

CITRUS IN RUSSIAN FEDERATION

Report for CGA GROWER SUMMIT 2017

Prepared by: Mikhail Fateev, Consultant to CGA in the Russian Market

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General Information

Due to climatic conditions Russia doesn't grow citrus and therefore is entirely dependent on imports for consumption of oranges, grapefruits, pomelo, soft citrus (mandarins), lemons.

In 2016 Russia remained the biggest in the world importer of mandarins – 730 thousand MT, second biggest after EU in oranges – 480 thousand MT, second biggest after EU in grapefruits – 120 thousand MT, the third biggest importer of lemons after US and EU with 190 thousand MT (source: January 2017 report of FAS USDA).

Record volume of citrus imported was in 2012 when the country brought in 1654 thousand MT. In 2016 the total import of citrus was 1520 thousand tons.

This figure accounts for about 18% from the total volume of fruits and vegetables imported into Russia.

Citrus are the second most popular fruit category in Russia behind apples. Consumption of citrus in Russia is more than 11 kg per person per year amounting to 15,5% of the total consumption of fruits and berries in Russia.

It must be specifically noted that it is oranges that are the cheapest fruit in Russia leaving behind any other fruits, imported or local. In this context oranges are considered in Russia as a social product. Taking this into account and in view of current disposable income decrease the Russian Government introduced 1 year duty free import of oranges starting from 2017.

Though per capita fruit consumption in Russia is substantially lower than in EU, United State and Japan – 71 kg in Russia viz 122,5 kg in the US - it would be unreasonable to expect meaningful increase of consumption of fruits in the coming few years in view of stagnation of Russian economy after 2014 caused by deterioration of political and economic relations of Russia with West.

Tradition of buying fresh produce in open markets has given way to shopping for fruits in supermarkets and discounters. Presently over 70% of citrus are bought in supermarkets and shops. The trend of closing open markets (bazaars) in small cities and fruit kiosks in capitals continues meaning that the share of citrus retailed through supermarkets will grow. Reflecting this trend such big supermarket chains as Magnit (Tander), X-5 (Pyaterochka) become more and more engaged in direct procurement of citrus in foreign countries, including South Africa.

Russia remains first and foremost a price market and consumer behavior is highly affected by current economic difficulties in Russia and decrease in incomes. Buyer today becomes even more rational in his purchases, pays little attention to brands, looks for the products offering the best balance between price and quality. It can be said that the main criteria in purchasing making decision in Russia lays in the price of the product. South Africans visiting Russian supermarkets are often astonished by the low quality of citrus displayed – it's just a reflection of the above trend.

After serious devaluation of Ruble in the course of 2014-2015 Ruble has stopped falling and established itself at around RUR 60 for USD 1,00. Ruble's exchange rate among other factors directly (visibly) depends on international price of crude oil. Many economists are of the opinion that the exchange rate around 60:1 will remain as long as price of crude oil stays in the range between 50 and 55 USD per barrel.

Another factor seriously affecting traders is high price of credit in Russian banks which is no less than 18% per year. Before 2014 many Russian importers were able to use much cheaper credit facilities of Western banks or their guarantees. Since then economic sanctions introduced by Western alliance against Russia deprived Russian importers of that channel.

Bureaucracy also plays role in worsening conditions for fruit trade with Russia. This is a technical barrier in the form of EAC stickers which must be printed in Russian and glued on each every carton of fruits imported into Russia. For many South African importers, especially in medium and small sector, operating in spot market the above barrier has become insurmountable and they left the Russian market for more welcoming shores.

Trade

The major suppliers of citrus to Russia are Turkey (oranges, mandarins, lemons, grapefruit), Morocco (mandarins and oranges), Egypt (oranges), South Africa (oranges, grapefruits). Suppliers of citrus from EU countries, first of all Spain, have been banned for import into the Russian market under economic counter-sanctions introduced by Russian Government against Western block of countries.

As for Turkey, Egypt, Morocco, South Africa, as well as countries of South America, all of them enjoy preferential import duties as developing countries entitling them to 25% rebate from duty value.

The most advanced (sophisticated) exporter of citrus to Russia is Turkey. This country has been persistently improving its export mechanism by establishment of own chain of fruits depots across Russia, advertizing on Russia TV. South Africans during the last years are gradually establishing themselves in the Russian market by organizing sales offices in Russia, entering into collaboration schemes with selected Russia importers. Traditional has become extended South African citrus industry presentation at RSA National Pavilion at annual World Food Moscow Exhibition.

Shipment of citrus from Southern Africa for 80% is carried out on refer vessels regularly provided from May to November by Baltic Refers/Baltic Shipping company with offices in St. Petersburg and Cape Town. Citrus, especially more expensive mandarins and lemons, are also carried by container lines. Transportation by containers is more expensive, longer and less convenient for receivers in Russia.

Ports of St. Petersburg are the major trade route handling around 75% of all fruits shipped to Russia. Another port of entry is Novorossiysk on the Black Sea serving mainly shipments from Mediterranean countries. Though the present political situation around Russia is not suiting for planning combine shipments of fruits from South Africa by vessels discharging in countries in the Black Sea basin (Romania, Bulgaria, Ukraine, Russia, Georgia), development of logistics in future may make such plans viable.

Less citrus from Southern Africa are delivered to Russia by trucks from Europe, except for rare shipment of fruits with BS stopped in Europe: for Russia BS is not a hazardous quarantine object.

A new format of logistics may present a Silk Road, a fast railway connection from Western Union to China through the territories of Belarus, Russia, Kazakhstan. Last January the first fast freight train covered 12 thousand km distance from China to London in 18 days. This option may present interest to SA companies having stock of fruits in Europe. Using the Silk Road they can serve clients in Russia, Kazakhstan and China ex warehouse in Europe.

Russian phytosanitary regulations for SA fruits include only one object – Ceratitis Capitata, Mediterranean fruit fly. In more than 20 years of supplying citrus to the Russian Market South African citrus industry did not allow a single case of bringing in fruits contaminated with Medfly. Taking that into account Russian plant protection organization (Rosselkhoznadzor) gives green light to shipment from South Africa. PPO of the two countries are members of Plant Protection international body where their representatives regularly meet and exchange information.

It should be noted that adherence to international law and UN agencies procedures and regulations is the best form of interaction with Russian government institutions involved in foreign trade. Bilateral agreements over and in excess of the international rules may entail obligations too difficult or inconvenient to implement in practical work of the industry oriented globally. As an example, EAC stickers introduced by Russia from February 2015 and silently accepted by SA Government have substantially disturbed work of SA fruit industry in the Russian market becoming a technical barrier for SA fruit exports to Russia.

Oranges

Oranges are the second most popular citrus in Russia with 6,5% share of the fruit market. Oranges consumption in Russia in 2016 was 477 thousand MT – lower than in 2012 when it was 511 thousand MT, but higher than in 2014 – 438 thousand MT.

Oranges are available year-round in Russia, although winter (November-February) is high season for consumption. The majority of oranges are consumed fresh. The most popular orange varieties are Valencia and Navel of 56-72 sizes. They are sold loose or packed in 1 kg net packaging. Consumers typically prefer to buy loose oranges as they can pick themselves the fruits and check quality. Seldom information on country of origin is indicated on shop's shelves.

Russia is the second biggest importer of oranges in the world after EU. 77% of oranges are imported in October-March period. The major orange exporters to Russia in 2016 were Egypt (269,2 thousand MT), Turkey (70,3 thousand MT), South Africa (66,1 thousand MT), Morocco (10,9 thousand MT). Egyptian and Moroccan product is imported mostly from November to May, Turkish – from November to February. South African oranges cover demand from June through December in Russia. In June – August period -when consumption of oranges is at minimum – Egyptian and South African seasons overlap and often create glut in the market. To avoid losses special attention should be given by SA exporters to volumes supplied in this period. From August to October Southern African oranges dominate and set trends in the Russian market.

In 2016 Russia imported 66,1 thousand MT of oranges – 49% less than in 2013, 46% less than in 2014 and 25% less than in 2015.

Details of volumes of oranges imported into Russia according to statistical data of Federal Customs Service of Russian Federation are given in Table below.

Import of oranges to Russia in 2013-2016 (MT)				
Country	2013	2014	2015	2016
Egypt	233790,4	210221,6	232547,2	269178,2
Turkey	66525,6	76414,7	110304,9	70277,7
South Africa	128852,6	123034,8	87589,6	66100,8
Morocco	24531,2	26007,6	19560,9	10933,2
Syria	1762,4	2477,2	1676,4	9894,1
Uruguay	3698,4	1439,8	1298,4	9404,5
Argentina	493,1	650,7	496,9	5305,9
Belarus	3003,6	2501,4	8950,3	5037,1
China	9636	4812,8	2889,6	4220,2
Brazil	442,7		145,6	735,5
Other	32349,2	21170,5	926,6	735,1
Total:	505085,2	468731,1	466386,4	451822,3

Source: Statistical data of Federal Customs Service of Russian Federation

Prices for oranges in Russia are the cheapest among all fruits. In retail 1 kg of oranges costs around 1 USD, no matter what exchange rate of Ruble to USD is. To keep marginal profit importers will negotiate minimum CIF price of USD 7,50 for 15 kg carton of South African fruits. Depending on market situation – saturation of the market – the price can be lower or higher.

Grapefruit

Consumption of grapefruits in Russia is fairly large – 120 thousand MT in 2016 according to January 2017 survey of FAS USDA – record consumption of 141 thousand MT was registered in 2012. That puts Russia into the 5th place in the world next to the United States consumption of 294 thousand MT. But as an importer of grapefruits Russia is the second largest in the world after EU with 335 thousand MT.

Grapefruits in Russia are popular among advanced/educated population regarded as an excellent healthy fruit. It's commonly considered that Russians prefer a grapefruit with red color juice, that's why overwhelming majority of grapefruits imported are Star Rubies. Marsh grapefruits are scarcely supplied to Russia by exporters believing that there is no market for them. It is not necessarily so, because, for example, white color Pomelo are very popular in Russia. In terms of size, 28-32 are the most preferable.

Turkey and Southern Africa presently supply 90% of grapefruits to Russia. Chinese supplies of 52,2 thousand MT in 2016 represent mainly Pomelo and minor volumes of grapefruits delivered to Russian regions across the border with China. Volumes of grapefruits supplied from Israel though small – 28,5 thousand MT in 2016 – and expensive, are popular because they arrive in time of deficit of grapefruits in winter. South African grapefruits cover major demand during summer-autumn season.

Import of grapefruits and pomelo to Russia in 2013-2016 (MT)				
Country	2013	2014	2015	2016
China	56488,5	50747	36829,3	52238,1
Turkey	43688,9	40032,7	39768,8	42184,5
South Africa	25703	18092,2	17930,2	15372
Israel	13839	10323,6	4612,2	2854,6
Swaziland	888,2	1075,7	370,8	668,5
Mexico	3303	2036,6	1072,4	605,9
Egypt	1562,5	497,4	574,9	592,5
Syria	0	216,9	408,7	535
Argentina	55,5	0	0	262,3
Zimbabwe	182,6	72,2	43	56,7
Other	1819,1	1560,4	1369,7	88,2
Total:	147530,3	124654,7	102980	115458,3

Source: Statistical data of Federal Customs Service of Russian Federation

Average CIF price for grapefruits in 2016 was USD 0,70 per kg. In wholesale price for 15 kg carton of grapefruits was in range between YSD 12,00 and 18,00 with deviations in times of oversaturation and short supply.

Grapefruit market in Russia has the best potential for growth in citrus segment, because so far it caters only to a fraction of population. With promotion of the product – which has not been happening - there are prospects for increase of exports.

Lemons

Lemons consumption is relatively stable in Russia at about 200 thousand MT (maximum 212 in 2012 and 188 in 2016).

Lemon traditionally is very popular with tea and in home cooking especially for fish dishes. The most popular sized lemons are 100 – 130.

According to FAS USDA January 2017 report Russia is the third biggest importer of lemons in the world after US and EU. In 2016 Russia imported 190 thousand MT of lemons (US – 640, EU – 400). It's more than in 2015 when Russia imported 185 thousand MT, but less than in record 2012 – 212 thousand MJT.

Almost 55% of all lemons imported to Russia are supplied by Turkey. Argentina, South Africa and China with small input from Egypt and Morocco share the rest of the market. After record export to Russia of 42,8 thousand MT in 2013, Argentina dropped to 23,4 thousand MT in 2014, but recuperated in 2016 with 38,7 thousand MT. South Africa was increasing volumes to Russia from 28,4 in 2013 to 29,7 in 2014 and almost 30 thousand tons in 2016, but substantially dropped to 17 thousand MT in 2016.

A big player in the Russian lemons market used to be Spain, but since introduction of Russian ban on imports of fruits from EU countries volumes of imports from Spain are not reflected in statistics of Russian Federal Customs Service. Probably volumes from Belarus, a country where lemons cannot grow because of climate, represent some inflow from Spain.

Import of lemons to Russia in 2013-2016 (MT)				
Country	2013	2014	2015	2016
Turkey	109248,7	117045,1	117494,6	105707,4
Argentina	42795,3	23378	29472,5	38738,4
South Africa	28387,3	29719,6	29928,1	16965,4
China	3682	780,5	3643,4	14020,1
Egypt	189,2	293,1	1173,5	3876,7
Morocco	1166,4	4219,2	3725,9	3710,3
Belarus	3072,5	2560,3	9725,3	2344,9
Mexico	2162,3	1639,8	1458,2	2277,4
Uruguay	1265,6	1835,2	1696,3	1295
Brazil	2680,4	2402,2	1081,9	1091,6
Other	17202,2	25537,5	1847,1	2237,7
Total:	211851,9	209410,5	201246,8	192264,9

Source: Statistical data of Federal Customs Service of Russian Federation

In recent years lemons were in short supply in the Russian market. In certain period of shortage wholesale price for lemons reached USD 37,50 for 15 kg carton, but average price throughout the year has been USD 22,50 – 28,50 in terms of 15 kg carton.

Soft peelers

In Russia soft peelers are generally referred to as mandarins by consumers without differentiation between mandarins, tangerines, satsumas or clementines. Therefore in the lines below data and trade information is consolidated under the common category “mandarins”.

Mandarin is one of the most popular fruits in Russia with the third largest sales volume after apples and bananas. Mandarin consumption in Russia was 730 thousand MT in 2016. For comparison, in 2013, before the economic crises which started in 2014, consumption of mandarins was 852 thousand MT, in 2015 – 718 thousand MT.

The most popular mandarin varieties are Clementine, satsumas and murkots available year-round. Most consumers don't differentiate between these varieties and pay attention to the country of origin. Aside from price the main factors are whether it is seedless and whether it is sweet. The most popular size is 80-120.

Consumption of mandarins depends a lot on the season. About sixty percent of the annual volume of mandarins is imported in November-January period. The fruit is a treat during New Year holidays in Russia.

According FAS USDA Russia is the biggest importer of mandarins in the world. In 2016 Russia imported 730 thousand tons of the product (record 852 in 2013, 718 in 2015). 60 percent of supply came from Turkey and Morocco. The third biggest supplier of mandarins to Russia has become Pakistan with almost 100 thousand tons volume. South Africa delivered to Russia 14,3 thousand MT in 2016 which is almost the same volume as in pre-crisis 2013.

Turkey, Morocco, Pakistan start their seasonal shipment in November and the season lasts through March-April. Spanish mandarins which used to be one of major players in the Russia market have been banned due to sanctions. Probably volumes of mandarins imported from Belarus represent re-export from Spain. The product from Southern Hemisphere: Argentina, Uruguay, South Africa, Peru arrives in April and is available on the market from June to November.

Import of easy peelers to Russia in 2013-2016 (MT)				
Country	2013	2014	2015	2016
Turkey	200575,2	286672,6	270491,4	256442,8
Morocco	222213,5	222789,8	176948,9	203779,4
Pakistan	80278,6	73914,3	101261,8	97552,1
China	86927,9	80347,2	90152,6	84782,1
Argentina	43971,5	47003,3	28865,5	24280
Georgia	11880,4	14023,8	19414,9	16021,3
South Africa	14120,8	12158	14099,9	14270,4
Abkhazia	36404,6	30834,4	21019,5	13722,2
Egypt	4997	4016,4	11682,4	12768,8
Israel	22736,1	14487,6	16213,3	12633,6
Belarus	6922,1	6898,8	13511,4	9022,9
Uruguay	8047	10501,3	6049,8	6782
Peru	3712,4	5056,3	3563,6	3624,7
Armenia	0	0	0	2808,9
India	0	0	0	1303,8
Other	95773,8	37985,1	4521	3468,9
Total:	838560,9	846688,9	777796	763263,9

Source: Statistical data of Federal Customs Service of Russian Federation

Wholesale prices for mandarins to a big extent are determined by the country of origin, Turkish satsumas and Kinows from Pakistan are cheapest in the market and their price varies around USD 0,8 per kg. In contrast Moroccan varieties are

traditionally more expensive and price for murkots reaches 1,2 – 1,4 USD per kg, depending on market situation.

Import procedures

The importers have to submit originals of documents necessary for phytosanitary control and customs clearance to the customs office at least one day prior to the cargo clearance. For citrus the package of documents should be as follows:

- contract
- invoice
- bill of lading
- phytosanitary certificate from the exporting country authority
- certificate of origin (Form A)

The following principles must be observed:

- date of the phytosanitary certificate should be before actual day of departure of the lot from the territory of the party, the authorized body of which it is issued;
- the phytosanitary certificate must be printed out, not filled in handwriting;
- the net weight in tons or kilograms must be identified in the document. The weight in the certificate should comply with actual weight of shipment.

The customs inspector has authority to examine the documentation package and release the cargo, if the papers are accurate. In questionable situation or if papers are not right, the Customs inspector will turn the case to the Russian Federation Veterinary and Phytosanitary Surveillance (Rosselkhoz nadzor).

Another Russia authority, Rospotrebnadzor (surveillance over consumer health) will demand that the fruits delivered comply with requirements of health protection for Russian consumer. To ensure that from February 2015 each transport package (carton for fruits) must be supplied with a sticker or a leaflet in Russian bearing such information as name of product, producer, exporter, importer, life of product, insignia of EAC (EuroAsian Economic Commission). The Customs inspector will see to it, that such sticker/leaflet is available and written accurately. Text of such sticker/leaflet is usually sent by importer to exporter before shipment of cargo from the port of loading.

After the papers are examined the customs duty and VAT are paid, the Customs release the cargo. For practical reasons sender should be guided not by own understanding of Russian regulations, but by receiver's instructions in all questions with regard to shipment documentation.

Customs duties according to the Customs Tariff List are as follows:

- Oranges 5 percent of customs value, but not less than 0,02 Euro per kg
- Grapefruits,
 pomelo 5 percent of customs value, but not less than 0,02 Euro per kg
- Mandarins 5 percent of customs value, but not less than 0,03 Euro per kg
- Lemons 5 percent of customs value, but not less than 0,035Euro per kg

It must be noted that by Decree of Russian Government from January 2017 till the end of the year oranges imported into Russia are exempted from customs duty.

Quality inspection and claim survey is subject to agreement between exporter and importer. The procedure should be thoroughly mentioned in the contract to avoid unjustified claims by receivers. International and trained Russian surveyors are available in Russia to check claims and prepare reports valid for international arbitration.