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Market Opportunities for Key U.S. Products in Russia

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Report Highlights:

Russia is a huge and growing market for imported agricultural products including U.S. products. In the past few years there has been a diversification of U.S. exports, which previously had largely consisted of meat and poultry. In fact, in fiscal year 2011 U.S. exports of live animals, hatching eggs, tree nuts, fresh fruits, seafood, and other consumer food products soared to new records. While consumer trends have already resulted in greater demand for higher-value products, Russia's accession to the WTO in 2012 will also lead to increased market access and help boost agricultural trade. This report highlights opportunities for U.S. exports in Russia, and also explains the key market access changes for each key product group that will occur with WTO accession.

Market Opportunities for Key U.S. Products for Russia and Market Access Changes with WTO Accession

Russia is a huge and growing market for imported agricultural products including U.S. products. In the past few years there has been a diversification of U.S. exports, which previously had largely consisted of meat and poultry. In fact, in fiscal year 2011 U.S. exports of live animals, hatching eggs, tree nuts, fresh fruits, seafood, and other consumer food products soared to new records. While consumer trends have already resulted in greater demand for higher-value products, Russia's accession to the WTO in 2012 will also lead to increased market access and help boost agricultural trade.

This report highlights market trends, as well as opportunities for U.S. exports and also explains the key market access changes for each key product group that will occur with WTO accession.

For more information on export opportunities, requirements, and WTO Accession commitments, please contact FAS/Moscow at AgMoscow@fas.usda.gov and consult the following reports:

- FAS/Moscow: [FAIRS Country Report](#)
- FAS/Moscow: [FAIRS Export Certificate Report](#)
- FAS/Moscow: [Exporter Guide](#)
- USTR Fact Sheet: "[How Russia's Accession to the World Trade Organization Improves Sanitary and Phytosanitary Measures and How They are Applied in the Russian Federation](#)"
- USTR Fact Sheet: "[How Russia's Accession to the World Trade Organization Improves Market Access for Exports of U.S. Goods and Services](#)"
- USTR: "[Terms and Conditions of Russia's Accession](#)"

As part of its WTO accession agreement, Russia has committed to reduce and bind import tariffs to all agricultural goods, thereby providing more predictability on its duties once Russia joins WTO. The average tariff for agricultural products will be reduced from current 13.2 percent to 10.8 percent. While a significant majority of tariff lines are subject to ad valorem (percentage) duty, some are subject to specific duty (X euro (€) per kilogram) or mixed duty (X percent but not less than (bnlt) Y €/per kilogram). The "per kilogram" component receives cuts comparable to the changes in the percentage tariffs in most cases.

(Note: Throughout this report, all data on U.S. exports to Russia is from the U.S. Census Bureau, while data on total Russian imports from the world or other individual suppliers is from Russia's Federal Customs Service.)

Table of Contents

Dairy	4-6
Meat and Poultry	7-10
Live Animals and Animal Genetics	11-14
Animal Feeds and Pet Food	15-17
Fresh and Dried Fruits	18-24
Tree Nuts	25-26
Prepared/Packaged Food Products and Ingredients	27-30
Non-Alcoholic Beverages	31-32
Wine and Other Alcoholic Beverages	33-35
Fish and Seafood	36-38
Forestry Products	39-40
Market Opportunity Graphs	41-48

DAIRY

Opportunities for U.S. Exports of Dairy Products:

Russia is the world's largest import market for dairy products at \$3.5 billion. While the United States has been generally shut out of the Russian market since September 2010, a critical market access barrier for U.S. dairy exports is removed upon WTO accession as lists of approved suppliers will no longer be required. Russia imports dairy products for both processing and retail and is expected to become a very good market for U.S. dairy. However, U.S. industry partners will need to be active to reintroduce themselves to the market. In 2010, the GOR set a self-sufficiency target for dairy products at 90 percent; however, modernizing Russian dairy production is a long-term and challenging endeavor. The 2011 GOR Ag Forecast expects 2014 dairy imports to grow nearly 18 percent over 2010 – the most of all the major commodities – and consumption to grow nearly 2 percent (245kg to 249-250kg per capita).

U.S. exporters face stiff price competition in the Russian market, including from Belarus and Ukraine, neither of which are subject to Russian customs duties. All U.S. market shares have been hit negatively as a result of being absent from the Russian market since September 2010, and relative to world trade patterns, the United States has the most room for improvement in non-fat dried milk and whey. Also, the large size of the Russia cheese market will present many opportunities even at low market share levels.

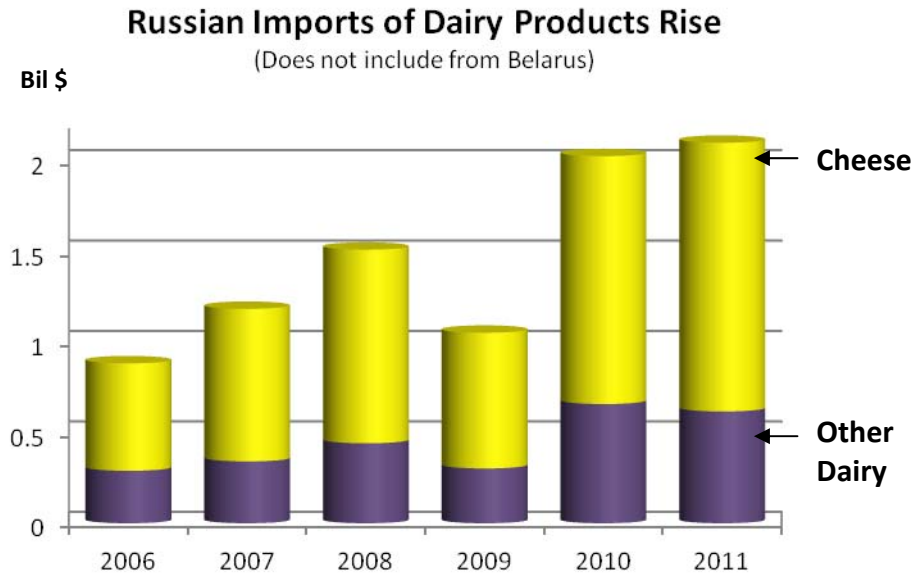
Cheese: Russia is currently the world's largest import market for cheese at \$2 billion¹. The top suppliers are the European Union (45 percent), Belarus (30 percent), and Ukraine (20 percent). According to market research, in 2010, hard cheeses represented 65 percent of the Russian consumer market, followed by cheese spreads (24 percent) and soft and cottage cheeses (11 percent). The best U.S. cheese prospects are seen for mozzarella. Russians are not large consumers of cheddar. The Russian consumer market for mozzarella is young but understood to be growing. Earlier market research indicates, in 2008 and 2009, mozzarella consumption totaled 3,000 metric tons, of which 28-30 percent of the total figure was sold in-brine. Fifty percent of the total at that time was imported, and France and Italy were primary suppliers. According to limited trade data for fresh mozzarella, in FY 2011, Argentina exported 4,140 metric tons to Russia at \$3,970/metric ton and Switzerland exported 3,562 metric tons at \$5,435/metric ton.

Butter: Russia is currently the world's largest import market for butter at \$600 million. The top suppliers are the European Union (40 percent), Belarus (40 percent), and New Zealand (15 percent). There have been months in recent years when U.S. butter prices were quite attractive to Russian buyers, and imports of U.S. butter spiked for short periods.

Milk Powder: Russia is currently the world's 7th import largest market for non-fat dry milk (NFDM) at \$275 million and the 11th largest for whole milk powder (WMP) at \$150 million.

¹ Note: Throughout this report, all data on U.S. exports to Russia is from the U.S. Census Bureau, while data on total Russian imports from the world or other individual suppliers is from Russia's Federal Customs Service.

The top suppliers of milk powder are Belarus (70 percent), the European Union (25 percent), and Ukraine (3 percent). There have been periods in recent years when Russian buyers have found U.S. NFDM prices to be attractive, leading to a spike in purchases. All of the major dairy processors have used U.S. milk powder, and they like to have a wide choice of suppliers.



Whey, Modified Whey, Casein, and Albumin: Russia is currently the world’s largest 13th largest import market for whey and other dairy proteins \$100 million. The European Union (50 percent) and Belarus (45 percent) are the top suppliers.

Ice Cream: Russia is currently the world’s 6th largest import market for ice cream at \$35 million. The European Union (60 percent), Switzerland (20 percent), and Belarus (10 percent) are Russia’s top suppliers.

Milk, Cream, and Other Dairy Products: Russia is currently the world’s largest import market for fluid milk and cream at \$150 million. The top suppliers of fluid milk and cream are Belarus (75 percent) and the European Union (25 percent). Russia is also the world’s largest import market for cultured dairy products at \$75 million with the European Union (60 percent) and Belarus (35 percent) as its top suppliers.

(For additional market share analysis please see market opportunity graph for dairy on page 42)

Dairy Product Market Access Changes due to WTO Accession

Summary: Upon WTO Accession, Russia will no longer require lists of approved dairy suppliers, removing a critical market access barrier for U.S. dairy exports. All dairy products will see tariffs fall or eventually be locked in at no less than current applied rates. A new tariff-rate quota will also be established to provide better access for modified whey.

Immediate Market Access Gains due to WTO Accession

Dried Milk and Cream: Russia’s WTO Accession will bind most milk powder tariff lines at 15 percent in either 2015 or 2016 (including non-fat dried milk in 2015), providing improved access

over the current rate of 25 percent. Infant formula will be bound at the current rate of 5 percent in 2016.

Whey and Modified Whey: The current applied tariff rate for all whey products of 15 percent bnlт €0.35 per kg will be immediately bound at 15 percent upon accession. Also, for select high-protein lines, Russia will immediately allow 15,000 metric tons of select high-protein lines to enter at 10 percent. By 2015, the final bound rate will be reduced to 10 percent on select low-protein lines.

Ice Cream: Upon accession, Russia will bind its tariff rate at the current applied level of 15 percent and reduce it to 10 percent by 2016.

Casein and Albumins: Upon accession, Russia will bind its tariff rate at the current applied level of 5 percent.

Other Dairy Products: All tariffs for buttermilk, curdled milk and cream, yogurt, kefir, and other fermented or acidified milk or cream lines will be immediately bound at the current rate of 15 percent bnlт €0.18 per kg.

Medium-term Market Access Gains due to WTO Accession

Butter, Fats, and Oils, and Spreads: By 2014-2015, Russia will reduce its current applied tariff rates of 15 percent bnlт €0.35 per kg to a range of 15 percent bnlт €0.12-0.35 per kg. For commercially important lines, the final bound rate will be 15 percent bnlт €0.22 per kg in 2015.

Cheese:

- **Fresh Cheese:** By 2015, current applied tariff rates of 15 percent bnlт €0.30 per kg will be reduced to 15 percent bnlт €0.19 per kg for cheese not exceeding 40 percent fat and locked in at the current applied tariff rate for other types.
- **Grated or Powdered Cheese:** By 2015, current applied tariff rates of 15 percent bnlт €0.30 per kg will be locked in upon accession.
- **Other Cheese (including Cheddar and Mozzarella):** By 2015-2017, Russia will reduce its current applied tariff rates of 15 percent bnlт €0.60 per kg to a range of 12-15 percent bnlт €0.20-0.30 per kg.

MEAT AND POULTRY

Opportunities for U.S. Exports of Meat and Poultry:

Russia is the world's 3rd largest import market for meat and poultry products at \$8 billion, including trade with Belarus. The market is highly regulated, with restrictive tariff and non-tariff barriers. Russia has and is expected to continue using multiple tactics to restrict trade in this area as it promotes development of local production. The GOR has set a self-sufficiency target for meat and poultry products of 85 percent. Russia has only just met this mark for poultry but so far fallen short in the red meat sector, which has been plagued with large challenges. While Russia's industrial pork sector continues to expand, it is held back by private households, where animal disease issues now threaten the entirety of Russian agriculture. As a result of Russia's beef production being a derivative of dairy production, beef production is in a downward spiral from which there is no near-term solution except for increasing imports and shifting consumer demand for substitute proteins. In both poultry and pork, high levels of protection enforced over the past three years have propped up inefficient operations and maintained high retail prices. As a result, the Russian market remains very lucrative for all three animal proteins but especially volatile for pork and poultry.

Beef: Russia is the world's largest importer of beef on a quantity basis. On a value basis, Russia imports nearly \$4 billion of beef and offal products. Recently, the top suppliers have been Brazil (30 percent) and Belarus (20 percent), followed by the European Union, Australia, Uruguay, Paraguay, and the United States.

The export climate for U.S. beef is extremely positive in the near and long-term and should set a new export record to Russia in 2012. As Russian domestic supply continues to shrink, strong price support is expected for many years to come. Also, immediately following WTO Accession, the United States will be able to export high-quality beef at the in-quota tariff rate (15 percent) to supplement its country-specific tariff-rate quota (TRQ) for beef of 60,000 metric tons. U.S. beef livers compete very well in Russia; however, lower U.S. market share in other offal, especially tongues, pulls down overall performance for the beef offal category as a whole.

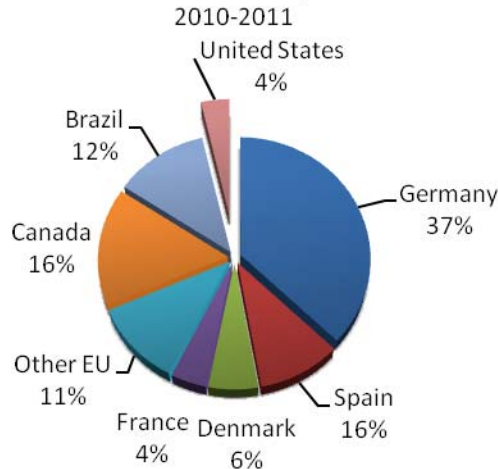
The market size for both prepared/preserved beef as well as cured/salted/in brine/dried/smoked beef is particularly small but offers additional opportunities to export without the need for TRQ. U.S. opportunities are further limited due to the current agreed veterinary certificate.

Pork: Despite reduced imports in recent years, Russia remains the world's 5th largest importer of pork and offal products at \$2.5 billion. The top suppliers are the European Union (50 percent) and Brazil (30 percent), followed by Canada (10 percent) and the United States (10 percent).

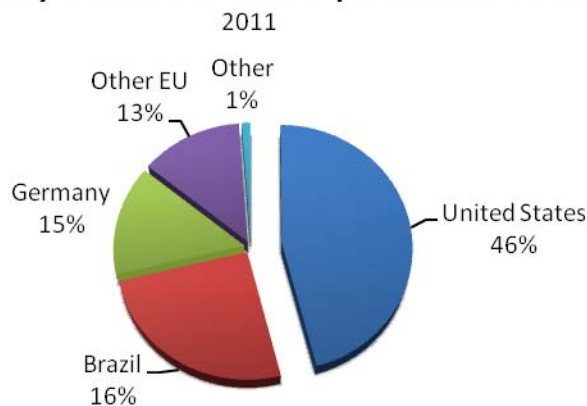
The export climate for U.S. pork is mixed. While the United States will be able to compete for the entire quota for frozen pork (430,000 metric tons) in 2012, the United States has not demonstrated its ability to compete in Russian Free Trade Zones (Kaliningrad and Magadan). Reoccurring SPS barriers to protect the domestic market promise to wreck havoc on the market and deter market principles from working properly. Also, the United States is not in a position to export chilled pork due to the absence of an agreed veterinary certificate.

Russia imports a significant amount of pork offal as well as prepared pork products, none of which is subject to the TRQ. However, U.S. companies have not exhibited an ability to capture significant market share in this segment.

Russian Pork Market Share in Special Economic Zones



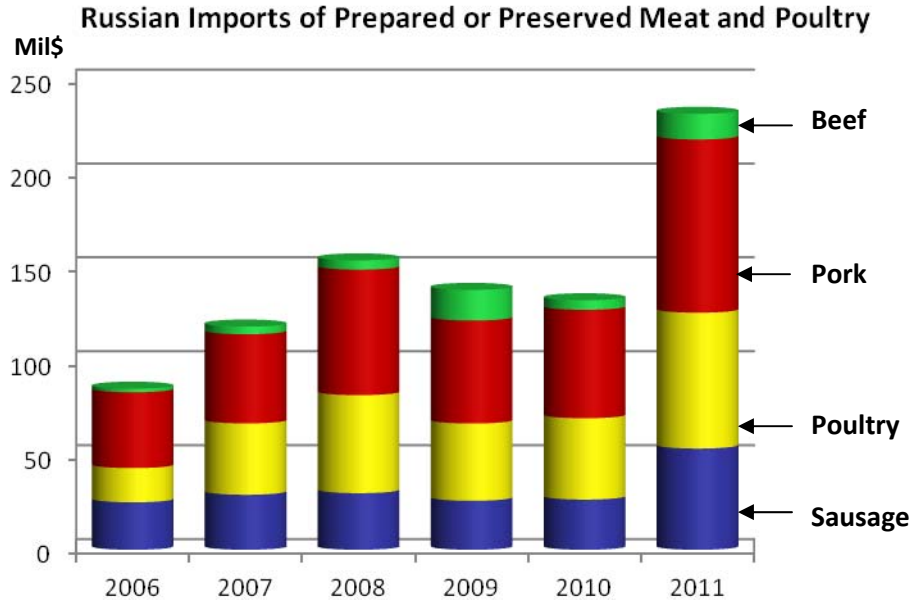
Russian Poultry Market Share in Special Economic Zones



Poultry: Reduced TRQ access has resulted in Russia falling to the 4th largest importer of poultry and offal products at \$900 million. While the United States has reclaimed its place as the top supplier (50 percent), Brazil (25 percent) and the European Union (25 percent) remain significant suppliers.

While the European Union was again afforded the protection of a country-specific allocation in 2012 and beyond for its primary export interest – boneless chicken – the United States and Brazil will continue to battle over price and SPS barriers as they arise when supplying frozen bone-in chicken parts. Provided stable economic and SPS conditions, trade has a chance to grow in both value and volume terms for the first time since 2008 after TRQs are increased for select products following WTO Accession. As the Russian market continues to evolve and the number of wet markets for chicken-leg quarters is reduced, the United States will need to revisit its ability to compete in non-traditional venues (e.g., free trade zones in Kaliningrad and Magadan oblasts)

and non-traditional product categories (e.g., prepared poultry products) in order to maintain and increase market share.



(For additional market share analysis please see market opportunity graph for meat and poultry on page 42)

Meat and Poultry Market Access Changes due to WTO Accession

Summary: WTO Accession brings U.S. beef, pork, and poultry larger access to TRQ quantities and/or reduced tariff rates that are currently applied. Russia will also immediately undertake several SPS commitments to secure existing and new market access. Russia will be committed to basing its SPS measures on science and risk assessments as it harmonizes to international norms. Russia also now has a mechanism for recognizing the equivalence of food safety systems of WTO Members and rules on inspection of establishments in third-countries, such as the United States.

Immediate Market Access Gains due to WTO Accession

Beef, Chilled/Frozen: Upon WTO accession, Russia will lock-in the current applied TRQ quantities of frozen beef available to the United States (60,000 metric tons) and increase access for chilled beef from 1,000 metric tons to 11,000 metric tons, available for non-EU countries. The in-quota rate will be bound at the current level of 15 percent, and the out-of-quota binding will increase from the current applied level of 50 percent to 55 percent. If Russia chooses to move to a tariff-only regime, the tariff rate will fall to 27.5 percent. Russia will respect the U.S. definition of high-quality beef, all of which will be permitted to enter at 15 percent and are outside of TRQ quantities. Currently, only beef valued at no less than €8 per kg has such quota exempt access. This access will not be impacted by a change to a tariff-only regime.

Pork, Chilled/Frozen: Russia’s WTO Accession will lock-in the current applied TRQ quantities for pork available to the United States – 400,000 metric tons available to all countries and an additional 30,000 metric tons reserved for pork trimmings and also available to all

countries. Immediately upon accession, Russia will reform its tariff rates – lowering the in-quota rate from the current 15 percent to a bound 0 percent and lowering the out-of-quota rate from the current 75 percent bnlт €1.50 per kg to just 65 percent. By 2020, Russia will eliminate its TRQ regime altogether and the rate will be bound to a flat 25 percent tariff for all pork.

Other Meat, Chilled/Frozen: Immediately, Russia will lower its tariff on all horse meat, all sheep meat, and goat carcasses from the current applied rate of 25 percent bnlт €0.35 per kg to 15 percent bnlт €0.15 per kg. Russia will bind all other goat meat at this rate by 2014.

Edible Meat Offal, Chilled/Frozen: Tariffs on offal for pharmaceutical uses will be bound at current rates of 0 percent and 5 percent depending on the product. The current tariff rates for all other products are 25 percent bnlт €0.35 per kg and will be bound upon accession, as follows:

- **Beef Offal:**
 - Chilled beef offal tariffs will be bound at 20 percent bnlт €0.20 per kg and will be lowered to 15 percent bnlт €0.15 per kg by 2015.
 - Frozen tongues rates will be bound at 20 percent bnlт €0.80 per kg and then will be dropped to 15 percent bnlт €0.60 per kg by 2014.
 - All other frozen offal rates, including for livers and skirt, will be bound at 15 percent bnlт €0.15 per kg and will be lowered to 12.5 percent bnlт €0.13 per kg by 2014.
- **Pork Offal:** The tariff rates will be immediately bound at 15 percent bnlт €0.15 per kg and select offal the rates will be lowered to 12.5 percent bnlт €0.13 per kg by 2014.
- **Other Offal:** The tariff rates for other offal will be immediately bound at 15 percent bnlт €0.15 per kg.

Poultry, Chilled/Frozen: Russia's WTO Accession will lock-in the current applied TRQ quantities for frozen bone-in chicken cuts (250,000 metric tons global) and increase access for both frozen boneless chicken (from 14,000 to 20,000 metric tons for non-EU) and turkey (from 10,000 to 14,000 metric tons global). WTO accession will also allow additional turkey products access to the TRQ quantity. The current in-quota rate for these products will be simplified from 25 percent bnlт €0.20 per kg to just 25 percent and the out-of-quota rate will be simplified from 80 percent bnlт €0.70 per kg to just 80 percent for the above mentioned TRQs. All other tariffs for poultry will be simplified from 80 percent bnlт €0.70 per kg to 80 percent. At any time, if Russia chooses to transition to a tariff only regime, the in-quota and out-of-quota rates will be replaced with a flat 37.5 percent tariff.

Swine and Poultry Fat: Current applied tariffs of 15 percent bnlт €0.15 per kg will be locked in either upon accession or at latest, by 2014.

Meat and Edible Offal, Salted/In-Brine/Dried/Smoked: Current applied tariffs (ranging from 15 percent to 15 percent bnlт €0.40 per kg) for most products will be locked in by either 2014 or 2015.

Prepared or Preserved Meat:

- **Sausages:** Current applied rates of 25 percent bnlт €0.40 per kg will be reduced immediately to 20 percent bnlт €0.40 per kg and then to a specific tariff of €0.25 per kg by 2015.
- **Extracts and Juices:** Current applied rates of 15 percent will be locked in at accession and reduced to 14 percent by 2013.
- **Other:** Applied rates of 25 percent bnlт €0.40 per kg for other prepared and preserved meat products will be bound at 20 percent bnlт €0.50 per kg by 2015. [Note: Historical unit value for these products are all above €2.00 per kg on average]

LIVE ANIMALS AND GENETICS

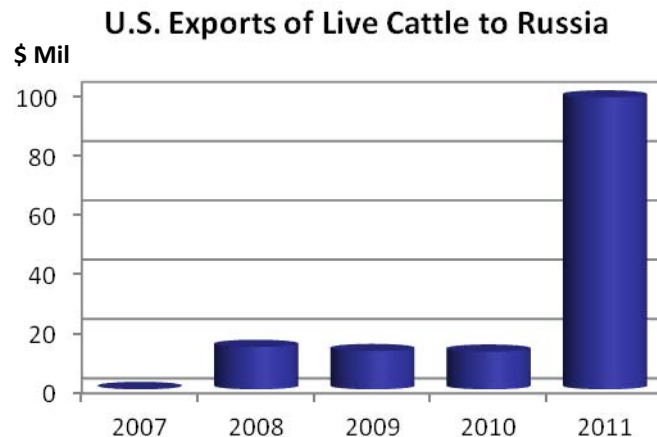
Opportunities for U.S. Exports of Live Animals and Genetics:

Russia's live animal sector is one of the hottest markets around the world. Trade has been and will continue to be supported by increasing state domestic support programs. Active promotion in Russia to increase awareness and commercial adaptation in transportation are lessening the two key constraints to increase U.S. exports, but more attention educating Russians on the quality of U.S. genetics is needed in order to overcome high price sensitivity of the Russian buyer.

In general, market access conditions are very good for U.S. live animals and genetics, featuring low tariffs and a good U.S.-Russian relationship on related veterinary issues. The Russian veterinary service and U.S. authorities have routinely found common ground to facilitate trade when problems have arisen.

The United States has a strong foothold in the horse market and is relatively well-established in the bovine semen market. However, U.S. livestock exporters have not captured their full potential in Russia's infant beef industry and modernizing dairy, pork, and poultry industries. Unfortunately, EU transit barriers remain a significant handicap, especially for U.S. live breeding swine exports to Russia. Increased transparency for exports of U.S. hatching eggs at the beginning of 2011 has strongly assisted total export growth to-date and future promise of increasing market share.

Cattle: Russia is the world's 3rd largest import market for purebred cattle at roughly \$200 million annually, and recent development projects, especially for beef, are likely to cause imports to double in the current fiscal year. The United States holds a 15 percent market share and competes with Australia, the European Union, and Canada. Opportunities exist for both dairy and beef cattle. Russia remains in a long decline of the total cattle inventory as it modernizes its dairy sector (50 percent of Russian milk is still produced in backyard farms). Also, as the dairy inventory continues to contract, there is continually less inventory available each year for beef production. This impact is considerable, as beef breeds still only represent 2-3 percent of domestic beef production.



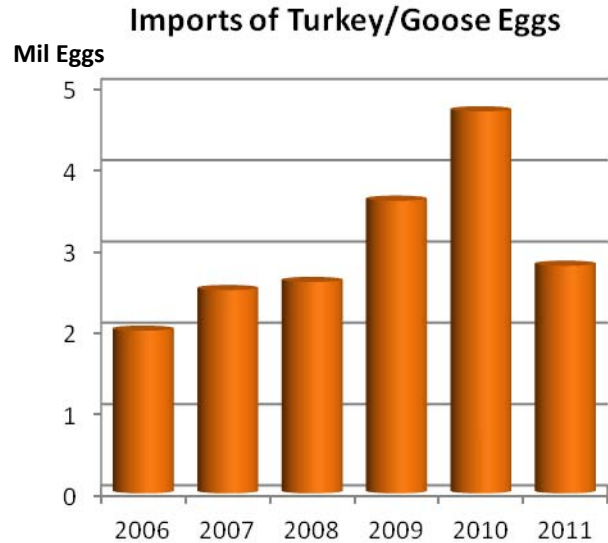
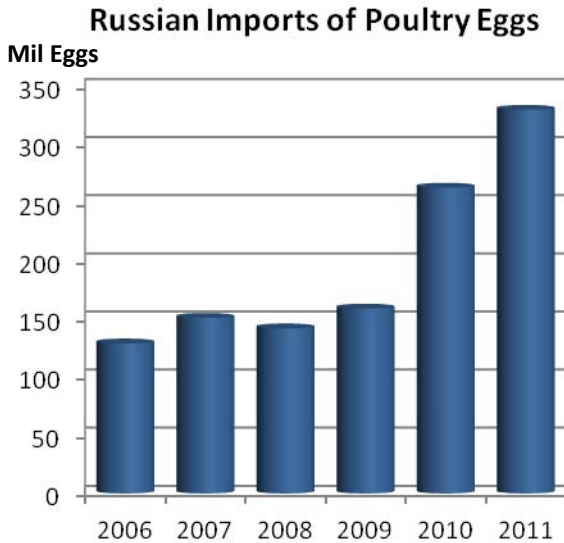
Bovine Semen: Russia remains a great market for bovine semen, and U.S. product is readily available, especially in the dairy industry. The market size is \$3 million and growing 10-20 percent annually. Relative to Russia's herd size, there is room for considerable expansion in sales. Sexed semen has become highly sought after to accelerate herd development. The United States and Canada have split market share at 40 percent, followed by the European Union at 20 percent.

Bovine Embryos: Strong potential exists for new trade in both beef and dairy embryos. While statistics are unavailable, the total imports are likely under \$500,000 per year. However, embryo market potential is supported by the difficulty and cost associated with import demand for live cattle. If accompanied by further training and educational activities for Russian specialists, sales of U.S. embryos can increase.

Swine: Russia is the world's largest import market for purebred swine, more than doubling in FY 2011 to \$35 million. Further growth is likely as commercial production continues to increase and replace the shrinking 40 percent of the domestic production currently located in backyards, production which is being phased out for economic and disease reasons, specifically African Swine Fever. Import market share is controlled by the European Union (75 percent) and Canada (25 percent), as the United States is not permitted to transit via Europe. Nonetheless, in 2011, U.S. exporters found ways to bypass Europe, culminating in the first U.S. exports in recent history. Russia operates a number of certified pedigree genetic centers for Large White (nearly 70 percent of breeding sows in Russia are Large White), Landrace, Yorkshire, and Duroc.

Poultry and Hatching Eggs: Russia is the world's largest importer of hatching eggs (primarily for broiler production) at \$130 million in FY 2011 and has maintained growth by 40 percent in each of the past two fiscal years. During that time, the United States and the European Union have more or less maintained static market shares of 15% and 80%, respectively. Russia is also the world's 2nd largest importer of live chicks, totaling an additional \$60 million, and serviced almost exclusively by hatcheries located in the European Union. Continued planned expansion of the Russian poultry industry and an absence of quality local genetics will increase trading opportunities in the coming years.

Russian imports of turkey eggs total \$5 million annually, and Canada and the European Union have historically fully serviced the still small but rapidly growing Russian turkey industry. Future prospects for sales are clouded by the decision of Russia's largest producer to begin producing eggs locally. However, the Russian Turkey Association has reached out to FAS/Moscow seeking cooperation and noted the absence of U.S. turkey eggs available to producers.



Sheep and Goats: Historically, Russia has been an insignificant market for sheep and goats. However, in partial response to Russia’s ongoing battle with African Swine Fever, the Ministry of Agriculture is attempting to get small scale pig producers to switch to alternative forms of livestock production.

In September 2011, the Russian Ministry of Agriculture issued Order No. 294 “Development of Sheep and Goat Breeding in the Russian Federation for 2012-2014 and until 2020.” The plan set targets for sheep and goat inventories to grow from 21.8 and 2.2 million head in 2011 to 25.4 and 2.6 million, respectively, in 2020. The program includes federal and regional budget outlays of RUR1.2 billion to support the industry, including subsidies for the purchase of livestock.

Horses: Russia horse imports total roughly \$3 million annually. The United States currently holds roughly a 45-percent market share.

(For additional market share analysis please see market opportunity graph for live animals and genetics on page 41)

Live Animals and Genetics Market Access Changes due to WTO Accession

Summary: Live animal and genetic products already enjoy open market access, especially for purebred breeding animals for which the current tariff is already zero. However, with accession all of these current low tariffs will be bound for the future.

Immediate Market Access Gains due to WTO Accession

Cattle: Following WTO accession, purebred breeding cattle will maintain its duty-free access. Other cattle will be subject to a 5 percent tariff, the same as the pre-accession applied rate.

Swine: The tariff on purebred breeding swine will immediately be bound at the pre-accession applied rate of 0 percent. The tariff on other swine will fall from the current applied rate of 40 percent bnlт €0.5 per kg to only 5 percent.

Poultry: Following WTO accession, the tariff on live poultry will be immediately bound at currently applied 5 percent. Upon WTO Accession, the Russian-approved supplier lists will be

eliminated and full access will extend to all participants of the National Poultry Improvement Plan.

Sheep and Goats: Purebred breeding sheep and goats will maintain its duty-free access while the tariff for other live sheep and goats will be bound at the pre-accession bound rate of 5 percent.

Horses: The tariff on purebred breeding horses will be bound at the current applied rate of 0 percent while live horses for any other purpose will be bound at 5 percent.

Semen: Immediately following accession the tariff on semen of all species will be bound at the pre-accession applied rate of 5 percent.

Medium-term Market Access Gains due to WTO Accession

Embryos: Following WTO accession, the tariff on bovine embryos will be initially bound at 10 percent and lowered to the currently applied 5 percent by 2015. Embryos of all other species will be immediately bound at the pre-accession applied rate of 5 percent.

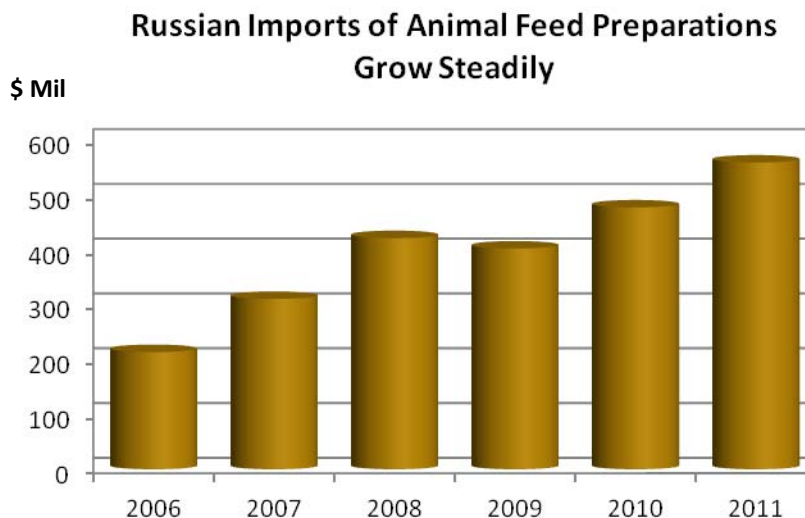
Hatching Eggs: Upon accession the tariff on turkey and goose eggs will be initially bound at 20 percent and for all other species at 25 percent. By 2015 all tariffs will be lowered to 15 percent.

ANIMAL FEED AND PET FOOD

Opportunities for U.S. Exports of Animal Feed and Pet Food

Animal Feed: The Government of Russia has as a key priority the development of the poultry and livestock sector in Russia, and as a result there is dramatic growth in this sector. This has boosted demand for animal feed and feed ingredients. In 2011, Russia imported \$560 million of feeds and fodder- a 17 percent increase in value from 2010. The top suppliers of feeds and fodder to Russia are the Netherlands, Germany, France and Belgium. 90 percent of the total imports of feeds and fodders consist of prepared animal feeds, followed by starch residues. The United States accounts for just 3 percent of Russia's imports of feeds and fodders and in 2011 totaled just \$17 million. U.S. suppliers have potential to increase sales of feeds to Russia as a result of continued demand for feeds in agricultural sector. Demand for other feeds, such as bran sharps and other residue derived from milling wheat and forage products will continue to be strong, as a result of insufficient domestic production, particularly of oilseeds, corn and soybean meal, and major sources of proteins.

In addition, U.S. suppliers have potential to export amino acids and lysine to Russia since domestic production is very low. Potential shipments may include lysine, methionine, and tryptophane. According to the Russian Feed Union, there is only one facility in Russia that produces lysine, however, 70 percent of its shares belong to the Chinese. As a result, high quality natural lysine is being exported to China while demand in Russia continues to be very high. According to the head of the Feed Union, Russia imports almost 100 percent of lower quality synthetic lysine.



Pet Food: Russia has the world's second largest pet population after the United States with an estimated 60 million pets. According to official statistics, the average annual value of pet food sales is \$1.2 billion, although independent market research agencies estimate annual sales over \$1.5 billion. The share of cat and dog food in overall imports of pet food in Russia is estimated at 74 percent, or \$140 million.

According to recent research, there are about 30 million cats and 21 million dogs in Russia. In Moscow alone, there are 5 million dogs and 2.5 million cats. Over 54 percent of Russian families own at least one pet, of which 75 percent own a cat and 35 percent a dog. The number of families that own both a cat and a dog has recently increased.

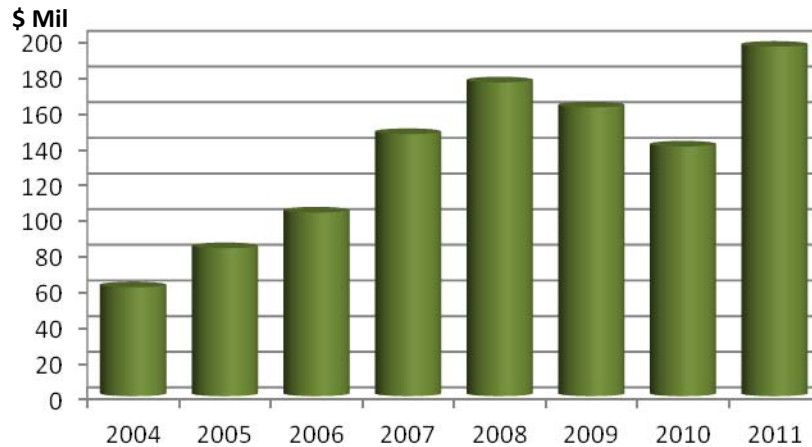
Pet food is still a relatively young industry in Russia with only a 20 year history. In the Soviet Union, commercially prepared pet products were not available, and nearly all consumers used table scraps and leftovers to feed their pets. Therefore, a strong tradition of using home-made food was formed which still exists today, especially in rural areas. Russia's pet food market is still developing and is very concentrated around big cities such as Moscow, St. Petersburg and Yekaterinburg. Experts forecast continued growth and demand in the local pet food market as household incomes increase and old stereotypes are dismantled. According to the International Pet Food Institute (PFI), expansive advertising conducted by multinational companies has led to significant changes in the perception of pet food as a product category. However, lack of information in the regions on the benefits of commercially prepared pet food remains the biggest constraint for the development of the pet food market.

The market for commercial pet food has strong growth potential. The growth is related to a greater demand for specific types of pet food. Currently products include both wet and dry food, economic and premium products, and products that meet very specific needs related to the age (for young, adult and older animals), lifestyle (high-energy or light diets), and health condition (for diets that prevent allergies or address certain diseases) of pets. Experts believe that such market segmentation is at a relatively early stage. The number of consumers that are interested in healthy pet snacks and treats is gradually increasing. Interest is also high in those products that are preservative free and contain healthy ingredients, such as fruit and cereals.

Russian imports of pet food reached a climax in 2008, but then began shrinking in 2009 and 2010. This was in part a result of the economic downturn and additional registration requirements which were implemented. However, imports of pet food rebounded in 2011 as a result of renewed economic growth, higher household incomes, an increase in the number of pets within Russian families and higher demand for new flavors and premium products. Pet food imports reached a record of nearly \$200 million in 2011, a 40 percent increase on value and 29 percent on volume from 2010. And although a relatively small share at only 4 percent, imports from the U.S. nearly doubled to \$8.7 million. The Netherlands is the leading supplier of pet food to Russia with 24 percent of all imports followed by France at 20 percent. According to trade sources, the share of dry food for cats and dogs in total imports accounts for 57 percent, while 41 percent is accounted for by canned food and 2 percent comes from other types of food.

Last year, experts observed an increased interest in professional pet food, as well as dietary and highly specialized products. Pet owners with higher incomes will prefer to buy higher quality products, mostly guided by health nutrition values and sources of vitamins and minerals.

Russian Imports of Pet Food Rebound



(For additional market share analysis please see market opportunity graph for grains/oilseeds/feeds on page 48)

Animal Feed and Pet Food Market Access Changes due to WTO Accession

Summary: Pet food especially will see a sharp decline in tariffs as a result of WTO accession, although these changes will take place in the medium-term.

Medium-term Market Access Gains due to WTO Accession

Dog or Cat Food for Retail: The pre-accession applied rate/post-accession bound rate for dog or cat food is 20 percent (bnlt €0.16 per kg) which by 2016 will be cut by half to 10 percent bnlt €0.08 per kg.

Animal Feed Preparations: Upon accession, Russia will bind its tariff rate at the current applied level of 5 percent.

Legumes for Animal Feed: Upon accession, Russia will bind its tariff rate for legumes at the current applied level of 15 percent and reduce to zero by 2015.

Soybean Meal: The tariff on soybean meal will fall from currently applied 5 percent to 2.5 percent by 2013.

FRESH AND DRIED FRUITS

Opportunities for U.S. Exports of Fresh and Dried Fruit

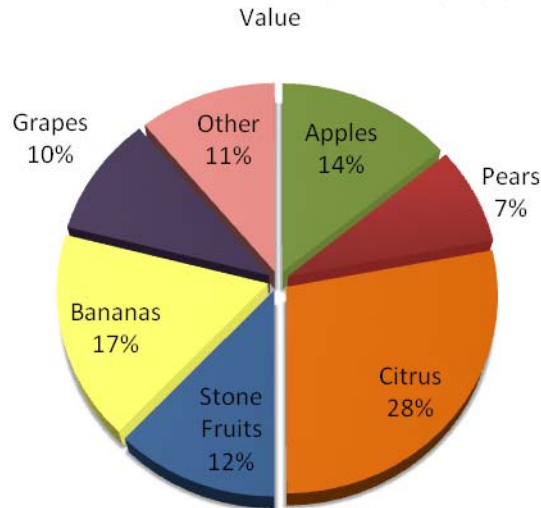
Russia is the world's 3rd largest importer of fresh fruit and is the largest import market for apples and pears. U.S. exports of fruit reached a record in FY 2011, but the United States still has less than 1 percent market share, and extensive opportunities exist for expansion.

Russia is heavily dependent on imported fruits, and of Russia's estimated 7.3 million metric ton fruit market in 2010, 5.4 million (or about 75 percent) were imported fruits. Domestically grown fruits cover only a quarter of consumption, and only 500,000 metric tons were produced by agricultural enterprises and actually marketed, with the rest grown on household plots, typically for personal consumption. Efficient commercial production of fruits in Russia is limited by the climate, and the lack of affordable capital for old orchard replanting and new cultivation and storage technologies. The only fruit Russia produces commercially is apples, but Russia is still sorely lacking in domestic supplies. Russia is expected to remain heavily dependent on imports of fruits and berries for the foreseeable future.

Consumption of fruits is increasing in Russia, and this is driving import growth. Consumers are eating more fruit and diversifying the types of fruit they consume due to increasing disposable incomes and a trend toward more healthy diets. According to the Russian Statistics Service, in 2010 real disposable income of the Russian population increased by 10 percent, while spending for fruit increased by 19 percent. In 2010, consumption of fruit in Russia increased to 71 kg per capita, up 10 percent compared with 2009 (based on the Russian Federation Statistic Committee data) but still significantly lower than consumption levels in European countries, the United States, Japan, and China. For example, according to USDA's Economic Research Service, the typical American consumes 270 pounds (122.5 kg) of fruit and tree nuts (fresh and processed, fresh-weight basis) each year. As the demand for fruits rises, there will be a concomitant rise in imports; Russia's fruit market is far from being saturated.

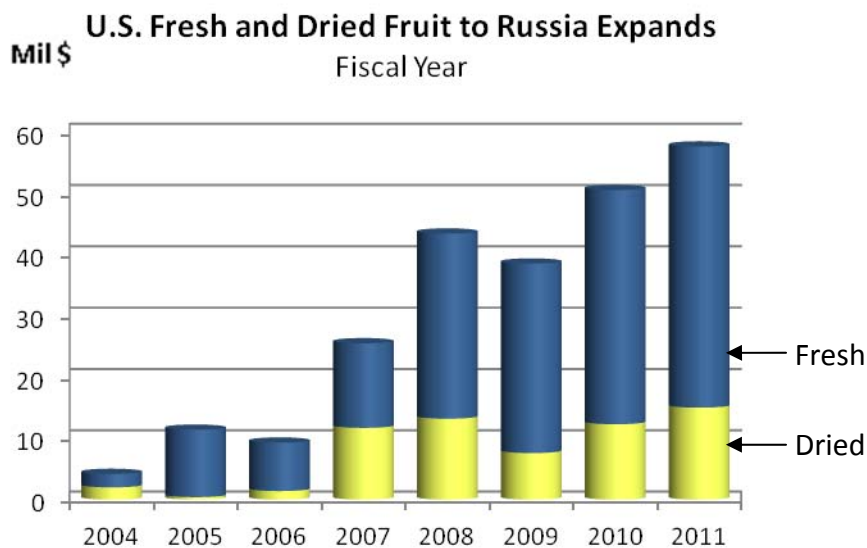
Another factor supporting the growth of fruit imports is the rapid development of organized food retail. Retail food sales grew to \$250 billion in 2010, and are estimated to have surpassed \$300 million in 2011. Food retailers contributed to about half of total retail market turnover last year. That said, buying fresh produce in retail outlets is getting more popular with Russian consumers. The retail chains have improved their assortment of fresh produce and quality as a result of better handling. Retailers are offering fresh produce at different price points for various income levels based on quality and packaging. Key retail outlets and hypermarkets continue to expand in big cities and to Russian provinces.

Russian Total Fresh Fruit Imports by Type 2011



Since 2005, fruit imports to Russian have seen steady rapid growth, except during 2009 as a result of the financial crisis. Imports have grown from 3.8 million metric tons in 2005 to 5.8 in 2011, and value in this time period nearly tripled to percent to \$5.5 billion in 2011. This was a nearly 20 percent increase in value, and 8 percent increase in volume from 2010.

The largest overall fruit suppliers to Russia are Ecuador (bananas), Poland (apples), Turkey (citrus, grapes, and stone fruits), China (apples, citrus, stone fruits), Argentina (apples, pears, and citrus), and Chile (grapes). Russia is the priority export market for former Soviet republic countries, European, Turkish and North African producers due to the close proximity to Russia and long term relations with Russian buyers.



Apples: In 2011, Russia was the largest importer of apples in the world with import volumes valued at \$747 million. The major suppliers of apples to Russia are Poland, China, Moldova and Serbia.

In FY 2011 U.S. apple exports to Russia rebounded to a near record of \$16 million. American apples are typically more expensive and compete with Italy, Belgium, Germany, and the Netherlands in the higher-cost and quality segment. The total share of these higher-quality apples in Russia is around 18 percent. With decreasing tariffs as a result of WTO accession, these quality apples can be somewhat more affordable in Russia. American apples have the potential for increased sales to Russia, especially considering that Russian consumers like large, richly colored apples, which are characteristics that U.S. suppliers can normally provide.

Pears: Pears are one of the most popular fruits in Russia following apples, citrus, and bananas and consumption is growing. Russia doesn't produce this fruit commercially and is the world's largest importer. In 2011, pear imports rose to \$450 million by value (a 5 percent increase in volume and almost by 20 percent increase in value terms). The largest suppliers of pears to Russia were Belgium, Argentina, and the Netherlands.

American pears have seen remarkable growth in recent years, rising from \$1 million in FY 2004 to over \$11 million worth in FY 2011. Despite this growth, U.S. market share remains low in Russia at 2 percent of the pear market. American pears are known for long shelf life and juiciness. American pears will always face strong competition from European pears, but despite this the huge Russian market allows for ample opportunity for expansion. In order to have a large assortment, importers have strong demand for American Anjou pears, which are not a typical European variety. American pears continue to have good sales potential to Russia, including to the Russian Far East where the European product is more expensive and less competitive.

Grapes: Russia remains one of the top importers of grapes in the world. Russia does not produce grapes commercially and so relies entirely on imports of these fruits for consumption. Grapes are one of the most popular fruits in Russia, on par with pears but below apples, bananas, and citrus. In 2010 the per capita grape consumption in Russia reached 2.8 kg, up 8 percent compared to 2009 data. The upward trend continued in 2011 supported by healthier diets and recognition of fruits as one of the basic elements of a healthy diet. Russia's grape imports have grown steadily in the past decade. In 2011, Russian imports were worth \$523 million, down slightly from the previous year. Turkey is the largest exporter to Russia, followed by Chile and then Uzbekistan.

U.S. grape sales have also grown steadily, and in FY 2011 reached a new record of \$7.8 million, up 70 percent from the previous year. California grapes sales to Russia peak in November and December before the South American product arrives to Russia. Potential certainly exists in Russia for expanding exports of California grapes, as well as for the other niche grapes in Russia.

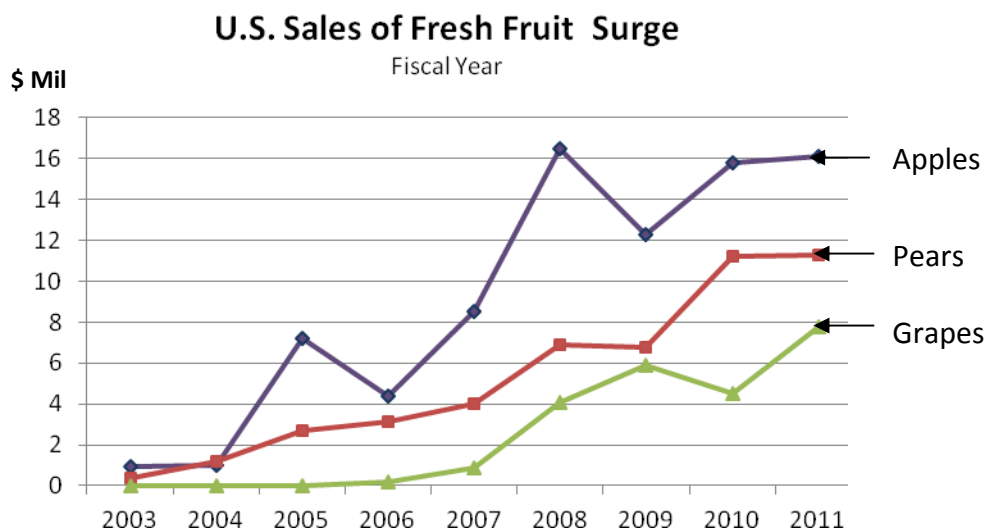
Prunes and other Dried Fruit: Russian is the biggest importer of prunes in the world and import demand has doubled during the past 5 years. Prunes are one of the most popular dried fruits in Russia, often used in home cooking. The food manufacturing and snack packing industries are as well big consumers of plums, and the demand is expected to grow following the trend for healthy eating in Russia. One can even buy prune-flavored yogurt regularly in Russian supermarkets.

The United States is among three largest suppliers of prunes to Russia, along with Chile and Argentina. In FY 2011, the value of U.S. prune exports reached a new record of \$12 million, up 10 percent from the previous year. Also, in 2011 the share of U.S. product rose to 20 percent due to the stable prices and good product quality. There are opportunities for increased U.S. sales, as California prunes may successfully compete with South American, Moldovan and Ukrainian products.

U.S. sales of other dried fruit have also experienced rapid growth although volumes still remain far below prunes. Exports of raisins and mixed dried fruit reached new records in FY 2011, with the value of raisins increasing 25 percent to nearly \$1.8 million, and the value of mixed dried fruit more than tripling to nearly \$1.2 million.

Citrus: Russia does not grow citrus and therefore is entirely dependent on imports of oranges, grapefruits, mandarins, lemons, and limes. In 2011, citrus imports showed 21 percent growth in value and 9 percent in volume and reached a new record. Consumer demand for tangerines, oranges, grapefruit and limes is growing, driven by increasing popularity and revitalized consumer spending. The U.S. share of Russian citrus imports is under 1 percent. Citrus from Turkey, Morocco, Egypt, and South America dominate in Western Russian markets. However, U.S. oranges, lemons, and mandarins are exported to the Russian Far East and have developed a niche market there that is relatively stable. Most U.S. product is shipped from West Coast states, primarily from California, and has potential for increased sales.

For grapefruit, Russia imports all of its supplies and imports have doubled since 2005. Turkey, China, South Africa, and Israel supply 93 percent of grapefruits to Russia, where Turkey alone captures up to 38 percent of the market. U.S. grapefruit exports had reached as high as \$1 million in FY 2009, but have since largely disappeared. Given consumers' preference for deep orange-colored grapefruit, American yellow grapefruit exporters would need to educate consumers and build demand for their product based on its sweet taste and juiciness or carve out a special niche for the yellow grapefruit.





Berries: According to the Russian Statistics Committee, in 2010 Russia produced 670,000 tons of berries (primarily strawberries, raspberries, and currants), 98 percent of which were grown by households for family consumption or for sale in farmers markets during the season. The commercial production of berries in Russia is negligible and Russia imports the majority of berries necessary to satisfy its growing demand. From 2005-2010, berry imports nearly tripled, and have continued to experience a double digit growth through 2011. Nearly 88 percent of all berry imports are strawberries, with raspberries at 6 percent, and other berries at 6 percent.

In 2011, the United States' share of the Russian berry market was less than one percent and as a result there is a great deal of room for expansion. U.S. strawberries, raspberries, and blueberries, in particular, have an opportunity to capture more of the Russian berry market given their relative competitiveness with European and South American berries.

For fresh strawberries, in 2011 Russia imported nearly \$100 million worth, a 10 percent increase on 2010. In 2011 Russia was the world's 6th largest fresh strawberry market on volume. The strong positive trend for strawberries is expected to continue, driven by growing consumption particularly during the off season (when local strawberries are not available) and retailers stocking strawberries nearly year-round.

Currently the main strawberry suppliers to Russia are Greece and Turkey as well as other EU suppliers and 85 percent of fresh strawberries to Russia are imported in April-July, the season for fresh strawberries in Russia.

The year-round availability of California strawberries together with their quality and long shelf life gives them good potential for expanding sales to Russia. This is particularly true around the New Year holidays in Russia, when the demand for "exotic" fruits is higher.

For fresh raspberries, in 2011 Russia imported \$7.6 million worth, a 5-fold jump from just 2009 and imports from the U.S. doubled to \$1.2 million. The largest suppliers are Mexico, Spain, Netherlands, and Portugal. With consumption and imports increasing rapidly, and negligible commercial production of raspberries in Russia, U.S. exports of fresh raspberries could continue to increase.

For cranberries, Russian ingredient suppliers have remarked that sweet dried cranberries have high market potential. The sphere of cranberry application is very wide, with use in production of jams, fruit drinks, juices, as well as for fillers or decoration in the manufacturing of various confectionary products. Sweet dried cranberries are often added to ice cream and yoghurt as well as in salads, sauces, and jellies. Due to large production of cranberries in the U.S. and the fact that domestic production in Russia is not processed in large quantities, opportunities exist for increased sales of U.S. cranberries.

(For additional market share analysis please see market opportunity graph for fresh and dried fruits on page 44)

Fresh and Dried Fruits Market Access Changes due to WTO Accession

Summary: Apples, which are currently the largest U.S. fruit export to Russia, will enjoy greater market access and reduced tariffs immediately after Russia's WTO accession. For many of the other fruit products, market access gains will occur in the medium-term.

Immediate Market Access Gains after WTO Accession

Apples: Apple duties will vary both by variety of apples, as well as the timing of imports. Please see table below for the different tariff rates at accession and by 2017.

Description	Bound rate at date of accession	Final bound rate by 2017
- apples:		
-- cider apples, in bulk, from 16 September to 15 December	€0.2 per kg	€0.06 per kg
-- other:		
--- from 1 January to 31 March	€0.06 per kg	€0.03 per kg
--- from 1 April to 30 June	€0.06 per kg	€0.015 per kg
--- from 1 July to 31 July	€0.06 per kg	€0.03 per kg
--- from 1 August to 30 November:		
---- of variety Golden Delicious or Granny Smith	€0.2 per kg	€0.06 per kg
---- other	€0.1 per kg	€0.06 per kg
--- from 1 December to 31 December:		
---- of variety Golden Delicious or Granny Smith	€0.2 per kg	€0.03 per kg
---- other	€0.1 per kg	€0.03 per kg

Lemons/Limes: Lemons will see an immediate benefit as the applied rate is currently 5 percent bnl €0.035 per kg and at accession this will fall to 5 percent bnl €0.02 per kg. It will fall further to 5 percent bnl €0.015 per kg by 2013. For limes, the current applied rate is 5 percent bnl €0.035 per kg and immediately at accession it will be bound at just 5 percent.

Medium-term Market Access Gains due to WTO Accession

Grapes (table grapes and raisins): By 2014, for table grapes and raisins the tariff rate will be reduced from 10 percent to current applied rate of 5 percent.

Oranges: The current applied and WTO bound rate for oranges will be 5 percent bnl €0.02 per kg, and by 2013 will fall to 5 percent bnl €0.017 per kg.

Other Citrus: For clementines, mandarins and tangerines, the current applied and WTO bound rate is 5 percent bnl €0.03 per kilogram and by 2013 it will fall to 5 percent bnl €0.015 per kilogram. For grapefruit, tariff rate is currently 5 percent bnl €0.02 per kilogram and by 2013 the bound rate will fall to 5 percent bnl €0.015 per kilogram.

Pears: By 2015, for pears the pre-accession applied rate/post accession bound rate of 10 percent will fall to 5 percent.

Apricots: By 2014, for apricots the tariff rate will be reduced from 10 percent to the current applied rate of 5 percent.

Cherries: By 2014, for cherries the tariff rate will be reduced from 10 percent to the current applied rate of 5 percent.

Plums: By 2015, for plums the tariff rate will be reduced from 10 percent to the current applied rate of 5 percent.

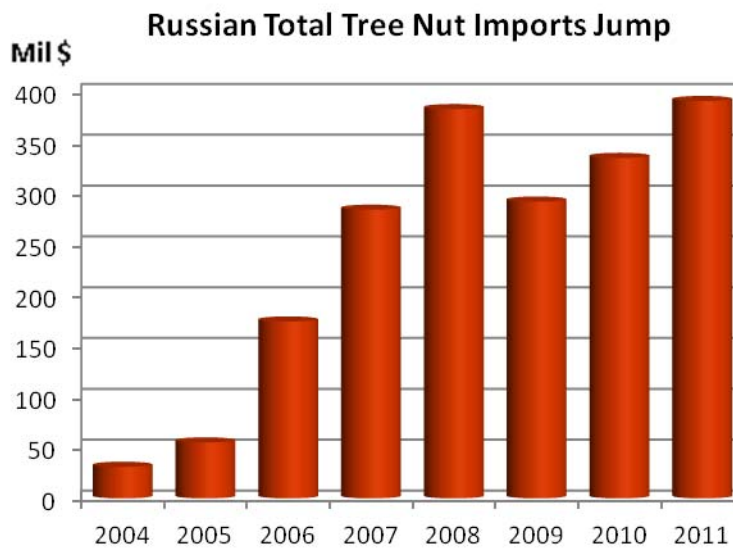
Berries: By 2015, for strawberries the pre-accession applied rate/post accession bound rate of 10 percent will fall to 5 percent. For raspberries/blackberries the same rate cut will occur but, by 2014.

Prunes: By 2014, for prunes the tariff rate will be reduced from 10 percent to the current applied rate of 5 percent.

TREE NUTS

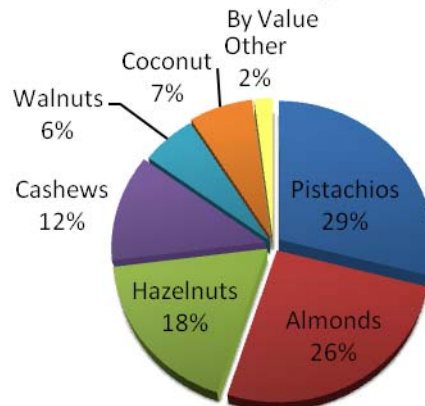
Opportunities for U.S. Exports of Tree Nuts

Russia's commercial nut production is limited to pine nuts and therefore Russia is entirely dependent on imports for consumption of most other tree nuts. Imports of tree nuts reached a new record of \$391 million in 2011, a 16 percent increase in both volume and value over 2010. This growth is being driven by rising incomes throughout most of the period and heightened consumer awareness of the health benefits of eating nuts. Despite this significant growth, the Russian tree nut market is far from saturated and has good potential for further expansion. Per capita tree nut consumption is only around 0.67 kg (including imported sweetened nuts and seeds), which is significantly lower than consumption levels in European countries, the United States, Japan, and China.



The major suppliers of tree nuts to Russia are: Ukraine (walnuts), Turkey (hazelnuts), the United States (almonds), Iran (pistachios), Azerbaijan (hazelnuts), Indonesia (coconuts), and Vietnam (cashews).

Russian Total Tree Nut Imports by Type 2011



In 2011, the United States' was the largest supplier of tree nuts to Russia with a 29 percent market share of which the U.S. had a 90 percent share of almonds and 17 percent of pistachios. U.S. sales in FY 2011 jumped by 63 percent to a new record of \$87 million.



The best prospects in American tree nuts exports to Russia are:

Almonds: Russia imported 90 percent of its almonds from the United States in 2011. In FY 2011, U.S. almond volumes continued to soar and the trend is expected to continue driven by growing demand from confectionary, bakery, and other food processing industries (consuming 65 percent of shelled almonds) and growing consumption of nuts as a healthy snack leading to sales of high grades of shelled and in-shell almonds.

Pistachios: Russia is one of the largest importers of pistachios in the world in 2011, with market volume at 12,000 metric tons worth \$112 million, a 40 percent increase in volume and value. Iran is the main suppliers in pistachios, followed by the United States. The popularity of pistachios as a snack product and rising incomes in Russia drive the demand for quality pistachios and opportunity of American pistachios. U.S. sales in FY 2011 increased in value terms by over 20 percent and growth in this market is expected to continue. However, American pistachios sales are directly affected by the crop situation in Iran, the main supplier of pistachios to Russia.

Pecans: In 2010, Russian imports of pecans increased by 246 percent to 111 metric tons although demand is somewhat unstable and imports fell in 2011. This is due to high prices for this nut compared to other nuts, as well as insufficient knowledge about nutrition and application options for pecans in the confectionary industry. However, taking into account growing interest in high quality natural ingredients in Russia, increased pecan exports are possible, especially with greater informational outreach to the confectionary industry and consumers.

(For additional market share analysis see market opportunity graph for tree nuts on page 44)

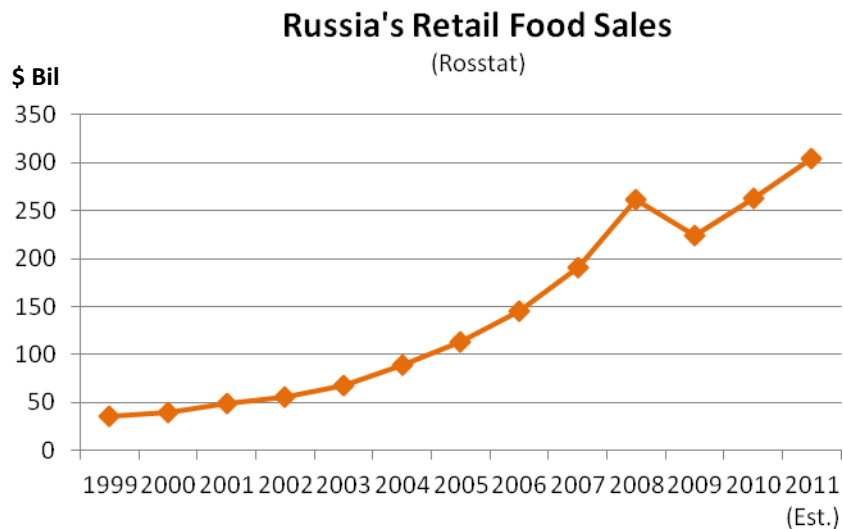
Tree Nut Market Access Changes due to WTO Accession

Summary: There will be almost no change to the tariffs on tree nuts as the bound rates for nearly all of these will remain at 5 percent.

PREPARED/PACKAGED FOOD AND INGREDIENTS

Opportunities for U.S. Exports of Prepared/Packaged Food Products and Ingredients

Prepared/Packaged Food Products: Russia's packaged food market is among the fastest growing in the world, reaching \$100 billion by some estimates. In 2011 the market was boosted by steady growth in almost all categories of packaged food. Sales in this sector are expected to increase 16 percent in 2011 supported by rising incomes as well as the availability of imported products on the market. Premiumization, health and wellness consciousness, and curiosity regarding novel products have become important for Russians again, in line with growth in consumer confidence, and the economic stabilization of the country. This growth of packaged products follows overall growth of retail food sales, which grew to \$250 billion in 2010 and is estimated to have surpassed \$300 billion in 2011.



A number of retail products are especially experiencing strong growth. In January – September 2011 the most significant value growth in packaged food retail sales was shown by such products as baby food (27 percent), snack bars (27 percent), soup (23 percent) spreads (20 percent), dairy (19 percent), frozen processed food (19 percent), ready-to-eat meals (17 percent), and ice-cream (16 percent).

The economic downturn prompted manufacturers to introduce more packaging varieties to the Russian market. Alongside multi-portion packaging, single portion packaging has been offered by manufacturers of both frozen and dry processed food. Retailers are keen to offer a wide variety of packaging, as this helps to maintain profitability. The major retailers focus on offering lower prices per unit weight for value and family packaging and higher prices per unit weight for single portion varieties.

Health is also expected to be a major focus for packaged food manufacturers during the coming years. With consumers leading busier and more stressful lifestyles, many have become reluctant to invest time in cooking healthy meals or exercising. Consequently, many are seeking shortcuts in packaged food. Companies are expected to launch health and wellness products across packaged food with these launches likely to be focused on categories with an unhealthy image.

Indulgent products, such as sweet and savory snacks, confectionery and ice cream, and convenient packaged food products, such as ready meals and snack bars, are expected to see a proliferation of better-for-you low-fat, low-salt and/or low-sugar products. There will also be a growing focus on naturally healthy ingredients, such as fruit, vegetables and whole grains.

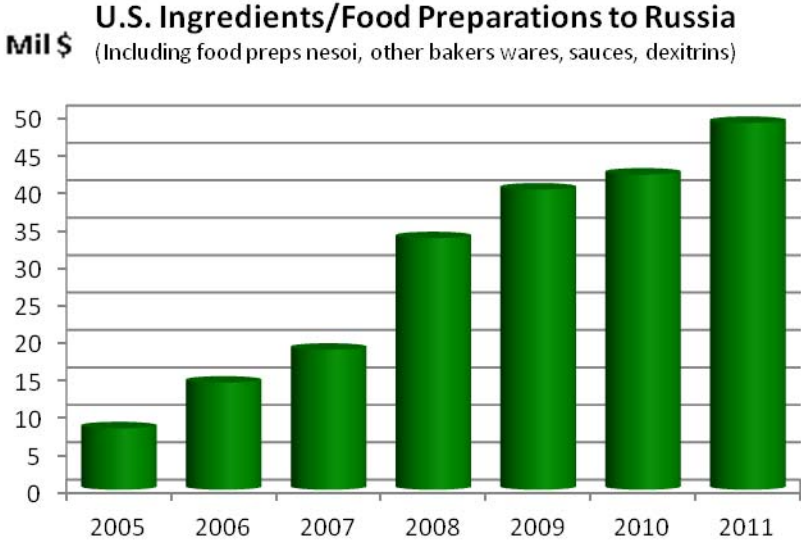
With growing demand, Russia is increasingly dependent on imports of retail and packaged food products, and this presents opportunities for U.S. suppliers. In 2011, the most dynamic growth of U.S. products in the high-value sector was food preparations, pastry and cakes, vinegar and soy sauces, pasta, tomato ketchup and other tomato sauces, mustard, and nonalcoholic beverages such as waters (including mineral). Given the potential of the Russian agricultural market, U.S. high value products can penetrate some niche markets, especially for those products which are not produced in Russia or are produced in limited quantities. In many cases, Russian agriculture is not yet producing products of consistently high quality (e.g. high quality beef steaks). There are markets for baby food or for specialty products including low-fat, low-salt and sugar-free products, cake and bread mixes, corn meal, and chocolate chips. U.S. exporters could also supply new market segments that are just beginning to develop. This includes organics, microwaveable and semi-prepared food as well as TV-dinners.

Ingredients: The majority of raw materials and ingredients used by Russian food processors/manufacturers are imported. This leaves ample opportunities for U.S. exports to Russia. European food ingredient suppliers are the major competitors of U.S. exporters in the sub-sector of specialized ingredients. The leading countries are Germany (13 percent), Lithuania (10 percent), Poland, Estonia and Finland. Apart from competition on price, European suppliers have an advantage over U.S. suppliers due to the proximity i.e. quick delivery and low transportation costs. However, as the Russian distribution network improves and U.S. ingredients gain a reputation, U.S. suppliers can more easily compete with European suppliers.

Demand for food processing ingredients is growing dramatically compared to the other sectors of the food processing industry. The Russian food processing ingredient market is widening its assortment and local processors increasingly must meet international quality standards. As a result they pay more attention to the quality of the ingredients they use and local ingredients often do not meet their needs. In addition, Russian food processing companies continue to expand and modernize their production facilities. This increases their demand for high quality ingredients. The share of imported ingredients is 86-90 percent against 10-14 percent of locally produced. Growing demand for healthy food leads to increasing consumer demand for better quality and innovative/functional products, forcing processors to use high quality ingredients.

Ingredients that are present in Russia and have good sales potential for U.S. exporters include: meat, fish, nuts, dried fruits (see individual section for more details on each of these products), as well as flavor enhancers, natural sweeteners and colorings, functional soy concentrates and isolates, quality textured vegetable protein, gluten powder, dextrin and other modified starches, complex ingredients including colorings, sweeteners, emulsifiers and preservatives, seasoning/spices/seasonings, and frozen or soft pasteurized fruits (for yogurt and ice cream production).

Ingredients that are not yet present in substantial quantities in Russia but also have good sales potential include: specialized food ingredients, including carrageenan, emulsifiers, enzymes, pectin, starter cultures, and functional systems (integrated blends of emulsifiers and thickeners), certified organic/natural ingredients (while many local processors are advertising “natural” or “ecologically-clean“ food and beverage products, there are no official organic standards and such claims cannot be substantiated. USDA Certified Organic can be used in Russia), and kosher and halal-certified ingredients (sizable Jewish population with growing interest in kosher products; also large Muslim consumer base in Russia and CIS countries).



(For additional market share analysis please see market opportunity graphs for bakers wares/preparations and preserved/packaged fruits, nuts and vegetables as well as sugar on page 46-47)

Prepared/Packaged Food and Ingredients Market Access Changes due to WTO Accession

Summary: Nearly all prepared/packaged food products and ingredients will see some improvement in market access with WTO accession. Because of the variety of products, the information below is not all inclusive of products in this category.

Immediate Market Access Gains after WTO Accession

Chocolate: Chocolate bars and other products will see the tariff fall immediately from 20 percent bnl to 0.6 per kg to just 0.6 per kg. The tariff rate will then be reduced to just 0.2 per kg or 0.28 per kg depending on the product by 2016.

Margarine: Most margarine products will see tariffs fall immediately from 20 percent bnl to 0.12 per kg to 15 percent bnl to 0.12 per kg.

Medium-term Market Access Gains due to WTO Accession

Prepared Meat: Most prepared meat products have a pre-accession applied/post-accession bound tariff of 25 percent bnl to 0.4 per kg. These tariffs will then fall by 2015 to just 20 percent bnl to 0.5 per kg for most products, although some rates are lower.

Soups: The tariff on soups will fall from 15 percent to 12.5 percent by 2015.

Chewing Gum: Tariff will drop from 20 percent bnl €1.2 per kg to 10 percent bnl €0.6 per kg by 2017.

Prepared Bread/Pastry Products: The tariff for these products (other than gingerbread) will fall from 15 percent bnl €0.15 per kg to maximum 12 percent bnl €0.12 per kg in 2015 depending on the product. For gingerbread, the tariff will fall from 20 percent bnl €1.2 per kg to 10 percent bnl €0.6 per kg by 2015.

Prepared Vegetables: The tariff will fall from 15 percent bnl €0.075 per kg to a maximum of 12 percent bnl €0.06 per kg between 2015-2018 depending on the product.

Sauces: The tariff on sauces will fall from 15 percent to 10 percent for tomato sauces and ketchup and mustard, 8 percent for soya sauces, and 6 percent for mayonnaise between 2015-2017 depending on the product.

NON-ALCOHOLIC BEVERAGES

Opportunities for U.S. Exports of Non-Alcoholic Beverages

Significant market opportunities exist for U.S. exporters of non-alcoholic beverages and a number of non-alcoholic beverage retail products are experiencing strong growth in Russia. According to Euromonitor, in 2011 the sales of bottled water increased by 24 percent year-on-year followed by fruit and vegetable juice (nearly 20 percent), ready-to-drink tea (19 percent), carbonates (19 percent) and ready-to-drink coffee (16 percent).

It was only as recently as the summer of 2010 -- when a heat wave swept across Russia -- that soft drinks gained popularity relative to hot drinks in Russia. This exceptional heat resulted in much more frequent and even daily consumption of soft drinks by most citizens (especially bottled water and a Russian fermented drink called kvass). The demand for carbonates doubled compared to the previous period, and the demand for water and kvass were up by three times and five times, respectively. Even though the heat wave only lasted during that summer, Russian consumers continued at higher consumption levels of soft drinks. In addition, Russian consumers continue to be focused on health issues, which also help boost sales of bottled water and fruit and vegetable juices.

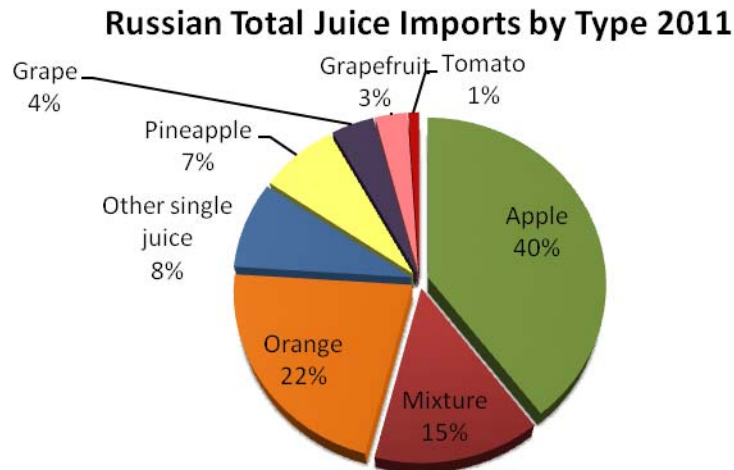
Waters: Bottled water has opportunities for growth due to two main factors: increasing disposable incomes and the quality of tap water. Annual consumption of bottled water in Russia is 24 liters per capita. While that remains lower than average consumption in Western European countries, every third sample of tap water in Russia does not meet sanitary-chemical indicators and every 10th does not meet bacteriological indicators. In such a situation, consumption of bottled water is not considered a luxury by many Russians, but a necessity.

Soft Drinks: Carbonates are historically not considered as healthy, but the brand loyalty of consumers to well-known brands (mainly owned by PepsiCo and Coca-Cola) is very high in Russia. Daily purchases of soft drinks attracted consumers to less traditional soft drinks types, quite new for the Russian market (e.g. flavored water, functional water). Also, a focus on healthier eating and a more active lifestyle is boosting sales of sports and energy drinks.

Juices: Russia is a huge fruit and vegetable juice market, with imports fairly stable around \$400 million per year, making it one of the world's top ten juice markets. Russian retail sales of fruit and vegetable juices increased by 5 percent in total volume terms and by nearly 20 percent in total current value terms in 2011. Juices and nectars in Russia are typically not consumed daily by most Russians, and consumers tend to start buying them just as they reach a certain level of income, beginning with products in the lower-price segment. The level of per capita consumption in Russia is much less than in Western Europe and there is also a great deal of difference by region. For example, Moscow residents drink nearly 25 liters of juice per year, while average consumption in Russia is 21 liters.

The fastest growth area in 2011 was in 100% juice products (includes not from concentrate 100% juice, reconstituted 100% juice and frozen 100% juice) and juice drinks, both up 23 percent each in value terms. Nectars, meanwhile, recorded 5 percent growth. In the 100% juice and nectar categories, apple and orange flavors held the largest share of about 18 percent each,

followed by mixed fruit flavors. Pineapple and grapefruit are also becoming more popular, especially in winter due to the low consumption of fruit and vitamins in this period of the year.



(For additional market share analysis please see market opportunity graph for non-alcoholic beverages on page 45)

Non-Alcoholic Beverages Access Changes due to WTO Accession

Immediate Market Access Gains after WTO Accession

Waters Containing Sugar/other Sweetening or Flavors: Flavored water will see an immediate improvement in market access with WTO accession, with the tariff falling from 15 percent bnlт €0.07 €per liter to 8 percent bnlт €0.024 €per liter.

Medium-term Market Access Gains due to WTO Accession

Fruit and Vegetable Juice: Market access will improve for all juices. Currently the pre-accession applied/post-accession bound rate is 15 percent bnlт €0.07 per liter. By 2015, the tariff rates will fall to 10 percent bnlт €0.046 per liter for citrus and pineapple juices, and by 2015, the tariff rates will fall to 13 percent bnlт €0.06 per liter for tomato juice.

Tea: The tariff on black and green tea sold in disposable packets will fall from 20 percent bnlт €0.5 per kg to 12 percent bnlт €0.34 per kg by 2016. For tea not sold in disposable packets the tariff will fall from 20 percent bnlт €0.4 per kg to 12 percent bnlт €0.24 per kg by 2016.

Coffee: The tariff on non-roasted coffee will fall from 5 percent to 2 percent (3 percent for decaffeinated) by 2013. For roasted, it will fall from 10 percent bnlт €0.2 per kg to 8 percent bnlт €0.16 per kg by 2015.

Alcohol-free Beer: The tariff on alcohol-free beer will fall from current applied rate of €0.6 per liter to only €0.1 per liter by 2015.

Sports-Drinks: The tariff on sports drinks will also fall from €0.6 per liter to only €0.1 per liter by 2016.

WINE AND OTHER ALCOHOLIC BEVERAGES

Opportunities for U.S. Exports of Wine and Other Alcoholic Beverages:

Wine: The market for imported wine is expected to see a substantial increase in the coming years in Russia, primarily due to changing consumption patterns for alcoholic beverages. According to market statistics, the current average per capita consumption of beer in Russia is estimated at 75-80 liters, of wine at 7-8 liters, and of spirits at 14-15 liters per year. Alcohol market experts, however, predict dramatic changes in consumption with that of spirits and beer falling, and consumption of wine doubling in the next decade.

Volume sales and average annual consumption of alcohol by categories:

Alcohol category	Volume sales, 2010 million liters	2010-2011 Liters per person	2018-2020 forecasts Liters per person
Beer	10247	75-80	60-70
Wine	1280	7-8	18-21
Spirits	1767	14-15	10-11

Source: Trade press, Information agency CredInform



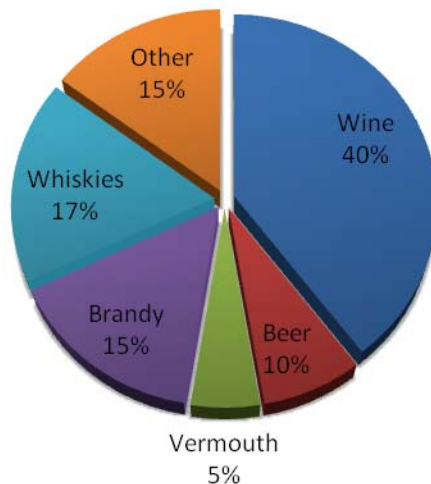
Russia is one of the 10 largest world wine markets (which combined account for around 70% of global sales in both volume and value terms). With per capita wine consumption estimated at just 7 liters in 2010, Russia is one of the largest growth markets for wine, and the most developed wine market of the BRICs. Italy, France and Spain, the three major wine producers globally, are also the major exporters of wine to Russia. U.S. wine sales have risen dramatically in recent years, and reached \$8 million in FY 2011. Despite this, U.S. wine currently only has about 1 percent market share, and because of this there is large room for growth. Today Russia is somewhere near the bottom of vineyard area rating among wine countries, and vineyards in Russia satisfy only 20 percent of the demand of domestic wine producers for raw materials. Low per capita wine consumption in Russia indicates great opportunities for major wine producers.

As consumers became more educated about wine in light of rising incomes and increasing sophistication, wine at specialist retailers and restaurants has increased in popularity among consumers. Rising incomes and health-consciousness will continue to be main long-term growth drivers of wine in Russia.

Beer: For a decade the beer business was considered one of the most promising and profitable in Russia. During 2000-2007 beer production in Russia more than doubled – from 5,364 to 11,472 million liters. Along with this consumption rates hit a record of 81 liters per person, which was even higher than in Great Britain. Given robust domestic production, including of scores of famous European brands produced under contract in Russia, Russian imports of beer constitute a little less than 3 percent of total consumption volume. There is currently no U.S.-origin beer widely sold on the Russian market. Rather, some major U.S. brands are produced locally in Russia. The market for craft beers is extremely niche at the moment.

Spirits: Among the top ten spirits markets in volume terms, Russia has imported more Kentucky bourbon and Puerto Rican rum since 2009. The United States (including Puerto Rico which makes up a large share) is the fifth largest supplier of spirits to Russia and the market is growing for U.S. supplies, up 74 percent by volume in 2011. In 2011, U.S. exports of spirits to Russia set a new record of \$89 million, nearly double the level of 2010. The spirits market will continue taking advantage of the opportunities provided with the Russian market, mostly focusing on the advancing middle class, rising urban population and emerging westernization trends.

Russian Alcoholic Beverage Imports by Type 2011



(For additional market share analysis please see market opportunity graph for wine and other alcoholic beverages on page 45)

Wine and Other Alcoholic Beverages Market Access Changes due to WTO Accession

Summary: All Alcoholic products will see tariffs fall, with final implementation typically between 2015 and 2016. Beer will see the most dramatic decline in tariff with it almost disappearing by 2018.

Medium-term Market Access Gains due to WTO Accession

Wine from Fresh Grapes: All varieties of wine will see a decline in tariff from the current applied/post-accession bound rate of 20 percent to 12.5 percent by 2016. The only exception is sparkling wine such as champagne, in which this decline will happen by 2015.

Beer Made From Malt: By 2018, beer will see a dramatic decline in tariffs from the current €0.60 per liter to only €0.018 per liter. The only exception will be beer in containers larger than 10 liters, where by 2017 it will fall to €0.04 per liter.

Vermouth: By 2017, the tariff on vermouth will fall from current 20 percent to 10 percent.

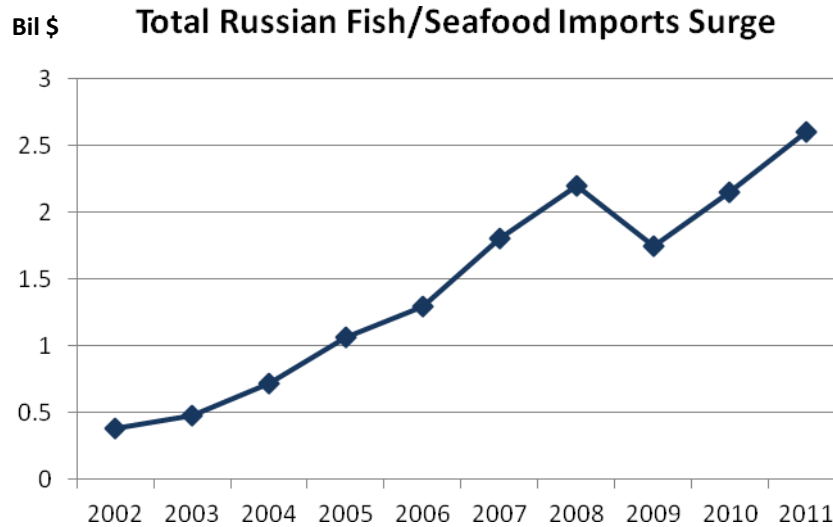
Whiskies: By 2015, the tariff on whiskies will fall from €2 per liter to €1.4 per liter (and to €1.5 per liter for containers more than 2 liters).

Rum/Gin/Vodka/Liqueurs and cordials: By 2015, the tariff on these products will fall from €2 per liter to €1.5 per liter.

FISH AND SEAFOOD

Opportunities for U.S. Exports of Fish and Seafood

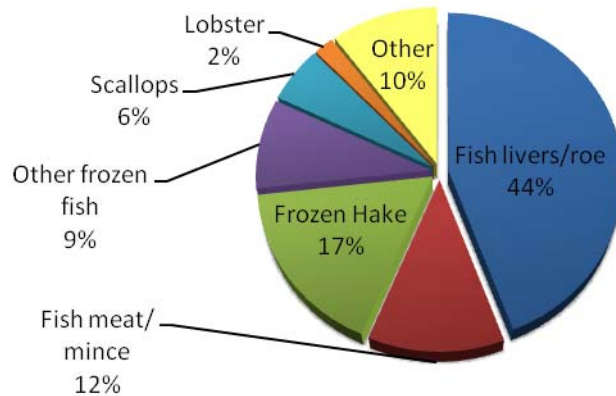
Russia continues to be a huge and rapidly growing market for fish and seafood in general. In 2011, total imports of fish and seafood surpassed \$2.6 billion dollars, a new record and a 19 percent increase from 2010 on value and 5 percent on volume. U.S. seafood exports have also been rising to Russia, however, the United States still currently supplies only about 2 percent of total fish and seafood products, and as a result there is massive room for growth.



Trade sources report that the variety of products and quality of these products are increasingly important to Russian consumers. To satisfy demand, local retail outlets and restaurants are offering a wider selection of both traditional products as well as exotic items. In addition to the customary herring, mackerel, and salmon, consumers can now find squid, prawns, mussels, live scallops, snails, and oysters as well as other products. Because of this growing market, U.S. fish and seafood producers will continue to be able to find new market opportunities in Russia as consumer income rises, demand continues to boom, and consumer habits continue to change. Russian trade sources believe that low European fish stocks, strong world demand for seafood products, and a reduction in annual catch quotas may drive up prices of seafood from the European Union, and this would allow U.S. fish and seafood products to be even more competitive in price and enjoy higher demand in the local market.

Some U.S. fish and seafood products already have a strong position on the Russian market. Salmon roe and salmon are considered to be traditional fish for the Russian population and roe (caviar) exports account for approximately 50 percent of total U.S. fish and seafood exports mainly from Alaska. Prospects for U.S. livers and roes are expected to continue to be favorable with stable demand.

U.S. Exports to Russia by Type FY 2011

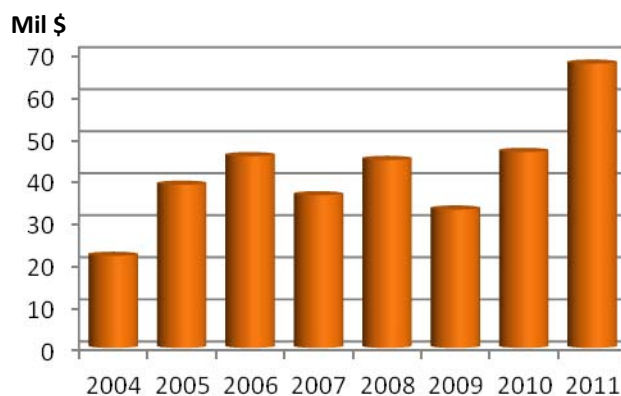


U.S. frozen ground fish fillets, particularly of pollock and cod (which currently are mostly imported from China) have good potential for increased sales. This is especially the case as domestic catch and lack of processing facilities means local supplies will not satisfy demand for the product. Fish fillets are gaining more popularity as eating habits and consumer preferences change.

Products fished along the U.S. Northeastern seaboard also have strong growth potential in Russia and are making inroads that could yield significant sales. For example, oysters, scallops, lobsters, red snapper, striped bass and black sea bass are among the fish and seafood Russian importers are seeking in addition to wild Alaska salmon, roe, surimi and black cod. The HRI sector will be the most interested in these new species.

This growing demand in Russia helped U.S. fish and seafood exports to Russia surge 45 percent in value in FY 2011 to nearly \$68 million. With demand for fish expected to continue to grow in Russia, this market looks promising for U.S. suppliers for the foreseeable future.

U.S. Fish and Seafood Exports to Russia Rise
Fiscal Year



(For additional market share analysis please see market opportunity graphs for fish and seafood on page 43)

Fish and Seafood Market Access Changes due to WTO Accession

Summary: Nearly all categories of fish, both frozen and fresh and filets will see reduced tariffs, although these changes will not occur immediately with accession.

Medium-term Market Access Gains due to WTO Accession

Fresh or Chilled Fish (excluding Filets): All of the fresh or chilled fish types will see reduced tariffs although most of these will be reduced between 2013-2017. The pre-accession applied rate/post accession bound rate for these products is 10 percent and final bound rates will fall to between 8 percent and 3 percent depending on the species.

Frozen Fish: As with fresh and chilled fish, the pre-accession applied rate/post accession bound rate for most frozen fish products is 10 percent and will be reduced between 2013-2017. Final bound rates will fall to between 8 percent and 3 percent depending on the species.

Filets: The pre-accession applied rate/post accession bound rate for most filets is 10 percent. For salmon and trout, the tariff on filets will fall to 4 percent by 2016 (and for frozen filets this drop will occur by 2015). For cod and haddock the tariff will fall to 5 percent by 2015 (2014 for frozen filets). Frozen hake and pollock filets will see tariffs fall to 7 percent by 2014.

Fish Dried and Salted: All tariff rates for dried and salted fish will see declines, with the most dramatic being for livers and roes where the tariff will fall from 20 percent to 10 by 2017, as well as smoked salmon which will fall from 20 percent bnlt €4 per kg to 8 percent bnlt €1.6 per kg by 2017. Most other products will fall from 10 percent to between 3-6 percent by 2015-17 depending on species.

Crustaceans: For crustaceans, the tariff on whole lobsters will fall from 10 percent to only 5 percent with this change occurring by 2015 for frozen and by 2016 for live lobsters. For non-whole frozen lobsters the tariff will fall from 10 to 8 percent by 2013. For frozen shrimps and prawns, the current 10 percent tariff will fall to between 5-3 percent by 2014-2015 depending on variety. For frozen crabs, it will fall from 10 to 5 percent by 2015-2016 depending on variety.

Mollusks: For mollusks, the pre-accession applied/post-accession bound rate is 10 percent, and for oysters this will fall to 7 percent by 2015, for scallops to 6 percent by 2015 and for mussels to 5 percent or 6 percent by 2016-2017 depending on variety.

FORESTRY PRODUCTS

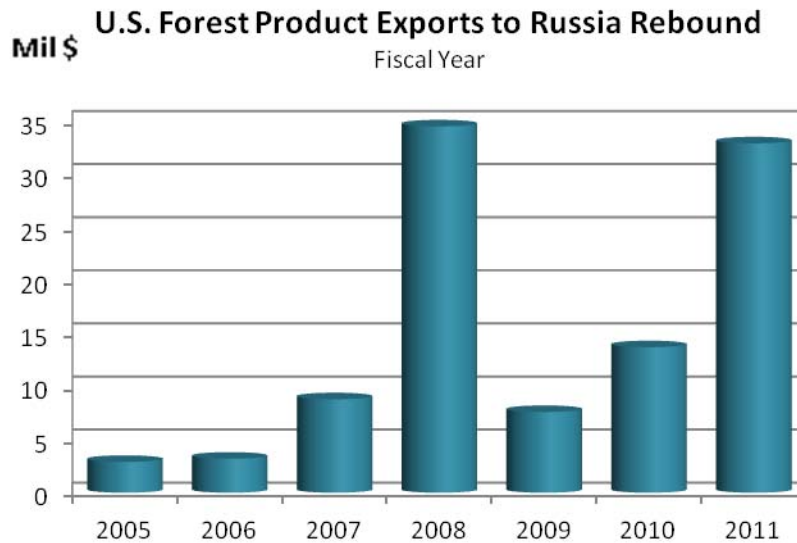
Opportunities for U.S. Exports of Forestry Products

Market access changes will create a more favorable environment and open potential markets for the U.S. forestry and pulp products. Major opportunities for the U.S. will be in processed wood products, including oriented strand board, medium density fiberboard of different thickness, prefabricated houses. Currently Russia also imports waferboard, articles of woods, builder's joinery and carpentry of wood, veneer, door frames and windows.

The Russian domestic forestry processing sector is quite underdeveloped due to a lack of processing capacities, poor infrastructure, and imperfect regulation. Therefore, local production fails to satisfy demand for value-added forestry products. Meanwhile, government initiatives in the construction sector will continue to spur demand for OSB, MDF, wood panels, veneer and other materials. Also, furniture production is also forecast to increase in the long-term. These are all resulting in an increase in total forestry product imports in Russia.



U.S. exports of forestry products to Russia experienced a dramatic increase in FY 2011, and nearly tripled in value to \$32 million. Of this total 62 percent were panel products and the rest in other value-added products. Import structure primarily consists of oriented strand board, prefabricated buildings, as well as medium density fiberboard of different thickness, veneer and high-value wood articles for furniture construction.



A very large exhibition for forestry sector is LesDrevMash, which takes place in Moscow in October. The dates for the Show in 2012 are October 22-26. For more information please refer to: <http://www.lesdrevmash-expo.ru/en/>

(For additional market share analysis please see market opportunity graph for forestry products on page 47)

Forestry Products Access Changes due to WTO Accession:

Summary: After full implementations of tariff reductions an average import tariffs for wood and paper will go down from currently applied 13.2 percent to 8 percent. It will create a favorable environment and open potential markets for the U.S. forestry and pulp products.

Immediate Market Access Gains after WTO Accession

Nearly all of the market access gains will occur between 2014-2016 although a few types of particle board will see immediate tariff declines from the pre-accession applied rate of 20 percent to the post-accession bound rate of 15 percent.

Medium-term Market Access Gains due to WTO Accession

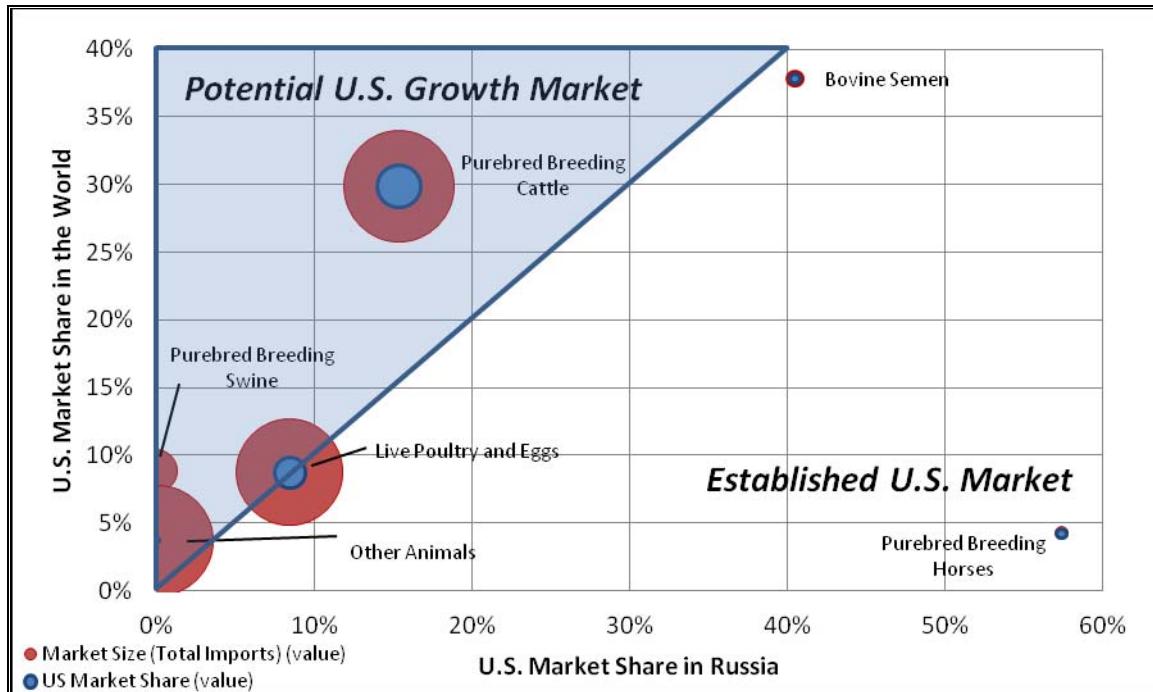
After full implementation of tariff reductions between 2014-2016, the average import tariffs for wood and paper will go down from currently applied average 13.2 percent to an average of 8 percent.

Market Opportunity Graphs

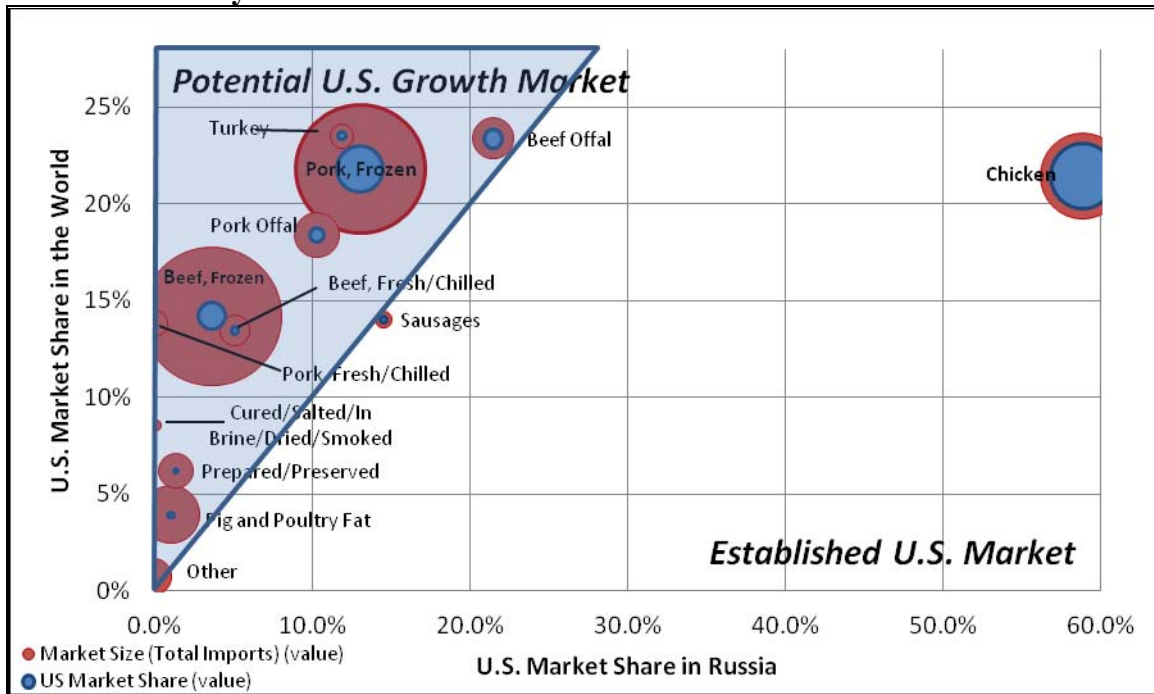
In order to look at which U.S. agricultural products could have opportunities for increased export sales in Russia, FAS/Moscow created a number of market opportunity graphs. These graphs chart U.S. market share in Russia compared to overall U.S. market share globally. Those products which “overperform”, i.e. U.S. share in Russia is higher than globally, are classified as established U.S. markets and remain in the unshaded white area. Those products which “underperform”, i.e. U.S. share in Russia is lower than globally, are labeled as potential U.S. growth markets and are in a shaded blue area. The size of the circle for each product is determined by the overall size of the import market (and the inner circle is the current U.S. share).

Of course a number of factors can influence whether a market is “established” or a “potential growth market” rather than just market share analysis (for example proximity/transportation costs as well as market access are major factors), nevertheless, these charts can be a useful tool to present a visual picture of which product areas could find future growth in Russia.

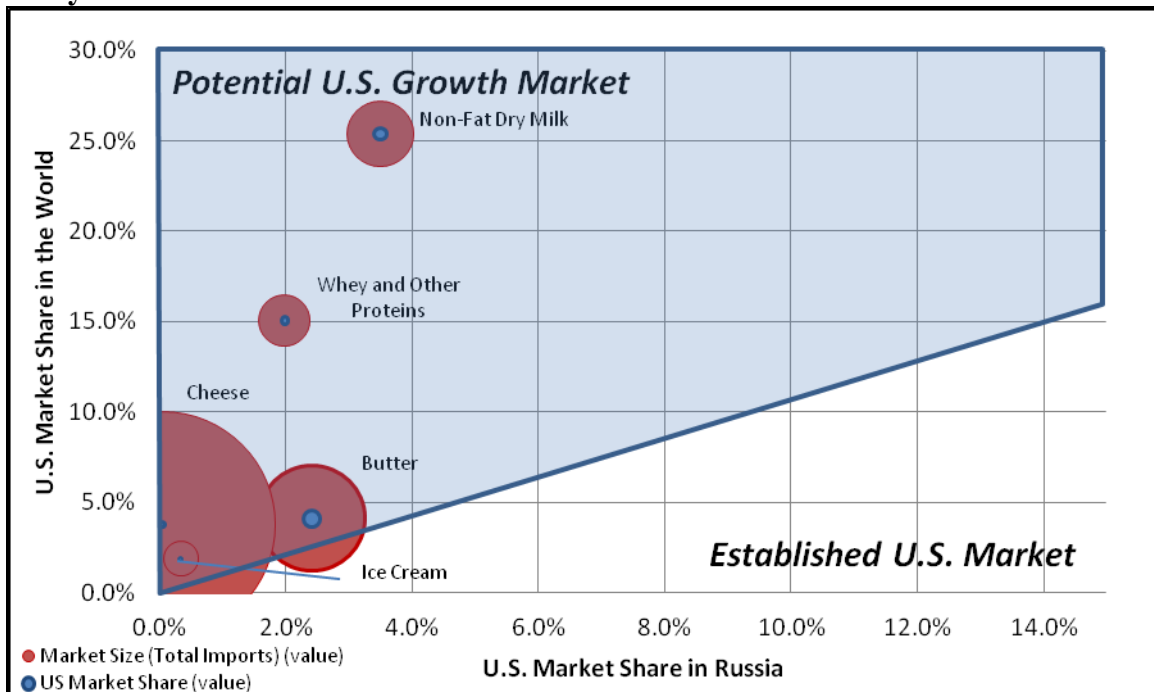
Live Animals and Genetics:



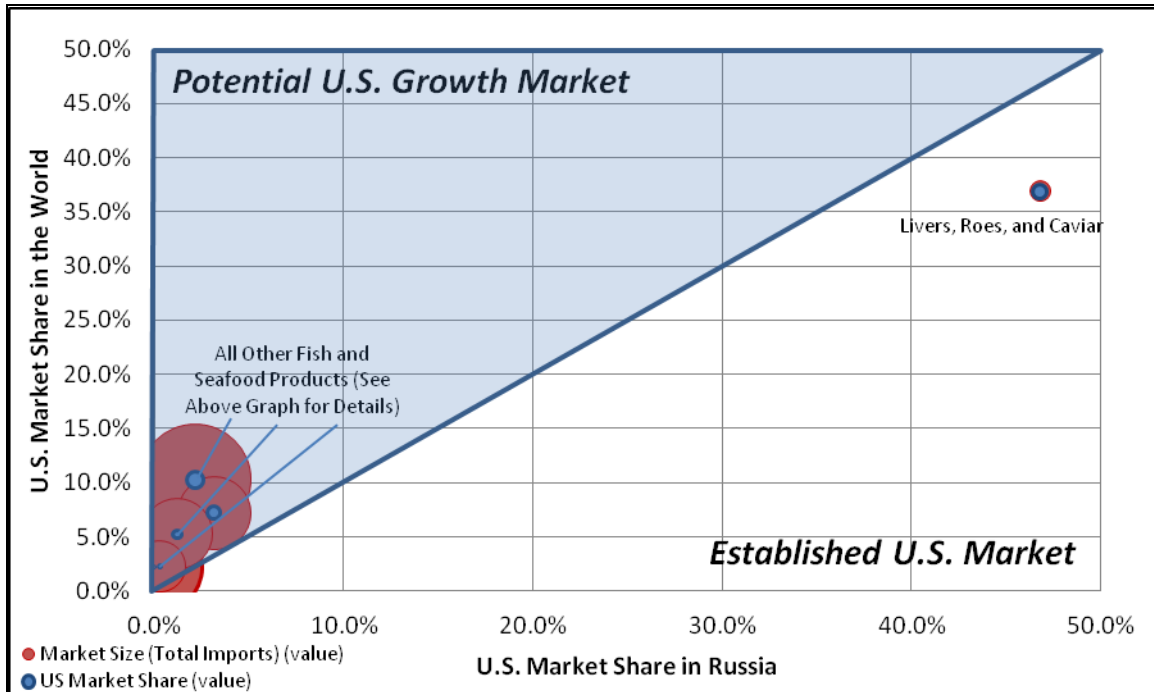
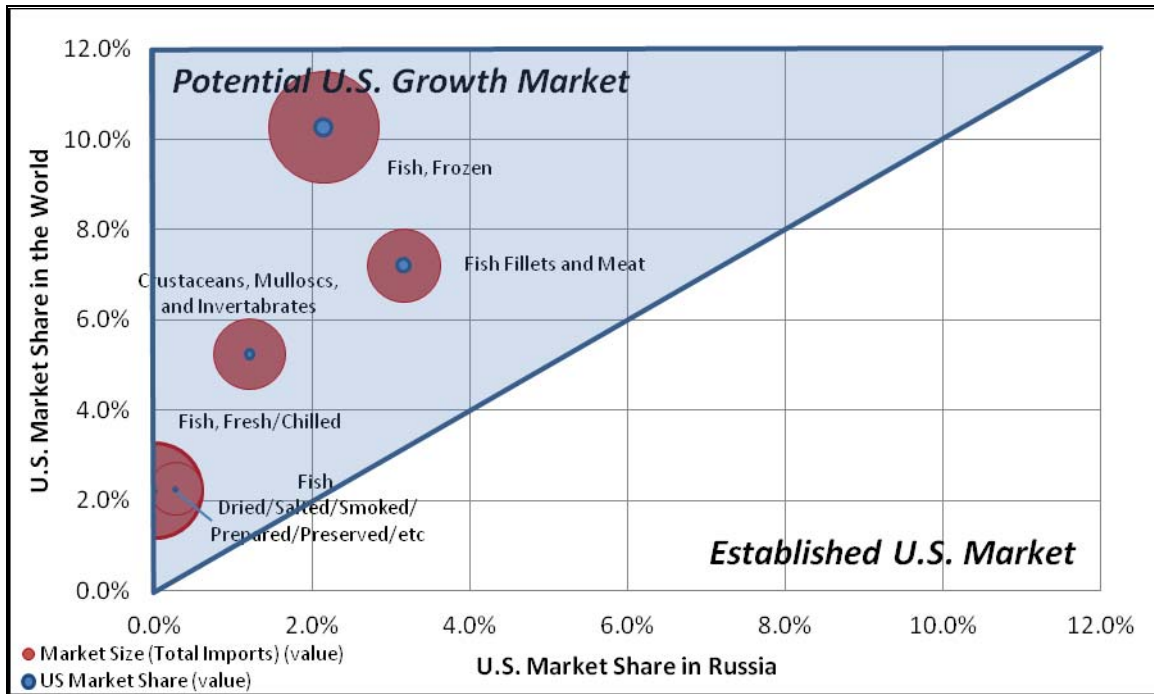
Meat and Poultry:



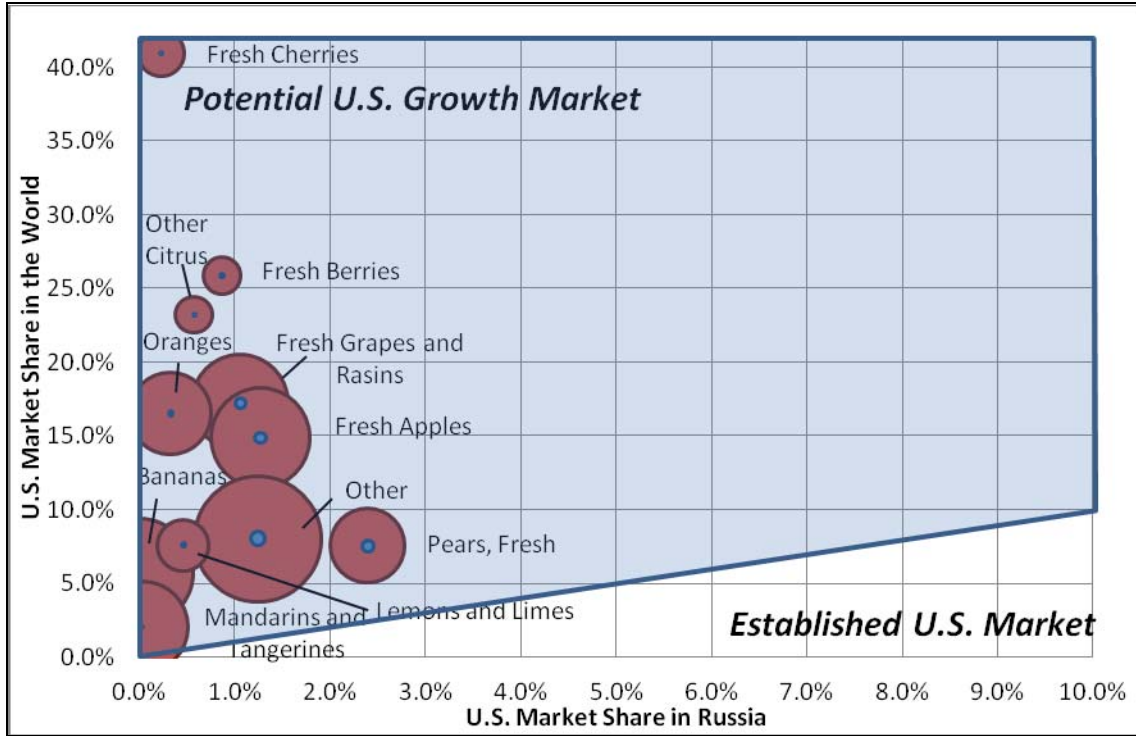
Dairy Products:



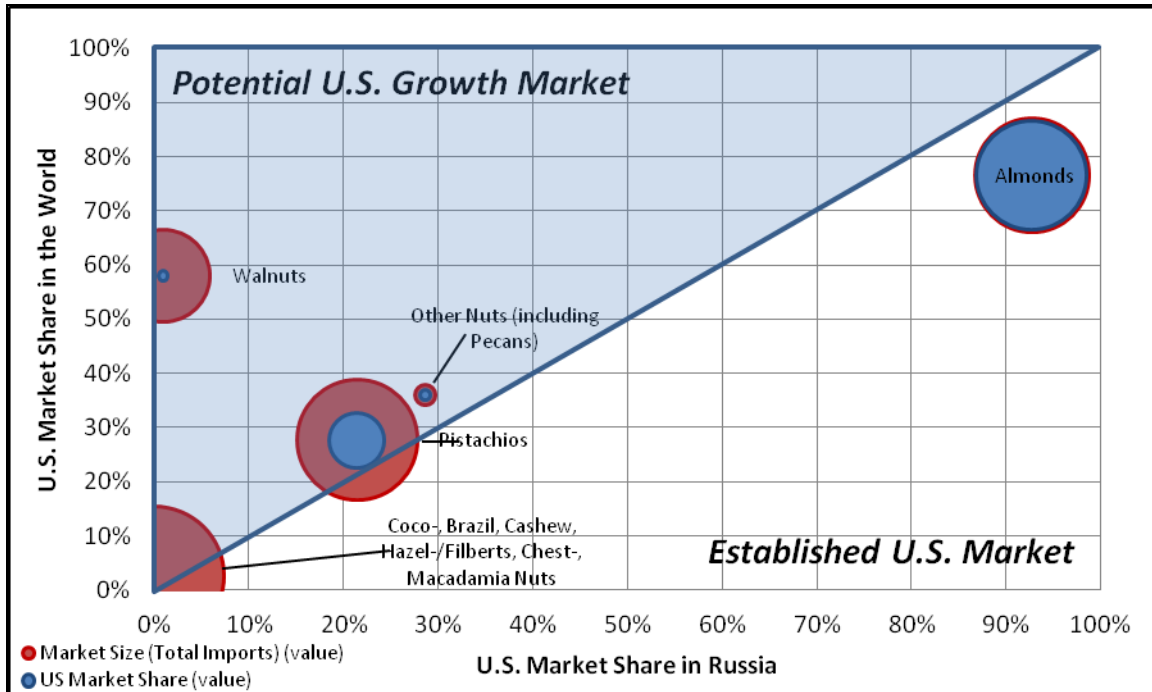
Fish and Seafood:



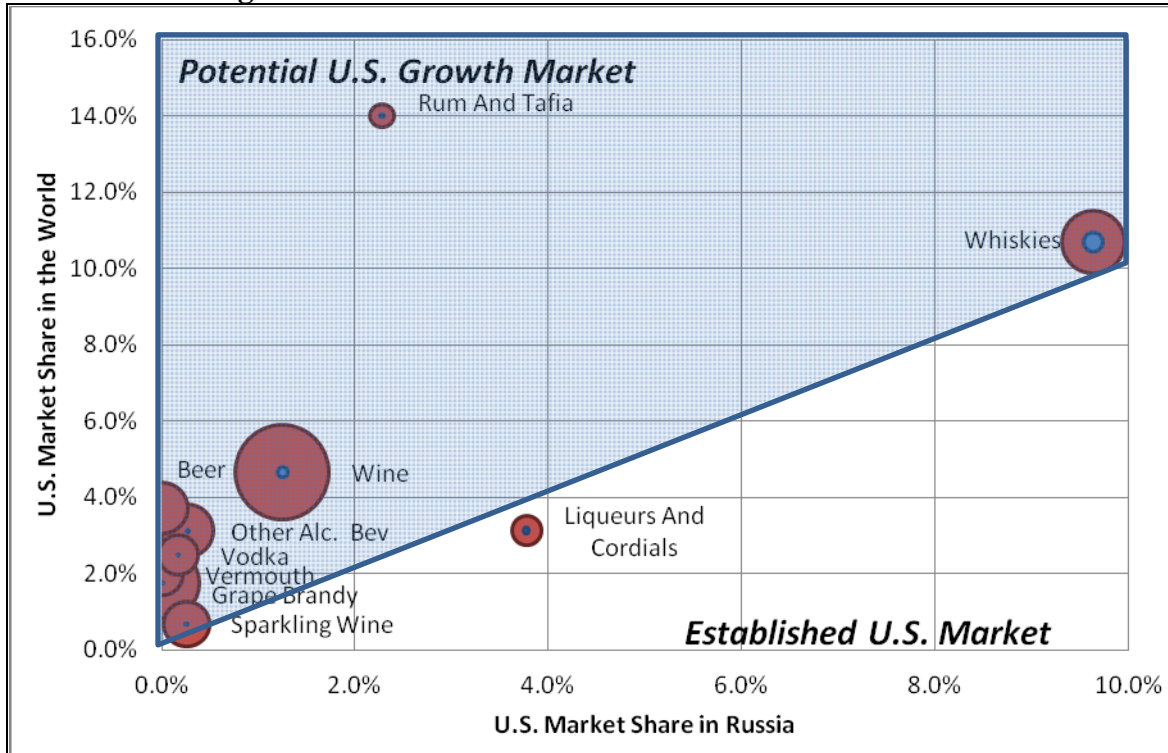
Fresh and Dried Fruits:



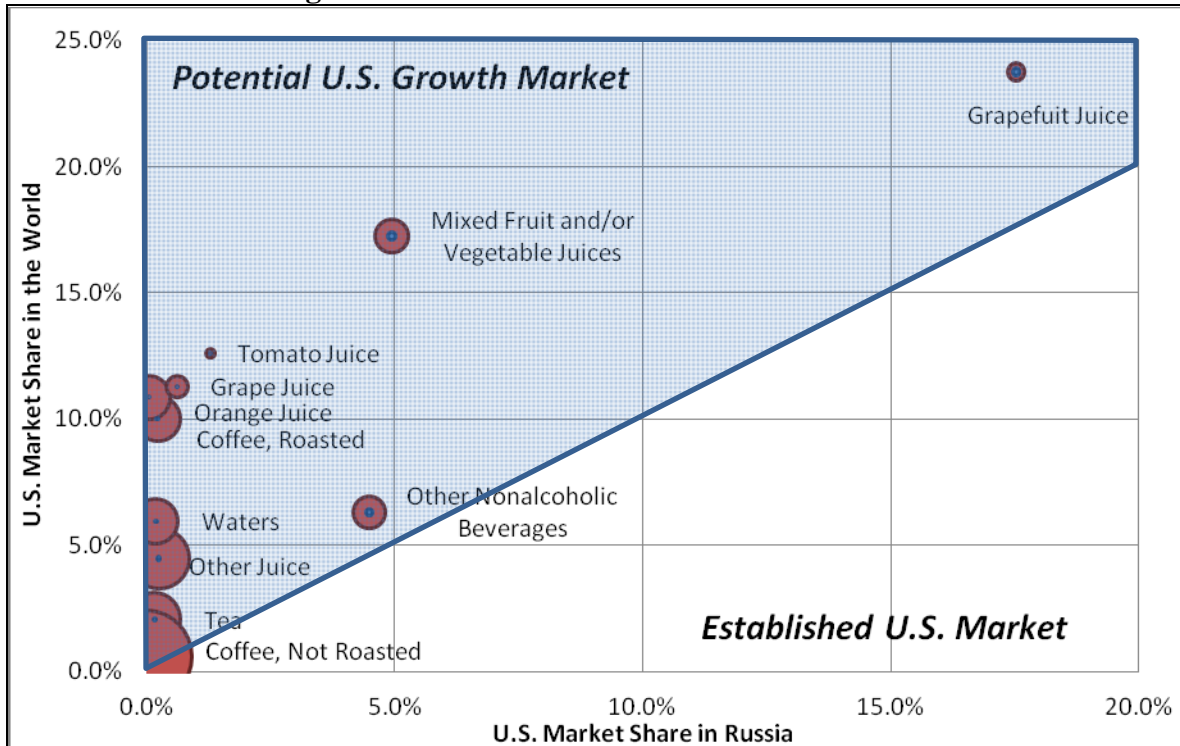
Tree Nuts:



Alcoholic Beverages:



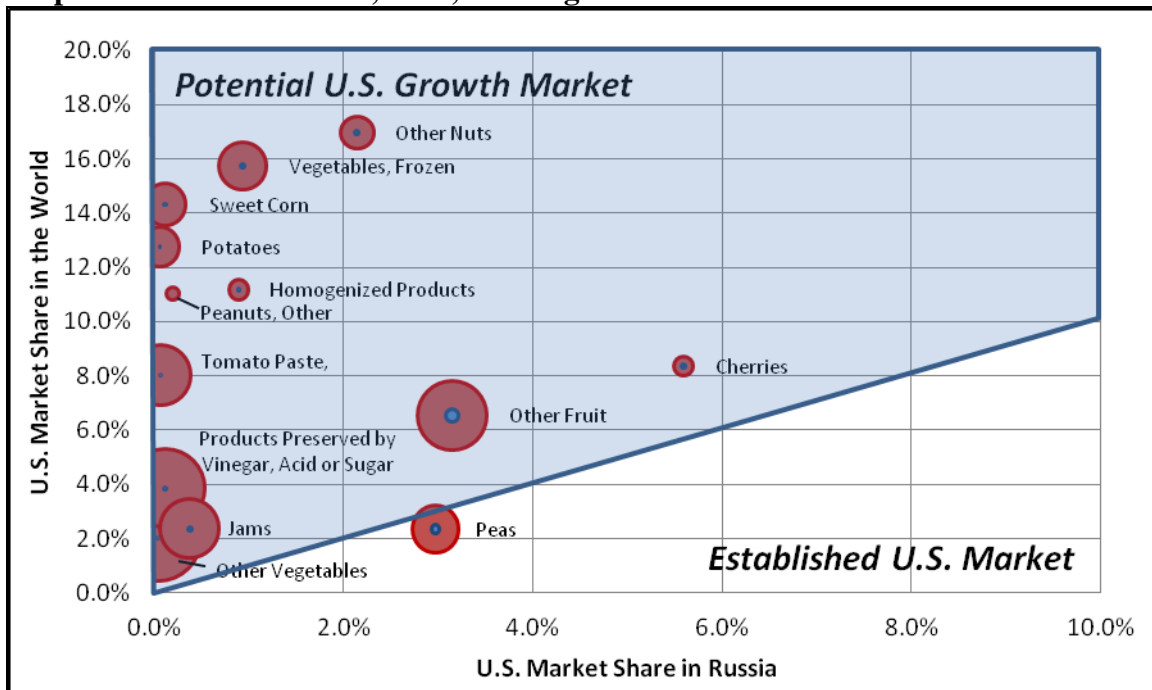
Non-Alcoholic Beverages:



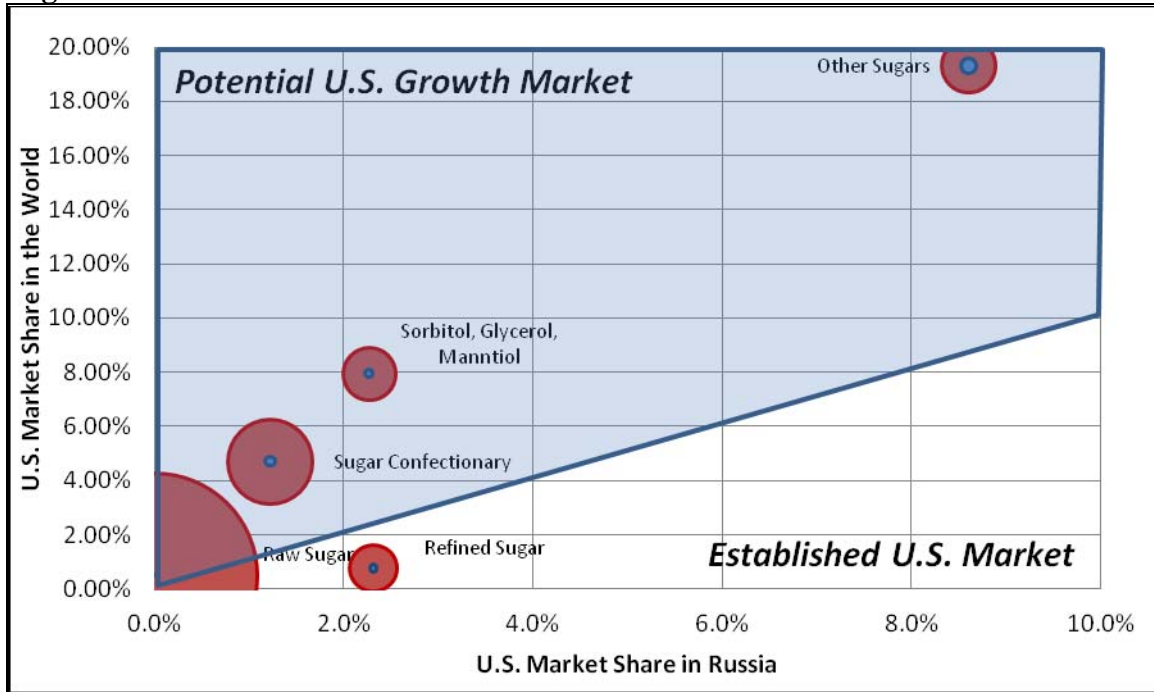
Bakers Wares/Preparations:



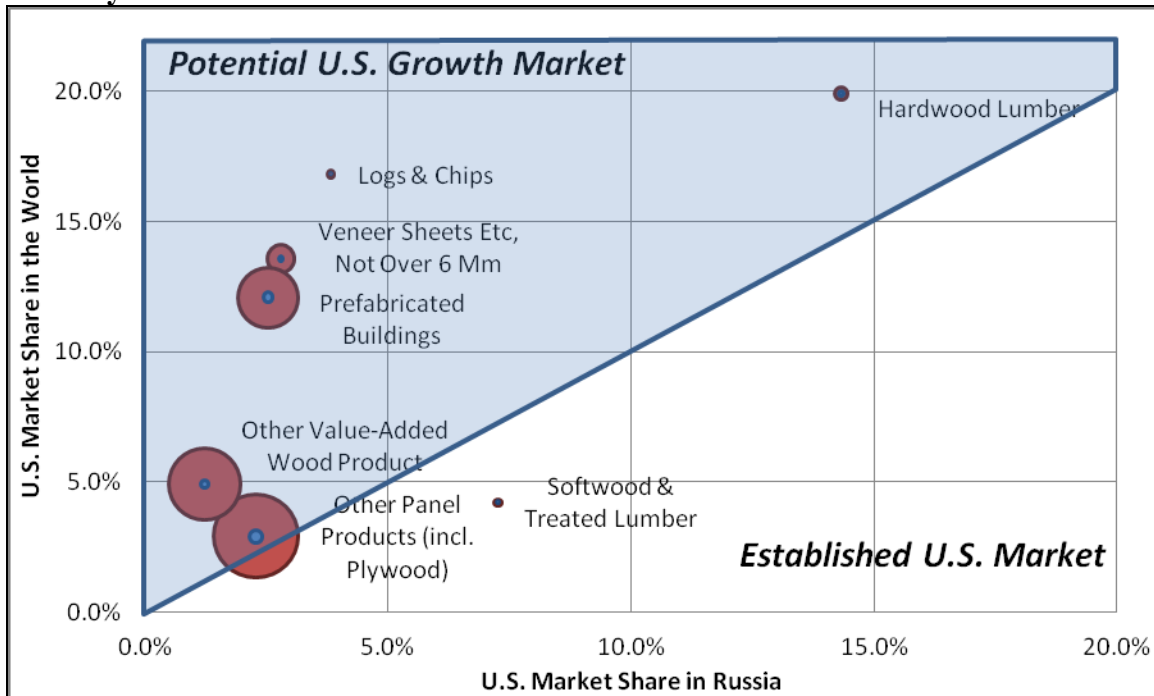
Prepared/Preserved Fruits, Nuts, and Vegetables:



Sugar:



Forestry Products:



Grain, Oilseeds, and Feed:

