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END MARKET STUDY FOR FRESH AND DRIED FRUITS IN RUSSIA

AGRICULTURAL COMPETITIVENESS AND ENTERPRISE DEVELOPMENT
PROJECT (ACED)

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EXECUTIVE SUMMARY

The Russian market for fruits is growing on average 15% per year and represents a big potential for Moldovan producers. The market growth is mainly due to imports as the local fruit production remains relatively stable and doesn't exceed 4 mil. tons. The overall market size of fresh fruits in Russia is estimated at about 10 mil. tons, from which 6.1 mil. tons, or \$ 5.5 billion was imported in 2010. Russia is a net importer of fruits. Moldova's share of those fruit imports amounts to a mere 1.7% by value for 2010. There is ample opportunity to increase this percentage both by increasing the value of currently exported products and by increasing the total volume of exports.

The current channel for Moldovan fresh produce in Russia is limited to the open truck market. This channel is shrinking due to the pressure of modern retailers (supermarkets) who are developing fast. In order to sell more product in the market place, one must concentrate on the retail community where all the growth is. The biggest potential in the market is with Moldovan apples followed by table grapes. Peaches, plums and sweet cherries are opportunistic fruits that can bring potentially high profits with high risks and potentially huge losses. Maintaining a continuous and effective cold chain for these crops beginning with pre-cooling immediately after harvesting can decrease this risk. Moldovan dried plums and shelled walnuts are from a quality perspective competitive but the price will always be determined by the spot market which should be quantified beforehand if channeled to the open market.

The best season for selling table grapes is November-December. With adequate storage the season for this fruit can be extended into January. The best time period for apples as well is November-December but with proper CA (controlled atmosphere) storage apples can be sold through April/May. Peaches, plums and sweet cherries are seasonal products and cannot be stored for long periods. With careful harvest, post-harvest and transport practices, their shelf life can be extended sufficiently to arrive in the market with at least one week remaining of shelf life on the product. This is necessary to minimize price adjustments or outright losses. Dried plums and walnuts should be sold between October-March/April with shelf life not being an issue with appropriate handling, packaging and storage for these non-perishable products.

There are no specific packaging requirements for fruit in the Russian market as long as it is sufficiently protected from being damaged. If packaging satisfies this requirement it will be accepted by the buyer. Several types of packaging from wood, carton or plastic are accepted in Russia and all of them are available in Moldova.

Sizing is extremely important for all fruits. For apples the most popular size is 65+mm, for plums 35-40 mm, for peaches AA (73-80mm) and for sweet cherries at least 22 mm. For table grapes, the important factor is the weight of the bunch (minimum 400-450 grams and quality grapes 600-800 grams) with "the bigger the better" being the general rule along with size uniformity of the berries. In addition to sizing it is extremely important that the fruits be free of visual defects.

Varieties are not important in Russia. Consumers distinguish fruits by color. For apples red, green and yellow all have their distinct customer base. For grapes there is a market for both dark/red and white varieties with a slight preference of dark over white. Peaches must have predominantly a red

color. Plums are divided between black, red and blue. Darkness of the fruit is important for all sweet cherries.

In order to ship produce to Russia the exporter should be included in the list of exporters approved by Federal Service for Veterinary and Phytosanitary Control of Russia. The scheme of import and payment is sophisticated and requires utilization of indicative import price imposed by the Customs Office in Russia as well as a long chain of tax avoidance mechanisms. Exporters that do not comply with these formal and informal “rules of the game” simply cannot deliver produce to Russia.

A producer willing to work directly with a distributor on a long term basis should be ready to provide to the partner the possibility of post payment of 14-30 days. The biggest deals are made when producer and distributor work closely together and the distributor is paid on a fixed commission per box and sells the produce according to the price level at a certain period of time.

1. INTRODUCTION

About ACED

ACED is a five year project, co-funded by the United States Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC), and implemented by Development Alternatives, Inc (DAI) to increase the success of the Moldovan agriculture sector in the production and marketing of high value crops both in the domestic market and internationally. ACED will focus on a limited number of high value agriculture value chains that will take advantage of new programs, supported by MCC, to increase irrigation capacity in the country and provide positive returns to farmers and the rural economy. The program will provide a combination of technical and managerial training, technical assistance and marketing services to strengthen existing value chains and encourage the development of new ones.

Objectives of the study

The goal of this End Market Study is to enable Moldovan fruit value chain participants (producers, packers, consolidators and others) to get a better understanding of the market for their products in Russia and the requirements for entering that market. The products included in this EMS are fresh apples, table grapes, plums, peaches, sweet cherries and also dried plums and shelled walnuts.

The general objectives of this End Market Study are:

- to analyze demand in a specific market—size, trends, consumer preferences, and requirements, and overall structure (product categories, price segments, and distribution channels).
- to determine retailer/wholesaler sourcing requirements (packaging, grading, varieties, volumes, price points, etc.).
- to benchmark Moldovan products against competitive products already in the market to target competitive strengths and weaknesses.
- to identify key drivers of demand likely to affect the market in the next 5-10 years.

The specific objectives of this EMS assume getting answers on the following questions:

- What are the specific buyers' critical requirements for each product being analyzed (varieties, quality, pricing, volume, delivery, packaging, certifications)?
- What are the strengths and weaknesses of these items in the Russian market?
- What is the incremental "pricing ladder" for the entire distribution channel-importer, wholesaler, and retailer?
- What are packaging requirements for wholesale and retail markets?
- What are local consumer preferences and trends with regard to varieties, sizing and other product attributes?

- Are there important market niches such as organic or Fair Trade and, if so, what are their characteristics with regard to products, volumes, price differential and distribution channels?
- Who are the most important buyers for each product in the market studied?
- What reputation does Moldova have as a source of fresh produce in this market?
- What are the normal payment terms for imported fresh produce in the Russian market?

Methodology used

The findings of this report are based on the primary and secondary information collected from different sources.

For collecting secondary information, ACED engaged the Moldovan research company Magenta Consulting, using desk research and telephone interview method provided information on production and trade statistics, wholesale price dynamics, legislation requirements. The information provided by Magenta Consulting was verified and supplemented by the ACED team via parallel desk research and utilization of open and paid information resources like, UN Comtrade database, Global Trade Atlas, Eurostat, Euromonitor and other sources.

In order to get the primary information directly from the source, ACED engaged an external consulting firm, Ukraine-based company APK Fruit-Inform, that was given the task of calling on its detailed knowledge of the Russian market to introduce the ACED research team to the market players in Russia and to establish direct linkages with potential buyers of Moldovan produce. Accompanied by a representative of APK Fruit-Inform the ACED research team, including a representative of Moldovan apple exporters, visited Moscow in the period 14-31 July 2011 and had meetings with 16 market players, including importers and wholesalers of fresh and dried fruits, sales agents, brokers and representatives of retail chains. Besides this the research team carried out store checks in supermarkets and visits to Pokrovka wholesale base and open truck market and Amurskaia wholesale base.

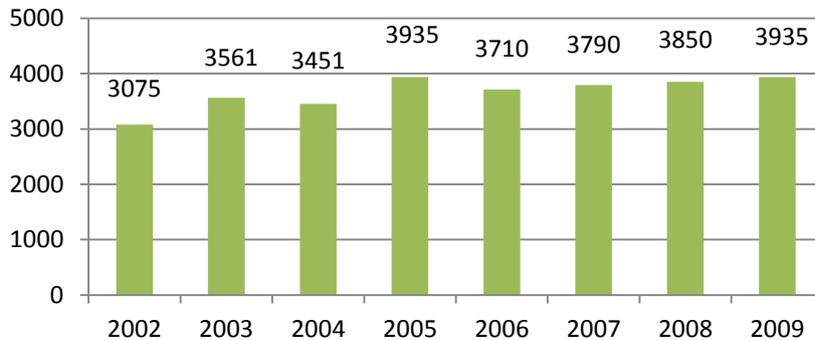
Report structure

This report consists of a brief executive summary, introduction, general description of the Russian fruit market, product related market information section divided by each studied fruit, description of distribution channels, import and payment procedures and governmental import requirements. At the end of the report there are specific conclusions and recommendations for Moldovan producers. Annexes include a contact list of potential buyers.

2. GENERAL DESCRIPTION OF THE FRUIT MARKET IN RUSSIA

The Russian market for fruits is growing at an average 15% per year and represents a big potential for Moldovan producers. The market grows mainly due to imports as the local fruit production remains relatively stable and doesn't exceed 4 mil. tons. (see the figure below)

Figure 1. Production of fruits in Russian Federation, ths. tons

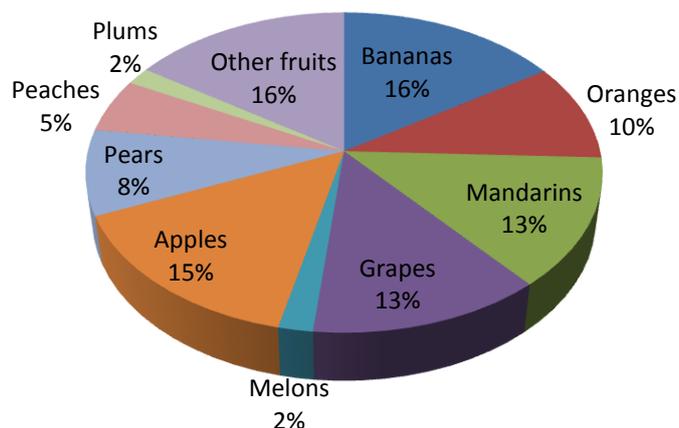


Source: ITKOR

The overall market size of fresh fruits in Russia is estimated at about 10 mil. tons, of which 6.1 mil. tons, or \$5.5 billion was imported in 2010. Therefore, Russia can be a large net importer of fresh fruits. Moldova's share in fruit imports in 2010 was a mere 1.7% by value. The average per capita fruit consumption in Russia is 53/kg year, while the norm recommended by nutrition specialists is 100 kg/year. Assuming that growth in incomes results in an "improved eating pattern" with more fruit consumption, we can estimate the future market potential at about 15 mil. tons of fruits consumed per year with the bigger part being satisfied by imports rather than by local production.

The main fruits imported to Russia are presented in the chart below:

Figure 2. Structure of fruits import to Russia by product, by value in 2010



Source: UN Comtrade Database

The only Moldovan fresh produce found in the market are apples and table grapes, i.e the traditional ones for Moldova.

The forecast provided by Euromonitor confirms the growing dynamics of the market.

Table 1: Forecast Sales of Fruits in Russia by Category: Total Volume 2009-2014, in thousand tons

	2009	2010	2011	2012	2013	2014
Apples	1,454.5	1,541.9	1,619.3	1,670.3	1,710.1	1,737.3
Bananas	927.6	972.6	1,010.6	1,059.9	1,098.5	1,121.8
Cherries	104.6	114.4	124.7	135.6	145.4	154.8
Cranberries/Blueberries	32.3	34.4	36.1	37.8	38.2	38.6
Grapefruit/Pomelo	80.4	82.5	83.3	84.7	85.7	86.5
Grapes	440.4	468.8	505.6	531.4	564.5	588.3
Lemon and Limes	187.8	191.5	192.5	195.3	197.2	201.2
Oranges, Tangerines and Mandarins	1,007.3	1,037.0	1,120.0	1,215.7	1,302.5	1,383.9
Peaches/Nectarines	160.8	171.2	192.7	212.4	229.7	246.3
Pears/Quinces	419.6	438.7	483.1	522.5	555.2	582.3
Pineapple	29.7	31.7	33.9	36.6	38.9	40.5
Plums/Sloes	86.2	90.9	96.7	101.9	106.2	110.3
Strawberries	79.2	86.4	94.0	101.1	108.1	113.6
Other Fruits	673.8	714.9	752.3	806.2	859.6	898.8

Source: Euromonitor

Commercial sales to modern retail formats (supermarkets) now account for more than 50% of overall fruit sales in big cities, which is driving the move towards higher standards in produce quality and proper product presentation. In order to reverse their declining position in this critical market. Moldovan producers will need to consolidate their efforts and adapt their products and overall marketing strategy to this changing market environment.

3. MARKET INFORMATION ON STUDIED FRUITS

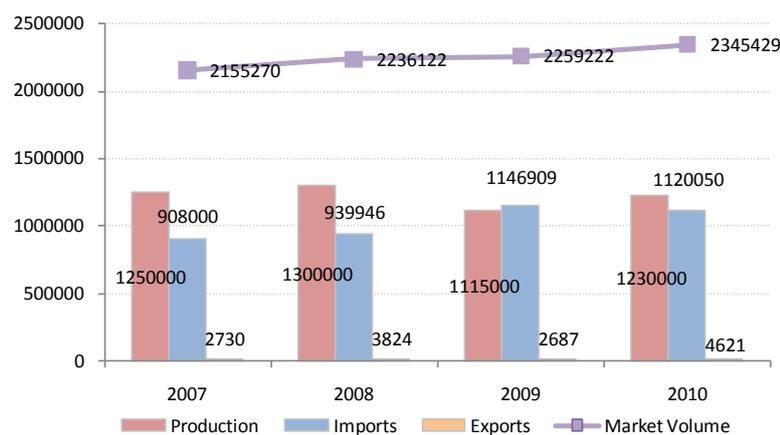
3.1. APPLES

3.1.1. Characteristics of the apple market

Market size

The fresh apple market in Russia has recorded an increase of 8% since 2007, reaching the value of 2345 ths. tons in 2010 (see the figure below)

Figure 3. Market volume of apples, tons

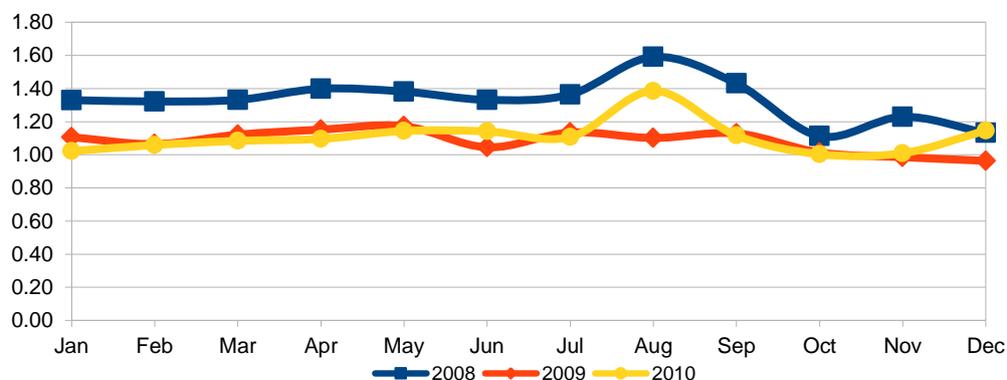


Source: United States Department for Agriculture, FAS Production, Supply and Distribution Data Base

At the same time, Russian production of apples declined by 1.6% in the last four years (from 1250 ths. tons in 2007 to 1230 ths. tons in 2010). The highest volumes were recorded in 2008 - 1300 ths. tons, while the lowest were recorded one year later – 1115 ths. tons. The volume for 2010 shows 1120 ths. tons of imported apples, which is 2% lower than the 2009 volume of 1147 ths. tons, which is the highest in the four years of analysis.

Wholesale prices and seasonality

Figure 4. Average wholesale price for apples, euro/kg incl. VAT



Source: APK Fruit-Inform

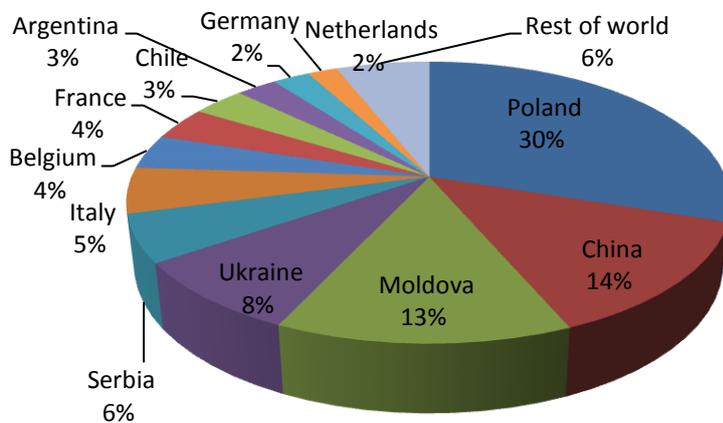
As we can see from the figure above the average wholesale price for apples during the last two years was relatively stable within the limits of 1 -1.20 euro/kg, with a small peak in August. The conclusion is that there is price sensitivity with no huge price premiums in the off season (winter months) with quality fruit arrivals from the Southern Hemisphere (Chile and Argentina) compared to Eastern European and CIS countries.

We can also notice that the average prices in 2008 were 15-20% higher than in 2009-2010, while the monthly price fluctuation pattern remained the same. This is explained by the fact that Russian Ruble was stronger and had a better exchange rate for the euro in 2008.

Competition

The main countries importing apples into Russia are represented in the figure below.

Figure 5. Imports of fresh apples to Russia by country, by volume, 2010.



Source: Global Trade Atlas

Poland is traditionally the biggest supplier to the Russian market and China is second supplying apples to the Asian part of Russia.

The market share of Moldovan apples has been constantly growing since the import ban of 2006, increasing from 5% in 2007 to 13% in 2010. Last year was also a good year for Ukrainian producers who doubled their exports to the Russian market. Serbia has also doubled its exports to Russia reaching a 6% market share in 2010. Export volumes from Italy, France and Belgium during the last 5 years were up as well, keeping pace with the growth of the market. Chile had a relatively stable share of 3-4% of the market. The share of Argentina dropped from 10% in 2005 to 3% in 2010.

The market is really divided into two distinct sectors although there is always some crossover when there is an imbalance between supply and demand. The lower to middle segments of the market, where the majority of the apple business is done are served by Poland, Moldova, Ukraine, Serbia and China (for select Eastern parts). For the higher end niche market segment, where big fruit and specialty varieties are sold in fancy packaging, competition is strong among suppliers from Holland, Italy, Belgium, Argentina, Chile and Spain.

The mainstream market (low-mid priced) is extremely competitive. Serbia has done a great job over the course of the last few years in building its image and increasing its prices in the Russian market. Numerous people indicated that Serbians are the suppliers who are really on the move in the apple market. Poland continues to have a very good reputation in the market. Ukraine is also moving ahead and gaining good recognition in supplying consistent fruit in the market. Moldovan fruit has a good reputation with many but lacks the cosmetic appeal and size consistency compared to other suppliers. The overall organoleptic qualities of the Moldovan fruit is often preferred over the fruit from Poland and Serbia but the eye appeal and overall pack out is not there. One cannot emphasize enough how important it is to have cosmetically appealing fruit as people “eat with their eyes”.

Generally the Serbian and Polish fruit sells for a small premium (10%) higher compared to the Ukrainian and Moldovan fruit based on consistent sizing, eye appeal and attractive full pack out of the box. This small differential in price has comparative incremental costs as well and is not all profitability. After January 1st the Polish apples becomes equal in price compared to Moldovan and Ukrainian apples (because of the reduced customs duty) however the Polish apples are perceived by some to have a better quality image. The Polish fruit has a good reputation in the market and in the spring time when there is higher quality Argentine fruit Polish fruit commands the same price point for slightly lesser quality.

In the upscale niche market the competition among countries changes. They are all shipping in good quality fruit, many times large fruit, and specialty packs with select varieties that command higher prices. This smaller part of the Russian apple market is highly competitive within the countries mentioned of Holland, Italy, Argentina, Chile, Belgium and Spain. Market dynamics are changing all the time and it is hard to say which country commands the highest price as a general rule. At all times everyone tries to stay one step ahead of the other with something different, which many times does not make much of a difference in the price within this competitive market place. The majority of suppliers shipping the more expensive varieties to supermarkets have increased their market share and volumes during the last 2-3 years. This will continue, based on the pattern of consumers buying more and more produce in supermarkets. This is an important fact as the open market segment in Russia continues to decline and therefore a smaller segment for the Moldovan fruit. The Moldovan producers will need to meet the consistent quality requirements for retail where all the growth is taking place in the future.

3.1.2. Specific product requirements for apples

Sizing and grading

The sizing of the fruit is very important for the different sectors of the business. The sizing of the fruit in Russia is measured by the MM (diameter) of the fruit and not by the count in a standard box as may be found in other countries. Generally speaking the preferred size of the fruit is 65-70mm for the retail trade and HoReCa. Within the retail sector, larger fruit (85-90mm) is sold at a premium but this is a niche market and not where the bulk volume is traded. Within the HoReCa market there is also demand for smaller size fruit such as 60mm for schools, hospitals, airlines, military and other institutional places of business.

Whether the buyer is a retailer, wholesaler, distributor or HoReCa the single most important factor for the apples is to have consistent sizing. The entire box must be the same size fruit. For the retailers this is imperative and if there is attractive larger size fruit in the box other than the requested size this is not viewed as an upgrade but a real negative and will not be tolerated. Every layer within the box must have the same size fruit with only minimal variances. There is such emphasis placed on sizing that the buyers make reference to the quality of the fruit when referring to size consistency, using the terms “sizing” and “quality” interchangeably. Once again, if you sell 65mm fruit, then all the fruit must be 65mm and not mixed with 70mm fruit within the box and this is clear to all those involved. The major part of Moldovan apples coming to the Russian market are not calibrated and therefore the only market niche for their commercial efforts remains within the shrinking open truck wholesale market.

The grading of the fruit is important as to have a full and complete presentation in the box with consistent quality which includes cleanliness, firmness and free of visual defects. The fruit quality needs to be uniform and not a lot of variance within the box. There are specific quality tolerance levels that are set forth by the retailers and they use this as a component part in the overall tolerance levels (4%) that must be adhered to. There is more and more emphasis on quality. This translates more to consistent sizing and color rather than organoleptic factors.

Color and varieties

The color of the fruit is an extremely important factor in the Russian market to the extent that the buyers often select fruit not on the basis of variety but strictly on the color of the fruit. The overall market distinctly prefers red apples and this is the vast majority but there are good markets for green and yellow apples as well. In the Moscow market the dominant color preference is red but there is also a smaller yet steady demand for green, yellow and pink apples. In other larger cities such as St. Petersburg and remote areas such as the Siberian region, besides the traditional red offering, there is a strong demand for yellow and green apples such as Simerenko, Granny Smith, and Golden Delicious. When apples are sold as Red apples they need to be a certain percentage red and the general understanding is somewhere around 70% although there is some tolerance to this if the fruit looks good. This is not that strictly enforced for the early season apples where the percentage of red color can be less. The color of the fruit is so important that certain retailers put out bids (“produce cards”) for their suppliers to quote on that state the size of the fruit and the color needed. These are often the only two variables that must be met. Sometimes the country of origin comes into play as well, but generally not. As long as the color is correct and the sizing is consistent the trader with the lowest price will get the business. The country of origin or variety many times are not a factor if the price, color, and sizing are correct. There are times however when these “Produce Cards” do specify a country of origin and only then is it important.

Washing and pre-cooling

The washing of the fruit is also a requirement for some buyers who insist that all fruit must be washed. This certainly enhances the overall presentation of the fruit and should be done to more effectively compete in the open market.

Maintaining cold chain integrity is also important. It is always advantageous to pre-cool the fruit to remove field heat and enhance its shelf life. Many times this is not done for apples shipped to Russia especially early season varieties.

Pre-cooling should only be seen as the first step in a comprehensive cold chain that will maintain the product in appropriately controlled environments all the way to the consumer. Pre-cooling a product and then breaking the cold chain by moving it into a non-refrigerated truck or storage facility will actually cause the fruit to break down more quickly as the temperature rises. Developing and maintaining an unbroken cold chain for the product will significantly increase the time it can be stored before sale, thus increasing profitability by making it possible to delay sales until prices reach an optimum level.

Transportation

There are freight cost variances between the major exporters of apples to Russia with Serbia being the most expensive (3,100 euro) and Poland being the least (2,150 euro) with Moldova in the middle (2,800 euro) but in the long run this is not a major determining factor on the price realized. One important thing regarding transportation is the refrigeration of the apples that need to be cooled during the whole time in transport. There are instances when the trucking companies try to save money by cooling the product only the last 500 km of the trip rather than keeping the unit on for the entire trip. This is less critical for apples than for other produce items but still it is an important factor.

Packaging and labeling

The main requirement with regard to packaging is that it be functional. It must provide protection to the fruit and prevent damage. This means that the packaging should be sturdy and help minimize bruising. The packing process also plays an important role in minimizing bruising starting with proper packing of the fruit with not too much nor too little in the box which will lead to potential cosmetic defects. If these conditions are fulfilled, no real importance is placed on the type and material of packaging. Producers are moving away from the traditional 18 kg wooden box. The main types of apple packaging presented and well accepted on the market are the following:

1. Wooden box of 9-10 kg, or 13-14 kg of apples (used mainly by Serbian and some Moldovan suppliers). In order to further protect the fruit within the wooden boxes suppliers are putting protective paper to limit the scarring and bruising by cushioning the fruit as well as absorbing excess moisture to maintain the cosmetic appeal which is most important.



- Telescopic carton box of 10-12 kg. This type of box is used mainly by Polish, Argentine and Chilean suppliers. One of its advantages is better protection of fruits from temperature changes, which is important for Polish and South America apples supplied in winter time. The carton itself should be 5 layer in thickness and durable to provide better protection to the fruit. The fruit is packed 3-4 layers in the box or sometimes in bulk pack.



- Open carton boxes (with or without plastic trays) of 10-12 kg. These boxes have triangular corner cushions that help with the preservation of the fruit. This packaging is used by EU suppliers, such as Italy, Austria, Netherlands, Belgium and, to a lesser extent, Poland.



Apples can be placed in one or two layers or in bulk. The price premium between apples packed in layers and apples in bulk is about 10%.

In addition to the traditional packages mentioned above there are specialty packs for retail that are offered with six apples in a tray that are shrink wrapped ready to be displayed. There are also bulk packs for retail with 8-10 apples in plastic bags. Usually these bags contain lower quality fruit and are a vehicle to hide defects but they are priced inexpensively.

Many of the premium shippers from Western Europe use nice upscale packaging as shown to further enhance the presentation of the product for the niche markets at retail.





It is interesting that labeling was not really mentioned as being very important as long as the box had all the pertinent information required for shipment arrival denoting the general required information (see pictures for details). The bagged apples for retail were very simple and nothing elaborate seen except for some specific graphics for the kid sector (kiddy apple). This was a tray pack with six apples in a tray shrink wrapped ready for retail display.



Trends

The trends in the market are being driven by the standards imposed by the growing modern retail segment (supermarkets). The bigger the market share that the supermarkets have, the more their quality requirements become general “rules of the game” for the whole market. This refers to product size and external appearance. In terms of varieties, the traditional ones, such as Golden Delicious, Idared, Simirenko and Red Delicious continue being popular and will maintain the biggest share in the future. In addition some new varieties like Gala, Champion, and Gloster are slowly gaining in popularity.

It is worth mentioning that there is a concentrated effort from a select group of European producers to promote premium varieties “Club Apples” such as Pink Lady and market these apples to upscale retailers at good prices. This is done by limiting the amount of production and distribution and creating the artificial sense that there is a scarcity of this variety and therefore generating a higher price. Although this market is very small with limited growth it exists and warrants mention.

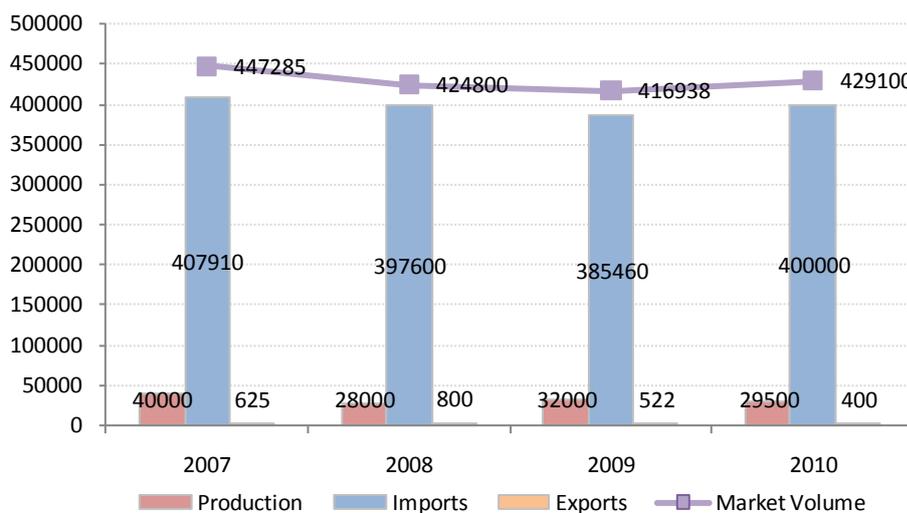
3.2. TABLE GRAPES

3.2.1. Characteristics of the table grapes market

Market size

The overall market for table grapes in Russia decreased by 18.1 thousand tons (about 4%) between 2007 and 2010. The volume of imports were basically constant in the range of 385-408 thousand tons. Local production decreased from 9.0% to 6.9% of the total market over the same period.

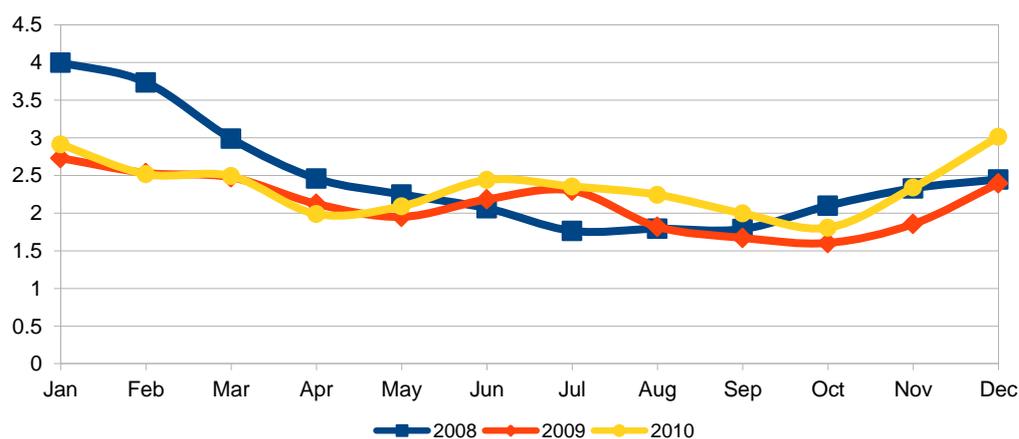
Figure 6. Market volume of table grapes, tons



Source: United States Department for Agriculture, FAS Production, Supply and Distribution Data Base

Wholesale prices and seasonality

Figure 7. Average wholesale price data for table grapes, euro/ kg incl. VAT



Source: APK Fruit-Inform

The Russian Federation imports Moldovan grapes in the period when the Russian market has the largest volume of this product available and prices are lowest (August-November). The offer starts

growing in September, reaches its peak in October and faces the seasonal slump after late November. The largest volume of Moldovan grapes is purchased by the Russian companies in October and November. Shipments from Moldova sharply decrease by late November, due to the lack of cold storage capacities of Moldovan producers. With the proper pre-cooling and cold chain maintenance, there should be ample opportunity for Moldovan grapes to be shipped in December - January when pricing is more attractive.

As we can see from the figure above, wholesale prices for table grapes were relatively stable in the period of May-October, fluctuating in the limits of 1.7-2.3 euro/kg depending on year and month. Harvesting of Russian grapes starts in the southern regions of the country with the wholesale prices for them being around 50 Rubles/kg (1.2 euro). Starting from November prices grow reaching a peak in January (2.7 – 3 euro) and remain high in February and March (2.5 euro).

During the season there are not huge price differentials because again the retailers use the “produce cards” that mostly only specify a size and a color of grape. The supplier who meets the specification of the bid and has the lowest price will get the business. Sometimes the produce cards will also specify whether the berry is seeded or seedless or the country of origin, but usually this is not the case.

The largest volumes of grapes are sold from September to November and from the second half of December to the first half of January. The lowest demand is observed in spring and the first half of summer. During this period many Russian wholesalers conduct no business with grapes at all.

The price of the Turkish Kishmish variety during the season (August-December) does not vary too much. Turkish grapes set the price level that other producers need to basically match in order to be competitive.

It is important to note that all the black grapes, including those coming from Moldova, do not compete with the white Kishmish variety from Turkey as there are two distinct markets -- for white and dark grapes. The price for the Kishmish variety really does not change during the season (August-December). There is a well conceived wholesale strategy that protects this market from crashing due to a sudden abundance of fruit appearing in the market. Turks working amongst themselves are not letting buyers purchase direct from producers in Turkey when they may be less expensive when bought directly. This prevents buyers from circumventing the market wholesalers and protects the established market price. Simply stated, the grapes must be bought from their Turkish representatives. This is really a “muscling” strategy and seems to be a very effective one in a tough market as the price is determined by the market conditions and can and are reacted to quickly. With no abundance of cheap fruit in the market the pricing control mechanism is well established and therefore not a lot of price fluctuation is realized.

Starting in January this is not the case as there are price differences among suppliers from different countries that can be significant. Grapes brought in from Chile. For example, Red Globes that are sold as high as 100 rubles (2.4 Euro) and appear at retail for 179 rubles (4.3 euro).

At the end of April, in addition to the traditional off-season suppliers, grapes come to the market from Egypt (Kishmish variety) with very small berries that are very expensive and sold for 120-130 rubles (apprx. 3 euro).

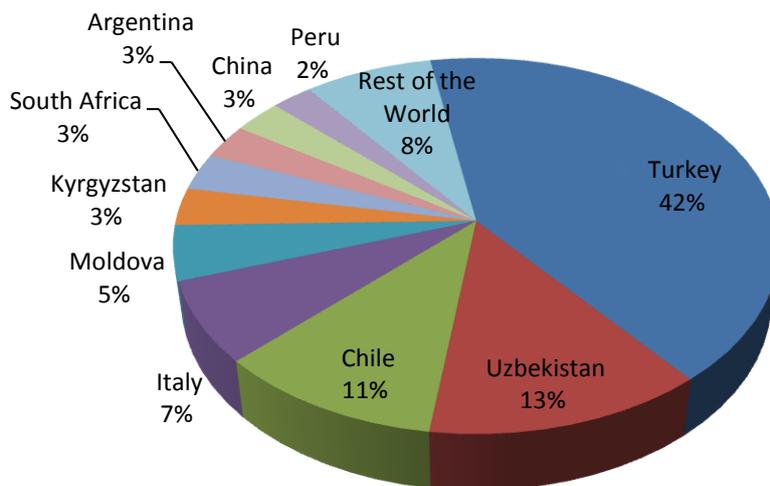
At the time of the market visitation (late July 2011) there were a lot of grapes from Italy with increased shipments expected to be arriving in September. The grapes viewed were white and dark berries in 7-8 kg compartmentalized carton and wooden trays with soft sponge like protection wrapped around each bunch. The white berries were the Victoria variety and the darker berries appeared to be Black Magic.

In the next few weeks there will be dark grapes arriving from Uzbekistan similar to those of Moldova variety with slightly bigger berries. Starting in September, besides Italy and Turkey, there will be fruit from Dagestan, which is also the Moldova variety (little cheaper and sweeter) as well as the Moldova variety from Moldova that is widely accepted appearing in October.

Competition

The main countries of table grapes importing table grapes to Russia are presented in the figure below:

Figure 8. Imports of table grapes to Russia by country, by volume, 2010



Source: Global Trade Atlas

Over the course of the year the suppliers who ship the most grapes into the Russian market are Turkey and Uzbekistan followed by Chile. The list of countries supplying lesser amounts is extensive but this can be broken down basically into two groups: 1) suppliers for the time period July thru November/December and 2) those shipping from the Southern Hemisphere during the long Russian winters. During the summer and fall, Turkey and Uzbekistan are the dominant suppliers with Turkey gaining market share all the time. There is market presence from others such as Italy and Kyrgyzstan who have had market share a few years ago as high as 3 and 6% respectively as well as Moldova 5%. Several years ago one of the leading supplier of white table grapes was Greece. Since the Turkish

suppliers managed to organize efficient exports they dominate the market and the Greek grapes practically disappeared.

In the winter months, due to counter-seasonal production, grapes from Chile, Argentina, and South Africa arrive in January and dominate the market until July. The Russian market is the number one export market for Argentine grapes and the 3rd biggest market for Chilean grapes.

The rural Far East part of the country imports grapes from China and the product is available on the market for an extended period of time. This product competes successfully with Turkish and Uzbekistan grapes. Grapes from CIS countries capture about 20 percent of total grape imports to Russia. Russian consumers are accustomed to the grape varieties from CIS countries although they have the shortest shelf life lasting until December.

3.2.2. Specific product requirements for table grapes

Color, varieties and quality

Russian consumers prefer dark and red varieties over the white ones, not paying much attention to variety as such. During the market visit it was clear that the overall dominant country is Turkey with its seedless Kishmish variety, which is a white berry that is sweet, eats very well and is not expensive. This variety appears in the market usually around the 1st of August and runs through the end of the year. The Kishmish seen late July was not the normal quality Kishmish as it had a weak external appeal and was low in brix (sugar content). Another relatively popular variety from Turkey is red Cardinal.

Preferences of grapes is something that is not easy to distinguish except for the fact that there is a definite preference among consumers for either dark or white grapes. Irrespective of grape variety, the overall eye appeal, color and any defects that may be present are what make the difference.

One of important parameters is the size of a bunch. The general rule is “the bigger the better” and no bunches should be less than 400-450 grams and a bunch of 600-800 grams would be considered superior quality.

There is no question that the Moldovan variety is widely accepted by the market that wants dark pitted berries, but it is important to keep good weight on the bunches like the competition. No visual defects are accepted unless selling the product in the open air markets. The perceived value (price) is really not influenced by whether seeded or seedless grapes are being offered.

Packaging

Turkish grapes are packaged in an open plastic box of around 8 kg (sometimes with a paper layer). This packaging is gaining in popularity versus the more sophisticated cardboard and wooden tray boxes because all the bunches are readily visible for inspection. What seems to be important to the buyers is that the packaging is durable and easy to handle. To have standardized box weight was performed as well.



Besides the plastic boxes, wooden packaging is also accepted. This is a traditional type of packaging for Italy and Moldova, however the Italians use smaller size of box (5kg) while the Moldovans ones is usually bigger (8-10 kg). Many European shippers also use foam separators in the box to protect the fruit. This practice seems to be gaining acceptance.



Grapes from the Southern Hemisphere come in closed carton boxes, often wrapped in film packaging or having individual film packaging for each bunch, in order to protect produce from low temperatures and prevent berries from dropping.

A big part of the grapes that are found in supermarkets are repacked in smaller plastic trays with film overlay as this is more convenient for the retail format and to properly merchandise. Sizing of the grapes is not that important as they are classified as large, medium and small. What is important is that the bunches are full and have good weight. Pre-packing is normally done by distributors and producers are not expected to deliver pre-packed grapes.



Trends

The main trend in terms of table grape consumption is where the retail trade is taking place. As consumers switch from open markets to supermarkets, presentation and “eye appeal” rather than organoleptic qualities become increasingly important. It is certain that in the future the supermarket “quality criteria” will become the “general rule” and place more emphasis on color, appeal, purity, uniformity, size of both bunches and the individual grapes.

Although still small, there is a growing trend towards the consumption of seedless grapes. It seems to be difficult to compete with Turkish producers in the white seedless segment so Moldovan producers would be well advised to consolidate their positions with the dark seeded grape segment.

As already mentioned, it is imperative the Moldovan producers use proper pre-cooling measures and keep the entire cold chain intact to prolong good arrivals into the Russian market well into December to realize better pricing. This extended marketing season will be further enhanced with good size grapes with full bunches in packaging that protects the fruit. In this manner the grapes will be able to be fully appreciated by the ultimate consumer and to effectively compete in all sectors as need be.

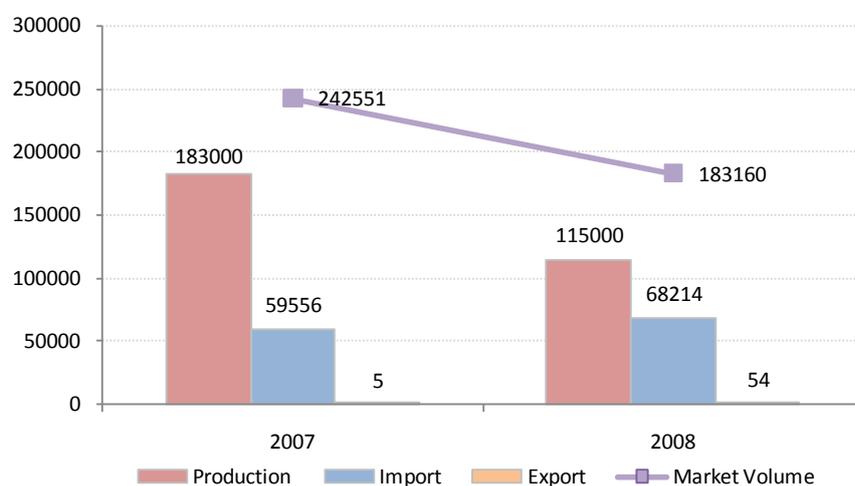
3.3. PLUMS

3.3.1. Characteristics of the plum market

Market size

The production data for fresh plums market could be traced only for two years – 2007 and 2008. Analyzing the numbers, it can be stated that almost all the indicators: market volume, production and import volume decreased over those two years while the export volume remained insignificant. The market volume decreased by 24% in 2008 totaling 183 ths. tons. Another significant decrease was registered in terms of fresh plums production down to 115 ths. tons from 183 thousands a 37% decrease.

Figure 9. Market volume of fresh plums, tons

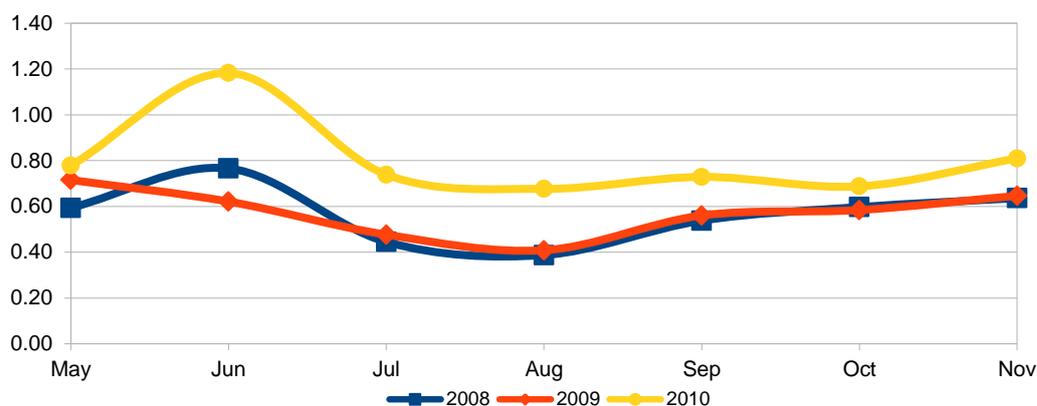


Source: United States Department for Agriculture, FAS Production, Supply and Distribution Data Base

In 2009 the import volume of fresh plums to Russia was at the 2008 level and in 2010 there was an increase of 15% to 78 ths. tons.

Wholesale prices and seasonality

Figure 10. Average wholesale price for fresh plums, euro/kg, incl. VAT



Source: APK Fruit-Inform

As we see from the figure above, the highest price for fresh plums is registered in June when they first appear in the market. The year 2010 was exceptional for plums with a very high average price approximating 25% more than in 2008-2009. The lowest price in the high season is (July/August) falling in average to 0.4-0.5 euro/kg.

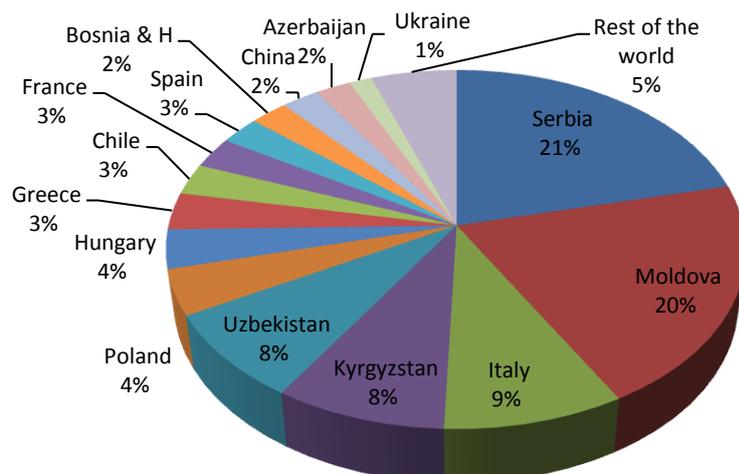
It seems that 2011 is also a good year for plums as for the high season the prices seemed relatively good. The first plums appearing on the market were from Serbia and were sold at the price of 1 euro/kg. At the time of our market visitation in late July 2011, Serbian plums were trading at 25 Rubles (0.63 euro) and were being sold at retail for 1.30 euro/ kg. Polish plums were trading in the market at 40 rubles (1 euro/ kg.) and Hungarian plums distinctly less at 0.85 euro/ kg. Once again this is what was being sold during this “snapshot of time” at that specific hour on that day.

The wholesale prices for imported plums in mid-August 2011 (from Moldova, Ukraine, Kyrgyzstan and Uzbekistan) varied within the range of RUB 30-45/kg (0.71-1.07 euro/kg) depending on quality and size and supply/ demand rapport. Domestic plums were offered at lower prices: RUB 20-30/kg (0.48-0.71 euro/kg) because of the lower quality.

Competition

Different than apples, which are consumed all year round, plums are only consumed during the summer months from July/ August till September and are treated as a seasonal item. The main suppliers of plums are Serbia and Moldova, followed by Italy, Kyrgyzstan and Uzbekistan. The fruits from CIS countries are sold mainly on open markets, while the European ones target all type of distribution channels.

Figure 11. Imports of fresh plums to Russia by country, by volume, 2010



Source: Global Trade Atlas

3.3.2 Specific product requirements for plums

Quality

The market prefers plums that are 35-40 mm in diameter that are oval shaped like the Stanley variety and typical Hungarian varieties. As with most other fruits, bigger is considered to be better, but the consumers will not pay the higher price for more of the larger fruits.

In order to compete in the market you need to have the right color plum (blue, black or red) that meets the desired size specifications and be the lowest price. Many retailers and buyers use this bid mechanism of “produce cards”, described in section 3.5 of this report, which is the same format as used for grapes and apples. The country of origin or the variety does not matter if the specifications are met and you offer the lowest price.

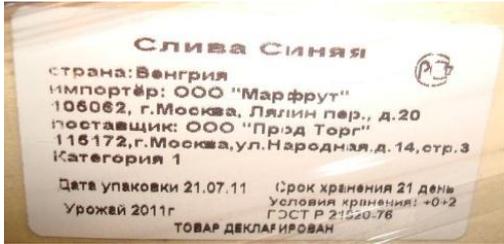
Moldovan plums are widely accepted in the market place and are shaped well. They do, however, need to be cooled and possess certain hardness to insure good arrival that can hold up in the market for at least a week. The plums need to be specially picked (for hardness) for a longer transit time. This is quite different than what may be picked when plums are to be sold in the local market.

Packaging

Plums are mostly often packaged in 4-5 kg wooden boxes and are sold within one week of arrival. Another option is a plastic box of the same size. In most cases plums are bulk packed but sometimes they are even packed in two layers.

Distributors often pack plums for retail in smaller formats. Small baskets covered with plastic mesh (pictured far right) is one example of such packaging.





Labeling is generally not important, at least initially. As volumes grow, however, the distributor may and should ask for information on the label to enable effective traceability. This is relevant for all fruits.

It is desirable for plums to have a natural coating that gives freshness to their appearance. As to importance of stems, there are no specific requirements from wholesalers, although some of them think that produce with stems will have longer shelf life.

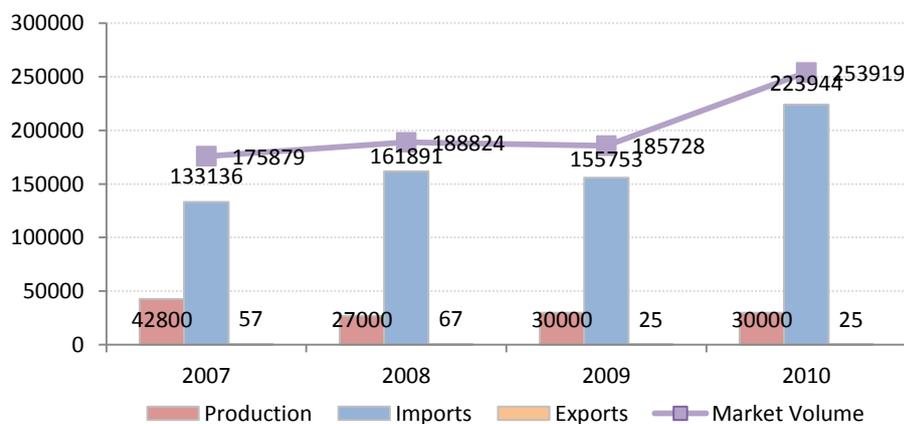
Almost all distributors surveyed had no experience in business with Moldovan plums. The reason is due to the price of the domestic plums being more interesting (cheaper) to wholesalers compared to the Moldovan ones during the season. The quality of the plums from Moldova does not differ much from what is produced locally. At the moment Moldovan plums are sold by traders mainly to wholesale open markets.

3.4. PEACHES

3.4.1. Characteristics of the peach market

Market size

Figure 12. Market volume of fresh peaches, tons

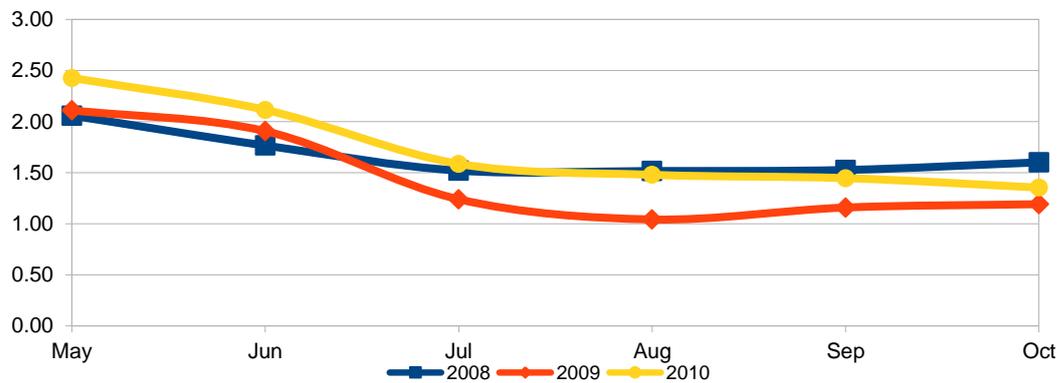


Source: United States Department for Agriculture, FAS Production, Supply and Distribution Data Base

The market for fresh peaches grew by 44% in the last four years, from 175 to 253 ths. tons. Mostly this was due to the sharp increase of imports in 2010. At the same time local production of peaches registered a reverse trend decreasing by 30% from 42,800 tons in 2007 to 30,000 tons in 2010.

Wholesale prices and seasonality

Figure 13. Average wholesale price for fresh peaches, euro/kg, incl. VAT



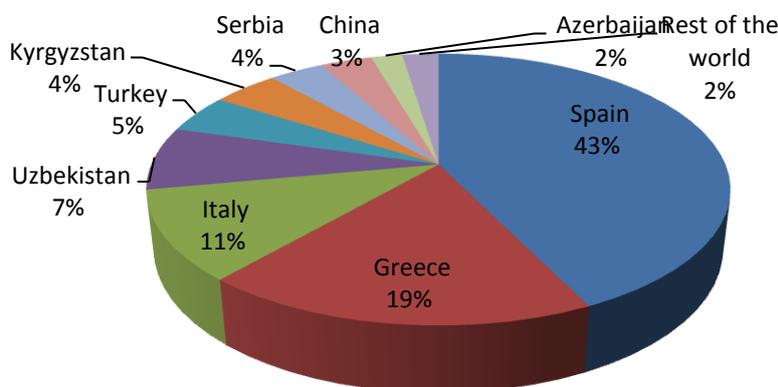
Source: APK Fruit-Inform

Being a seasonal product, peaches register the lowest price in the high production season, specifically July and August. The fact is that the average price is just about the same during the off season (September -October) and doesn't really exceed the 1.5 euro/kg. Price. In essence, the peach market is a seasonal market that starts in July and runs to the end of August for most producing countries shipping into Russia.

When we visited the market (late July 2011,) peaches from Spain, Greece and Turkey were seen at 40-45 rubles (1 - 1.13 euro/ kg). Italian peaches were present to a lesser extent and Greek peaches usually 10% cheaper than the offerings from Italy and Spain. Greek and Serbian peaches were also seen on the market at price points between 0.8-0.9 euro/kg, which were not high in demand because of the light color and overall lack of cosmetic appeal. It is interesting to note that flat peaches "Injir" from Spain were selling in the market for almost twice the price of the regular round peaches due to product distinction.

Competition

Figure 14. Imports of fresh peaches to Russia by country, by volume, 2010



Source: Global Trade Atlas

The peach market in Russia is a very competitive with the main suppliers being Spain, Greece and Italy. All these countries continuously grew their market share during the last 5 years, while Turkey, Kyrgyzstan and China lost some of their position. We can also mention Serbia whose current market share has grown to (4%) recognizing that in 2006 it was not present in the Russian market at all.

3.4.2. Specific product requirements for peaches

Produce quality characteristics

Moldovan peaches, are scarcely found in the market, as the fruit breaks down too quickly. Loads are often shipped not pre-cooled with the idea that the shipper is hopeful that the arrival will be good. The spoilage is high and there is the severe economic impact as well as the bad reputation and lack of confidence being established for Moldovan peaches. It is imperative to pre-cool the fruit to 3 degrees at the stone and to maintain the cold chain all the way to final destination. In addition peaches are often not picked with the firmness needed for transit to Russia. These are practices that must be changed as they work against the entire Moldovan supply community who ship peaches.

Regarding consumer preferences, we can mention that red varieties are indeed more in demand. Peaches are packed by count and not by size (mm) and the count in the box is the determining factor which then indicates the (mm) size. The most common size is 28 or 32 units per 4 kg box.

Packaging

The most common packaging for peaches is a wooden box of 4 kg capacity. However, carton packaging is also used and the packaging capacity can also be bigger (up to 7-8) kg. Also some producers use the top film covering for the protection and design purposes.



Sometimes peaches are delivered already pre-packed for retail format. Using plastic cells makes produce more attractive and adds about 0.05 euro/kg to the produce price.

Also in the market were bulk pack peaches in 14 kg cardboard boxes with various sizes in the same box. These boxes attracted a lower price as is always the situation with “mixed bulk packs”. These bulk packs are mixed size fruit and sometimes irregular shaped fruit that tastes fine. This is product

that usually does not look good cosmetically but always finds a place in the market because it is priced cheaper than the other fruit.

Labels usually indicate the number of pieces of fruit in the box clearly indicated on each box for size determination. The example of the label shows the produce class (I) and the number of the fruits in the box (32/37). The most popular caliber is AA (diameter 73-80 mm, length of circumference 23-25 cm).



The size categories of peaches are presented below:

Diameter, mm	Size category	length of circumference, cm
≥90	AAAA	≥28
80 - 90	AAA	25 -28
73 - 80	AA	23 - 25
67 - 73	A	21 - 23
61 - 67	B	19 -21
56 - 61	C	17.5 - 19
51 - 56	D	16 – 17.5

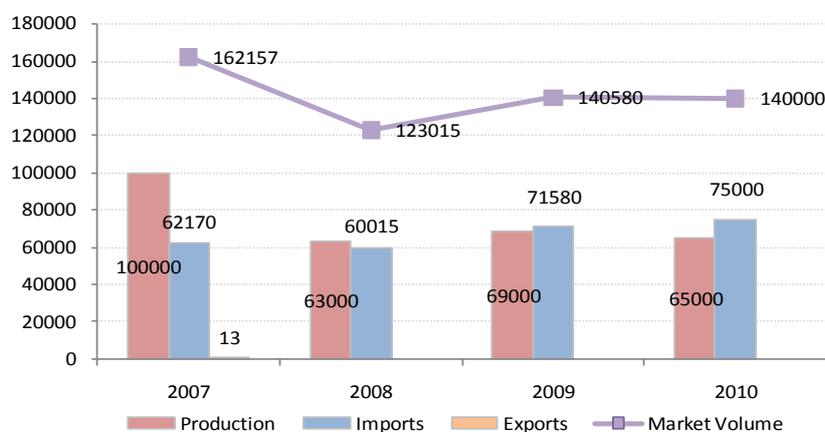
3.5. SWEET CHERRIES

3.5.1. Characteristics of the sweet cherry market

Market size

The Russian sweet cherry market is a small one due to the short season and the highly perishable nature of the product. It registered an upward trend between 2008 and 2010. Overall market volume decreased by 13.6% from 2007 to 2010 with volume moving from 162.1 ths. tons in 2007 to 140.0 ths. tons in 2010.

Figure 15. Market volume of sweet cherries, tons

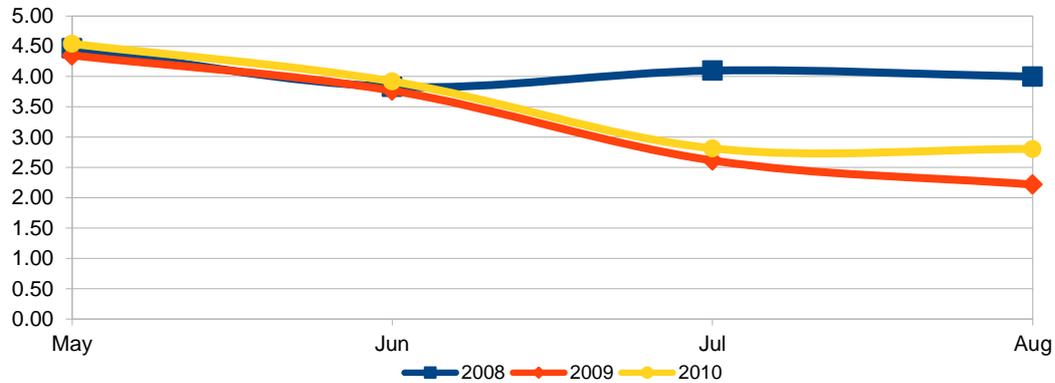


Source: United States Department for Agriculture, FAS Production, Supply and Distribution Data Base

Sweet cherry production in Russia also recorded a decrease of 35% from 100.0 ths. tons to 65.0 ths. tons from 2007 to 2010. Imports have increased by 20% since 2007, reaching 75 ths. tons in 2010. The trend of the last three years is a substitution of local production by imports.

Wholesale prices and seasonality

Figure 16. Average wholesale prices for sweet cherries, euro/kg, incl. VAT



Source: APK Fruit-Inform

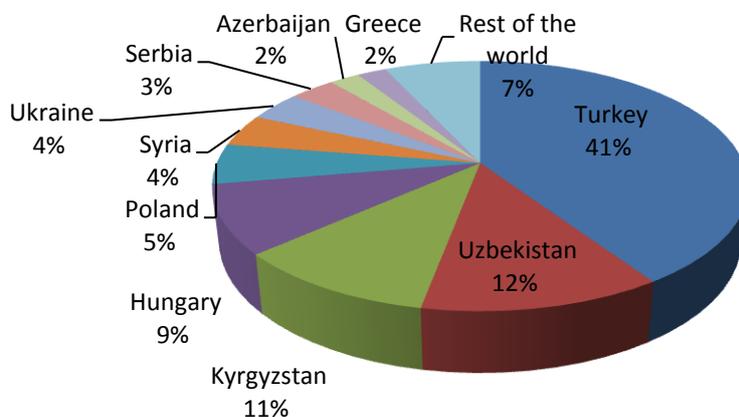
The figure above shows the repeating price patterns during the last two years. During May the sweet cherries are sold at average 4.5 euro/kg and then the price gradually decreases to 2-2.5 euro/kg in August. Sweet cherry is a highly seasonal product being sold only four months per year with the peak in June and July.

Importers confirmed that in the early part of the season (May) the price started from 200 rubles/kg (5 euro) but then settled down once more volumes arrived in the market. As is always the situation with cherries, the early arriving product generates nice returns to the extent that some are even air shipped and rushed to market. Serbia was the first to have early cherries in the market this past year. The current move to increased planting of early cherry varieties in Moldova could lead to a more competitive position in the early part of this market.

In late July 2011) sweet cherries were being sold by Bulgaria, Hungary, Greece, Serbia and Turkey in the range of (70-90 rubles) or 1.75-2.25 euro/kg range.

Competition

Figure 17. Imports of sweet cherry to Russia by country, by volume, 2010



Source: GTA Trade Atlas

The figure above shows that Turkey is the dominant supplier of sweet cherries to Russia, followed by Uzbekistan, Kyrgyzstan, Hungary and Poland. Turkey has dominated the market since 2006.

Market protection

Sweet cherries are a very risky fruit because they are very perishable whilst the season is very short. There must be good market intelligence in dealing with this product to prevent sudden drops of prices when larger quantities arrive in the market. Timing is critical in knowing when to move product. Due to the highly perishable nature of the product, many distributors will not handle the product unless they are pre-sold to the retailer in order to minimize their risk. In addition, within the market the wholesalers often require “market protection” if they handle cherries, which protects them from losing money if the market price needed to sell the product is less than what they paid negating any potential risk for them. Basically “market protection” means that the exporter accepts to compensate losses of the importer if he/she was forced to sell the produce below the price of purchase. This is something that is done from time to time with peaches as well.

3.5.2. Specific product requirements for sweet cherries

Produce quality characteristics

Generally speaking the darker the sweet cherry the better the overall perception and price commanded. In the beginning of the season very small cherries (18mm) are acceptable. As the market progresses larger cherries are demanded. The majority of the fruit sold is between 22mm and 30mm in diameter and any fruit smaller than that will be sold at a reduced price.

Comparatively speaking, a very large dark cherry (28-30 mm diameter) from Uzbekistan sold for more than double the average price (5 euro). This sweet cherry is placed very neatly in the box and has a great overall appeal with the color, size and pack being very distinguishable and justifying the price variance.



Moldovan sweet cherries do have a place in the Russian market if they can be stored for at least one week in the warehouse of the wholesaler. Moldovan cherries can be sold in the market when there is a shortage of big cherries however, when there is an abundance of big cherries this will be very difficult. Not to pre-cool and maintain the cold chain all the way to the market is not an option for the produce that is targeted for modern retailers/supermarkets.

Packaging

The preferred box is a 4 kg wooden rather than the cardboard box however the cardboard box and to a lesser extent plastic packaging are usually acceptable.



The retailers, because of the lack of shelf life, do not buy in large quantities. They prefer to have the cherries in the producers original packaging and not re-packed. Only Metro prefers to have their cherries re-packed with the additional handling done locally. This year all the Turkish sweet cherries came in closed packages (wrapped in plastic bags in cardboard boxes) however, not hermetically sealed. The previous year sweet cherries from Turkey came in hermetically sealed vacuum packs.

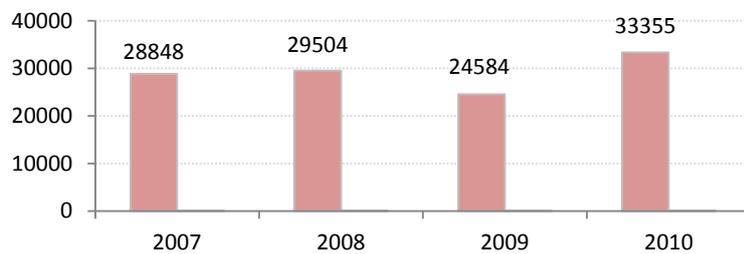
3.6. DRIED PLUMS

3.6.1. Characteristics of the dried plums market

Market size

The import volumes for dried whole plums for 2010 equaled to 33.3 ths. tons, i.e. up by 36% compared to the 2008 numbers.

Figure 18. Volume of dried whole plums import, tons

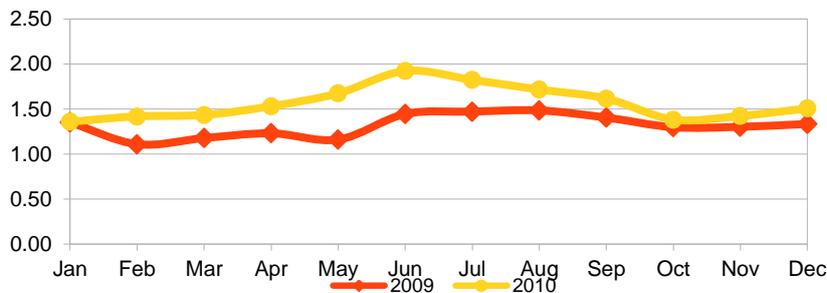


Source: United States Department for Agriculture, FAS Production, Supply and Distribution Data Base

Russian production of dried plums is low and doesn't affect much the statistics of consumption. Average export volume in this period didn't exceed 60 tons per year.

Wholesale prices and seasonality

Figure 19. Average wholesale price for dried plums, euro/kg, incl. VAT



Source: APK Fruit-Inform

The chart above shows that during the last two years the wholesale price was relatively stable with no big fluctuations during the year. The higher price in 2010 is explained by a stronger Russian ruble in that year. Dried plums are a seasonal item in terms of volumes sold but not in terms of price fluctuation.

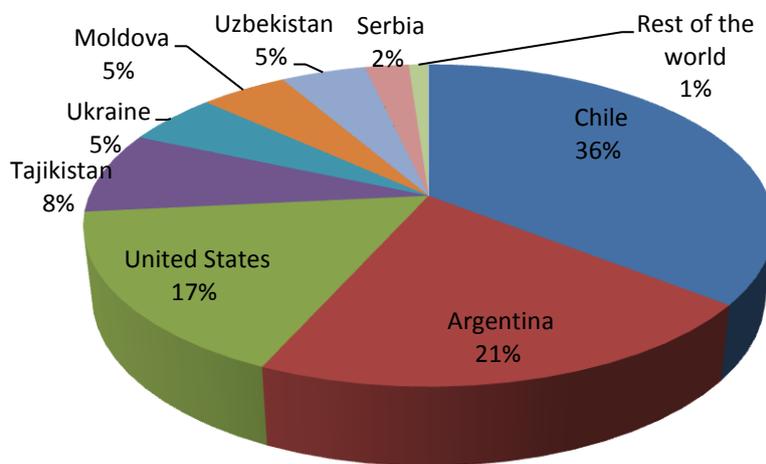
The main season for dried whole plums is September through Easter. The maximum volumes are imported in November-December. The next largest shipment period falls in February-March when the “import landscape” of where product ships from not much different. Volume during the summer months is very slow compared to the winter months. In the summer daily volumes are 1/10th compare to those in winter as people consume fresh produce in abundance.

In the the second half of August 2011, the wholesale prices for dried plums were fixed within the following range: Produce from Uzbekistan, Kyrgyzstan and Tajikistan – RUB 60-65/kg (EUR 1.43-1.54/kg); and from Argentina, Chile and Turkey – RUB 80-90/kg (EUR 1.90-2.14/kg).

One of wholesalers mentioned that in June 2011 he purchased Moldovan dried whole plums for 78 rubles per kg (2 euro) as compared to Chilean dried whole plums that commanded a price of 92 rubles per kilo (2.3 euro) just as a point of price differential. The perception of the Chilean dried whole plums is that they are sweeter due the additional sunshine.

Competition

Figure 20. Imports of dried plums to Russia by country, by volume, 2010



Source: Global Trade Atlas

The main countries that are shipping dried plums to Russia are Chile, Argentina and the United States. They are followed by traditional suppliers, such as Tajikistan, Ukraine, Moldova and Uzbekistan that are losing their shares to the North and South American suppliers.

3.6.2. Specific product requirements for dried plums

There are basically two distinct price niches within the dried whole plum market. The premier niche is that of Chile, Argentina, and U.S.A. and the lower priced market still with good quality is Moldova, Uzbekistan and Kyrgyzstan. Many buyers prefer the Chilean product because they store better and they are sweeter which relates to the amount of sunshine during growing. The most important thing not different than fresh fruit is the external appeal as people “eat with their eyes”.



The majority of imports are dried whole plums with stone, although some buyers prefer pitted dried plums. The fruits should have high humidity, be clean, and be packed in 10 kg cardboard boxes. Wholesale companies prefer dried plums with moisture content not higher than 30% although producers and consumers prefer a fewer percentage points higher.

Vacuum packaging is not required. The most popular size (length) of dried whole plums is 40-50mm although all the sizes move through the market from 30-40mm to large 60-70 mm and all sizes in between.

Moldovan dried whole plums do have a place in the Russian market but must be priced in line with others. Importance should be better packaging for an overall better box presentation. Size of the box needs to be as others which is a 10kg. sturdy box.



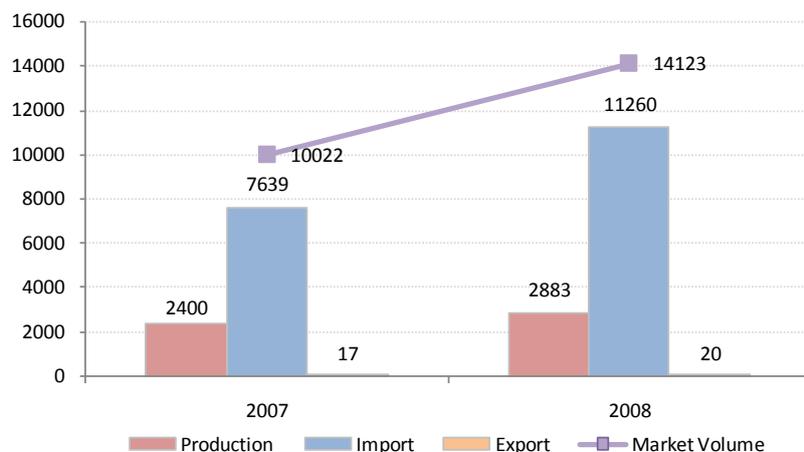
3.7. WALNUTS

3.7.1. Characteristics of the walnut market

Market size

During 2007 and 2008, the market for shelled walnuts increased by 40%, from 10 ths. to 14 ths. tons. The imports of shelled walnuts also recorded an increase as high as 47% reaching 11 ths. tons in 2008. A third indicator, volume of production, also increased by 20%, from 2.4 ths. to 2.8 ths tons.

Figure 2.: Market volume of shelled walnuts, tons



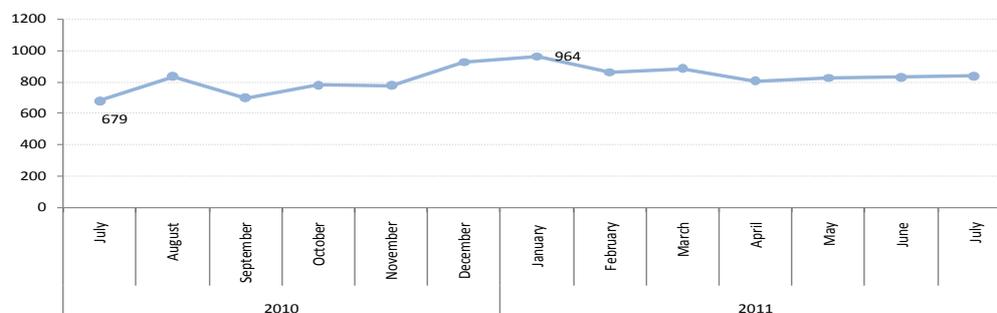
Source: United States Department for Agriculture, FAS Production, Supply and Distribution Data Base

Note: The production volume of walnuts shown in the chart above represents an estimation. The values were inferred from the production of walnuts in shell.

During 2009-2010, the import of shelled walnuts to Russia was around 16.5 ths. tons. This is an increase of 45% in comparison to 2008. Assuming the local production didn't change significantly we can draw the conclusion that the market consumption of shelled walnuts in Russia continues to grow.

Wholesale prices and seasonality

Figure 22. Average wholesale price for shelled walnuts, Euro/ 100 kg, incl. VAT



Source: Wholesale company Santes-M, www.santes.ru

The maximum value for shelled walnuts was recorded in January 2011 and equaled to 964 Euro/ 100 kg. In the following months the average price decreased slightly maintaining the same value up until present. At the same time, the lowest average price was registered during July 2010, when 100 kg of walnuts were priced at 679 Euro. Russian shelled walnut importers mentioned paying as much as 675 Euro for 100 kg of product.

Russia imports the largest volume of walnuts in the October-March period. Imports increase until late December and then fall sharply in January and rebound in February reaching their maximum in March.

As of the second half of August 2011, shelled walnuts were sold in Russia at the following wholesale prices (including VAT):

from Ukraine- at RUB 300-320/kg (EUR 7.13-7.60/kg);

from Turkey – at RUB 250-280/kg (EUR 5.94-6.65/kg);

from Uzbekistan - at RUB 290-310/kg (EUR 6.89-7.36/kg);

from Tajikistan – at RUB 150-200 (EUR 3.56-4.75/kg);

from Chile - at RUB 400-600 (EUR 9.50-14.25/kg) - extremely high quality product;

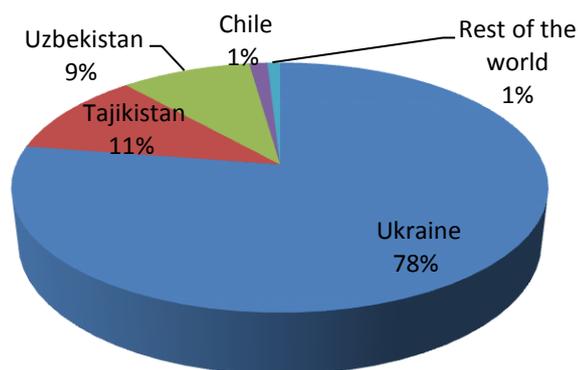
from Greece – at RUB 350 (EUR 8.75/kg) - light walnut halves good quality

Market players emphasized that during the high season “the price of walnuts drops significantly when the illegal shipments from the Ukraine by train hit the market.” These volumes are insufficient to dictate the price for the whole market, but a certain negative impact on price is felt.

During the season the wholesaler mark up is usually 5-10% and when there is a shortage this can go as high as 20% when demand exceeds the supply. This is not the case for fresh frutis where the wholesale margins hardly ever exceed 10%.

Competition

Figure 23. Imports of shelled walnuts to Russia by country, by volume, 2010



Source: Global Trade Atlas

As we see from the chart above, the dominant supplier on the Russian walnut market is Ukraine. This is partially explained by the fact that some big Russian traders have their own production facilities in this country. The share of Ukraine is constantly growing, while the shares of other suppliers, such as Tajikistan and Uzbekistan are shrinking. Some small players in the market have Chilean walnuts that they supply for the premium market segment. Moldova is practically not present in this market. According to the official statistics of the Russian Federation, the last period when Moldova exported walnuts to Russia was October-November 2009, since the Moldovan producers have re-oriented exports mostly to EU countries as being a more stable market, although the prices in EU are 10-20% lower than in Russia.

3.7.2. Specific product requirements for walnuts

During the visit there were no identified specific requirements towards product quality. Respondents mentioned that all levels of quality, from extra light halves to amber broken kernels, have their customers if the price is correct.

Packaging

The standard packaging for shelled walnuts is a 10 kg carton box containing one 10 kg or two 5 kg plastic packs of products.



Premium walnuts, like the Chilean extra light halves pictured at the left, are packed in vacuum plastic bags of 5 kg. Wholesalers within the market would like to see proposals for Moldovan walnuts and stated that after April deliveries they should be vacuum packed.

4. DISTRIBUTION CHANNELS AND LOGISTICS

4.1. STRUCTURE OF THE MARKET

The Russian retail food market is divided into three main segments: independent shops, with a share of 67% in 2007 (according to the data of Russian Ministry of Economic Development), Retail Chains (17%) and open markets (15%). The retail chain segment is the fastest growing one and was experiencing average annual growth of 15% before the financial crisis of 2008.

The biggest retailers are the X5 Retail Group N.V (Piaterochka, Perekrestok chains), Metro Cash&Carry, Tander (Magnit discounters) and Auchan-Russia. All retail chain formats are present on the market such as: Cash & Carry (Metro, Lenta), hypermarket (Okay, Maxidom), supermarket (Patterson, Perekrestok), discounters (Kopeika, Piaterochka, Dixi, Billa).

The volume of produce sold in the open market continues to decrease leaving less possibility for Moldovan products and making the competition in this lower quality segment even more severe. It is a pronounced trend and at the moment the wholesale open truck markets survive mainly due to buyers from the regions outside of Moscow. The real growth, however, is within the Russian supermarket chains.

Besides the open truck wholesale markets there are so-called “wholesale bases”, which are big markets with cold storage deposits. Often big distributors are resident at these bases and operate direct distribution to retail stores from there and at the same time act as wholesalers. The biggest wholesale base in Moscow is situated in Pokrovka (near the open truck market) being followed by the bases in Hlebnikova str. and Amurskaya str.

Geographically there are several main logistics hubs for fruits and vegetables in Russia. In St. Petersburg, there are the biggest Russian fruit importers like JFC and Fruit Brothers, who bring mostly exotic fruits by ships. The big importers in Moscow are more diversified, providing a larger assortment of produce (Globus, Partner, Agrostar Vostok, Exotica). Nijnii Novgorod is another important hub for fruits and vegetables for the central part of Russia (main companies are Frukti & Produkty, Vershki & Koreshki). In addition another important hub is Ecaterinburg, which provides access for European fruits to the Siberian market.

4.2. PRICE FORMATION ON THE MARKET

Fresh produce is subject to high price fluctuations. Therefore any description of price formation would be relevant only for a certain moment in time. An example of price formation for Moldovan apples is provided below. This can be an instrument for producers to more or less correctly negotiate export price by knowing what wholesale/retail price is now on the market.

Table 2. Example of price formation for Moldovan apples

	Producer	Trader	Transport	Wholesaler	Retail	VAT 18%
Price breakdown, €/kg	0.42	0.18	0.13	0.08	0.25	0.19
Price ladder, €/kg	0.42	0.60	0.73	0.81	1.06	1.25

As we see from the table above, producers sell apples to traders for €0.42/kg. Traders add markup of €0.18/kg (apprx. 43%), which includes around €0.08 for all customs clearance and payment

commissions procedures and €0.10 for profit. The transportation cost is equal to €0.13/kg (€2,700 euro per 20 tons truck). Wholesaler’s average markup is around 10% (can be 5-15%), or €0.08/kg in this particular case. An independent store usually adds a markup of 30% for fresh fruits in the high season and 50-60% in the off season. When it comes to retail chains their pricing policy for fresh produce is very flexible and can be a mark-up around 30% in normal conditions and as low as 5% when they conduct different promotions attracting customers to the store which is done all the time.

Figure 24. Example of price breakdown for Moldovan apples and table grapes



The chart above shows that in order to set a correct competitive price, a Moldovan producer should ask for his apples or table grapes around 1/3 of the average price for similar products in Moscow supermarkets, or around 50% of the wholesalers’ price without VAT. For other fruits the price ladder is similar but not exactly the same. The higher the risk (perishability) of the product the bigger the intermediaries mark-up built into the price. With greater price fluctuation and seasonality, highly perishable products (cherries, plums, and peaches) may not follow this model and this cannot be used as a general rule.

It’s no secret that the general efficiency of Moldovan fruit production, including yield per hectare and overall approach to quality is significantly lower than that of their biggest competitors. The state subsidies for agriculture and export in the EU region diminish the competitiveness of Moldovan products even more. One of the major reasons why Moldovan produce is still on the Russian market is the free trade regime and lower indicative import prices which serve a basis for calculation of customs duties and VAT at the border. The indicative import prices are presented in Chapter IV of this report. The import duties in Russia are as follow:

Moldova and other CIS countries: 0% customs duties on all produce under the (free trade agreement) signed by Commonwealth of Independent States

Non-preferential (regime) countries:

- Apples- customs duties of €0.1/kg. from January 1-July 31 and €0.2/ kg. from August 1-December 31.
- Table grapes, Plums, Sweet cherries, shelled walnuts, dried plums – customs duties of 5% of value on the border
- Peaches & nectarines - 0% customs duties

As we can see apples are really the only fruit where Moldovan producers have a very significant advantage in terms of customs duties especially in the high season of August- December. After January 1st the customs duties for apples decreases by 50% for others, such as Poland, and their apples flood the market.

Competitiveness of produce also depends on the distance to the market and the resulting transportation costs. The average transportation costs of the closest competitors (for one truck of produce delivered to Moscow) is:

Moldova – 2,800 Euros

Krasnodar (South region of Russia) – 1800 Euros

Poland – 2,150 Euros

Serbia – 3,100 Euros

Moscow is always the “reference price point” for the European part of Russia. The competitive “benchmark” of price/quality should always be measured in Moscow. In other words, if a product is competitive in Moscow it is competitive everywhere in the European part of Russia. Working directly with other logistics hub like Nijnii Novgorod can sometimes be worthwhile because the competitive pressure is usually lower there. The downside of this is that shipment “logistics” become more complicated and alternative channels to re-sell the product are limited in case of rejections.

It’s worthwhile to mention that in order to sell significant quantities of fruits in Russia one should “play from the market”. This means that the wholesaler sells the produce at the price which is now on the market even if sometimes the purchase price is higher than the selling price. The most competitive positions in the market are occupied by those wholesalers who have long term relationships with one or more exporters. The wholesaler has confidence that there won’t be problems with quality or delivery and works on a fixed commission basis of \$0.5 for a 10-12 kg box of fruits and establishes the selling price according to the market. If the selling price is lower than the purchased price the loss is compensated by the exporter by adjusting the price of the following shipment. These working conditions are adopted by many big market players especially Turks who very effectively operate within this structure and sell volumes as need be based on market conditions.

4.3. GENERAL REQUIREMENTS TOWARDS SUPPLIERS

The requirements of the Russian market players affecting Moldovan fruit suppliers are not complicated. Basically there is a need to comply with certain minimum requirements that are imposed by the market and customers’ demands. The list of these requirements is presented below:

- Packaging should protect the quality of produce during transportation and storage. Packaging is not of great importance for the majority of wholesale buyers as long as it satisfies this condition. For each product studied there are several standard types of packaging that are used. The packaging material may be wood, carton and plastic.

- Sizing of the produce is crucial and the tolerance for variance is low specifically when working with retail chains, where the real growth in the market is taking place. Sizing is less important for open markets.
- Cosmetic appearance is important. No visual defects should be present when delivering produce to retail chains.
- Cold chain maintenance is crucial for highly perishable produce like peaches, sweet cherries and plums. The need is not for pre-cooling only, but for an effective, comprehensive cold chain starting from the farm and reaching the final customer with an adequate shelf life for the product to reduce the risk of loss before sale.
- Labeling is not that important. When establishing longer term deals with a buyer one may be asked to place labels on packaging, but at least with initial shipments it is not required.
- Palletizing is desirable but not crucial.
- Usual period of produce delivery from Moldova should not exceed 4-5 days starting from the day of order.

Minimum order quantity is normally one 20 ton truck. Generally the required quantities are from 1 to 7 trucks of apples per week, the same for peaches and 1-2 trucks of plums and sweet cherries. These average volumes were stated by the respondents in the market.

- Distributors dealing with retail chains deliver their products with payment required within 14-30 days. They normally ask the same conditions from their suppliers however in order to start working together and develop their credibility they are ready to pay for the first delivery right after arrival and inspection of the produce.

4.4. SPECIFICS OF WORKING WITH WHOLESALE OPEN TRUCK MARKETS

Traders delivering produce to wholesale open markets (like Pokrovka) are exposed to high risks related to price fluctuations. Prices in these markets can change 3-5 times per day and fluctuations are high in comparison with the organized retail market where the fluctuations are less pronounced and prices are more stable.

Normally, when there is a high price for a certain product suppliers start to ship huge quantities of this product. This practice drives down the price. As a result many transactions are often made with a loss for the trader.

Despite these disadvantages, the open wholesale markets remain the main channel to sell produce that **do** not satisfy the minimum requirements of retail chains. Also working with cash enables the avoidance of paying taxes which is important for a significant number of traders. These key points contribute to the fact that the open wholesale market still remains an important destination for fruit traders despite the fact that it is decreasing in size due to more consumption taking place at supermarkets.

The costs of an average 5 day stay for a truck of apples at Pokrovka market is RUR31,500 (800 euro) without the cost of a sales person. For table grapes, the cost is around RUR20,000 (500 euro) and for peaches around RUR 40,000 (1,000 euro). This includes official and unofficial payment on entry and daily stay. These prices are indeed high and vary considerably depending upon the commodity and the more competitive the commodity the higher the price. These market costs are stable and do not change from week to week. These expenses can be avoided only by selling fruits directly to distributors or supermarkets.

4.5. SPECIFICS OF WORKING WITH RETAIL CHAINS

There is a strong trend towards an increasing market share for retail chains and a decreasing market share for open air markets. This, in essence, reduces the Russian demand for Moldovan fruits which exhibit generally lower quality that do not meet the stringent requirements for supermarket sales. In Moscow, 50-60% of the total volume of fruit sold is accounted for by retail supermarket chains. As an example of the purchasing power of a big retail group such as X5 they are capable of buying 5-6 truck loads of a specific product in one day.

Supermarkets have minimum quality requirements that products must comply with. These are:

- Fruit must be calibrated (sized). The minimum size for apples is 65+ mm, so this size or bigger must be offered if size requirements are not specified in the bid.
- Fruits must be clean
- Fruit must have no visual defects

Retail chains use “produce cards” to solicit offers from suppliers at the lowest prices. The card itself could be named “Polish apples”, “Russian apples”, “red apples”, “green apples”, “yellow apples” etc. Usually twice per week, Monday and Thursday, the chains announce to their permanent suppliers which are Russia based companies a call for proposals for a certain “produce card”, like “red apples”.

A call for proposal can look like this:

Produce card: red apples

Quantity: 40 tons

Date of delivery: August 30, 2011, till 11:00

Address of delivery

Using the simple specification like “red apples” already means that the minimum quality requirements mentioned above (minimum size, cleanliness, no visual defects) is already understood.

Each supplier then makes a bid for this supply contract based on his own ability to supply the requested product. The supplier that offers the lowest price wins the bid irrespective of the variety or where the apples come from as long as they are red and satisfy the minimum quality requirements. Larger apples than specified do not yield bigger returns for the supplier. Sometimes a “produce card” designates a specific country or variety as well but usually “produce card” calls are based on color only. This practice is used for all fresh fruits.

Each retail chain has several (5-7) permanent local suppliers for each product position. It is not easy to become such a supplier so this status is highly valued by distributors. Suppliers realize the importance to consistently participating in tender even if their purchase price is higher than the estimated price for the "Produce card" bid with the imminent need to participate. If a distributor doesn't participate in tenders or his price is not competitive for a long period of time it can negate his status as a permanent supplier. It is very difficult to re-establish a position once buyers have lost confidence in the supplier.

All distributors state that it is difficult to work with retail chains having so many suppliers but state that, although pricing is often less than the wholesale market, it is at least more stable. In the wholesale market the overall pricing is usually better but fluctuations take place several times per day and the risk of losses for supplier is also higher. Everyone recognizes that the supermarket business is the growth of the future and are strategically planning on how to best position themselves long term while realizing the pricing advantages of the open market in the near term.

An example of the complexity of the retail chain business:

Retail chains reject about 10% of all loads shipped. The supermarket tolerance towards quality, size and external appearance ordinarily allows 3-4% deviation from the overall product specifications. This might vary slightly depending on the supermarket. Around 15% of the produce is inspected manually during each delivery. It is very important to have your own representative working closely with a retail chain that verifies the delivery together with the chain's employee in order to avoid unjustified penalties and claims on quality. Sometimes supermarkets' reason to reject produce can be false due to internal logistical problems such as overstocking of a product at a certain time. Some respondents mentioned that they had delivered the same load of produce 2-3 days after it was rejected and it was accepted. With these specific conditions there is very little chance for Moldovan producers to work directly with retail chains unless a strong relationship is developed with the specific chain.

In order to be successful in selling product to the supermarket channel producers require the services of intermediary counterparts specifically for customs clearance and payment procedures. It is important to note that the intermediaries used for customs and payments is a completely separate function from the intermediary (brokers) working with the distributor for the larger bid "produce card" supply deals. These two functions work independent of one another but both are very important as to be well positioned in the ever growing supermarket channel.

Entering the supermarket channel for Moldovan producers:

The current distribution pattern for Moldovan fresh fruits looks like this: A producer or in most cases Moldovan trader uses his/her own or rented truck and delivers fruits to Russia. Then they use the services of Brokerage Service company for customs clearance procedures and move the truck load of fruit to the open wholesale truck market (like Pokrovka) and sell the fruit in 2-5 days. Only few Moldovan producers/traders deliver their fruits to distributors who work with supermarkets. This is due to the fact that the average quality of Moldovan fruits is below the minimum quality requirements imposed by supermarkets and because of this distributors don't want to deal with

Moldovan fruits. This being the case the open wholesale truck markets are now the predominant channel for commercialization of Moldovan fruits in Russia.

Moldovan producers that want to keep or increase their share on the Russian market need to move their products from the open truck market to supermarkets. In order to do this they first of all need to upgrade the produce quality (sizing, absence of visual defects, packaging) to the minimum standards accepted by supermarkets.

The second step is to establish relations with big Russian wholesalers that supply to supermarket chains via “produce card” bidding system. These distributors are open to collaboration and seek reliable suppliers. If there is a strong commitment and desire of a Moldovan producer to establish a long term relationship with a distributor(s) then it should be feasible.

Tenders for “produce cards” is the most common business practice and the biggest delivery channel for fresh fruits to supermarkets. Supermarkets prefer not to import directly because:

- They want to reserve the opportunity of rejecting deliveries, which is much more difficult to do if the supermarket is part of international transaction. If the supermarket, or one of its subsidiaries acts as importer it cannot do the thorough product testing until it becomes the owner of the product after performing customs clearance procedures. In this case rejection of the produce would be impossible.
- The period of delivery is longer from other countries rather than from local distributors

It's worth to mention that if the potential benefit for a retail chain is high and the trust for the supplier established it can import directly or through one of its own subsidiaries from the producing country. This direct import is really an exceptional business practice that permits avoiding bidding with “produce cards” via Russia distributors. In order to reach this highest level of collaboration Moldovan producers should:

1. Prove that he/she is a long term reliable supplier. The best way for it is to work via Russian distributors that are permanent suppliers to retail chains.
2. Be able to regularly provide low prices that in most of cases is lower than the average winning price of “produce cards” bids.

It is important to emphasize that supermarkets will not buy directly if an exporter doesn't have a proven track record of being a reliable supplier. Therefore a recommendation for Moldovan producers at the initial stage would be to upgrade quality and to initiate collaboration with big Russian distributors.

Packaging of fruits for supermarkets is not a problem for the producer. Supermarkets will generally accept producer's packaging or can re-pack themselves or ask a distributor to re-pack in consumer size lots.

5. IMPORT AND PAYMENT PROCEDURES

There is a generally accepted and applied “scheme” of importing produce to Russia, which is based on avoiding taxation. This scheme is described below. The provision of this information should not be interpreted as advice to use the existing mechanism. However, attempts to avoid this mechanism can lead to failure in penetrating the Russian market.

Russian distributors and average size wholesalers often are not registered and licensed for external trade. Therefore, they use Brokerage Service Companies (hereinafter referred to as BSCs) to handle import procedures. Usually big distributing companies can have their own BSC but in all cases they are kept as a separate business entity.

The need to use BSCs comes from the rules that are imposed by the Russian Customs Office introducing indicative prices for imported products. These indicative prices are subject to change approximately twice per year. The list of indicative prices is an internal Customs document theoretically unavailable to the general public and the mechanism of its calculation is not transparent. It quickly becomes available to big market players anyway through their personal relationships with customs officers and then further distributed to all BSC.

The indicative price is a price that is considered by the Customs to be a minimum fair price for a certain product from a certain country. Theoretically the indicative price is a method of preventing the lowering of the import prices and avoiding taxes. In practice, the indicative price is the price that all market players operate with when importing produce and, in the majority of cases, it is much lower than the real price of the produce (peaches are usually an exception to this rule). So in order to avoid paying some taxes, the indicative price “grey schemes” are used.

At the time of carrying out the present study (July 2011) the indicative prices applied by the Customs Office were the following:

Table 3. Indicative import prices for selected product in Russia, USD/ kg

HS Code	Product	CIS countries and Georgia	Belgium, Czech Rep., Estonia, Latvia, Lithuania, Netherlands, Slovakia, Bulgaria, EU (without country indication), unidentified countries	Australia, Canada, Japan, New Zealand, USA, EU (besides countries in columns 4,7).	Other countries (besides countries in columns 3,4,5,7).	Poland
1	2	3	4	5	6	7
0808108001	Fresh apples, (January 1 – March 31)	0.42	1.05	1.05	0.63	0.53
808108002	Fresh apples, (April 1 - June 30)	0.42	1.05	1.05	0.63	0.53
0808108003	Fresh apples, (July 1 - July 31)	0.42	1.05	1.05	0.63	0.53

0808108004	Fresh apples, (August 1 - December 31)	0.37	1.05	1.05	0.63	0.53
8061010001000	Fresh table grapes, (December 1 - July 15)	1.47	2.31	2.26	1.47	2.26
08061010002000	Fresh table grapes, (July 16 - November 30)	0.74	2.31	2.26	1.47	2.26
08093090001000	Fresh peaches, (October 1 - July 31)	1.26	1.58	1.58	1.47	1.47
08093090002000	Fresh peaches, (August 1 - September 30)	1.05	1.26	1.26	1.16	1.16
08094005001000	Fresh plums, (September 1 - June 30)	0.84	1.58	1.58	1.58	1.58
08094005002000	Fresh plums, (July 1 - August 31)	0.63	1.26	1.26	1.26	1.26
08092095001000	Fresh cherry, (September 1 - June 30)	1.68	1.68	1.68	1.68	1.68
08092095002000	Fresh cherry, (July 1 - August 31)	0.84	1.58	1.58	1.58	1.58
0813200000	Dried prunes	1.37	4.20	4.20	3.15	3.15
0802320000	Shelled walnuts	3.15	7.35	7.35	6.30	6.30

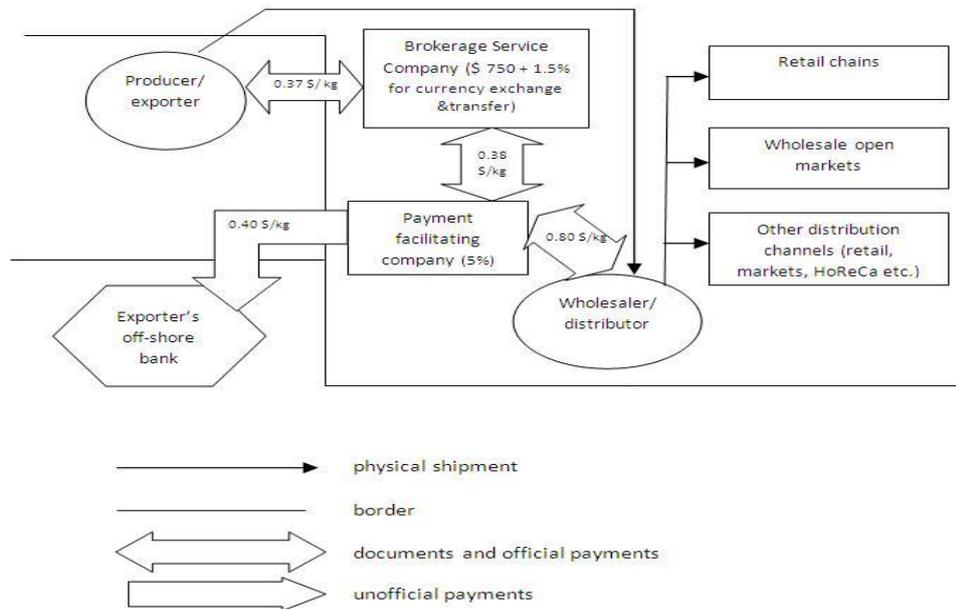
From the perspective of market players it is not profitable to import produce officially with its real price and nobody does it. Also from the perspective of BSCs and wholesalers the “negative” aspects of bringing the products officially are:

- High cost of products (and less competitiveness) – higher prices mean higher VAT and higher income tax requirements on the broker company
- The average import price is one of the known factors (although there are several factors) that serve as a basis for calculating the indicative prices for the next period. As stated, it is in the best interest of everyone involved in the commercial activity to keep the indicative prices low. Even small shipments that are priced higher than the indicative price are viewed as negative and the BSC’s are reluctant to import.

A BSC is not the “real” customs broker as it provides the customs clearance services by acting as importer itself. This type of services is well developed in Russia.

The general scheme of the arrangement is presented in the chart below:

Figure 25. Payment scheme in Russia



The scheme presented above shows an example of importing Moldovan apples to Russia. For a simpler understanding of the scheme all the prices were presented without VAT, which has to be paid on all transactions starting from the stage of customs clearing. According to this scheme the following steps are undertaken in order to deliver the produce to customers:

1. A Moldovan exporter (producer or trader) finds a buyer in Russia (wholesaler or distributor), negotiates quality, quantity, price and other terms of contract. In this example the negotiated price of apples is \$0.80/kg on CPT Moscow (Incoterms 2000: CPT – Carriage Paid To).
2. The exporter finds a BSC and signs an export contract with the price of 0.37 \$/kg (the indicative price at the moment of sale). In some cases BSC can belong to the importer/wholesaler, but in all cases it is a completely separate business entity.
3. BSC signs a contract with a Russian based Payment Facilitating Company (here and after PFC). Often BSCs have long term relationships with certain PFCs. The price of produce rises up to 0.38 \$/kg, because BSC has to show at least a minimum profitability for accounting purposes.
4. PFC signs a contract with the wholesaler with the price that was negotiated at the first stage (0.80 \$/kg).
5. BSC accomplishes customs clearance procedures. The average cost of brokerage services is \$750 per 20 ton truck of produce plus 1.5% from the amount of contract for currency exchange and bank transfer. This amount should be paid to BSC in advance by the wholesaler through PFC. Also to this amount should be added the VAT on import that has to be paid to the state. Therefore, in order to be able to import a truck of apples, the wholesaler has to pay to BSC in advance the amount of approximately \$2,050 (\$750 for services and \$1,299 for VAT) which is calculated as 18% from the cost of 19,500 kg of apples at the price of \$0.37.

6. After accomplishing the customs clearance procedures the truck goes directly to the wholesaler and then to his clients (retail chains, open market etc.). In the same time BSC invoices PFC with the price of 0.38 \$/kg and PFC invoices wholesaler with the price of 0.80 \$/kg.
7. When the wholesaler is paid by his clients (usually in 14-30 days period) he transfers to PFC the rest of payment (excluding the advance payment made for customs clearance and VAT on import).
8. PFC transfers the official part of payment to BSC (with the price of 0.38 \$/kg)
9. BSC transfers the official part of payment to exporter (the price of 0.37 \$ kg)
10. PFC transfers the difference between 0.38\$ and 0.80\$ to the offshore account of the exporter taking the 5% commission from this amount. As an alternative PFC can give this difference in cash to the exporter's representative.
11. After a certain (relatively short) period of time PFC disappears without paying the income tax on the profit it theoretically earned on the mark-up from \$0.38 to \$0.80 per kg. to the Russian state budget.

The scheme described above represents the mostly common practice of exporting to Russia. However, there could be some deviations from it like:

- a) A Moldovan exporter/ trader can bring the apples (or other produce) with its own truck to BSC, pay to it the cost of customs clearance services (\$2,050 plus \$108, which is 1.5% from the cost of goods (\$7,125) for currency exchange and bank transfer) and go and sell the produce from the truck for cash at a wholesale open market. After selling the produce the trader gives in cash the cost of produce to BSC (\$7,125) for the further transfer to its bank account and returns back home with the rest of money in cash.
- b) A Russian wholesaler or trader can come to Moldova with its own truck, find a producer/ exporter, pay to him the indicative price through the bank transfer (using his affiliated BSCs) and also pay in cash the difference between the indicative price and the real one. This option excludes PFC from the scheme. This can happen when a wholesaler is really interested in the produce at a certain good price.
- c) PFC can be affiliated to Moldovan exporter/trader and negotiates the price directly with wholesaler.

All types of other combinations can also take place.

The existing mechanism of import and payment has developed to facilitate tax avoidance. The cost of PFC services is 5%, while the income tax in Russia is 20%. The difference of 15% of the unofficial part of payment represents a savings for the trader.

The long chain of intermediaries represents a real risk for exporters in case of a rejection of goods if the quality is lower than negotiated or due to any other reason or simply refusing payment or the disappearance of any one part of this chain.

6. GOVERNMENTAL IMPORT REGULATIONS

Documents provided by Moldovan counterpart

The documents that should accompany the shipment of Moldovan fruits to Russia are the following:

CMR – transportation document confirming existence of a contract between transportation company and expeditor regarding road shipment services.

Invoice - Invoice is issued by the exporter and indicates the product description, quantity and price.

TIR Carnet - This transportation document is issued by International Association of Road Haulers of Moldova (AITA). Having this document prevents shipment from physical inspection at the border, which can damage fruits due to the change of temperature regime when opening the refrigerating truck. It is a duty of transportation company to have this document.

Certificate of origin (CT -1), original -This document is being issued by the Moldovan Chamber of Commerce and Industries.

Safety certificate - The hygienic certificate is issued by the Moldovan Ministry of Health based on product testing by certified laboratories. It stipulates the level of pesticides' residuals of the product. The level of residuals adopted by the Moldovan authorities corresponds to the one of the EU. The hygienic certificate for the Russian market is called the Safety Certificate and the requirements for the residuals are different from the EU ones. The producer should specify for which market he needs the certificate and the laboratory issues the corresponding document. The minimum level of residuals permitted in imported products in Russia is stipulated in "Hygienic norms of pesticide content in environmental object ГН 1.2.1323-03" adopted by the Principal State Sanitary Doctor of Russian Federation at May 2, 2003.

Phytosanitary certificate - Having the Hygienic Certificate in hand Moldovan producers should go to one of the laboratories of the *Center for Quarantine, Identification, Arbitration Expertise and Disinfection of Products* (subordinated to the Ministry of Agriculture) and obtain the Phytosanitary certificate, confirming that the product has no diseases, plant pests etc.

Documents obtained by the Russian counterpart

When a shipment comes to the customs terminal in Russian, accompanied by the all above mentioned document, the task of importer (Brokerage Service Company) is to perform the rest of procedures and obtain necessary documents in order to allow free circulation of produce in the territory of the Russian Federation. These documents are:

Quarantine Certificate – Quarantine Certificate permits importation to Russia and to transfer through its territory the goods subject to quarantine control (all fruits and vegetables are subject to it). Phytosanitary inspection is executed by state officers of State Inspection of Plant Quarantine of Russia. Inspection certificate (protocol) is a document that gives actual certification of implementation of full phytosanitary control. Besides quarantine and sanitary certification of the products specified in the list, phytosanitary and quarantine control is obligatory for:

- Transport crossing the state boundaries of Russia during transportation of the marketable products;
- Wood packing material - code TN VED (*ТН ВЭД*) 4415 .

Certificate of State Quarantine Phytosanitary Control - Certificate of State Quarantine Phytosanitary Control is executed by a state officer of State Service of Plant Quarantine of the Russian Federation.

Certificate of State Quarantine Phytosanitary Control is issued at equipped stations of plant quarantine during importation of the products subject to quarantine control to the territory of the Russian Federation, after implementation of primary state quarantine phytosanitary control (inclusive of examination).

Declaration of conformity – Importer issues this document declaring that the produce corresponds to the norms of State Sanitary Inspection on “Hygienic Safety Requirement and nutritional value of food products”, basing on inspection protocols, phytosanitary certificate, CMR, invoice and hygienic certificate.

List of exporters

In order to protect the Russian consumers from unsafe products, Russian authorities adopted for some countries and some groups of agricultural products a list of certified exporters from those countries. Basically, the presence of a company in this list means that this company hasn't supplied unsafe products to the Russian market. The list of Moldovan exporters certified to ship fresh fruits and vegetables can be found on the website of Federal Service for Veterinary and Phytosanitary Control of Russia:

http://www.fsvps.ru/fsvps-docs/ru/importExport/moldova/files/moldova_export.pdf

Only the companies that are present in this list can export fresh fruits and vegetables to the Russian market. This list is subject to revision. The companies from the list that exported unsafe products to Russia are excluded from the list. In the beginning of the season representatives of Ministry of Agriculture and Food Industry come to their Russian counterparts with an additional list of potential exporters which can be fully or partially accepted or rejected.

Customs duties

Moldovan exporters have the possibility of exporting goods into the Russian Federation without paying customs duties under the free trade agreement signed by the Commonwealth of Independent States. Thus, fruit exporters are exempt from payment of import duties in the Russian Federation.

7. CONCLUSIONS AND RECOMMENDATIONS

The current as well as future Russian market present good opportunities to Moldovan producers for exports of fresh produce. The potential to ship high volumes at attractive pricing is very possible, but certain specific steps must be taken. In order not to lose additional market share and reverse this trend and be competitive Moldovan producers have to be in step with the changing market environment. The only existing market channel for Moldovan fresh produce is the open truck wholesale market. This channel is shrinking due to the growth of the modern retail channels that are developing fast. The volume of produce currently sold via retail chains is more than 50% within the big cities like Moscow and St. Petersburg and continues to grow. The decreasing volume sold via open truck markets leads to even greater competition in this segment and as a result higher risks and lower prices for the supplier. In order to better establish "Moldovan" presence in the Russian market fresh produce shipments must be directed to the retail chains where the future increase in consumption will take place. In order to do this producers must comply with all specific market requirements of this channel and pay special attention to the following aspects:

Sizing and grading

Sizing is extremely important for those producers shipping to supermarkets. For apples the preferred size is 65+mm. Sizing of 70mm and 75mm+ are also accepted but in smaller volumes and usually do not command any significant price premium. The preferred standard for table grapes is a bunch weight of 600-800 grams. For peaches the most popular size is AA (diameter 73-80 mm, length of circumference 23-25 cm). For plums the most popular size is 35-40mm. For sweet cherries the minimum size is 22mm+, except for early season fruits which may be smaller well recognizing that bigger is better.

Moldovan producers will need to revamp their approach to "sizing consistency" if they want to continue to grow in the Russian market. It is clear to all that the real growth for the Russian market is in the supermarket channel as this is where the growth in retail trade is taking place. If this channel is to be successfully tackled then the stringent requirements of the retailers must be met at all times. There is little tolerance in the retail channel and significant challenges in this market segment but this is where the growth is. The ability for the Moldovan producers to penetrate the retail market will serve to increase overall market share and become less dependent on the open air truck markets which are diminishing in size and becoming more competitive.

Besides sizing, grading of quality levels is important. This basically means good external appeal, i.e. fruit uniformity, (no irregularity) and absence of visual defects. Quality tolerance of supermarkets to grading is $\pm 4\%$. Produce that doesn't correspond to these limits is rejected and there are no exceptions.

Color and varieties

Varieties as such are not important. Consumer, and buyers following the consumers' demand, distinguish fruits by color. For apples there are distinguished red, yellow and green colors. Red apples are mostly preferred in Moscow and in the Central Region. Green and yellow apples are more popular in St. Petersburg and Siberia. The average consumer sometimes can distinguish Idared or Golden varieties but not much more and makes their choice by color, size and external appearance.

For grapes there is also a market for both dark/red and white varieties with a slight preference for the dark/red varieties. Peaches must have predominant red color. Plums are divided between black, red and blue. Darkness of the fruit is important for sweet cherries with darker being better.

Washing and pre-cooling

Fruit washing is important just in terms of the product's external appeal. Produce should be clean and if this requires washing then it should be done. The need for pre-cooling and a continuous well-managed cold chain comes from the buyers requirements for products minimum storage life. For certain items such as plums, peaches, and sweet cherries these must be able to be kept in distributors depots for at least one week to sell effectively. These fruits coming from Moldova with no pre-cooling or continuous cold chain usually can't be stored more than three days. Without pre-cooling and maintenance of the cold chain all the way through the system it is impossible to prolong the storage period. For table grapes pre-cooling is very important as well as maintaining the entire cold chain. This is not that critical for apples but will always add shelf life.

Field work

Selling the produce starts from the orchard, not from depot. Knowing the market requirements the producer should adjust his/her production and harvest practices to achieve the desired final result. This means produce thinning in order to have the right size of fruit/bunch and correct harvesting and utilization of fertilizers and pesticides (in order to be able to comply with severe sanitary and hygienic requirements imposed by the Russian authorities).

Transportation

In order to assure the minimum required storage life for the produce it should be transported to Russia only in refrigerating trucks and this should be controlled by the supplier. Sometimes the weather conditions permit transporting fruits in simple trucks with thermo isolation however, the risk of produce spoilage is still high and the cost of damaging relationships with partners is usually higher than the cost of using a refrigerated truck.

Packaging and labeling

The most important requirement in packaging is to protect the fruits from damage. As long as packaging satisfies this requirement it will be accepted by the buyer unless specific packaging requirements have been specified in the supply contract. The most widely accepted type of packaging for apples are: 1). wooden box of 8-10 or 13-14 kg; 2) telescopic carton box of 10-12 kg and; 3) Open carton box of 10-12 kg. All carton packaging must be very durable and a five layer carton box is preferred. This protects the fruit from impacts from stacking, vibration and fluctuating temperatures.

For table grapes the popular types of packaging are: 1). plastic box of 8 kg; 2). wooden box of 5 or 8-10 kg; 3). Closed carton box of 5-8 kg and produce wrapped in film for grapes delivered in deep winter period.

For peaches, wooden boxes of 4 kg capacity or open carton boxes of 7-8kg capacity are most often used. For plums there is basically only one type of packaging a wooden box of 4-5 kg capacity. Packaging for sweet cherries can be from wood, carton or plastic for the (4 kg) pack but the wooden one is preferred. For better protection, sweet cherries are often wrapped in a film sack. Dried plums

are usually shipped in a 10 kg closed carton box and the produce is also placed in a plastic sack. For shelled walnuts the same packaging is used, however, for higher premium price segment the kernels can be packed in 5 kg vacuum plastic bags.

In order to give the product a more luxurious external appeal producers often use plastic trays with cells (for apples and peaches) or separate each bunch of table grapes with styrofoam. This fancy packaging gives the product a more upscale look but is not critically important. What is important is to put in the wooden or plastic boxes a layer of absorbing paper that eliminates excess moisture and protects the fruit from being damaged by the edges of the box.

At the initial stage of working with a buyer labeling is not that very important however when big volumes are being shipped a distributor would require labeling each box in order to simplify traceability. The content of the label will be communicated by the distributor.

Palletizing of produce is also desirable but not critical at the initial stage of collaboration with a distributor.

Terms of working agreement

A producer wishing to work directly with a distributor on a long term basis should be ready to provide to the partner the possibility of post payment of 14-30 days (the period that distributor is paid by supermarket chains). The biggest volumes are sold when a producer and distributor work as a single team with the distributor working on a fixed commission per box and selling the produce according to market price. It takes a long period of time to build such relations because this is a matter of mutual trust. The distributor has to trust the producer that the quality and volume of produce and period of delivery will be honored and the producer has to trust that the payment is secure and will be paid on time.

Competitiveness and seasonality

The most competitive product from Moldova for the Russian market from all those studied is apples. Certain varieties (ie: Idared) are already present in the market and have a good customer following, reputation, and are widely accepted. The future growth of this commodity in the market is also estimated to be quite significant. The higher priced apples will be those apples that are sold from cold storages taking full opportunity of changing market conditions. After the massive seasonal supply in September-October, prices then increase in November-December. These two months represent the best window of opportunity for Moldovan growers. After the New Year there is a massive supply of apples from Poland due to the reduced customs fees. The prices in January-March are usually not much higher than the prices in December. Selling in this period is more of a strategy to establish longer term agreements to lock in prices to protect against sudden price decreases when the market is over supplied.

Due to their competitive price the table grapes from Moldova (mainly Moldova variety) sell well from October to January . It is critical that all grapes be pre-cooled and the cold chain kept intact to extend the shelf life of all varietal offerings. Through the proper post harvest handling and transportation and insuring that the cold chain is never broken there will be opportunities to extend the season into January specifically with the Moldova-variety grapes which hold up well. This seeded variety is a very hearty grape with a thick skin that is widely accepted and has a good reputation in the market. The general approach for the producers would be to sell as many grapes as possible in

November, December and January. After this time period the fruit will start breaking down and pricing therefore will be sacrificed.

The retail trade during the same period can as well be tackled as need be to gain market share but there will have to be great focus on the size of the bunches that are offered. The premium size bunches are 600-800 grams and this will be an important factor to make the cross over from the open market to the ever expanding retail market.

In order to compete effectively in the market for peaches and plums these products must be pre-cooled and transported and stored in cool facilities. It is absolutely imperative that these products not only be pre-cooled but that the entire cold chain be kept intact throughout the system. These are seasonal products and the price fluctuations are very high. A longer storage life will enable product to be held at the arrival depot (one week) as needed. This will provide more flexibility in selling the fruit which over the long run will lead to better pricing.

The retail market for the time being is something that should not be pursued until consistent sizing and proper cold chain management can be employed to provide quality arrivals to build the reputation and image of these perishable products.

Sweet cherries are potentially very profitable but, at the same time the most risky of all studied products. Keeping a continuous cold chain is essential, as is the case of peaches and plums. Without having a uniform supply (same quality, size, variety) in a truck shipment the supermarket retail business will not be an option. Only when consistent size, quality and variety of cherries are available will supermarket channels be an option working through intermediaries. Working directly with supermarkets will continue to be very difficult unless a strong relationship established with a specific supply contract previously agreed upon.

With the retail channel not being an option the producer/ trader has to assume all the risks related to the open air truck market with severe price fluctuations. This can be very profitable but also can be catastrophic with huge losses and must be well thought out.

It must also be kept in mind the premium price that is paid for dark cherries and this must be qualified whether these varieties can be grown. All efforts should be made, as well, as to harvest cherries as early as possible as to take full advantage of the very high early season pricing.

Moldovan dried plums and shelled walnuts are potentially competitive on the market in terms of quality. Presently these products are not really present in the market and are perceived as price sensitive items. The best season for selling these products is from October till Easter. Both of these items are industrial items that are often re-packaged before being sold. Due to the price sensitivity of these products and how they are utilized, it is best to keep these products in the current bulk packs and not incur additional costs as to stay competitive with market conditions when quotes are made.

ANNEX 1. LIST OF IMPORTERS

Name of company	Phone number	E-mail	Complete address
JFC	+7 812 7031480, 7031486, 7031489, +7 911 2178680	infospb@jfc.ru, beerulevo@msk.jfc.ru, amurskaya@msk.jfc.ru, pokrovskaya@msk.jfc.ru, info@kazan.jfc.ru, info@kuban.jfc.ru, fruit@ural.jfc.ru, infochel@jfc.ru, nsk@jfc.ru, viktor@jfc.ru, slava@jfc.ru, milyanina@jfc.ru, info@jfc.ru	Petrogradskaya Naberezhnaya St. 18-A, Saint Petersburg 197046, Leningrad Oblast, Russia
Fruit Brothers	+7 812 3322436, 7186300, 7186305, 7186307, 7186311, +7 921 3663532, +7 964 3608422	razinkina@fruit.spb.ru, all@fruit.spb.ru, leon@fruit.spb.ru, nikefruit@mail.ru, shelenko@fruit.spb.ru, taras@fruit.spb.ru	Moskovskiy Pereulok St. 78, Saint Petersburg 197101, Leningrad Oblast, Russia
Globus	+7 495 5453648, 5453650, 5892551, 9805280, 9805281, 9805282, +7 903 7991407, +7 916 5524076	gailov@globusgroup.ru, stanislav@globusgroup.ru, globus@globusgroup.ru, globusgroup@comail.ru, efim@globusgroup.ru, sales@rigondap.ru, sales@fruto-m.ru, kozlova@globusgroup.ru	Vozdvizhenka St. 7/6, Bldg. 1, Floor 1, Moscow 119019, Moscow Oblast, Russia
Partner OOO	+7 495 4115436, +7 8482 207032, 208266, +7 917 1211918, 1280409	partnertolyatti@mail.ru, matweewam@mail.ru	Bazovaya St. 12, Bldg. 1, Tolyatti 445004, Samara Oblast, Russia
Ekzotika Company OOO	+7 495 3836820, 3844251, 7857500, 9209328	info@ekzotika-company.ru,	Chertanovskaya St. 32, Moscow 117525, Moscow Oblast, Russia
Fruktomaniya OOO	+7 495 5892551	natasha@globusgroup.ru, edvard@fruto-m.ru, sales@fruto-m.ru	Bannyi Pereulok St. 10, Of. 1, Moscow 149258, Moscow Oblast, Russia
DDS Servis	+7 495 2236766, 6452005, +7 812 9505013, +7 916 9505070	tarasfruit@mail.ru	Montazhnaya St. 3, Moscow 107497, Moscow Oblast, Russia
Frukty i Produkty Group of Companies	+7 8312 1111111, 790079, 794291, +7 8314 153436, +7 920 2533652, +7 951 9056224	savina@fruit.nnov.ru, fruitfood@r52.ru, vitamin@fruit.nnov.ru, brend@fruit.nnov.ru, s_kolchina@mail.ru	Bazovyi Proyezd St. 1, GSP 1054, Nizhny Novgorod 603600, Nizhny Novgorod Oblast, Russia
Voskhod-Produkr OOO	+7 495 3835739, 9747041, +7 985 2201081	leon-99@mail.ru	Stupinskiy Proyezd St. 1, Bldg 18, Moscow 117546, Moscow Oblast, Russia
Vitalika OOO	+7 495 7925147, 7925148	natalia@vitalica.ru, info@vitalica.ru, vera@vitalica.ru	Paustovskogo St. 8, Bldg. 1, PO Box 227, Moscow 117463, Moscow Oblast, Russia
Agrofruit OOO	+7 495 9136655, +7 91 63295817	agrofruit@rambler.ru	Derbenevskaya Naberezhnaya St. 11, Bldg. B, Moscow 115114, Moscow Oblast, Russia
Avrora TD	+7 812 3217555, 3801141	info@td-aurora.ru	Krasnoarmeyskaya St. 12, Saint Petersburg 198052, Leningrad Oblast, Russia
Fabula OOO	+7 812 3329456	lentiavets@gmail.com, tnotman@yandex.ru, info@fabulaimport.com	Gagarinskaya St. 26, Of. 8, Saint Petersburg 191028, Leningrad Oblast, Russia
Tolyattinskaya Fruktovalaya Korporatsiya OOO	+7 8482 696688, 696785	ffc1@mail.ru, tfcms@mail.ru	Bazovaya St. 12, Bldg. 20, Tolyatti 445035, Samara Oblast, Russia
Elan Trade OOO	+7 901 5307247	sales@greenfresh.ru, info@greenfresh.ru, alla@greenfresh.ru, elan_trade@mail.ru, lena@greenfresh.ru, angelika@greenfresh.ru	Leningradskiy Ave. 16, Bld. 2, Moscow 125040, Moscow Oblast, Russia
Khayron	+7 914 4683070, +7 70251 21413, 31313	30251-21413@mail.ru	Kosmolskaya St. 8, Of. 2, Zabaykalsk Town, Chita Oblast, Russia

Evraziya External Trade Firm	+7 342 2387790, +7 3422 430347	jd.perm@mail.ru	Solikamskaya St. 317, Perm, Perm Oblast, Russia
Fruktovyi Tsentr	+7 3422 212930, 212971, 2201744, 2201844, 212758, 212950, +7 902 8316262, 8377433, +7 919 4404434	spas@fc.perm.ru, fruitcentre@list.ru	Pozharnaya St. 18, Storehouse 2, Perm 614003, Perm Oblast, Russia
Vindal	+7 351 2560621, 2560626, +7 908 0815663, 2330663	red1964@mail.ru	Chelyabinsk, Chelyabinsk Oblast, Russia
Prodgamma	+7 383 2278427, 2278555, 3632400, +7 913 8903092, 9168063, 9855285	fruitmarket@prodgamma.com, ricemarket@prodgamma.com	Tolmachevskoye Highway 17/1, Novosibirsk 630052, Novosibirsk Oblast, Russia
Aziya-Frukt OOO	+7 383 3427471, 3442490, +7 913 0101853, 9250471	fruct@mail.ru, asia-fruct@mail.ru	Sibiriyakov-Gvardeytshev St. 49/1, Novosibirsk 630088, Novosibirsk Oblast, Russia
Karavay Trade Company OOO	+7 3912 417458, 551110, 551212, 551313, 551400, 551600, 950390, +7 901 3016429	tradekv@mail.ru, luda@karavay.ranetka.ru	Kalinina St. 167, Krasnoyarsk 660061, Krasnoyarsk Oblast, Russia
Vostochnyi Alyans OOO	+7 4232 491915, 491916, 491917	kuptsov65@mail.ru	Krasnogo Znameni St. 30a, Vladivostok 690000, Primorskiy Krai, Russia
Polly-Fruit OOO	+7 4722 220972	oksana.zorina@pollyfruit.com	Mirnaya St. 10, Belgorod 308015, Belgorod Oblast, Russia
Veresk OOO	+7 4732 615063, 615064, +7 910 3451706	info@veresk.com, glbuch@veresk.com	45-oy Strelkovoy Diviziyyi St. 234-g, Voronezh 394016, Voronezh Oblast, Russia
Top-Group OOO	+7 4812 356229, +3 706 5747047, +3 712 6954681, +7 906 0330308, +7 920 3265222	top-grup@rambler.ru	Stroiteley Ave. 24, Smolensk 214031, Smolensk Oblast, Russia
Granit OOO	+7 4822 513457, +7 910 9308183	info@fruitgranit.ru	Mozhayskogo St. 70, Of. 48, Tver 170016, Tver Oblast, Russia
DimirAgro OOO	+7 4912 229342, 464648, +7 910 6101717, 9045926	makarova-irina@mail.ru, dimiragro@mail.ru	Novoselov St. 32-105, Ryazan 390048, Ryazan Oblast, Russia
TD Optifood OOO	+7 495 3305111, 3306244, 3359133, 3365302, 3634620, 3634626	tregubova@optifood.ru, samonov@optifood.ru	Profsoyuznaya St. 78, Moscow 117393, Moscow Oblast, Russia
Partnerimport OOO	+7 495 3843004, 7653523, +7 916 7224413	partnerimport@mail.ru	Varshavka St. 125, Of. 604, Moscow, Moscow Oblast, Russia
Kevi OOO	+7 495 4400854, 4465883, 9846780	kevi@kevi.ru, info@kevi.ru	Ryabinovaya St. 38, Moscow, Moscow Oblast, Russia
Mostrada OOO	+7 495 4437025, 4446553	info@mostrada.ru	Zagorskogo Proyezd St. 7, Of. 2, Moscow 121357, Moscow Oblast, Russia
Zelenogradskiy OPK	+7 495 5354309, 5356503, 5366504	zelovoshi@mail.ru	2-y Zapadnyi Proyezd St. 1, Bldg. 1, Moscow 124305, Moscow Oblast, Russia
Nord City OOO	+7 495 6429360, 7749484, 9806448	office@geser.su	Molodogvardeyskaya St. 57, Moscow 121351, Moscow Oblast, Russia
Befresh	+7 495 6452038, 6924666, 9718765, +7 926 3862113	dima@befreshcorp.com, roma@befreshcorp.com, meir@befreshcorp.com	Bolshaya Pochtovaya St. 26, Of. 413, Moscow, Moscow Oblast, Russia
Washington Apple Commission	+7 495 7293080, +7 926 2209632	office@bestapples.ru, svetlana@bestapples.ru	6-aya Kozhukhovskaya 24, Moscow 115193, Moscow Oblast, Russia
Bigsur Grupp	+7 495 7357743	bigsur.moscow@bigsur.eu	Mariyi Polivanovoy St. 9, Of. 4,5, Moscow 11936, Moscow Oblast, Russia
Triumf Trade OOO	+7 495 7367165, +7 926 8000682	frudol@mail.ru	Sovetskaya St. 1, Tolstopaltsevo Town 143350, Moscow, Moscow Oblast, Russia
Topfood	+7 495 7452424	info@topfood.ru	Kaliningradskaya St. 12, Korolyov 141070, Moscow Oblast, Russia
Temp OOO	+7 495 7558584, +7 916 7794665	temp-julia@mail.ru	Bolshaya Cheremushkinskaya St. 21, Of. 16, Moscow, Moscow Oblast, Russia
CBA Trade	+7 495 7800194	omur@cba-trade.com	Andropova Ave. 22, Nagatinskiy Business Center, Moscow 115533, Moscow Oblast, Russia

Proddgamma-Moskva	+7 495 7864126, 7867687, +7 916 2120505	moscow@proddgamma.com	Moscow, Moscow Oblast, Russia
Omya Rus OOO	+7 495 7866330	oleg.chumin@omya.com	Bolshaya Sukharevskaya St. 16/18, Of. 39-40, Moscow 107045, Moscow Oblast, Russia
Polad & Co	+7 495 7884900, 7884911, 7894910, +7 903 3637930	ayaz@metronet.ru	Schelkovskoye Highway 2a, Of. 219, Moscow, Moscow Oblast, Russia
Ozler Trade Rus	+7 495 7925147, 7925148, +7 905 7000968	enver@toppins.ru	Russia
Vinexim OOO	+7 495 7999173, 7999175, +7 916 4477107	frolov_d@vinexim.ru	Novyi Arbat St. 21, Moscow 119019, Moscow Oblast, Russia
Strit OOO	+7 495 9805280, 9805282	globus@globusgroup.ru	Vozdvizhenka St. 7/6, Building 1, Floor 1, Moscow 199019, Moscow Oblast, Russia
Artes-Logistik OOO	+7 496 3422259, 3422262, 3425742, +7 926 8977855	2008banan@mail.ru, lobanov@rbcm.ru, rise@rbcm.ru	Sofyino Village 143395, Petrovskiy Rural District, Naro-Fominskiy District, Moscow Oblast, Russia
Soyuzpromkontakt	+7 496 3425742, +7 901 5350208, +7 926 2161484	mospk@mail.ru	Degtyarnyi Pereulok St. 6, Bldg. 1, Of. 441, Moscow 103009, Moscow Oblast, Russia
OST Group of Enterprises	+7 496 5127045	ad.monogarov@ost-group.com	Yamkino 50, Noginsk 142430, Moscow Oblast, Russia
Lakki Trade OOO	+7 499 3910250, +7 926 3241869	info@tradeby.ru	Profsoyuznaya St. 57, Moscow 117290, Moscow Oblast, Russia
Akhmed Fruit Co	+7 812 2692088, 7018202, 7088170, +7 904 6444767	akhmedfruit@mail.ru, mohammed.afc@mail.ru	Sofiyskaya St. 60, Saint Petersburg, Leningrad Oblast, Russia
Aysel ZAO	+7 812 2693391, 7024316, +7 911 2595919, +7 921 7545778	info@ayselfruit.ru, ludmila@ayselfruit.ru	Saint Petersburg, Leningrad Oblast, Russia
Green Town	+7 812 3093532, 3093632, +7 904 6101353, +7 905 2703094, +7 911 7907337, +7 921 7447900, +7 951 6419471	office@greentown.spb.ru	Sofiyskaya St. 60, Of. 5/1, Saint Petersburg 192241, Leningrad Oblast, Russia
Nevskaya Co.	+7 812 3193020, 3193030, +7 921 1836230	S.Ekaterina@nevskaya-co.ru	Sverdlovskaya Naberezhnaya St. 44 Sch, Saint Petersburg 195027, Leningrad Oblast, Russia
Optifood-SPb	+7 812 3202747, 3202748	aleshin@optifood.spb.ru, bushuev@optifood.spb.ru	Mezhevoy Pereulok St. 5-A, Of. 404, Saint Petersburg 198035, Leningrad Oblast, Russia
Baltfruit	+7 812 3207111, 7469619	office@baltfruit.ru, pershin@baltfruit.ru	Kanonerskiy Island 56-A, Saint Petersburg 198184, Leningrad Oblast, Russia
Moro OAO	+7 812 3252760, 3252761	vitaly@moro.spb.ru, oleg@moro.spb.ru, andrey@moro.spb.ru	Leningrad Oblast, Russia
Alga TF OOO	+7 812 3254085, 3254086, 3254087, 3254088, 3941109, 3954391, 9314192, +7 921 4036447	irina.sinelnikova@tfalga.spb.ru, Galina.Naboka@tfalga.spb.ru, irina_best@bk.ru	Zheleznodorozhnaya St. 11, Bldg. 2 - A - 3N, Pargolovo Community, Saint Petersburg 194362, Leningrad Oblast, Russia
Rusfruit OOO	+7 812 3254636, 7021951, +7 905 2688754	irinag@rusfruit.ru	Professora Popova St. 23, Gayot Business Center, Of. 212, Saint Petersburg 197376, Leningrad Oblast, Russia
RGS	+7 812 3292168, 7088522	marat@rgsco.ru	Sofiyevskaya St. 60, Saint Petersburg 192241, Leningrad Oblast, Russia
Kapital OOO	+7 812 3293586	kapital21-2@mail.ru	Nepokorenykh St. 63, Saint Petersburg, Leningrad Oblast, Russia
Z&Y Fruit Company	+7 812 3316616, 3316637, 3316638	info@z-y-fruits.ru, import@z-y-fruits.ru	Sofiyskaya St. 60, 1/3, Saint Petersburg, Leningrad Oblast, Russia
KTF Agro	+7 812 4613551, 4614898, 4617515, 9602022	gladlena@mail.ru	Sebastyanova St. 23-F, Kolpino City District, Saint Petersburg 196655, Leningrad Oblast, Russia
Maersk	+7 812 7183640	russalref@maerskline.com, ekateruna.golovina@maersk.com	2-aya Sovetskaya St. 17a, Saint Petersburg 191036, Leningrad Oblast, Russia
Arda-Lisi OOO	+7 81627 90281, 90390	ardalisi@mail.ru, arda_lisi@mail.ru,	Industrialnaya St. 28, Pankovka Town 173526, Novgorodskiy District, Novgorod Oblast, Russia

		vydastv@mail.ru	
Karpaty Trading House OOO	+7 8182 272260, 272882, +7 921 7216050	610020@mail.ru	Dachnaya St. 62, Arkhangelsk 163015, Arkhangelsk Oblast, Russia
Petra OOO	+7 832 787442, +7 8432 788396, +7 987 2979719	i2979719@yandex.ru, imirfruit2005@yandex.ru	Tekhnicheskaya St. 15, Storehouse 12, Kazan 420054, Tatarstan Republic, Russia
Perspektiva OOO	+7 8352 280020, +7 917 6535320	davluz@yandex.ru	Pribrezhnaya St. 7, Cheboksary 428022, Chuvashia Republic, Russia
Magnoliya OOO	+7 843 2787158, +7 965 5826710	2400744@rambler.ru	Skladskaya St. 7D, Kazan, Tatarstan Republic, Russia
Megafruit	+7 8452 652235, 773220, +7 8453 562644, +7 927 2772394	sales@megafruitt.ru	Russia
Astremstroy PKF OOO	+7 8512 611794, +7 905 3641488	magma05@mail.ru, fjhy2007@mail.ru	Dzhona Rida St. 37, Astrakhan 414000, Astrakhan Oblast, Russia
PalmaYug OOO	+7 861 2224431, 2797390, 2797391	sales@palmayug.com, palma-yg@rambler.ru	Krasnykh Partizan St. 2/1, Krasnodar, Krasnodar Krai, Russia
Rusagro Krasnodar Branch OOO	+7 861 2604462, +7 909 4451613	alexey@sunwaykr.ru, bek@sunwaykr.ru	Uralskaya St. 95, Of. 1, Krasnodar, Krasnodar Krai, Russia
Kuban-Agro OOO	+7 8617 261249, 261706, 263042, 263181, 263334, 263754	info@kuban-agro.ru, Natalia@kuban-agro.ru, Anton@kuban-agro.ru, Alena@kuban-agro.ru, Inna@kuban-agro.ru, alex_agro@bk.ru	Karla Marksa St. 2/2, Novorossiysk 353900, Krasnodar Krai, Russia
Yuzhnaya Stolitsa OOO	+7 863 2504500	ceo@south-cap.ru	Orbitalnaya St. 70/3, Of. 84, Rostov, Russia
Inroskom OOO	+7 8634 329934	inroscom@yandex.ru	Taganrog, Rostov Oblast, Russia
StavFruit OOO	+7 8652 391121, 391206	stavfruit@mail.ru, stavfruit@maik.ru	Buynakskogo Pereulok St. 41, Stavropol 355042, Stavropol Krai, Russia
Fruktoviy Mir	+7 8793 382600, +7 905 4629999, +7 928 3404004	frukt-mir@yandex.ru, frukt-mir@km.ru	Yerlmolova St. 32a, Pyatigorsk, Stavropol Krai, Russia
Fresh Express ZAO	+7 901 5105161, 5391138	annap@fresh-express.ru, fresh@df.ru, commy@fresh-express.ru	Ryabinovaya St. 38, Moscow 121471, Moscow Oblast, Russia
Agrotropicana ZAO	+7 903 7617795, +7 925 0923585	yury@agrotropicana.com, samonovas@agrotropicana.com	Moscow, Moscow Oblast, Russia
Vester	+7 906 2381209	skavkazova@vester.ru	Kaliningrad, Kaliningrad Oblast, Russia
Consofruit	+7 909 6979706	consofruit@mail.ru	Moscow, Moscow Oblast, Russia
Frukty Chernozemya OOO	+7 910 7425669	dmk1985@bk.ru	Lipetsk Oblast, Russia
Alyanc-Tver	+7 915 7365619	alyanctv@yandex.ru	Tver, Tver Oblast, Russia
Mediterranean Fruit Company	+7 926 5261918	infoOblast, Russia@mfcitalia.com	Russia
Gordeyeva Private Enterprise	+7 926 8168356, 9169244	s_gordeeva@mks-net.ru	Volodarskogo St. 32, Of. 196, Pavlovskiy Posad 142500, Pavlovo-Posadskiy District, Moscow Oblast, Russia
Sillis OOO	+7 926 9755375	yudin@sillis.ru	1-y Krasnoselvskiy Pereulok St. 3, Of. 17, Moscow 107140, Moscow Oblast, Russia
Metr OOO	+7 927 7841784	s2176174@rambler.ru	Bazovaya St. 12, Tolyatti 445004, Samara Oblast, Russia
Avrora OOO	+7 931 3073017	avrora.trading@gmail.com	Leningrad Oblast, Russia

Edem OOO	+7 937 2867259	ooosedem@mail.ru	Chistopolskaya St. 6a, Alekseyevskoye Town 422900, Tatarstan Republic, Russia
Primefruit OOO	+7 951 9197730	max_praimfruit@mail.ru	Strelka St. 4, Nizhny Novgorod, Nizhny Novgorod Oblast, Russia
Elit OOO	+7 985 6437177	ooo.apple@mail.ru	Khlebnikovo Town, Moscow Oblast, Russia
Friend Fruits Group	+99 450 2310079, +99 455 7209215, +7 812 3245673, 4935521, 7087682, +7 911 9245958, +7 960 2711090	sale@friendfruits.com, friend- fruits@mail.ru	Sofiyskaya St. 60, Bldg. 8/4, Saint Petersburg 192241, Leningrad Oblast, Russia