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ITC Russian Market Study Q1 2010

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Executive Summary

1.1 Background

Russia had been very much a growth market in terms of sales until the financial crisis of 2008 and 2009, with year-on-year increase in retail sales of 20% to 30% for the five years preceding 2008, including a growth rate dropping to single digits in ruble terms for 2008 and 2009. In dollar terms growth is negative for 2009. In 2008 and 2009, oil prices (Russia's main export) have fallen, the ruble has weakened, unemployment is up and the stratospheric growth of retail complexes has fallen back to earth. This being said, Russia is still a country with far less retail space per capita than most industrialized markets. Its retail landscape is far from consolidated and most of the buyers and retailers interviewed are expecting the trend of high growth in textiles and apparel to rebound from 2010 or 2011.

Russia remains an attractive market to retailers worldwide who are seeking markets with high growth potential. Even with recent negative results, Russia still has significant growth opportunities in the long term, as indicated by Victoria's Secret's recent announced entry. It should also be attractive to producers and exporters who can identify the right partners within Russia and have tolerance for a market with certain transparency issues.

For firms from the Central Asian CIS countries wishing to enter the mainstream market for apparel and home textiles in Russia there are many challenges. One of the key challenges will be to overcome the perceptions that their workmanship and quality control are weak, especially for higher value-add apparel. Currently, apparel and home textiles produced in Central Asia are present in a limited number of mainstream retail formats (eg Auchan, Lenta), but are more readily found in outdoor markets. There is clear opportunity for producers of high quality goods to carve out space in the growing mainstream (modern) format market, especially given recent customs tariff changes for non-CIS countries (i.e. China and India).

KEY FIGURES:

Total Retail: **\$500 Billion USD**

Total Textile and Clothing
(Estimated): **\$40 billion**

% Imported of T&C: **80% +/-**

1.2 Apparel & Textile Market Scale

The textile and apparel market in Russia has a value of approximately \$37 to \$40 billion USD, with about \$25 billion in apparel alone. This had been growing at 20% per year until 2008 when the market has leveled out in ruble terms. Over 30% of Russia's retail sales are in the Central Federal District (Moscow) with another 7% in St Petersburg. So the market is still clearly weighted toward European Russia, and concentrated in a few places.

According to various secondary sources, womens' wear makes up the majority of the apparel market (60% in 2008) with the rest split between men's (25%) and children (15%). Prior to 2008, both children and menswear were growing as a percentage of the market. Textiles have upwards of \$12 billion in retail sales.



Zarina



Concept Club Store



Sela Store

1.3 Tariff / Non-Tariff and Trade Agreements

The Russian Federation has relatively high tariff regime for goods coming from outside the Commonwealth of Independent States (CIS), (See HS code examples below) as well as a bureaucratically intense customs clearance process. The market for textiles also is reputed to have a high percentage of "grey imports" (cleared in some way at a lower rate), though it seems that a more real issue for inexperienced importers dealing with the customs process is that of costs associated with delays and incomplete documentation. For suppliers from Kyrgyzstan and Tajikistan, this can be a competitive advantage as they should, per the CIS tariff agreement, should only pay Valued Added Tax (VAT) in Russia (18% on most textile products).

1.4 Entry Strategies

There are clearly some producers from Central Asian Republics already active in Russia. None the less, our discussions with Russian market participants indicated few had significant exposure to purchasing opportunities from these countries. For those textile companies in Central Asia seeking orders to produce for clients (either yarn, textile or finished garments) the following steps are suggested, and dealt with in more detail in Section 10. For those companies seeking to build their own brand, they may benefit from some of these suggestions and alternatives are given in Section 10.

It is suggested:

- Participating in trade shows – preferably in Asia to start, as that's where Russian buyers are most actively looking to establish new supply relationships. Attend Russian trades shows to keep track of market trends.
- Preparing a clear marketing strategy to convince Russian customers that quality and service issues are well under control. This should include the demonstration of investments in quality control (QC), new equipment and process controls.
- Working as a block to raise awareness of the potential for cooperation with Central Asian CIS producers. Essentially this is a country or regional brand (re) building exercise.
- Establishing the right partnerships in Russia to eliminate Russia specific market challenges that fall outside core production competencies where producers should focus.

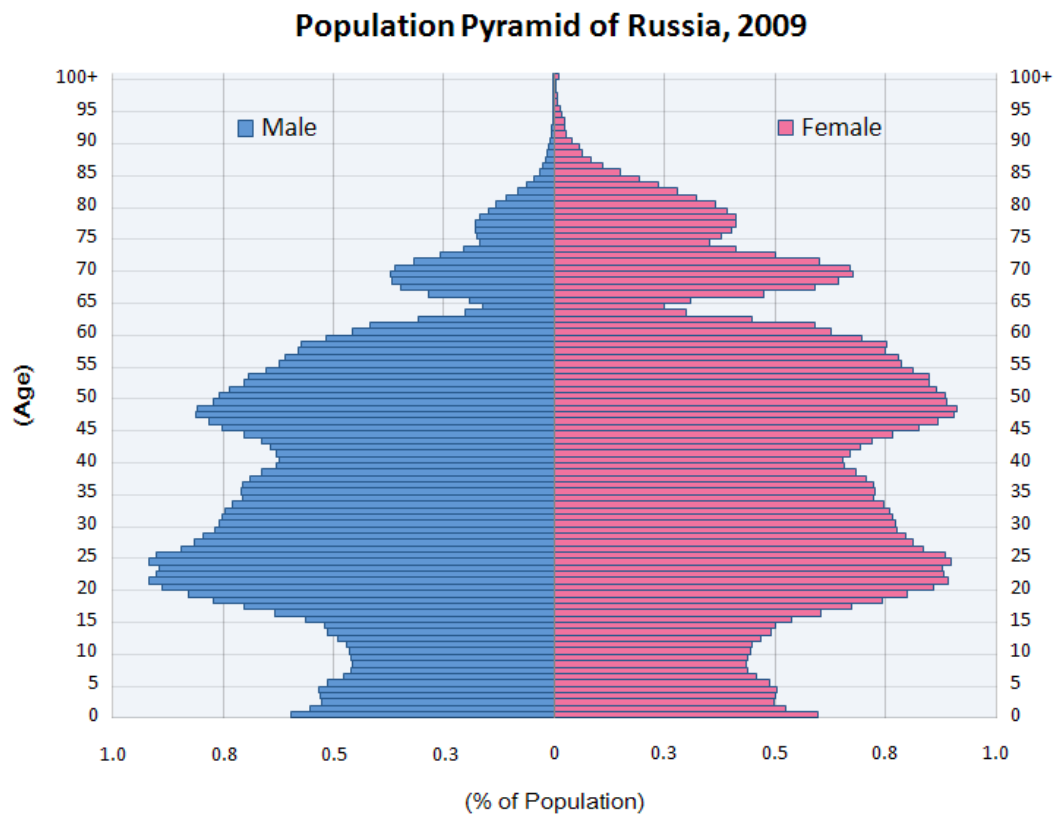
1.5 Methodology

This market survey will cover the Russian market for Textiles and Clothing (T&C), with particular emphasis on exploring information useful for producers and exporters from Tajikistan and Kyrgyzstan interested in achieving successful entry and expansion into this market. Given that our primary goal is to provide information useful for entering the Russian market, this survey will focus its interviews and research on retailers and wholesalers for whom buying decision are actually made in Russia. The Russian market is characterized by its opacity in some respects but there is a growing body of accessible information. This survey utilizes primary sources such as Customs information where available, RossStat (State Statistics Ministry), interviews with market participants and secondary resources such as trade journals and trade specific websites. Many secondary sources state opinions that are not clearly grounded, but where consistency was encountered across sources in these opinions, an effort was made to provide empirical context where feasible. Please note, due to the nature of the market, statistics, even from official sources such as ITC and Russian Customs Services do not always match and are not always assumed to reflect precise information within the market, thus these figures are used to show general trends and relative measures.

2. Market structure and characteristics: a macro view

Russia is the world's largest country in terms of geographic size, and currently has a population of approximately 142 million. It has been steadily losing population since the break up of the Soviet Union in 1991 at about 0.5% per year, though this has recently slowed and Russia is hovering at replacement rate (2009 population growth of 0.12%). For retailers it is important to understand that 73% of the population is urban and it has 11 cities with populations over 1 million. The great distances between some of these urban centers combined with inconsistent infrastructure can make logistics challenging.

There was a birth rate increase just prior to the end of the Soviet Period (see graph 2.1), so there is a relatively large portion of the population that is in the key retail demographic of 18 to 25 years old. Though currently their purchasing power is in question.



Graph 2.1

Graph 2.2 below also gives an indication of the geographic clustering of the Russian population. This geographic clustering of the population will be discussed in Section 6.1.

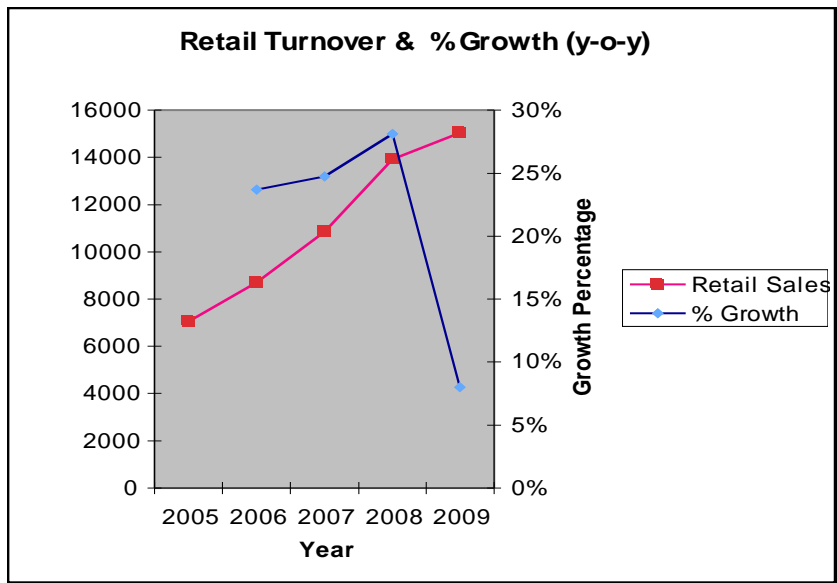


Graph 2.2

2.1 Market size and prices

Retail sales in Russia in 2009 are expected to top 15 trillion rubles (\$500 billion @ 30 RUR/\$1), or 8% greater than 2008, which represents a significant slowing of retail growth compared to the previous five years (see Graph 2.3). In dollar terms, given the weakening of the ruble, this will likely be a net contraction (-10%). Given that a very high percentage of non-food items are imported, hard currency based measures of value, rather than ruble, are more indicative of the market situation, at least in non-food (general merchandise).

Apparel Sales were doubling each year 2005 to 2008



Non Food = 54% of Retail Sales
Russian Textile & Apparel Market = \$40B +

Graph 2.3 Figures from Rosstat 2009 – 2009 estimate based on Q1 and Q2 data for 2009.

Non-food items represented 54% of retail sales in 2008. Of all retail sales, textiles, fabric, knitwear and apparel represented 8.1% in 2008 of all retail sales (1,1 trillion rubles/\$40B) according to Rosstat (the federal statistics agencies), down from almost 10.5% in 2005. Though declining as a percentage of retail sales, textiles and apparel have grown steadily in absolute terms in both dollars and rubles until 2009. Imports of textiles, apparel and footwear have grown steadily, with the official total for imports in 2008 being \$11.6B USD (based on official import figures). Secondary sources and trade journals estimate this figure to be higher, by 40% to 50%. This lack of specificity is due to “grey imports”. Based on retail sales instead of customs figures some estimate imports to be 40% to 50% higher than officially reported. This can be seen while comparing information between the tables and graphs discussed below as officially gathered and reported UN statistics do not appear to match RosStat figures. Partly for this reason, the overall market size of the apparel and textile market is likely higher than the official figures of \$40B +/-.

Textile, textile articles and footwear IMPORTS –

I(n USD Billions)	2005	2006	2007	2008
Textile imports	3.6	5.5	8.6	11.6
% increase on previous year	18%	53%	56%	35%

Table 2.1 From Rosstat Dec 2008 – Chart 26.11

Table 2.1, from RosStat, shows the growth rate of textile and footwear imports. Though the growth rate is very impressive (30 - 50%) it would appear to lag the retail sales growth.

Volume Indices of Sale of Certain Non-Food Categories (as % of previous year sales)

	2005	2006	2007	2008
Knitwear	114	106	97	109
Sewn Articles	108	109	101	108
Manufactured Fabrics	108	110	120	111

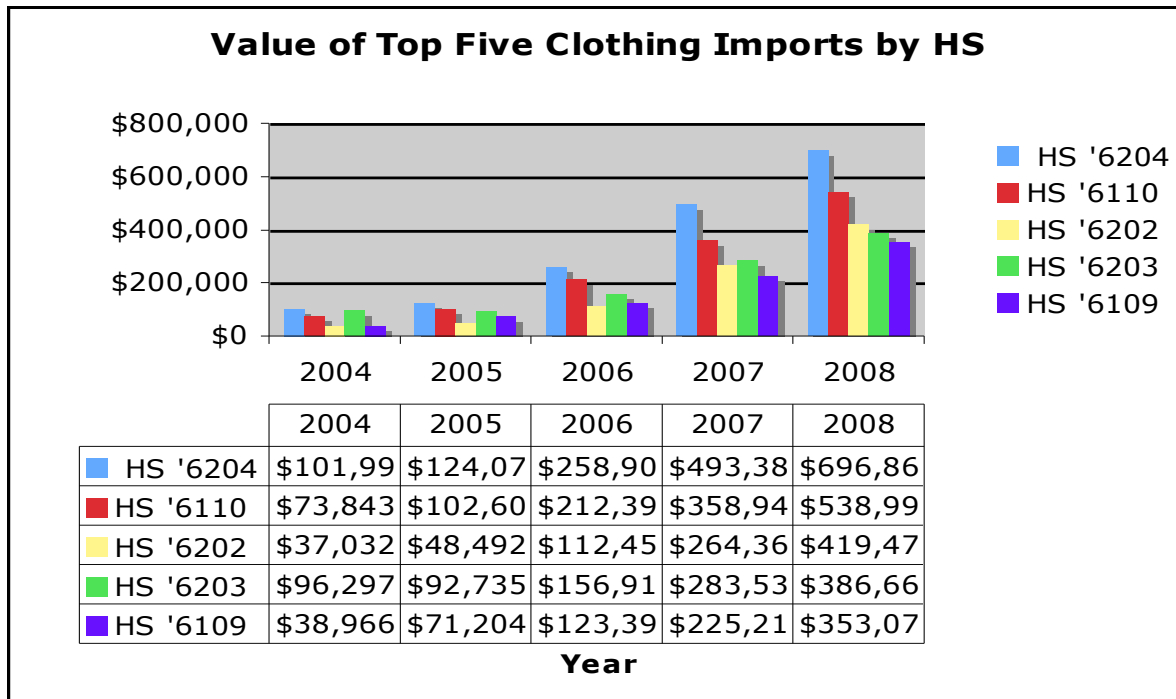
Table 2.2 From Rosstat Dec 2009 Table 21.8

Table 2.2, from RosStat, shows the retail sales year-on-year growth rate of knitwear, garments and textiles averaging slightly over 100% between 2005 and 2008. This is outpacing overall retail growth rate which was about 25% during this time period.

2.2 Imports of Textiles and Garments

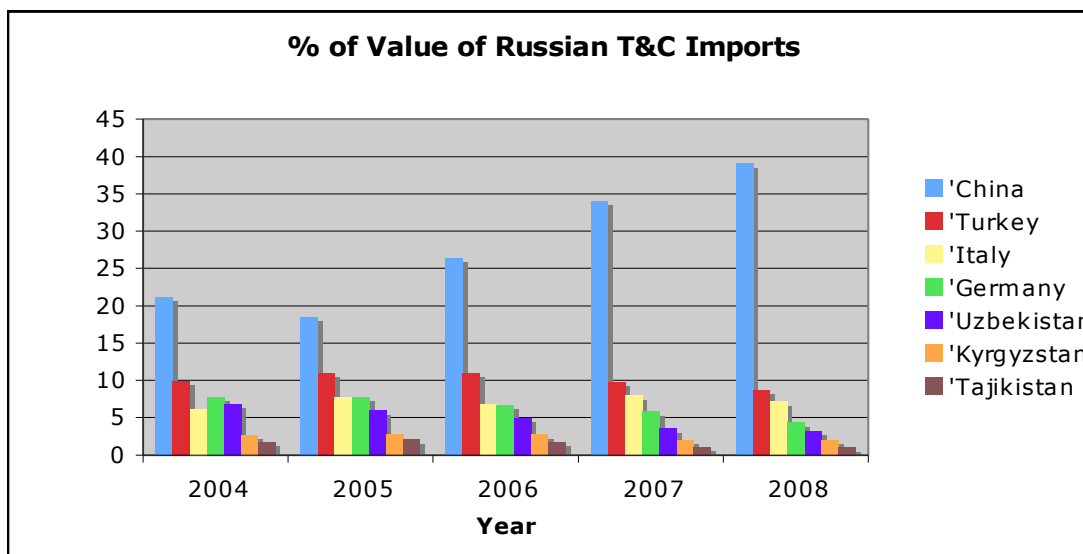
As the Russian retail market has grown, so has the value of imported goods, with very rapid growth rates between 2004 and 2008. For purposes of comparing top import categories and top countries, we will focus on using official UN statistics to see year on year trends to maintain consistency. It must be noted, that there is discrepancy between Rosstat data and information from trade journals in Russia, data gathered from importing agents and container market information as compared to officially quoted UN statistics.

Graph 2.4 (below) provides the value of the top five clothing categories by HS codes imported into Russia and their incredible growth rates (between 6X and 10X).



Graph 2.4 / Source: ITC TradeMap

Top 5 Textile and Clothing Exporters (To Russia) + Tajikistan and Kyrgyzstan

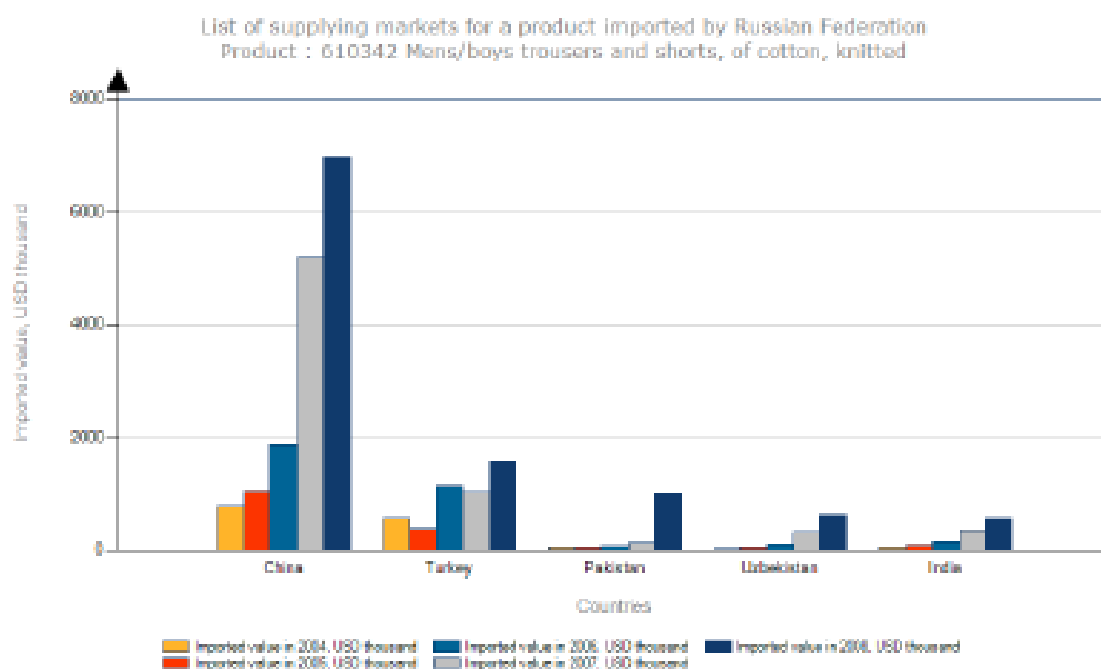


Graph 2.5 / Source: ITC Trademap

Graph 2.5 compares the performance of the top T&C exporting countries in value terms (USD) to Russia. As the study aims to provide information for Tajik, Kyrgyz and other CIS exporters, these countries have also been included in the comparison. It is apparent that China has almost doubled its share of imports into Russia of Textile & Clothing (T&C) with a market share of 38% by value of “white” (officially custom cleared) import. Turkey and some

EU countries come in next above several CIS countries. It should be noted at this stage, that while CIS countries do not pay tariffs, China, Turkey and EU do pay tariffs for textiles and clothing exports to Russia. In spite of this, they do come up as more competitive in several categories. This, as mentioned later in more detail through the interviews with specific retailers and buyers, is partly a result of the low impression that most Russian importers have of CIS suppliers in terms of product quality, design and export competitiveness overall.

Looking at some of the key product categories at the 6-digit level, by HS codes, in graphs 2.6 and 2.7, it can be observed that this trend continues across most key import items with imports also coming in from India and Pakistan for both, knits and wovens. While Uzbekistan appears as one of the key exporters into Russia amongst the CIS countries, other countries do not come up very high.



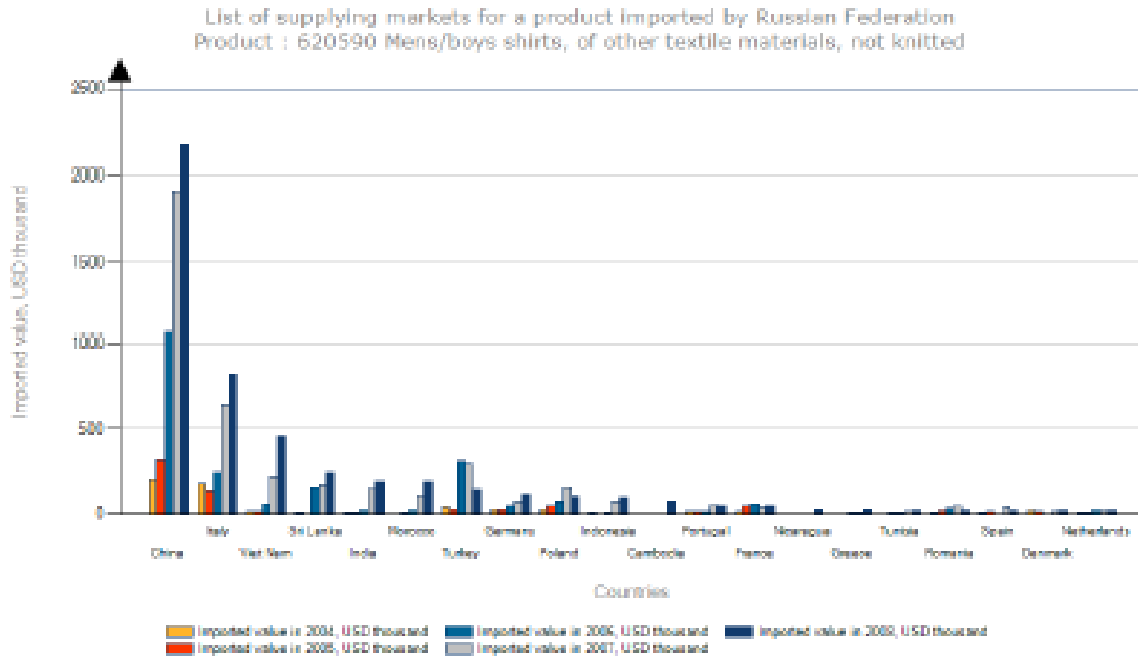
Graph 2.6/ Source: ITC TradeMap

Discussing volume versus value makes for a significant difference in market share. Additionally, “grey” import may explain market share discrepancies, measured either in pieces/units or value. Transshipping and re-labeling via countries such as Kyrgyzstan may also help explain this discrepancy. The head of Advertising and Public Relations at one of Russia’s largest textile producers, Chaikovsky Textile, Oksana Khrustal, indicates as per their estimates, 48% of the textile market in Russia is “grey”¹. Even President Dimitry Medvedev said in June of 2008² on a visit to the city Ivanovo, the “Textile Capital” of Russia,

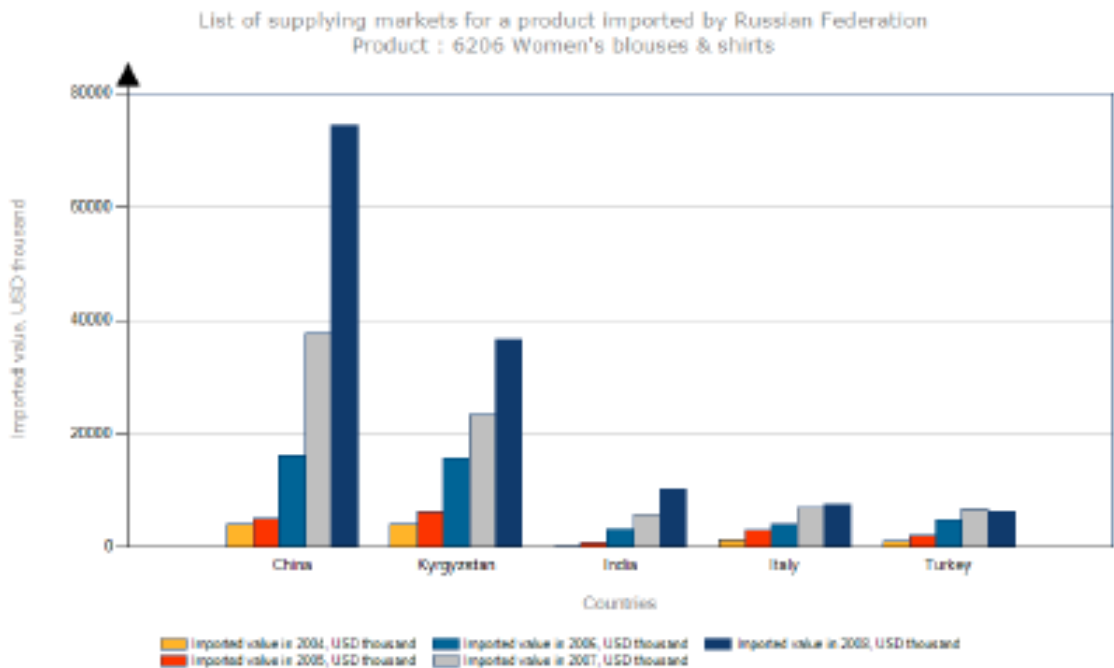
¹ <http://bfm.ru/articles/2009/01/21/rossijane-ostanutsja-bez-vesennej-kollekcii.html>

² <http://finance.rambler.ru/news/economics/21049105.html>

that “around half” of the light industrial goods, including textiles, sold in Russia come from either “grey” import or “grey” production, and that they are sourced primarily in China and Turkey. It is clear to see why there might be substantial discrepancies in the figures quoted by different sources as to the market share of various exporting countries.



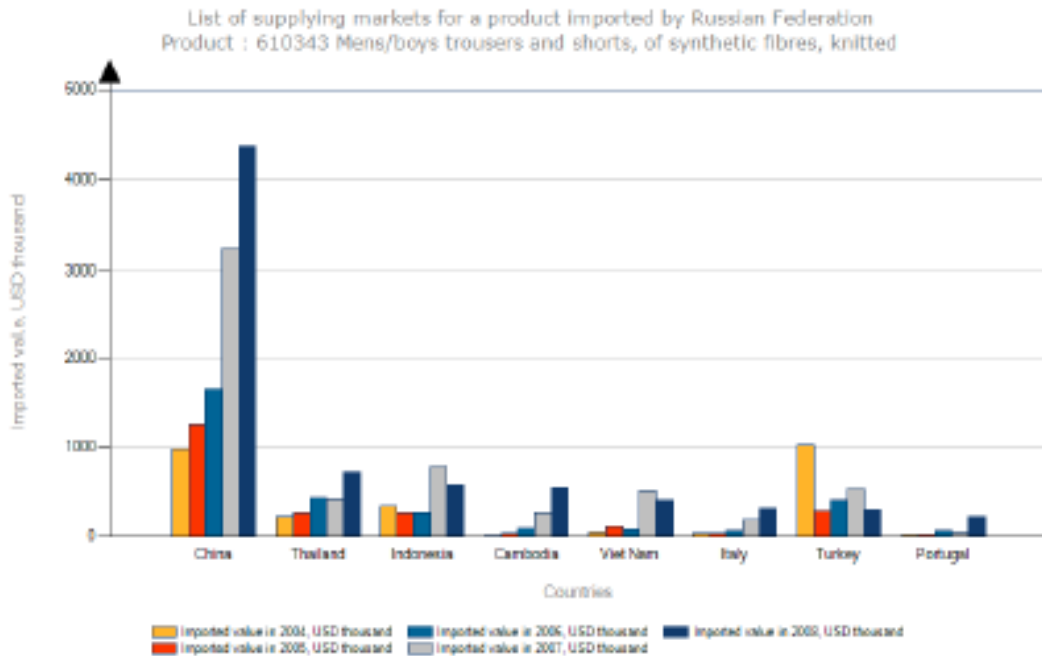
Graph 2.7 / Source: ITC TradeMap



Graph 2.8/ Source: ITC TradeMap

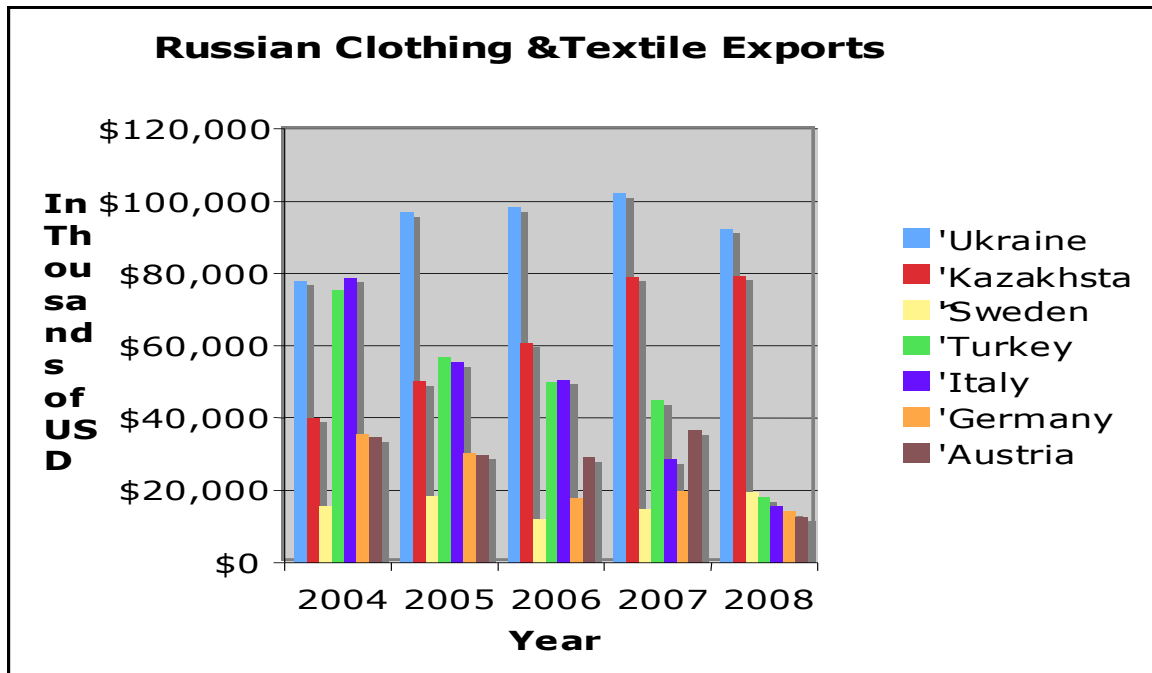
Looking at HS 6206 in Graph 2.8 (Women’s blouses & shirts) it can be seen that Kyrgyzstan actually is the one of the top exporters to Russia in this particular item and has clearly seen significant growth. What is not clear is why this is limited to just a few HS Codes, and why

Kyrgyzstan does not figure in the top exporters to Russia overall, see Graph 2.9. There has been significant anecdotal evidence that there are significant quantities of goods traveling from China through Bishkek, but this cannot be substantiated through official information.



Graph 2.9/Source ITC TradeMap

2.3 Russian Exports of Textiles and Garments



Graph 2.10- Source: ITC Trademap

Russia is also a textile and clothing exporter. However this trend does seem to be static or declining. Graph 2.10 above shows two trends. First, it can be seen that exports of textiles, with the exception of Kazakhstan market have been flat or negative in terms of value. Additionally, exports to former Soviet Republics, have ticked up slightly, or are flat, while exports to non-former soviet markets has trended steadily downward. In contrast to the exponential growth in imports of textiles and clothing, exports appear to be trending downwards.

2.4 Market Share Domestic vs. Import

2.4.1 Textiles

Textiles production in Russia is located primarily in the central “oblasts” in the European part of Russia and in the northeast of the country. The most famous city for textile during the Soviet Period was Ivanovo. Kostroma is another well-known textile-producing city and sits next to Ivanovo. Ivanovo still has hundreds of producers and textile traders. Some work in trade associations to improve their competitiveness (See TDL Association Section 6.3.5) Ivanovo is now the location where the Russian government hopes to foster the production of petroleum based acrylic and polyester threads.³

Based on 2007 data from customs, Russia imported five times more textiles than it exported. Other data shows a downward trend in textile exports so it can be concluded this imbalance is greater now. A large portion of the cotton fabric produced in Russia was for the export market, with the inputs coming to a large extent from former soviet republics such as Uzbekistan. Russian producers have not, according to trade journals, invested in newer equipment and are thus unable to meet current demands for quality and styles⁴. This could explain in part why exports to Western clients have declined, while demand from former soviet republics has been steady or increasing (refer back to Graph 2.10). According to Ms. Khrustal of Chaikovsky Textile⁵, in Q1 of 2008, textile production in Russia dropped 11% from the same period in 2007, with the one exception being linens. As per her estimates, imports of textiles increased 60% in the same period.

³ <http://rt.com/Business/2009-10-05/more-synthetic-fibres-boost.html>

⁴ “The share of production capacity that is not sufficiently up to date to meet the requirements in terms of quality..... is upwards of 45%” Valerie Mironov, Head Economist from the Fund for Economic Research “Center for Development” / Additionally - from MinPromTorg (Ministry of Industry and Retail) “for effective modernization of the light industry base, it would require investment of 12billion rubles a year for five years”

⁵ <http://bfm.ru/articles/2009/01/21/rossijane-ostanutsja-bez-vesennej-kollekcii.html>

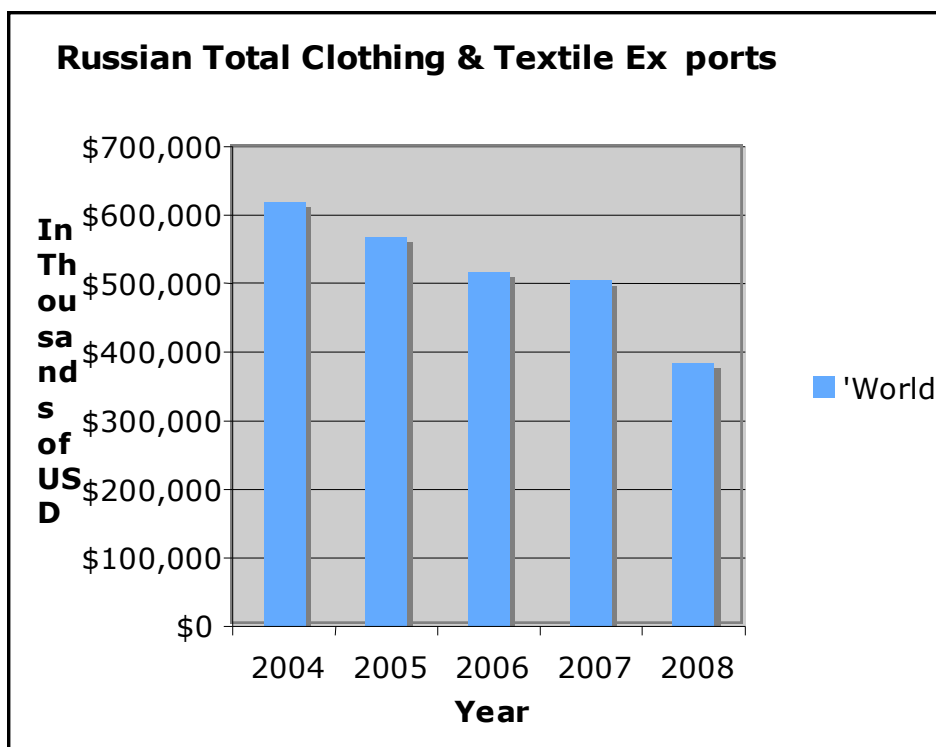
Breakdown of the Market (2007)

Type of Textile	Import (USD)	Imports %	Export (USD)	Exports %
Synthetic	295 811 955	51,5%	12 353 799	9,5%
Knit	184 853 612	31,9%	1 584 875	1,2%
Cotton Fibre	82 242 506	14,2%	77 027 940	59,2%
Wool	8 741 650	1,5%	5 202 171	4,1%
Vegetable Fibre	5 802 935	1,1%	33 887 983	26,1%
Silk	1 340 350	0,2%	28 193	0,02%
Total	578 793 008	100,0%	130 084 961	100,0%.

Table 2.3 Source: «Customs Data Base», 2007

In looking at various articles regarding the market share of domestically produced fabrics, there seems to be consistency only in the opinion that “the level of transparency in this market remains extremely low regarding the share of “grey” import which in several segments may approach 60 to 70%”⁶. But again in the following graph it can easily be seen that the general trend in textile exports is downward.

⁶ Quote from the analyst Maksim Klyagin of Finam Management



Graph 2.11 Source: ITC Trade Map

This trend is further reinforced in Graph 2.11, which shows a 30% decline in textile exports from Russia globally over a five-year period between 2004 and 2008.

2.4.2 Apparel

In 2008, according to multiple industry sources, up to 80% of apparel sold (by volume) in Russia was produced and imported from China. These sources generally cite the grey market nature of customs for the disparity between actual and state figures. Of all apparel sold (by volume) that year in Russia, only an estimated 4% to 10% were produced in Russia. According to President Medvedev, half of the market for goods like textile is “grey”, and we know per ITC statistics that China has 38% of the market by value, it is reasonable to extrapolate that China has between 60% and 80% of the market by units.

2.5 Macro Changes in the Russian Textile & Clothing Market

2.5.1 Import developments over the last 5 years

From the Graphs above in Sections 2.2 two clear trends stand out. Firstly, there is very rapid growth in value of imports in absolute terms and secondly China’s increased dominance across men’s and women’s apparel items becomes visible, leaving the rest of the world behind in terms of controlling a high percentage of the Russian import market. Turkey appears to be falling from its number two slot. Anecdotal evidence is encountered in interviews, as well as the drop in exports, that Turkish entrepreneurs are opening factories or putting in investments in other lower cost countries, including Central Asian countries, which may in part explain the change in statistics.

Many wholesalers and retailers are taking out intermediaries in the supply chain for apparel and other import items. This is reflected by the increasing trend in the opening of sourcing and importing offices in China to be closer to producers. This is also seen in the direct import programs utilized by hypermarkets such as O'Key, Lenta and X5.

Five years ago there were few significant domestic apparel competitors in the Russian market, with the exception of SELA and FinnFlare⁷. Now there are a host of serious competitors, with several locations all over Russia. These diverse sets of apparel retailers are beginning to look more and more for better suppliers of quality apparel, with low production price, efficient logistics and low customs tariff.

⁷ Kommersant Newspaper, November 17, 2004, The 40 Biggest Retailers in Russia

3. Analysis of tariff structure of imports by product group

Tariff structures for apparel and textile products remain relatively high in Russia for most product categories. 2009 has seen Russian producers of textiles and apparel calling for quotas on goods from China and Turkey. Perhaps in some nod to the complaints of illegal imports and “unfair” competition from China in particular, the Russian government closed down the Cherkizovsky Market in Moscow on June 29th of 2009. This market was Europe’s largest and was dominated by Chinese traders. Shortly after the public burning of twenty-two shipping container of products from Cherkizovsky, said to have been determined to be unsafe, Prime Minister Putin announced Russian textile production was up by three percent after the market closing. Mr Putin announced that domestic production of suits and pants were up 16% and 13% respectively.

For countries that have signed the Commonwealth of Independent States (CIS) Free Trade Agreement (CISFTA), which include Azerbaijan, Armenia, Belarus, Moldova, Kazakhstan, The Russian Federation, Uzbekistan, Tajikistan and the Kyrgyz Republic, this is the defining agreement that

No Tariff into Russia
From CIS Countries
Except VAT

sets tariffs⁸. For most goods, including textiles and apparel, there is no tariff except VAT (18% in most cases) where applicable. Russia has no quota on textiles or apparel from CIS countries. Generally, for non-CIS exporters, tariffs for textiles and apparel range between 10-30% but a minimum price per kilo is set which effects most low cost producers. The Russian Customs Service sets a minimum acceptable invoice value for each HS code and for goods that fall below this minimum is charged on a per kilo basis. This varies per product category per country. But as this study is prepared for CIS countries, we will focus on relevant aspects for CIS exporters only.

On January 1, 2010 a customs union was established between Russia, Belarus and Kazakhstan. They will have a unified customs regime, which in the long run should make export from Kyrgyzstan easier. Kyrgyzstan has indicated it is in fact interested in joining this customs union⁹. As a result of this new customs union, tariffs on many goods have increased. Example of the Russia’s general tariff structure is provided in Table 3.1, to illustrate the change due to the new customs union.

⁸ Ukraine is a officially a member though does attend meetings. The Baltic States have never been members and Georgia withdrew.

⁹ From the Russian Federal Customs Service website:

http://www.customs.ru/ru/press/of_news/index.php?id286=29334

HS Code	Description	Tariff
6302600000 CURRENT	Cotton Towels	20% but not < 0.7Euro/kg +18% VAT
6302600000 Prior to 1/1/10	Cotton Towels	SAME
6205200000 CURRENT	Cotton Shirts	10% but not < 3 Euro/kg +18% VAT
6205200000 Prior to 1/1/10	Cotton Shirts	20 %, but not < 2 Euro/kg + 18%VAT
6205300000 CURRENT	35% cotton/65% Synth	10% but not < 3 Euro/kg +18% VAT
6205300000 Prior to 1/1/10	35% cotton/65% Synth	20 %, but not < 2 Euro/kg + 18%VAT
6109100000 CURRENT	T-shirts 100%cotton	10% but not < 3 Euro/kg +18% VAT
6109100000 Prior to 1/1/10	T-shirts 100%cotton	20 %, but not < 2 Euro/kg + 18%VAT

Table 3.1: Source Russian Customs

For lower priced goods this represents a significant increase (50%) in tariff on certain items. At the time of this writing it is still not clear how the rules of the new customs union between Russia, Belarus and Kazakhstan will be applied. The brokers interviewed are “waiting to see” how this will actually effect the customs regime.

3.1 Russia’s WTO accession process

The Working Party on the accession of the Russian Federation was established on 16 June 1993. The latest revision of the draft Report of the Working Party was circulated in October 2004. Bilateral market access negotiations on goods and services are ongoing. The 30th formal meeting of the Working Party took place in March 2006. The current status of the accession of the Russian Federation (RF) is that work is in "temporary suspension".

*“Background:*¹⁰

On 17 June 2009, the RF, Belarus and Kazakhstan decided to suspend the work of their respective Working Parties. Initially, their intention had been to join the WTO as a "customs union" (as announced on 9 June 2009), but it was deemed not possible. Currently, There is a process underway of informal consultations to "re-launch" the accession negotiations of the RF (and Belarus and Kazakhstan). Essential to the re-start of the negotiations is the submission of an Information Note by the 3 delegations describing the Customs Union (legislation, scope, competences, implementation period, enforcement structures, etc), and providing all such information as would be necessary for Members to have clarity and understanding of the meaning of the CU and the context it provides for the individual accession of each of the three countries.

Market Access:

The Russian market offers actual and real trading opportunities for WTO Members. This has certainly been a factor in the RF's bilateral market access negotiations. The content of bilateral market access negotiations in the WTO accession process is confidential. Sixty-one WTO Members are Members of the Working Party of the Accession of the RF.

Goods:

The RF has already signed 53 bilateral Agreements with WTO Members. This is the highest number of bilateral agreements in any WTO accession process. The Secretariat has the responsibility for consolidating the results of the different bilateral negotiations between Members and the acceding government. The accession practice is that all issues require satisfactory resolution for all Members, on the basis of which the Working Party decides that the "clean, verified, consolidated schedule(s)" can be circulated.

Services:

The consolidation of the results of the bilateral services negotiations was completed in 2006. This initial consolidation requires further fine-tuning by the relevant parties (WTO Members and the RF).

¹⁰ As provided by WTO staff and officials. For more information on the status of negotiations, please visit:
http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm

Multilateral Track:

There has been substantial progress achieved in the multilateral negotiations within the RF Accession Working Party. Negotiations, before the suspension, were proceeding on the basis of the "Draft Report". Outstanding issues revolve around SPS/TBT, export duties, commitments in agriculture, including Aggregate Measurement of Support (AMS), Tariff Rate Quotas (TRQs), State Trading Enterprises (STEs), and pricing policies. An updated Legislative Action Plan (LAP) is of fundamental importance in accession negotiations. WTO-consistent domestic legislation, with accompanying regulations provide the "guarantee" that a new Member shall implement all its commitments and is the basis for Members to invoke their rights, if they suffer nullification and/or impairment of benefits. In every accession, including the RF, an agreed LAP is a centerpiece of negotiations. Before the "suspension", work was underway on the architecture of the LAP".

4. Non-Tariff Requirements in the Market

4.1 Overview

Customs issues and non-tariff requirements tend to put many potential suppliers off from entering the Russian market. A lack of clear information is partly to blame for this situation. CIS exporters are likely to be far more comfortable with the bureaucratic nature of this process given their historical connections to the Russian market and general comfort with the language.

There are still a few key items that should be kept in mind and some areas that bear scrutiny to minimize negative outcomes. In discussing with customs brokers transactions involving CIS countries, the most consistent comments concerned VAT rebate issues. Additionally, ensuring documentation is sufficient to prove the good were in fact manufactured in the CIS and (and not being re-exported) is key to smooth shipment of goods. For this issue it was recommended showing the VAT payment to the local export country government, as well as the export declaration and documentation showing production in the relevant CIS country, specifically the Russian ST1 (Certificate of Origin) form. The specific requirements for CIS imports are listed online, and the links are included in Appendix.

Russian Customs and the majority of domestic retailers who operate there are not yet concerned with many issues that are important to successful import of textile products into the EU. Metal detection for example is not customary or required. Full application of brand protection (specifically ensuring the importer has legal right to use the brand on the goods) has only come into force in the last three years. International brands that operate in Russia are likely to require metal detection for children's apparel the way they would for other markets.

4.2 Packaging & labeling requirements

Russia is strict about the application of labeling requirements and does check carefully at border crossing customs points or customs terminals. Compliance of goods can also be checked at any time when on retailers' shelves and non-compliance results in fines for the retailers and the importer.

From the perspective of the importers, labeling requirements are important as non-compliance results in delays and fines which can be expensive as well as the possibility that re-labeling will be required. The rules as published by the government can be difficult to follow. Below are basic guidelines for compliance that are based on discussions with importers.

- 1) An accurate name of the product must be included. It must be free of spelling errors or non-standard abbreviations. Where possible the product name/description should be on its own line on the label.
- 2) Material content must be included on the label (e.g. 100% cotton) and it must match the customs documentation and the documents received at certification (this is particularly important for non-CIS exporters as different materials have different customs rates). Example of delays given concerned examples of plastics where PP (polypropylene) and PE (polyethylene) were used interchangeably in the documentation provided by the supplier but caused substantial delays at customs.
- 3) The labeling must include the addresses of both the producer and importer. Website and email are not required but sometimes included. The name of the producer must be transliterated into Russian if the name is in a foreign language. The address does not require transliteration into Russian.
- 4) "Use By / Expiration Date" must be included where applicable. Advice received from importers was "when in doubt, include a validity of some reasonable period"
- 5) In the case of goods that require certification, the labeling for certified goods should include the Russian certification symbol (See image 4.1) – it should include the number of the certifying organization and may include the specific certification number of that product though it is not obligatory. For goods not requiring certification, the label should indicate "Does Not Require Certification"

Image 4.1 – Example Russian Certification Label

6) If the product is utilizing a registered / trademarked brand this should be named in the customs label. A relatively recent development in the customs regime is the increased scrutiny given to the rights of the importer and producer to use brand names. The importer should be prepared to show a legal right to use brand names in Russia or face substantial delays at least and potential confiscation of the goods.

7) The text must be legible in terms of font size (no specific font size minimum is stated). Superfluous information should not be included in the certification/customs label. Other information, such as care information for the garment can be included in a separate care label.

8) Goods sold in sets should indicate the precise number of goods in the set (eg: for a winter hat, glove and scarf set: Set Includes: One (1) wool hat, two (2) polyester mittens, one (1) fleece scarf or plush toy set: 1 piece bear and 2 pieces rabbit / набор игрушек: мишка - 1 шт., заяц - 2 шт).

9) Other General merchandise notes:

Dishes / plates / mugs ceramics etc – indicated volume of each item (e.g.: 8 oz mug / 150 ml bowl etc)

Bar Codes can appear in various places – some organizations include in the customs label as well as on other hangtags. For example on towels they appeared generally on the customs label, and on clothing, as there were generally other labels more accessible in a retail environment, they were not.

Regardless of information contained here – we advise that you coordinate with your import partner. Russian labeling rules can possibly be interpreted differently at various customs points. The manufacturer would be wise to defer to their import partner, and their customs broker, and get confirmation of the labeling in writing prior to printing and shipping.

Textile / Apparel Specifics:

- For children's apparel, an age range for children must be included in the labeling.
- Any safety precautions, in particular if not intended for use by children for safety reasons should be indicated clearly.
- Separate Care Labels must be included using symbols for care (required) and written out explanation is also desirable. For plush toys (stuffed animals) written instructions for care is required. Note: In some cases we found importers who preferred to combine the care label and customs label. Again refer to the note above about deferring to the importer.

It should be noted that the level of requirements for certifications and testing for market access into Russian market are not as stringent or developed as those required for the EU market. However, with the increasing presence of new multinational brands, it is expected that this could change in the future.

4.3 Specific domestic business practices

Russia has a number of specific business practices, but most of these are issues that are dealt with by the importer/customs broker and would not concern the manufacturer/exporter. The specific business practices that may differ from standard practice in other markets are as follows:

Rare use of letters of credit (LCs) – Very few Russian importers utilize LCs. This creates a higher degree of risk imposed on the producer, depending on the terms eventually agreed to between the parties. A standard term might be 30/70 TT (by wire transfer 30% at order and 70% at loading or arrival at the customer depending on the length of cooperation between the parties.)

Due in part to the complications within Russia of receiving the status of “Company Conducting External Economic Activities” and the accounting burden placed on these firms, many importers will utilize intermediaries to conduct payments. This can make direct contracts more difficult.

4.4 Overview of Logistics

A general overview of the documentation/process is provided in this section. This should provide a starting point for exporters to begin to consider the process. Please note that truck transport, despite the road quality, is generally much faster in the CIS than rail.

1) Imports from CIS countries to Russia require no tariff to be paid per free trade agreement. When crossing the border into Russia, value added tax (VAT)(18% on most items) must be paid.

2) In speaking with customs brokers, issues occasionally occur in regard to the VAT that has already been paid in the exporting country. The customs brokers indicated special attention should be paid on the part of the exporter to obtaining the documentation required to verify goods had been exported in order to get their VAT refunded in their home country. At import into the territory of the Russian Federation the goods should have documentation to prove they were produced within a CIS country.

For a “typical” custom clearance the following documents will be required:

- Purchase and Sale Contract, which should stipulate the Incoterm delivery term. In most cases from the CIS this would likely be DAF (Delivered At Frontier). Given that Kyrgyzia and Tajikistan do not share a common border with Russia, delivery terms are likely to be DAF Kazakstan or DAF Uzbekistan with onward transport per per a “Customs Transit” regime through the intermediary country (в режиме таможенного транзита по Казахстану/Узбекистану)
- Invoice
- Packing List

- Transport Documentation: Bill of Lading (коносамент)/ (CMR or TIR (автотранспортная накладная) or Railway Bill (железнодорожная накладная)
- Certificate of Production from the country of origin (Сертификат происхождения товара страны экспортера) known by its form name ST-1.
- If required: Health Certificate (если необходимо Санитарно-эпидемиологическое заключение)
- Where Certificate of Compliance is required (from RosTest or equivalent / RCT mentioned above) – this can be done per order or per contract or even on all goods from a particular factory that is certified by the Russian government (если необходимо сертификат соответствия товара. Выдается на партию товара или на контракт)

4.5 Shipping Requirements:

(Please note, due to the new customs regime this may change and should be checked with a broker)

Given that the exports are likely to ship the goods to Russia via ground transportation, they will likely be subject to a transit-shipping regime that will include either Kazakhstan or Uzbekistan. Generally the trucking firm will make the arrangements or a rail expeditor will handle the paperwork if shipped via rail (TIR for trucks and Railway Bill for rail transit). In the event that customs clearance does not take place at the border crossing but at a customs point inside Russia (eg St Petersburg or Moscow) a “customs transit” document must be generated that is valid to the predetermined customs point. The customs brokers we spoke with emphasized choosing an expeditor or trucking firm with experience and appropriate licenses and open customs accounts for each country involved (e.g. Kyrgyzstan, Kazakhstan and Russia) are key.

4.6 Outer Packing:

As with any shipping the outer carton should be sufficiently durable to allow the goods to arrive in good condition. Outer carton marking should include at least: Number of items inside, expiration date (if applicable), Product Name, Net and Gross Weight. Note: Russian customs is very particular about Net and Gross weight as printed on the box being accurate. Inaccurate weight markings lead to significant fines being paid by the importer at customs clearance. Additionally it should be noted that ALL items in the container or truck should be listed in the commercial invoice (CI) and packing list (PL). Chinese factories unaccustomed to Russian customs rules will sometimes to include samples or spare parts (for example) in the container and not list them on the PL or CI. They are then treated as “contraband” thus causing delays and fines.

5. Expected Macro developments (market prospects)

5.1 Apparel

Most secondary sources agree that Russia's apparel market will once again see significant growth in both ruble and dollar terms. Consumer confidence is finally recovering in Russia according to Nielsen¹¹. Overall it can be expected that Russia's retail market in general and textile/apparel market in particular will return to a healthy growth rate. Russia retains a very low retail m² per citizen, and substantial retail real estate development was delayed due to the crisis. According to some researchers, it is expected that the CAGR in Russian retail will return to 18% between 2010 and 2013.¹² Apparel has in the past well outpaced retail growth as a whole. According to OptUnion (Wholesalers Union), prior to the crisis men's apparel was growing at 20-30% CAGR, while women's only at 13 to 18%. It is the opinion of the Wholesale Union that post-crisis this trend will continue¹³. Though there are some very impressive growth figures in certain categories, it is not consistent across all men's groups and does not necessarily outpace women's apparel growth. The opinion is shared by several retailers and buyers who were interviewees.

5.2 Textiles

Within textiles, towels were the fastest growing segment prior to the crisis, while bedding had stabilized. According to Retail.Ru (an online magazine as well as a monthly print publication), "During the first 11 months of 2007 there were over 160\$m of home textiles imported into Russia. Of the textiles for the home, the majority was made up of bath and kitchen towels. This group makes up 51.5% of imports of home textiles. In 2007, Chinese product made up more than 40% of all home textile imports in Russia. For the first 11 months of 2007, China exports of home textiles to Russia were valued at \$66.6m USD. Turkey was in second place with 27% and (43.2\$m)."¹⁴ According to the Customs Data Base, in 2007 Russia imported almost \$600m of home textiles. Again we have a discrepancy in figures between sources. Based on the Putin administration's recent policy changes toward import tariffs, designed to raise barriers to China, the local textile industry, and therefore the CIS no-tariff zone textile producers, should benefit.

Online Shopping is likely to play a significant role going forward in Russia. Credit card penetration had reached critical mass and according to Nielsen, 80% of Internet users in Russia now report having made purchases online¹⁵. For Russian retailers this channel holds great potential. For CIS suppliers in particular the new customs regime presents an

¹¹ From Retail.Ru <http://en.retail.ru/articles/41842/>

¹² <http://www.prlog.org/10513584-russian-retail-industry-forecast-to-2013.html>

¹³ <http://www.opt-union.ru/news.php?id=1439>

¹⁴ From Retail.Ru <http://www.retail.ru/news/26210/>

¹⁵ From Retail.Ru <http://www.retail.ru/news/42280/> and www.retail.ru/articles/online_shopping_retail/

opportunity to compete on price with producers from more developed apparel-producing countries such as China and Vietnam.

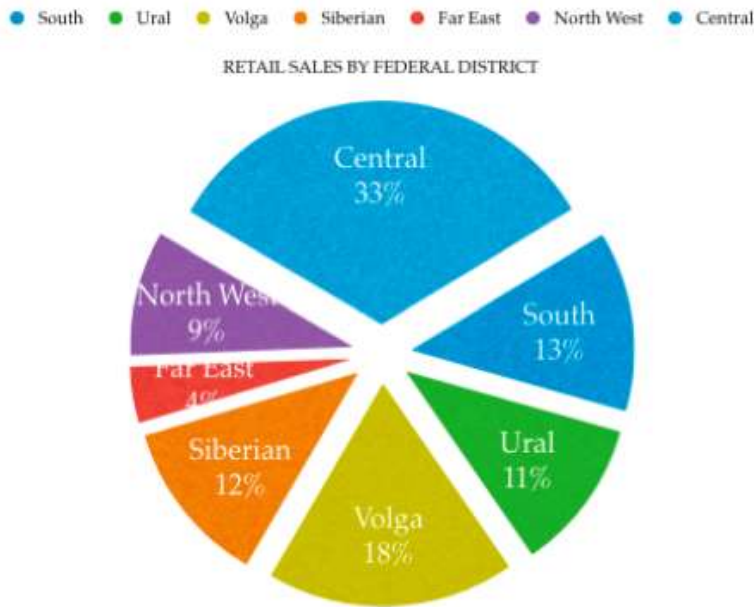
6. Russian Textile & Clothing Market: a micro view

6.1 Structure & Sales Channels Overview

Though Russia is the largest country, the majority of its retail activity occurs in a relatively small geographic area. European Russia accounts for almost 75% of all retail sales, with 33% in the Central Federal District alone (number 9 on Image 6.1 below). Below Image 6.1 shows regions color-coded by retail sales in millions of rubles. The two inset maps show Moscow and St. Petersburg, which alone represent 40+% of the market (see Graph 6.1). It also shows that of all the federal districts, there is a fairly limited number of areas to concentrate on for wholesalers.

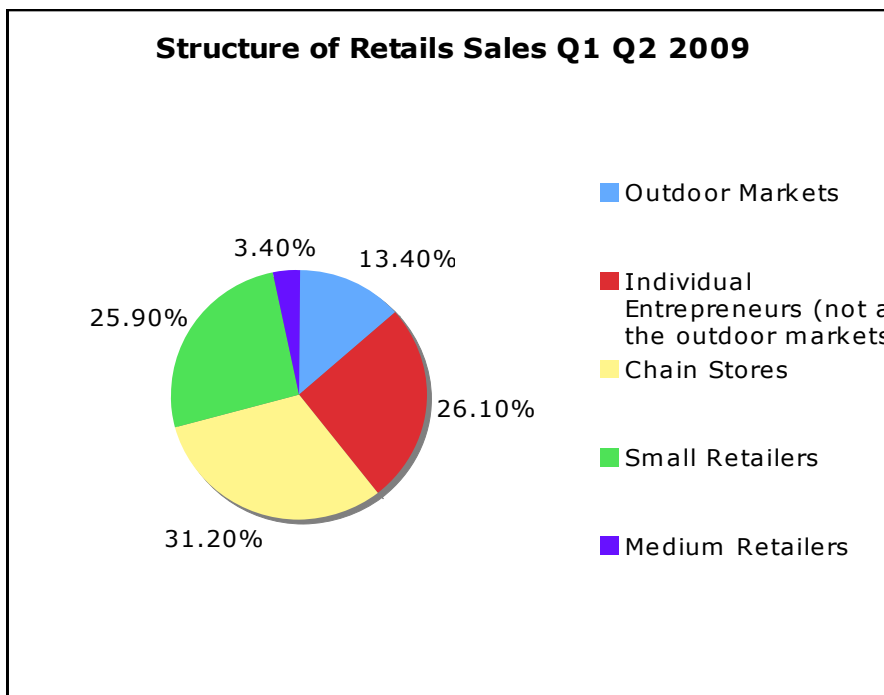


Image 6.1 RosStat Map



Graph 6.1 Source: Rosstat

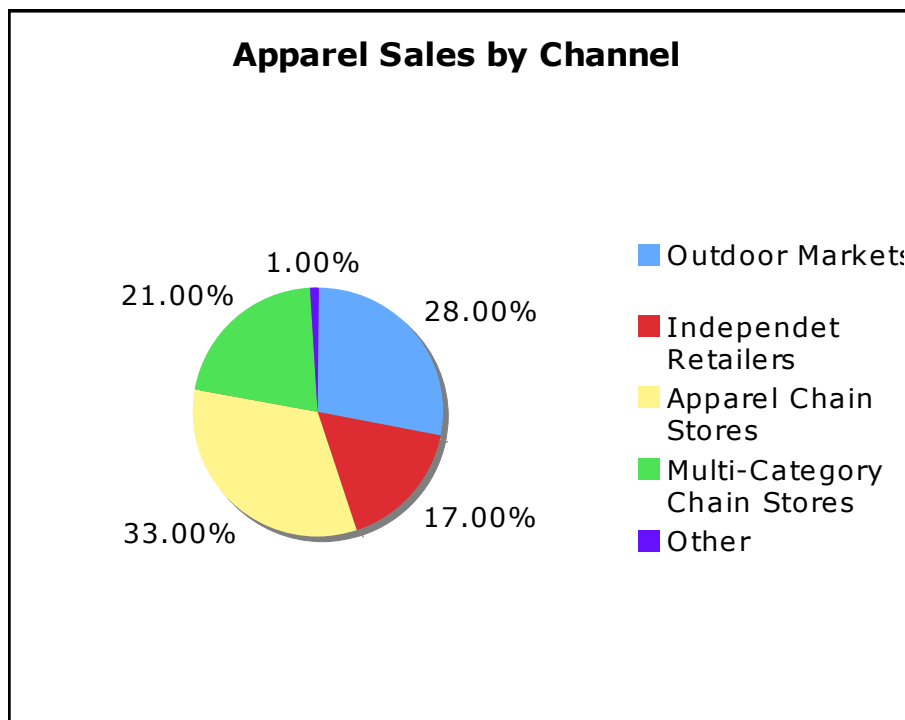
This division of retail sales by region can be seen in the pie chart (Graph 6.1). It is important to note, based on the two graphs 6.2 and 6.3 that outdoor markets, though in steady decline as a retail format in Russia, play a far more significant role for apparel sales relative to overall retail (28% vs 13%). The other categories are difficult to compare as the data comes from different sources, but outdoor markets are clearly defined.



Graph 6.2: Source: Rosstat

http://www.gks.ru/free_doc/new_site/business/torg/rozn/Image1260.gif

To fully understand Russia's current retail sale channels it is helpful to understand some of Russia's recent history. During the Soviet period the state still controlled all the retail outlets. There was very limited selection and few stores per capita compared to non-communist countries in Europe. With the fall of the Soviet Union, many of these clothing retailers failed to make a successful transition to capitalism. Demand was huge relative to supply so container (outdoor) markets came into existence to fill this gap at a low price point. Beginning in the late 1990s there was a growing demographic that no longer was as price sensitive, but more brand sensitive and preferred to shop in a modern retail format. Beginning around the year, 2000, there was explosive growth in all modern formats (private brand, soft-discounters, supermarkets, hypermarkets etc.), with St Petersburg and Moscow being the epicenter of this development. With this phenomenal growth in modern format retail we see outdoor container markets beginning to decline, though to date they still represent a significant channel, in particular for grey market products. This reputation as sales point for grey market goods has led the government to crack down and shut some markets (see discussion of Cherkizovsky Market in section 3.0 of this study.)



Graph 6.3: Source RosStat

Clothing, textiles and footwear make up the largest segment of non-food retail in Russia. Apparel is sold predominantly through apparel focused chains and shops and, to a lesser extent multi category retailers (e.g. hypermarkets) and outdoor "container markets". Container markets are waning as a sales channel, but still make up 13% of all retail sales according to Rosstat, see Table 6.1.

According to Rosstat, in December of 2009 there were still 3,572 "retail markets" (outdoor container markets) across all of Russia. This represents a 4% drop from December 2008. In

the Moscow Oblast 13 “container markets” were either closed or converted to more standard retail formats.

The trend of declining sales through outdoor (container) markets can be seen in the Rosstat figures in the table 6.1 below.

Fed District	2000	2001	2002	2003	2004	2005	2006	2007	2008
Percentage of Retail Sales Through Store Formats									
Central North	72.6	74.1	73.9	74.5	75.3	75.9	77.0	82.7	84.7
West	77.6	78.1	79.9	81.7	84.9	86.3	88.8	92.0	93.4
South	69.4	70.3	72.0	72.7	71.9	72.4	73.8	77.0	79.1
Volga	76.3	76.4	77.6	78.4	80.8	82.5	84.6	87.6	89.4
Ural	75.0	73.2	74.7	75.4	77.4	78.4	80.0	84.4	88.2
Siberian	76.5	77.5	78.2	78.9	80.3	81.8	83.5	88.6	89.9
Far East	68.5	72.5	75.4	76.4	78.9	81.0	82.4	87.8	90.8
Percentage of Sales Through Outdoor (Container) Markets									
Central North	27.4	25.9	26.1	25.5	24.7	24.1	23.0	17.3	15.3
West	22.4	21.9	20.1	18.3	15.1	13.7	11.2	8.0	6.6
South	30.6	29.7	28.0	27.3	28.1	27.7	26.2	23.0	20.9
Volga	23.7	23.6	22.4	21.6	19.2	17.5	15.4	12.4	10.6
Ural	25.0	26.8	25.3	24.6	22.6	21.6	20.0	15.6	11.8
Siberian	23.5	22.5	21.8	21.1	19.7	18.2	16.5	11.4	10.1
Far East	31.5	27.5	24.6	23.6	21.1	19.0	17.6	12.2	9.2

Table 6.1 Source: RossStat "Rozn27"

Graph 6.4 below provides us with a breakup of the market segmentation based on price points. The breakup provided below represents information from the year 2007 only. This shows that while luxury market segment is represented by 30%, the larger segment of 70% is represented by the mid priced and mass market segment. It is important to mention that this breakup represents organized retail formats.



Graph 6.4 Source discovery research group

6.2 Key Participants in the Russian Apparel Market

6.2.1 Examples of Leading Domestic Producers and Retailers of Clothing

Melon Fashion Group of St Petersburg. This is one of the most successful branded clothing companies in Russia. They manage a number of brands in Russia. (Befree, Taxi, Love Republic, Zarina). They manage 196 Own Stores / 60 Franchisee (Nov of 2009). They have stores covering almost every major city in Russia. They produce their goods mainly in China. They have their own offices in China. Melonfashion.ru

BTK Group / Clothing Factory (Suits) ZAO FOS-P) BTK Group is one of Russia's oldest (1906) and best-known producers of men's suits. They produce very competitively priced suits. Price Points 9,000 RUR to 17,000 RUR. It is based in St Petersburg. The majority of their production is in Russia. <http://www.fosp.ru/>

Volzhskaya Textile Company / Волжская текстильная компания

Located in the Chuvashia Republic (200 km west of Moscow), this firm is one of the largest producers of textiles in Russia. The produce both woven and knit goods. They produce ladies stockings, undergarments, athletic textiles, men's pants, shirts etc. http://ru.wikipedia.org/wiki/Волжская_текстильная_компания

GLORIA JEANS – Gloria Jeans is Europe’s largest producer of denim garments, which it produces in various cities across Russia and Ukraine. In addition to wholesale activities operated through 45 sales offices, Gloria Jeans have over 290 retail stores across Russia and Ukraine. They are based in Rostov-na-Donu in Southern Russia. <http://www.gloriajeans.biz>

Concept Club – This firm is a good example of an up and coming fashion forward clothing retailer with over a hundred and twenty stores covering 47 regions within Russia. They source primarily out of China and have buying office there that oversees their purchasing. <http://www.conceptclub.ru/about>

SELA – This firm is a casual clothing leader in terms of number of stores and geographic coverage. In addition to Russia, they have stores in 13 other countries. They have buying offices in China, through 50 different factories, and design offices in Israel. Recently they announced they would be transferring 20% of their production back to Russia. They recently expanded in to children’s clothing. They could be an excellent partner for CIS producers looking for customers. <http://www.sela.biz/>

<http://www.sela.biz/>

OGGI – With over 280 stores across Russia and Ukraine, OGGI is one of Russia’s most impressive fast growing women’s casual clothing retailers. This firm also produces goods in China. They have both youth and mature adult collections. <http://www.oggifashion.com/>

6.3.2 Leading Foreign Producers and Suppliers of Clothing:

Many of the world’s key clothing retailers (Zara, Mexx, Hugo Boss etc.) are present in the Russian market. It is noteworthy that Benetton has one of the most far-reaching distribution networks in the former Soviet Union covering every Federal District of Russia. Also noteworthy is the participation of FinnFlare, though not overly familiar outside Russia, this Finnish firm has rolled out over 200 retail stores. They are a predominantly Russia focused retailer. With the possible exception of FinnFlare, (<http://www.finnflare.ru/>) these firms are unlikely to be clients in the near term for CIS producers.

6.3.4 Examples of Children’s Clothing Retailers:

Rikki Tikki – This children’s clothing focused retailer, and wholesaler, founded in 2001, operates both franchisees and own stores. They have geographic coverage across European Russia, the Urals and the Far East.

<http://www.rikki-tikki.ru/>

Detki – produces both casual wear for children as well as school uniforms for boys and girls. They have good distribution across Russia. This was the one firm that seems to be actively seeking new producers on their website (<http://www.detki.ru/?page=5>) and may be worth contacting by CIS manufacturers.

Gloria Jeans For Kids / «Глория Джинс» для детей – This is the children division of Gloria Jeans. This firm is one of the most successful denim companies in Russia. It is based in Rostov-Na-Donu. It is a vertically integrated firm that produces goods in 11 factories across Russia. They distribute through over 200 stores. <http://gloria-jeans.ru>

6.3.5 Textile Producers

NordTex Holding (formerly known as Yakovlevskaya)

This firm produces 180,000,000 meters of cotton and blended textile per year. They produce textile for home textile and professional (work) clothing uses. They are located about 30km East of Moscow in the city of Balashikha (Балашиха)

<http://www.nordtexco.ru/contact.xml>

Ruski Len

This firm produces textile for use in home textile and clothing. They are located in Stavropol, in Southern Russia. They were a significant producer of textiles and attempting to up the value chain into finished clothing and accessories. <http://www.russlen.ru/>

TDL Association - It is worth noting that the city of Ivanovo has hundreds of firms that produce, sell or trade textiles. This is the center of the Russian textile industry. TDL is a large association of producers centered around Ivanovo who cooperate to improve competitiveness. The association incorporates many manufacturers and buy cotton from Uzbekistan in bulk. They have over 10,000 employees and have over \$100m US in sales. <http://en.tdl-textile.ru/about/we/> or <http://www.tdl-textile.ru/noflash/>

6.3 Recent Developments at the Retailer Level

Retailers in general have had a very difficult 2009 in Russia, with sales in ruble terms growing slowly, but in dollar terms (the currency for import contracts) it has dropped about 10%. It would appear that this has affected smaller retailers in the regions to the greatest extent, based. Seemingly solid retailers such as Banana Mama (childrenswear) have gone out of business, mainly as result of credit issues. Detsky Mir has recently had great difficulty in paying suppliers according to various sources. MosMart (Moscow based hypermarket) had a very difficult beginning of 2009 with very empty shelves, eventually declaring bankruptcy¹⁶ and it had to be taken over by its largest creditor, Sberbank.

If we look at changes over the last ten years there have been huge shifts in the quality level required by retailers. Container markets remain a cheap place to purchase “grey market” goods, and quality remains mixed. In the key apparel markets of St Petersburg and Moscow, container markets sales are rapidly transitioning to mainstream retail. As a result of retailers building and defending brands, the quality requirements have increased substantially.

¹⁶ From Retail.Ru <http://en.retail.ru/news/42041/>

According to RosLegProm (Russian Light Industry Trade Group) 30% of apparel sales in Russia are now Russian branded products.

In the beginning of 2008, Russia was considered to be a very attractive market for international apparel retailers who were hungry for a part of the 25% to 30% compound annual growth that has been consistent in 2003 through 2007. Both Fast Retailing of Japan and GAP stores had announced, and since rescinded, their intention of entering the market. It is noteworthy that Victoria Secrets has just this December 2009 announced its intention to enter the Russian market via franchising agreements. Payless Shoes in Q3 of 2009¹⁷ stated it would roll out stores in Russia with a target of 115 outlets by 2015. So the market still clearly has immense growth potential. US retailers have lagged their European counterparts at entering the Russian market.

Larger domestic market participants of apparel often operate a dual sourcing strategy (e.g. Mellon Fashion Group, Northern Palmira (Craft)) where they produce certain item domestically while importing certain items. In the case of Craft they produce outerwear in St. Petersburg and all other items are produced in China. Market share for domestically produced apparel, depending on secondary source quoted, ranges from 3% to 10% (Retail.ru or Discovery Research Group). This discrepancy can be attributed at least in part to the opacity of the import figures. Up to 80% of all apparel currently sold in Russia is attributed to China.

According to Perm Region's Business Portal many Russian branded clothing companies have chosen to produce their goods outside of Russia instead of dealing with the complexities of producing domestically. Gloria Jeans is frequently cited as the exception, producing its jeans in Russia and the CIS. Recently, SELA who had been producing exclusively in China, has stated it will move 20% of its production back into Russia. This may be a reaction to recently increased tariffs (see the discussion of this in Tariff Section below).

6.4 Apparel procurement practices

Apparel procurement has changed significantly over the last few years with the supply chain being shortened significantly as retailers and wholesalers remove intermediaries such as Hong Kong trading companies and external Russian logistics firms bringing more and more functions in-house. Many Russian private label apparel retailers such as Concept Club have opened offices in China to oversee the production of product.

Factories in Central Asia looking to fill production capacity with orders from clients, rather than their own branded products (which is a different kind of business challenge), will be looking toward a number of types of clients:

- Trading companies
- Sales Agents

¹⁷ <http://www.reuters.com/article/idUSBNG41177320090901>

- Purchasing Agents
- Private Label (Mono-Brand) Retailers
- Multi-Category Retailers
- Wholesalers (non-branded)

Apparel procurement can be broken into two groups – A) procurement for modern format supply chain and B) alternative procurement for container markets.

Modern Format: A) Apparel focused retailers and wholesalers either tend to import the majority of their products from Asia (China mainly), while some utilize domestic production for a specific portion of their assortment then imports non-core products (eg Craft produces it's outerwear in St Petersburg but all other items are imported, mainly from China). Gloria is one of the few examples of a vertically retailer (200 + stores) that sources the majority or even entirety of its goods in Russia and the CIS (jeans).

Hypermarkets and supermarkets purchase mainly through wholesalers, though they often employ buying agents for certain items (eg X5 will reportedly begin to use Li & Fung, O'Key has it's own in-house direct import department) in an effort to both optimize price and have a unique assortment.

In the instance where purchasers such as mono-brand retailers, branded wholesalers, private label or direct importers, who know exactly the product they want and are looking for production capabilities, they will generally work as follows (in the following steps):

1. Buyer / importer provides Specifications or example products
 - a. Some buyers and importers of finished garments will provide the textile, both for sampling and the order itself and ask for the sewing firm to quote "cut make trim" (CMT). Others may ask the producer to provide a quote on fabric and assembly. The fabric could be sourced from mills in China, Turkey, Russia or possibly another CIS country (although this option is rare)
2. Manufacturer produces 3 sets of samples (2 for buyer, one as benchmark sample to keep)
3. Buyer / importer provides specific feedback and /or approval (this can be a long process with substantial back and forth to set all tolerances and packaging details)
4. Proforma Invoice and Terms Agreed and Signed
 - a. Russian Clients generally pay via wire transfer (usually referred to as TT) - for example standard term might be 30% at order and 70% at delivery or completion of production depending on terms agreed. Western Clients would generally provide a Letter of Credit.

- b. Regarding Delivery Terms to Russian clients from the CIS, they may be DAF (Delivered at Frontier or FOB (Free on Board) – please refer to INCOTERMS for clarification. In some cases sales agents may take delivery ExWorks, meaning at the factory.
5. Deposit Wire Transfer to Producer's Bank
6. Production Begins
7. QC by Purchaser (some purchasers will have their own QC present continuously during production or for limited inspections)
8. Product Approval
9. Loading and Shipping
10. Balance Payment Made via wire transfer

Container Markets: B)

The procedure for supplying container markets is a bit less clear than for contemporary format retailers. According to a number of people interviewed it can be generalized that payment terms varied substantially and range from full prepayment to consignment based payment (payment once the wholesaler or intermediary made the sale). It would appear the actual producers are not contracted with directly by the wholesalers based in Russia, but rather a consolidator in the CIS countries consolidates orders and distributes them to various producers. Wire transfers of funds occurs between wholesalers and order consolidators in the respective country, who in turn have varying arrangements with manufacturers varying from electronic transfer of funds to cash payments.

7. Interviews of relevant Russian retailers and importers

7.1 Company: Lenta (www.lenta.com)

Company Overview: \$2.6B sales hypermarket chain, 36 hypermarkets, 15,000m2 standard format, nationwide with HQ in St Petersburg

Person Interviewed: Anna – Denim Buyer

Current Sourcing: Lenta currently buys textiles through both Russian wholesalers and through foreign suppliers.

The denim buyer purchases Tajik produced jeans through ShvePromServis (a sales agent) as well as other intermediaries. She is pleased with the quality of the Tajik goods. In her opinion these goods are slightly more price competitive than goods purchased through wholesaler sourcing from China. She feels the quality at the price point she is purchasing is sufficient. In particular she was pleased with the relatively short delivery times. They are interested in looking at knit products from Central Asian producers. At this time they are not purchasing goods (at least this buyer) sourced from other Central Asian producers.

7.2 Company: TM POMPA / CRAFT www.pompa.ru

Company Overview: One of Russia's largest clothing wholesalers and a retailer of women's designer clothing

Person Interviewed: Designer

Sourcing: Craft produces its own goods in Russia as well as in East Asia. They just opened their second office in China.

Regarding textiles from former soviet republics, in particular Kyrgyzstan and Tajikistan, what impressions or associations do you have with their products? - *“Designs of textile products from former soviet republics do not meet current world standards.”*

What factors (quality, materials, assembly) would be of importance to you if you were considering placing an order to CIS suppliers? - *“With the right quality controls in place it could be possible to produce high quality goods there.”*

What goods would be of particular interest for purchasing from these countries? - *“Any cotton products?”*

What opinion do you hold in terms of textiles coming from these other CIS countries and whether you'd place an order? - *“The value proposition (price to quality ratio) would have to be compelling in order to place an order.”*

What expectations do you have about pricing from Kyrgyzstan and Tajikistan relative to that of your current suppliers? - *“I would expect them to be competitive with China and India.”*

7.3 Company: ZAO DETI <http://www.detishop.ru/>

Company Overview: Produces and Retails Children's Clothing

Person Interviewed: Head of Clothing

Sourcing: Mainly imported

Regarding textiles from former soviet republics, in particular Kyrgyzstan and Tajikistan, what impressions or associations do you have with their products? – *"I would expect them to be good at knit outerwear and linen."*

What expectations do you have of quality from these countries? – *"Medium quality and midlevel price point"*

What requirements would you have, to place an order for suppliers from these countries? - *"We don't order from these countries so I have no requirements."*

What goods would be of particular interest for purchasing from these countries? – *"Possibly we'd look at knit outerwear or linens."*

What opinion do you hold in terms of textiles coming from these other CIS countries and whether you'd place an order? – *"Low level of development in terms of service and the quality of the production."*

What expectations do you have about pricing from Kyrgyzstan and Tajikistan relative to that of your current suppliers? – *"I'd expect them to have a mid-level price point."*

7.4 Company: BTK Group – Formerly FOSP www.fosp.ru

Company Overview: Russia's largest producer of men's suits

Person Interviewed: Manager of the Wholesale Department

Sourcing: Only in Russia

- *"I can only comment on all your questions that regarding textiles and clothing from other CIS countries, including Tajikistan and Kyrgyzstan, they generally are of low quality with terrible sewing but of course there may be exceptions. Our firm in 2009 only placed orders with Russian sewing factories (because of the ease of logistics and now customs tariffs)."*

7.5 Company: CONCEPT CLUB www.conceptclub.ru

Company Overview: Retailer of mid priced fashion

Person Interviewed: Designer

Sourcing: East Asia – they have their own offices there.

Regarding textiles from former soviet republics, in particular Kyrgyzstan and Tajikistan, what impressions or associations do you have with their products? – *“I would expect them to produce fabrics from cotton fibre, bed linens and goods from leather and household goods.”*

What expectations do you have of quality from these countries? – *“Medium quality”*

What requirements would you have to place an order, suppliers from these countries? – *“It is possible that there is a revival of the textile industry on the basis of the soviet enterprises, but they would require modernization, most likely their quality is not high, and problems could occur with the technical equipment (as it has aged). It seems to me there has been little preparation of the personnel, but these are just my assumptions, I don’t have specific information.”*

What goods would be of particular interest for purchasing from these countries? – *“They are likely strong in cotton fabrics, though not high quality, and household textiles and leather goods.”*

What opinion do you hold in terms of textiles coming from these other CIS countries and whether you’d place an order? – *“As the textile industry is only likely at the beginning of its revival, I would expect this could lead to technical production issues (this is just my assumption).”*

What expectations do you have about pricing from Kyrgyzstan and Tajikistan relative to that of your current suppliers? – *“I’d expect the pricing to be quite low as they factories are operating well below capacity.”*

7.6 Company: Turugart Direct Import www.turugart.com

Company Overview: Direct Import Buying Agent for Russian Retailers

Person Interviewed: Nika Antonova - Softline Import Manager

Sourcing: East Asia and South Asia

Ms. Antonova works closely with a number of large Russian retailers who use Turugart to purchase goods directly in China and India. When asked about goods from Central Asia she had expectations of very low price points (below India and China), as she felt Central Asian labour rates should be very competitive with those of China and India.

Her exposure to apparel from Central Asia consisted of shirts from Kazakhstan in 2005, which she felt had serious sewing problems (inconsistent stitching, asymmetrical, crooked labels etc.). She felt that production equipment was likely outdated and that serious QC would be lacking.

Her suggestions for market entry were for firms to clearly demonstrate how they would address the quality issues. With simple products she felt they could gain contracts if the quality issues were addressed. Trade shows seemed like a good place to start in her mind. She attends fairs mainly in Asia.

7.7 Company: Dixy www.dixy.ru

Company Overview: 500+ store convenience/supermarket chain

Person Interviewed: Textile Buyer

Sourcing: Russian Wholesalers and some direct import from China

The textile buyer was the first buyer to indicate a positive experience with apparel and textiles from Central Asia, specifically Uzbekistan. She felt quality could be very good in some cases from Central Asia. She knew quality and price varied across suppliers in Central Asia and was open to looking at specific samples from these countries if her import agent could supply examples of production from qualified suppliers.

7.8 Company: NaShveiTorg

Company Overview: Wholesaler of Clothing

Person Interview: Edik – Manager

Sourcing: Exclusively from Kyrgyzstan

This firm wholesales unbranded products from Kyrgyzstan to other wholesalers who sell through contemporary format retail as well as container markets. They order and sell majority women's and kid's clothing as well as men's clothing.

This individual finds Kyrgyz products to be very competitive both in terms of price and quality. In fact, he believes the products to be substantially better in terms of quality than Chinese products.

8. Possible niche markets/product groups to be targeted

For contract manufacturers of others' branded products, (private label manufacturing) the CIS tariff agreement provides an advantage if their production and sourcing costs are competitive. There are many opportunities for Central Asian supplier. China has been the default producer over the last five years, but there is a growing trend toward shifting production to lower cost production countries such as Bangladesh. Given the preferential tariff regime, it would seem that Central Asian producers should be able to compete for production contracts.

With the reduction in Russian domestic production of finished quality textiles, the product categories of home textiles (table clothes, dish towels, hand towels, bath towels etc.) have been dominated by Chinese imports at very low price points. Given the high tariff paid on Chinese textile imports (up to 50%), there should be an opportunity for a better value home textile product from CIS Free Trade Partner Countries. This also fits with the existing expectations of Russian buyers for goods from Central Asian CIS countries. Success in the area could be a starting point for entry into other segments. This area in particular was indicated by hypermarket buyers as being under-served at the moment.

In apparel, childrenswear, menswear and maternity clothing are expected to return to their pre-crisis growth rates. Given the recent bankruptcy of Banana Mama and the shaky situation of Detsky Mir, it is likely that new childrenswear clothing retailers or more childrenswear clothing will shift into multi-category retailers. Either way, there will be new opportunities for experienced producers of childrenswear to enter the supply chain.

9. Trade Fairs

9.1 Collection Premiere Moscow (referred to as CPM)

Dates: 24-27.02.10, 6-9.09.10.

Where: ExpoCenter Moscow

Type of fair: International Trade Fair for Womenswear, Menswear, Childrenswear, Lingerie and Accessories

Exhibitors - +7.499.7952778

Web-site: <http://www.cpm-moscow.ru/>

This is the most fashion forward trade show in Russia and worldwide brands are well represented here. This represents the top of the market and is bent toward well-known international brands and thus high price points. It is probably the best-known show in Moscow with over 550 exhibitors and 16,000 visitors.

9.2 Jinhan Fair for Apparel, Textiles & Fashion Accessories

Dates: May 1-5, 2010

Venue: Poly World Trade Center Expo, Pazhou, Guangzhou, China

Website: <http://www.jinhanfair.com/>

This show may be of interest to CIS producers because it is located next to the Canton Fair pavilion but allows foreign producers (non-Chinese) to exhibit. Many Russian buyers investigate this exhibition because it is easily accessible to attendees of the Canton Fair. Producers from many parts of the world exhibit here (Vietnam, India, Iraq etc.). Also buyers from many other emerging market retailers visit this show.

9.3 JEANSHOW – 2010 March 18th to 20th

Address: [Moscow, Krasnopresnensky emb., 14, Expocentr Moscow Krasnaya Presnya](#)

Tel: +7 (495) 663-23-74, +7 (495) 663-23-76

Web-site: <http://www.jeansshow.ru/>

This show is clearly very focused on denim. According to the website 80% of the companies exhibiting are denim producers. The show also shows knitwear and casual wear.

9.4 Consumexpo-2010

Address: Moscow, Krasnopresnensky emb.14, Expocentr Moscow Krasnaya Presnya, bld 7

Tel: : (495) 730-56-56

Web-site: <http://www.consumexpo.ru>

This show may be of interest in particular for producers of home textiles, both to observe what is current in the Russian market and to meet potential customers. It has been operating for 22 years.

9.5 FAREXPO «FASHION INDUSTRY»

Address: Saint Petersburg Sports and Concert Complex, 8a Gagarina pr., St. Petersburg 196105, Russia

Tel: +7 (812) 777-04-07, 718-35-37

Web-site: <http://www.farexpo.ru/moda-vesna/index.php>

Over 300 companies exhibit and they estimate more than 15,000 attendees visit this fair. It covers Ready-to-wear, textiles, lingerie salon, leather and furs, shoes, accessories, fittings and equipment. The majority of exhibitors are from St Petersburg, though there are a few international companies represented, mainly from Finland and Italy. There were no CIS participants except for firms from Belarus.

9.6 TEKSTILLEGPROM – 2010

Address: Krasnopresnenskaya naberezhnaya, 14, Moscow

Tel: +7 (499) 245-17-28 (499) 245-17-28, +7(499) 255-73-41, +7(499) 255-73-41

Web site: <http://www.textileexpo.ru/> See also: <http://www.roslegprom.ru>

This trade show features not only new textile offerings, both home textiles and woven textiles for garments, but also equipment and technology for producing textiles. It also, to a lesser degree, shows textiles for the product category for children and raw materials and textiles for product category of lingerie. Central Asia, in particular Uzbekistan and Kyrgyzstan, is well represented at this show which has over 2000 exhibitors and 40,000 visitors according to the website.

9.7 CJF (Child and Junior Fashion)

Address: Krasnopresnenskaya naberezhnaya, 14, Moscow, bld №3

Tel: +7(499)795-37-32, +7(499)795-26-24, +7(499)795-28-67, +7(495)605-75-70

Web site: www.cjf-expo.ru, www.expocentr.ru

This show focus on children's wear and maternity wear so it is quite specialized. It had a total of 130 exhibitors in 2009 and 24,000 visitors.

9.8 Fashion Shanghai

Shanghai New International Expo Centre (SNIEC)

Type of show: Apparel and Clothing Show

<http://www.fashionshanghai.net/>

Over 900 Exhibitors, 35,000+ attendees

Participating Countries: Hong Kong, Thailand, China, Japan, Taiwan, Korea, France, and Singapore. This show offers a look at what key low-cost East Asian producers are doing as well as higher end producers (Japan and Taiwan).

9.9 Intertextile Shanghai Apparel Fabrics (by Messe Frankfurt)

Date (upcoming)	19-Oct-10 to 22-Oct-10
Venue	Shanghai New International Expo Centre 2345 Long Yang Road Pudong Area Shanghai 201204 China Tel (86) 21 2890 6666 Fax (86) 21 6856 6777 Email info@sniec.net
Exhibition Space (sqm)	115,000 sqm gross (2009)
No. of visitors / countries	53,948 from 105 countries and regions (2009)
No. of exhibitors / countries	2,459 from 21 countries and regions (2009)
Product groups / application areas	Product groups: - Fabrics: cotton, wool, silk, linen, ramie, man-made, knitted, coated - Lingerie & swimwear fabrics - Functional fabrics - Printed fabrics - Fibres & yarns - Embroidery & lace - Accessories - Textile-related CAD/CAM/CIM technology - Design & styling agencies - Fashion & textile trade publications Application areas: - Ladieswear - Menswear - Children & infants wear - Sports & casual wear - Swimwear & lingerie
Visitor profile	Garment manufacturers, import & export corporations, wholesalers, retailers Messe Frankfurt (HK) Ltd. ¹⁸
Organiser(s)	The Sub-Council of Textile Industry, CCPIT China Textile Information Centre, CTIC
Official Sponsor(s)	China National Textile Industry Council
Supporter(s)	China Cotton Textile Association China Yarn Dyed Weaving Association China Wool Textile Association China Bast and Leaf Fibres Textile Association China Silk Association China Chemical Fibres Association China Dyeing and Printing Association China Knitting Industrial Association China Home Textile Association China National Garment Association China Fashion Designers Association China Fashion & Color Association Federation of China Textile and Garment Entrepreneurs

¹⁸ Messe Frankfurt (HK) Ltd. is a subsidiary of Messe Frankfurt Exhibition GmbH, one of Europe's oldest and largest trade fair organisers.

9.10 Texworld Paris (by Messe Frankfurt)

Venue: Paris Le Bourget Exhibition center

Address: Paris Le Bourget Parc des expositions 93350, Le Bourget, France

Organiser's Contact: Messe Frankfurt S.A.S. 1-3 avenue de Flandre 75019 Paris - France

Tel.: +33 155 268 989 Fax: +33 140 350 900

Type of fair: garment, fabric, and accessories sourcing fair

Website: <http://texworld.messefrankfurt.com/paris/en/visitors/welcome.html>

Texworld is a marketplace for sourcing handmade and industrial textiles from all over the world. There are producers of a very wide range of clothing fabrics in various materials and quality range, garment manufacturers, trims and accessories producers. Key product categories include: Embroidery, lace, silk, silky aspects, wool, wool-blends, fibres, functional fabrics, prints, cotton, shirting, linen, denim, knitted fabrics, trims & accessories, clothing, style, publications. The fair is visited by several EU brands and buyers, but it continues to become a hub for buyers and manufacturers across Euro – Med as well as for some from the baltics and Russia. There is a great opportunity for partnership and sourcing possible for Central Asian companies. Eastern European manufacturers and suppliers are already represented in this fair.

Next edition: 13 – 16 September 2010. Last edition: 650 companies from 28 countries

9.11 Premier Vision Pluriel (with focus on Zoom garment fair):

Venue: Parc des Expositions Paris Nord Villepinte 95975 Roissy Charles de Gaulle Cédex

Organiser's contact: please visit the website and fill in the form for the organisers to get back to you. (<http://www.premierevision.fr/index.php?page=56&lang=en>)

Type of fair: High profile trends and fashion value chain fair. Zoom part focuses on garments exhibition. The fair takes place twice a year in February and September and attracts approximately 50,000 professionals from over 110 countries.

Next edition: 14 – 16 September 2010.

Website: <http://www.premierevision-pluriel.com/>

Premier Vision Pluriel consists of the full value chain of textiles and clothing, including, print and surface design (Indigo), Leather design (le Cuir), Accessories and trims (Modamont), yarn (Expofil), Garments (Zoom by Fatex) and the key part on fabric and fashion trends (Premier Vision).

Each part of the fair provides different details and information. But as a fashion retailer/buyer it is an important place for different professionals to visit, as this provides the possibility to source through the value chain. All the exhibitors in Premier Vision and ZOOM are allowed to exhibit only if they pass through the stated selection criteria. One of the key criteria is that the companies who exhibit are doing product design and development each season. Other than that, there are several other criteria. The organisers provide customised information and inputs for exhibitors planning to participate for the first time. While this fair attracts mostly EU buyers, some Russian brands, buyers and labels are beginning to visit the garment manufacturing part of the fair.

SELECTION CRITERIA for Premier Vision¹⁹

“Première Vision is a selective salon. Access to the salon is restricted to companies who produce and sell fabrics destined for the apparel market, companies whose dossiers have been accepted by the Selection Committee, who are there to ensure the constant enrichment of the salon's overall offer. Meeting one or several of the criteria mentioned below is not sufficient for a dossier to be accepted. Applicants must refer to and provide information pertaining to each criterion in their dossiers.

The following criteria are taken into account in the selection process:

QUALITY AND CREATIVITY Applicants must help strengthen the pertinence of the salon's offer for each market segment represented in the salon.

CONTINUAL DEVELOPMENT OF ORIGINAL COLLECTIONS: Selection is made individually for each clearly identified product line. A company with several collections within the same corporate body must detail in its application dossier all product lines it intends to present at the salon. The applicant may be refused the right to present one or several collections at the salon if these collections do not meet the necessary criteria.

To be selected each product line must be the result of a recurrent creative process that is unique to the company, and which results in a significant seasonal updating of the articles proposed. Each collection presented must be characterised by its coherence and an identifiable fashion/market orientation.

PRODUCTION EQUIPMENT: Première Vision favours collections benefiting from directly controlled production equipment.

QUALITY OF SERVICE: The selected company must provide such services as are pertinent to a complex, targeted and international market. Criteria such as short deadlines, reduced order minimums and special developments will be considered positively in the selection process, without being sufficient for a dossier to be accepted.

¹⁹ As provided on the premier vision website. See part on 'becoming an exhibitor' for detailed information:
<http://www.premierevision.fr/index.php?page=56&lang=en>

ABILITY TO RESPOND TO INTERNATIONAL DEMAND: Whatever its country of origin, the company must be satisfactorily capable of addressing the global demand for samples and production as expressed at the salon.

COMMERCIAL REPUTATION: The applicant cannot be tainted by known ou disputes, in particular in the area of counterfeiting, with exhibitors and/or buyers well known to Première Vision. On the contrary, it must be supported by a portfolio of clients and suppliers, who themselves enjoy top international reputations.

FINANCIAL SENIORITY AND SOLIDITY: Applicants must demonstrate a legal and operational existence of at least two years. Appreciation will be given to the capacity of the candidate to satisfy its short-term deadlines, to maintain and develop its activity in the mid term. Accounting and legal documents must be submitted to the Committee.

RESPECT OF ETHICAL CRITERIA: Companies that do not respect the social and environmental criteria commonly agreed upon by the major decision-making bodies (the ILO, the EU, etc.) cannot be selected.

SELECTION PROCESS AND PARTICIPATION CONDITIONS

- All weaver-exhibitors at Première Vision must first be selected by the Selection Committee, and the take-over of an exhibiting brand or company does not equal selection of the buyer for any other product lines or activities that have not been previously selected.*
- Application dossiers are delivered by the Application Service on the basis of an informed initial enquiry, and only dossiers deemed acceptable by the Application Service shall be presented to the Selection Committee: complete dossiers, answering to the current selection criteria, accompanied by the necessary elements (collections, presentation of collections, annual statement, etc.)*
- Selection of applicants is made for the Paris edition of Première Vision. This result is valid for all other shows of the brand.*
- An exhibitor whose evolution of collections, business activity, financial situation and/or commercial practices put it outside of the salon's selection criteria may no longer be invited to participate in following editions.*
- All change related to business activity, product offer, financial structure or commercial practice brings a company's participation in the salon into question. Admission and participation in the salon are valid only for the conditions under which the company was admitted.*
- An application rejected by the Selection Committee cannot be renewed before two editions.”*

10. Market Entry Recommendations

10.1 Where is the value?

Long-term, growth in apparel sales will come from both apparel focused retail chains as well as multi-category retailers (hypermarkets, soft discounters etc.). If we take only X5 (Russia's largest multi-category retailer) as an example, they planned to open 140 soft discount format stores (Carousel) in 2009²⁰. Additionally, observing the trend that most significant retailers are making an effort to work as closely with factories as possible, the need becomes clear that factories need to develop direct relationships where feasible to extract a greater portion of the value in the ever shrinking supply chain. Relationships with end customers (retailers) will be thus more and more valuable to the producers. This may require that producers either develop internally or partner to gain new resources and skills such as more sophisticated marketing and logistics skills. This is certainly what many Chinese factories have done to great effect.

For those producers able to carve out clear niche capabilities (specific age groups, maternity, children's, etc) and develop current and desirable market knowledge, in addition to production skills, they will be compensated for this value-add to retailers and end sellers who do not have these skills in-house. Developing brand recognition is a significant challenge, but offering a clearly focused and higher value added offering to customers seeking private label production can be an effective strategy. Competing purely on price is not a sustainable competitive advantage in the ever more integrated global fashion industry, especially if working with "grey market" customer in Russia.

10.2 Market Entry Ideas:

When developing a market entry strategy the producers may want to take advantage of the positive preconceived notions that exist; in particular that CIS Central Asian producers are cost competitive on cotton fabrics and other basic cotton based products. They must also be aware that there are some negative perceptions of goods from Central Asia and they must actively and aggressively counter these impressions. The suggestions below are geared mainly toward those factories looking to produce branded goods for Russian customers, nonetheless the suggestions may benefit those producers who have taken the next step of developing their own brand and developing a more specific value proposition for clients.

1) Get Exposure to Potential Clients – Trade Shows - Most of the people interviewed had not been offered a textile product from CIS countries in the recent past, or if they had, they had met only intermediaries and did not know the actual factories. They had all met with some Chinese producer or supplier both in Russia and overseas. Central Asian Producers and Suppliers need to get out and meet their potential clients. Russians, as well as buyers

²⁰ From Retail.Ru <http://en.retail.ru/news/40904/>

from other target markets, now frequent most major trades shows in Asia and Western Europe as well as those within Russia. Participating in a trade show such as the Jinhan Fair that runs concurrently and is collocated with the Canton Fair in Guangzhou, but allows foreign companies to represent themselves, might be a good option as you would be establishing the impression of being “international” and “cost competitive” by simply attending, assuming a good impression can be made, while getting exposure to the growing number of Russian buyers who attend international fairs and are looking to eliminate middlemen from their supply chain.

The buyers who attend are usually not the same people responsible for logistics so it would seem prudent to ensure that the employees manning the booth should be versed in how they would deliver goods to Russia and be able to clearly state the tariff advantages. As we see in the USAID Logistics Performance Index (LPI), Kyrgyzstan is rated at 91st out of 155 countries so solving, or at least clarifying, logistics will be a significant value add for the Russia client. This also provides an opportunity to demonstrate the advantages to potential clients of interacting with Russian speakers (as opposed to English speaking Chinese for example).

Attending Russian Trade fairs, rather than participating as a vendor, would seem helpful to understand what current trends and Russian competition looks like.

2) Improve Brand Image as a Country/Countries – There is a significant set of preconceived notions about production in the Central Asian portion of the CIS. It is assumed that firms located there are competent and have a cost advantage with simple cotton products but are likely to have production and service related issues, with sewing quality being mentioned in particular (please note these assumptions are not based on current experience. Those companies currently selling products from Central Asian CIS countries were generally pleased). In talking with those retailers who had recent experience with CIS suppliers their impressions were more positive and they were open to cooperation.

Cooperation between producers within Kyrgyzstan or Tajikistan may allow them to market their industry to Russian wholesalers and retailers to begin to improve the “brand image” of the country. Cooperation may additionally allow them to better lobby for government assistance in this effort. Participation as a block may be beneficial initially at larger trade shows within Russia, or alternatively at German or East Asian trade shows where the majority of Russian buyers are looking for new suppliers.

3) Develop Branding/Marketing for Specific Producers – Individual producers who want to enter, re-enter or expand their sales in the Russian market must be prepared to clearly define for potential customers what measures have been taken and investments made to ensure their production capabilities are up to world standards. Producers should articulate clearly what their specific capabilities are at present and where they have competitive advantage. Perhaps international quality or production certifications such as ISO9000 etc. might be useful in establishing an objective status as a quality conscious producer .

Given that there is an assumption of price competitiveness on the part of potential Russian customers, even though it does not seem to be common knowledge that CIS producers should be customs free, the Kyrgyz and Tajik factories should reinforce this idea while emphasizing production competence.

4) Find the Right Partners – After defining specifically where the producer would like to focus in the Russian market (home textiles, men's fashion, simple t-shirts, undergarments etc.), a short list of key potential partners should be courted. Larger potential clients from Russia are themselves seeking new producers. They could be approached either through a Russian sales agent or possibly via a Russian buying agent who currently buys abroad for Russian retailers or wholesalers.

The wholesalers who would place production orders strongly prefer to work directly with producers. Utilizing existing buying agents or larger wholesalers will provide maximum access to retailers and sales channels. They can get your samples and pricing in front of decision makers.

If we take the Chinese example, very few Chinese suppliers have made any direct sales effort within Russia. They generally market initially at international trade shows and only more recently at Russian trade shows. Successful Chinese producers have been effective at developing long-term relationships with Russian wholesalers. More and more Russian wholesaler/retailers (e.g. Sela, Concept Club, Craft) have taken the step of establishing their own presence in China, the way their Western European or American counterparts have. Russian language skills should be an advantage for Central Asian CIS textile producers. Now that some of these retailers are bringing production back to Russia (e.g. SELA), they may be potential clients for Central Asian factories.

11. Other Contacts

Governmental

Russian Federal Service of State Statistics
<http://www.gks.ru/>
Russian Federal Customs Service
<http://www.customs.ru/ru/>

Logistics

ARI Cargo : Bishkek, Kyrgyzstan
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<http://www.nep-logistics.com>

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Contact Sergey Palii
<http://www.transnail.ru/>

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Buying Agent

Turugart
They provide direct import services for
some of Russia's largest retailers
www.turugart.com
+7 812 368 55 78
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Hypermarkets

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E-mail: info@x5.ru

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8-800 700 41111
www.lenta.com

Auchan
Russia Head Office
Verkhnyaya Krasnoselskaya street,
3A, 5th floor
07140 Moscow, Russia
+7 (495) 721 2099\
www.auchan.ru

The most complete listing of retailers and
their contact information can be found at:
<http://www.retail.ru/tradingnetworks/>

Sales Agents

Shvei Prom Service (**** WORKS W
CENTRAL ASIAN SUPPLIERS NOW)
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12. Appendix: Links to CIS Related Customs Rules and Regulations

Все товары ввозимы на территорию РФ из стран СНГ регламентируются в основном соглашениями ниже.

http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=64
<http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=64> - О правилах определения страны происхождения товаров СНГ

http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=65
<http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=65> - О принципах взимания косвенных налогов при экспорте и импорте товаров (работ, услуг) между государствами - участниками Содружества Независимых Государств

http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=70
<http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=70> - О правилах определения происхождения товаров развивающихся стран при предоставлении тарифных преференций в рамках общей системы преференций

http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=588
<http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=588> - О применении вывозных таможенных пошлин в отношении некоторых товаров, вывозимых с таможенной территории Российской Федерации на таможенную территорию государства - участника Таможенного Союза (с изм., внесенными письмом ГТК РФ от 19.08.2002 N 01-06/33465)

http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=4358
<http://www.vch.ru/cgi-bin/guide.cgi?table_code=14&action=show&id=4358> - О направлении методических указаний о порядке применения таможенных пошлин в отношении товаров, перемещаемых через таможенную границу Российской Федерации (в ред. Приказа ГТК РФ от 24.12.2001 N 1226, письма ГТК РФ от 31.03.2004 N 01-06/11725, с изм., внесенными письмом ГТК РФ от 22.01.2001 N 01-06/2256)