Country: Russia

Overseas Market Introduction Service
Report on Seafood Export Profiles Russia

Sea Fish Industry Authority

Produced by:
Galina Solomonova
Trade Adviser
British Embassy in Moscow

Date of Report: 25.07.2012

CONTENTS

Executive Summary 3
- Summary of the Enquiry
- Methodology

SECTION 1 MATCHING PROFILE
1.1 Business and Trade Environment 4

1.2 The Seafood Sector 5

1.3 Consumer Trends 11

1.4 UK Share and Export Opportunities 12

SECTION 2 DOING BUSINESS PROFILE
2.1 The Supply Structure 15

2.3 The Foodservice Channel 18

2.4 Key Regulations and Tariffs 19

2.5 Tips and Useful Links 22

Follow Up Action 23

EXECUTIVE SUMMARY

Summary of the Enquiry

UKTI Russia received a request for the present service from Seafish.

Seafish is an organization funded by a levy on the first sale of seafood landed and imported in the UK. It aims to support and improve the environmental sustainability, efficiency and cost-effectiveness of the industry, as well as promoting sustainably-sourced seafood.

Seafish commissioned this activity to update existing market report on Russia:

Though UKTI did our best to obtain the necessary data we cannot guarantee that we have found everything as listed. UKTI uses different methods when searching and compiling information. Basically, we search open public sources - internet and professional publications. Specific statistics and data are quite hard to obtain in Russia through open sources - it is scarce and usually not the latest. Some paragraphs describing general information were left unchanged as the information is still actual and relevant.

Methodology

UK Trade & Investment have prepared this report using information obtained on a selective basis from the following sources -

- Commercial databases
- Web-based research
- Industry contacts, previously established by the UKTI
- Trade associations and other relevant organisations
- Trade publications

Note: some figures in this report are indicated in US Dollars and not converted into GBP due to frequent changes of exchange rates.

SECTION 1 MATCHING PROFILE

1.1 BUSINESS AND TRADE ENVIRONMENT

Fast facts	*Source Euromonitor International, Rosstat*
Land area	17,075,400 sq km
Russia is bounded by	Arctic Ocean seas (Barents, White, Karsk, Laptev, Eastern Siberian, Chukotka seas); Pacific Ocean seas (Bering, Okhotsk, Japanese seas); Atlantic Ocean seas (Baltic, Black, Azov seas)
The longest rivers	Lena 4337 km, Yenisei (with Angara) 3844 km, Volga 3694 km, Ob' 3676 km, Amur 2855 km
The largest lakes	Baikal 31.5, Ladoga 17.7, Onega 9.7 thousand sq. km
Population	142,9 million
Inhabitants per km	8.4
No. of households	52.5 million
Capital	Moscow
Other main cities	St Petersburg, Novosirbirsk, Ekaterinburg, Nizhny Novgorod, Samara, Omsk, Kazan, Chelyabinsk, Rostov, Ufa
Language	Russian
Religion	Russian Orthodox, Muslim
Currency	Rouble (RUB)
Exchange rate (2011 average)	£ 1 = RUB 47.04
Total GDP (2011)	RUB 54,586 billion (≈£ 1,160 billion)
Real GDP growth rate (2011)	4.3%
GDP per capita	31,439.5 RUB (≈£ 668,36)
Inflation (2011)	8.5%
Unemployment (2010)	3.9%
International status	Member of Commonwealth of Independent States; expected to become member of World Trade Organization (WTO) in 2012
Government type	Federal Republic
Total food and drink imports (2011)	$ 42,476 billion
Total food and drink exports (2011)	$ 11,964 billion
Top 3 import countries (2010)	China, Germany, Ukraine

Russia's economy remains in good short-term health, with GDP expected to grow by around 4% this year. The budget is close to balance, and unemployment and inflation are low. The main downside risk is from adverse developments in the world economy, principally the euro zone, and a sustained fall in world energy prices, which would undermine Russia's export and budget revenues and financial stability. In the medium term, economic and institutional reforms are needed if Russia's economy is to achieve its full potential and reduce its vulnerability to global commodity price changes. These reforms include modernising and diversifying the economy; improving investment, innovation and the business environment, notably by tackling corruption and reducing the role of the state; and reorienting public spending towards healthcare, education and infrastructure.

In May 2012 Vladimir Putin was inaugurated as President and nominated Medvedev as the new Prime Minister. The ministerial reshuffle brings a mixture old and new faces to economic portfolios. Putin issues executive orders setting out his priorities. The economy grows by a brisk 4.9% in the year to 2012 Q1 and inflation falls to 3.6%. But renewed turbulence in the euro zone and weaker oil prices are clouding the outlook for the rest of the year, causing the rouble and stock market to fall sharply.

Russia was ranked 112th of 132 countries (and behind China, Brazil and India) in the World Economic Forum’s new “Enabling Trade Index”, which measures whether a country has the institutions, policies and services to facilitate the free flow of goods over borders and to destination. The WEF commented that Russia would benefit from a freer trade policy, more efficient border administration, and a less burdensome regulatory environment.

President Vladimir Putin signed the bill ratifying Russia's entry to the World Trade Organization on 21st July, 2012.

Overall, Russia remains a dynamic market with potential for major further growth over the next 10 years.

1.2 THE SEAFOOD SECTOR

The category of fish/seafood is one of the most important in food industry. The great majority of Russians are consumers of this category. Production of fish/seafood demonstrated significant growth over recent years driven both by increased harvest and growing demand. In 2010 per capita consumption of fish/seafood in Russia was about 20 kg. Significant increase of consumption observed in 2009 was determined by switch of many consumers from meat to less expensive fish during recession.

Table 1: **Average food expenditure by category 2011**

Food category	Market share, %
Bread products	14.9
Potatoes	1.8
Vegetables	8.1
Fruits and berries	6.2
Meat and meat products	28.9
Fish and fish products	5.4
Milk and dairy products	14.6
Sugar and confectionery	8.5
Vegetable oil and other fats	1.9
Tea, coffee and other drinks and food	8.4

In the list of essential foodstuff of Russians fish and seafood are at bottom positions. For instance, in 2008 Russian households consumed by 3.8 times more of meat and meat products in comparison to fish /seafood; consumption of sugar and confectionery exceeded consumption of fish/seafood by 1.6 times. Noteworthy, share of fish/seafood in daily energy value of an average Russian's diet during the review period constituted just 1.6%.

In the summary it should be mentioned that recession had no serious negative impact upon Russian market of fish/seafood; on the contrary, it stimulated demand for inexpensive fish/seafood offerings as a good alternative to meat. Along with after-crisis recovery of Russian economy demand for more expensive kinds of fish/seafood will grow.

Considering recovery dynamics of Russian economy after recession, in short term perspective production of fish/seafood is expected to grow by 5-6% annually, and consumption in the review category will increase from 20 kg/person to 23.7 kg/person annually.

Table 2 indicates the main types of fish consumed. Frozen fish dominates, although fresh and chilled fish are now growing strongly. Frozen fish/seafood constitutes major part of domestic production – over 70%. Second large segment is live fish – 22%, meanwhile fresh/chilled fish provides just 6.7% of production volume which is related to complicacy of storage/shipment procedures required by this category.

Certainly canned fish, in generic unbranded packs, is a long-standing market in Russia and the category now appears buoyant as suppliers introduce new varieties in more appealing branded packaging. Popular varieties include salmon, pink salmon, sprats and mackerel. In 2010 total production volume of processed and canned fish/seafood constituted 3400 thousand tonnes – plus 2.8% over 2009.

Fish consumption patterns depend heavily on household incomes. Consumption preferences amongst the Russian population include herring, pollock, mackerel, salmon, and trout. Premium fish and seafood products are primarily favoured by consumers with higher incomes, and are eaten once or twice a week. Lower- to middle-income Russians treat fish and seafood products as holiday or special occasion fare, consuming these dishes just once, on average, in a three- to four-month period.

Average monthly expenditure of Russian households for fish/seafood in 2008 constituted RUB 167.9 per person, i.e. 6.2% of essential food expenditure.

Consumption volume of fish/seafood products is directly related to family size, number of kids, and income level of consumers. For instance, one-person households averagely consume 31.6 kg of fish and seafood annually with monthly expenditure of RUB 273.5. Meanwhile large families – 5 people and more – averagely consume 14.6 of fish/seafood per person annually with monthly expenditure of RUB 117.2 per person.

Table 2: **Russian per Capita Expenditure on Fish – Historic/Forecast (% Growth)**

Category	**2010**	**2011**	**2012**	**2013**	**2014**
Chilled fish/seafood	2.6%	2.5%	2.4%	2.4%	2.4%
Canned fish/seafood	-0.6%	-0.5%	-0.5%	-0.4%	-0.4%
Frozen fish/seafood	6.1%	5.2%	5.1%	4.9%	4.5%

Russian Per Capita Expenditure on Fish – Historic/Forecast – (US$)

Category	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**CAGR* 2009-14**
Chilled fish/seafood	11.6	11.9	12.2	12.5	12.8	13.1	2.4%
Canned fish/seafood	10.9	10.8	10.8	10.7	10.7	10.6	-0.5%
Frozen fish/seafood	5.2	5.5	5.7	6.0	6.3	6.6	5.2%

*Source: Datamonitor, 2011. *CAGR = compound annual growth rate.*

Fish preserves are also a traditional and popular sector. Herring is the most popular variety (accounting for about half of preserves consumption), followed by salmon.

Although total consumption has been relatively steady over the last few years, the value of the seafood market is growing very strongly. This is driven by rising incomes, and also consumers' increasing interest in experimenting with new varieties. Another strong factor is the rapidly expanding supermarket sector – most new outlets offer fresh seafood counters and stock a previously unseen range of added-value processed fish. Completely new varieties have appeared, such as tuna, breaded fish and dried fish snacks.

Interest in more 'upmarket' seafood varieties can be seen just as clearly in the catering sector, where the most striking development is a proliferation of sushi bars. In Moscow there are an increasing number of specialist fish restaurants.

Imports

In 2010 import of fish/seafood to Russia saw 3% year-to-year increase in volume to reach 2.08 million tons.

Frozen fish is the largest segment in import on the review market with 80% of fish/seafood import in volume. Russia mainly imports frozen pollock – 22% of import in volume, fresh and frozen herring – 19%. In 2010 the following import categories demonstrated year-to-year increase in volume: humpback salmon (+186%), hake fish (+66%), cod (+61%), pollock (+16%).

Despite the GVA growth in fishing and aqua farming Russia still import expensive processed products made from fish/seafood harvested in Russia. Russian companies are exporting raw fish/seafood with low added value. Russian fish industry faces many problems; most serious of them is lack of processing facilities. That's why major part of aqua harvest goes abroad for processing. This made Russian Government approve the Strategy for Fishing Industry Development Through 2020 aimed to renovate fish industry in the country.

Table 3: **Russian Imports of Fish and Crustaceans, Molluscs and Other Aquatic Invertebrates (Excluding Processed)**

Description	**Cost, USD**			**% Share**			**% Change 2009/10**
	2008	**2009**	**2010**	**2008**	**2009**		**2010**
Fish and Seafood (Fresh or Frozen)	2,190,180,295	1,839,014,835	2,054,496,450	100.0	100.0	100.0	11.7
Fish, Frozen (No Fish Fillets or Other Fish Meat)	871,596,119	751,764,974	793,990,891	39.8	40.9	38.7	5.6
Fish, Fresh Or Chilled (No Fillets or Other Meat)	407,087,804	460,128,187	660,056,165	18.6	25.0	32.1	43.5
Fish Fillets and Other Fish Meat, Fresh, Chilled or Frozen	519,629,214	358,285,424	265,126,032	23.7	19.5	12.9	-26.0
Crustaceans Live Fresh etc., Cooked etc., Flours and Meals for Human Consumption	233,110,240	180,368,884	216,554,592	10.6	9.8	10.5	20.1
Molluscs & Aquatic Invertebrates Nesoi, Live etc.; Flours etc.	89,105,835	45,063,697	61,469,980	4.1	2.5	3.0	36.4
Fish, Dried, Salted etc., Smoked, etc; Edible Fish Meal	62,284,738	36,060,100	43,049,254	2.8	1.9	2.1	19.4
Fish, Live	7,366,344	7,343,570	14,249,535	0.3	0.4	0.7	94.0

Source: Global Trade Atlas, 2011.

Import of fresh, processed and canned/preserved fish increases mainly driven by changing consumer preferences and shift to more expensive products.

The largest importers of dried, salted and smoked fish to Russia were Estonia, China, Thailand and Vietnam. The largest product category was “dried, unsalted or salted, non-smoked fish” with 87.1% of import volume and 89.6% of its value. More than half of this category – 52% – was imported from China. Noteworthy, importance of China in fish supplies grows immensely over the recent years forcing out from Russian market Kazakhstan and Thailand with similar products. Supplies of smoked herring were also very impressive – 100% supplier of this category was Estonia. Share of processed and preserved fish in import is declining.

Demand is increasing for more upmarket added-value products, with fish fillets, smoked fish, molluscs and crustaceans showing marked growth. In the case of crustaceans, it is frozen coldwater prawns that are driving the growth (the market for warm water prawns is only just emerging and is limited to premium retail outlets and caterers).

The only import category that is in decline is canned fish. This reflects the strengthening of domestic fish processing companies, who are becoming increasingly innovative and sophisticated in marketing their products.

Dried fish and stockfish is the only category of Russian market of ready fish/seafood products where import volume exceeds domestic production. In 2008 import of dried fish and stockfish constituted 24.4 thousand tonnes in volume and $ 86 million in value which corresponded to 66% of import on the review market. In the first half of 2009 share of dried fish and stockfish in total import reached 69%. Most important supplier of this product category to Russia is China.

Table 4: **Main types of fish and seafood imported to Russia**

	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Fish and crustaceans, molluscs and other aquatic invertebrates, million US dollar	958	1207	1739	2036	1698	2040
Of them: Fish, fresh or chilled, excluding fish fillets, thousand tonnes	50.1	30.0	64.4	78.6	89.9	104
Frozen fish, excluding fish fillets, thousand tonnes	658	556	637	553	527	550
Fish fillets and other fish meat, fresh, chilled or frozen, thousand tonnes	78.9	101	169	250	178	137
Fish, dried, salted or in brine, thousand tonnes	20.9	23.4	24.4	20.2	11.0	12.9
Crustaceans, live, fresh, chilled, frozen, dried, salted or in brine, thousand tonnes	45.6	46.6	68.3	65.8	52.6	62.0
Molluscs and other aquatic invertebrates, thousand tonnes	10.8	17.4	17.6	35.3	14.8	21.4
Ready products of meat of fish or crustaceans or molluscs and other aquatic invertebrates, million US dollars	303	350	426	564	457	491
Of them: Ready or preserved fish, sturgeon caviar and caviar substitutes, thousand tonnes	97.3	87.6	90.6	96.3	73.0	94.2
Ready or preserved crustaceans, molluscs and other aquatic invertebrates, thousand tonnes	10.9	8.1	10.5	13.2	8.8	11.2

Imports of fish and fishery products in 2011 fell by 11% from 889,000 tonnes in 2010 to 790,000 tonnes in 2011. Import of chilled and frozen fish declined by 24.4 % to USD 171 million. For April 2012 compared to April 2011, they were down 18.9%.

Fish imports to Russia are steadily declining, which means that the country is succeeding in the process of fish imports' substitution.

The decline was due to lower imports of trout and mackerel. For the period of January-March 2012, frozen trout imports were down 39.6 % to 2,900 tonnes; frozen mackerel declined 47.5 % to 13,600 tones. For the same period, imports of frozen capelin were up 3.2 times to 37,500 tonnes; sprats up 37.3 % to 16,900 tonnes; and whiting by 14,100 tones. While imports of herring fillets were up 11.2 % to 11,900 tones, imports of Chinese tilapia and Vietnamese pangasius declined 36.6 % to 4,000 tonnes; and surimi by 14.8 % to 4,600 tonnes.

At the same time, despite the decline of imports in volume terms, its value is increasing, which corresponds to the trend of 2011, when fish imports to Russia increased by 30 per cent, in value terms, compared to 2010, mainly due to a significant increase in fish prices.

According to analysts of the Fishretail, one of Russia's leading magazines in the field of fishery, despite the currently observing imports' decline, Russia still heavily depends on fish supplies from abroad. Fish imports to Russia still significantly exceed the volume of its exports in volume and value terms. In addition, there is a need to take into account that a significant share of fish imports to Russia accounts for the products, which were caught in Russia and imported to the country after processing in China and South Korea.

In total there are 16 specialized fishing ports in Russia. Table 5 gives a brief overview of the four main ones.

The government is seeking ways to improve the ports' infrastructures and it submitted a law on Special Economic Zones in 2011; among them there are three Special Economic Port Zones; the law is aimed at providing tax incentives for investments at fishing ports.

Main commercial fishing area in Russia is Far East Federal District. According to the Federal agency for fishery, in 2008 fish production volume split between fishing areas the following way: Far East area – 66%, North area – 9%, Baltic Sea – 1%, Caspian Sea – 1%, Azov and Black Seas – 1%, water areas of foreign countries – 15%, conventional areas and free areas of the World Ocean – 2%.

Table 5: **Key ports in Russia**

Murmansk	One of the three Special Economic Port Zones of Russia.	Occupies the territory of 160 hectares. The total length of berthing front: more than 4 km. Refrigerating capacity: 13,000 tonnes. The main uniqueness of the Murmansk sea fishing port is non-freezing Kola Bay warmed by the Gulf stream, which allows the port to serve vessels and wagons all year long.
Kaliningrad	Located in the Russian Baltic enclave.	Occupies the territory of 114 hectares. The maximum size of vessel: 175 meters long and 8 meters draught.

	Kaliningradskaya region has the status of the Tourism and Recreational Special Economic Zone.	The total length of berthing front : 3088 meters Warehousing: 89,993 square meters; 2 refrigerators for 16,000 tonnes. The port can annually serve more than 2000 Russian and foreign vessels.
St. Petersburg	One of the largest trading ports in the country.	The maximum size of vessel: 260 meters long and 11 meters draught. The total length of berthing front: 660 meters Warehousing: 19,400 square meters Refrigerating capacity: 4,000 tonnes on the area of 4,600 square meters. Has a year-round navigation, with the assistance of icebreakers during the winter-period.
Vladivostok	Russia's largest port on the Pacific Ocean.	Occupies the territory of 323,700 square meters. The total length of berthing front: 2,020 meters. Warehousing: 58,000 square meters. There are two 4-storey and 5-storey refrigerators occupying the area of 47,784 square meters. Vladivostok sea fishing port is located on the southern shore of the bay Zolotoy Rog. This non-freezing bay is well protected from the winds and has a year-round navigation.

1.3 CONSUMER TRENDS

The Russian seafood sector is undergoing major change. During the Soviet era and the early nineties, the offering to consumers was overwhelmingly frozen and canned fish – generally sold as generic products with minimal or no branding. In recent years, a combination of fast-rising incomes, expanding retail chains, rising interest among foreign suppliers and increasingly sophisticated local producers has led to a rapidly expanding range of fish products being consumed. In particular consumers are gradually moving to more upmarket product options such as chilled fish, fish fillets, smoked fish, crustaceans and molluscs.

Frozen fish is a traditionally popular option, however, experts believe that higher imports of chilled fish and ready-to-eat products, in the wake of growing consumer demand, signal national economic recovery.

According to Federal Centre of Fish Genetics and Selection (FSGCR), Russian consumers mainly purchase live and frozen fish/seafood – 64.5% of respondents. Meanwhile salted, smoked and dried fish/seafood is preferred by 21.3% of respondents.

Mintel reports that variety and quality are increasingly important to Russian consumers. To satisfy demand, local retail outlets and restaurants offer an expansive selection of traditional products and exotic items. In addition to the customary herring, mackerel, and salmon, consumers can now find squid, prawns, mussels, live scallops, snails, and oysters.

Increase of consumer demand for fish/seafood was driven by income growth, wide offer of the category including both affordable products and delicacy, by growing popularity of fish/seafood snacks, and by some other factors.

Volume of the market of ready non-canned fish/seafood – salted, smocked, dried, in spicy sauce, in marinade, and also of fish/seafood gastronomy – exceeded 300 thousand tonnes in 2008. According to "Informanalysis" findings, value of the review market constituted in 2008 about RUB 50 billion. Imported products constituted 12% of market volume or 37 thousand tons.

Considering volumes of domestic production, import and export, in 2008 about 33% of Russian market of ready-to-serve fish/seafood products in volume was provided by gastronomy – including surimi-based ready products. Shares of salted herring and smocked fish constituted respectively 21 and 19% of market volume. Dried fish and stockfish provided 13% of market volume, while salted fish except herring – 11%.

For evening meals at home, it is traditional in Russia to eat whitefish, salmon, trout and sturgeon. The fish is typically fried, baked or – in the summer – barbecued on skewers or grilled. While new varieties and processed fish are emerging, the traditional approach still dominates in terms of overall consumption. Out of home, in cafés, small sandwiches topped with smoked fish are very much the norm. Probably the main development in out of home consumption is the striking proliferation of sushi bars in major cities across Russia. These are playing a significant role in introducing consumers to new fish varieties. The popularity of Japanese food is such that most supermarkets now stock a sushi range.

Increasing interest in health and nutrition is expected to support growth in the seafood sector long term. However, interest in healthy eating is clearly apparent only in Moscow and St Petersburg, and further consumer education will be required to capture the potential of this international consumer trend.

As a rule, urban consumers eat more fish/seafood than rural dwellers. For instance, in 2008 average per capita consumption of the review category in urban Russia constituted 18.2 kg while in rural settlements this index was 17.2 kg. Urban dwellers more often buy canned fish and fish/seafood gastronomy – respectively 10 and 4% of total consumption volume of fish/seafood; meanwhile in rural Russia, the said categories constitute 8 and 2% of consumption respectively. However, salted and smocked fish is more popular among rural dwellers – 23% of fish/seafood consumption volume against 18% in urban Russia.

1.4 UK SHARE AND EXPORT OPPORTUNITIES

The UK is Russia's fifth largest foreign supplier of seafood, accounting for about 4% of total seafood imports by value.

The leading supplier is Norway, which accounted for about a third of all imports by value last year. Its major items are herring, farmed Atlantic salmon and trout, and mackerel. Norway is a particularly strong supplier of chilled fish; indeed, 80% of Russia's chilled fish imports are sourced from this country.

China and Vietnam are both showing consistently growing exports to Russia. Vietnam's main growth areas are pangasius and surimi. For China, the lead product is Alaskan pollack fillets, which accounts for about a quarter of its exports to Russia. Next in importance are surimi and squid.

It should be mentioned that pollock offered by the market is harvested in Russia, but due to lack of processing facilities major part of the harvest goes to other countries for processing – as a rule, to China. Thus, Russia imports "re-frozen" fish with degraded nutrition value.

In 2010 Russia exported 1412 thousand tonnes of fish/seafood – plus almost 20% over 2009.

Segmentation of Russian export of fish/seafood is similar to import with obvious dominance of frozen fish – over 90% in volume. Other export segments are fish fillet (4%), crustaceans (2%) and mollusks (1%).

Pollock is the largest category of export just like of import – in 2010 this kind of fish provided 67% of export volume with 32% year-to-year increase. Total export of pollock from Russia constituted 942.1 thousand tonnes.
602.9 thousand tonnes went to China, and 35% or 329.6 thousand tonnes – to Korea.

Table 6: **Russian Imports of Fresh and Frozen Fish and Crustaceans, Molluscs and Other Aquatic Invertebrates**

Partner Country	**Cost, USD**			**% Share**			**% Change 2009/10**
	2008	**2009**	**2010**	**2008**	**2009**		**2010**
World	2,190,180,295	1,839,014,835	2,054,496,450	100.0	100.0	100.0	11.7
Norway	770,994,804	831,504,043	892,003,205	35.2	45.2	43.4	7.3
China	221,828,178	181,843,384	188,903,447	10.1	9.9	9.2	3.9
Iceland	55,667,994	47,912,767	97,969,252	2.5	2.6	4.8	104.5
Canada	95,242,895	64,065,681	94,746,885	4.4	3.5	4.6	47.9
United Kingdom	76,720,630	96,556,394	83,056,900	3.5	5.3	4.0	-14.0
Chile	113,059,043	62,180,823	77,974,152	5.2	3.4	3.8	25.4
Vietnam	219,818,295	113,098,544	74,457,496	10.0	6.2	3.6	-34.2
Denmark	130,982,206	82,681,423	64,170,246	6.0	4.5	3.1	-22.4
Japan	15,392,627	15,319,673	59,548,120	0.7	0.8	2.0	288.7
United States	50,580,024	30,473,681	52,898,925	2.3	1.7	2.6	73.6

Source: Global Trade Atlas, 2011.

Fish imports rise - 6% of food, feed and drink imports in 2010. The total value was 1.3 billion in pounds sterling in 2010. Norway had the largest market share (£573million) accounting for 44% of all imports of fish and seafood into Russia.

China exported £124million, followed by Iceland (£65million) and Canada (£59million).

The UK exported £53 million in 2010 (mostly frozen mackerel) – more than Denmark (£41million), Spain (£22million) and Ireland (£15million)

Table 7: **Average annual UK exports to Russia from 2008 to 2010 (Thousand Tonnes)**

Frozen whole mackerel	35.5
Frozen herring	4.2
Frozen blue whiting	2.7
Frozen salmon	1.2
Other frozen saltwater fish	0.5

Source: DEFRA

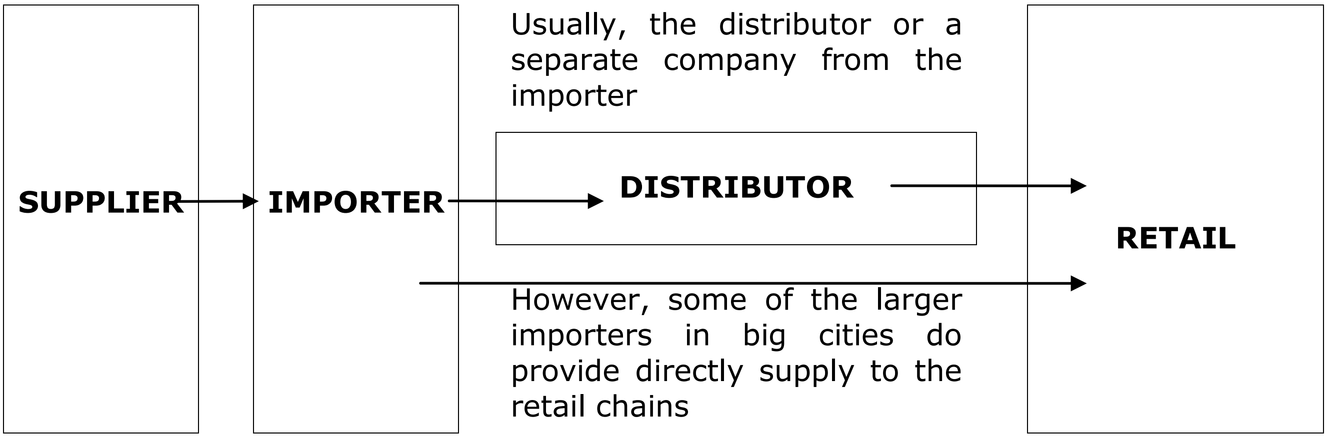
For UK suppliers, the general buoyancy in the seafood market creates substantial export opportunity. Specific areas of opportunity include the following:

- Premium canned seafood. While local competition has increased dramatically, gaps remain in the premium sector.
- Crustaceans and molluscs. Current ranges are generally branded weakly, leaving opportunity for a sophisticated marketing strategy in this sector.
- Targeting key retail chains. Cost of entry is high (due to listing fees, etc.), but one possible strategy is to focus distribution via a selection of key retailers and expand after critical mass is achieved.
- Targeting wholesalers. For economy products, volumes remain substantial through the traditional retail sector which is supplied by wholesaler intermediaries. The approach offers a lower cost of entry than targeting the major chains directly.
- Seek private label contracts. Leading retail chains are keen to identify new fish products suitable for selling under their own branding.
- Targeting the catering sector. The sector is small by international standards but is expected to show major growth over the next few years.

SECTION 2 DOING BUSINESS PROFILE

2.1 THE SUPPLY STRUCTURE

Russia: Import supply structure, logistics and distribution



Brands

One of peculiarities of Russian market of fish/seafood is its extremely low transparency which makes it practically closed for investigations, so revealing its major players is difficult. According to annual and quarterly reports, key players of the review market are "Russkoe More" GK, "ROK-1" GK, "Meridian" PKP OJSC (Moscow), "Santa Bremor" JV LLC (Byelorussia, Germany) and "Baltiysky Bereg" CJSC (Saint Petersburg).

Russian fish/seafood market is in the process of consolidation; at the same time requirements to many aspects of production process – technologies of fish harvesting and processing, package formats and labelling – are getting more severe. These factors contribute to product range extension and quality improvement.

The majority of market operators are planning to enlarge their product range; renovate and expand production facilities.

Distribution channels

Distribution in the seafood sector is highly fragmented. There are estimated to be over 1,500 companies involved in seafood importation and distribution in Russia. The main concentration is in Moscow, which is the primary transhipment point for the regions. Vladivostok is the key distribution point in the Far East.

The majority of fish and seafood sales in Russia take place through the retail channel, which accounted for 88% of sales by volume in 2008, with the remainder attributed to sales through foodservice outlets and institutions.

Table 8: **Distribution Channels of Fish and Seafood Sales in Russia by Value Share (%)**

Channel	2009	2010
Supermarkets/Hypermarkets	56.4	56.8
Independent Retailers	27.4	27.1
Specialist Retailers	7.5	7.3
Convenience Stores	4.6	4.6
Service Stations	3.1	3.1
Department Stores (including duty-free shops)	1.0	1.0
Pharmacies/Drugstores	n/a	n/a
Vending Machines	n/a	n/a
Others	n/a	n/a

The rise of national retail chains is changing the role of distributors. Whereas previously the latter were responsible for supplying a very large number of individual retail outlets, an increasing number of retail chains now run their own centralised distribution centres and expect supply to a limited number of distribution points. This reduces complexity for seafood suppliers but there is a price to pay in terms of reduced distributor margin.

The increasingly powerful retail chains are also placing new demands on suppliers in terms of storage conditions and reliability of supply. This is actually having a positive effect on the quality of the distribution infrastructure in Russia.

Most exporters to Russia find it beneficial to work through a single importer, rather than appointing a number of direct customers. While the latter approach can create healthy competition between the importers, and a degree of security if one fails, it seems the most successful route to market is to focus business through a single company, with contract extension subject to volume target achievement and a transparent agreement on trade mark-ups.

The retail market in Russia is largely dominated by supermarkets/hypermarkets, and most of these grocery stores are located in Moscow and St. Petersburg. The leading grocery retailers in Moscow include the X5 Retail Group, Auchan and Sedmoi Kontinent. St. Petersburg's retail landscape is somewhat saturated and is dominated by O'Key, the X5 Retail Group, and Lenta.

Auchan, one of the top three retailers in Russia as a whole, has significantly increased its store network by acquiring Turkey-based Ramenka hypermarkets. Auchan plans to triple its number of hypermarket outlets by 2016.

Another key foreign market player Metro Cash and Carry has expanded into Siberia.

In April 2009, OAA Moscow (the American Office of Agricultural Affairs) conducted a price survey of fish and fish products in Southern Moscow retail outlets and open markets. This survey revealed a wide variety of traditional fish products available to the Russian consumer, such as herring, mackerel, and salmon, as well as exotic products including squid, mussels, prawns, snails, scallops, and oysters.

The survey found that prices differed significantly between retail outlets and open markets. Average fish prices in Russian supermarkets tended to be 10% to 30% higher than in the open markets.

Table 9: **The structure of the food retail market by the largest players for 2010**

Name	**Market share**
X5 Retail Group	19%
Magnet	11%
Auchan	10%
Metro	5%
O’Key	4%
Lenta	3%
Dixi	3%
7th Continent	2%
Victoria	2%
Others	41%

Source: RBK research

Top 5 retailers in Russia

Company	**Number of Outlets**	**% Share of Grocery Market**
X5 Retail Group	3,002	6.4
Magnit	5,466	4.9
Auchan	60	1.4
Metro Group	63	1.5
O'Key	73	1.4

Market share	X5 Retail Group	Magnit	Auchan	Metro Group	O'Key
	16%	11%	10%	5%	4%
Overview	The Company operates several retail formats: the soft discounter chain under the Pyaterochka brand, the supermarket chain under the Perekrestok brand, the hypermarket chain under the Karusel brand and convenience stores under different brands. X5 operates 3,002 stores located in Moscow, St. Petersburg and other regions of Russia, including 2,525 soft discount stores, 330 supermarkets, 77 hypermarkets and 70 convenience stores. X5's franchisees operated 658 stores across Russia.	Currently, the food retailer has 5,466 stores, comprising 5,104 convenience stores, 96 hypermarkets and 266 cosmetics stores.	The first hypermarket «Auchan» in Russia was open on August 28, 2002 in the city of Mytischi, Moscow region. Now there are 44 hypermarkets, 14 supermarkets and 28 stores under the brand of the French company in Moscow and Moscow region, Nizhniy Novgorod and Leningradskaya region, Voronezh, Yekaterinburg, Krasnodar, Samara, Rostov-on-Don, Novosibirsk, Omsk, Ufa, Kazan, Chelyabinsk.	Owned by the German Metro Group. The first two hypermarkets were open in Moscow in 2001. Today the Russian division of the company METRO cash & carry operates 63 trade centres in 42 regions of the country. Sales of METRO cash & carry Russia constitute 3,422 billion Euros (as for 2011). The number of employees is more than 18 000 people.	O'KEY operates 73 stores in the North-Western, Southern, Central, Urals and Siberian regions. O'KEY has two store formats – hypermarkets (O'KEY) and supermarkets (O'KEY-Express). O'KEY's stores are based on a classic European hypermarket concept. The Company employs over 19,000 people throughout Russia.

Store type and ownership	Pyatiorochka: discounter format in relatively small stores. Russia's leading chain by turnover. Perekryostok: minimarkets, supermarkets and hypermarkets. Karusel: hypermarkets.	Discount chain: mostly small stores. Russian chain with the largest number of outlets (about 5,466)	Hypermarkets. Auchan was the first to introduce the hypermarket concept to Russia.	Vast cash & carry stores located out of town. Main custom is from wholesale but substantial sales are also from individuals who obtain Metro cards.	O'KEY operates 73 stores all over the country. O'KEY has two store formats – hypermarkets ("O'KEY") and supermarkets ("O'KEY-Express").
Product range	Pyatiorochka: economy, relatively narrow range. Perekryostok: middle class, has wider range. Karusel: wide choice at low price.	Economy/value focus. Narrow range.	Very broad and with the lowest prices of all retail chains (excluding Metro wholesalers). Prices are typically 10-15% below supermarkets.	Aim to have the best pricing in the market. Range is quite broad. Products sold on wholesale scale.	Range is quite broad. Express supermarkets offer a convenient neighbourhood shopping experience at affordable prices.
Best practices	Pyatiorochka focuses on packaged goods, mnimal fresh fish. Perekryostok and Karuse have freash seafood counters in larger stores.	No fresh seafood counters. Focus is on canned fish.	Large fresh seafood counters in all outlets.	Fresh seafood counters in all cash & carries.	Large fresh seafood counters in all hypermarkets.
Consumer demographics	Pyatorochka, lower and middle class, pensioners. Perekryostok and Karusel: middle class.	Economy segment. Customers on a tight budget.	Lower and middle classes. Customers would usually need a car to get to the store but company arranges its own bus services to enlarge its attachment area.	Target market is small wholesalers, retail chains and entrepreneurs.	Middle class.
WEB	www.x5.ru	www.magnit-info.ru	www.auchan.ru	http://www-p.metro-cc.ru/public/home	www.okmarket.ru

2.3 THE FOODSERVICE CHANNEL

With Russia being the most populated country in the Eastern European region, the number of eating-out establishments in Poland, for instance, accounts for 96 thousand which is nearly two times higher than in Russia (54 thousand in 2010). The Western European countries, like Spain and Italy outperform Russia by almost six times with 305 and 312 thousand outlets in each country respectively. Thus, Russian foodservice market is far from saturation. The market is expected to demonstrate further confident growth meeting new players. Both local and international players will be getting more active in the overall market through various franchising and joint ventures scheme. The Russian consumer foodservice market is predicted to reach $ 14.4 billion by the end of 2015.

Fast-food saw the highest expansion in terms of both, current value sales and number of outlets. The best growth in fast-food was registered in burger fast-food category, with the accelerating expansion of McDonalds being the main growth engine.

Another trend to emerge in fast-food on the post-recessionary market was consumer demand for more exotic and diverse foodservice environment and growing focus on health and wellness, particularly among more affluent consumers.

Asian food, which enjoyed the exploded popularity in Russia in the past few years, felt well in 2010 with recorded 12% growth in current value terms. It is expected that Asian fast-food and Asian full-service restaurant markets will add $ 32 and $ 135 million respectively to the total foodservice value sales over the next five years.

For a long time the fate of the Russian fish on a professional kitchen was unenviable: it was mainly purchased frozen and of inexpensive varieties (cod, hake). Today, restaurants more often include in their menus fresh turbot, catfish and silver carp. Cooks say the use of local fish is one of the main trends now, though purchasing it is still associated with difficulties.

The growth of demand on the local fish is driven by a desire to diversify their menus and to offer an interesting product, which is relatively inexpensive to purchase. Guests are tired of dorada and sea bass, and so fresh tench, turbot or pikeperch are perceived as exotic. According to some restaurateurs Russian fish is a good alternative to both wild and artificially grown imported fish.

2.4 KEY REGULATIONSANDTARIFFS

Import regulations

The seafood sector in Russia is notorious for its bureaucracy in foreign trade, with sudden changes in procedures and requirements often creating obstacles for Russian importers. For foreign suppliers, the situation is more straightforward as the main issues apply to importers, who handle the procedures with the customs and veterinary authorities. These difficulties explain a trend for Russian processors, distributors and retail chains to source product from specialised importers, rather than try to handle the process directly.

As for specific import requirements, the key ones are Certificate of Origin, Health Certificate, Certificate of Conformity/Hygiene (which states that the product in question confirms to Russian standards) and Quality Certificate from the country of origin. All documents need to be provided in Russian.

The standard import duty on almost all live, fresh, chilled and frozen fish for all species, including fillets, is 10%. For some species of fish, however, the rate may be 20%. Fish meal is 5%. In most cases these duties are subject to a minimum rate per kg. The full list of tariffs for different species of fish can be obtained from the web-site of Customs Tariff of The Russian Federation.

There is a concession on import taxes relating to the Russian Baltic enclave of Kaliningrad. This region is a Free Economic Zone, with numerous exemptions on import and other taxes. Not surprisingly, the enclave has become Russia's leading seafood processing region. As part of the objective of Russian authorities to redirect more Russian caught fish to domestic production (rather than export), there are often calls in government circles to introduce quotas on imported fish.

Product safety

There are a large number of regulations and standards regarding quality and safety of food products, including seafood, in Russia. All establishments wishing to export fish and seafood to the Russian Federation must be approved by the Russian authorities (Federal Service for Veterinary and Phytosanitary Surveillance (VPSS) – Rosselkhoznadzor).

Approval by the Russian authorities is based on compliance with Russian standards and is a prerequisite for exporting fish and seafood. Import of fish products from Great Britain from non-accredited plants has been banned since 15 April 2008. The list of the accredited UK plants can be found on the web-site of VPSS:
http://fsvps.ru/fsvps/importExport/uk/enterprises.html?productType=7&_language=en

Ministry of Agriculture Order No462 for Veterinary and Sanitary Laboratory Testing of Fish and Caviar provides rules for veterinary testing for all types and species of fish: wild or farmed fish and caviar. According to the order, fish and caviar are subject to veterinary and sanitary laboratory testing with the objective of determining, whether products are fit for human consumption, as well as for fish farming, reproduction and acclimatization. Please refer to GAIN RS9034 "Sanitary and Veterinary Rules for Seafood Testing" for more information. More information on GOST R (the official term for State Standards) and certification schemes can be found on http://www.gost-r.ru/eng.php?page=gostreng

Certificate of Quality may be required for seafood and fish products and may be issued by the supplier/manufacturer.

Veterinary certificates are required for fish and sea-products and products of their processing. Veterinary certificate is issued by VPSS either after inspection of cargo or/and on the basis of relevant certificates of the exporting country submitted to VPSS by importer. GAIN report RS7081 reproduces in English translation the list of imported items including those issued by the Russian Service for Veterinary and Phyto-Sanitary Surveillance (VPSS), subject to veterinary inspection when crossing the Russian Federation border.

Labelling

Legal labelling requirements for fish are set out in State Standard GOST R-51074-2003. The standards are different for fresh/frozen seafood and canned/preserved seafood.

- Canned/preserved seafood
  For the latter category, the label must indicate in Russian: product name, ingredients, name/address of manufacturer, grade (if any), net weight, nutritional content and value, storage requirements, date of production, shelf life and Russian certification number.

- Fresh/frozen seafood
  Legal labelling requirements for fish are set out in State Standard GOST R-51074-2003. These standards define two groups of fish: 'Fish, Seafood & Seafood Products' (Group 4.5) and 'Canned & Preserved Fish & Seafood' (Group 4.6). For both groups of fish, the following information is required in Russian language: product name, ingredients (including food additives and biologically active components), grade (if any), name and legal address of the manufacturer, trademark, net weight (without brine in the case of preserves), nutritional values, storage requirements, certification information and standards in accordance with which the product was manufactured. Additional requirements for Group 4.5 are: fishing region, length of fish, type of dressing, type of treatment and salinity. For Group 4.6 date of production must also be provided. This list gives an overview of the requirements and exporters are advised to examine the GOST standards referred to above for full details in this important area.

2.5 TIPS AND USEFUL LINKS

Useful information sources:

- Customs Tariff of The Russian Federation
  Web: http://www.russian-customs-tariff.com/
- Russian Service for Veterinary and Phyto-Sanitary Surveillance
  Web: http://fsvps.ru/fsvps/main.html?_language=en -
- Publications, information, research on Russian market.
  Web: www.fishnet.ru
- Danish organization with reports on Russian market.
  Web: www.eurofish.dk
- Information Centre on Russian fish industry (Russian only).
  Web: www.fishres.ru
- Federal agency for fishery (Russian language only).
  Web: www.fish.gov.ru