

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary Public

Date: 3/30/2012

GAIN Report Number: RSATO1203

Russian Federation

Post: Vladivostok

U.S. Agricultural exports to Russia's Primorye Region are increasing

Report Categories:

Meat/Beef

Wine

Retail Foods

Fresh Deciduous Fruit

Beverages

Poultry and Products

Approved By:

Deanna Ayala, ATO Russia Director

Prepared By:

Oksana Lubentsova, ATO Vladivostok

Report Highlights:

The Russian Far East – with a population of 6.5 million people -- presents opportunities for U.S. agriculture, some of which are unique to this part of Russia due to its proximity to the U.S. west coast and to Asian shipping lines. One example is the Primorye Region of Russia's Far East where U.S. agricultural imports have grown by 14.3% since 2010. Sales leaders include American fruit, whose sales to Primorye have increased 31.6% since 2010. Primorye was also the largest meat buyer in the Russian Far East in 2011, and U.S. meat (beef, pork and poultry) imports to Primorye increased 8.4

percent since 2010.

General Information:

Foreign Trade Activity of Primorye

According to regional government data, in 2011 Primorye's foreign trade was valued at \$7.8 billion. Of that total, Primorye's exports totaled \$2 billion while imports were \$5.8 billion. Primorye exported wood, metals, minerals, fish and seafood and imported agricultural products, footwear and textiles. The significant growth in imports was due to increased demand in machinery and transport equipment, as well as goods such as food and chemical products. China was the leading trade partner for Primorye with 52.9% of the total trade, the Republic of Korea and Japan had 20.4% and 9.3% respectively. U.S. products account for about only 2% of Primorye's trade.

Primorye's Imports from the U.S. Increase

In 2010, Primorye imported \$150.8 million of U.S. goods while the region exported only \$2 million to the United States. Total imports from the U.S. showed a 25.6% increase over 2010. Primary imports from the United States were food products (53.8%) and machine industry products (46.2%). Imports of U.S. agricultural products included fresh and dried meat, fruit, sausages and meat products, preserved food, vegetables, baking products and beverages. Primorye leads the Russian Far East in imports of U.S. agricultural goods as its ports of Vladivostok and Vostochny are the main entry points to the region and the majority of imported products have customs clearance procedures there before delivery to other parts of the Russian Far East and Siberia by rail or sea. The value of U.S. agricultural products imported to Primorye in 2011 was \$83.1 million, ranking sixth among the over 62 Russian regions importing U.S. food products.

Meat Exports

According to Global Trade Information Services (GTIS) (<http://www.gtis.com>) data, Primorye was the largest meat importer among the Russian Far East regions in 2011. U.S. meat imports (beef, pork and poultry) amounted to about \$66 million, an increase of 8.4% compared to 2010. Pork had the highest volume among all U.S. meat sales. During the past year, Primorye imported 13,063 tons of U.S. pork. This accounted for 26.2% of all pork imports to Primorye. Beef sales grew in 2011 and had an almost two-fold increase in terms of value reaching \$4.3 million. U.S. beef is commonly found in restaurants but is not yet a competitive retail product. Exports of poultry and edible offal of bovine and other domestic animals declined by 7-10% over the year.

U.S. Fruit Exports

American fruits are popular in the region and showed the highest and most steady growth rate compared to all agricultural products with sales up 31.6% over 2010. Imports of apples and pears from the U.S. totaled 7,800 tons, which was 70% of total fruit imports from the United States, a 46% increase over 2010. Citrus fruit from the U.S. is steadily winning market share in the region showing a 32.5%

increase over the previous year, equivalent to 2,110 tons. Among other trade items were 500 tons of grapes, 66 tons of cherries, and 210 tons of other fruit. Many customers are choosing American apples, pears and oranges. Middle class customers prefer U.S. fruits because they are considered to be better quality and cleaner (fewer pesticides) than Chinese products. The Washington Apple Commission and Pear Bureau Northwest, which are USDA Cooperator organizations, have been working actively in the local market since the 1990s to increase consumers' knowledge of and loyalty to their products which has contributed to their growth in the region. The California Table Grape Commission and Northwest Cherry Growers have also supported their products in the Russian Far East recently, which should help to increase grape and cherry exports. U.S. apples, pears, and grapes are competitively priced with Chinese products. However, U.S. berries and citrus are much more expensive than Chinese products. One obstacle to further growth and diversification in this market is the lack of air connections. Currently, all shipments arrive by sea.

Chinese Fruit Exports

U.S. fruit exports to Primorye pale in comparison to Chinese fruit exports. Primorye was the largest importer of Chinese agricultural products among all Russian regions in 2011. According to GTIS data, imports of Chinese fruit totaled 388,431 tons worth \$297 million an increase of 14.25% in volume and 27.82% in value over 2010. Vegetables and fruits/nuts were more than two-thirds of the total Chinese food exports to Primorye in the last year and reached 184,000 tons and 92,000 tons respectively. Primorye imported about 40,000 tons of fresh apples and pears, 33,000 tons of citrus fruit, 6,800 tons of grapes, 6,000 tons of apricots, cherries, peaches and plums from China in 2011. However, the quality of Chinese fruits and vegetables has not always met consumer preferences and at times does not meet sanitary standards. Rosselkhoznadzor (the Russian Federal Veterinary and Phytosanitary Service) often bans multi-ton fruit and vegetable shipments at the Russian-Chinese border crossing points for violation of sanitary norms.

Wine Exports

Vladivostok has the only company in the region that imports American (Californian) wines directly. The other local companies prefer to deal with national importers from Moscow to avoid the expensive and time-consuming administrative process of bringing in alcohol imports. Imports of U.S. wine in Primorye decreased slightly in 2011 and amounted to \$37,880. California wines imported to Vladivostok directly are distributed throughout all the regions of the RFE.

Grocery Products

U.S. agricultural products are present, albeit in small quantities, in all retail outlets. One can purchase U.S. products at large modern supermarkets and small kiosks. There is a nascent market for organic products in the Russian Far East. During the past year grocery stores have started carrying more organic processed food and cleaning products. Most of these products come from Europe.

We are seeing a steady increase in sales of U.S. agricultural products in the Russian Far East and there is room for growth. Russia's entry to the WTO means that there will be changes made in sanitary requirements to comply with international standards. In addition, regulatory practices and enforcement should become more transparent. In many areas, agricultural import duties will decline (please see Gain

report Market Opportunities for Key U.S. Products in Russia for a full description of the market opportunities that Post sees in Russia:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Market%20Opportunities%20for%20Key%20U.S.%20Products%20in%20Russia_Moscow_Russian%20Federation_3-20-2012.pdf). Altogether,

these changes will open up new opportunities for American agricultural exports.