

RUSSIA: EMERGING MARKET FOR US AG PRODUCTS A SPECIALTY CROP PERSPECTIVE



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Russia: Emerging Market

ECONOMIC CONDITIONS SUPPORT OPPORTUNITIES

2012

- The Russian Economy Grew by 3.4%
- Russia Joined the WTO
- The US was the 5th Largest Supplier to Russia by Value of Agricultural Product Imports
- The Consumer Sector accounted for 69% of Total Agricultural Imports from the US valued at \$1.3 billion
- Great Opportunities for Tree Nuts, Fresh and Dried Fruits and Food Ingredients
- But Currently the total Market is Small in The US Ag Export Customer Base

(In FY 2012 \$ 1.5 Billion out of total US Ag Exports of \$135 Billion)

HOWEVER: RUSSIA IS A COMPLICATED MARKET

- Market Size
 - Logistic Challenges
- Growth and Stability Challenges
From Different Sources



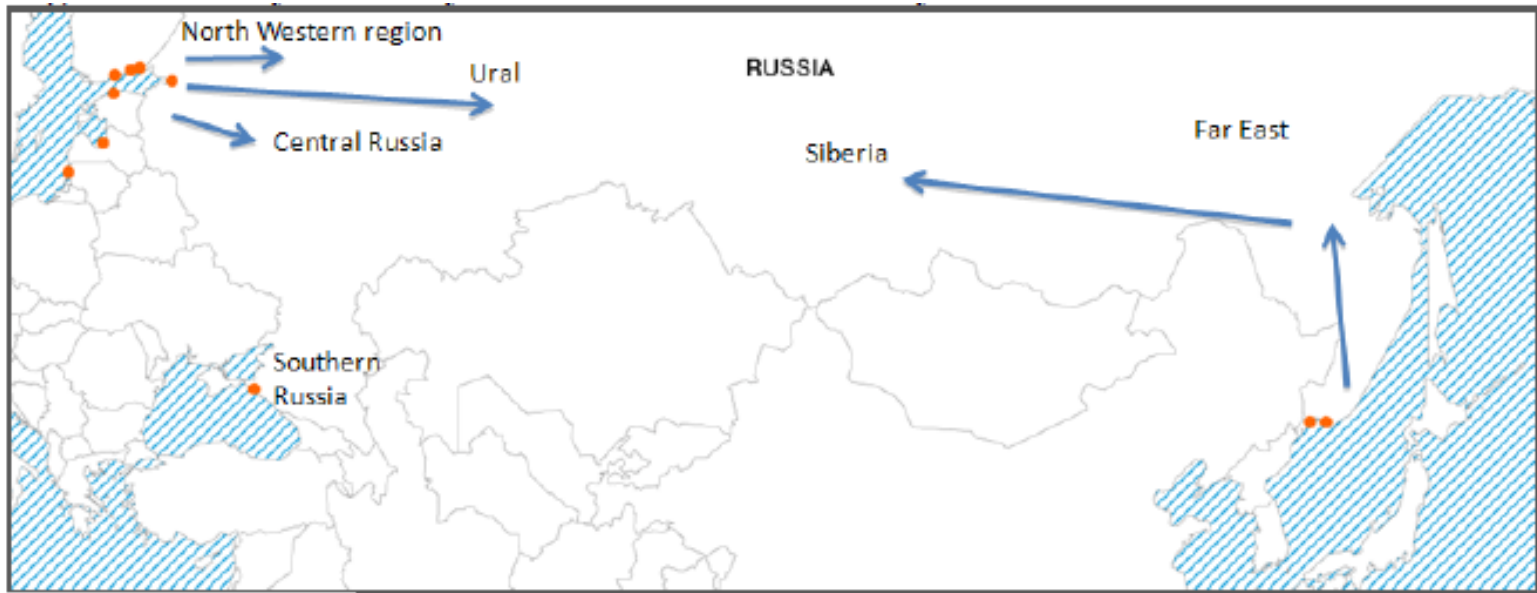
143 MILLION PEOPLE; LAND MASS 1.9 TIMES US



Moscow – 12 million (8%); St. Petersburg – 5 Million 12 cities > 1 million

TRANSPORTATION AND LOGISTICS

ENTRY GATEWAYS FOR US PRODUCTS

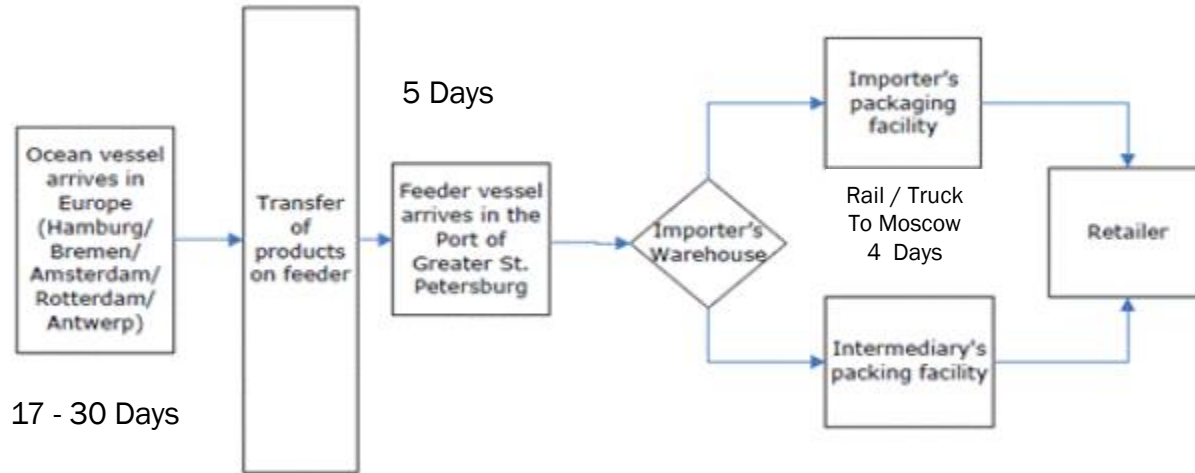


Source: SVT Group

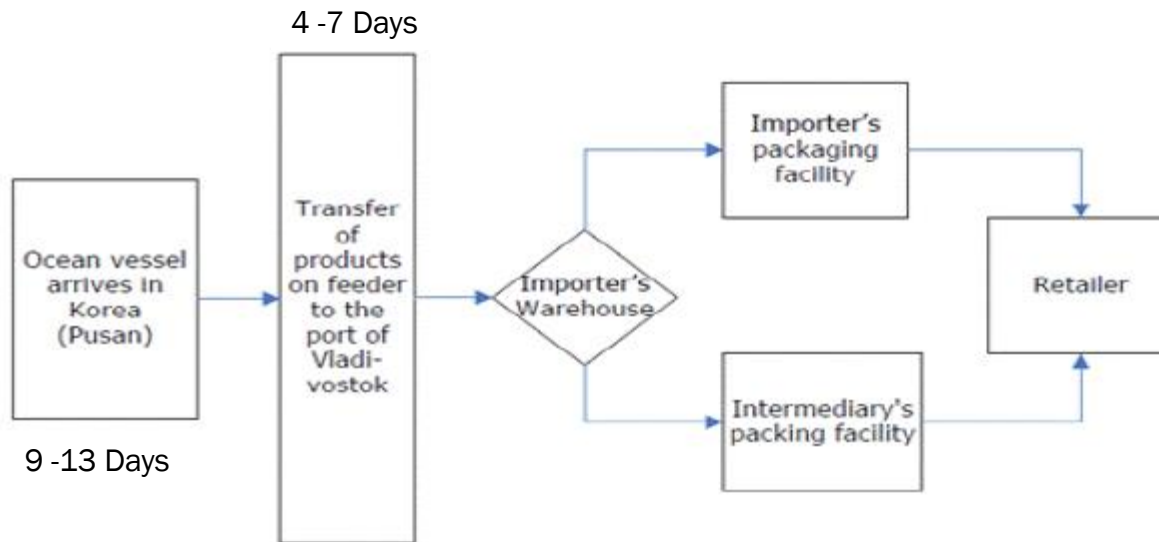
Most US Products Destined to the Russian Far East (RFE) Enter through Vladivostok
Via transshipment from Pusan, Korea.

Most US Products Destined for Western Region Enter through St. Petersburg
Via transshipment from Rotterdam, Hamburg or Bremerhaven

Distribution Channel Via St. Petersburg



Distribution Channel Via Vladivostok



GES For Growth Markets (and US)

Growth Environment Score (GES)

Goldman Sachs Index: Higher the Better

	Korea	China	Brazil	Mexico	Russia	Turkey	Indonesia	India	US
Headline	7.9	5.5	5.4	5.1	5.3	5.2	4.8	3.9	6.8
Corruption	5.9	3.7	5.4	4.3	2.8	5.2	3.6	3.9	7.5
Rule of Law	7.0	4.1	5.0	4.1	3.4	5.2	3.7	4.8	8.2
Political Stability	5.5	3.6	4.9	3.6	3.3	3.2	3.4	2.6	6.1
Openness	5.2	3.6	1.8	3.8	2.5	2.9	3.0	3.3	2.1
Investment	5.7	9.1	3.9	4.1	4.6	4.0	6.5	5.9	3.0
Government Deficit	6.2	4.4	3.7	3.3	5.8	4.9	4.2	0.7	0.2
Public Debt	8.1	8.6	6.4	7.6	9.3	7.8	8.6	6.3	4.3
Inflation	10.0	9.6	9.3	10.0	8.8	9.3	9.6	8.7	10.0
Life Expectancy	9.2	7.7	7.6	8.3	6.8	7.7	6.8	6.0	8.7
Schooling	9.6	6.5	8.0	6.8	7.3	7.1	6.4	4.7	8.8
Personal computers	7.5	0.7	2.1	1.9	1.7	0.8	0.3	0.4	10.0
Mobile subscriptions	10.0	6.4	10.0	8.1	10.0	8.5	8.8	6.1	9.0
Internet users	9.3	3.9	4.6	3.5	4.9	4.5	1.2	0.9	8.4
Internet servers	9.9	0.0	0.2	0.1	0.1	0.6	0.0	0.0	6.2
Patent applications	10.0	2.0	0.8	0.9	2.0	0.3	0.1	0.2	10.0
R & D	8.0	3.7	3.0	0.9	2.6	2.1	0.2	2.0	7.1
Cost of starting a business	8.5	9.7	9.5	8.9	9.8	8.9	8.2	5.3	9.9
Urbanization	9.2	5.6	9.4	8.7	8.2	7.9	5.6	3.5	9.2

Source: GS Global ECS Research

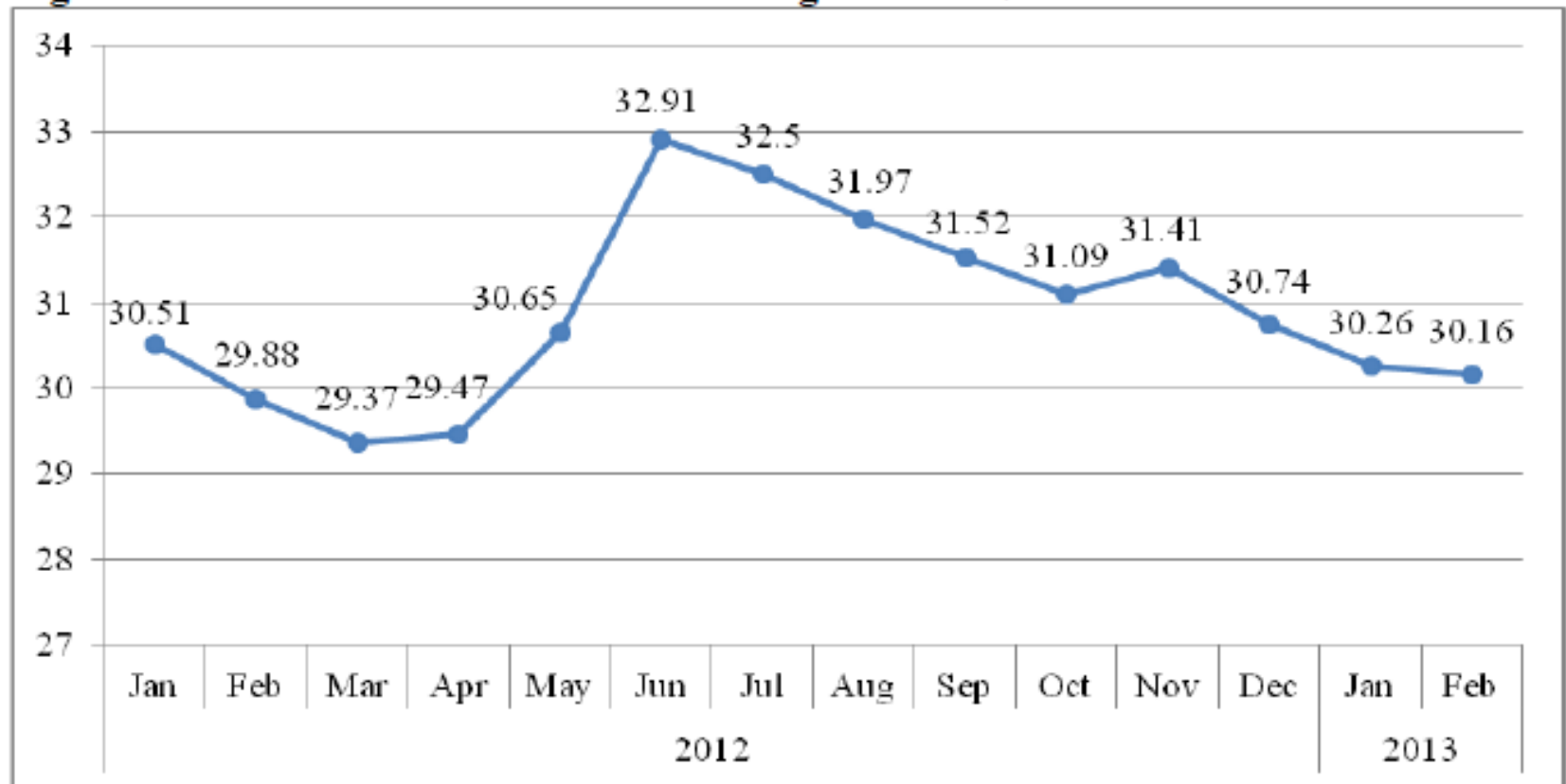
ECONOMIC CONDITIONS SUPPORT OPPORTUNITIES

	2008	2009	2010	2011	2012
Nominal GDP, billion rubles	41,277	38,807	45,173	54,586	62,357
Nominal GDP, billion dollars	1,410	1,293	1,474	1,860	2,007
Real GDP growth, % change y-o-y	5.2	-7.9	4.0	4.3	3.4
GDP per capita, US\$	11,304	8,682	10,315	16,700	17,687
Population, millions	142	141.9	141.9	142.96	143.1
Unemployment, %	7	8.2	7.5	6.6	5.7
Inflation, %	13.3	8.8	8.8	6.1	6.6
Exchange rate (per \$1)	24.85	31.76	30.36	29.35	31.07

Source: Federal State Statistics Service, The Central Bank of Russian Federation, 2013

THE EXCHANGE RATE QUESTION: THE CENTRAL BANK OF RUSSIA ALLOWS THE RUBLE TO FLOAT WITHIN A CERTAIN RANGE

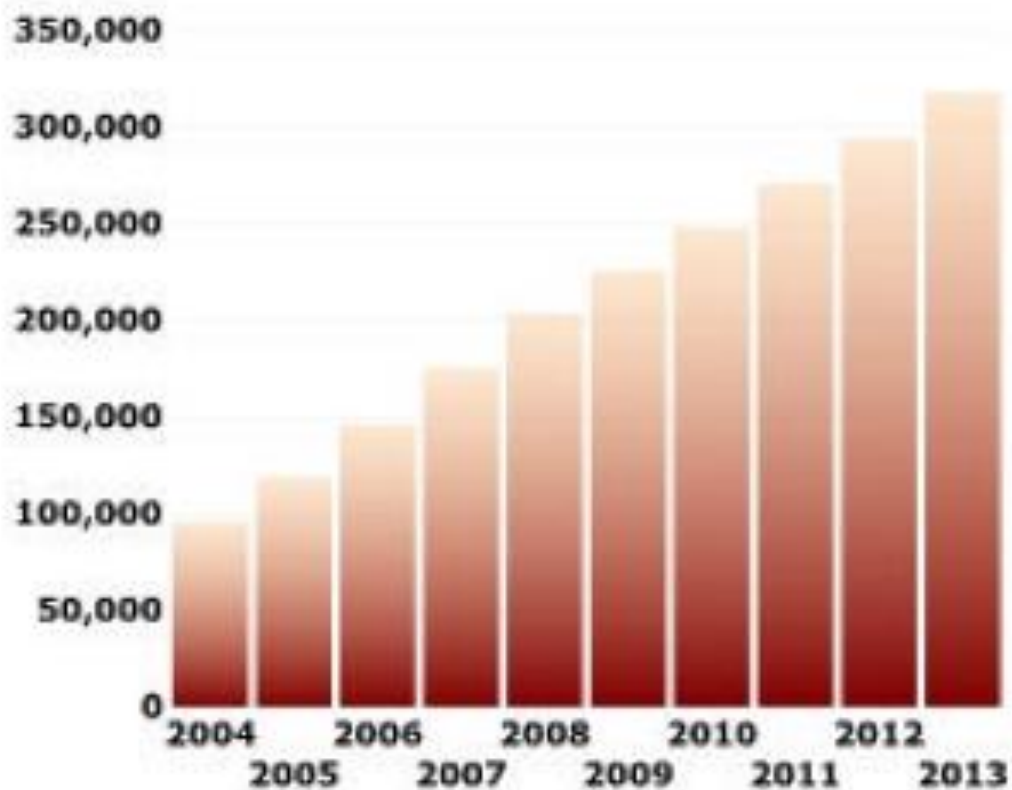
Figure 1. Russia's Central Bank's Exchange Rate of \$1 USD to Ruble in 2012-2013



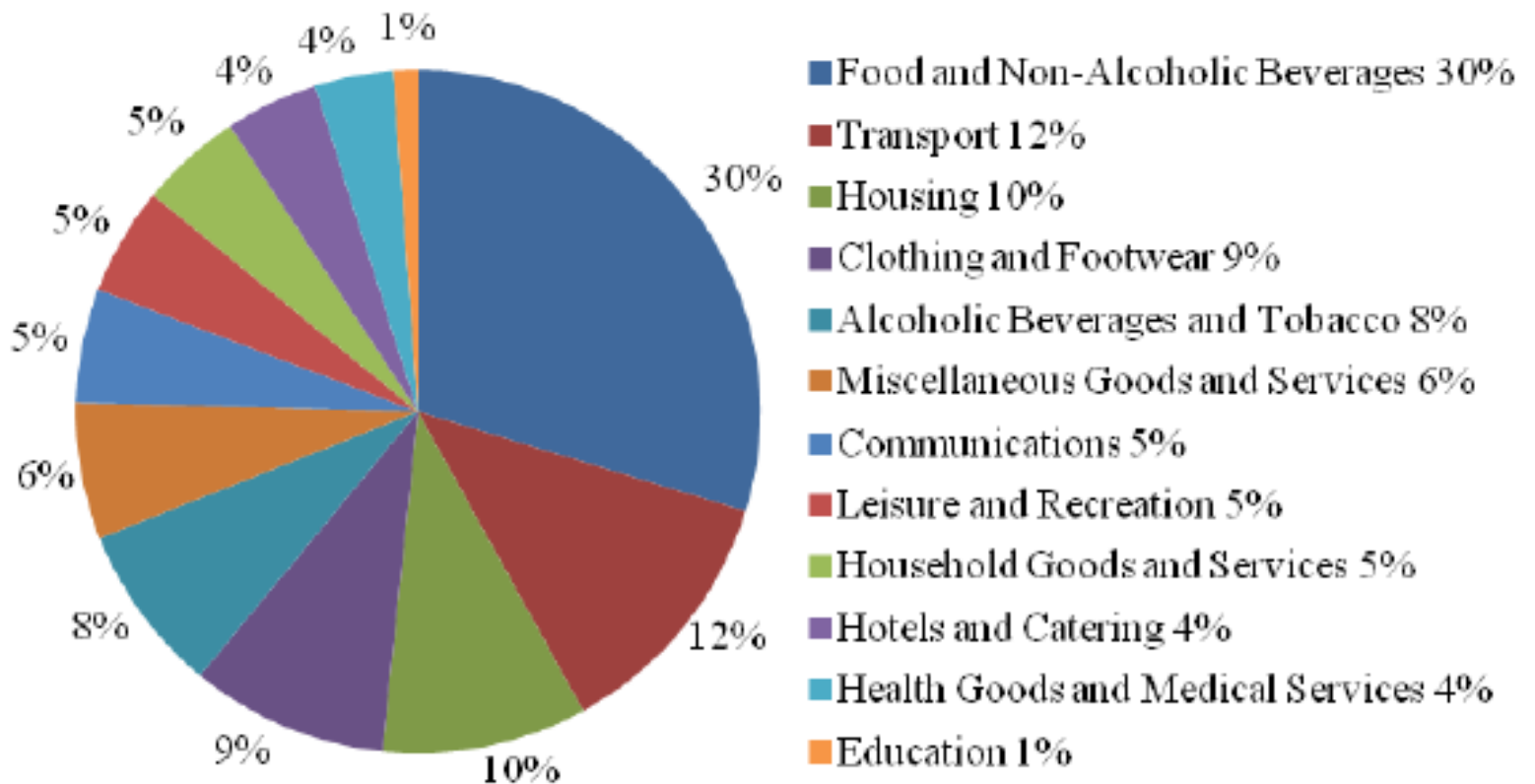
Source: The Central Bank of the Russian Federation, 2013

SPENDING ON FOOD CONTINUES TO INCREASE

Total Food Spending, 2004-2013 (USD mn)



CONSUMER EXPENDITURES BY SECTOR, 2012

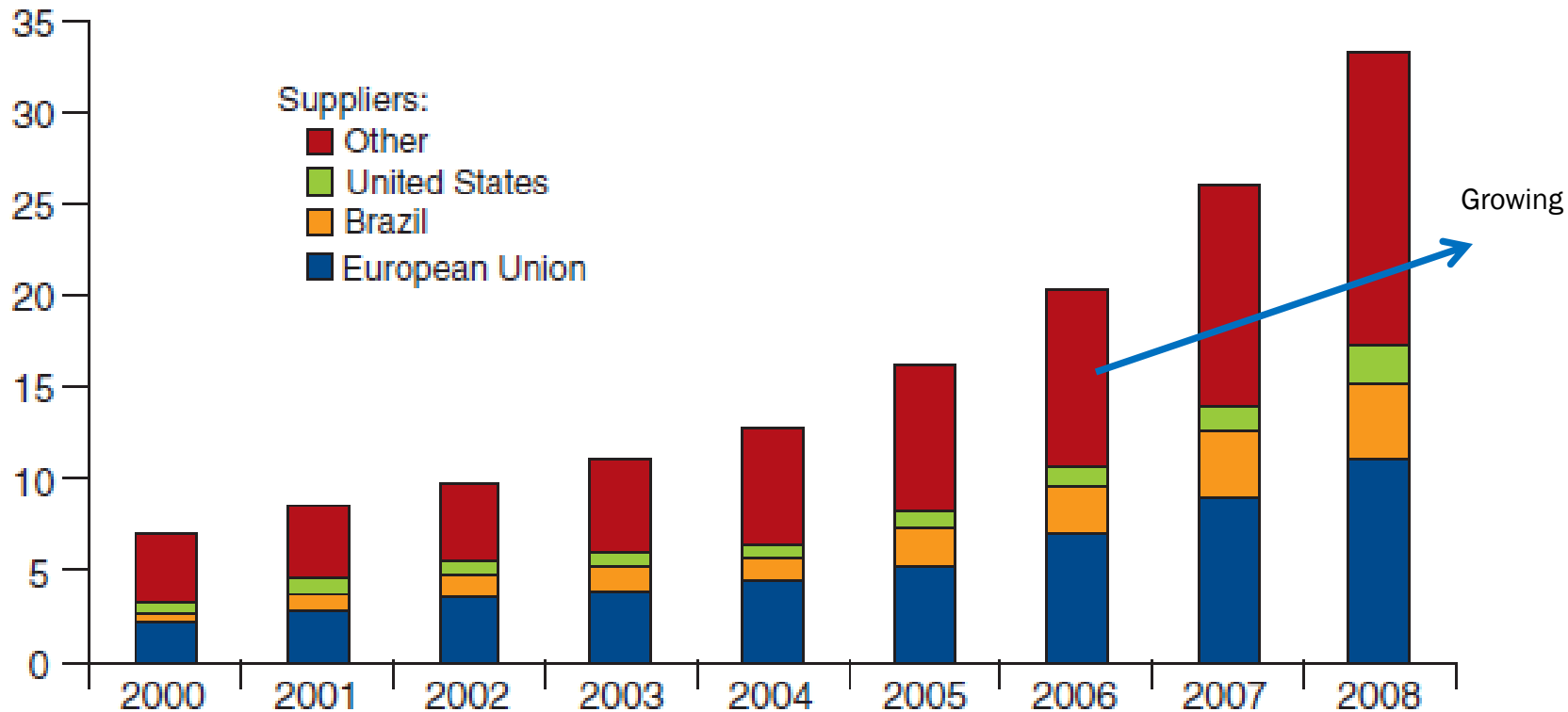


Source: Euromonitor International from trade sources and national statistics, 2013

In US 6.7 % of Household Expenditures for Food and Non-Alcoholic BVGS usda/ers

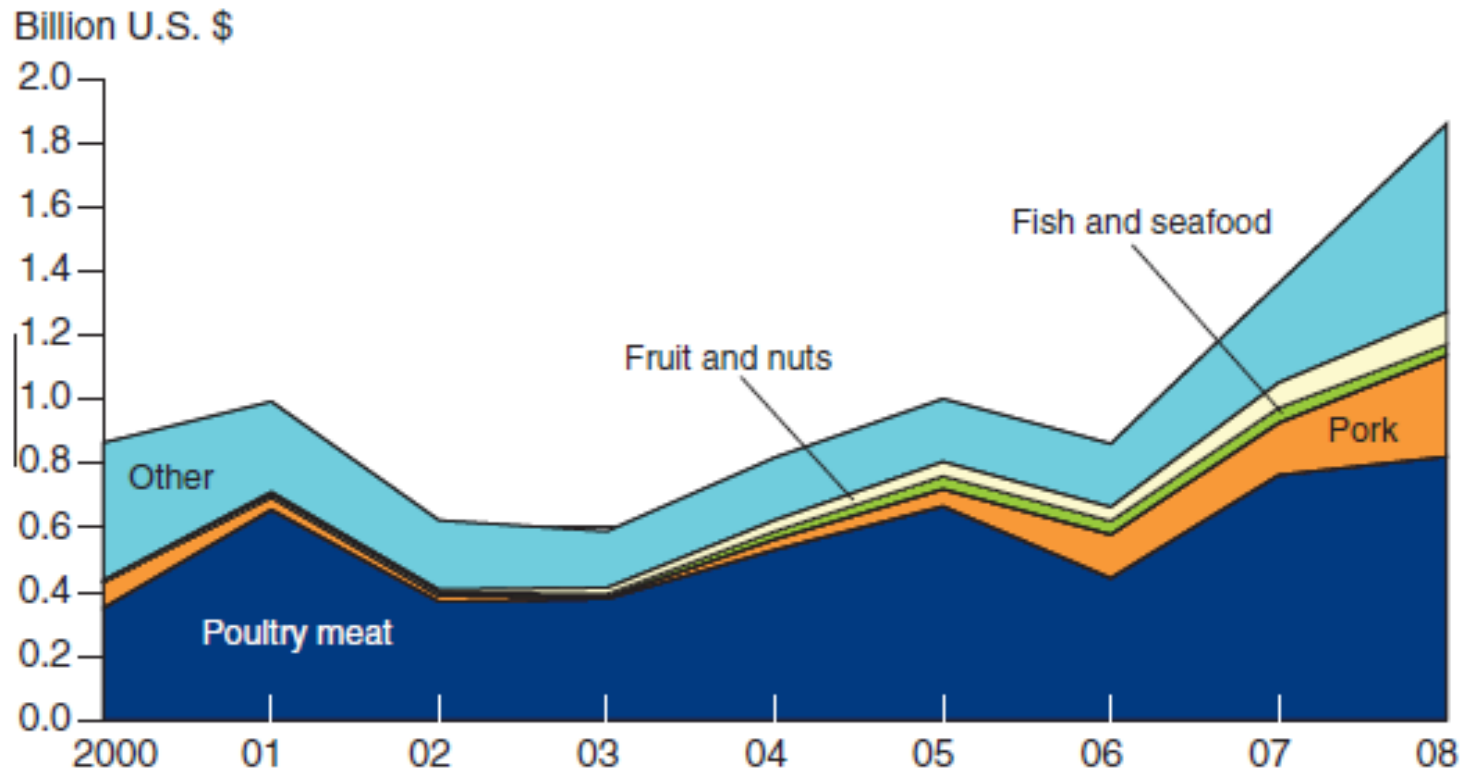
U.S. is not a major agricultural supplier to Russia

Billion U.S. \$



Source: World Trade Atlas, Global Trade Information Services.

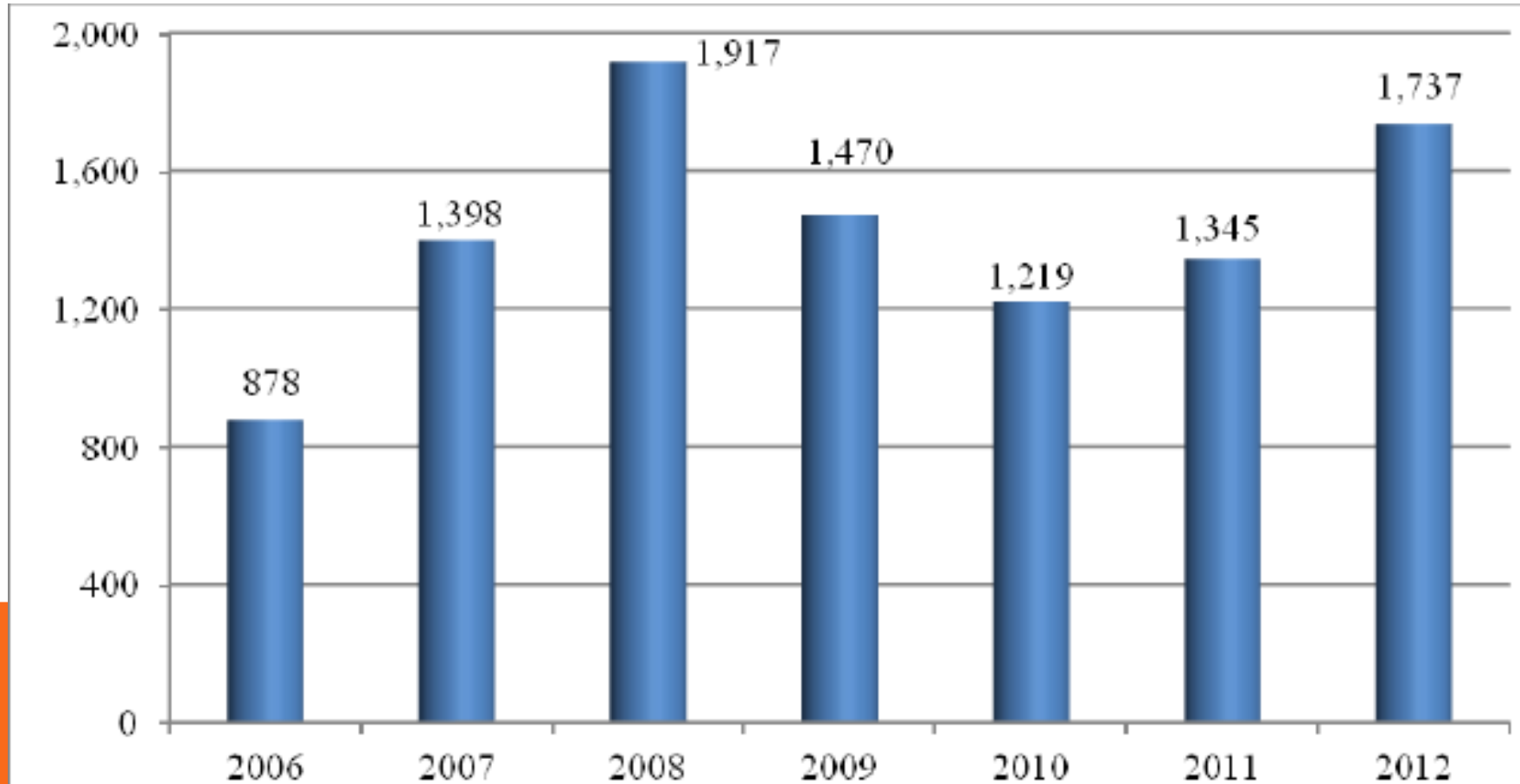
Poultry dominates U.S. agricultural exports to Russia, 2000-2008



Source: World Trade Atlas, Global Trade Information Services.

US Imported Around \$380 Million in Ag Products from Russia
Mostly Seafood & Forreast Products

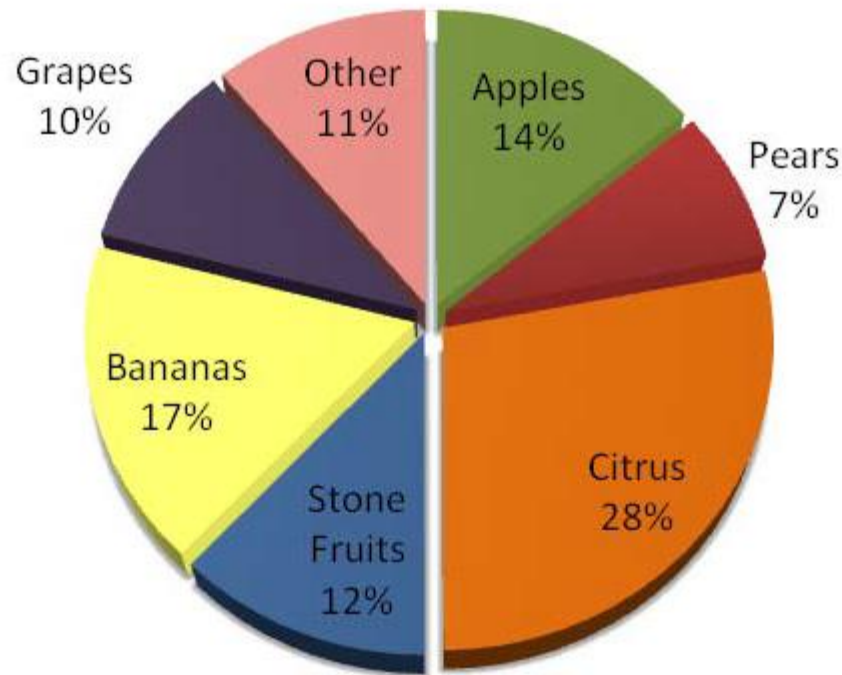
VALUE OF US EXPORTS OF AG PRODUCTS TO RUSSIAN FEDERATION (MILLIONS OF US\$) GROWTH RETURNING FOLLOW CRISIS

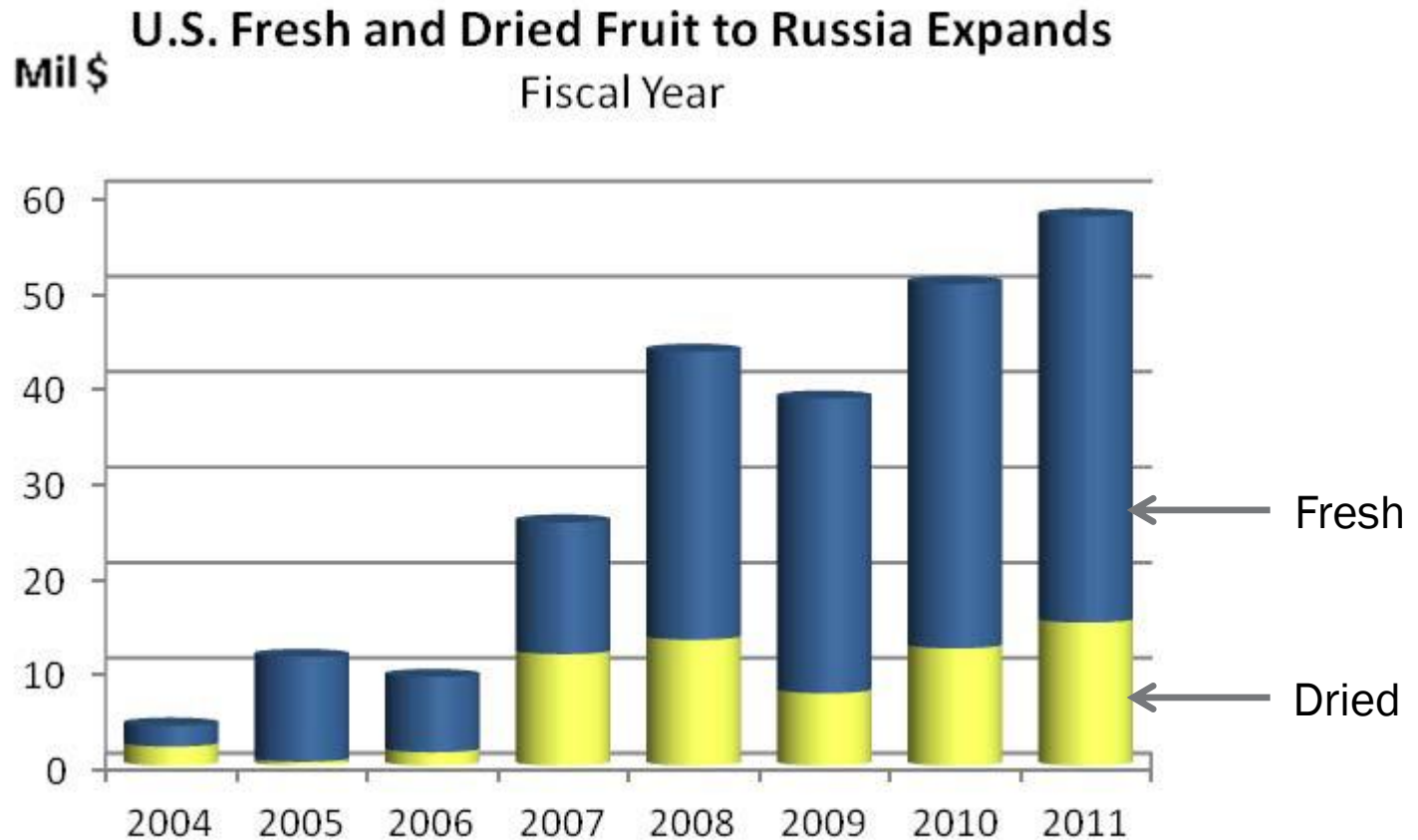


SPECIALTY CROP MARKETS

Russian Total Fresh Fruit Imports by Type 2011

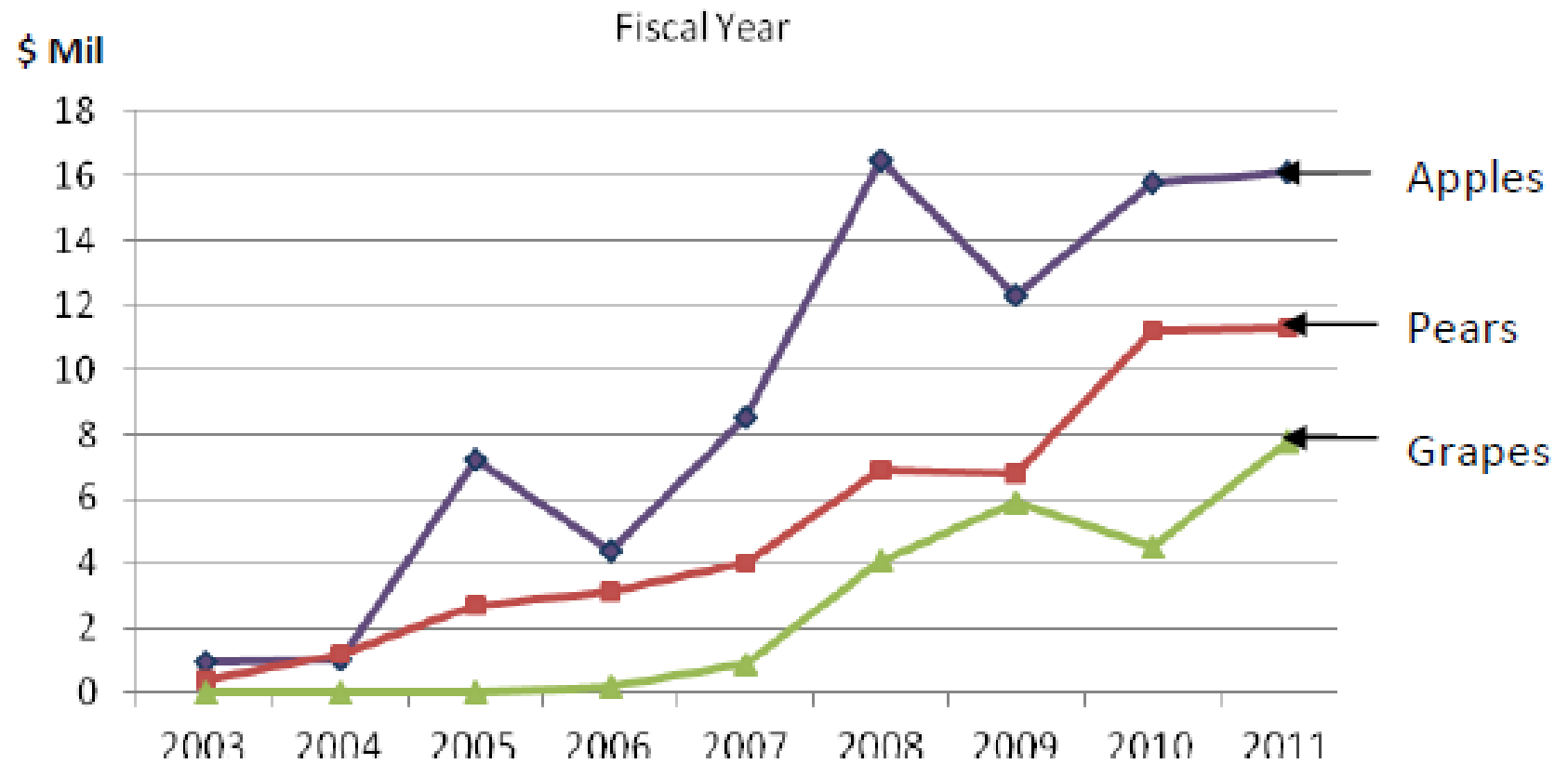
Value



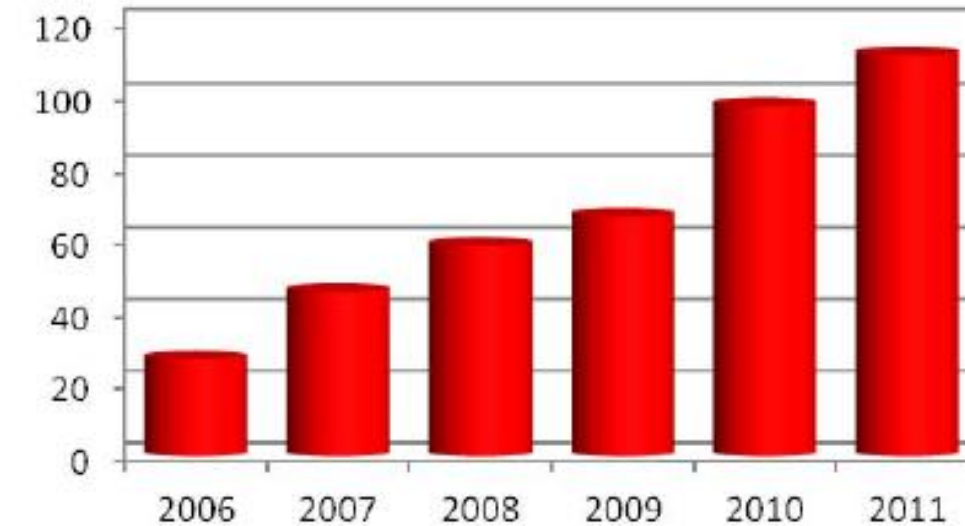


Russian is the biggest importer of prunes in the world and import demand has doubled during the past 5 years. US supplies about 20% with record sales of \$12 million in 2012. Exports of raisins and mixed dried fruit reached new records in FY 2011, with the value of raisins exports increasing 25 percent to nearly \$1.8 million, and the value of mixed dried fruit exports more than tripling to nearly \$1.2 million.

U.S. Sales of Fresh Fruit Surge



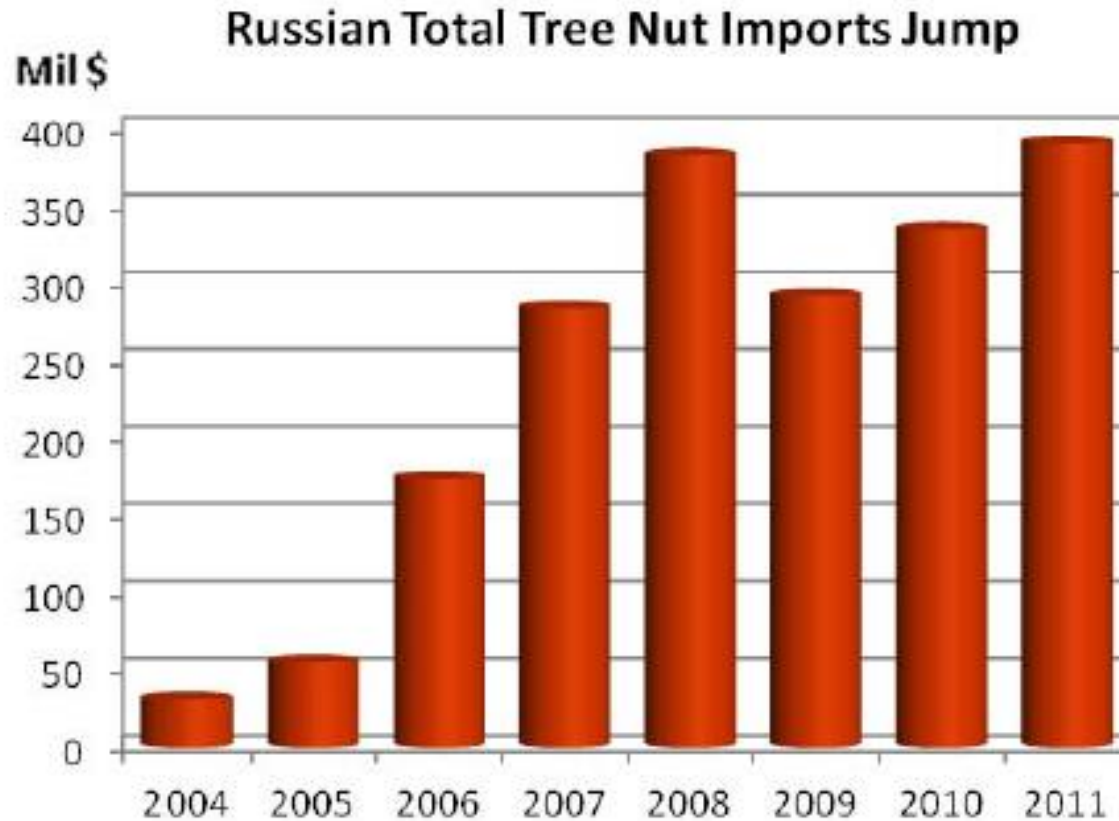
Russia's Total Fresh Berry Imports Climb



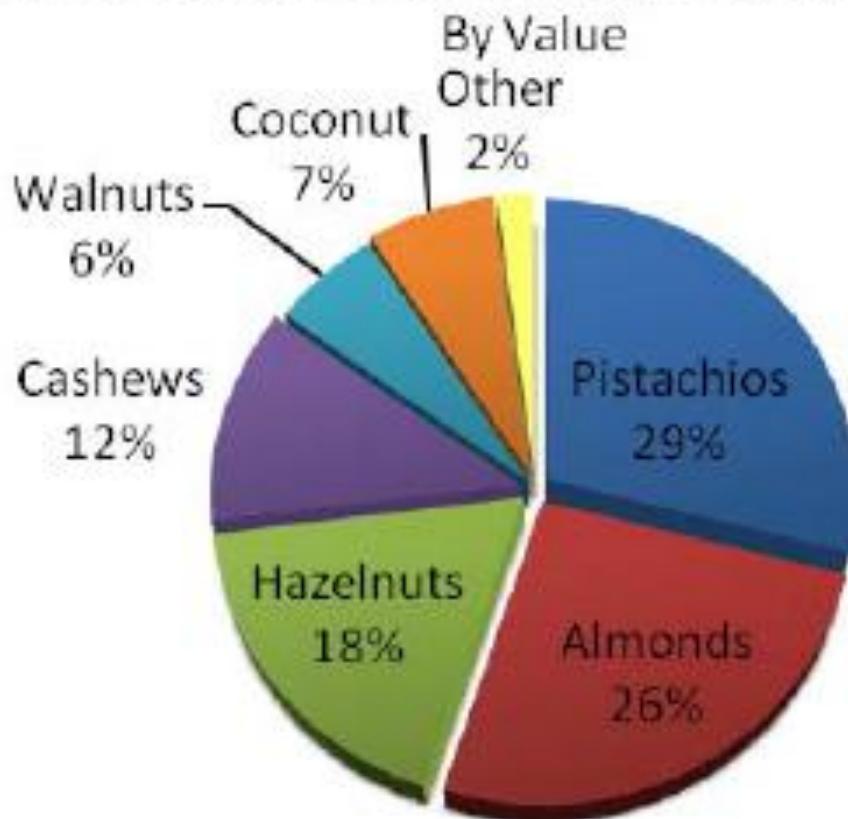
US share of the Russian berry market < 1%

Room for expansion. U.S. strawberries, raspberries, and blueberries,
Depends on Relative Competitiveness with European and South American berries.

RUSSIA IS ENTIRELY DEPENDENT ON IMPORTS FOR TREE NUTS OTHER THAN PINE NUTS

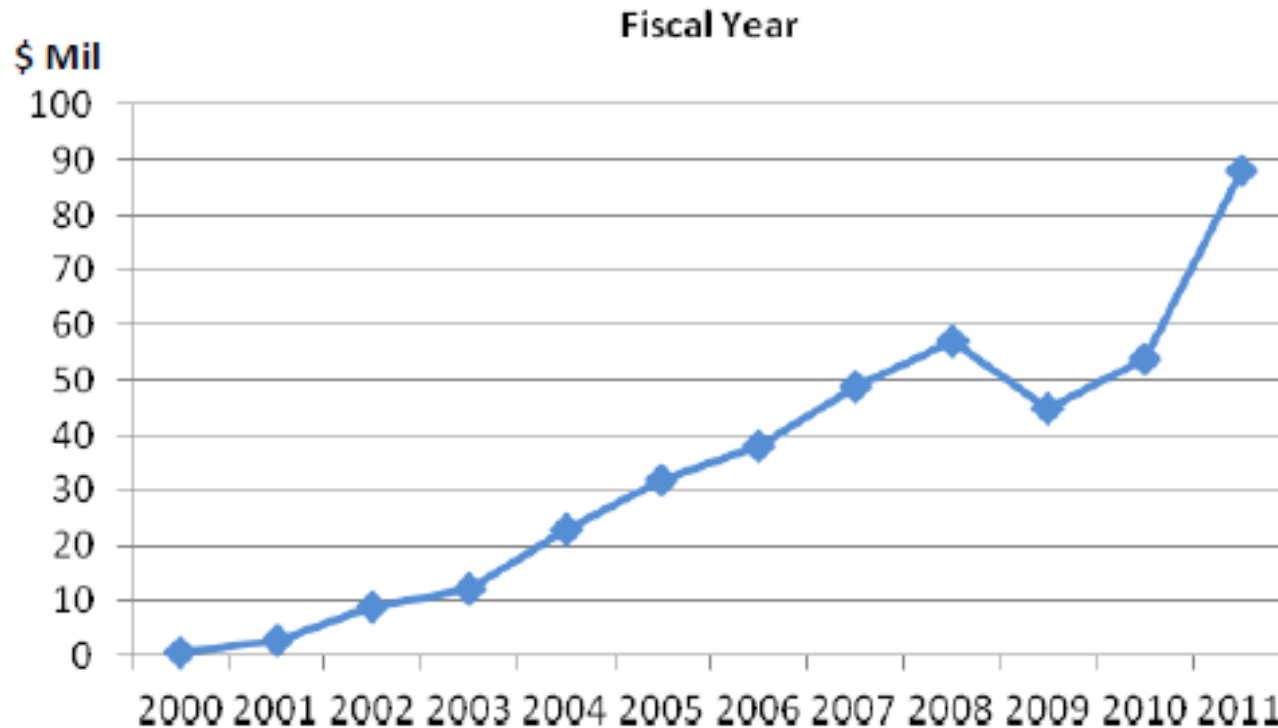


Russian Total Tree Nut Imports by Type 2011



US Competitors
Iran – Pistachios
Ukraine - Walnuts

U.S. Tree Nut Sales to Russia Reach Record



US 29% Mkt Share

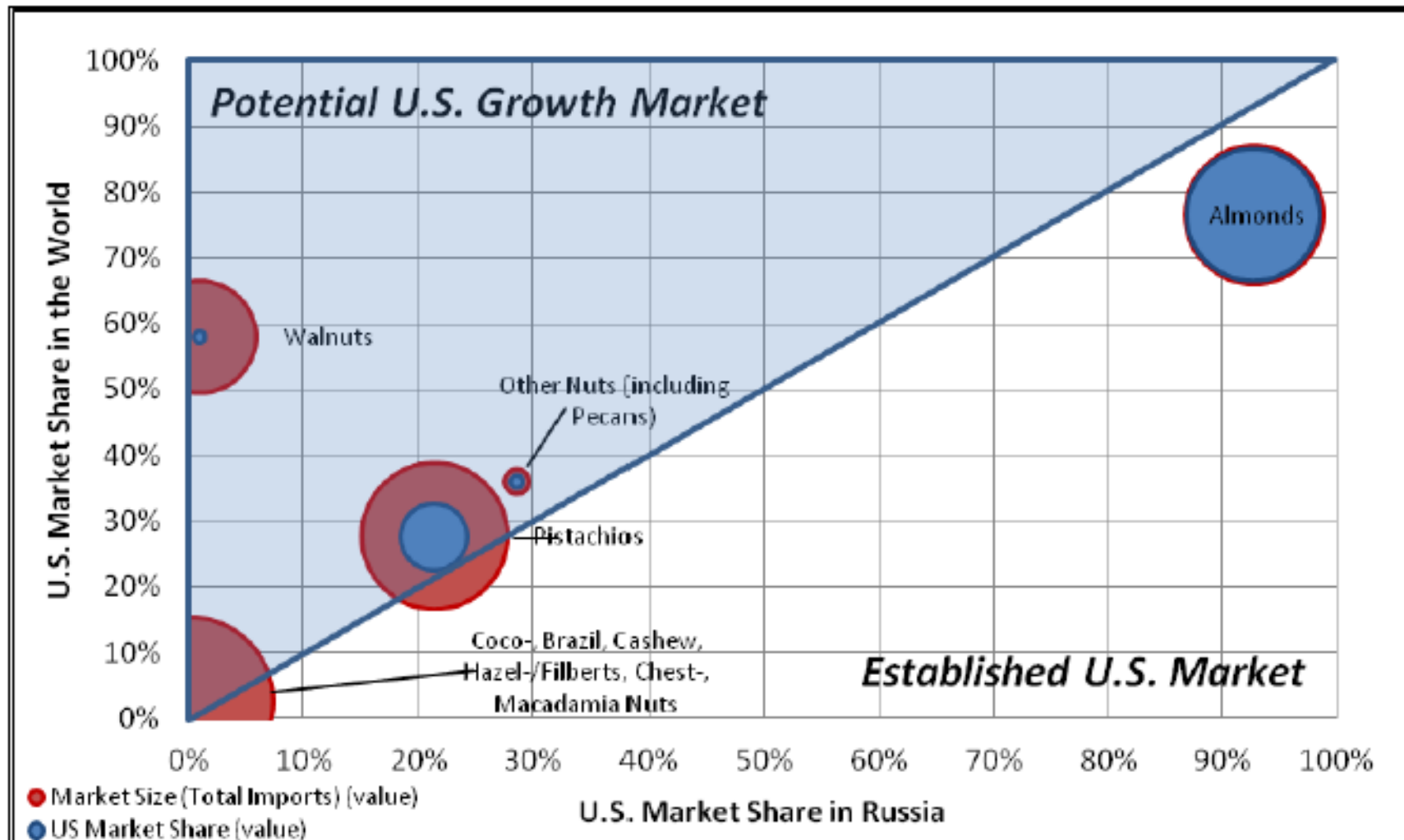
90% for Almonds
17% for Pistachios

Room for Considerable Growth

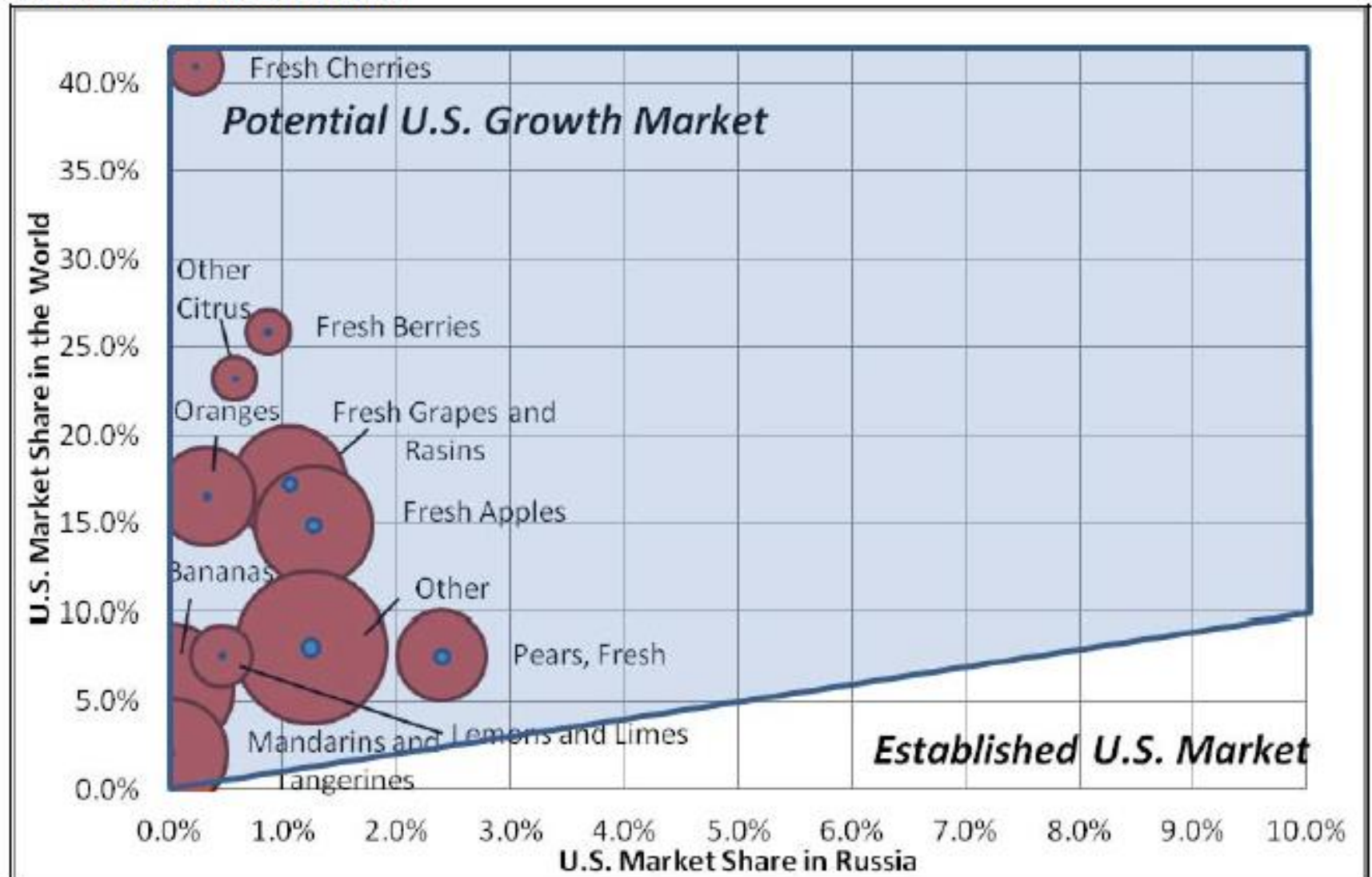
Per capita tree nut consumption is only around 0.67 kg
In the US per capita consumption is around 1.8 kg.

Market Opportunities for Key U.S. Products in Russia

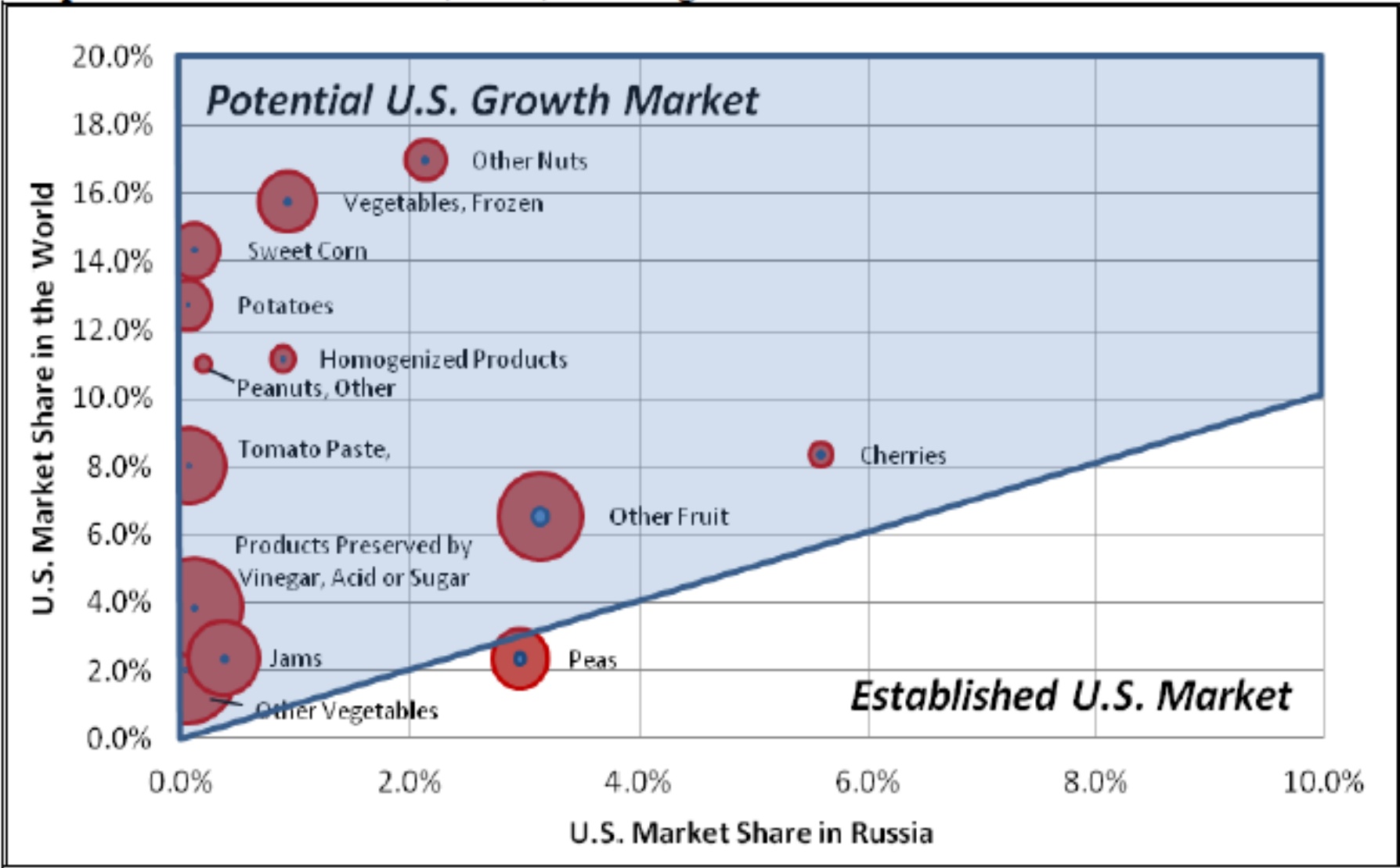
Tree Nuts:



Fresh and Dried Fruits:



Prepared/Preserved Fruits, Nuts, and Vegetables:



MARKET OPPORTUNITIES ENHANCED BY WTO COMMITMENTS TO TARIFF REDUCTIONS

THE AVERAGE TARIFF FOR AGRICULTURAL PRODUCTS IS REDUCED FROM CURRENT 13.2 PERCENT TO 10.8 PERCENT

Fresh and Dried Fruits : Apples, the largest US Fruit Export to Russia
Will have Market Access Benefits from Reduced Tariffs

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

THE POTENTIAL MARKET ACCESS BENEFITS FROM RUSSIA JOINING THE WTO

Lemons: tariff decline from 5% bnl to €0.035/kg to €0.015 per/kg

Limes: tariff decline from €0.035/kg to 5%, no minimum

Oranges: tariff decline from 5% bnl to €0.02/kg to €0.017/kg

Clementines etc: tariff decline from 5% bnl to €0.03/kg to €0.015/kg

Table Grapes & Raisins: by 2014 tariff declines from 10% to 5%

Pears: tariff decline from 10% to 5%

Prunes: tariff bound rate decline from 10% to current applied rate 5%

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

Specialty Crop SPS Issues Not Highlighted?

2013 REPORT ON SANITARY AND PHYTOSANITARY MEASURES



UNITED STATES TRADE REPRESENTATIVE

Food Safety

Pathogen Tolerances

Russia maintains a zero tolerance policy for all food products, including raw meat and poultry, for *Salmonella*, *Listeria*, *coliforms*, and aerobic and anaerobic plate counts. Such a policy is unwarranted because it is generally accepted by food safety experts and scientists that these pathogens cannot be removed entirely from raw meat and that proper storage, handling, and cooking of raw meat and poultry significantly reduce the risk of a number of food-borne diseases caused by these pathogens.

Rest of Issues also Pertain to
Livestock and Poultry Issues.



13 March 2013

(13-1361)

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Committee on Sanitary and Phytosanitary Measures

Original: English

2.1 The Standards Restrictiveness Database

4. The Standards Restrictiveness Database we have constructed for this analysis includes MRL standards data for 26 major importing countries across the years 2006-2011. This information is drawn from Agrobase-Logigram's Homologa database, which collects monthly changes in allowable pesticides for approximately 88 importing countries. We then mapped this data to 235 products at the 6-digit HS level, covering exports from 145 countries.

$$S_{ij} = \frac{1}{K_{(j)}} \left(\sum_{k_{(j)}=1}^{K_{(j)}} \exp\left(\frac{M_{intl,jk_{(j)}} - M_{ijk_{(j)}}}{M_{intl,jk_{(j)}}}\right) \right), \quad (1)$$

$$S_i = \sum_{j=1}^J \sum_{k=1}^{K_{(j)}} \frac{1}{K_{(j)}} \left(\sum_{j=1}^J \exp\left(\frac{M_{intl,jk_{(j)}} - M_{ijk_{(j)}}}{M_{intl,jk_{(j)}}}\right) \right) \times w_{ij}, \quad (2)$$

$$\text{and } S_j = \sum_{i=1}^I \sum_{k=1}^{K_{(j)}} \frac{1}{K_{(j)}} \left(\sum_{j=1}^J \exp\left(\frac{M_{intl,jk_{(j)}} - M_{ijk_{(j)}}}{M_{intl,jk_{(j)}}}\right) \right) \times w_{ij}', \quad (3)$$



13 March 2013

(13-1361)

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Committee on Sanitary and Phytosanitary Measures

Original: English

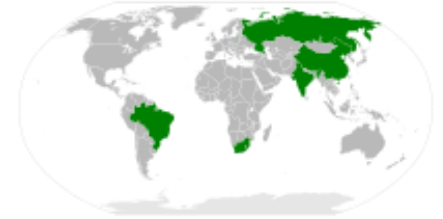
Table 5: Country-level Protectionism Scores⁷

country	Equally-weighted Protectionism Score		Trade-Weighted Protectionism Score		Normalized Weighted Protectionism Score*		Count non-established MRLs
	Method 1	Method 2	Method 1	Method 2	Method 1	Method 2	
Australia	1.95 (0.58)	1.19 (0.43)	1.66 (0.55)	1.20 (0.39)	572.81	414.53	2219
Japan	1.71 (0.76)	0.93 (0.26)	1.57 (0.71)	1.11 (0.29)	291.92	206.52	1580
Jamaica	1.51 (0.58)	1.27 (0.39)	1.22 (0.41)	1.12 (0.27)	41.31	37.94	856
European Union	1.51 (0.57)	1.27 (0.38)	1.23 (0.59)	1.09 (0.41)	337.20	298.63	856
Turkey	1.50 (0.58)	1.30 (0.57)	1.26 (0.47)	1.75 (0.70)	187.36	259.25	4499
Canada	1.46 (0.50)	1.20 (0.43)	1.29 (0.44)	1.09 (0.36)	157.72	132.52	2751
Israel	1.06 (0.20)	1.06 (0.20)	1.06 (0.08)	1.06 (0.08)	118.07	118.07	0
Brazil	1.04 (0.11)	1.29 (0.48)	1.10 (0.12)	1.25 (0.22)	470.54	534.87	4342
Chile	1.03 (0.15)	1.01 (0.32)	1.04 (0.10)	1.05 (0.14)	101.77	103.37	2684
Argentina	1.03 (0.09)	1.03 (0.09)	1.04 (0.07)	1.04 (0.07)	374.36	374.36	0
Russian Federation	1.03 (0.10)	1.55 (0.75)	1.07 (0.14)	1.83 (0.79)	76.90	130.97	4744
Rep. of Korea	1.01	0.98	1.00	0.99	99.93	98.82	

⁷ Countries not listed have protectionism scores equal to one. All figures are rounded to the second digit after the decimal point.

Summary

Russia is one of the BRICS*
Generally Pointed to as the Future Growth Engines
&
Markets in the Global Economy



Growing Consumer Population with Focus on Expanded Diet Choices

A Market with Significant Potential

Tariff Issues and SPS Issues for Specialty Crops Less Problematic
Than in other Markets?

But a Cautionary Tale Given Some GES Components

CAVEAT VENDITOR

* Brazil, Russia, India, China and South Africa

THANKS FOR YOUR ATTENTION

CONTACT

WWW.CSUFCAB.COM

SUGGESTED BACKGROUND

**USDA/FAS/GAIN REPORTS
RUSSIAN FEDERATION**

**[HTTP://GAIN.FAS.USDA.GOV/RECENT](http://GAIN.FAS.USDA.GOV/RECENT) GAIN
PUBLICATIONS/CUSTOMS UNION AG TIMES
NO.12_MOSCOW_RUSSIAN FEDERATION_5-31-
2013.PDF**

SWOT ANALYSIS: USDA/FAS/4-19-13*

Advantages	Challenges
Population of 143 million people who are potential consumers. The U.S. is the fifth largest supplier to Russia (by value) of food and agricultural products.	The relatively low purchasing power of many Russian consumers, particularly in the regions and the consequently lower demand for durable goods, premium grocery, and non-grocery goods.
Russia's retail sector is growing, which creates a number of opportunities for prospective U.S. exporters. The ongoing development of the mass grocery retail industry will allow producers to route products to the market more efficiently.	Economic vulnerability, dependence on oil and mineral extraction for most wealth. Substitution of imports for domestic products as part of the Russian Government's policy of self-sufficiency. Distance is one of the major barriers complicating logistics for the retail chains.
In general retailers are open to new products in order to attract customers.	Strong competition with suppliers of similar products from Russia and European Union.
Significant number of consumers can afford purchasing high-quality food products.	Per capita spending in the regions outside Moscow and St. Petersburg remains quite low.

* Strength, Weakness, Opportunities and Threats

SWOT ANALYSIS: USDA/FAS/4-19-13

Urban lifestyle changes increase demand for semi-finished and ready-to-cook products.	Rapid development of local manufacturers of ready-to-cook products and Government Strategy to modernize food processing sector creates tough competition for similar imported goods.
American-made food and drinks are still new for the majority of the population, and popular among the younger generation.	Growing number of domestically produced products; lack of knowledge of American products.
Existence of large importers experienced in importing food products to Russia.	Language remains an obvious barrier for many entrepreneurs from both small and large companies. Despite improvements in English language competency of many Russians it's still to be expected that many firms will not communicate effectively in English.
Paying in dollars is advantageous for exporting to Russia compared to Europe due to the lower cost of the dollar relative to the euro.	Russian government bureaucracy and corruption. Contradictory and overlapping regulations. Official government opposition to growth in food imports.
Russian trade and investment policy is converging with international standards.	Current presence of non-tariff barriers such as sanitary and phytosanitary restrictions.

SWOT ANALYSIS: USDA/FAS/4-19-13

Investors are building more efficient storage facilities, improve infrastructure and logistics.	Despite huge potential, regional markets require substantial up-front investment in infrastructure and facilities, and transportation infrastructure between cities and regions remains extremely poor.
The Russian government has committed to spending billions on infrastructure over the next 10 years, particularly on railroads and highways, which should translate to better logistics for expanding retailers.	Lack of reform in the Russian agricultural sector has led to high raw-material costs and shortages for processors.
Due to Russia's accession to the WTO Russia is obligated to bind its agricultural tariffs, adding more predictability to the trading relationship and opening export opportunities for the U.S. agricultural industry. WTO membership will also require Russia to abide by science-based sanitary and phytosanitary standards that will help facilitate U.S. farmers' access to the market.	Competition with food products imported from EU and other countries may rise.