

ALBANIA CITRUS

VALUE CHAIN ASSESSMENT

USAID - Albania Agriculture Competitiveness (AAC) Program

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1. Introduction

This study aims to achieve three objectives: (1) provide a more detailed analysis of the citrus value chain in Albania, identifying key strategic issues constraining growth; (2) develop a vision and a competitiveness strategy for the citrus value chain; and (3) draft an initial citrus commodity development plan based on the analysis and strategy, with suggested AAC program interventions.

In this study we will mostly focus on the fresh mandarin value chain because only for mandarins is there any regular commercial sale of local citrus fruits. A new group of 200+ farmers in the Saranda District have emerged who have taken on mandarin production on a commercial basis, the first to do so. Their



2009 production is estimated at 1,500MT. Total mandarin production for 2009 is estimated at 2,500MT. Growth is fueled by good profit margins and vast market growth opportunities. With the right value chain strategies and commitment from all stakeholders in the sub-sector, this growth potential can be realized.

Table I: Mandarin Production in the Saranda Cluster

Plantings	Area (ha)	Trees	Yield (MT)
2001-2006	122	61,000	1,500
2007-2009	96	48,700	0
Total	218	109,700	1,500

2. End-Markets for Albanian Mandarin

Table II: Monthly Imports and Wholesale Prices - Domestic & Imported Mandarins 2008

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008
Imports (MT)	1,827	1,263	44	4	3	1	0	0	8	116	1,232	3,847	8,345
CIF Import (LEK/kg) + VAT (20%)	61	60	66	62	97	104	58	68	68	69	68	70	61
Domestic (LEK/kg)	88	97	115	N/A	N/A	N/A	N/A	N/A	N/A	109	77	78	95
Imported (LEK/kg)	93	100	117	107	160	160	160	160	160	128	88	80	101
Ratio (Dom/Imp)	0.95	0.97	0.98	N/A	N/A	N/A	N/A	N/A	N/A	0.85	0.88	0.98	0.93

Albania and the Northern Balkan Regional Market

Currently these markets are supplied from Italy, Greece, Turkey, and Spain, mostly with unsorted, unwaxed, leaves-on mandarins packaged in palletized plastic crates of 8-10kg (pallets of around 1MT). It represents the lower quality, but also lower-priced output from pack houses in the listed countries that ship their higher quality products to more discriminating markets (Northern and Western Europe, Russia). Leaving the leaves on is a signal of freshness. The chosen presentation format thus plays into the main consumer wants: affordability and freshness. Based on key informant interviews, these consumer preferences and product/packaging characteristics are common throughout the Balkan region, including Albania. These represent the main initial market targets for the Albanian mandarin value chain actors, in its current incipient stage of development.

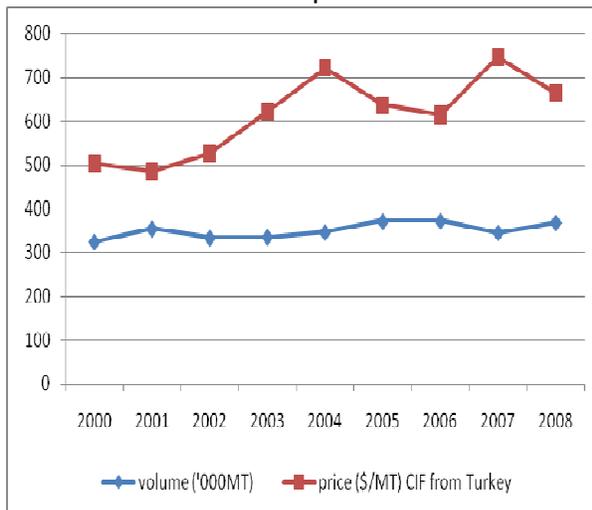
Albania's mandarin market is estimated at 11,000MT or roughly \$11 million at wholesale price in 2009. The overall size of the regional market is 33,000MT. The Serbian market seems to be the most interesting one to target, given its size, higher growth rate, and relatively high prices. Other target markets that appear attractive for Albanian mandarin exporters are its direct neighbors, Macedonia (fast growth), Montenegro (high prices), and Kosovo (ethnic connections).

Although important to partner with now with an eye to future potential, domestic supermarkets do not represent a significant market for mandarins at this point (100MT). The emergence of regional supermarkets with deep pockets in the Balkans may offer interesting opportunities, because they cater to a more discriminating shopper and because these supermarket chains will increasingly implement regional procurement mechanisms.

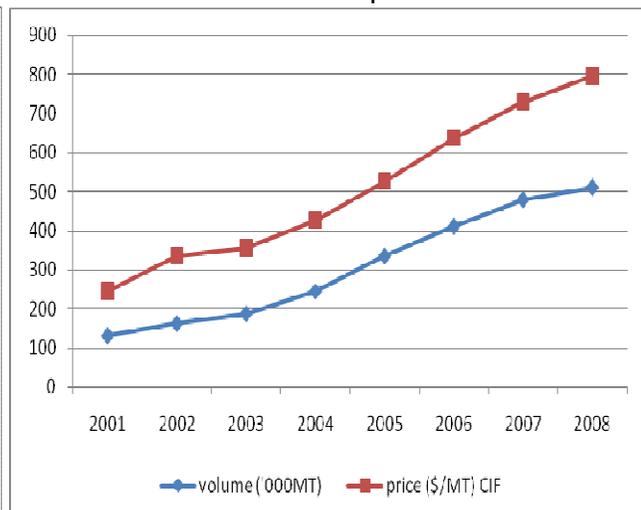


High-end markets (EU, Russia) are not realistic targets until a modern pack house can be established

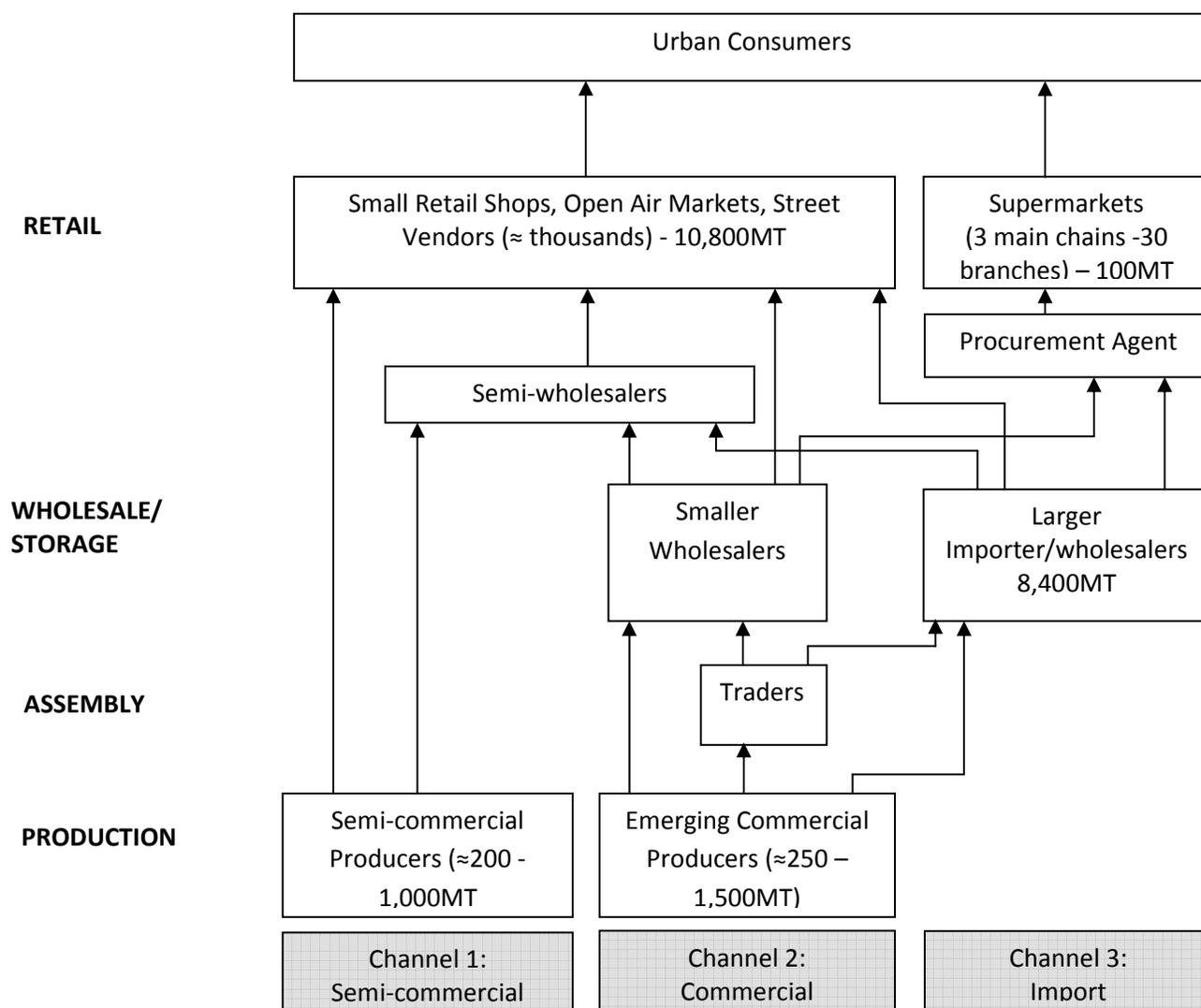
EU Market – Mandarin Imports



Russian Market – Mandarin Imports



3. The Mandarin Value Chain



Key characteristics:

- I. Almost no research on citrus at TTC Vlorë.
- II. The Greek connection. The farmers largely copy practices from their counterparts in Greece.
- III. Limited volumes, harvested in small window (Nov-Dec).
- IV. Farmers are very driven, willing to adapt to the latest technologies and market demands.
- V. Orchard investment cost of \$30,000/ha. Gross margin for growers: around LEK17/kg.
- VI. No pack house operation.
- VII. Retail and wholesale very fragmented. Importer-wholesaler is leverage point.
- VIII. New planting subsidies provided great stimulus, but farmers unlikely to get paid.
- IX. VAT and import tariff provide market protection, but can be competitive without.
- X. No land markets. Orchard investment only on owned land.
- XI. Weak wholesale market infrastructure and regulation hinders value chain development.

4. Vision

By 2020, a vibrant cluster of some 400 mandarin growers and 2-3 consolidators with modern pack house operations in the Xarre-Mursi-Konispol valley in Saranda District will be producing 14,000MT of mandarins from 400ha over a 4 month window (late October – early February) and supply it at competitive prices and quality levels to a broad range of markets. These markets will include 7,000MT sold in the domestic market (market share of 70%), 5,000MT sold in the Balkan region, including through the leading regional supermarket chains, and 2,000MT to a high-end market such as Russia.

5. Value Chain Competitiveness Strategy & Upgrading Plan

The vision presented above is based on five key assumptions: (1) an annual expansion in acreage of 6%; (2) farmers achieving average yields of 110kg per tree for mature trees; (3) harvests can be spread out over the entire winter period; (4) consolidators invest in modern pack houses and succeed in entering the various markets; and (5) farmers will sell the majority of their harvest through the pack house operators. Assumption (1) is realistic, but the other assumptions are not as straightforward and the proposed competitiveness strategy aims to underpin them through a production & a consumption axis.

Production Axis of the Competitiveness Strategy

This part of the strategy aims to establish a large, quality supply of mandarins throughout the season, and has 4 components. The first two components are needed to help assure that trees achieve average yields of 110kg/tree at full maturity throughout the life of the orchard.

(i) Build Farmer Capacity

Farmers in the target area are very committed to their farms and eager to invest in state-of-the-art technologies and to follow best practices, but they are largely learning through copying and trial and error. Support here is limited to some inadequate grower manuals and a few isolated trainings by TTC Vlora. **Possible activities:** training, study tours on pruning, irrigation, fertigation, recognizing diseases, pesticide applications, and harvesting; development of financial orchard management records to assess profitability and productivity; facilitating access to financing for the expansion of orchards; development of a practical mandarin growers' manual and instructional videos in the Albanian language.



(ii) Establish a Better Agronomic Support Service
Efficient and effective agronomic support services are critical for modern mandarin orchard management. Currently, these services are provided by an extension officer of the Department of Agriculture and informal advice from the growers' Greek counterparts. There are no private agronomists providing such services in Saranda district. In 2009 this weakness was exposed when a disease outbreak could not be maintained.

Improved agronomic services would also facilitate access to cutting-edge research on mandarin production. **Possible activities:** strengthening the capacities of the Department of Agriculture extension officers or (using a strategic grant) facilitating the establishment of private agronomist services; strengthening the links with TTC Vlora through a new, more elaborate mandarin research program characterized by experiments on private farms in Saranda and linkages between TTC Vlora and leading citrus research institutes in the Mediterranean.

The last two components are needed to extend the harvest season, which in turn is needed for three reasons: (1) it is the only way to substitute imports during this time period; (2) it is needed to even out production over time to provide for a steady flow of mandarin through a pack house; (3) to capture the high price months (October, January, February).

(iii) Introduce New Mandarin Varieties that Extend the Season

A careful selection of three or four mandarin cultivars per orchard can yield fresh fruit for a four-five month ripening period. By introducing farmers to new varieties and the advantages of planting them, they can be helped to move away from the current reliance on the same 1-2 clementine varieties. New introductions can come through new seedlings or grafting on existing trees. **Possible activities:** roundtables with farmers, nursery operators, TTC Vlora, AUT, a private agronomist, wholesalers, and a consolidator; strategic grants to help with the introduction of these new varieties at the farm.

(iv) Improve and Expand Post-Harvest Handling Techniques

Extending the season for existing as well as new varieties also implies a set of more advanced storage and post-harvest handling techniques that improve storage life as well as quality and ripening, such as cold storage usage, heat treatments (e.g., hot water dip), fungicide treatments, applying growth regulators (e.g., ethylene for degreening), and radiation. **Possible activities:** training sessions by international experts, demo's, field visits to other production areas; strategic grants to reduce risk and stimulate trials in this area.

Marketing Axis of the Competitiveness Strategy

This part of the strategy aims to facilitate an efficient flow of the mandarin production from Saranda to various markets throughout an extended season through 3 components.

(i) Facilitate the Establishment of a Consolidator Operated Pack House

The emergence of a modern pack house is a condition sine qua non for the competitiveness of the mandarin cluster in Saranda. This pack house is needed to cater to the needs of new buyers, mainly the large wholesaler/importers who currently handle 90% of the mandarin volumes in Albania. Only a consolidator-operated pack house that can sell large volumes of palletized crates of quality sorted, well-packaged product upon order (1-2 day order cycle time) can offer a product that can compete with the ease of importing. A potential investor has already been identified. **Possible activities:**

- Developing a business plan based on a thorough design & feasibility study, taking a step-wise expansion from a simple sorting facility initially to a fully fledged pack house by 2014;
- Facilitating the financing of the facility combining the entrepreneurs' equity with a strategic grant from the AAC program, a commercial bank loan, and co-financing from other donors;
- Facilitating the establishment of the pack house and the initiation of operations;
- Assisting in determining the best packaging for various markets in terms of quality preservation, cost, environmental impact, branding, market acceptance (plastic crates vs cardboard boxes);
- Including higher quality mandarin in AAC's Taste of Albania branding and promotion strategy.



(ii) Facilitate Long-Term Grower – Consolidator Linkages

The operational efficiency of the consolidator and the pack house are determined in part by the product flow going through them, and hence assuring sufficiently large supplies (around 50% of total production), spread out over time in line with the pack house capacity and volumes demanded in the market will be critical. **Possible activities:** working with both the consolidators and the individual growers to develop a common understanding of the market and related best practices such as harvesting (pre-harvest intervals for spraying, timing related to ripeness, harvest and post-harvest treatment required to avoid damage); brokering a long term partnership that deals with price-discovery (using the AAC MIS), price determination (a small premium for farmers to incentivize them to cater to more demanding client), supply mechanisms (minimum volumes, short order cycles), and planning (tracking harvestable volumes).

(iii) Facilitate Long-Term Consolidator – Market Linkages

Downstream the value chain, new market linkages need to be forged between the consolidators and various demanding buyers who currently buy no or very little domestic mandarins. This can be achieved only when the linkage results in transactions that are profitable for the farmer, the consolidator, and the importer. These profits can be derived from exploiting: (a) the gap between Albanian farm-gate prices and CIF import prices which are subject to VAT and import tariffs, (b) economies of scale in domestic transportation and lower transaction costs per kg vis-à-vis the small wholesalers due to higher volumes, (c) reduced post-harvest losses through improved handling, and (d), the higher quality of local mandarins (since no siphoning off of high quality mandarin). **Possible activities:** analyzing new buyers' needs in terms of product and delivery format in greater detail; facilitating the pack house operations needed to cater to these needs (e.g., sorting), and being a neutral third party facilitating the initial deals between consolidators and buyer. Four types of buyers/markets should be targeted:

- Large importer/wholesalers in the local market: these are the main initial target market, where local producers have price and quality advantages over imports (700MT by 2012);
- Local quality retailers: direct delivery to Albanian/Balkan regional supermarkets and other high-quality retail markets such as New Bazar in Tirana. This would add value by sorting. Piggy-back on AAC's current relationship with supermarkets (50MT by 2012);
- Balkan regional traders/wholesalers: these are nearby markets that can be supplied with the same product as the importers in Albania, while exploiting transportation cost advantages and ethnic links. Promising markets in here are Serbia, Kosovo, Macedonia, and Montenegro. Participation in trade missions and trade shows (300MT 2012)
- Importers in high-end markets: These markets are both more rewarding and more difficult to enter. It will require the presents of a fully fledged pack house with modern packing line equipment. Key market options here are Russia or piggy-back on the Greek distribution system into the EU markets. (trial shipments of 20MT containers in 2012).

