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Russian Federation

Fresh Deciduous Fruit

Six years of consistent market growth

2006

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Report Highlights:
Russia is the world's fifth largest market for fruit. Statistics shows six years of consistent growth in market size and forecasts are very optimistic. Winter 2005/06 caused record low temperatures and frosts with no effect on the apple crop, but damaged pears. American apples can find a strong market due to increased demand for high-quality fruits. U.S. pears will be in demand even more for high-quality as well as for third sorts to replace the frost damaged pears from the South. Lack of perishables financing remains the largest obstacle to U.S. sales.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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EXECUTIVE SUMMARY

According to statistics, the opinion of fruit trade professionals and average fruit-lovers, consumption of fresh fruits in Russia is still growing. Euromonitor's database shows 6 years of consistent growth in market size and forecasts are very optimistic. Import value grew by 36 percent in 2005, average annual growth of imports for the last 6 years is 27 percent. Domestic production is also showing growth in the commercial segment thanks to investments, which allow domestic farmers to purchase high-tech equipment, renew orchards and build storage facilities. Also, development of modern retail chains in the Russian regions help local producers market in a more organized way. Crop travel to the Krasnodar region (the leading region of apple and pear production) showed orchards that are implementing new systems. Serious damage was caused to the crop in Krasnodar and in other South regions by frosts of –35C that lasted for more than a week. According to experts, we cannot expect dramatic growth of domestic production in the next 3 years. New trees, technologies need time to affect improvements and also this year's frosts had a serious negative effect.

DOMESTIC PRODUCTION

Russia produces five times more apples than pears. Krasnodar, Volgograd and Samara are the most productive regions. According to experts, production of fruits in Russia is growing at a slow pace every year. Russia produces twice as many apples as it imports. The commercial crop consists of such varieties as Red Chief, Golden Delicious, Semerenka (a Russian light green sour variety), Granny Smith, Gala, Fuji and more. Still, consumers rarely see them on the shelves of Moscow and St. Petersburg supermarkets any Russian fruit and particularly high quality Russian fruit. Specialists in the Krasnodar region predict that in 3-4 years the situation may change dramatically as the main problems of the industry – storage and transportation are on the path to improve. Even now, many orchards are using such developments as drip irrigation, temperature control storage, sorting and packaging equipment. This was practically impossible to see here 4 years ago. Just 10 percent of the crop in orchards goes into processing. Ten years ago this percentage was about 50 percent, due to a lack of proper storage and packing opportunities and ineffective distribution channel of the product. Processors had an opportunity to purchase fruit at abnormally low prices, while now wholesalers are fighting for a good quality domestic fruit.

Today, the Russian fruit industry from the south regions of the country conducts master classes for its members. Cooperation with foreign partners such as Italy, Israel, Germany, is common.

Market watchers report that Rosstat data on domestic fruit production is not accurate, due to the fact that farmers prefer not to report on their production to the Russian government. The problem of underreporting is worst in the Southern regions, which might raise the actual, national production closer to 2 mln tons. Post ATO crop estimate is based on the official estimate. When writing about seed type fruits, total production in 2005, was 1.9 mln tons, 1.4 mln tons of which was produced by the household plots and only 0.5 mln tons by agricultural enterprises of different formats. With the development of a modern retail sector, which demands transparent bookkeeping, the situation with statistics may soon improve.

Picture 1: Three year-old apple orchard (Golden Delicious and Semerenka), Krasnodar region:

Picture 2: Gala apples, Krasnodar region:

Table 1. Apples – Area Planted, Harvested, Production and Yield, Main Producing Regions, MY 2005

APPLES 2005				
	Total Area, 1,000 ha	Fruit bearing trees area, 1,000 ha	Production, 1,000 MT	Yields, MT/ha
Russia	413,26	350,29	1563,88	4,46
Central Federal District	179,47	156,40	492,97	3,15
- Bryansk	14,73	14,31	12,45	0,87
- Voronezh	27,63	23,95	89,41	3,73
- Kursk	13,60	12,51	63,86	5,10
- Lipetsk	16,36	13,18	45,14	3,43
- Moscow	10,23	10,14	37,97	3,74
- Orel	14,45	11,58	17,32	1,50
- Tambov	12,40	11,30	41,60	3,68
- Tula	22,75	18,76	63,30	3,37
Southern Federal District	98,93	79,74	507,99	6,37
- Krasnodar	26,97	20,15	161,28	8,01
- Volgograd	13,84	12,22	132,98	10,88
- Rostov	16,38	13,67	48,33	3,54
Volga Valley Federal District	86,16	70,34	323,03	4,59
- Tatarstan	9,53	5,92	25,65	4,34
- Samara	14,72	12,34	125,53	10,17
- Saratov	12,57	11,41	52,75	4,62
Ural Federal District	11,57	8,56	78,74	9,20
Siberian Federal District	16,90	13,13	67,04	5,10
Far East Federal District	2,63	1,92	7,78	4,06
North-West Russia District	25,80	24,10	118,60	4,92

Source: Russian state statistics agency, Rosstat

Table 2. Pears – Area Planted, Harvested, Production and Yield, Main Producing Regions, MY 2005

PEAR 2005				
	Total Area, 1,000 ha	Fruit bearing trees area, 1,000 ha	Production, 1,000 MT	Yields, MT/ha
Russia	64,74	50,81	292,42	5,76
Central Federal District	19,63	16,80	69,33	4,13
- Bryansk	0,78	0,79	0,75	0,96
- Voronezh	4,87	4,25	16,09	3,79
- Kursk	2,40	2,19	11,24	5,14
- Lipetsk	2,84	2,33	8,06	3,47
- Moscow	0,57	0,56	2,03	3,63
- Orel	0,75	0,62	0,88	1,40
- Tambov	0,00	0,00	0,00	
- Tula	1,15	0,94	3,20	3,42
Southern Federal District	24,17	19,36	124,51	6,43
- Krasnodar	6,73	5,05	42,52	8,41
- Volgograd	2,46	2,18	23,52	10,80
- Rostov	4,12	3,43	13,07	3,81
Volga Valley Federal District	11,14	8,86	52,57	5,93
- Tatarstan	1,67	1,08	4,45	4,10
- Samara	2,58	2,26	22,17	9,80
- Saratov	2,23	2,09	6,45	3,09
Ural Federal District	0,63	0,44	8,06	18,42
Siberian Federal District	0,00	0,27	0,76	2,84
Far East Federal District	0,18	0,08	0,42	5,09
North-West Russia District	0,90	0,20	4,50	22,50

Source: Russian state statistics agency, Rosstat

Frosts

Central and Southern Russia struggled through severe frosts winter 2005/06. Minister of Agriculture, Alexei Gordeev, announced that Russia hasn't faced such frosts for 28 years since 1978-79. On the crop travel to the South region, the analyst saw no damage to apples, weather mainly effected stone fruit, grapes, and pears. In the Krasnodar region, the pear crop is much lower than in 2004 and many trees were replaced by the new ones, this should translate in higher demand.

IMPORT

Fruit

For the commodity group HS 08 – edible fruit and nuts – in calendar year 2005, according to the official statistics, Russia imported 3.9 mln tons worth $2.1 billion. In CY 2004, Russia imported 3.8 mln tons, worth $1.6 billion. In CY 2003, import was 3.2 million tons that was worth $1,2 billion. Leading importing countries: Ecuador, Turkey, Morocco, China, Poland, Egypt, Argentina, Belgium, Spain, Italy, Pakistan, USA.

Russia is an important fruit export destination for such countries as Argentina (1st biggest export destination), Morocco (1st biggest destination), Ecuador (2nd biggest export destination), Turkey (3rd export destination), China (4th export destination), Belgium (4th export destination), the Netherlands (6th export destination), Poland (7th export destination), Chile (8th export destination).

Russian fruit importers are investing money into various segments of their business, showing ambitious plans for future years. In 2005-2006, almost all big Russian importers of fruits and vegetables (Sorus, JFC, Sunway, Baltfruit) have continued their strategy of better independence from outside freight services. This will let companies decrease freight cost and provide stable supply to growing retail chains. Some of the importers cooperate with retail chains and there are rumors about mutual projects on distribution center for fresh fruit and vegetable construction. In 2005, total St. Petersburg market of refrigerated goods equaled about 4 million tons. While fruit market had 40% of it. Such sufficient volumes inspired importers on fleet purchase. According to latest updates, Russian fruit importers own 40 ships.

Apples

In calendar year 2005, according to the official statistics, Russia imported 720,800 tons of apples worth $294 million. In CY 2004, Russia imported 750,370 tons, worth $237 million. In CY 2003, import was 601,900 tons that was worth $196 million.

Leading apple importers: Poland ($79 million), China ($53 million), Argentina ($31 million), Azerbaijan ($20 million), Ukraine ($15 million), Chile ($15 million), Italy ($15 million), France ($14 million), Belgium ($12 million), Kazakhstan ($10 million), Moldova ($8 million), USA ($5 million).

Consistent growth for last 3 years: Poland, China, Azerbaijan, Chile, Italy, Kazakhstan, Kyrgyzstan, the USA.

Table 3. Import Trade Matrix for Apples, MY 2004, 2005, Metric Tons

Country	Russian Federation		
Commodity	Apples, Fresh		
Time Period		Units:	Metric tons
Imports for:	2004		**2005**
U.S.	2,170	U.S.	9,500
Others		Others	
Poland	207,197	Poland	194,731
Moldova	121,825	China	125,662

China	107,514	Argentina	69,066
Argentina	46,345	Azerbaijan	63,083
Azerbaijan	45,700	Ukraine	43,153
Chile	37,577	Italy	34,484
France	27,187	France	32,770
Kazakhstan	20,152	Chile	32,395
Italy	16,649	Belgium	27,416
Ukraine	16,104	Moldova	26,399
Total for Others	646,250		649,159
Others not Listed	56,950		62,141
Grand Total	705,370		720,800

Most significant growth in 2005 – the USA (294% compared to 2004 from $1.2 million to $4.6 million), Ukraine (after a drop in 2004 from $8.6 to $5.9 million, in 2005 imports grew by 155%), Italy (after a drop in 2003 from $8.9 to $6.2 million, in 2005 imports grew by 135 %).

Russia is the 3rd place world importer of apples after UK and Germany.

Chart 1,2. Apple import to Russia by month, 2005

Definitions:
Other EU – Spain, the Netherlands, Italy, France, Belgium
Other CIS – Moldova, Kyrgyzstan, Kazakhstan
South America – Argentina, Chile

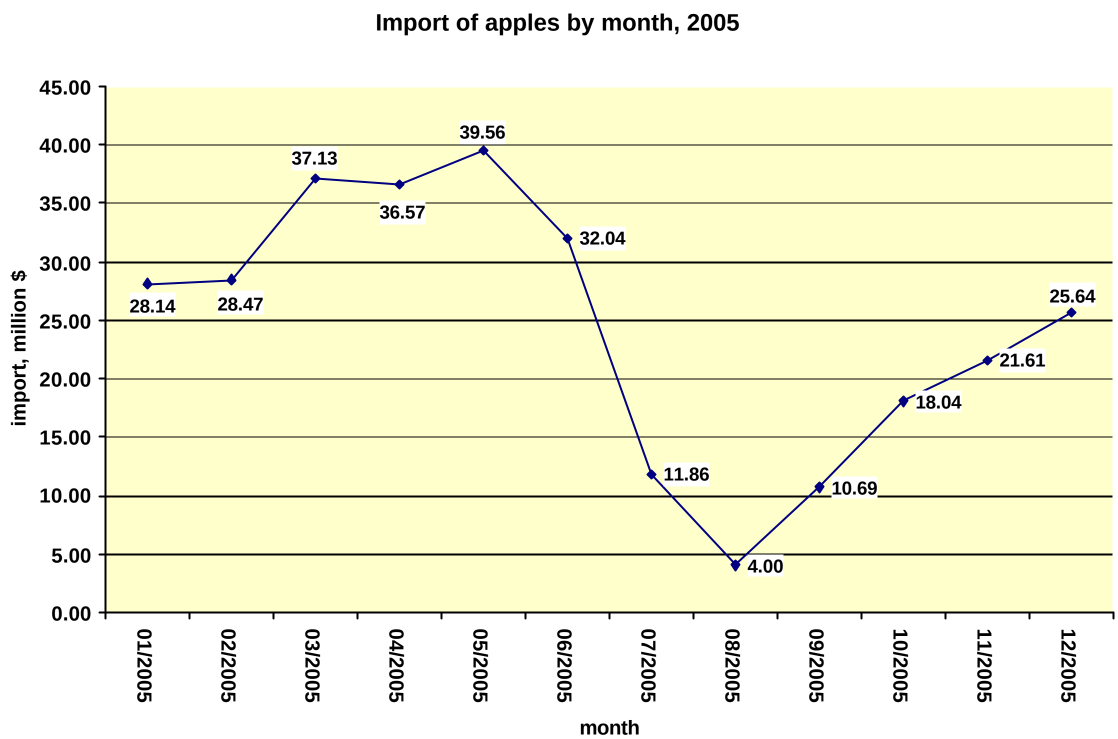


Table 4. PSD, Apples, Metric Tons

PSD Table							
Country	Russian Federation						
Commodity	Apples, Fresh						
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2004		07/2005		07/2006	MM/YYYY
Area Planted	420,000	420,000	413,000	413,300	0	420,000	(HA)
Area Harvested	35,700	35,700	349,000	350,300	0	350,000	(HA)
Bearing Trees	134,900	134,900	132,000	135,000	0	120,000	(1000TREES)
Non-Bearing Trees	26,000	26,000	26,000	26,000	0	38,000	(1000TREES)
Total Trees	160,900	160,900	158,000	161,000	0	158,000	(1000TREES)
Commercial Production	1,100,000	1,100,000	1,276,000	1,183,000	0	1,100,000	(MT)
Non-Commercial Production	400,000	400,000	384,000	380,000	0	380,000	(MT)
TOTAL Production	1,500,000	1,500,000	1,660,000	1,563,000	0	1,480,000	(MT)
TOTAL Imports	680,000	680,000	1,180,000	750,000	0	890,000	(MT)
TOTAL SUPPLY	2,180,000	2,180,000	2,840,000	2,313,000	0	2,370,000	(MT)
Domestic Fresh	920,000	920,000	1,365,000	941,000	0	1,002,000	(MT)

Consumption							
Exports, Fresh Only	1,000	1,000	900	2,000	0	3,000	(MT)
For Processing	1,245,000	1,245,000	1,450,000	1,350,000	0	1,350,000	(MT)
Withdrawal From Market	14,000	14,000	24,100	20,000	0	15,000	(MT)
TOTAL UTILIZATION	2,180,000	2,180,000	2,840,000	2,313,000	0	2,370,000	(MT)

Table 5. Prices of Imported Apples, US Dollars per Metric Ton

Country	Russian Federation		
Commodity	Apples, Fresh		
Prices in	US Dollars	per uom	Metric ton
Year	2004	2005	% Change
Jan	310	400	29%
Feb	304	400	32%
Mar	304	410	35%
Apr	334	410	23%
May	362	430	19%
Jun	373	440	18%
Jul	391	440	13%
Aug	350	390	11%
Sep	344	360	5%
Oct	341	370	9%
Nov	352	390	11%
Dec	371	410	11%

Pears

In calendar year 2005, according to the official statistics, Russia imported 313,430 tons of pears worth $156 million. In CY 2004, Russia imported 260,210 tons, worth $104 million. In CY 2003, import was 207,221 tons that was worth $75 million.

Leading pear importers: Argentina ($47 million), Belgium ($39 million), China ($22 million), Netherlands ($11 million), Spain ($7 million), France ($ 7 million), Portugal ($5 million), South Africa ($4 million), Chile ($2 million), USA ($2 million), Kyrgyzstan ($2 million), Poland ($2 million), Uzbekistan ($2 million), Kazakhstan ($1 million), Italy ($1 million).

Almost all the above mentioned countries show consistent growth for last 3 years. Just South Africa (-21% from $4.5 to $3.5 million), Chile (-40% from $3.5 to 2 million), Poland (-63% from $4.7 to $1.7 million) and Kazakhstan (-26% from $2 to $1.5 million)

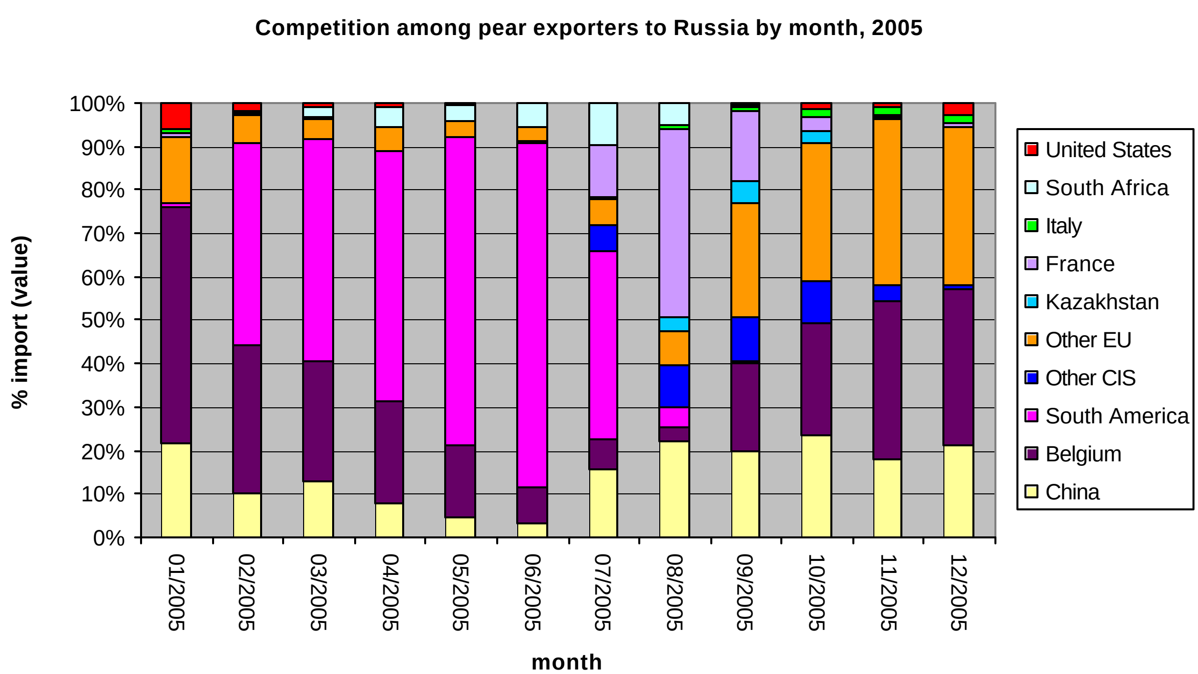
Most significant growth in 2005 – China (107% compared to 2004, from $10.7 million to $22 million), Portugal (179% compared to 2004, from $1.7 million to $4.7 million) and Italy (104% compared to 2004, from $0.5 million to $1 million).

Russia is the sixth world's largest pear importer after Germany, the USA, France, the UK, and the Netherlands.

Table 6. Import Trade Matrix for Pears, MY 2004, 2005, Metric Tons

Country	Russian Federation		
Commodity	Pears, Fresh		
Time Period		Units:	
Imports for:	2004		**2005**
U.S.	2,720	U.S.	3,857
Others		Others	
Argentina	69,247	Argentina	93,294
Belgium	58,089	Belgium	82,605
China	29,289	China	45,124
Netherlands	26,034	Netherlands	20,958
France	14,640	Spain	14,409
South Africa	11,207	France	13,700
Poland	10,972	Portugal	9,232
Spain	9,537	South Africa	7,060
Chile	8,354	Chile	3,949
Kazakhstan	3,987	U.S.	3,857
Total for Others	241,356		294,188
Others not Listed	16134		15,385
Grand Total	260,210		313,430

Chart 3,4. Pear import to Russia by month, 2005



Definitions:
Other EU – Spain, Portugal, Poland, the Netherlands

Other CIS – Uzbekistan, Ukraine, Kyrgyzstan
South America – Argentina, Chile

Import of pears by month, 2005

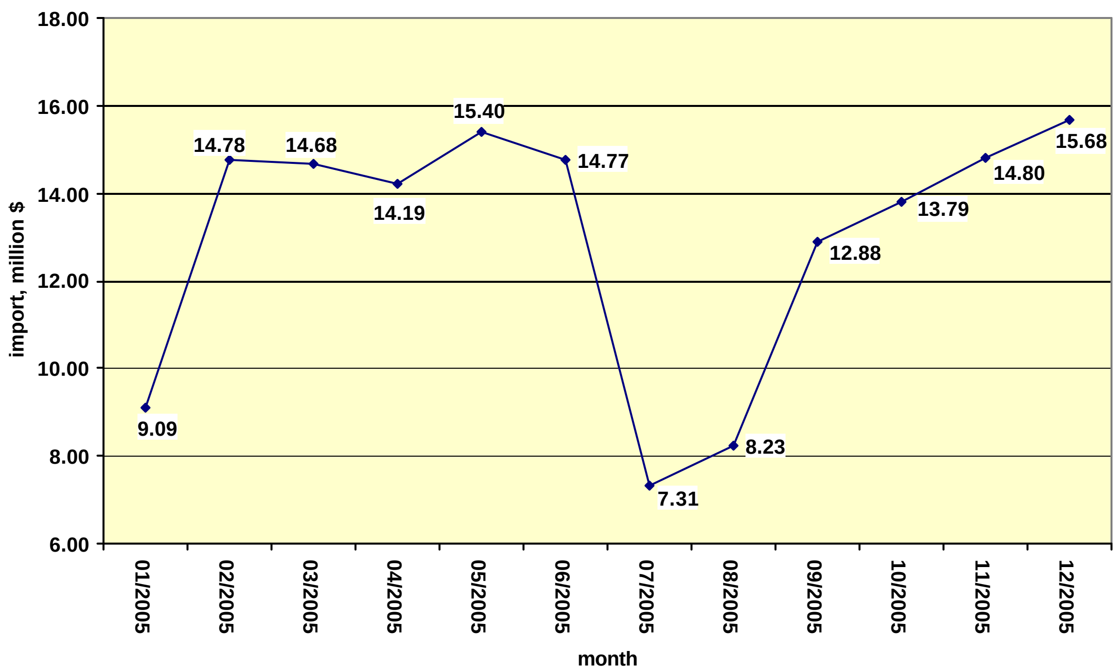


Table 7. PSD, Pears, Metric Tons

PSD Table							
Country	**Russian Federation**						
Commodity	**Pears, Fresh**						
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2004		07/2005		07/2006	MM/YYYY
Area Planted	68,500	68,500	65,000	64,700	0	53,140	(HA)
Area Harvested	53,800	53,800	51,000	50,800	0	35,600	(HA)
Bearing Trees	17,000	17,000	16,000	16,100	0	11,300	(1000TREES)
Non-Bearing Trees	10,100	10,100	9,500	9,500	0	12,000	(1000TREES)
Total Trees	27,100	27,100	25,500	25,600	0	23,300	(1000TREES)
Commercial Production	95,000	95,000	130,000	114,100	0	71,000	(MT)
Non-Commercial Production	140,000	140,000	190,000	178,300	0	110,000	(MT)
TOTAL Production	235,000	235,000	320,000	292,400	0	181,000	(MT)
TOTAL Imports	235,000	235,000	371,000	330,000	0	388,000	(MT)
TOTAL SUPPLY	470,000	470,000	691,000	622,400	0	569,000	(MT)
Domestic Fresh	333,000	333,000	521,000	484,200	0	462,800	(MT)

Consumption							
Exports, Fresh Only	50	50	50	800	0	0	(MT)
For Processing	130,000	130,000	160,000	130,000	0	100,000	(MT)
Withdrawal From Market	6,950	6,950	9,950	7,400	0	6,200	(MT)
TOTAL UTILIZATION	470,000	470,000	691,000	622,400	0	569,000	(MT)

Table 8. Prices of Imported Pears, US Dollars per Metric Ton

Country	Russian Federation		
Commodity	Pears, Fresh		
Prices in	US Dollars	per uom	Metric ton
Year	2004	2005	% Change
Jan	351	440	25%
Feb	374	470	26%
Mar	383	470	23%
Apr	384	480	25%
May	401	480	20%
Jun	401	500	25%
Jul	412	530	29%
Aug	432	530	23%
Sep	422	520	23%
Oct	433	530	22%
Nov	424	530	25%
Dec	444	520	17%

Source of information

The above statistics and graphs were prepared based on the data of the World Trade Atlas, which uses data of the Customs Committee of Russia. Prices are based on CIF prices.

RETAIL

Attaché report RS 5307 (Fresh Deciduous Fruits, Annual, 2005) the following trade formats are mentioned as main spots for purchasing fruits and vegetables in Russia:

- retail chains

- elite grocery markets

- open markets established in the 90's

- fruit/vegetable kiosks

Modern format retail chains are gaining a bigger share of sales including sales in the fresh fruit and vegetable sector, however, most retail chains suffer from quite low quality and assortment in this sector. Many Russians consider the other three sales spots more attractive for purchasing fresh produce, especially during summer time. It is considered that most of the retail fruit business in Russian belongs to natives of Azerbaijan, Armenia and other southern republics of former USSR. Please, review photos to get better understanding of various formats of fruit retail in Russia.

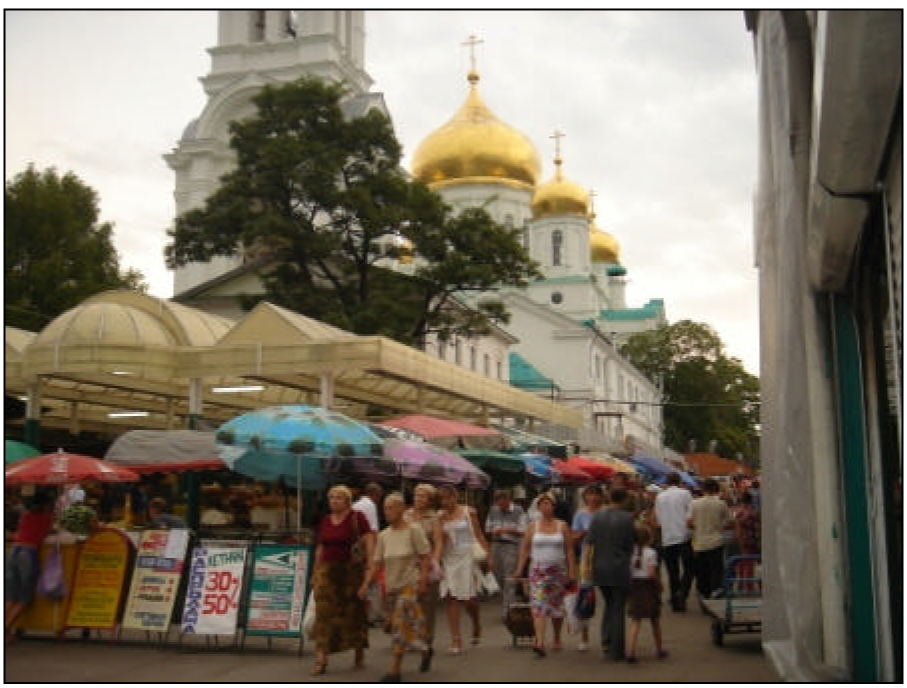
Picture 3. Hypermarket:

Picture 4. Elite wet market, St. Petersburg:

Picture 5, 6. Open market established in 90's:

Picture 7. Street kiosks, St. Petersburg:

Picture 8. Rostov-on-Don, Street kiosks:



GOVERNMENT POLICY

Customs duties and fees on fruit

Tariff rates for apples vary depending of the season to protect domestic production. Tariff rates on apples are counted as duty per kilogram. From January 1 to July 31 the rate is EURO 0.1 per kilogram. From August 1 to December 31 it is EURO 0.2 per kilogram.

For other fruits, the tariff rate is counted as a percentage of dutiable value. For pears and grapes it is 5 percent of dutiable cost. For grapefruit the custom duty is also counted as 5 percent of dutiable cost, but not less than EURO 0.02 per kilo.

For more information on tariff rates, import procedures and labeling requirements see Attache report GAIN RS5026.

Russian trade can be like a spigot and get turned on or off, depending on the phytosanitary surveillance decisions, as indicated below.

Table 9. Bans imposed and/or lifted on imports of fresh fruit, applied 2005-06:

Country	Period	Reason	Solution
Germany	November 2004-May 2005		Sanitary issues
The Netherlands	December 2004-March 2005	California flower thrips	
Moldova	March 2005	Poor quality, pesticides	
Armenia	March-June 2006	Phytosanitary certificates; import via Georgia	24-hour advance customs declaration with number of phytosanitary certificate and lorry number transporting the fruits
Turkey	April-June 2006 (rumors about ban)		Phytosanitary control service will be checking all the imported fruits from Turkey on pesticides, nitrates and etc.
Egypt	April 2006 (rumors about ban)	Poor quality	
Poland	November 2005 (rumors about ban)	Disobeying the existing phytosanitary rules	
Georgia	December 2005	Phytosanitary certificates	Georgia is a supplier of mandarins, persimmon, pomegranates and fresh herbs

Source Russian media

CONSUMPTION

According to research from the Fruit and Vegetable Alliance, Russians' favorite fruits are the following:
- Apples (40 percent of Russians prefer an apple to other fruits);
- Bananas (31 percent) and oranges (28 percent);
- Grapes (22 percent) and pears (21 percent);
- Apricots, peaches, watermelons, mandarins, grapefruits, lemons, plums, pineapples and kiwifruits (7-18 percent);
- Pineapple, mango, avocado (less than 4 percent).

Berries are a traditional food in Russia. Strawberries, raspberries, cranberries and red bilberries are very popular. Most berries are picked in forests and small private orchards. Due to the seasonal availability of these fruits they are growing in demand for imports.

Exotic fruits are not that common in Russia. About one third of Russians report that they have tried an exotic fruit like pineapple, avocado, litchis, carambola, papaya, or rambutan. According to the World Trade Atlas, the total imports of exotic fruits (pineapples, avocados, guavas, mangos) equals just 60,000 tons.

Apples are the most popular fruit in Russia - 70-85 percent of Russians buy apples on regular basis. Russian consumers normally eat green or yellow apple varieties and some believe they are healthier than red ones. Most common Russian apple varieties are green. Generally a Russian consumer prefers fruits of bigger sizes (70-80 mm). Most apples consumed in Russia are grown in small private orchards. At the same time, Russian production is not diversified in variety. With the growth of consumer's incomes there is a strong growth in demand for luxury apple varieties of consistent quality and big sizes.
As surveys show, around 79 percent of Russians consider domestic fruits and vegetables safer than imports.
Banana consumption is growing continually. In 2000, per capita consumption of bananas was 2.5 kg, in 2001 it grew 36 percent, in 2002 –24 percent, in 2003 – 31 percent. In 2004, it reached 6 kg. In Eastern Europe the per capita annual consumption is 8-10 kg of bananas.

MARKETING

Fruits are not strongly marketed in Russia. The only marketing activities happen in a limited number of stores. Common retail marketing methods for fruits and vegetables in retail is merchandising (separate displays, power-zones, shelf trays), seasonal sales, internal radio announcements, "SALE", or "BARGAIN" signs. All these marketing tools are modest compared to other departments in a retail outlet (alcohol, snacks, confectionery, meat departments).

Retailers' leaflets that are distributed in the shop itself, delivered to customer's homes and distributed on the streets usually do have information on several items from the fruit/ vegetable department, but normally they simply advertise a fruit without mentioning or including the brand name or logo. Usually, such activities are organized by the managers of the outlet to make the Fruit and Vegetable Department look more interesting.

According to research by one Russian retailer, Russian consumers tend to buy unknown products when they see an advertisement action (40 percent), a new product (24 percent), a sale (13 percent), an interesting package (10 percent), or a friend's advice (5 percent). Advertising in stores does not often happen in fruit departments, even though there are great opportunities to increase the volume of sales. One fruit department manager claims that just internal radio announcements and advertisement in the department helped increase sales of fresh table grapes by 4-5 times in a week.

So far, there is almost no brand awareness in the fruit sector. Very often fruits of one country of origin are sold under another origin sign. For instance, the sticker on the apple may say one country; the price tag would say another country. Besides, shop assistants often misinform customers about country of origin. Most probably they do so because they can't identify the country themselves. Brand awareness varies by region, according to reports, the Russian Far East is aware of quality in U.S. brands against competitors.

Obstacles to U.S. Trade

Perishables shipments to Russia of products such as apples and pears are not growing due to the unavailability of supplier credit. Each side in the financial transaction must get access to accurate credit histories on companies both in Russia and in the United States to succeed. Competitor countries offer such facilities to support their exports. The lack of a USDA supplier credit program world wide has hurt export market development of perishables more sharply that other export sectors. Fast trade finance is crucial to the high-volume, high loss, high risk business of moving perishables. As the chief impediment to expanding U.S fruit trade, better trade finance awareness is needed.

The Greater Port of St. Petersburg has finally attracted significant levels of investment as it entered private hands in 2006. Several Port company representatives are scheduled to visit the United States in October, under a Cochran Fellowship Program. Exports to Russia are constrained by logistics. The Port of St. Petersburg is a bottleneck for U.S. container traffic, particularly climate-atmosphere controlled containers, due to the quotas placed on traffic movement by the shipping companies. They just don't have any place to put the containers and improvements must be made to the Port. For years, Russian has been consuming its infrastructure and not investing in ports. That has changed with St. Petersburg being one of the first container terminals in private hands – and a big one at that.