is Wimm-Bill-Dann which opened a new factory for baby foods in the Kursk region in 2007.

A large number of both Russian and foreign companies are active on the Russian baby food market. In 2005, seven companies accounted for over 60% of the market.

Table 35: Market share of baby food producers (2005)

Producer	Country of origin	Market share (%)
Royal Numico B.V.	The Netherlands	12.9
Nestlé	France	11.1
Wimm-Bill-Dann	Russia	5.3
Droga Kolinska	Russia	5.2
Royal Friesland Foods N.V.	The Netherlands	4.5
Heinz Co.	USA	3.7
Lebedyansky	Russia	3.6

Source: Euromonitor

The main baby food exporting countries are listed in table 36. The Netherlands is the main exporter of baby food to Russia indicating the strong position Dutch baby food producers have on the Russian market.

Table 36: Main exporters of baby food to Russia (2006)

Exporting country	Value (in million Euros)	Share in total (in %)
The Netherlands	18.5	40.9
Switzerland	6.7	14.8
Slovenia	5.45	12.1

Source: Comtrade

3.7.3 Consumption

A number of factors are driving the rapid growth of the market:

1. The increasing purchasing power among of Russian consumers leads to a switch from home made baby food to industrial alternatives. The demand for industrially produced baby foods is especially high among young couples.
2. The Russian government has recently started a programme to stimulate Russian couples to have more than one child. The increase in the number of children will contribute to the growth of the market.

3.7.4 Problems

The Russian baby food sector suffers from two main problems:

1. The production facilities are outdated and require urgent modernization. Large investments in modernizing existing facilities and constructing new facilities are therefore required in order to increase the local production of baby food.
2. The underdeveloped logistics network force producers to construct production facilities in the regions in order to supply the local customers. This is a problem that exists for other food and beverages products as well.

3.7.5 Opportunities and threats

The following opportunities and threats have been identified for Dutch companies active in the baby food sector.

Table 37: Opportunities of the Russian baby food sector

1. All major market segments are expected to grow rapidly, creating business opportunities for Dutch companies.
2. Many companies are building factories in Russia, which creates a demand for equipment to produce baby food.
3. The rapid development of modern retail formats creates better possibilities for distributing baby foods.

Table 38: Threats of the Russian baby food sector

1. Customers prefer to buy baby food from domestic producers as it is cheaper and considered to be more natural.
2. Quality standards that apply to baby food can prevent products from entering the market.
3. Governmental support of Russian baby food producers gives them an unfair advantage over their foreign competitors.
4. The infrastructure for the distribution of products is underdeveloped.

3.7.6 Overview of baby food products

Three baby food products are described in more detail below.

3.7.6.1 Prepared baby food

This segment has a 36% share in the volume of total baby food sales. It consists of purees, juices, sour milk and biscuits. Russian consumers prefer locally-produced juice and sour milk. Wimm-Bill-Dann and Lebedyansky dominate the market of juice for babies accounting for 70% of the total market. The market for purees is more fragmented as seven companies (Hipp, Nestlé, Royal Numico, Lebedyansky, Semper

AB, Azovskiy kombinat detskogo pitaniya, and Perviy kombinat detskogo pitaniya) hold a joint share of 90%.

3.7.6.2 Milk formula

This segment has a share of 33% in the volume of total baby food sales. It is expected to grow rapidly due to the following reasons:

1. A decline in the number of so called ‘baby kitchens’ where parents are entitled to receive free supplements of milk formula.
2. A decline in the number of mothers who breast-feed their babies.
3. Consumers are increasingly purchasing more expensive value-added milk formula.

Royal Friesland Foods, Hipp, Nestlé, Royal Numico and Wimm-Bill-Dann jointly hold a share of 85% of the market.

3.7.6.3 Dried baby food

This is the smallest segment of the baby food sector with a 16% share. Oatmeal and porridge form an important part of a baby’s diet in Russia. Heinz, Kolinska, Nestlé and Royal Friesland Foods share 85% of the total market.

3.8 Frozen processed food

3.8.1 Introduction

Frozen processed food is the fastest growing sector in the food and beverages sector with an annual growth of 19.4% in 2006. The market is dominated by imports. Russians eat relatively little frozen processed food, although the sector is expected to grow quickly in the years to come.

The key figures of the Russian frozen processed food sector are summarized in table 39 below.

Table 39: Key figures of the Russian frozen processed food sector

Value	
1. Billion Euros (2006)	2.3
2. Annual growth (% , 2006)	19.4
3. Future growth	n/a
Consumption	
1. Total (<i>volume, year</i>)	n/a
2. Per capita (kg, 2004)	0.4
3. Netherlands (kg per capita, <i>year</i>)	n/a
Domestic production	
1. Current	n/a
2. Future	n/a
Imports	
1. Current	n/a

Source: Various

3.8.2 Production

Frozen food is a relatively new phenomenon in Russia as these products only became widely available in the 1990s. The company Darya, based in St. Petersburg, is one of the largest producers of frozen food in Russia. It focuses primarily on stuffed dumplings. Foreign companies such as Nestlé are also entering the market.

The frozen food sector relies predominantly on imports of raw materials for the production of frozen food. According to some estimates, the share of imports of raw materials in the production of frozen vegetables amounted to 80%. Imports also form a large proportion of end products in this sector.

3.8.3 Consumption

The sector of frozen processed food is currently one of the most rapidly growing food sectors. This growth is driven by a lack of time for food preparation among consumers. The demand for frozen processed food is concentrated in Moscow and St. Petersburg that account for 47% and 37% of the total demand respectively.

Russian consumers do not trust Russian brands of frozen foods. Only the foreign brands are able to deliver the required quality in terms of similar size of the cut vegetables, the right packaging and the balanced composition of the meal. With regards to packaging, consumers are starting to prefer packaging in Russian. The Dutch company Farm Frites recently switched from using English to Russian on its packaging.

The four most promising product groups are discussed in more detail below.

3.8.4 Problems

The Russian sector for frozen food is still relatively underdeveloped. There are two problems that impede stronger growth:

1. The majority of raw materials are imported, adding to the production cost. One estimate put the figure of imported raw materials as high as 80%. Local supply of raw materials is limited by the absence of sufficient processing capacity. This is especially the case for frozen vegetables.
2. Sales of frozen foods in the regions are limited by the fact that few modern retail chains have expanded into the regions. Most of the frozen foods are marketed through these modern retail chains.

3.8.5 Opportunities and threats

The following opportunities and threats have been identified for Dutch companies active in the frozen processed food sector.

Table 40: Opportunities of the Russian frozen processed food sector

1. High potential for frozen seafood in the premium and mid-range price segment.
2. Demand among Russian producers, especially those producing frozen fruit and vegetables, for unprocessed products for processing and repackaging.
3. The Russian market for frozen desserts is still relatively underdeveloped meaning Dutch companies entering this market would face little competition.
4. Russians prefer foreign brands of frozen foods to Russian brands as the latter are unable to deliver the required quality.

Table 41: Threats of the Russian frozen processed food sector

1. Increases in the supply of fresh vegetables will result in a drop in the demand for frozen vegetables.

3.8.6 Overview of frozen food products

The four product groups with the best prospects are discussed in more detail below.

3.8.6.1 Frozen fish and seafood

Frozen fish and seafood grew by 27% in value terms in 2006, making it the fastest growing segment in the frozen processed food sector. The market size is estimated at 680 to 700 million Euros with imports making up 80% of the total market. Demand for frozen seafood is concentrated in Moscow and other large cities. Demand for exotic seafood such as calamari, mussels, and scallops is growing especially fast. Mid-priced products are in demand in the regions. The main Russian market players are Albatros Seafood, Ledovo, Agama, and Norton.

3.8.6.2 Frozen fruit and vegetables

The Russian market of frozen fruit and vegetables is growing rapidly, with demand, domestic production and imports all increasing. The market is expected to grow by 15 to 20% annually in the coming years.

Imports make up over 60% of the market as domestic producers have problems to provide the high-quality vegetables for processing and freezing. The Polish company Hortex is the main exporting company to Russia. It occupies half of the Russian market of frozen vegetables and is responsible for as much as 90% of the total imports. Also, a number of Belgian and French companies export to Russia. Recently, some Russian companies such as Ledovo, Ice-Beat and Pyatyy Sezon have switched from importing frozen vegetables to producing their own products. Russian companies are expected to increase their market share as they are increasing their assortment and investing in their production facilities.

Tables 42 and 43 give an indication of the market share of various frozen fruit and vegetables and the market share of companies active in this sector.

Table 42: Share of various frozen fruit and vegetables in the total volume (%)

	Moscow		Regions	
	2005	2006	2005	2006
Vegetable mixes	50.5	46.2	52.3	54.6
Single type of vegetables	23.0	25.0	22.3	21.3
Mushrooms	5.8	6.6	9.1	8.9
Potato	15.3	14.5	7.7	8.1
Berries	5.4	7.7	8.8	7.1

Source: Russian Federal State Statistics Service (Goskomstat)

Table 43: Market share of companies in frozen fruit and vegetables (%)

	Moscow		Regions	
	2005	2006	2005	2006
Hortex Holding SA (Poland)	51.5	51.0	62.9	60.9
Zapadny Hladokombinat (Moscow region)	20.9	20.2	7.3	10.3
Aviko B.V. (The Netherlands)	4.2	3.6	0	
INKO (Moscow region)	0.8	3.2	0.9	5.4
Fritar S.A. (Poland)	3.9	2.9	0	
Unitrost NV (Belgium)	0	3.3	3.7	
Hortino Sp. z.o.o (Poland)	0	2.5	2.7	

Source: Russian Federal State Statistics Service (Goskomstat)

3.8.6.3 Ready meals

The market for frozen ready meals is expected to grow by 18 to 22% annually in value terms, with only frozen pizza and pancakes expected to lag behind in terms of growth rates.

3.8.6.4 Frozen desserts

The market for frozen desserts is still relatively underdeveloped with the first domestically manufactured products only appearing in 2001. Small quantities were imported, mainly for use in restaurants. At present, only two significant Russian companies (Darya and Talosto) are active in the market.

3.9 Beverages

3.9.1 Introduction

The market for non-alcoholic beverages is growing rapidly and still has plenty of potential to grow further. Russian consumers are drinking more and more juice and mineral water. Also, coffee is becoming more popular. Alcoholic beverages have hit harder times after the Russian government severely limited advertising possibilities in order to address the problem of alcoholism. Other problems include the continuous changing labelling requirements and the high excise tax.

3.9.2 Production

Russian producers have a strong position in the production of juice, tea, beer and vodka. Foreign producers have a more prominent position in the production of mineral water, coffee, wine and spirits other than vodka.

3.9.3 Consumption

The consumption of non-alcoholic beverages is on the rise. Tea has traditionally been popular among Russian consumers, but recently the consumption of juices, mineral water and coffee has increased. The growth in the consumption of alcoholic beverages has dropped after the Russian government put measures in place to address the problem of alcoholism.

3.9.4 Problems

The sector of non-alcoholic beverages has few problems to contend with:

1. The only major problem for juice producers is the lack of domestically produced fruit concentrates. Therefore they rely on (more expensive) imports.
2. Producers of alcoholic beverages are facing a slower market growth due to high excise tax levied on alcoholic beverages, the strict labelling requirements that continuously change and the measures taken by the Russian government to address the problem of alcoholism.

3.9.5 Opportunities and threats

The following opportunities and threats have been identified for Dutch companies active in the beverages sector.

Table 44: Opportunities of the Russian beverages sector

1. Russian juice producers import most of their fruit concentrates which form the basis of their juice. Much of these fruit concentrates are imported through Rotterdam. Dutch distributors of fruit concentrates can take advantage of their geographical position to expand their business in Russia.
2. Another opportunity lies in the more expensive range of alcoholic drinks such as vodka. Producers of well-known brands, such as Ketel 1, can take advantage of the rising purchasing power of the Russian consumers.

Table 45: Threats of the Russia beverages sector

1. A major problem for Dutch companies active in the field of alcoholic drinks would be the fact that advertising alcoholic drinks is forbidden, except for beer.

3.9.6 Overview of non-alcoholic beverages

Table 46: Key figures of the Russian non-alcoholic beverages sector

Value	Juices	Mineral water	Tea	Coffee
1. Billion Euros (2006)	1.56*	0.72	0.68-0.82	1.64*
2. Annual growth (% ,2006)	7.3	14	n/a	9.3*
3. Future growth (% ,2007)	9.6	n/a	n/a	3-5
Consumption				
1. Total** (million litres, 2006)	2435.9	2619.6	170***	108***
2. Per capita (litres, 2006)	18.6	15	n/a	n/a
3. Netherlands (kg per capita, 2006)	n/a	21.3****	0.8	6.9
Domestic production				
1. Current	n/a	n/a	n/a	n/a
2. Future	n/a	n/a	n/a	n/a
Imports				
1. Current (million Euros, 2006)	203.7	26.1	240.98	82.0
2. Future (000 tonnes, 2006)	324.1	92.8	172.9	55.6

*: Figures from 2005.

***: In thousand tonnes in 2005.

** : Off-trade figures.

****: in litres.

Sources: Various

3.9.6.1 Juices

The Russian market for juices is relatively consolidated as four Russian major producers jointly dominate the Russian juice market:

Table 47: Market share of juice producers (2005)

Producer	Country of origin	Market share (%)
Lebedyansky	Russia	33.2
Multon	Russia	23.6
Nidan	Russia	12.4
Wimm-Bill-Dann	Russia	12.1

Source: Euromonitor

It is estimated the Russian juice market will continue to grow in the next coming years, reaching a volume of 3269 million litres in 2010. Two reasons can be identified for this growth potential:

1. The average annual consumption of juice in Russia is comparatively low: 18.4 litres in 2006 compared to 25 litres in Western European countries.
2. The consumption of juice is heavily concentrated in Moscow and St. Petersburg which were responsible for 82% of the total consumption of juice in 2006. Therefore, there is still plenty of potential to increase consumption in areas outside these two cities.

3.9.6.2 Mineral water

Foreign producers hold a strong position on the Russian market for mineral water. In 2005, three foreign companies jointly held over 40% of the total market:

Table 48: Market share of producers of mineral water

Producer	Country of origin	Market share (%)
Coca Cola Company	USA	14.6
Pepsi Bottling Group	USA	14.4
GG&MW Co. N.V.	Georgia	13

Source: Euromonitor

Other markets players include the Russian company Wimm-Bill-Dann, the Swiss company Nestlé and the French company Danone. However, local producers remain strong on the local markets where it is estimated 100 companies hold a share of around 70%.

The market for mineral water is one of the fastest growing segments of the food sector in Russia. This rapid growth is in part the result of the poor quality of tap water in Russia. This growth is set to continue since the market is far from saturated. Russians drink four to five times less mineral water than their Western European counterparts.

3.9.6.3 Tea

The tea market is relatively consolidated. The five largest brands (Ahmad Tea, Lipton, Princess, Maysky Chay and Batic/Askold held a joint share of over 50% in 2006.

Traditional black tea is by far the most popular sort of tea. In 2005, it held a market share of 82.9% of the total volume of the market (down from 85.1% in 2004). The share of aromatized black tea and green tea increased to 8.8 and 7.2% respectively. Finally, fruit-herb tea mixtures held a share of 1.1 %

3.9.6.4 Coffee

The popularity of coffee among Russian consumers is a relatively recent development, as evidenced by the fact that the market size of the Russian coffee market grew by 176% from 1996 to 2005.

Currently, the market is dominated by a small number of companies (Zoloty Kupola, Kuplo, Orimi trade, Product-Service and Pauling) that have a combined market share of about 85 %. Experts forecast further consolidation of the market in the next three to

five years as small players leave the market and the remaining larger players will increase production.

Traditionally, instant coffee accounts for the majority of the market and accounted for 90% in 2005. However, analysts expect that fresh coffee will increase its market share as it is becoming increasingly popular. This tendency is confirmed by the fact that the consumption of fresh coffee rose 9% in volume terms in 2005 compared to 3% for soluble/instant coffee and coffee mixtures. The market for coffee is nearly saturated, in part due to the increasing share of domestic production which reached 64.7% of the market volume in 2006, up from 58.2% in 2005.

3.9.7 Overview of alcoholic beverages

Two facts need to be considered when reviewing the Russian market for alcoholic beverages. First of all, drinks purchased on the grey and black market form a significant part of the Russian market for alcoholic beverages. It has been estimated that they constitute almost 50% of the total market size. Secondly, the Russian government has implemented legislation to address the problem of alcoholism. Strict rules exist with regards to advertising and recently a law has been adopted that forbids the consumption of alcoholic drinks on the street.

Table 49: Key figures of the Russian alcoholic beverages sector

Value	Beer	Wine	Spirits
1. Billion Euros (2005)	3.8	1.36	8.33*
2. Annual growth (% , 2006)	11	30	12**
3. Future growth (% , 2007-2009)	6.8	n/a	n/a
Consumption			
1. Total (million litres, 2006)	9990	1108.5	2016.5
2. Per capita (litre per capita, 2006)	70	n/a	n/a
3. Netherlands (litre per capita, 2006)	77	21.5	1.3***
Domestic production			
1. Current	n/a	n/a	n/a
2. Future	n/a	n/a	n/a
Imports			
1. Current (million Euros, 2006)	85.2	369.5	438.2
2. Future (000 tonnes, 2006)	337.9	677.8	219.6

*: Figures from 2004.

** : Figures for 2000-2004.

***: in litres of 100% pure alcohol.

3.9.7.1 Beer

Russia is the 5th largest beer market in the world after China, the USA, Germany and Brazil. In recent years, the growth rate has slowed down from 11% in 2004 to around 3 to 4% in 2006. This was partly the result of new advertising restrictions that came into place in 2005.

The market is characterized by a growing consolidation with the largest six producers controlling about 85% of the market in 2006. In 2002, these companies only held a share of 70.4%.

Table 50: Market share of beer producers (2006)

Producer	Country of origin	Market share (%)
Baltika Beverages Holding	Russia	36
AMBEV	Brazil	18.6
Heineken	The Netherlands	9.2
Efes	Turkey	8.4
Ochakovo	Russia	6.6
SAB Miller	South Africa	6

Source: Euromonitor

It is expected that the growth in per capita consumption of beer will slow down in the years to come. The consumption of beer grew with around 10% annually from 2004 to 2006, yet for the period 2007 to 2009 this growth is expected to drop to around 7% annually.

Most of the beer, 82%, is purchased in traditional retail outlets. Kiosks have a share of around 21% in total sales. This means strong competition exists for the best places to put the products in the kiosk windows among beer producers.

3.9.7.2 Wine

Wine accounts for about 10% of the alcoholic beverages consumed in Russia. In recent years, wine has been the fastest growing segment of the Russian market of alcoholic beverages averaging annual growth rates of approximately 30% in recent years.

This rapid growth is largely the result of two developments:

1. Higher disposable incomes of the Russian consumers have resulted in a growing popularity of wine.
2. The Russian government has adopted legislation to discourage the consumption of vodka and other spirits, which resulted in an increase in the consumption of wine.

Domestic production of wine accounted for about 26% of the total domestic wine consumption in 2005. Another 18% is made up of imported bulk wine which is predominantly mixed with the domestically produced wine. Imported bottled wine makes up the remaining 66%. Until 2006, most of the imported bottled wine came from Moldova, which supplied over half of the total imports of bottled wine in 2005. Other significant exporters were Bulgaria (16.6%) and Georgia (8.9%). In 2006, wines from Moldova and Georgia were banned in Russia, leading to opportunities for other countries.

Imports of wine are strongly consolidated with 16 importers controlling 65% of the total volume. These importers have their own distribution systems in Moscow and St. Petersburg and work with local distributors in other cities. The regional markets are highly consolidated with often 2 or 3 companies sharing the market among them.

Consumption is concentrated in relatively wealthy cities such as Moscow, St. Petersburg, Ekaterinburg, Kazan and Novosibirsk. Russians predominantly drink red wine (70% of total consumption), followed by white wine (25%) and rosé (5%). Around 56% of the wine consumed falls in the lower price segment (up to 3 Euros per bottle), with the medium range (from 3 to 9 Euros) and premium segment (over 9 Euros) making up 37% and 7% respectively.

3.9.7.3 Spirits

Spirits still account for the majority of sales of alcoholic drinks consumed in Russia, accounting for two thirds of the total. They are the leading beverages in terms of per capita spending in Russia. Vodka and brandy (often mistakenly called cognac in Russia) accounted for over 98% of the sales in 2004 with sales of 7 billion Euros and 682 million Euros respectively. Apart from vodka and brandy, the sales of whiskey, cognac and tequila increased rapidly. Vodka sales increased to 9.55 billion Euros in 2005 and are expected to grow to 10.71 billion Euros in 2007.

The Russian market for spirits is very competitive. In 2006, 250 producers were active on the market and over a thousand brands existed. The market is also more fragmented as shown by the fact that the five major vodka distillers only control 27% of the market.

Spirits are predominantly purchased in independent food stores (55% of off-trade volume in 2004) and supermarkets/hypermarkets (13% of off-trade volume in 2004). Jointly, off-trade accounted for over 90% of total sales of spirits in 2004, compared to less than 10% for on-trade.

3.10 Conclusion: Why the Russian food and beverages sector?

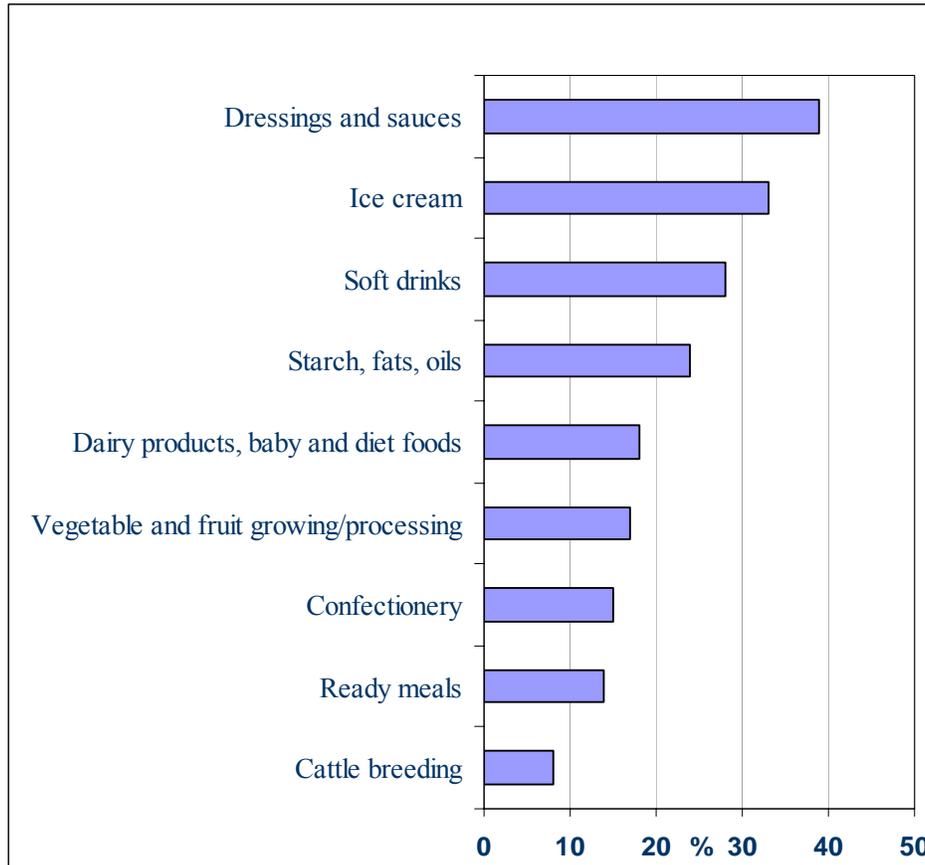
The overview of the nine food and beverages sectors in this chapter has identified plenty of opportunities for Dutch companies active in the food and beverages sector:

1. Meat: The opportunities in this sector are to be found in inadequacies in the entire value chain of the sector. These inadequacies can be addressed by providing quality fodder, assistance with veterinary issues, modern equipment and technologies for the production, processing and distribution of meat and assistance in the marketing of meat products.
2. Poultry: Poultry is to dramatically increase its share in total meat consumption in the coming years. Demand will shift from frozen to chilled poultry products. This shift will result in an increase in equipment for the production, processing and distribution of chilled poultry products.
3. Fish and seafood: The sector relies to a large extent on the import of fish and seafood products. The Netherlands has a small share in the imports and there is still adamant potential for growth. It suffers from outdated equipment and technology which presents opportunities for Dutch suppliers of such equipment and technology. Opportunities also exist in the supply of seafood delicacies that are becoming increasingly popular.
4. Dairy products: The opportunities in this sector are to be found in inadequacies in the entire value chain of the sector. These inadequacies can be addressed by supplying equipment, technology and knowledge for the production, processing and distribution of milk. Also, Russian consumers are purchasing more and more foreign, more expensive cheeses which provide Dutch producers of cheese with opportunities.
5. Fruit and vegetables: Russian consumers are slowly expanding the variety of purchased fruit and vegetables to include more exotic varieties. Dutch import/export companies are in a good position to take advantage of this development. Furthermore, the sector of processed fruit and vegetables relies largely on imports, creating another opportunity for Dutch companies. Finally, the sector required urgent modernization of its equipment for the production, processing and distribution of fruit and vegetables. This presents opportunities for Dutch suppliers of such equipment.
6. Confectionery: The confectionery sector offers relatively limited opportunities as the sector is dominated by a small amount of companies. Opportunities exist for producers of high-quality chocolate and developing the regional markets by improving the distribution channels and packaging.
7. Baby food: Baby food is one of the fastest growing sectors in the Russian food and beverages sector and offers plenty of opportunities for Dutch companies. Producers rely to a large extent on imports as the quality of locally produced baby food is still too low. In time, these producers will start local production, creating a demand for equipment for the production and processing of baby food.
8. Frozen processed food: Frozen processed food is a relatively new sector, but is expected to go through rapid market growth in the coming years. Imports form a large proportion of the inputs for the production of processed foods which presents opportunities for Dutch companies.

9. Beverages: Producers of juice rely to a large extent on imported fruit concentrate, which could be interesting for Dutch exporters. Furthermore, opportunities exist in the sector of high-end spirits.

The graph below gives an overview of the products that are expected to register the fastest growth rates.

Graph 1: Fastest growing product groups in the next three to five years



Source: Ernst & Young, 'Russian Food & Beverage Industry Survey' (2006).

4 A PRACTICAL GUIDE TO A SUCCESSFUL ENTRY ON THE RUSSIAN FOOD AND BEVERAGES SECTOR

In the following pages, a sequence of steps to take to ensure a successful market entry on the Russian food and beverages sector is explained. Any market entry requires thorough preparation as the sector operates distinctively different from what most Dutch companies are used to. The preparation starts in the Netherlands, prior to the first initial visit to Russia. It is crucial to have a good understanding of the entire value chain of your product. Also, external advisors can assist you with your market entry and business development. Once in Russia, a solid local partner and an understanding of the Russian business culture are crucial to ensure your success.

Figure 1: Steps of a market entry



4.1 Preparation in the Netherlands

A successful market entry starts with thorough preparations in the Netherlands prior to the first actual visit to Russia. There are a number of issues that need to be considered when preparing for a market entry on the Russian food and beverages sector.

4.1.1 Understand your value chain

First of all, it is crucial to understand the entire value chain of the product in Russia. The following questions can provide a basis for a review of the value chain:

1. What are the specifics of your target market? Every sector, and therefore every product, has its own peculiarities which mean that every product requires a different approach.
2. Who are the relevant players in your value chain? Such players include competitors, transport and logistics companies, distributors, retail chains and consumers.
3. What is the behaviour of the Russian consumer? Factors to take into account include consumer preferences, taste and preferred outlets to purchase the product. It is also important to define your target audience. The Dutch company Friesland Foods only became successful on the Russian cheese market after focusing on the middle and upper class consumers.

An initial idea of the value chain can be formed through a combination of the following points:

1. Research through the use of Internet and other media.

2. Contacting representatives of companies that are already active in Russia and asking them to share their experiences with doing business in Russia.
3. Visiting seminars on doing business in Russia that are organized regularly by institutions such as the local Dutch Chambers of Commerce.
4. Contacting the LNV council at the Dutch Embassy in Moscow.

4.1.2 Be realistic about your chances on the Russian market

The image of the large potential of the Russian market requires some qualification as some factors exist that complicate operating on the Russian market.

First of all, six main problems complicate doing business in Russia:

1. The costs of doing business in Russia are high and increase with 10% per year. Moscow is now the most expensive city in the world.
2. The underdeveloped infrastructure for gas, electricity, water and heat.
3. The difficulty of finding good staff. There is a high turnover of staff and it is important to check loyalties and backgrounds of any staff that is hired.
4. The regulative and administrative barriers in the form of changing and ambiguous legislation and regulations, the difficulty to enforce contractual and ownership rights and the bureaucracy.
5. The underdeveloped banking system results in financing being scarce and expensive.
6. Small and medium-sized enterprises are underdeveloped and a strong middle class is absent.

Secondly, there are three threats specifically relating to the Russian food and beverages sector:

1. Increased competition from both multinational and Russian companies. The latter have the added advantage that they know the preferences of the consumers. It is by no means certain that a product will be successful on the Russian market. Your company should be able to deliver a quality product that has some added value compared to the products that are already on the market.
2. Poor logistics complicate the delivery of goods to the retail outlets. This matter will be dealt with in more detail in §4.6.
3. The growing influence of retail chains as they attempt to deal directly with producers instead of through wholesalers. Furthermore, retail chains are charging high listing fees to producers to get their products on the shelves.

However, none of these problems and threats is insurmountable if the necessary preparations are done.

4.1.3 Brochures in Russian

Before visiting Russia, it is advised to prepare company and product brochures in Russian. These can be distributed to interested parties during your visit. Experience shows that brochures in Russian are significantly more effective than English brochures.

4.1.4 Visa

If the initial research shows the potential for a product, an exploratory visit to Russia can be considered. Such a visit garners valuable information that further sharpens the idea of the potential of entering a particular sector and can bring valuable local contacts that can assist with the market entry.

Before such a visit is made a visa must be received. Russian law requires that any foreign visitor must be able to present this visa and passport at all times during their stay in Russia. The Visumdienst, with offices in Rotterdam and Breda, can assist you with receiving a visa. More information can be found on its website: <http://www.visumdienst.nl/>.

An initial visit to Russia can be considered once all these preparatory steps have been taken.

4.2 Do's and don'ts

A few basic do's and don'ts of doing business in Russia must be taken into consideration when visiting Russia. When visiting Russia, one should:

1. Be prepared to make a long-term investment. Experience shows that foreign companies can be successful in Russia, but it requires time, dedication and resources. Before entering the market, ensure that sufficient financial and human resources are available to avoid failures.
2. Enjoy Russia. Businessmen that enjoy Russia have a higher chance of succeeding than those that are dreading the idea of visiting Russia.
3. Gain some knowledge of the Russian language and culture. Russians hugely appreciate it if they notice you have made an effort to get to know their country. Also, it will also make you enjoy Russia more and make you feel more at ease.
4. Stay in control of finances and management and create win-win situations for both your local partner and yourself.
5. Use experienced local general, tax and legal advisors that assist you with dealing with the specific Russian business context that is different from the one in Western Europe.
6. Limit your exposure and risks. The market entry and business development in Russia takes time and should not be rushed.
7. Be prepared to deal flexibly with matters such as business development and bureaucracy. In Russia, everything goes very quickly and can change within a day.

Also, one should avoid making any of the following common mistakes Western businessmen make when coming to Russia:

1. Do not think Russia is Europe. Russia is a country with a very specific history, culture and language. Russians look European, but they are very different.
2. Russia is not cheap. Costs rise with 10% annually and Moscow has become the most expensive city in the world.
3. Do not get involved with corruption. Corruption is considered a crime in Russia and carries a severe penalty.

4. Do not forget to register your trademark in Russia and do not give immediate exclusivity to your distributor.
5. Do not think the transfer of goods and money is easy. This takes time and many forms have to be filled out in order to transfer the goods and money.

Dutch companies that enter the Russian market should keep in mind that the Russian business culture is different from that in Western Europe. The Russian business culture can be characterized in the following way:

1. Personal relationships based on trust form the basis of any business relationship.
2. Informal communication networks are widely used.
3. Russian businessmen generally have a short-term vision, with little strategic thinking which is very different from Western approach.
4. Russian businessmen do not show any weakness. The external appearance of a business partner is very important for Russian businessmen as they often base their opinions on it.
5. The Russian partner may promise, without bad intent, more than can be delivered during first contacts.
6. Russian businessmen have a relatively short-term vision and think, speak and act fast.
7. Vertical authority is important in doing business in Russia. Therefore, Russian partners may take long in responding to enquiries as they have to check matters with their superior.

4.3 Initial visit

The initial visit to Russia should preferably be timed to coincide with one of the major trade fairs that are organized in Moscow for companies active in the food and beverages sector. These trade fairs are a good way of quickly getting a good idea of the market and its relevant players. The main trade fairs are:

1. Prodexpo: This exhibition is the largest annually organized exhibition for the food industry in Russia and Eastern Europe. It has existed for 15 years and is usually organized in February. More information can be found on its website: <http://www.prod-expo.ru/en/>.
2. World Food Moscow: This exposition is the largest food exhibition in Moscow. It usually takes place in September and was first organized in 1992. More information can be found on its website: <http://www.world-food.ru/eng/>.
3. Interdrink: This is the most important exhibition for wines, spirits and soft drinks in Russia. It usually takes place in October. More information can be found on its website: <http://interdrinkex.ru/?lang=2>.

An overview of the trade fairs can be found on the Exponet website which can be found at the following address: <http://www.exponet.ru/index.en.html>.

Dutch trade organizations regularly organize collective participations to such trade fairs that are subsidized by the Dutch government. A company with plans to enter the Russian market could consider participating in such a collective participation.

4.4 Partner selection

A local Russian partner in the form of a distributor, an agent or a retail partner is crucial for successfully doing business in Russia. A foreign company that has just entered the Russian market usually does not have a local representative. A good local partner can fulfil the role of such a local representative and represent the interest of the foreign company. Furthermore, a local agent can bring the necessary network of contacts and market knowledge that a foreign company lacks.

The following points are important when selecting a local partner:

1. The company must have good management. It is important that the management is open minded and is prepared to engage in an open dialogue on how to best approach the market.
2. The company should have a clear business strategy and good growth prospects.
3. A decent company infrastructure is crucial. This includes a proper office and a clear division of responsibilities between the different departments within the company.
4. Sufficient transparency should be provided concerning tax, legal and financial matters. Russians are usually reluctant to provide such transparency at an early stage. However, once a mutual understanding has been established such transparency is usually provided.
5. Use your common sense. Do not continue with a potential partner if you feel he is not suitable.
6. Be prepared to make a long-term investment in developing your relationship with your local partner. Experience shows that the best results are reached when the foreign company takes the time to explain its business strategy, trains the staff of its local partner and demonstrates how the local partner can improve its business practices.
7. An external advisor can be used in the case of doubts regarding the potential partner. This external advisor can assist in clarifying matters that you have not been able to clarify on your own.

Some peculiarities of Russian distributors should be taken into account when selecting a distributor:

1. The role of the distributor is often unclear as a distributor often also acts as the importer and the wholesaler of the goods.
2. Most distributors are small and medium in size and carry a small assortment of goods. There are almost no national players.
3. Most of the distributors have a weak marketing policy as their main role is delivering products to retail outlets. Therefore, it is advised to support the distributor in the marketing and sales of your products.

These peculiarities point out the importance of having a clear understanding of the role and size of any potential distributor. It is crucial to check whether the distributor has the right contacts to reach your client group. This usually requires a check on which retail chain the distributor intends to use to deliver your products to your clients. Furthermore, a foreign company should be prepared to make a long-term

investment in its local distributor through assistance in developing the marketing policy of the distributor. This will benefit both the foreign company and the distributor through increasing sales as a result of an improved marketing policy.

4.5 Contracting and payment conditions

Once a suitable partner has been found, it is important to draw up a clear bi-lingual contract with conservative payment conditions. Payment upfront is widely used in Russia and is advisable, especially in the early stages of a partnership. Purchases on credit can be considered after the reliability of the partner is established. Also, it is important not to grant exclusivity to your local partner immediately. This severely limits your options such as switching to a different partner if it turns out there is a better partner available.

4.6 Certification

Arrangement must be made to receive the necessary certificates prior to starting with the export of a product to Russia. Companies such as SGS and TÜV Rheinland Group can assist with applying for and receiving these certificates. It is important to put the certificate on your own name and not on that of your distributor.

All food and beverages products that are imported into Russia require the following certificates:

1. A GOST-R Certificate of Conformity from the Federal Agency on Technical Regulation and Metrology of Russia (formerly Gosstandart) to assure compliance with existing safety, technical and quality standards.
2. A Hygiene Certificate from the State Epidemic Service (Gossanepidemnadzor) proving that products comply with Russian hygienic norms and sanitary regulations.

Furthermore, some products require additional certificates:

1. A veterinary certificate from the Federal Veterinary and Phyto-Sanitary Control Service (Rosselkhoznadzor) for all products derived from animals.
2. A certificate of phyto and sanitary examination from the the Federal Veterinary and Phyto-Sanitary Control Service (Rosselkhoznadzor) for all vegetable products.
3. A certificate of grain inspection and certificate of flour quality for all grain, bakery and confectionery products.

4.7 Distribution

The next step in the market entry is the actual delivery of the product to the consumers in Russia. This process can be divided in two parts. First of all, the product needs to be transported to the Russian border and pass through the procedure of customs clearance. Secondly, the product needs to be delivered to the retail outlet where customers can purchase it.

Foreign companies without a Russian legal entity are not allowed to engage in the customs clearance procedure themselves. Therefore, these companies usually agree

with their local partner to deliver the goods according to the Incoterm Ex-Works.⁵ This means the seller makes the goods available at its premises to the buying party. The buying party is responsible for the transport and customs clearance of the goods.

At a later stage, the registration of a Russian legal entity can be considered so that the foreign company can transport and clear the goods itself and thus offer its partners or clients an Incoterm that includes transport and customs clearance. An example of such an Incoterm is Delivery Duty Paid (DDP). This means the seller pays for all transportation costs, bears all risks until the goods have been delivered and pays for the customs duties. In this case, it is crucial to work with a transport company that has experience in working in Russia. Also, uniformity of the documents that accompany the goods is crucial as any small difference can delay the goods being cleared or even make customs clearance impossible altogether.

Once the products have been cleared at customs, they need to be transported to the retail outlets. At this point, the underdeveloped distribution network in Russia starts to play a role. A number of factors are responsible for this underdevelopment

Firstly, infrastructure such as roads, railways, seaports and airports are in urgent need of modernization and expansion:

1. Transport through road is the preferred form of transportation in Russia given the fact that most goods travel a distance of around 1,500 kilometres. The total length of the Russian network of roads has dropped from 940,000 kilometres in 1995 to 871,000 in 2006. Around a third of this network is not usable by trucks given their weight restriction.
2. The Russian railroad network consists of 87,000 kilometres of railroad track accounts for around 76% of the total freight revenues. The network is in a severe state of disrepair. Around half of the network is in urgent need of modernization and 10% of the tracks are defective in some way.
3. The handling equipment in Russian sea ports is not adjusted to the growing size of ships which restricts the handling capacity of the ports. Neighbouring countries such as the Baltic States, Finland and Ukraine profit from these capacity problems. Furthermore, the integration of ports with the railway system is poor and most waterways in Russia flow from north to south while most freight is transported from west to east or vice versa.
4. Russian airports have little excess capacity as they have practically reached their maximum capacity. The three airports in Moscow (Domodevodo, Sheremetievo and Vnukovo) handle 56% of all air cargo, yet only Domodedovo meets Western requirements.

Due to this underdeveloped logistics network and the sheer size of Russia, it takes time to deliver your goods to your customers.

Secondly, the level of development of storage and distribution facilities is very uneven. Most of the goods from abroad arrive in Moscow and St. Petersburg. From here, they are transported onwards to cities such as Yekaterinburg and Novosibirsk. As a result of this focus on a limited amount of cities, storage and distribution

⁵ Incoterms or international commercial terms are international sales terms that are used to divide transaction costs and responsibilities between the buyer and seller. They deal with questions related to the delivery of products from the seller to the buyer.

facilities outside the main cities are outdated. Furthermore, there is a shortage of quality warehouses in the main cities with experts estimating that the demand for such warehouses is twice as large as the supply. Average prices for quality storage area vary from 75 to 109 Euros per square metres which is 20 to 30% higher than in Western Europe. Five companies possess around 63% of the warehouses that meet international standards:

Table 51: Main players on the market for high quality warehouses

Company	Share (in %)
National Logistic Company	24
FM Logistic	24
LT Terminal	6
Belaya Dacha	5
Tablogix	4

Source: http://www.orfey-torg.ru/eng/nov_001.shtml

Experts predict that this uneven development of a number of logistics points through which goods are shipped from Moscow and St. Petersburg to Yekaterinburg and Novosibirsk will develop into logistics chains through which in total 21 cities will be supplied. Examples of such chains include:

1. Moscow – Saratov – Ufa.
2. Moscow – Samara – Orenburg.
3. Novosibirsk to Omsk, Kemerovo and Irkutsk.

This expansion of the Russian logistics networks is partly driven by the expansion of modern retail outlets chains into the region. They create a demand for warehouses and distribution facilities in the regions which are in part met by other companies. Also, large retail chains such as Eldorado and Lenta are increasingly building their own warehouses in the regions. Furthermore, the expansion and modernization of infrastructure, storage and logistics is further driven by the demands of large retail chains in terms of the quality and size of infrastructure, storage and logistics.

In most cases, companies entering the Russian market will not be confronted with the problems regarding underdeveloped infrastructure and logistics in the regions. Most companies will initially be active in Moscow, St. Petersburg and possibly some other large cities located in the Western part of Russia. Furthermore, the local partner will be responsible for the transport of the goods from the seller to the retail outlets. However, the particularities of the distribution of goods in Russia will become relevant at a later stage once the company has established itself on the Russian market. At some point, a company will usually decide to invest into a local office that will arrange the imports and distribution of goods.

4.8Retail

The Russian retail sector has a fundamentally different structure than its Western European counterparts. Traditional retail formats such as kiosks and streets markets accounted for 53% of the sales on the Russian food retail market in 2005. Modern retail food chains had a market share of only 21% in 2005. This percentage is

expected to rise to 40% by 2010 which indicates there is still a large potential for growth. The share of traditional retail formats will drop to 47% by 2010.

Table 52: Composition of Russian food retail market (%)

	2005	2010
Open markets, pavillions and kiosks	53	47
Traditional grocery stores	24	13
Supermarkets	7	12
Discounters	9	20
Hypermarkets / Cash & Carry	5	8

Source: X5 Retail Group, 'Creating the Clear Leader in the Fast-Growing Russian Food Retail Market'

Another sign of the small role of modern retail chains in Russia is their small turnover compared to European chains. The largest Russian food retailer X5 had a turnover of 2.5 billion Euros in 2006.

Table 53: The top food retailers in Russia (2006)

Retailer	Grocery Sales (mil. EUR)	Growth 2005-2006 (%)	Grocery Market Share (%)	No. of Stores
X5 Retail Group	2,555	49.6	2.1	1,199
Metro Group	2,168	46.4	1.7	37
Magnit	1,997	52.9	1.6	1,893
Auchan	1,203	60.4	1.0	16
Lenta	810	80	0.65	14
Dixy	804	16.2	0.65	326
Kopeika	781	69	0.62	328
Victoria	717	47	0.58	197
Sedmoy Continent	704	34.4	0.57	122
Dorinda (Okey)	478	32	0.39	11
Migros Turk (Ramenka)	465	4.3	0.37	62

Source: IGD Retail Analysis, 'Country Presentation Russia', September 2006.

Discount and convenience stores are the fastest growing retail formats in Russia. However, the number of hypermarkets is also expanding quickly with their number increasing from 40 to 220 in 2006 alone. These are all Western hypermarkets as the local retail chains lack the financial capabilities to set up hypermarkets. It is expected that retail chains will increasingly switch to using multiple formats. In the long term only 3 to 5 percent of the retailers are expected to have just one retail format.

Modern retail chains first appeared in Moscow and St. Petersburg in 1990s. Nowadays, competition between the various retail chains in these cities is significant and there are signs that there is limited growth potential in these two cities. Therefore, modern retail chains are currently expanding their operations to the large regional cities. Both the opening of new outlets, sometimes in the form of franchises, and mergers and acquisition occur in order to achieve this expansion. The X5 Retail Group is planning to purchase its competitor Karoesel in 2008 for 1.1 billion Euros

and is also rumoured to be interested in Kopeika. This expansion is also partly driven by the increasing purchasing power of the population in these cities.

Western retail chains such as the German Cash & Carry chain Metro and the French company Auchan are also active on the Russian market. After years of speculation, it is understood that Wal Mart, the largest food retailer in the world, will enter the Russian market in 2008. It is expected that Wal Mart will choose to buy existing retail chains with the X5 Retail Group, Ramstor, Magnit and Lenta among the possible candidates. Also, the French retailer Carrefour, the world second largest grocery retailer, and the British retail chain Tesco are widely expected to enter the Russian market in 2008. Carrefour has already purchased two locations in the southern cities Krasnodar and Rostov-on-Don. Furthermore, analysts are speculating Carrefour might in future buy a local retailer such as Mosmart or Ramstor.

However, regional retail chains continue to hold a market share of 41% despite the regional expansion of retailers and the presence of Western retail chains. Therefore, retail chains remain largely confined to a city or a region and no retail chain even approaches national coverage.

Another recent trend in the retail sector is the growing share of private labels in the turnover of retail chains. Private labels account for 11% of the total turnover of Kopeyka and 10% at Perekrostok. However, research among consumers suggests these still have to get used to the idea of private labels. Over 32% of the respondents of one recent research believed the outlets have their own production where the private label products are produced. As these production areas are thought to be small, consumers have doubts about the quality of the products.

Retail chains hold a strong position in the food and beverages sector for a number of reasons:

1. Large retail chains are actively trying to shorten the value chain and increase their margins by working directly with producers instead of wholesalers. In this way, some retail chains manage to secure margins of up to 80%.
2. Retail chains are further putting pressure on distributors by investing in their own warehouses and distribution centres. The X5 Retail Group plans to invest in building seven distribution centers in the Central and Ural federal districts in 2007. At present, the company manages four distribution centers with a total area of about 100 000 m².
3. Retail chains can afford to limit their merchandising activities. They have a strong market position and therefore distributors are prepared to pay high listing fees in order to get their products on the shelves of the retail chains outlets. Often producers and distributors have their own teams that are responsible for the merchandising of the products in the retail chain outlets.

4.9 Consumers

It is difficult to speak about 'the' Russian consumer as one distinctive group. Despite the fast growth of the average disposable income in Russia, considerable differences exist in terms of wealth. Therefore, it makes sense to divide the Russian population into two groups. Around 21 million consumers with high purchasing power are concentrated in Moscow, St. Petersburg, Yekaterinburg, Samara, Kazan and Tyumen. The remaining group of around 122 million consumers with low to medium purchasing power are mostly located in the regions.

Consumer preferences of these two groups vary considerably. Urban consumers with a high income are increasingly buying high value-added products such as sea food delicacies, foreign cheeses like mozzarella, drinking yoghurts, premium chocolate and industrially produced baby food. For these consumers, quality is slowly replacing price as the main purchasing criterion. Urban consumers with a low income and consumers in the region buy more traditional products such as dried fish, Russian hard cheeses, sour milk and unpackaged confectionery. Price still remains the main purchasing criterion for this group of consumers.

Despite this segmentation, some broad, more general tendencies can be described in the consumer preferences of the Russian consumer:

1. Russians spend a relatively high percentage of 30 to 35% of their disposable income on food compared to 12 to 15% in the EU. This percentage is expected to remain high until 2015. However, this is slowly changing as the Russian consumer is starting to spend more on household good and services, recreation and education.
2. Russians consume a lot of potatoes, cereals and bread. The consumption of fresh fruit and vegetables, meat and fish is gradually on the increase. During summer, the demand for fresh fruit and vegetables is low as many Russians rely on the fruit and vegetables they grow at their summer houses.
3. In most cases, Russians prefer locally produced food products to foreign ones. This is especially the case for dairy, meat and bread products. Local products are considered more healthy and natural than foreign products.
4. Organic, diet and ethnic food is becoming increasingly popular. This is partly the result of the increased travel and media exposure resulting in a wish to try new foods.
5. Russians are increasingly eating out in restaurants. At the same time, snacking is becoming more popular meaning demand for easy to prepare, ready made meals is growing quickly.
6. Advertising plays a small role in deciding to buy a new product. Among wealthy Muscovites only about 10% trust advertisements. These consumers rely to a much larger extent on their own experience and advice from friends for purchasing new products.

This segmentation of the consumers means that most Dutch companies active in the food and beverages sector will tend to focus on the more wealthy urban consumers. This focus is strengthened due to the problems with transport and logistics in the regions mentioned earlier.

On the one hand, the preference for local products creates an entry barrier for Dutch companies. However, this can be solved by locally packaging the products and clever marketing. On the other hand, Russian companies are relatively unfamiliar with organic, diet and ethnic food. These foods have existed in the Netherlands for a long time which creates an advantage for Dutch companies.

5. MAIN CONCLUSIONS AND ADVICE

5.1 Conclusions

The Russian food and beverages sector offers plenty of opportunities for Dutch companies. The solid economic growth of the past years and the concomitant rising disposable income of the Russian population have been the crucial drivers of the growth of the sector. Both the economic growth and disposable income are expected to continue to rise in the years to come. Therefore, the future growth of the food and beverages sectors seems certain.

Developments throughout the value chain offer opportunities for Dutch companies:

1. The insufficient domestic production of inputs for the sector creates additional opportunities for Dutch companies in sectors such as fish and seafood, fruit and vegetables and frozen processed foods. This situation is expected to continue in the next three to five years.
2. A further opportunity is offered through the outdated equipment and technologies for the production, processing and distribution of food and beverages products. Urgent modernization is required in order to be able to deliver products that meet the rising quality standards of the consumers.
3. The expansion of modern retail chains into the regions should allow Dutch companies to reach more consumers. Modern retail chains are developing their distribution network in order to be able to supply their regional outlets. Thus, the barrier of an underdeveloped distribution network in the regions is slowly disappearing. Through the regional outlets, Dutch companies will be able to supply consumers in the regions.
4. The rising disposable income is affecting the consumption pattern of Russian consumers. Quality is slowly replacing price as the prime criterion on which consumers base their purchase. They are increasingly choosing high-quality, easy-to-prepare products. Russian producers are unable to meet this demand for many products, thus creating opportunities for Dutch producers. Also, the demand for exotic food and beverages is growing as a result of the fact that Russian consumers are travelling more abroad.

Despite these opportunities, some threats complicate operating on the Russian market:

1. The Russian market requires an approach which is fundamentally different from the approach required in Western Europe. A good local partner that understands the Russian market is crucial for successfully doing business in Russia.
2. Importing food and beverages products is a complicated procedure. First of all, the products need to be certified. Furthermore, the process of customs clearance is complicated. If not carefully prepared, the clearance of products could cause severe delays in the delivery of products. Again, a local partner and an experienced transport company is crucial to ensure the goods are imported without delays.
3. The distribution of products within Russia is difficult due to the underdeveloped storage and distribution network in Russia. Therefore, it is important to carefully choose to which markets the product will be delivered. Moscow and St. Petersburg are generally the best options as a first step on the Russian market as they combine market size and relatively developed distribution networks.

4. In retail, it is important to consider the strong position of retail chains. They charge high listing fees for the placement of products in their stores and have profit margins of up to 80%.
5. Finally, consumers may be hard to reach as mentioned earlier. Also, consumer preferences vary greatly. In some cases, Russian products are preferred, while in other cases consumers prefer foreign goods.

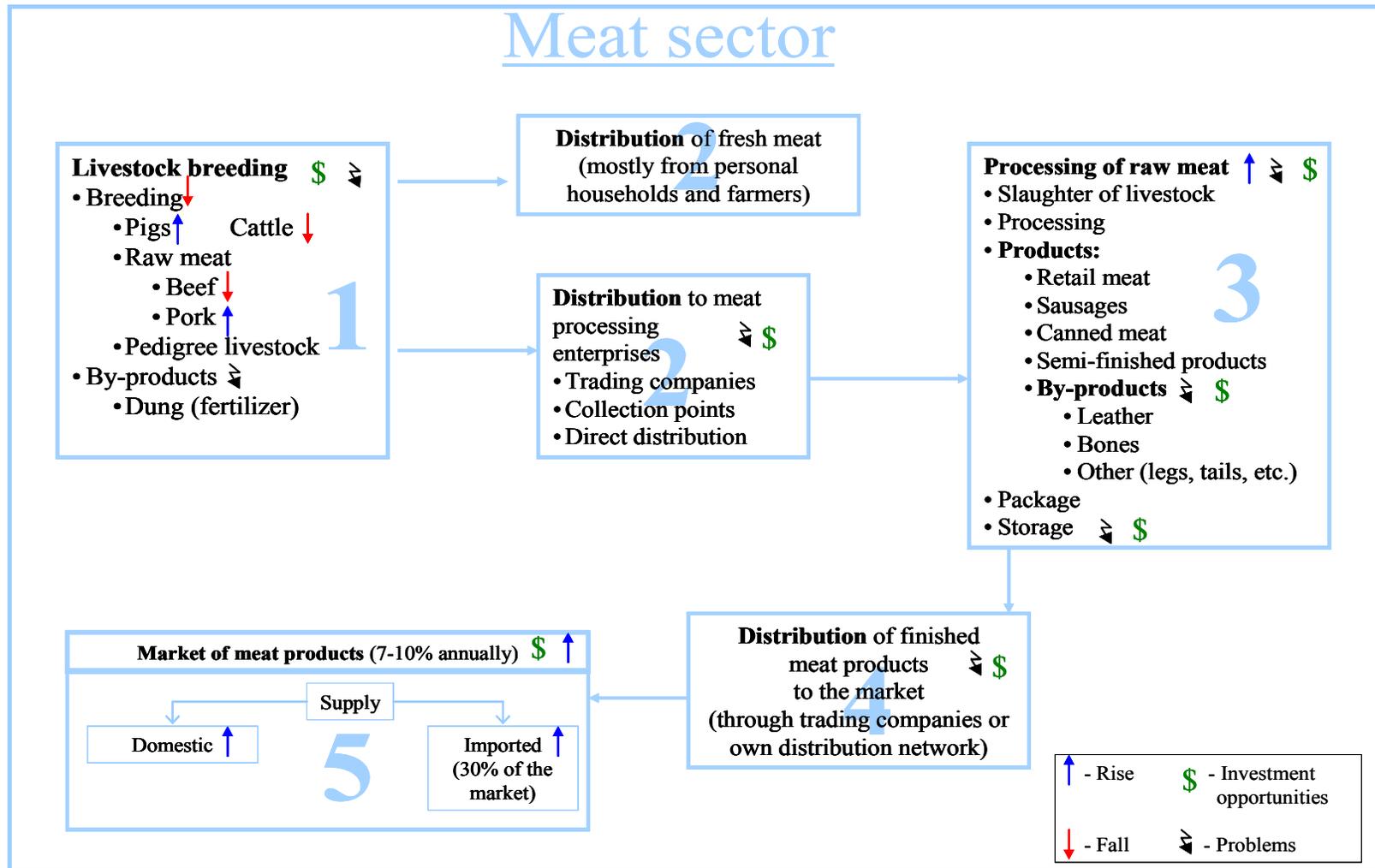
These threats once again point to the importance of careful preparation of a market entry and a good local partner.

5.2 Advice

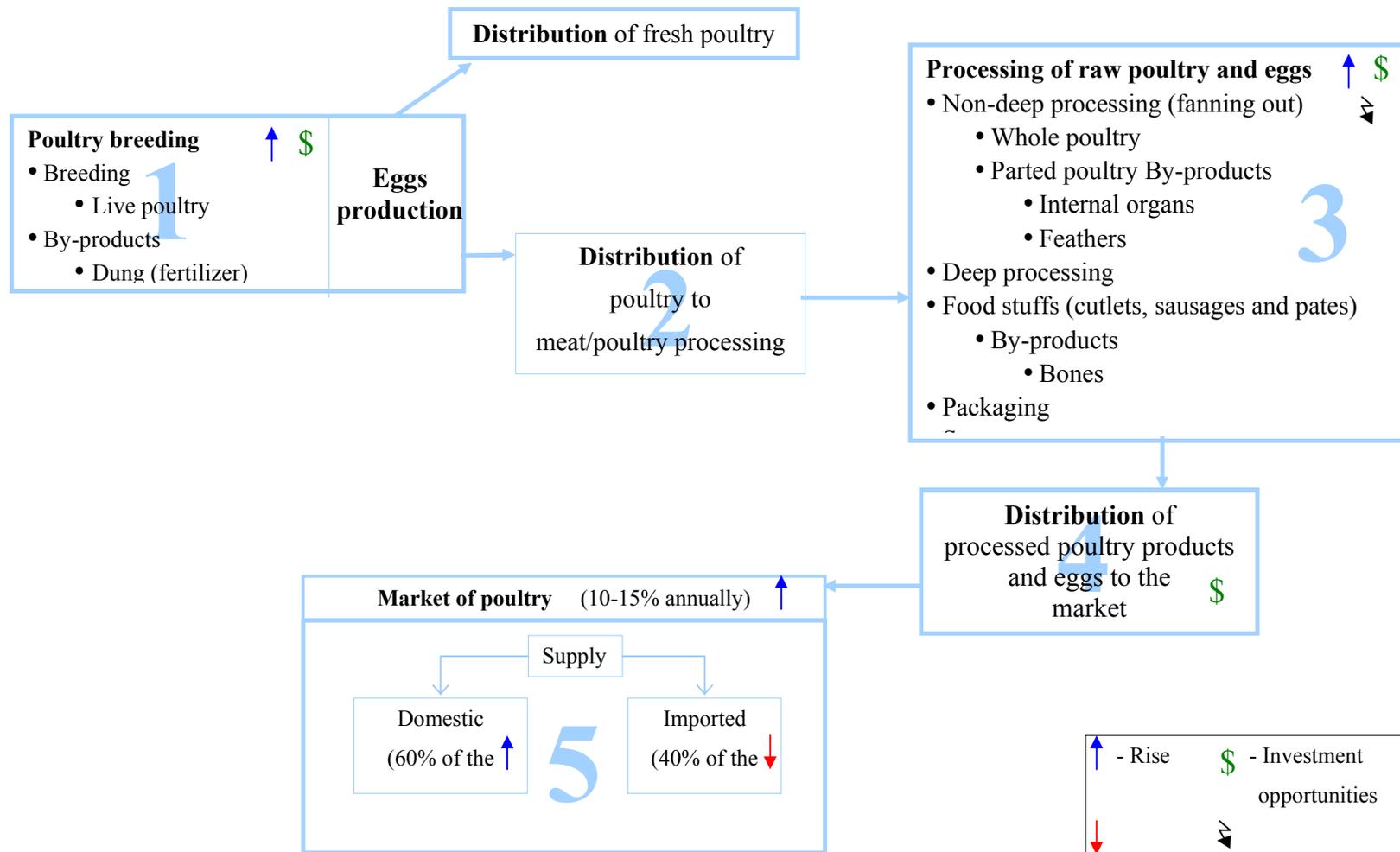
The following advice can be provided to Dutch companies considering a market entry in the Russian food and beverages sector:

1. It is important not to delay the entry on the Russian food and beverages market. The Russian food and beverages sector is showing rapid growth. However, the expected drop of the CAGR of retail food sales from 25% from 2001 to 2006 to 14% in the period from 2006 to 2011 indicates the growth peak has already passed.
2. However, acting quickly should not mean that a market entry should be started without any prior preparation. The competition on the Russian food and beverages market is strong. Therefore it is important to prepare well and think through all the steps before entering the market. Also, Dutch companies should compete on quality and added value.
3. It is important to realize that it will take another 5 to 10 years before the Russian food and beverages sector reaches the level of development seen in Western Europe. A stark contradiction exists in the Russian food and beverages sector between the unsaturated consumer market and growing disposable income on the one hand and the price sensitivity of consumers and unorganized food retail on the other hand. This fact again points to the importance of careful preparation before entering the Russian market.
4. Dutch companies can significantly enhance their chances of success on the Russian market by taking into account the specific Russian business culture and certain do's and don'ts when doing business in Russia.

ANNEX 1: SCHEMATIC OVERVIEW OF THE F&B SECTORS



Poultry sector



Fish sector

Fish catch

- Fishing fleet (60% of vessels are obsolete)
- Fish reserves and areas
- Fish breeding (aquaculture)

Distribution to fish processing enterprises

Processing of raw fish

• Products:

- Frozen fish
- Fish fillet
- Smoked fish
- Caviar
- Pickled whole fish
- Canned fish and seafood
- Marinated fish and seafood
- Dry fish
- Non-food fish products such as fats and fish flour.
- Packaging (vacuum and can): sometimes done on board - floating can-fish factories.
- Storage

3

Market of fish products (10-15% annually)

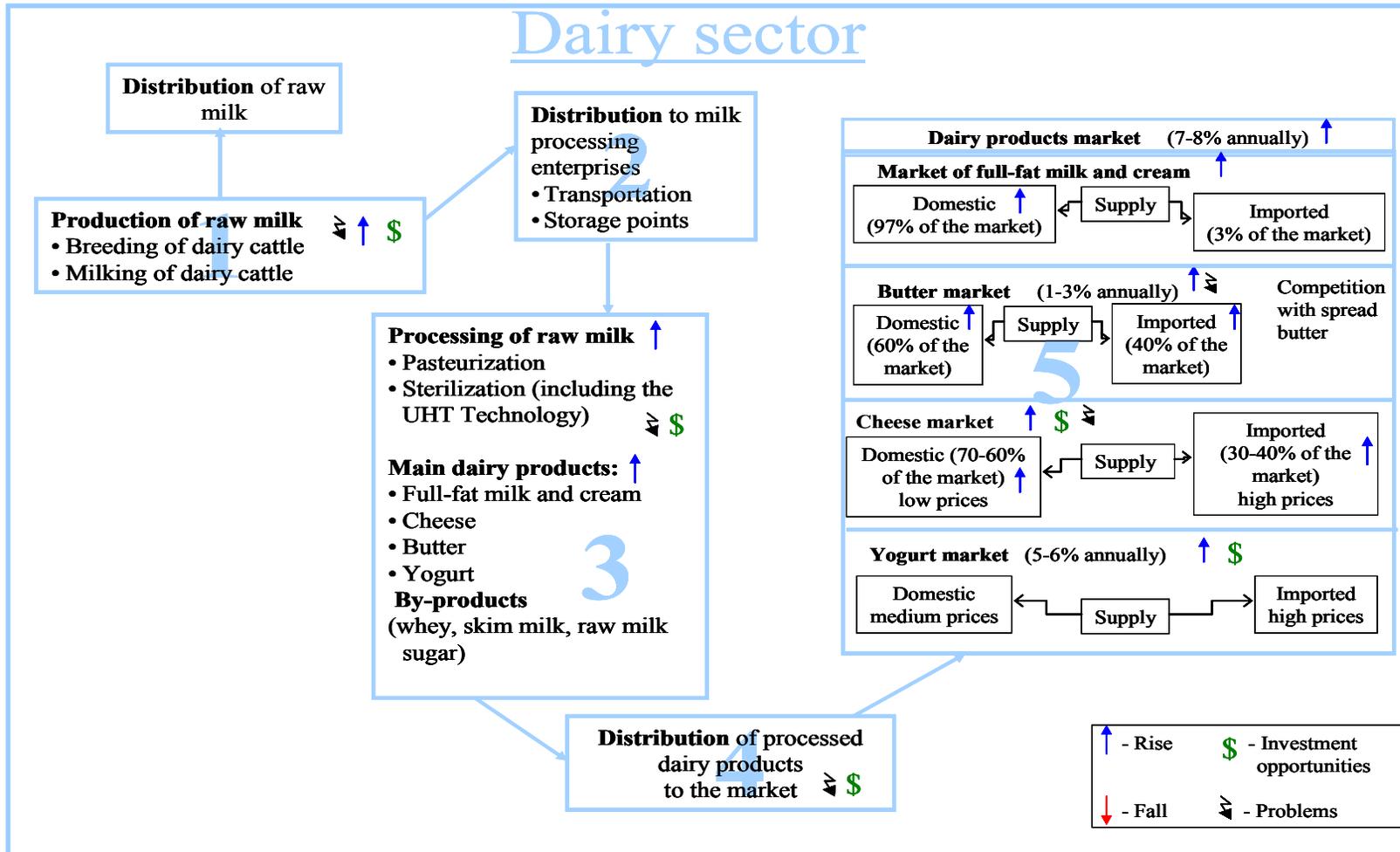


5

Distribution of finished fish products to the market

- ↑ - Rise
- ↓ - Fall
- \$ - Investment opportunities
- ↘ - Problems

Dairy sector



Fruit and vegetables sector

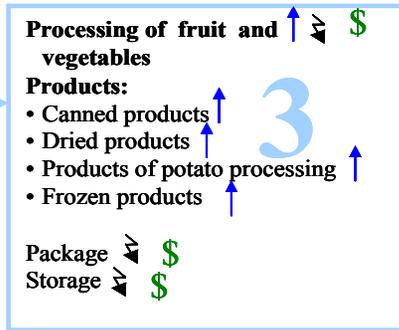
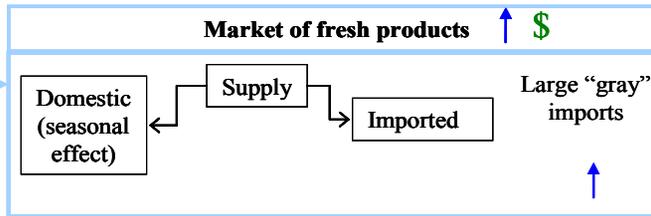
- Growing of fruit and vegetables** ↑
- Revegetation of land ↓ \$
 - Growing
 - Open-air growing
 - Hothouse growing
 - Products ↑
 - Potato
 - Vegetables
 - Fruit and berries
 - Harvesting
 - Seed growing
 - Selection
 - Package ↓ ↓ \$
 - Storage ↓ ↓ \$

Distribution to the market of fresh products ↓ \$

(includes storage points)

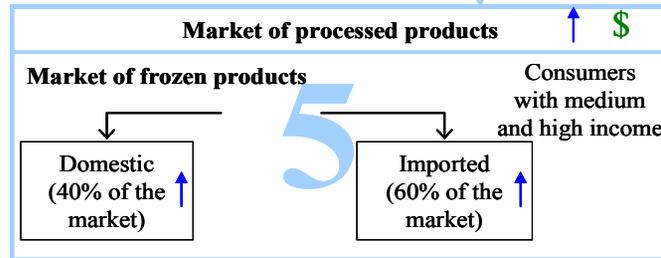
Distribution to processing (mostly, combined with producer) ↓ \$

(includes storage facilities)



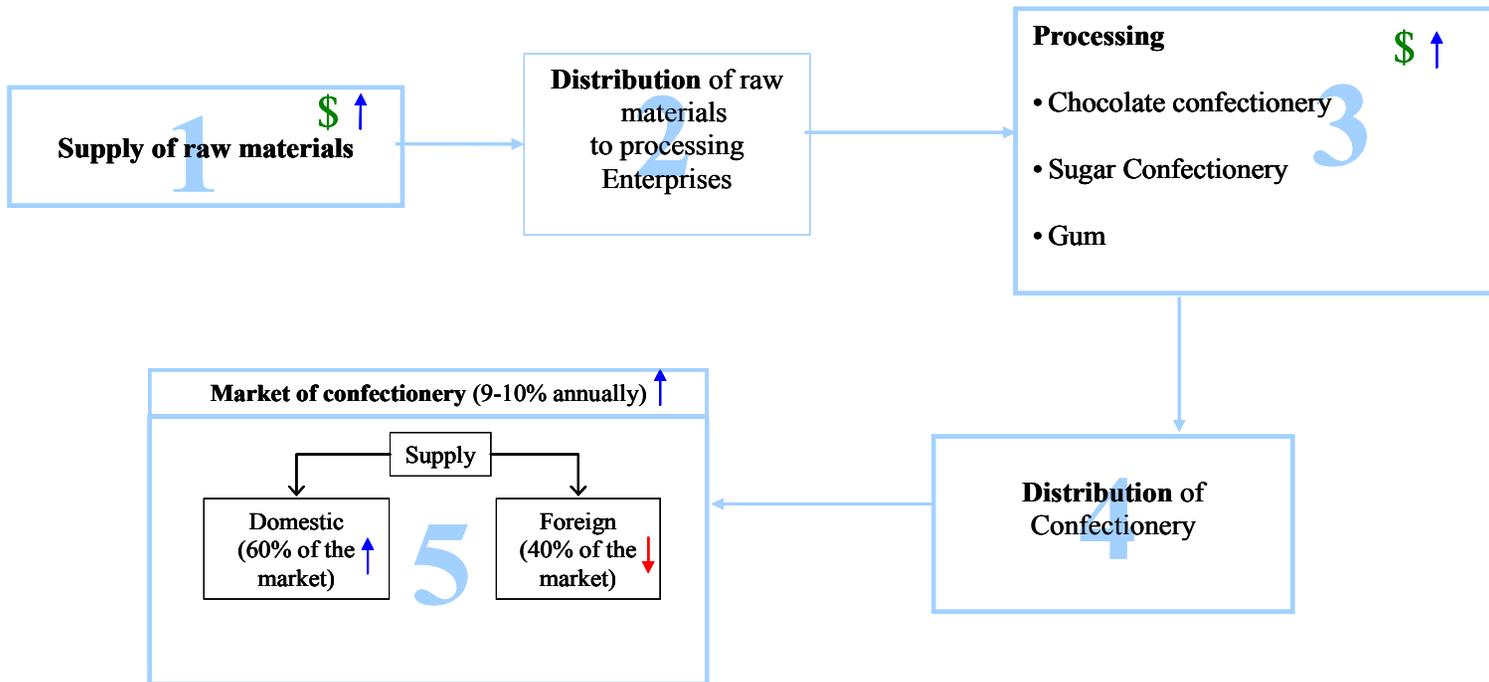
Distribution of processed fruit and vegetables to the market ↓ \$

(trading companies)



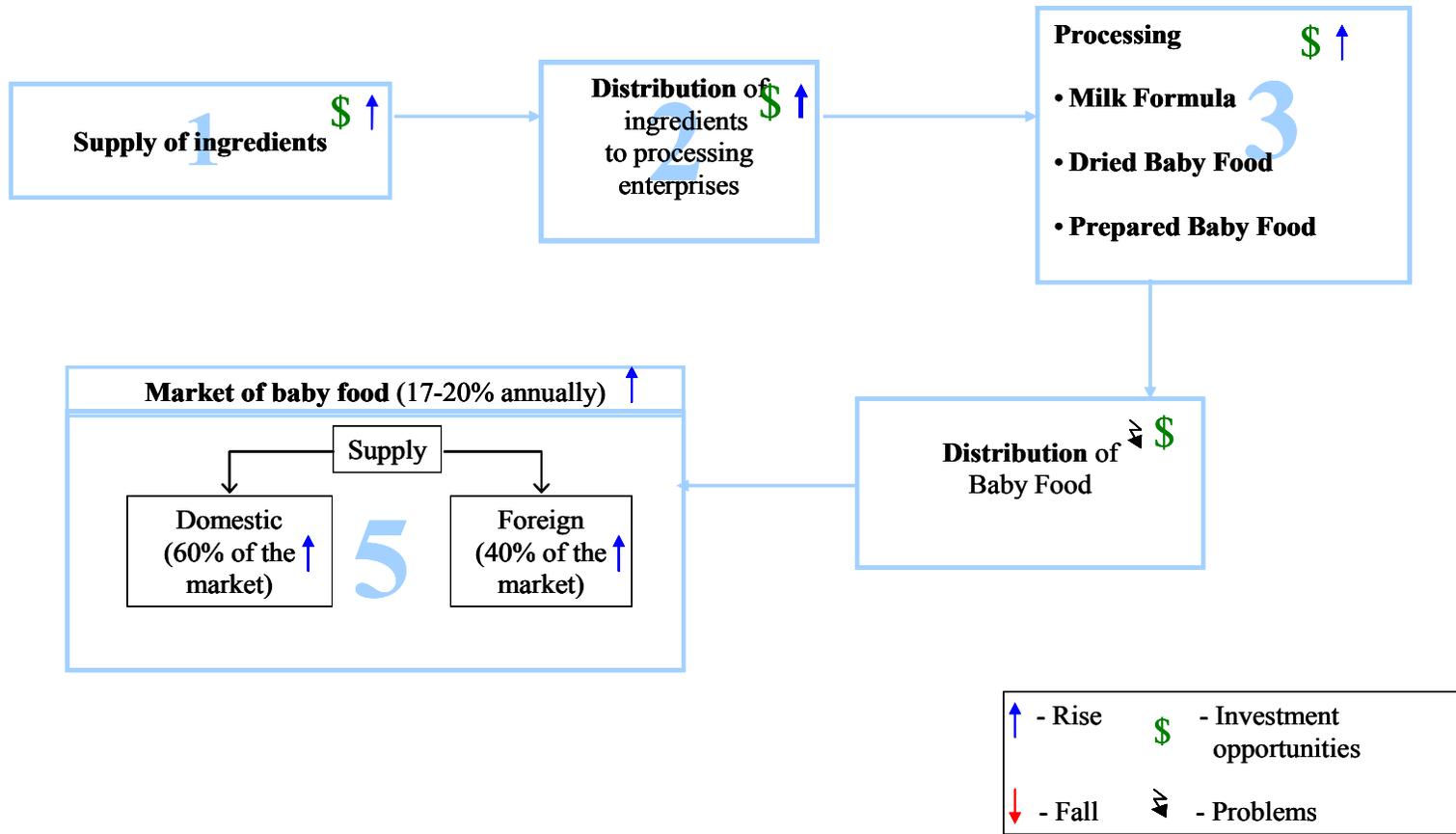
↑ - Rise \$ - Investment opportunities
 ↓ - Fall ↓ - Problems

Confectionery sector



↑	- Rise	\$	- Investment opportunities
↓	- Fall	↘	- Problems

Baby Food Sector



ANNEX 2: KEY CONTACTS

Importers in the main food and beverages sectors

№	Company	Contact Person	Address, tel., mail	Specialization
1	JFC-GROUP	<i>Chairman of Board of Directors</i> Vladimir Kehman, <i>General Director</i> Julia Zaharova	Sofiyskaya st., 60/6, 7, 10, Saint-Petersburg, RF, 192241 Head Office Tel: +7 (812) 703 14 89 Department of Import Tel: +7 (812) 703 14 85 E-mail: info@jfc.ru Website: http://www.jfc.ru/	Import and distribution of fresh fruits and vegetables
2	LLT Sunway Group	<i>General Director</i> Igor Hayak <i>Purchasing manager</i> Marina Homenko	Stupinskiy proezd, 1, Moscow, RF, 117546 Tel/Fax: +7 (495) 916 62 50 Website: http://sunway-online.ru/	Import and distribution of fresh fruits and vegetables
3	LLT Sorus Capital	<i>President</i> Valery Lineckiy <i>General Director</i> Stanislav Vasil'ev <i>Executive Director</i> Alexander Belogolov	Svetlanovskiy prospect, 54/5, Saint-Petersburg, RF, 195269 Tel: +7 (812) 324- 25 14, 324 25 15 Fax: +7 (812) 324- 25 10 E-mail: webinfo@sorus.ru Website: http://www.sorus.ru	Import and distribution of fresh fruits and vegetables. Meat processing, fish catch
4	Z&Y fruit company	N/A	Sofiyskaya st., 60 1/3, Saint-Petersburg, RF Tel: +7 (812) 331 66 16, Fax: +7 (812) 331-66-38 E-mail: info@z-y-fruits.ru , sales@z-y-fruits.ru Website: http://www.z-y-fruits.ru	Import and distribution of fresh fruits and vegetables
5	GLOBUS	N/A	Tel: +7 (495) 980 52 80 Website: http://www.globusgroup.ru/	Import and distribution of fresh fruits and vegetables, meat, fish
6	Agrostar	N/A	Amurskaya st., 1, area of ZAO "Victoria", warehouse 5/2, Moscow, RF Tel: +7 (495) 580 94 39 E-mail: agrostar@narod.ru Website: http://agrostar.narod.ru/	Import and distribution of fruits

№	Company	Contact Person	Address, tel., mail	Specialization
7	Fresh Express	N/A	Ryabinovaya st., 38 Moscow, RF Tel: +7 (495) 440 42 77, E-mail: fresh@df.ru Website: http://www.fresh-express.ru	Import and delivery of fresh fruits and vegetables in Moscow region
8	Fruit Brothers	<i>Commercial director</i> Nikolai Zilin	Bolshaya monetnaya, 5A Saint-Petersburg, RF E-mail: all@fruit.spb.ru	Import, marketing and distribution of fresh fruits and vegetables.
9	RUSAGRO	<i>General Director of branch</i> Yuriy Goltsov	Repischeva st., 14/37 Saint-Peterburg, RF, 197349 Tel/Fax: +7 (812) 301 36 46	Import and distribution of fresh fruits and vegetables.
10	Vitalica (sub-company of Ozler Agri Bussiness)	N/A	Suzdalskaya, 46 Moscow, Novokosino, RF, 111672 Tel: +7 (495) 792 51 47 Fax: +7 (495) 792 51 48 E-mail: info@vitalica.ru Website: http://www.vitalica.ru	Import and marketing of fresh fruits
11	FC Royal-Olimp	N/A	Stupinsky pr. 1, Moscow, RF, 113546 Tel/Fax: +7 (495) 384 17 62 E-mal: royalolimp@tln.ru Website: http://royalolimp.ru	Import of fresh fruit, vegetables and exotic
12	SoyuzPromContract	N/A	Purchasing department: Tel: +7 (495) 699 95 55, 699 94 27 Fax: +7 (499) 972 99 08 E-mail: info@spcontract.com Website: http://www.spcontract.com	Import of fresh fruit and vegetables
13	Vershki & Koreshki	N/A	Tel./Fax: +7 (495) 956 85 36 E-mail: info@vershki.ru Website: http://www.vershki.ru	Import of fresh fruit and berries, composition of fruit lug-boxes
14	Tropic group	Tula: <i>Commercial director:</i> Alexander Rubtsov	Tula: Tel: +7 (4872) 33 96 12, 39 09 25 Fax: +7 (4872) 33 96 98, 39 09 26 Moscow: Tel: +7 (495) 780 76 32 Fax: +7 (495) 780 76 33 Saint-Petersburg: Tel: +7(812) 332 12 16 Fax: +7 (812) 332 12 15 Website: http://www.tropic-group.ru	Import, wholesaling & distribution of fruit to Moscow and regions

№	Company	Contact Person	Address, tel., mail	Specialization
15	Big Sur	N/A	Finlyandsky pr. 4a, office 415, Business center Petrovsky Fort, St. Petersburg, 194044, Russia Tel: +7 (812) 33 22 875 Fax: +7 (812) 33 22 876 Email: bigsur.russia@mac.com Website: http://www.bigsur.nl	Import of fresh fruit
16	Artes	<i>Sales managers</i> Maria Veselkova, Elena Kapshuk, Alena Kupriyanova	Degtyarnyi pereulok, 6, bld.1, Moscow, RF Tel: +7 (495) 436 55 75, E-mail: artes-zakaz@yandex.ru sales@artes-retail.ru Website: http://www.artes-retail.ru	Import, delivery of fresh fruit and vegetables to retail chains, cafes, restaurants, etc
17	Trade house Orghim-Ecology	<i>Purchasing manager</i> Irina Petruk	Prospect of Elisarov, 38 A, Saint-Petersburg, RF Tel: +7(812) 325 30 30, 325 11 95 Fax: +7(812) 325 10 18, E-mail: orghim@mail.wplus.net Website: http://www.orghim.ru	Import of meat, fish and seafood
18	Soyuzcontract - Holding	<i>Sales manager</i> Ludmila Semochkina	Savvinskaya bunder, 15, Moscow, RF, 119435 Tel: +7 (495) 787 84 61 Fax: +7 (495) 787 84 65 E-mail: info@soyuzkontrakt.ru Website: http://www.soyuzkontrakt.ru	Importer and distributor of meat
19	Meat Corporation Euroservice	<i>General Director</i> Alexandr Smirnov	9 Krasnoarmeiskaya st., 11 Saint-Petersburg, RF, 190103 Tel: +7 (812) 718 35 52, Fax: +7 (812) 251 23 28 Website: http://euroservice.spb.ru	Import, wholesales of frozen meat, poultry and fish products
20	LLT Artis Distribution	<i>Marketing Director</i> Olga Emelyanova	Barochnaya st., 10/1, Saint-Petersburg, RF, 197110 Rjabinovaya str. 47, office 204, Moscow, RF, 121471 Tel: +7 (812) 346 60 05 +7 (495) 799-98-12, Fax: +7 (812) 346 60 06, E-mail: distr@artisgroup.ru Website: http://www.artisgroup.ru/	Distribution of dairy products
21	Group of companies Argo	<i>Marketing Director:</i> Alexandr Shilling	Kubinskaya st., 76/3 Saint-Petersburg, RF, 196240 Tel/Fax: + 7 (812) 718-67-59 E-mail: info@ar-go.spb.ru Website: http://www.argo.spb.ru	Import, distribution of cheese products

№	Company	Contact Person	Address, tel., mail	Specialization
22	Group of the companies Neva cheeses	<i>Regional purchasing manager</i> Dmitriy Hlyamov	Alexandrovskaya ferma avenue 23A Saint-Petersburg, RF, 192174 Tel: +7(812) 380-67-70 Fax: +7 (812) 380-67-71 E-mail: info@nevcheeses.com Website: http://www.cheeses.spb.ru	Production, import and distribution of cheese
23	Foodland	N/A	Base PP "Autostroy", Mosrentgen colony in Leninskiy region Moskovskaya oblast, RF, 142771 Tel: +7(495) 424 20 60 / 70 / 71 Fax: +7 (495) 424 20 91 Website: http://www.foodland.ru	Import, distribution of cheese and other dairy products
24	Group of companies Optitrade	<i>General Director</i> Gennadij Frolov	Kostyakova st., 10A Moscow, RF, 125422 Tel/Fax: +7 (495) 976 45 62, 976 06 41 Website: http://www.optitrade.ru/	Import and distribution of cheese
25	Russian Fish Company	<i>General Director</i> <i>Dmitriy Dangauer</i>	Aviamotornaya st., 10/2, 11 floor, Moscow, RF Tel: +7 (495) 775 76 61 Fax: +7 (495) 775 76 62 E-mail: info@rusfishcom.ru Website: http://www.rusfishcom.ru	Import, distribution of fish and fish products
26	Fish Company Atlant Pacific	<i>General Director</i> Denis Borisov <i>Purchasing Director</i> Lidia Nikolaeva	General Ermolov's st., 10/6, Moscow, RF, 121170 Tel: +7 (495) 739 59 00 Fax: +7 (495) 739 59 90 E-mail: atlant@atlantpacif.ru Website: www.atlantpacific.ru	Import and distribution of fish and fish products
27	Norge Fish	<i>General Director</i> Sergey Gudkov <i>Commercial Director</i> Sergey Korolev	Vavilova st., 83, office 8, Moscow, RF, 117335 Tel: +7 (495) 937 57 31 Fax: +7 (495) 134 40 41 Website: http://www.norgefish.com/	Import of premium class fish and sea products
28	Group of companies Agama	<i>Marketing Director</i> Sergey Philipov	Zvezdnyj boulevard, 19, 7th floor, Moscow, RF Tel.: +7 (495) 580 70 80 Fax: +7 (495) 580 96 40 E-mail: info@agama.info Website: http://www.agama.info	Import and distribution of fish in CIS countries

№	Company	Contact Person	Address, tel., mail	Specialization
29	Group of companies Ledovo	<i>President</i> Nadejda Kopitina <i>Purchasing Director</i> Anna Frolova	Novinsky boulevard 31, Moscow, RF, 123242 Tel: +7 (495) 777 60 77 Fax: +7 (495) 777 60 76 E-mail: afrolova@ledovo.ru (Anna Frolova) Website: http://www.ledovo.com	Import and trade of fish and frozen food
30	Trade house Infolink	<i>Commercial Director</i> Sergey Pankratov	Domodedovskaya st., 24/3, 4 floor, Moscow, RF, 115582 Tel: +7 (495) 785 33 11 Fax: +7 (495) 785 33 13 Website: http://www.makaroni.ru	Import and distribution of grains, pasta, vegetable oils, and other foods
31	Whitehall	<i>President</i> Mark Kauffman	Dmitrovskoe shosse, 33/5, Moscow, RF, 127550 Tel: +7 (495) 977 70 00 Website: http://www.whitehall.ru	Import and distribution of alcoholic drinks
32	Rosagro-import	<i>General Director</i> Irina Rybakova	Rojdestvenka, 7 Moscow, RF, 103031 Tel: +7(495)923 46 91, 924 85 47 Website: http://www.rosagro.ru/	Production, import and distribution of wines
33	Wine Holding	<i>Marketing manager</i> Anastasia Petrova	Kulneva 4, Moscow, RF, 121170 Tel. +7 495 737 85 86 Fax +7 495 737 85 83 e-mail: market@holdingwine.ru Website: http://www.holdingwine.ru	Import and distribution of wines
34	MoRo Import	<i>Director</i> Valerij Targon <i>Business development manager</i> Alexey Kochkin	Simferopolsky boulevard 17/1 Moscow, RF, 117452 Tel./fax +7 (495) 234 9729, 317-36-00 e-mail: ivan@moro.ru Website: http://www.moro.ru	Import and distribution of wines
35	Rusimport	N/A	Altuf'evskoe shosse, 79A/25 Moscow, RF Tel: +7(495) 901 10 11 E-mail: info@rusimport.ru Website: http://www.rusimport.ru	Import of wines
36	Trade house Aroma	<i>General Director</i> Igor Komarov	Beregovoi proezd, 5 Moscow, RF, 121087 Tel: +7 (495) 777 55 20 Fax: +7 (495) 777 55 21 Website: http://www.aroma.ru	Import and distribution of alcohol

№	Company	Contact Person	Address, tel., mail	Specialization
37	Trade House Tea, Coffee and Other Colonial Goods	<i>Director</i> Kliusa Mariya	per.Kamergersky, 3, Moscow, RF, 103843 Tel.: +7 (495) 292 08 36; Fax: +7 (495) 292 04 36 Website: http://www.tea-coffee.ru	Wholesales of coffee and tea
38	Orimi Trade	<i>Chairman of Board of Directors</i> Sergey Kas'yanenko <i>General Director</i> Alexandr Evnevich	Tobolskaya st., 3, Saint-Petersburg, RF, 194044 Tel: +7 (812) 542 04 79E-mail: mail@orimitrade.spb.ru Website: http://www.orimitrade.ru	Import, packaging, wholesale, and distribution of tea, coffee, and cacao
39	A-T Trade	N/A	Malaya Semenovskaya st., 9/3, Moscow, RF, 109028 Tel.: +7 (495) 589 20 10; Fax: +7 (495) 589 20 11 E-mail: info@at-trade.ru Website: http://www.at-trade.ru	Import and distribution of tea, coffee, cacao and soft drinks
40	Tea House Grand	<i>General Director</i> Boris Alexandrov	Prospekt Mira, 69, Moscow, RF Tel: +7 (495) 937 53 35 Fax: +7 (495) 281 22 97 Website: http://www.grandonline.ru	Import, packaging, wholesale, distribution of tea, coffee, cacao and groceries
41	May Company	<i>General Director</i> Alexandr Egorov	Proektiruemyi proezd, 19, Moscow, RF, 109235 Tel.: +7 (495) 775 75 05 Fax: +7 (495) 775 55 15 E-mail: info@maycompany.ru	Producing and distribution of tea and coffee
42	Group of Companies Mashtakoff	<i>Director</i> Natalya Bulinina	ul.Timiriazevskaya, 1, office 207-a, Moscow, RF, 127422 Tel.: +7 (495) 211 56 88 Website: http://www.mashtakoff.ru	Import of coffee
43	Trade company Mistral	<i>Marketing Director</i> Victoria Karmatskih	Pudovkina st., 4 Moscow, RF, 119285 Tel: +7 (495) 411 70 70 Fax: +7 (495) 411 70 73 Website: http://www.tkmistral.ru	Import, wholesale, distribution, marketing of branded processed food. Producer of rice
44	Raritet	<i>Head of Marketing and Business Developing Department</i> Dmitriy Makarenko	Magistralnaya st., 18 Moscow, RF, 123007 Tel: +7(495)941 11 31, 755 92 29 Website: http://www.raritet-ltd.ru	Import and distribution of branded processed food

№	Company	Contact Person	Address, tel., mail	Specialization
45	AGAMA Trade		Zvezdnyi bulvar, 19, office 701, Moscow, RF Tel: +7 (495) 580 70 80 Fax:+7 (495) 580 96 40 E-mail: info@agama.info Website: http://www.agama.info	Import, distribution of frozen food

Wholesalers in the main food and beverage sectors

№	Company	Contact Person	Address, tel., mail	Specialization
1	LLT Classic	<i>Marketing manager</i> Ekaterina Kadashova	Novolitovskaya, 15a, office 601, Saint-Petersburg, RF, 194100 Tel./Fax: +7(812) 326 33 50 E-mail: mail@classic.sp.ru Website: http://www.classic-spb.ru	Wholesale of dairy, seafood, confectionery, groceries
2	Pava Ros	<i>Business development director</i> Konstantin Bormotov	Pushkin st., 38, Barnaul, RF, 656049 Tel: +7 (3852) 63 18 34, 63 77 44, 63 14 12, E-mail: koordinat@apkhleb.ru Website: http://www.pavaros.ru	Wholesale of food products
3	GEK	<i>Marketing service</i> Svetlana Hardik	Institutskiy pereulok, 9, Dolgoprudniy, RF, 141700 Tel: +7 (495) 408 58 88, 408 84 18 E-mail: reception@gek.ru Website: http://www.gek.ru	Wholesale of dairy and cheeses
4	Milfood	Romanova Julia	Tel: +7(495) 22 180 22, 136 71 78 E-mail: milfood@yandex.ru Website: http://www.milfood.ru/	Wholesale and distribution for restaurants, cafes, and confectionaries
5	Melfoods	Michael Fram	Berezhkovskaya nab., bld 64 Moscow, RF, 121059 Tel: +7 (495) 937 69 11, 937 69 12 Fax: +7 (495) 937 69 10 E-mail: info@mfood.ru Website: http://www.melsons.ru	Wholesale and distribution of the packaged food
6	Sevko	<i>Marketing Director</i> Alexander Radchenko	Kantemirovskaya, area 17, Moscow, RF Tel: +7(495) 937 88 33 Fax: +7(495) 937 88 34 E-mail: secretar@sevco.ru Website: http://www.sevco.ru	Wholesale and distribution of a wide arrange of packaged food and alcohol beverages
7	Ameria	<i>General Director</i> Mikajel Assiryan	Proektiruemyi proezd, 52/31, bld. 4, Moscow, RF, 119361 Tel.: +7(495)225 75 77 E-mail: ameria-russ@ameria.ru Website: http://www.ameria.ru	Import, wholesale and distribution of food products and beverages

№	Company	Contact Person	Address, tel., mail	Specialization
8	LLT Baltic- Trade	<i>General Director</i> A. Korovin; <i>Purchasing Director</i> Anna Galinskaya	Salova st., 23B, St.Petersburg, RF, 192102 Tel: +7 (812) 334-55-77 Fax: +7 (812) 334-55-78 e-mail: info@baltic-trade.ru	Distribution of processed fruits and vegetables, sauces, snacks, juices, ready food meals, processed meat and fish
9	LLT CanTree Foods	<i>President</i> Maxim Protasov	Line Rijskaya, 3, office 417, Saint-Petersburg, RF, 195196 Tel: +7 (812) 449 07 20 Fax: +7 (812) 449 07 40 E-mail: info@cantree.ru	Distribution of packaged processed food
10	Miratorg	<i>General Director</i> Alexander Nikitin	1st Frunzenskaya st., 5, Moscow, RF, 119146 Tel: +7 (495) 775 06 50; E-mail: info@agrohold.ru	Production, distribution of meat and frozen food
11	CJSC Meatland Food Group	<i>General Director</i> Dmitriy Gordeev	Sofiyskaya st., 6/2, Saint-Petersburg, RF, 192236 Tel/Fax: +7(812) 449 9999 E-mail: info@meatland.ru	Production, distribution of meat products, logistic services
12	Holding Company Optifood	<i>General Director</i> Ivan Obolencev	Profsooznaya st., 78, Moscow, RF, 117393 Tel: +7(495) 363 48 92 Fax: +7(495) 363 48 94 E-mail: elka@optifood.ru Website: http://www.optifood.ru	Production, distribution of poultry and frozen meat products
13	CJSC King	N/A	Varshavskaya, 94, Saint-Petersburg, RF, 196066 Tel: +7 (812) 371 92 54 Fax: +7 (812) 371 92 53 E-mail: king@king-jsc.ru Website: http://www.king-jsc.ru	Distribution of dried fruit and nuts
14	Belaya Dacha Group	<i>General Director</i> Victor Aleksandrovich Semenov	2, Yanichkin Proezd Kotelniki Lubertsy District Moscow Region 140053 Tel: +7 095 995 90 00 Fax: +7 095 995 90 00 E-mail: info@belaya-dacha.ru Website: http://www.belaya-dacha.ru/eng	Growing and processing of vegetables

№	Company	Contact Person	Address, tel., mail	Specialization
15	LLT Varyag	<i>General Director</i> Namazov Nazim I'lyas	Ordzhonikidze st., 42, Saint-Petersburg, RF, 196143 Tel.: +7 (812) 378 62 09 Fax: +7 (812)378 62 10 E-mail: broker_spb@mail.ru Website: http://www.ooo-variag.ru	Wholesale of cheeses and fats
16	Trade House Pir	<i>Commercial Director</i> Oleg Sutturmin <i>Development Director</i> Ilya Ryazanov <i>Marketing Director</i> Marina Petrova	Nizhnie polya, 27, Moscow, RF, 109382 Tel/Fax: +7(495) 901 99 16 E-mail: info@tdpir.ru Website: www.tdpir.ru	Distribution of dairy products
17	Group of companies Belaya Reka	<i>Commercial Director</i> Irina Pasichnichenko	Danilovskaya riverside, 6/7 Moscow, RF, 115114 Tel/Fax: +7(495) 363 63 83 E-mail: belayareka@belayareka.ru Website: http://www.belayareka.ru	Production, import, and distribution of cheese and fats
18	Defa Trading Group	Denis Repinskiy	Izhorskaya st., 6/1, Moscow, RF, 125599 Tel: +7 (495) 221 29 01 Fax: +7 (495) 221 29 01 Website: http://www.defagroup.com	Import, wholesale, warehousing, and forwarding of fish products
19	Brig – Star	<i>General Director</i> Arkhipova Irina Vladislavovna	ul. Piatnitskaya, 18, bld.4, Moscow, RF, 115038 Tel./Fax: +7 (495) 959 53 60 E-mail: vami75@mail.ru Website: http://www.brig-star.ru	Wholesale of fish products in Russia, Ukraine, and Belorussia
20	Group of companies Greentrust	<i>General Director</i> Kuznetsov-Serbsky Konstantin	Zvezdny bul., 19, Moscow, RF, 129085 Tel./Fax: +7 (495) 232 04 53 E-mail: greenrust@mtu-net.ru Website: http://www.greentrust.ru	Wholesale and distribution of fish
20	Meridian	<i>Marketing Director</i> Elena Kokareva	ul. Izhorskaya, 7, Moscow, RF, 125599 Tel.: +7 (495) 797 49 99; Fax: +7 (495) 486 47 47 E-mail: marketing@meridian.ru , opt@meridian.ru Website: http://www.meridian.ru	Production and wholesale of fish

№	Company	Contact Person	Address, tel., mail	Specialization
21	North Alliance	<i>General Director</i> Stepurenko Alexandr Yuryevich	ul. Pravdi, 7/9, str. 1-a, Moscow, RF, 125040 Tel./Fax: +7 (495) 729 35 40 E-mail: fish@northalliance.ru http://www.northalliance.ru	Wholesale of fish
22	Albatros Seafood Production	<i>General Director</i> Nagaytsev Alexey Viktorovich	Village Aparinki, acres 1, Leninskii region, Moscow oblast, RF, 142715 Tel.: +7 (495) 399 32 55; Tel./Fax: +7 (495) 399 32 66, 399 33 90 http://www.albatrosseafood.ru	Import, production, and distribution
23	Sevko-City	N/A	Staromonetny pereulok, 9/1, Moscow, RF, 119017 Tel: +7(495) 937 88 33 Website: http://www.sevco.ru	
24	Tchibo Petersburg	<i>General Director</i> Alexander Golinsky	ul. Yefimova, 4a, Saint Petersburg, RF, 191031 Tel.: +7 (812) 324 70 88; 324 33 00 E-mail: offict@tchibo.spb.ru Webiste: http://www.tchibo.ru	Import and distribution of coffee
25	Cuppo	N/A	Stroitelny pr-d, 7-a, k.12, Moscow, RF, 125363 Tel.: +7 (495) 492 75 51, 497 60 57 E-mail: market@kuppo.com Website: http://www.kuppo.ru	Production and wholesale
26	Tea World	N/A	1ya Kazakhstanskaya st., 32 Omsk, RF Tel: +7 (3812) 55 10 89; 55 06 89 Fax: +7 (3812) 55 10 89 E-mail: office@teaworld.ru Website: http://www.teaworld.ru	Wholesale of 400 items of tea and coffee in the Siberian region
27	Tea Trade Company	N/A	Novocheremushkinskaya st., 58, Moscow, RF Tel: +7(495) 120 35 75, 128 78 12	
28	Coffee company Montana Coffee	<i>Chief of Marketing Department</i> Anna Shlyapneva	pr-d Komsomolskoy ploshadi, 16, Moscow, RF, 107140 tel./fax: +7 (495) 975-55-11 E-mail: office@montana.ru Website: http://www.montana.ru	Production and wholesale
29	INKO	<i>Director-consultant</i> Igor Beleckii	Narkomvod st., 22/4, Zhukovskiy town, Moscow region, RF, 140184 Tel: +7 (495) 777 12 21 Fax: +7 (495) 777 13 65 http://www.inco.ru	Distribution of frozen products

№	Company	Contact Person	Address, tel., mail	Specialization
30	Yar-Fruit	N/A	Leningradskiy prospect, 1A, Yaroslavl, RF Tel: +7 (905) 132 70 71, +7 (910) 978 25 65, +7 (0852) 53 59 91 Website: www.yar-frut.oml.ru	Wholesale of fruits
31	Daikon Continental	N/A	Stupinskiy proezd, 1 Moscow, RF, 117546 Tel: +7 (495) 502 14 24 Website: http://www.daikon.co.ru/	Wholesale of dairy, fruit & vegetables, meat, fish, frozen food, etc
32	KubanProd Torg	N/A	Uralskaya st., 75 Krasnodar, RF Tel/Fax: +7 (6122) 31 56 85	Wholesale and delivery of food products
33	Mir Fruktov	<i>Development department Igor Struk</i>	Head office: Tel: +7 (499) 978 67 10 Sales office: Tel: +7 (495) 229 38 35, 229 38 36, 726 30 05 Development department: Tel: +7 (495) 649 90 45 Website: http://www.mir-frukto.ru	Wholesale and delivering of fruit, vegetables, mushrooms, berries in Moscow region
34	Agrotrade	N/A	Lenina prospect, 11, office 202 Nizhniy Novgorod, RF Tel./Fax: +7 (8312) 45 22 20, 45 22 66	Wholesale of food products
35	Bestagrotra ns	N/A	Bolshoy Golovin pereulok, 3/1, Moscow, RF, 107045 Tel: +7 (495) 739 86 69	Wholesale, transportation and delivery of fruit and vegetables
36	Exofrukt	N/A	Tuhachevskogo, 100, wholesale market, camera 10, block 3, Kemerovo, RF Tel: +7(3842) 31 58 31	Wholesale of fruit and vegetables
37	Interfruit	N/A	Nepokorennih prospect, 63, Kalininskaya warehouse, depot 34, Saint-Petersburg, RF Tel/Fax: +7 (812) 332 70 17, 329 35 38	Wholesale and delivering of fruit and vegetables to cafes, bars, restaurants, hotels, etc

Retail chains

№	Company	Contact Person	Address, tel., mail
1	Metro Cash & Carry	Herman Tinga Tel.: +7 (495) 502 14 00 (assistant)	http://www.metro-cc.ru
2	Auchan	Anna Lomova, Tel.: +7(495) 258 97 10, 258 97 15	3-rd Yamskogo polya street, 18, Moscow, RF, 125040 Tel.: +7(495) 721 20 99 Fax: +7(495) 721 17 53 E-mail: reception@auchan.ru Website: http://www.auchan.ru
3	X5 Retail Group (Perekrestok & Pyaterochka)	Corporate Communications Department of X5 retail	28 Srednyaya Kalitnikovskaya st., 4, Moscow, RF, 109029 Tel.: +7 (495) 984-6956 Fax: +7 (495) 950 55 77 E-mail: pr@x5.ru Website: http://www.x5.ru
4	Seventh continent	<i>Marketing Director</i> Nadezhda Zizulina	Mikluho-Maklaya st., 18/2, Moscow, RF, 117437 Tel. +7 (495) 935 80 80, 933-43-63 Fax. + 7 (495) 933 43 64 E-mail: info@7cont.ru Website: www.7cont.ru
5	Ramstore	<i>Marketing director</i> Kazandzhi Sechkin	Leningradskoe shosse, 16/9, Moscow, RF Tel.: +7 (495) 937 04 40 Website: www.ramstore.ru
6	Group of Companies Victoria	<i>Development Director</i> Gennadiy Gutman	Sevastopolskiy prospect, 11, Moscow, RF, 117447 Tel.: +7 (495) 739 38 01, 739 38 03, 739 38 05 Fax: +7 (495) 739 38 02 E-mail: secretary@victoria-group.ru Website: http://victoria-group.ru
7	Lenta	<i>Chief Executive Officer and General Director</i> Sergei Yuschenko <i>PR Manager</i> Svetlana Nemiro	Tel.: +7 (812)336 39 97 Email: pr@lenta.com Website : http://www.lenta.com
8	Tander	<i>General Director</i> Sergey Galickiy	Levanevskogo st., 185, Krasnodar, RF, 350002 Tel/ Fax: +7(861)210 98 10 E-mail: info@gw.tander.ru Website: www.magnit-info.ru
9	Trade House Kopeyka	<i>General Director of Moscow network of supermarkets</i> Sergey Lomakin	Petrovsko-Razumovskiy proezd, 28 Moscow, RF Tel: +7 (495) 777 12 88 Fax: +7 (495) 614 62 21 E-mail: info@kopeyka.ru Website: www.kopeyka.ru

№	Company	Contact Person	Address, tel., mail
10	Dixy	<i>President</i> Oleg Leonov <i>General Director</i> Toms Berzin	Zemlyanoi val, 50a/8, bld. 2, Moscow, RF, 109028 Tel: +7 (495) 933 14 50 Fax: +7 (495) 933 02 59 Website: www.dixy.ru
12	Paterson	<i>General Director</i> Yury Yakovchik	Biriulyovskaya str., 51/1, Moscow, RF, 115372 Tel: +7 (495) 780 74 50 Fax: +7 (495) 780 74 31 E-mail: info@paterson.ru Website: www.paterson.ru
13	Mosmart	<i>Vice General Director</i> Semen Sluckij	Yaroslavskoe shosse, 54, Moscow, RF Tel: +7 (495)783 85 20, 783 85 34 Fax: +7 (495)783 85 34 Website: http://www.mosmart.ru
14	Monetka	<i>Commercial Director</i> Alexander Zherebcov	Sibirskiy Trakt, 12, Ekaterinburg, RF, 620100 Tel: +7 (343) 216 19 70 Fax: +7 (343) 216 19 72 Website: http://www.monetka.ru/
15	Assorti	<i>Director of retail chain</i> Sergey Melihov <i>Head of Procurement department</i> NatalieBuyanova	Kommunisticheskaya, 85A, Siktivkar, Komi Republic, RF, 167000 Tel: +7 (8212) 29 32 04 Fax: +7 (8212) 29 32 03 E-mail: priem@assorti.komi.com Website: http://www.assorti-retail.ru
16	Avoska		Selskohozyaistvennaya st., 18, bld. 5, Moscow, RF, 129226 Tel: +7(495) 980 57 08, 656 72 55 E-mail: info@avoska.ru Website: http://www.avoska.ru
17	Holding "Marta" (retail chains "Billa" & "Grossmart")	<i>President of holding</i> Georgy Trefilov	Strominka st., 18 Moscow, RF Tel: +7 (495) 775 775 0 Website: http://www.marta.ru
18	Essen	N/A	Okruzhnoe shosse, 7A, Elabuga, Tatarstan Republic, RF, 423602 Tel: 8 (85557) 3 85 91 E-mail: info@essen-retail.ru Website: www.essen-retail.ru
19	Nyam-nyam	N/A	Tel: +7 (495) 737 04 16, 737 04 17 E-mail: zakupka@nyam-nyam.ru , opt@nyam-nyam.ru Website: http://www.nyam-nyam.ru

№	Company	Contact Person	Address, tel., mail
20	Optimum trade	<i>Client manager</i> Vera Trosheva 8 901 542 77 57	Petrovsko-Razumovskiy proezd, 1/23, Moscow, RF Tel: +7 (495) 612 38 91, 743 53 73 Fax: +7 (495) 612 38 91 E-mail: info@salatoff.ru Website: http://salatoff.ru
21	Utkonos	<i>Commercial Director</i> Olga Pronenko	Distributing Center “Butovo”, Moscow, 117042 Secretariat Tel: +7 (495) 745 56 14 Fax: +7 (495) 745 51 67 E-mail: nic@ellit.com Commercial Department: Tel: +7 (495) 745 51 65 Fax: +7 (495) 745 51 67 E-mail: kd@utkonos.ru Website: http://utkonos.ru
22	V dvuh shagah	<i>President of company</i> Andrey Hlopov	Rostov-na-Donu, RF Tel: +7 (863) 200 15 23
23	Vester	N/A	Sudostroitel'naya, 75, Kaliningrad, RF Tel/Fax: +7 (4012) 353 918 E-mail: vester@vester.ru Procurement department Tel: +7 (495) 580 75 39 e-mail: zakupka@vester-m.ru
24	Land	N/A	Vladimirskiy prospect, 19, Trade center “Vladimirskiy Passaj”, Saint-Petersburg, RF Tel: +7 (495) 331 32 33

ANNEX 3: IMPORT AND CUSTOMS CLEARANCE PROCEDURES

3.1 Import regulations and quotas

Any good that is transferred to Russia under a delivery contract from another country has to go through a customs clearance procedure.

The Russian legislation regulates only the import of goods. Import regulations do not apply to services and technology, as well as other types of intangibles.

Only Russian citizens or legal entities registered in Russia can import goods. Foreign natural persons and foreign representative offices are allowed to import goods only for their own use.

The Russian government introduced annual quota on imports of raw beef, pork and poultry in 2000. This decision was made as a result of pressure of the main Russian producers of meat and as a reaction to the EU decision to introduce import quota on Russian grain.

Also, another reason for the introduction of quota was that the Russian government needed to find a mechanism for regulating the imports before joining the WTO. The major importers of poultry are the USA, whereas for beef and pork the EU member states hold the largest share. The various quotas for the years 2006 – 2009 can be found in the Annex 3.

The imposition of meat quotas has the following effects:

1. The Russian meat processing industry is affected negatively as it will suffer from a drop in the supply of raw meat.
2. The quotas will positively affect the development of livestock breeding in Russia as demand for domestically produced meat will increase. This increase in demand will require investments in the production of raw meat.
3. The quota will accelerate the process of vertical integration of the meat processing companies with the agricultural enterprises, and will force the meat processing companies to strengthen their links with domestic meat producers.

3.2 Customs clearance procedure

The Russian importer/buyer of foreign goods is responsible for the entire import procedure.

The standard import procedure consists of two parts: preliminary procedures and a main procedure.

Preliminary procedures include all actions that have to be carried out by the importer from the goods crossing the border to submitting the customs clearance declaration. Within the preliminary procedure the carrier is responsible for the following:

1. Notifying the customs organs in due manner that the goods have crossed the Russian border. The notification has to contain at least the following information:
 1. Name and address of the buyer, seller and carrier.

2. Description of the goods, including customs code, weight, amount of pieces, information on type of packaging.
3. Pro forma invoice.
2. Transfer the goods to the destination where the customs clearance procedure will take place.
3. Placing the goods at a temporary storage warehouse⁶ and notify the customs organs that the goods have been placed at the warehouse.

Russian customs organs can be very strict on the weight of the goods, which means that it has to be properly weighed before shipment of the goods.

Apart from this it is essential that information on all documents will be coherent. Any small deviation can lead to long delays in the customs procedures.

After all the information is submitted, the goods can be transferred to the customs office, which will be carrying out customs clearance.

After the goods are delivered to the relevant customs office, they are placed at a temporary storage warehouse. Only those warehouses licensed by customs organs and included in the register can carry out temporary storage of imported goods. Goods can stay at the warehouse for a maximum of 4 months. The prices for storing goods vary in the different warehouses. The rates of warehouses that belong to the customs organs are usually lower than the privately owned warehouses.

The main procedure includes the declaration of the imported goods and customs clearance with the local customs office.

The customs clearance procedure can be carried out by the importer / buyer or can be delegated to a customs broker. A foreign company with no legal entity in Russia is not allowed to carry out the procedure itself.

In order to have the goods customs cleared, the importer has to submit a number of documents along with the declaration. The concrete list of documents that have to be submitted is not specified in the Customs Code. An approximate list of documents includes:

1. Founding documents of the importer / buyer and its customs registration certificates.
2. Delivery contract.
3. Confirmation from a bank that the importer has accounts in Rubles and in foreign currency.
4. Payment confirmation for the goods being imported.
5. Confirmation that all the customs clearance payments have been made.
6. Invoice, product specifications and packing lists.
7. Certificate of origin.
8. Transport documents (CMR and others).

⁶ Temporary Storage Warehouse – officially recognized place for storing imported goods that have not yet passed the customs clearance procedure. Temporary Storage Warehouses can be state-owned (controlled by customs organs) and private (often controlled by customs brokers).

9. Certificate of compliance⁷ (compulsory certification).

All food products imported to Russia require the following certificates and documents:

1. Certificate from the State Committee of Standards (Gosstandard).
2. Protocol of Sanitary and Healthcare Inspection from the State Epidemic Service (Gossanepidemnadzor) proving that products comply with Russian standards.
3. Veterinary certificate from Rosselkhoznadzor (for all imported animal products) or Certificate of Phyto and Sanitary Examination from the State Service of Phyto-Sanitary control (for imported vegetable products).
4. Certificate of grain inspection and certificate of flour quality for all bakery, grain, bakery and confectionary products.

Besides, importers of alcoholic drinks, beef, pork, poultry and caviar must have an import license.

Labeling in Russian (in Cyrillic script) is required for all imported food products. Labels must contain the following information:

1. Name of the product.
2. Country of origin.
3. Net weight.
4. Content.
5. Food value.
6. Storage conditions.
7. Expiration date.

The declaration and the documents have to be submitted within 15 days after arrival of the goods at the temporary storage warehouse.

During the customs clearance procedure, the customs office will check the following:

1. Presence and correctness of all required documents.
2. Matching customs code with the actual goods.
3. Correct declared value of the goods imported.
4. Execution of all payments for customs clearance.

It is very important that all accompanying documents present exactly the same data.

If all the submitted documents satisfy the legal requirements, the goods will be released from customs.

Customs payments include the following:

1. Customs duty.
2. VAT.

⁷ Certificate, confirming that the quality of the good is comparable to GOST standards (Russian standardization system).

3. Customs clearance fees.

In addition, an excise tax is imposed on several goods, such as alcoholic drinks. The actual rates of this tax can be found in the Annex.

All customs payments have to be made within 15 days after storing the goods in the temporary storage warehouse.

The payments have to be made either by the importer or by the customs broker.

The amounts of customs payments have to be calculated by the declaring party (importer or broker).

ANNEX 4: IMPORT POLICIES AND DUTIES

Table 54: Import duties and Value Added Tax (%)

Product name and customs code of the product	Import duty	VAT
02 Meat and meat-related products	15-40	10
03 Fish and shellfish, mollusks, etc.	5-20	10-18
04 Dairy products, eggs, honey, etc.	5-15	10
07 Vegetables and other edible roots and tuber crops	15	10-18
08 Edible fruits and nuts	5-10	18
09 Coffee, tea, Paraguay tea and spices	None or 5-20	18
10 Grains	5-20	10-18
15 Vegetable and animal oils and fats, and their derived products	5-20	10-18
16 Ready products from meat, fish and shellfish, mollusks and etc.	5-20	10
17 Confectionary	5-20	10-18
18 Cacao and its derived products	None or 5-10	10-18
19 Ready products of grains, flour, starch, milk, bakery and confectionary products	5-15	10-18
20 Processed vegetables, fruits, nuts and other plants	15	18
21 Miscellaneous products (yeast, ice cream, soups, etc.)	15	10-18
22 Alcoholic drink and soft drinks	5-100	18

Source: <http://www.tks.ru/db/tnved/tree>

Table 55: Excise taxes on alcoholic drinks in Rubles per liter (2007-2010)

Kind of excisable product	1 Jan. – 31 Dec 2007	1 Jan. – 31 Dec 2008	1 Jan. – 31 Dec 2009	1 Jan. – 31 Dec 2010
Beer with an alcohol concentration of over 0.5% and up to 8.6%	2.07	8.94	9.52	10.09
Natural wines and natural drinks with an alcohol concentration below 6 % of ready production made of wine materials, without ethyl alcohol added, excluding sparkling, carbonated wine	2.2	2.35	2.50	2.70
Ethyl alcohol produced of any raw materials (including crude alcohol), excluding portable spirit	23.50	25.15	26.80	28.40
Fermented drinks, mixes from fermented drinks, mixes from fermented and alcohol drinks, excluding sparkling and champagne wines, wine materials with an alcohol concentration of up to 9%	102	110	117	124.18
Wines, excluding natural wines, among them sparkling wines, champagne, wine materials and grape must	125	10.50	11.20	11.87
Liqueur and other alcohol drinks with an alcohol concentration of over 9%	162	173.50	185	196

Source: http://www.rnk.ru/article_3388.html

Table 56: Import quota for 2006-2009 (thousands tonnes)

Name of product	2006	2007	2008	2009
1. Raw beef or chilled beef (0201)	27.8	28.3	28.9	29.5
EU	27.3	27.8	28.4	29
Other countries	0.5	0.5	0.5	0.5
2. Frozen beef (0202)	435	440	445	450
EU	343.7	347.6	351.6	355.5
USA	17.9	18.1	18.3	18.5
Paraguay	3	3	3	3
Other countries	70.4	71.3	72.1	73
3. Raw pork or chilled pork (0203)	476.1	484.8	493.5	502.2
EU	240.5	244.9	249.3	253.4
USA	54.8	49	49.8	50.7
Paraguay	1	1	1	1
Other countries	179.8	189.9	193.4	197.1
4. Poultry and poultry sub-products (0105), raw, chilled or frozen (0207)	1130.8	1171.2	1211.6	1252
EU	220.6	228.6	236.4	244.4
USA	841.3	871.4	901.4	931.5
Paraguay	5	5	5	5
Other countries	63.9	66.2	68.8	71.1

Source: Rossiskaya Gazeta, 14 December 2005

Table 57: Maximum levels of import duty rates for the period 2006-2009 (%)

Name of product	2006	2007	2008	2009
1. Raw beef or chilled beef (0201)	15, but no less than 0,2 Euro per kg	15, but no less than 0,2 Euro per kg	15, but no less than 0,2 Euro per kg	15, but no less than 0,2 Euro per kg
	55, but no less than 0,7 Euro per kg	50, but no less than 0,65 Euro per kg	45, but no less than 0,6 Euro per kg	40, but no less than 0,53 Euro per kg
2. Frozen beef (0202)	15, but no less than 0,15 Euro per kg	15, but no less than 0,15 Euro per kg	15, but no less than 0,15 Euro per kg	15, but no less than 0,15 Euro per kg
	55, but no less than 0,55 Euro per kg	52,5 but no less than 0,53 Euro per kg	50, but no less than 0,5 Euro per kg	40, but no less than 0,4 Euro per kg
3. Raw pork or chilled pork (0203)	15, but no less than 0,25 Euro per kg	15, but no less than 0,25 Euro per kg	15, but no less than 0,25 Euro per kg	15, but no less than 0,25 Euro per kg
	60, but no less than 1 Euro per kg	55, but no less than 0,9 Euro per kg	50, but no less than 0,83 Euro per kg	40, but no less than 0,55 Euro per kg
4. Poultry and poultry sub-products (0105), raw, chilled or frozen (0207)	25, but no less than 0,2 Euro per kg	25, but no less than 0,2 Euro per kg	25, but no less than 0,2 Euro per kg	25, but no less than 0,2 Euro per kg
	60, but no less than 0,48 Euro per kg	50, but no less than 0,4 Euro per kg	50, but no less than 0,4 Euro per kg	40, but no less than 0,32 Euro per kg

Source: Rossiskaya Gazeta, 14 December 2005

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