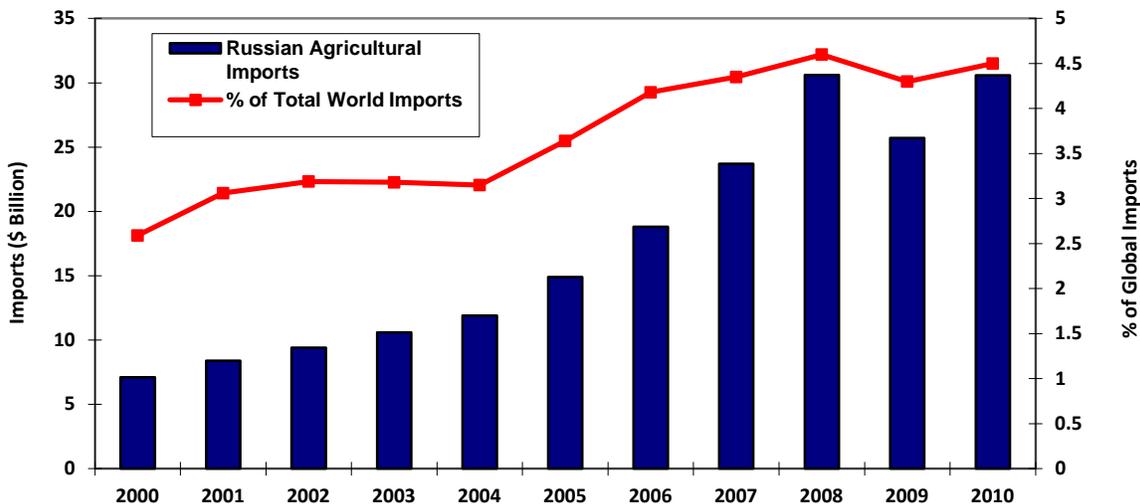


U.S. Agricultural Exports Face Increasing Competition in Russia

Russian Imports Surge

Russia is becoming an ever larger market for agricultural products, increasing from the 9th largest global importer in 2000 to the 5th largest in 2010. Much of the growth seen over the past decade occurred from 2004 to 2008, as imports increased nearly \$19 billion in part due to more meat imports; pork and poultry imports increased threefold during this period. Following the fall of the Soviet Union, the heavy subsidization of meat production ended and the country transitioned from a major grain importer to a significant net exporter. With the removal of subsidies, livestock production became unprofitable and imports surged. Other products that saw a rapid rise in import demand over the past decade include sugar, cheese, palm oil, tobacco and fresh fruits.

Russia's Importance as a Market Grows



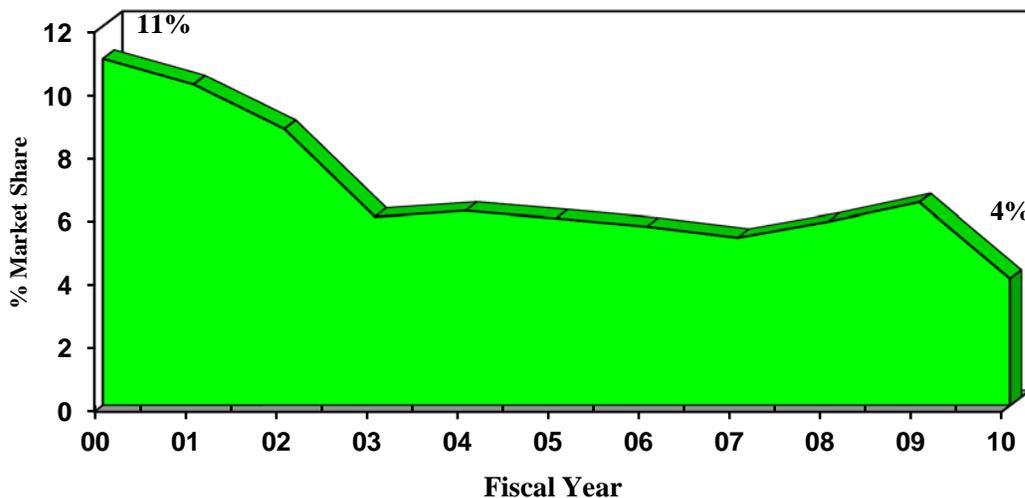
Data Source: Globla Trade Atlas

Calendar Year

U.S. Exports Rise but Market Share Falls

U.S. exports to Russia grew rapidly from just \$580 million in 2000 to a high of \$1.8 billion in 2008 before falling in 2009 and 2010. Though U.S. exports, by value increased, export share fell from 11 percent in 2000 to just 4 percent in fiscal year (FY) 2010. During this same period, the United States dropped from being the second-largest exporter to Russia (behind the European Union) to the sixth-largest. Brazil, Ukraine, Turkey and China jumped ahead of the United States capturing greater market share. Among these competing suppliers, Brazil's gain was the greatest, with exports increasing from just \$373 million (5 percent market share) to \$3.8 billion (13 percent market share). Success of Brazil's exports is explained by the increase of exported commodities that the United States does not supply including sugar, bananas, palm oil, cocoa and coffee. In addition, U.S. exports of soybeans and meat have faced more competition from Brazil. Meanwhile, the EU further solidified its position as the dominant supplier, increasing from 29 percent to 32 percent market share. Turkey and Ukraine have emerged as major suppliers of fruits and vegetables (from Turkey) and cheese and edible oils (from Ukraine).

U.S. Market Share in Russia Slides



Source: GTA & *Russian Economy Rebounds*

The Russian economy suffered during the global recession and fell nearly 8 percent but bounced back in 2010 increasing by 3.6 percent. Growth in 2011 and 2012 is forecast by Global Insight at 4.4 and 4.1 percent, respectively. As a largely commodity-based economy, Russia is benefiting from the current boost in prices of oil and other commodities. This should support consumer demand for higher value and imported products. However, this outlook is somewhat tempered by the exchange rate that has led to an increase in the price of U.S. products. The rate climbed from 24 rubles to the dollar in 2007 to as high as 31 rubles to the dollar in recent months.

Outlook Mixed for Russian Import Market

The Russian government's ambition to increase domestic meat and poultry production has led to the tightening of tariff-rate quotas and greater non-tariff barriers to trade that threaten future growth of U.S. pork and poultry exports. However, the market for fresh fruit is growing rapidly in Russia, with total imports growing from \$733 million in 2002 to \$4.6 billion in 2010. Fresh

fruit exports from the United States have increased from just \$8 million in 2006 to \$37 million in 2010 and there is significant room for growth with U.S. market share currently low. Ecuador is the leading supplier, mostly with shipments of bananas. Exports from the next largest fresh fruit exporters to Russia (Turkey, Argentina and China) consist of fruits that compete with U.S. products including grapes, pears, apples and oranges.

Russian dairy imports are also surging, with U.S. exporters benefiting as their shipments have grown over the last five years from just \$5 million to \$89 million. As with fresh fruit, U.S. export share is small with room to grow, as the total market doubled from 2005 to reach nearly \$2 billion in 2010. However, the outlook is uncertain as barriers to trade have emerged. The EU is the dominant supplier, enjoying a significant freight advantage. Though prospects for some U.S. products are constrained, future growth in shipments of high-value products could help the United States capture some lost market share. Indeed, exports are already seeing a rebound with FY 2011 shipments for the first eight months of the year, up 30 percent over the same period last year and forecast to reach \$1.4 billion.

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