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## Basic vegetables and fruits: forecast for production and prices in Russia in 2012/2013

*In Russia where the major volumes of vegetables are traditionally produced by household farms, the fruit and vegetable business started developing quite recently. 2009-2010 were favourable for farm producers: market prices for vegetables were relatively high, investing in the construction of vegetable storages began. 2011 was a year of good vegetable crop in Russia. The preliminary data for 2012 indicate the lowering of gross output of vegetables but they are still above the average figures for the 5 recent years. After the accession to WTO imports of vegetables and fruit will be growing.*

In 2011/2012 the areas sown in potatoes and almost all basic vegetables were growing as well as investments in the construction of vegetable and fruit storages. Large revenues received in the previous two better seasons were invested in the building of storage facilities and the expansion of acreage. In autumn 2011 the volumes of produce put in storage increased due to the good vegetable crop resulting in the rise of rates for storage space.

From September 2011 to April 2012 prices for vegetables and fruit were steadily falling. As a result in spring 2012 vegetable prices hit the bottom for the 5 recent years (comparable periods). In April – the traditional season of high prices on the vegetable market – prices for the so called “borsch set” [vegetables used for cooking traditional beet-root soup – *ed.*] were low: for cabbage, carrots, onions and potatoes they were even below the level registered at the time of harvesting (see *Pictures 1-5*).

The main task of producers was to avoid at least disposal costs and correspondingly they offered the produce at minimal prices. As a result the price that formed on the market in 2011/2012 precluded market operators from making any profit.

The poor financial performance of the last year affected producers' plans for the current season. Acreage under some vegetables shrank, low quality seeds were planted, the number of treatments reduced. Producers drastically cut the purchase of farm machinery and their investments in the construction of storages became much smaller (however, the trend towards the increase of corresponding capacities persisted).

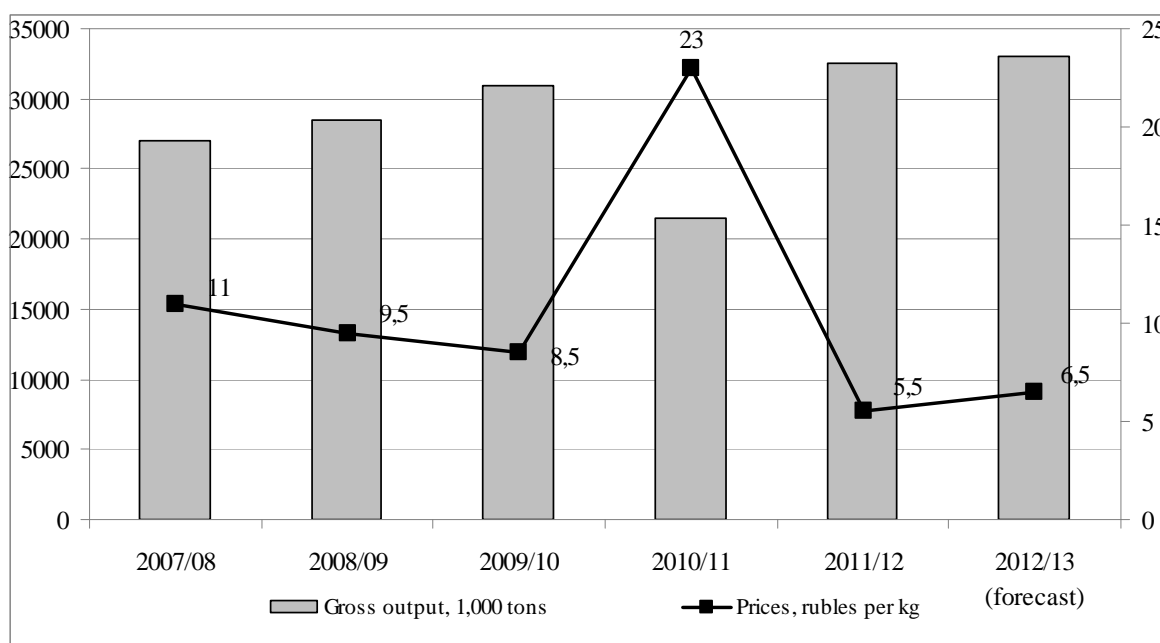
In 2012 weather conditions were worse than in 2011, there were local crop losses due the drought. Still, the losses turned out to be less devastating than one had expected.

Let's examine separately the markets of “borsch set” vegetables and apples.

*Potatoes.* The potato losses in 2011/2012 reached about 7.5 million tons (it's approximately the volume produced by Holland annually). For reference, in previous years the losses were about 3.5 million tons of commodity potatoes. These potatoes were used in only one way – as a planting material. Due to that the areas under potatoes in 2012 grew again. The yields in basic producing regions were about the same as in 2011. According to preliminary data, the

gross output of potatoes in 2012 will be around 33 million tons<sup>1</sup> which speaks of their possible over-production this year too and of higher prospective losses.

In 2012/2013 the opportunities for exporting domestic potatoes to the CIS countries are poor since in the neighbouring countries, e.g. Ukraine, the gross output of this crop will also be high. In the EU countries there is no demand for Russian potatoes as well as for potatoes from any other CIS country since they do not correspond to the quality requirements. So, the only sales outlet for this product is domestic market. But for the domestic market such volumes of production are surplus. Therefore, prices for potatoes in April 2013 are expected to be only 15-20% above the 2012 level at best and there are actually no chances to benefit from storing potatoes<sup>2</sup>. Unfavourable weather conditions in many regions affected the quality of new crop potatoes. This will also put downward pressure on prices. According to forecasts of APK-Inform, in April 2013 the wholesale price won't be higher than 6-6.5 rubles per kg.



\*Prices registered in April.

Source: APK-Inform.

**Picture 1. Dynamics of potato output and prices in Russia \***

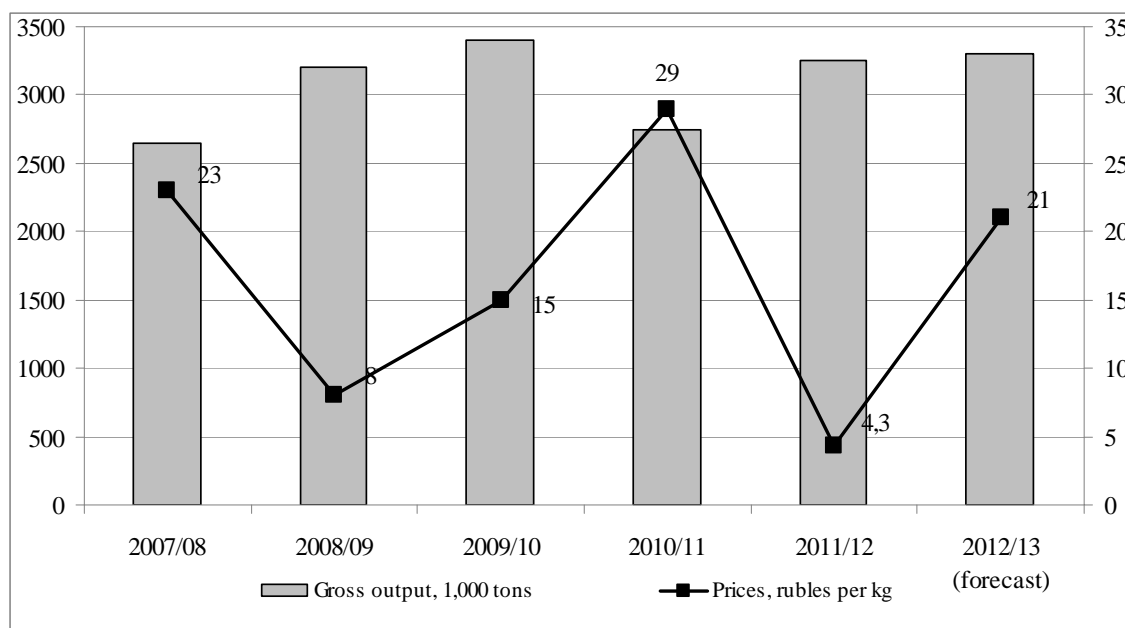
*Cabbage.* In the previous season the output of cabbage was high. As a result in April 2012 large amounts of unsold cabbage stocks were offered at very low price. As these stocks were being sold till May, it seriously undermined prices for early-ripening cabbage – they were 7 fold below the level of spring 2011.

Due to the financial problems producers sharply reduced acreage sown in cabbage – in the Russian Federation at large it fell by about 10-15%. In 2011/2012 yields decreased by 6-8% due to the strong drought in the regions where cabbage production is concentrated – i.e. the center and south of Russia.

<sup>1</sup> Based on data of APK-Inform.

<sup>2</sup> Based on data of APK-Inform.

All this resulted in lower gross output of cabbage – it was 20% below the 2011 level. Since the new crop was rather seriously damaged during the drought, it was not suitable for storage. Therefore, in the beginning of autumn producers and wholesalers strove to market early-ripening cabbage at low prices but by November when the harvesting of late-ripening cabbage begins, prices will start to grow smoothly and by April 2013 will be rather high – 20-22 rubles per kg. The market situation will provide good opportunities for cabbage import to the Russian market.



\*Prices registered in April.

Source: APK-Inform.

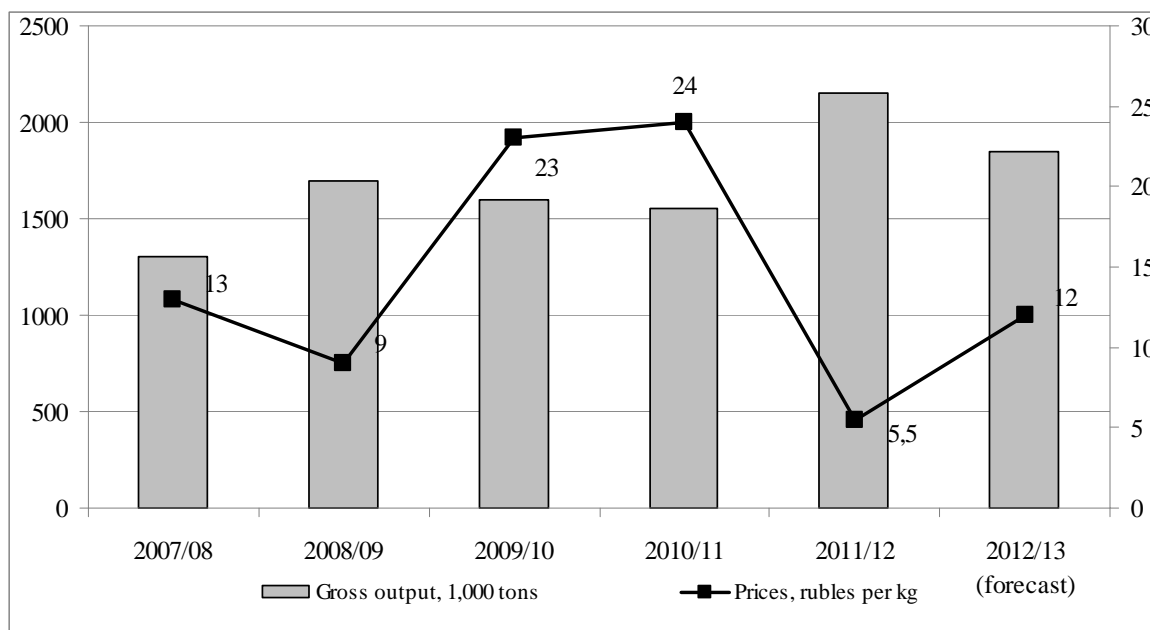
**Picture 2. Dynamics of cabbage output and prices in Russia\***

**Onions.** This year quite a noticeable shift in the period of marketing this product was observed – onions of 2011 crop were sold till August 2012. Therefore producers of early-ripening onions sustained losses. As a result in June 2012 prices were about 5-6 rubles per kg, i.e. 4 fold below the 2011 level. This led to the reduction of acreage under onions – by 5% as compared with 2011.

Despite the 2012 drought the output of onions will be pretty good – about 1.7 million tons. According to estimates of APK-Inform the decrease of gross output relative to 2011 will be only 10%. However, the latter is still 12% above the recent 5-year average. In September 2012 wholesale prices for onions were comparable to those of September 2011.

In the new season the yields in commercial farms of Central and Southern federal districts were about the same as in 2011. However, the average yield in the country at large fell by 5% due to the producers' saving on quality seeds, pesticides and fertilizers.

In the situation of shrinking production imports of onions can grow by 30% but they will be still 1.5 fold below the 5-year average. The decrease of onion output in Poland gives not a bad chance to the Ukrainian farmers to benefit from exports to Russia. In case the Ukraine starts to supply onions to Russian, their price by April 2013 can reach 12-15 rubles per kg.



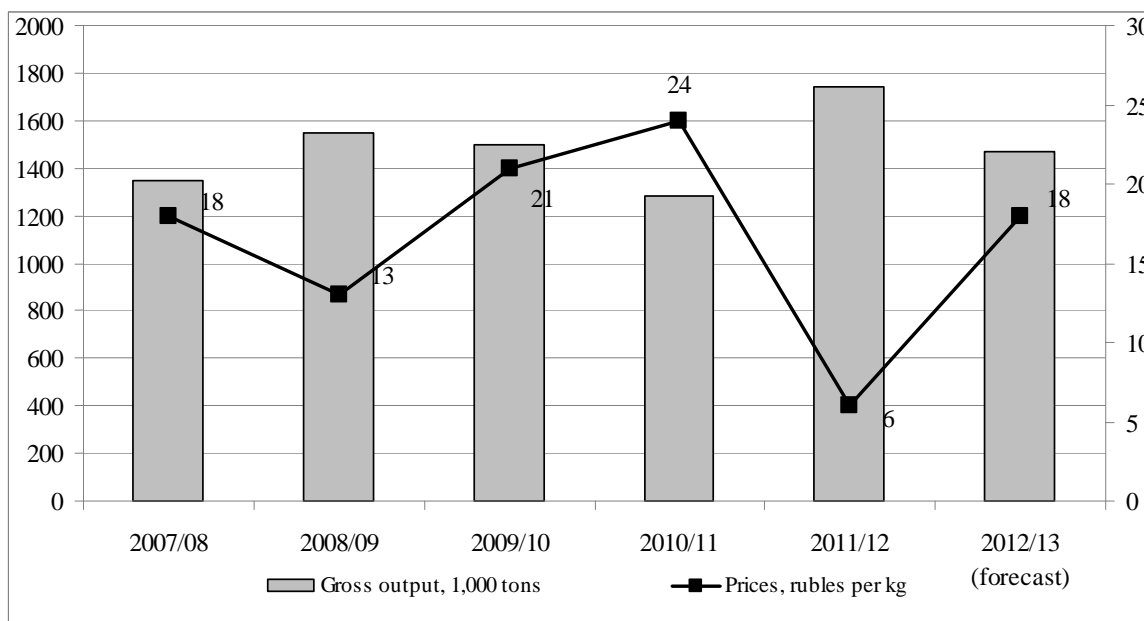
\*Prices registered in April.

Source: APK-Inform.

**Picture 3. Dynamics of onion output and prices in Russia\***

*Carrots.* In 2011 the output of carrots was record for the 5 recent years. As a result from the moment of putting in storage till April 2012 the price for them fell by 15-20%. This affected the plans of farms for the following season of 2012/2013 – areas sown fell by 10%.

In 2012 the market situation changed – because of the drought yields in the major producing regions reduced by 10% and the quality of carrots was worse than in the previous season. According to forecasts of APK-Inform, in 2012 Russia will harvest 14% less carrots than in 2011 but this indicator will be around the recent 5-year average. By the beginning of new 2012/2013 season there was a lot of carrots in non-marketable condition on the market. As a result in September 2012 the wholesale price for this product was 10% above the level of September 2011. It is expected that from the moment of putting in storage till April 2013 prices for carrots can grow 2.5 fold – up to 18 rubles per kg. In the situation of shortage of quality carrots that will become perceptible already in the mid-winter, imports will grow by 20% as compared with the last season and by 10% as compared with the recent 5-year average.



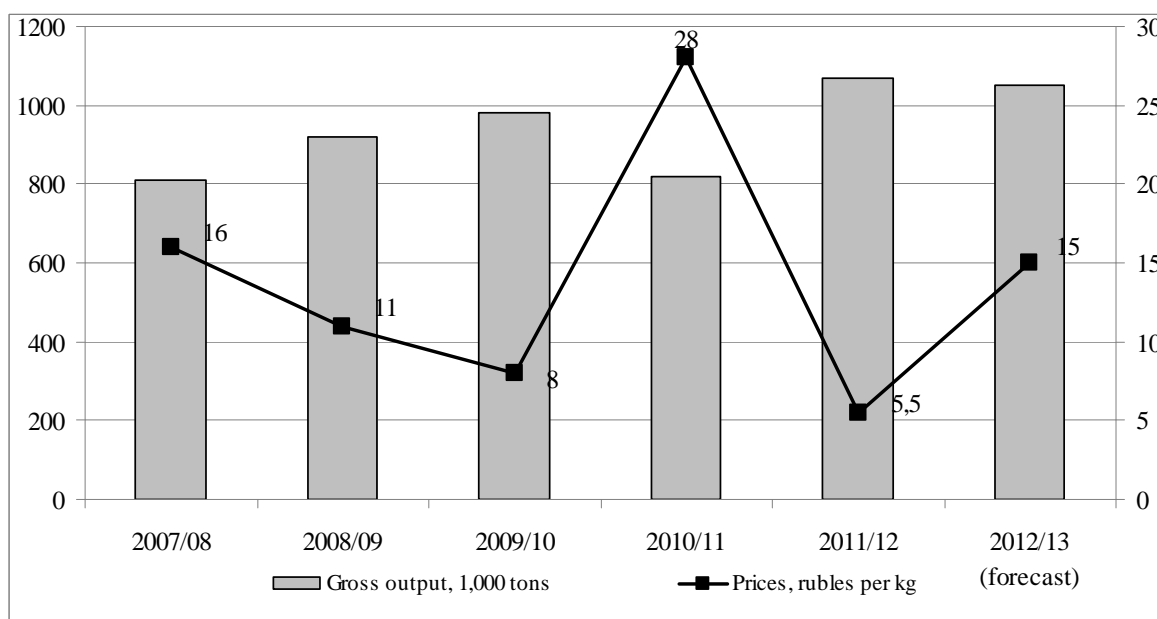
\*Prices registered in April.

Source: APK-Inform.

**Picture 4. Dynamics of carrot output and prices in Russia\***

*Red beet.* In 2012 acreage under red beet shrank by 5% and its yield fell by 2% which led to the decrease of output by 6% as compared with 2011. Due to the problems with quality the volumes of beet storage in the new season are expected to reduce.

The decrease of gross output and the inferior quality of new crop beet influenced the prices – in September 2012 it cost 30% more than in September 2011. By April prices can grow by another 60-70% - up to 15 rubles per kg.



\*Prices registered in April.

Source: APK-Inform.

**Picture 5. Dynamics of red beet output and prices in Russia \***

*Apples.* At present the share of imported apples on the Russian market is rather high. The need to meet commitments taken upon the country's accession to WTO will result in the stage-by-stage lowering of import duties on apples - by 2017 they are to reduce actually 2 fold.

Table 1

**Russia's commitments to WTO concerning the lowering of import duties on apples, EUR/kg**

Commodity classifier for foreign economic activities	2012 (WTO accession)	2013	2014	2015	2016	2017
From January 1 till March 31	0.06	0.054	0.048	0.042	0.036	0.03
From April 1 till June 30	0.06	0.054	0.048	0.042	0.031	0.015
From July 1 till July 31	0.06	0.054	0.048	0.042	0.036	0.03
From August 1 till November 30						
Golden Delicious and Granny Smith varieties	0.2	0.17	0.144	0.115	0.088	0.06
Other varieties	0.1	0.092	0.084	0.076	0.068	0.06
From December 1 till December 31						
Golden Delicious and Granny Smith varieties	0.2	0.16	0.13	0.09	0.055	0.03
Other varieties	0.1	0.092	0.084	0.076	0.054	0.03

Source: WTO.

In 2012 a record crop of apples was harvested in Russia – 1.6 million tons. Apple production is also expected to grow in Poland – by more than 20% (up to 2.8 million tons). In the Ukraine the output will be large as well. All this will put downward pressure on prices that in Russia are expected to fall by 15% as compared with the previous year, in the Ukraine and Poland – by 20%.

According to data of APK-Inform, in 2012/2013 the share of imported apples on the Russian market will exceed 80% and in the nearest 5 years import supplies will be growing due to the lowering of import duties in compliance with WTO requirements. In this situation the CIS countries are losing their advantages provided by the free trade regime. The terms of apple export to Russia from these countries will deteriorate relative to those from other countries.

In the two recent years the capacities for fruit storage in Russia grew by 20%. The segment of storage in controlled atmosphere is rapidly expanding which allows to sell apples all year round. Accordingly, the opportunities for seasonal raising of prices and getting the margin will be diminishing.