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HAZELNUT MARKETING STRATEGY

FINAL

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USAID ECONOMIC PROSPERITY INITIATIVE (EPI)

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ABSTRACT

USAID's Economic Prosperity Initiative (EPI) engaged a marketing expert to prepare a marketing strategy for hazelnut exports. The consultant's scope was to analyze markets and observe which, if any, improvements needed to be made to the hazelnut marketing supply chain in order to increase export volumes and values to the most profitable markets.

ACRONYMS

CAGR	Compounded Annual Growth Rate
CIF	Cost Insurance Freight
CIS	Commonwealth of Independent States
EPI	Economic Prosperity Initiative
FAO	Food and Agriculture Organization of the United Nations
FIE	Food Ingredients Europe
FOB	Free on Board
GAIN	Global Agricultural Information Network
GEOSTAT	National Statistics Office of Georgia
GIAM	Georgia Industrial Asset Managemet Group
GlobalGAP	Global Good Agricultural Practices
GoG	Government of Georgia
HACCP	Hazard Analysis and Critical Control Points
HTS	Harmonized Tariff Schedule
ITC	International Trade Centre
MT	Metric Tons
OCE	L'Office de Commercialisation et d'Exportation Maroc
TEU	Twenty-foot Equivalent Unit
UN	United Nations
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
VAT	Value-Added Tax

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I. EXECUTIVE SUMMARY

Georgia is the 3rd leading exporter of hazelnuts, accounting for 5.8% of world trade. Its exports are spread fairly evenly over its markets, with no one country receiving more than a 12% market share. Georgia's primary competitor is Turkey, who accounts for 74% of global trade and who earns, on average, $0.72/kg more than Georgia for its hazelnut exports. While Turkey is the market leader and the key standard bearer by which hazelnuts are delivered, Georgia's quality has been the primary dragging force keeping it from achieving higher values.

Georgian hazelnut production through 2011 exceeded 31,000 metric tons (MT), a growth rate of 5% over a six-year period and a 13% compounded annual growth rate (CAGR) over a three-year period. The percentage of exports to production was 51% in 2006, which has now increased to 70% in 2011.

Production of hazelnuts in Georgia has only begun to transition to more modern growing techniques in the last several years with significant support from USAID EPI, in partnership with Ferrero, with the creation of 17 farmer groups (the prelude to associations and/or cooperatives) as key leverage points to addressing production constraints. There are approximately 40,000 growers of hazelnuts, with farm sizes ranging from half a hectare (80% of producers) to 200-300 hectares (20% of producers), spread predominately in four growing regions: Imereti, Samegrelo & Zemo Svaneti, Guria, and Kakheti.

The region of Samegrelo & Zemo Svaneti remains the leading region for the production of hazelnuts, with 15,800 MT in 2011, a 3% CAGR over a six-year period; Imereti produced 4,800 MT in 2011 with a 7% CAGR; and Guria produced 6,800 MT with a 3% CAGR. The Kakehti region has experienced the greatest growth rate at 22% and produced 3,700 MT in 2011.

Perhaps the most crictical stage in the supply chain process for hazelnuts in Georgia is post-harvest handling. While the farming processes are improving, the post-harvest handling methods will require greater attention and investment in equipment and facilities. Another identified constaint in the post-harvesting process is the involvement of consolidators. These consolidators have historically served a purpose as the conduit between farmers and processors. With 40,000 small farmers, some of whom only have 100-200 kg in production, it simply has not been affordable for processors and packers to deal with each grower or for the growers to be able to deliver to the processors. The consolidators handle the collection and payment to the growers.

There is a wide disparity in the marketing process between processors and packers based on their business profiles, business approaches, equipment, market offerings and export markets. In general, many of the processors and packers are in business primarily during the hazelnut season to deliver to their established clients. Once the season is over, they close the doors until the next season.

While not all processors and packers are facing the same constraints, to effectively address them and to increase the market opportunities for the industry, all the companies need to come together to unify the marketing position of Georgian hazelnuts. Georgian hazelnut processors and packers are not each others' competition.

Global analysis of market opportunities yielded a listing of countries within a broad array of markets with immediate value creation potential. Germany, Georgia's largest importer, has not been growing in volumes but as the largest importer offers immediate value growth potential. Other markets include: Russia, Ukraine, Kazakhstan, Italy, France, Belgium, Switzerland, Austria, Czech Republic Iraq, Egypt, Hong Kong, Viet Nam, U.S., Canada, Brazil and Mexico.

It is important to note that any market is of potential interest, provided it offers the opportunity for increased business at a profitable level. In order to achieve increased values and volumes, a series of activities must be addressed. These include the following:

1. Continuing farm-level support through farmer groups to improve production quality and post-harvest handling.

2. Providing processor and packer support to improve capacities, capabilities, standards and access to higher-value buyers.

3. Implementating a hazelnut promotional plan, which includes branding, value propositions, trade show participation and business linkages.

II. APPENDICES

A. BACKGROUND

B. METHODOLOGY

C. FINDINGS

D. RECOMMENDATIONS

E. ADDITIONAL INFORMATION

A. BACKGROUND

In the hazelnut sector, USAID EPI has engaged with 12 hazelnut processors and organized a roundtable to discuss issues related to market promotion, quality standards and policy advocacy. EPI is currently assisting the processors establish an association to support the sector and has been providing tax advice so that they can effectively communicate their policy positions with the Revenue Service.

EPI is currently providing significant assistance at the production level in order to improve the yields and quality of Georgian hazelnuts. Addressing one of the key constraints of land fragmentation and small-scale production, EPI supported the creation of 17 farmer groups in the hazelnut sector. As part of farmer group support, EPI initiated an access to finance scheme for farmer group members. As a result, 230 farmers were able to access inputs and soil testing services with 0% interest rate and without any collateral.

As EPI is linking farmer groups to hazelnut processors to create efficiencies in the supply chain, there is a clear need to further increase the capacity of these agribusinesses with consolidation, packing, processing and marketing activities. The challenge of this consultancy is to improve the capacity of the consolidators and exporters and link them with high-end markets. The consultant will identify and present tangible marketing opportunities for the hazelnut sector.

B. METHODOLOGY

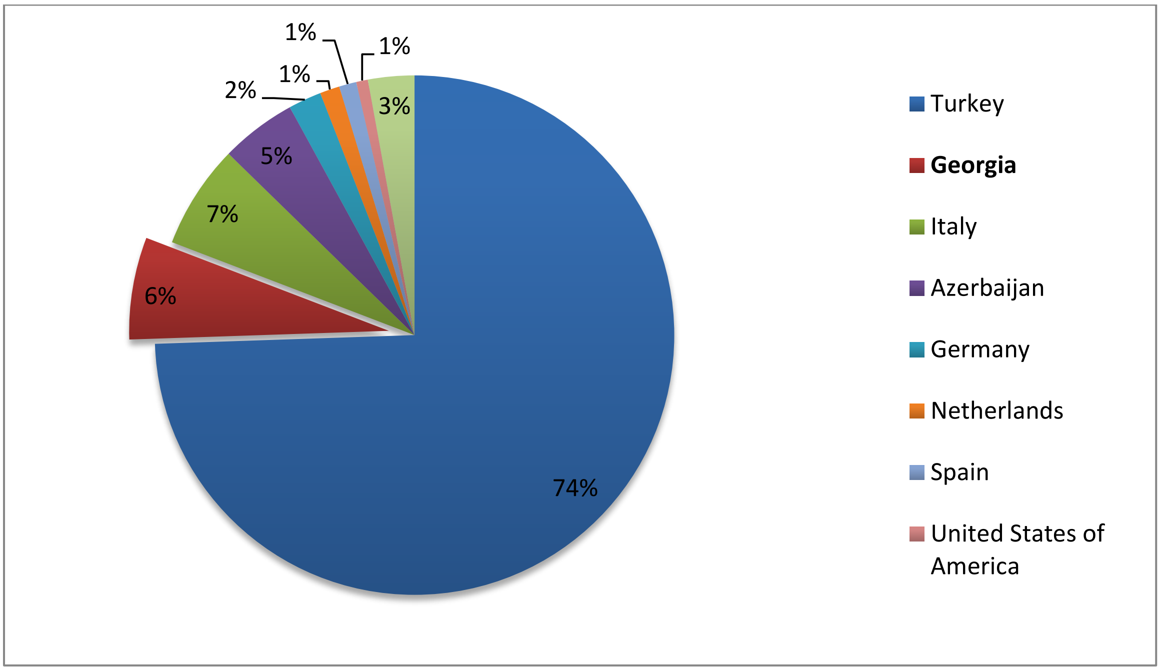
The methodology by which the Marketing Strategy for Hazelnuts in Georgia has been conducted has included reviews of USAID and EPI data, as well as activities from past and present USAID, Government of Georgia (GoG), other donors and private sector companies undertaken to initiate growth in the sector. A complete analysis has been conducted covering global production trends, competitive trade analysis, Georgian production and post-harvest handling, Georgian trade analysis, export logistics and individual import market analysis covering the hazelnut industry.

Key market players have been interviewed to obtain their input on the Georgian Hazelnut sector, the market situation, opportunities and constraints. Interviewees consisted of farmers, domestic fruit brokers, packers and warehousing storage, packaging companies, logistics companies, exporters, importers, wholesalers and supermarket buyers. Previous visits have been made to competitive countries growers, packers and exporters, and importing countries wholesale markets in Germany, Austria, Italy, Russia and various industry trade shows in France, Germany, the Netherlands, Russia and U.S., among others.

Additional resources utilized for analysis of the hazelnut sector included: Food Agriculture Organization (FAO), United Nations (UN) Comtrade, International Trade Centre (ITC) Trade Map, United States Department of Agriculture (USDA), National Statistics Office of Georgia (GEOSTAT), Center for Promotion of Imports from Developing Countries, International Nut and Dried Fruit Council and other popular industry portals and reports.

C. FINDINGS

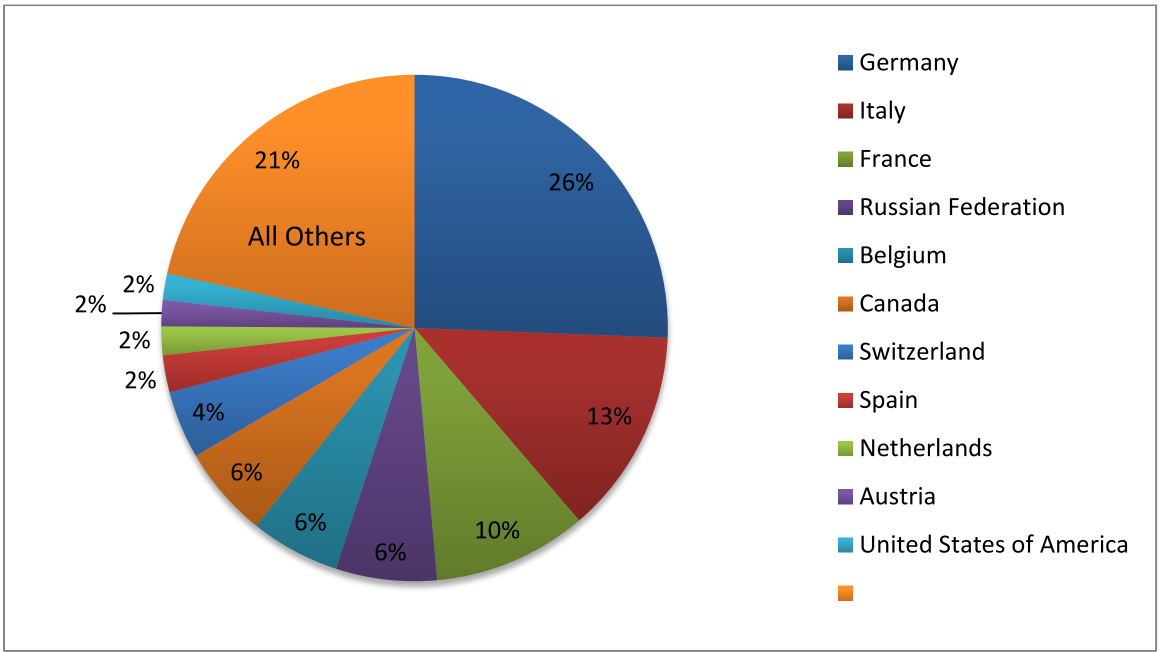
Figure 1. Global Hazelnut Export Trade 2012: HTS 080222 – Dried and Shelled



MACRO

The global dried and shelled hazelnut trade in 2012 was 216,827 MT and was dominated by Turkey, accounting for 74% of the global exports. Turkey experiences a CAGR of 4% based on a five-year analysis. Italy and Georgia swap back and forth the number two ranking, with each accounting for only 6% of global trade. While Georgia has been growing at a 19% CAGR over a five-year period, Italy has stagnated in its trade with a -1% CAGR over the same period. Azerbaijan ranks in the fourth position, with a 5% market share. In total, the top four exporting countries account for 91% of the global trade in dried and shelled hazelnuts. Overall, global growth experiences a 4% CAGR.

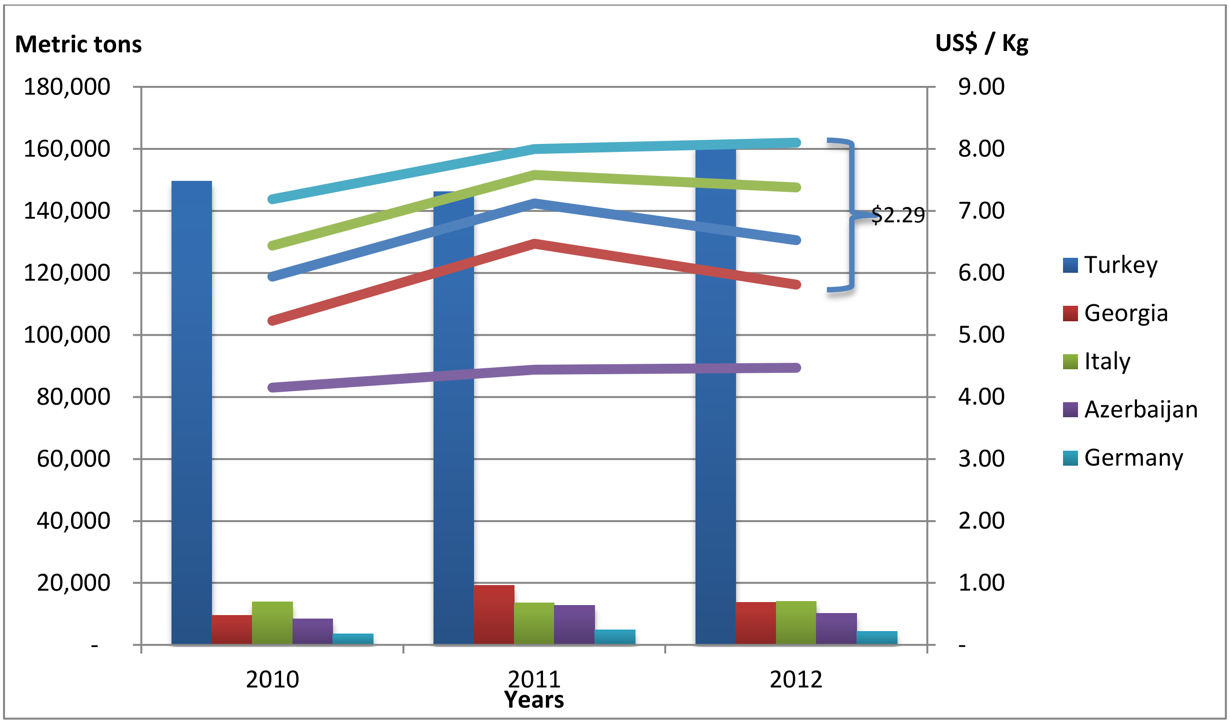
Figure 2. Global Hazelnut Import Trade 2012: HTS 080222 – Dried and Shelled



Global imports of dried and shelled hazelnuts in 2012 were an estimated 202,003 MT. This is approximately 14,000 MT less than the total identified in global exports during the same period and may be attributed to inaccurate or unreported data during the 2012 reporting period. Germany is the leading global importer of hazelnuts with a 24% market share. As a re-exporter, Germany ranks as the fifth largest exporter in the world.

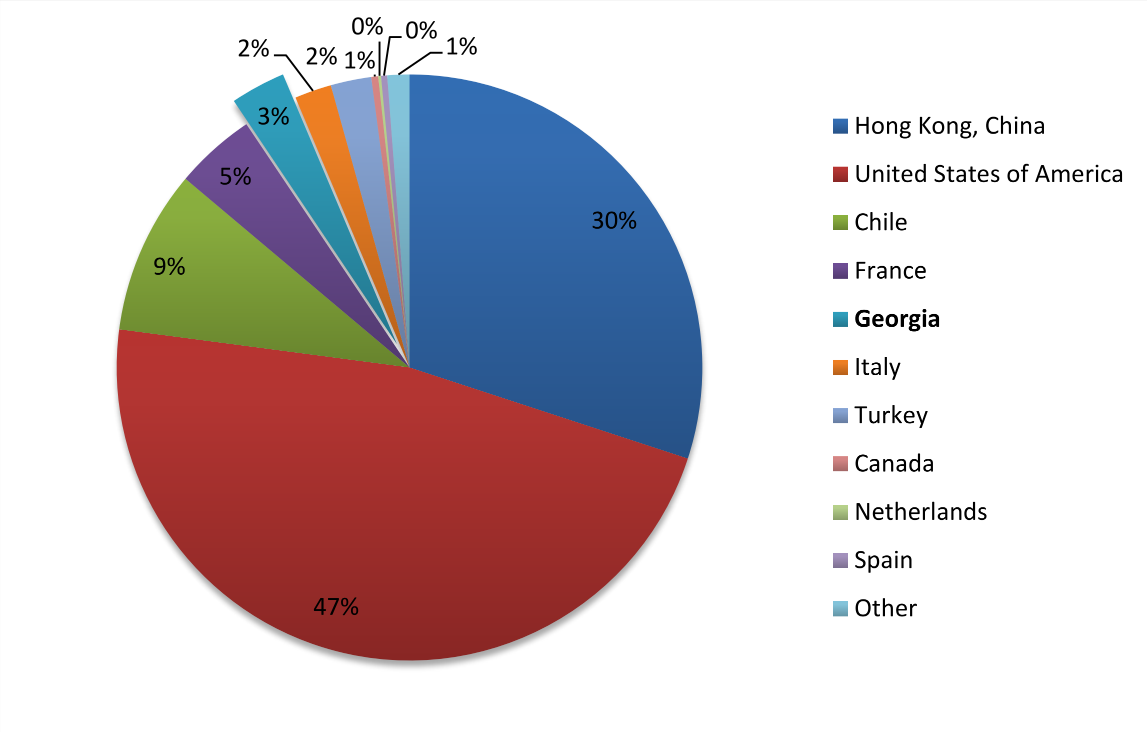
In total, the top three importers – Germany, Italy and France – account for 50% of global imports as the key processing countries for products such as chocolate hazelnut spreads. The remaining eight importing countries account for 29% of total import trade, leaving 21% to spread among all other global importers. In general, the global distribution in trade leaves open many opportunities for increased sales as more and more countries begin to process hazelnuts into value-added products and the awareness of health benefits of hazelnuts become pronounced.

Figure 3. Global Hazelnut FOB Export Pricing & Volumes For Key Exporting Nations: HTS 080222 – Dried and Shelled



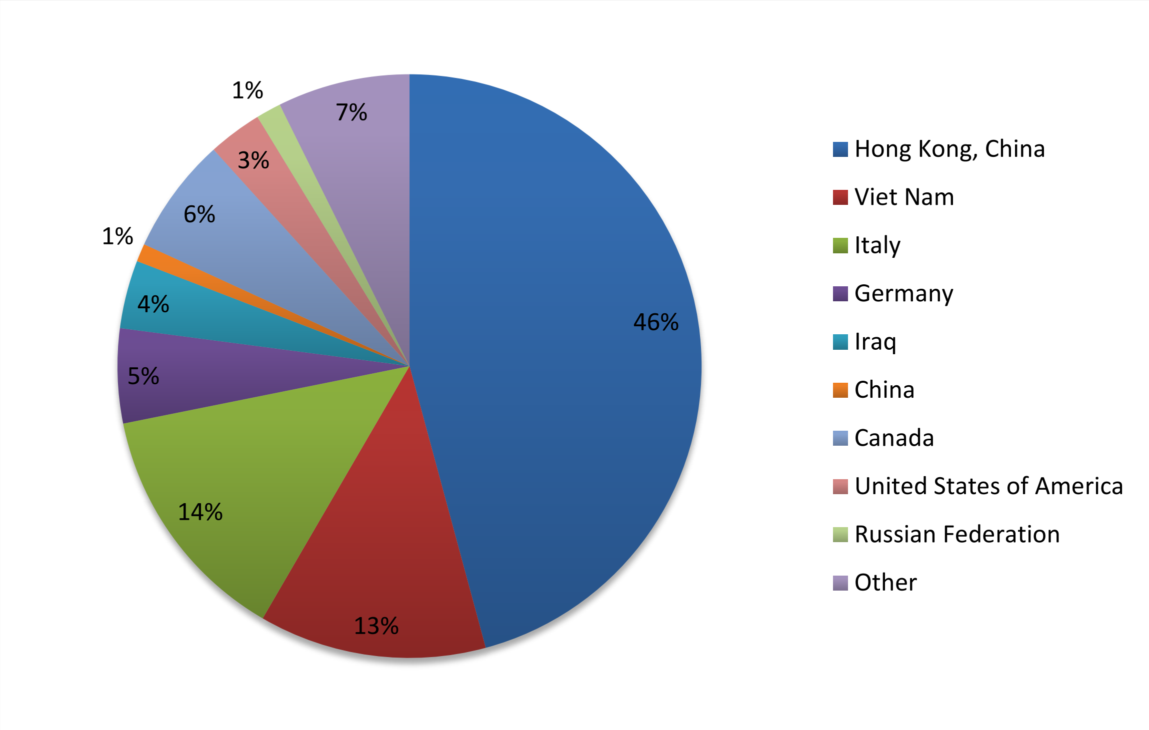
Pricing from key supplier countries does not necessarily correspond with production. Turkey is by far that largest exporter, by at least a multiple of 10, over all other countries and yet, their pricing ranks third under that of Italy and re-exporter Germany. Italy remains the highest-priced orgin supplier, while only exporting 14,049 MT during 2012 to Turkey's 161,462 MT. The spread between re-exporter Germany and origin supplier Georgia is an astounding $2.29/kg.

Figure 4. Global Hazelnut Export Trade 2012: HTS 080221 – Fresh or Dried in Shell



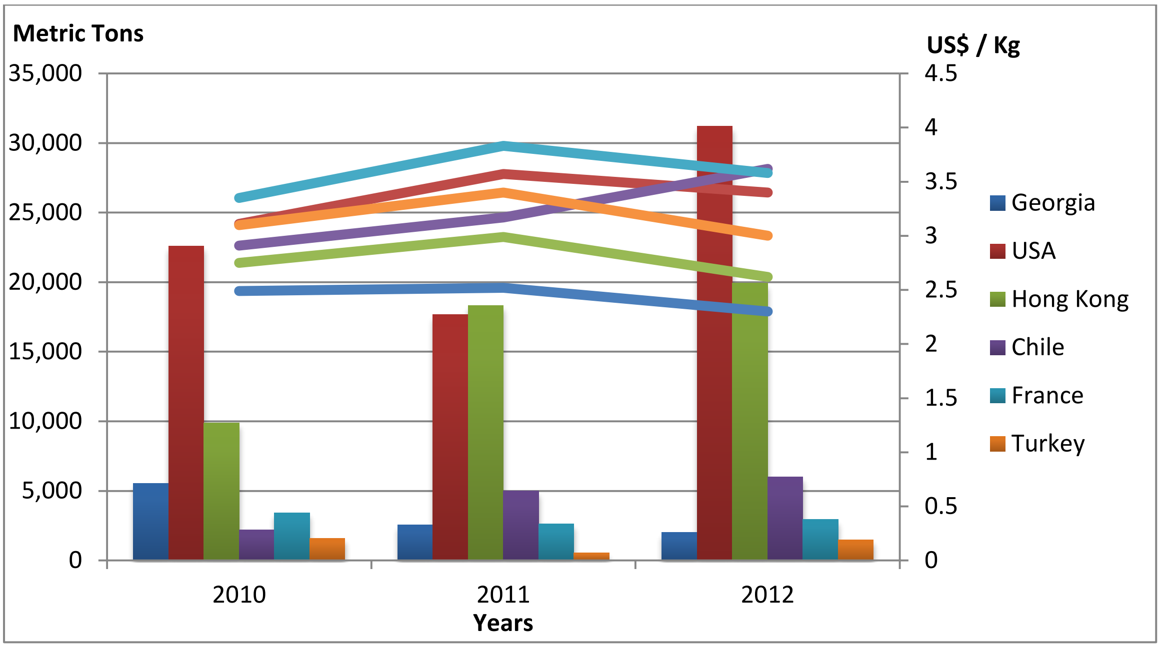
Global trade in fresh or dried in-shell hazelnuts is quite small compared with shelled, at approximately 66,350 MT estimated to have been exported in 2012. The U.S is the largest exporter, with 47% market share, followed by re-exporter Hong Kong, with 30%. Chile, France and Georgia rank in the top four origin suppliers. Georgia's rank as the #4 origin exporter, with 2,017 MT, is on a downward trend, with a -4% CAGR over a five-year period, while all other top four nations experienced growth. Hong Kong is the anomaly as the #2 exporter, re-exporting almost 100% of it's imports and maintaining its growth with 26% CAGR over a five-year period.

Figure 5. Global Hazelnut Import Trade 2012: HTS 080221 – Dried or Fresh In-Shell



Hong Kong accounts for almost 50% of the global market for imports of dried or fresh in-shell hazelnuts followed by Vietnam, Italy and Germany. Again, Hong Kong re-exports almost 100% of it's imports primarily to Vietnam and Taiwan. Iraq is in the 4th position, with 85% of its market share being supplied by Georgia. Iraq accounts for 47% of Georgia's exports and has been decreasing in volume by -20% CAGR over the last three years.

Figure 6. Global Hazelnut FOB Export Pricing & Volumes For Key Exporting Nations: HTS 080221 – Dried or Fresh in Shell



The U.S. is by far the largest origin exporter of dried or fresh in-shell hazelnuts and is continuing its growth, with 11% CAGR over a three-year peiod and a 6% CAGR over a five-year period with 31,000 MT. However, the U.S. does not command the highest export price, which on average has been consistently led by France, with an average price of $3.58/kg in 2012, while Georgia is a low-price supplier with an average export price of $2.30/kg, a price differential of $1.28/kg.

MICRO

Georgia's exports of Harmonized Tariff Schedule (HTS) 080222 Dried Shelled and 080221 Dried or Fresh In-Shell Hazelnuts are significantly differentiated by market and distribution.

Table 1. HTS 080222 Dried Shelled Hazelnuts

	2012 Quantity Metric Ton	2012 Quantity 3Year CAGR	2012 Market Share	2012 Value Million US$	2012 Value 3year CAGR	2012 FOB $/Kg
Georgia Total Exports	13,785 MT	13%		80.122	17%	$5.81/Kg
Germany	1,658 MT	-12%	12%	11.11	-6%	$6.70/Kg
Italy	1,649 MT	18%	12%	10.76	26%	$6.52/Kg
Azerbaijan	1,168 MT	0%	8%	6.00	15%	$5.14/Kg
Belgium	672 MT	53%	5%	4.64	69%	$6.92/Kg
Czech	1,168 MT	0%	8%	6.44	1%	$5.51/Kg
Ukraine	640 MT	29%	10%	7.54	42%	$5.45/Kg

Source: ITC Trade Map, UN Comtrade, and Remer Lane Analysis

Georgia was ranked third in the world in 2012, behind Turkey and Italy, in the export of dried and shelled hazelnuts. In 2012, Georgia's distribution by importing country was spread fairly evenly, with no country receiving more than a 12% share in Georgia's exports. The above table is a snapshot of activity for the Georgian export market.

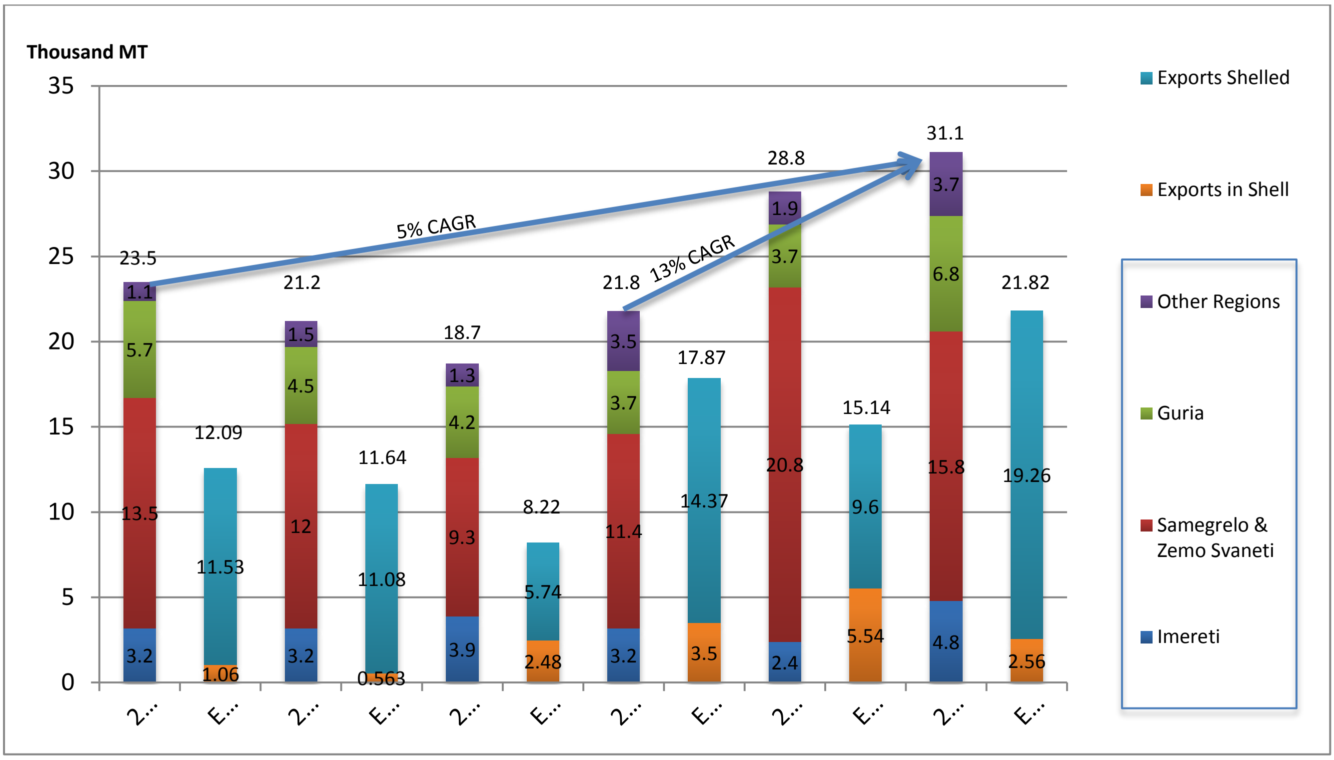
Georgian exports of hazelnuts are concentrated in the 4th quarter, while other exporting countries spread their exports throughout the year. This concentration is attributed to the exporters' need for money and thus is one of the reasons for Georgia receiving a lower market price.

Table 2. HTS 080221 Dried or Fresh in Shell Hazelnuts

	2012 Quantity Metric Ton	2012 Quantity 3Year CAGR	2012 Market Share	2012 Value Million US$	2012 Value 3year CAGR	2012 FOB US$/KG
Total Exports	2,017 MT	-29%		$4.64	-30%	$2.30/Kg
Iraq	1,159 MT	-20%	57%	$2.56	-23%	$2.21/Kg
China	300 MT	-42%	15%	$.71	-43%	$2.36/Kg
Italy	94 MT	-32%	5%	$.24	-31%	$2.50/Kg
Slovakia	88 MT	?	4%	$.21	?	$2.35/Kg
Uzbekistan	84 MT	44%	4%	$.18	47%	$2.20/Kg
Lithuania	57 MT	-2%	3%	$.15	-5%	$2.58/Kg
Poland	50 MT	-11%	2%	$.13	-13%	$2.58/Kg
Viet Nam	50 MT	0%	2%	$.10	0%	$2.00/Kg

Georgia ranks fifth as an origin supplier of dried or fresh in-shell hazelnuts, but is fairly consistently reducing its exports with a three-year CAGR of -29% and a -4% CAGR over a five-year period, with the exception of the 2010 season. Export markets are dominated by Iraq, which holds a 57% share in Georgia's exports. Europe remains the value market for exports, with prices averaging $2.54/kg versus $2.00/kg for exports to Vietnam. However, all markets, except for Uzbekistan, are showing reducing volumes and values. A greater portion of fresh hazelnuts are going to processing rather than being exported in-shell. This trend is projected to continue as Georgian exporters seek greater value-added markets, while foregoing potentially lower processing-cost markets.

Figure 7. Georgia Total Hazelnut Production Vs. Total Export Volumes for HTS 080221 and HTS 080222



Georgian hazelnut production through 2011 exceeded 31,000 MT, a growth rate of 5% over a six-year period and a 13% CAGR over a three-year period. The percentage of exports to production was 51% in 2006, which has now increased to 70% in 2011.

The region of Samegrelo & Zemo Svaneti remains the leading region for the production of hazelnuts with 15,800 MT in 2011, a 3% CAGR over a six-year period. Imereti produced 4,800 MT in 2011, with a 7% CAGR. Guria produced 6,800 MT, with a 3% CAGR. The other regions have experienced the greatest growth rate at 22% and produced 3,700 metric tons in 2011.

Georgia's production and exports continue to grow with positive trends over the last six years and are projected to continue on this course at an accelerated rate with improved production, drying and storage processes. The 2013 season may, however, take a step back in production volumes, as the hazelnut plants in the Samegrelo & Zemo Svaneti region suffered significant wind damage.

TARGET MARKETS

HTS 080222 DRIED AND SHELLED HAZELNUTS

Any market is of potential interest, provided it offers the opportunity for increased business at a profitable level. The targeted markets represent immediate opportunities for Georgia to increase their sales; either through increased volumes and/or values. Focusing on these identified markets will further the potential for success. Georgia's sales are distributed fairly evenly through a variety of markets and, therefore, overall value improvement will bring increased rewards across the entire spectrum of sales. Certainly increased volumes are of interest and should be supported, but in the near term, increased values are where Georgian exporters will find success.

Production of hazelnuts in Georgia accounts for 5.8% of the global export market and is ranked third in 2012 in terms of global exporters. While Georgia is an established global supplier, moving up inceased values will require a significant effort to improve quality and packing and to differentiate Georgian hazelnuts in export markets through an aggressive promotional campaign.

While Germany remains the worlds largest buyer of hazelnuts and is a critical market that should be pursued, it is important to note that it is reducing its imports of hazelnuts, indicating a five-Year CAGR of -4%. Due to the global financial crisis, many markets indicate reduced growth rates over three-year and five-year periods. For that reason, this analysis leaves open the opportunities in those markets based on competitive pricing from Georgia that may still allow for the potential to capture market share. In addition, due to Georgia's diversification in its distribution, the analysis covers key growth markets in each global region.

Table 3. Hazelnut World Trade Data

Strategic Crop	Region	Target Country Import Volumes & Growth (K Tons; %)	Georgia and Main Competitors: Market Share, CIF ($/ Ton)	Market Entry Success Factors	Comments
Hazelnuts	**CIS**	Russia (13,020 MT, 5%)	▸ Georgia (3%,$1668) ▸ Azerbaijan (65%, $4284) ▸ Turkey (32%,$6420)	▸ Russian Market opens to Georgian Imports ▸ Improved Packaging and Standards	▸ While Kazakhstan's imports are classified as HTS080222, it is evident from pricing, that it should be HTS080221
		Ukraine 2011 Data (2410 MT, 9%)	▸ Georgia (47%, $3851) ▸ Turkey (53%,$7591) ▸ Germany (0%, $16,000)	▸ Increased market promotion emphasizing value and health ▸ Improved Quality and Standards	
		Kazakhstan (1612 MT, 42%)	▸ Georgia (81%, $2731) ▸ China (10%, $1274) ▸ Turkey (6%, $2108)	▸ Work with importers to deliver higher value dried and shelled Hazelnuts. ▸ Promotion. Emphasis on value and health benefits	

Strategic Crop	Region	Target Country Import Volumes & Growth (K Tons; %)	Georgia and Main Competitors: Market Share, CIF ($/ Ton)	Market Entry Success Factors	Comments
Hazelnuts	**EU (152,546 MT)**	Germany (51,735 MT, -9%)	▸ Georgia (3%, $6801) ▸ Turkey (74%, $7210) ▸ Italy (10%, $7243)	▸ Market Promotion for importer and consumer awareness ▸ Improved Standards and Packaging ▸ May consider warehousing inventory in-country.	▸ While Germany, France and Italy are all declining in volumes over a 3 Year CAGR, they represent the largest block of imports within the European Union. Smaller markets are indicating significant growth rates and do warrant increased attention to offset the re-selling of the big three.
		Italy (26,516 MT, -5%)	▸ Georgia (10%, $6721) ▸ Turkey (86%, $7359) ▸ Azerbaijan (0%, $6527)	▸ Georgia seen as low quality supplier to the premium Italian market. ▸ Improve Awareness and Value ▸ Improve Packaging and Standards	
		France (19,873 MT, -2%)	▸ Georgia (5%, $2914) ▸ Turkey (73%, $7569) ▸ Italy (13%, $7863)	▸ Georgia's price would indicate a low quality or in-shell product. ▸ Improve Awareness and Value ▸ Improve Packaging and Standards	
		Belgium (11,566 MT, 5%)	▸ Georgia (7%, $7932) ▸ Turkey (42%, $6708) ▸ France(16%, $7462)	▸ Georgia has the highest price in Belgian market. Examine process to see where competitiveness may be improved. ▸ Improve Awareness and Value ▸ Identify Partners in Chocolate industry to enhance profile	

Strategic Crop	Region	Target Country Import Volumes & Growth (K Tons; %)	Georgia and Main Competitors: Market Share, CIF ($/ Ton)	Market Entry Success Factors	Comments
Hazelnuts	**EU & Swiss**	Switzerland (8,751 MT, -3%)	▸ Georgia (1%, $8218) ▸ Turkey (81%, $7544) ▸ Italy (15%, $7510)	▸ Georgia has the highest price in Swiss market. Examine process to see where competitiveness may be improved. ▸ Improve Awareness and Value ▸ Identify Partners in Chocolate industry to enhance profile	▸ All European Destination Shipments that transit Turkey risk being held-up due to the Turkish competition in the Hazelnut industry. Identify logistics hub that could be serviced with liner service from Batumi
		Austria (3,365 MT, 5%)	▸ Georgia (0%, $0) ▸ Germany (21%, $7421) ▸ Turkey(54%, $6104)	▸ Awareness and Market Promotion ▸ Improved Standards and Packaging	
		Czech Republic (2,307 MT, 5%)	▸ Georgia (50%, $5836) ▸ Germany (20%, $6102) ▸ Turkey(10%, $5145)	▸ Turkey has lowered their prices in attempt to buy market share. ▸ Germany is delivering product in smaller orders on as needed basis ▸ Improve Awareness and Value ▸ Improve Packaging and Standards	

Strategic Crop	Region	Target Country Import Volumes & Growth (K Tons; %)	Georgia and Main Competitors: Market Share, CIF ($/ Ton)	Market Entry Success Factors	Comments
Hazelnuts	MENA	Iraq (2167 MT, 0%)	Georgia (17%, $6576) Turkey (83%, $5934) Azerbaijan (0%, 0)	Georgia is increasing market share at 17% CAGR. Identify improved logistics options to increase competitiveness Increase Awareness and Value	Iraq also imports 1,370 MT of HTS080221 Egypt also imports 1,520 MT of HTS080221 Asian imports are based on HTS 080221
		Egypt (1809 MT, -71%	Georgia (2%, $7393) Turkey (94%, $7310) USA (1%, $7400)	Increase Awareness and Value Build relationships with importers Work on contracted logistics spread over 12 month deliveries to reduce container prices.	
	ASIA	Hong Kong (18,190 MT, 0%)	Georgia (0%, $2467) USA (95%, $3253) Turkey (2%, $ $3602)	A low value-market. Focus in moving buyers up the value-chain to the higher quality dried shelled product Improve Awareness, Value proposition and health benefits Packaging and Standards	
		Viet Nam (17,111 MT, 10%)	Georgia (0%,$2440) Hong Kong (61%, $2678) USA (34%, $3201)	A low value-market. Focus in moving buyers up the value-chain to the higher quality dried shelled product Improve Awareness, Value proposition and health benefits Packaging and Standards	

Strategic Crop	Region	Target Country Import Volumes & Growth (K Tons; %)	Georgia and Main Competitors: Market Share, CIF ($/ Ton)	Market Entry Success Factors	Comments
Hazelnuts	**America**	USA (3,405 MT, 1%)	▸ Georgia (0%,$0) ▸ Turkey (98%,$6292) ▸ China (1%, $4750)	▸ Awareness. US companies are not familiar with Georgian Hazelnuts. ▸ Packaging and Standards	▸ US and Canadian Importers have expressed interest in Georgian Hazelnuts ▸ Brazil offers growth and value. ▸ Mexican market is small but growing fast. Time to establish a position in the market is now.
		Canada (11,780 MT, 11%)	▸ Georgia (0%, $7194) ▸ Turkey (94%, $8015) ▸ USA (3%, $8265)	▸ Awareness. Canadian companies do not have sufficient information on Georgian Hazelnuts. ▸ Packaging and Standards	
		Brazil (2836 MT, 5%)	▸ Georgia (0%,$0) ▸ Turkey (86%, $7906) ▸ Spain (11%, $7448)	▸ Awareness ▸ Packaging and Standards	
		Mexico (360 MT, 42%)	▸ Georgia (0%, $0) ▸ Turkey(54% $6672) ▸ Spain (24%, $6671)	▸ Awareness ▸ Packaging, Standards and Availability	

SUPPLY CHAIN FINDINGS

PRODUCTION

Production of Hazelnuts in Georgia has only begun to transition to more modern growing techniques in the last few years with significant support from USAID EPI, in partnership with Ferrero, with the creation of 17 farmer groups (the prelude to associations and/or cooperatives) as key leverage points to addressing production constraints. There are approximately 40,000 growers of hazelnuts with farm sizes ranging from half a hectare (80% of producers) to 200-300 hectares (20% of producers), spread predominately in four growing regions: Imereti, Samegrelo & Zemo Svaneti and Guria and Kakheti.

In interviews with the various farmer groups, growers were exceptionally appreciative and satisfied with improved yields and quality. The consultant participated in a field training seminar with more than 120 farmers, where methods on fertilization application timing and rates were being taught in the appropriate stage of spring following the first bloom. Future trainings will address harvesting times and processes as two of the key constraints to quality which have been identified. There also appears to be a mindset constraint in that farmers do not consider hazelnut farming as a business while it remains as one of the primary sources of income. One request of the farmers is the need for farm equipment such as sprayers, pruning equipment, and small tractors.

A special note: Georgian Hazelnuts do not have any Aflatoxin issues and the laboratories in Georgia are accredited and have modern testing equipment.

POST HARVEST HANDLING

Perhaps the most crictical stage in the marketing process for hazelnuts in Georgia is post-harvest handling. While farming processes are improving, the post-harvest handling methods will require greater attention and investment in equipment and facilities.

Various factors affecting farmers include the following:

1. Farmers are harvesting early with high moisture content;
2. Many farmers cannot harvest quickly enough;
3. Farmers put hazelnuts in bags, still in husk, increasing moisture content and contributing to mold development;
4. Farmers have insufficient and effective drying capabilities; and
5. Farmers have insufficient and inadequate storage facilities, further contributing to mold development.

The above are not prevalent and applicable to all farmers; however, they have been identified as generalizations that need to be addressed. USAID EPI's current work plan and coordination with Ferrero includes working with 29 farmer groups to assist them in remedying these challenges.

Another identified constaint in the post-harvesting process is the involvement of consolidators. These consolidators have historically served as the conduit between farmers and processors. With 40,000 small farmers, some of whom only have 100-200 kg in production, it simply has not been affordable for processors and packers to deal with each grower or for the growers to be able to deliver to the processors. The consolidators handle the collection and payment to the growers. Some of the contraints applied to consolidators include:

1. Mishandling of hazelnuts;
2. Improper and inadequent storage;
3. Lack of quality segregation, i.e., same payment to growers that have invested in improved production as to those who have not; and
4. Control over which processor gets what hazelnuts.

While these constraints are not applicable to all consolidators, and they do serve an obvious purpose, the margins being earned by the consolidators, identified as $0.12-$0.15/kg, are creating an increased lack of competitiveness and reducing the profit potentials for farmers, processors and packers. EPI is preparing to address this constraint by working with the 29 farmer groups to improve their drying, storage and consolidation and to create an auction process for the sale of their combined and quality segregated production directly to the processors and packers.

The auction process will create a more transparent and quality-driven market, which will open the doors to an immediate increase in profitability to farmers, processor and packers and a better quality product available for export. The primary constraint in this process is the reliance on the processors and packers to obtain improved export pricing from foreign buyers for higher quality products.

PROCESSING & PACKING

There is a wide disparity in the marketing process between processors and packers based on their business profiles, business approaches, equipment, market offerings and export markets. In general, many of the processors and packers are in business primarily during the hazelnut season to deliver to their established clients. Once the season is over, they close the doors until the next season.

Some are committed to the business on a year-round basis and continue to purchase and process hazelnuts on an as-needed basis from farmers and/or consolidators, who have stored the product. These processors and packers have added roasting, chopping, meal and powder to their product lines in order to offer additional value-added processing to their sales.

Some of the primary marketing constaints identified in discussions with processors and packers included:

1. High moisture and mold counts in hazelnuts delivered to processor and packers. High mold counts are also one of the primary reasons for discounted pricing by foreign buyers;
2. Access to finance issues in purchasing of hazelnuts from farmers and/or consolidators;
3. Lack of modern processing and packing equipement and packaging, laser sorting, metal detection, etc., to be able to meet buyer requirements;

4. Lack of contacts with higher-quality buyers and end-users;
5. Lack of Hazard Analysis and Critical Control Points (HACCP) and other market requirement standards;
6. High import market brokers fees – average $0.10/kg up to $0.12 – $0.15/kg in Spain and Italy;
7. Lack of Georgian hazelnut promotion and awareness in foreign markets; and
8. Lack of business skills to more effectively run their businesses.

While not all processors and packers are facing the same constraints, in order to increase the market opportunities for the industry, all the companies need to come together to unify the marketing position of Georgian hazelnuts. Georgian hazelnut processors and packers are not each others' competition. While Georgia is currently the third leading global supplier of hazelnuts, the country only accounts for 5.58% of global trade. Georgian companies need to recognize that Turkey is their primary competitor and that they will only succeed with overall increased values if they work together.

LOGISTICS

With in the marketing supply chain, logistics also provides a series of contraints. While the basic issues of logistics begin at the small farmer level, USAID EPI is currently working to address this challenge through joint drying, storage, auction and delivery to processor and packers and even directly to the international market, when applicable.

The international intermodal transport network out of Georgia faces a series of constraints that are hindering Georgia's competitiveness, including the following.

1. Container rates for shipments as close as Italy take up to two months and cost more than $2,000/container for a 40 foot container of 22 MT. A container to the UK cost $5,000.
2. Truck rates to central Europe average from $3,500 to $4,500 for 22 MT and takes 10 days to two weeks for delivery.

While, the hazelnut industry will not successfully alter shipping patterns of ships calling Georgian ports, it can be a point of leverage to unite the exporters community to lobby for direct liner service if it can increase and coordinate export shipments at least during high volume periods such as in the 4th quarter.

Another concept may be to create a logistics hub in Europe whereby all 4th quarter exports may be coordinated for delivery. In that case, a designated vessel may be chartered to run a liner service for mandarins, hazelnuts and other products.

Precedence for this opportunity may be found with Israel's Agrexco. Israel's Agrexco had two custom-built refer vessels that account for 65% of the compay's export transportation

Key Facts on the Vessels and the Distribution Strategy:

Overview:

- Agrexco has two specialized reefer vessels bearings its name, delivered in 2003. They have a 15-year operating contract with the owner.

- The ships feature new technologies that allow flexibility in capacity usage. Cars and dry boxes may also be loaded into the refrigerated area, providing an important asset for additional freight and back-haulage.
- During peak seasons, Agrexco charters two additional vessels, along with support ventilated liners.

Economics:

- Average speed is 22 knots, almost twice as fast as any other reefer vessel.
- Vessel capacity is 880 twenty-foot equivalent units (TEUs) (approximately 60,000 MT).
- Return usage consists of cars back to Israel (for Israeli and Asian markets).

Routes and markets served:

- Agrexco products set sail from Haifa and Ashdod towards Europe (Marseilles and Valencia).
  - From Ashdod (loading port) to Marseilles, ships usually take three days.
  - 80% of the produces goes to the company's distribution center in Marseilles.
  - At Marseilles, new containers and cares are loaded into the vessel, with two-day shifts for cargo loading.
  - The ship heads to Valencia, takes on additional cargo, and after 14 days from departure, the ships arrives back in Ashdod.

Time and capacity management:

- The 14-day timetable is composed so that there is time to make up if delays occur due to bad weather. Ships can be loaded at night, which is increasingly beneficial in terms of fuel, demurrage, and other additional costs.
- Agrexco also charters to third party companies (round-trip contracts).

D. RECOMMENDATIONS

Production at the farm level and organization of the farmers into farmer groups is an on-going activity for USAID EPI, in coordination with Ferrero. Utlizing this leverage point, work should continue and include:

1. Improving farm-level productivity and quality;
2. Working with nurseries for improved seedlings and planting material;
3. Accessing finance for the procurement of inputs, farm implements and machinery, drying equipment and proper storage;
4. Management support to farmer groups, focusing on:
    a. Support to targeted farmer groups in developing long-term strategies;
    b. Business planning and budgeting for growth;
    c. Organizational structure; and
    d. Exposure of management staff to EU and/or U.S. farmer groups, cooperatives and associations, including structures and roles.
5. Continuing support to post-harvest handling trainings;
6. Assuring continued and affordable access to laboratories for analyzing pesticide residue and aflotoxin levels; and
7. Assuring access to standards bodies that can assist with organic certification, GlobalGAP, and HACCP.

The current structure of the hazelnut marketing supply chain relies on processor and packers to serve as the primary linkages with export markets. While farmers may increase their yields and production quality, they will not benefit from increased values until the export market is willing to pay more for Georgian hazelnuts. Support to the processor/packers will be paramount to achieving those higher values.

While there is a vast difference in the quality of processor/packers, the abilities, and capabilities, they will not make the required changes and upgrades to their processes and facilities until such time as they have buyers interested in procuring Georgian hazelnuts at higher prices. Therein lies the circle of the supply chain. Without improved quality, higher prices may not be attained. Without higher prices, farmers and processors will not readily implement the required changes and upgrades to deliver higher quality.

Market awareness, education and promotion are the key drivers to overcoming the circling quandary. The new farmer groups, processors and packers have no marketing skills. This constraint will require assistance to help them to link more effectively and directly with each other and the export market. Specific activities should include:

a. Developing systems to improve seller-buyer contract arrangements. This may entail the process of initiating an auction of farmer groups' hazelnuts;
b. Delivering contract negotiation and sales training for processors,packers and farmer

groups;

c. Developing systems to train farmers, processors and packers in market research, such as with the use of ITC Trade Map, as well as disseminating agribusiness magazines, newsletters, and brochures to each and their members to assist with market knowledge, news and trends;

d. Promoting sales delegation trips and exhibitions at international trade fairs, such as Anuga, SIAL Paris, Food Ingredients Europe (FIE), and World Nut & Dried Fruit Congress; and

e. Assisting processor, packers and farmer groups with the development of promotional marketing materials on products and quality. These materials should take the form of websites, Facebook pages, Linked-in and other vehicles for promoting their quality. These mechanisms should be in the languages of the target markets that they wish to penetrate.

A plan for sustainably improving market access includes seven steps:

1. Institutionalizing producer training and education in market research, sales, marketing and negotiation. This must be accomplished so as to have an ever evolving and increasing depth of educated capabilities entering the work force;
2. Ensuring that agribusiness information reaches Georgian producers and that information on the sector reaches buyers;
3. Organizing Hazelnut Exporters Association, which will:
    a. Promote hazelnut products from Georgia;
    b. Organize themselves to participate in targeted trade fairs;
    c. Develop quality control standards; and
    d. Operate sector-specific websites and social media
4. Through USAID EPI, providing assistance in training, definition of organizational structure and development of member services;
5. Launching a “Buy Georgia” campaign and mark of quality, taking into consideration that:
    a. Standards for product development, quality, service, and cost must match international standards or Georgian consumers will simply buy foreign products; and
    b. With the trade liberalization policies enacted in Georgia, the value of Georgian agricultural production, quality, culture and history is being lost. For Georgian exports to thrive the changes required of farmers, processor/packers must be enhanced by the positive role they play in Georgian society and culture.
6. Improving the effectiveness, volume, and reach of government support for international fairs and other promotions. Government marketing and promotion

programs can be provide a catalyst for new exporters and small producers to develop new markets. This support is critical in Georgia because so many producers lack the skills, knowledge and funds to get started on their own. It has also proven to be sustainable, with producers receiving one to three years of support, during which they gain the experience and resources to make it on their own**.**

a. USAID EPI shoud provide hands-on support, training and mentoring to government, exporter group and company marketing staff and to selected marketing service providers to ensure that they master events planning, web and print promotion, media buying, and public relations;

b. Utilization of the Trade Show Handbook should be used as the primary training and planning vehicle; and.

c. Once fairs are selected and companies agree upon participation, USAID EPI should perform a series of workshops in preparation for exihibiting at fairs. Topics should include:

    i. Marketing & Sales;

    ii. Package & Design;

    iii. Negotiation;

    iv. Fair Budgeting; and

    v. Media & Communications.

7. Training firms to strengthen overall business skills. One of the constraints identified by Marketing Supply Chain Analyses for the hazelnut sector are business skills. The skills gap as recognized also through direct interactions with businesses and associations must be overcome for sustainable competitiveness to flourish.

USAID EPI should arrange a series of business courses for companies and farmer groups. The first year program should identify two people from 10 processors and packers and two from each of the 29 farmer groups, for a total of 78 participants.

USAID EPI should identify three local private business schools or training centers that are able to provide the courses desired:

- Business Plans (marketing, operations, and finance)
- Professional Selling Skills
- Negotiation Training
- Trade Marketing
- Design and Packaging
- Market Analysis
- Public Relations and Integrated Marketing Communications

Each course should be offered on a two to three day basis and all seven courses must be completed between January 1, 2014 and August 1, 2014.

USAID EPI should offer processors, packers and farmer groups a grant up to 50% reimbursable at the completion of the final course and submission of each course's graduation certificate. This facilitates their participation and ensures their attention to learning.

EXPORT PROMOTION PLAN

2 YEAR IMPLEMENTATION PLAN

80-Days to Market

To achieve the goals of increased exports, new markets and higher values, certain objectives must be met.

A. Consolidation and/or creation of Georgia's export promotion capacities

1. Consolidation and/or creation of the current export promotion capacities aims at coordinating and institutionalizing prevailing efforts of all the industry stakeholders, both from the private and public sector, within a proper sector governance framework.
2. Initiation of activities to mobilize export promotion:
    a. Prepare agenda to kick-start export promotion drive;
    b. Call meeting with key stakeholders (Ministry of Trade and Sustainable Development Ministry of Agriculture, farmer groups and processors/packers) to review export performance and discuss strategic objectives;
    c. Create a steering committee to monitor the progress of export promotion drive and elect chairman;
    d. Secure initial funding to start outlining export promotion governance; and
    e. Appoint dedicated staff to support steering committee.
3. Action Items
    a. Market Intelligence:
        i. Identify target markets and hazelnut products with the greatest likelihood of increased sales and values. This stage is already in progress and included in this report.
        ii. Determine importers, distributors, wholsesalers, retailers standards, and market requirements. Additional data on contacts may be found in the appendix.
    b. Packaging
        i. Analyze current hazelnut packaging and how best to achieve increased quality and requirements that best promote the positive attributes of Georgian hazelnuts
    c. Trainings – as listed above

d. Media

i. Engage international and target market local media with news on Georgian hazelnuts, events, news and promotional campaigns

ii. Engage local Georgian media to promote the high value of hazelnuts to the Georgian economy, including an on-going series of articles and local promotions to better enage GoG and citizens for sector and export promotion support

e. Trade Fairs – as listed above

f. Communications

i. Launch Georgian Hazelnuts website and social media.Groups come together to form associations and/or cooperatives when they have a common goal or mission. These bodies cannot be sustainably created without some form of bonding and leadership. The creation of a website where all companies are listed with their particular information is an outstanding catalyst to enhancing a common cause and direction. Building an association around a website where all participants are able to see value in being a part of something, will facilitate the development of leadership and organizational sustainability.

g. Trade Representation

i. Identify trade offices in target markets

ii. Provide trainings trade attaches on Georgian hazelnuts and their special values

h. Promote Unique Selling Propositions of Georgian Hazelnuts

i. Georgian hazelnuts are highest in good fats

ii. Georgian hazelnuts are the highest in proanthocyanidins

iii. Georgian hazelnuts are on average larger than competitors

iv. Georgian hazelnuts support small family farms

v. Georgian hazelnuts are free of aflatoxins

vi. Georgian hazelnuts are the best tasting hazelnut

B. Brand Georgia as a Premium Quality Exporter

1. Targeted branding of Georgian hazelnuts enables access to international markets. However, sustainability of such initiatives requires industry-wide efforts to put greater emphasis on the quality of industry supply chain and export quality control.

2. Launch an international Georgian hazelnut branding initiative:

i. Develop a request for proposals for the creation of an Georgian hazelnut brand
ii. Solicit bids from a minimum of three competent agencies. Consider creating a branding competition
iii. Review of bids and competencies by component lead and communications team, with submission to a stakeholders steering committee
iv. Develop, execute and disseminate communications plan to members and exporters community at large (e.g., ensuring awareness, logo availability, etc.)
v. Link brand to Georgian quality through media campaign and labeling supported by independent monitoring control from a Georgian quality control agency or quality auditing body

C. Improve Georgia's Access to International Markets

1. Access to international markets should be further facilitated through closer collaboration on trade agreements, sea and truck transport capacities and the establishment of international distribution offices in key export markets.

E. ADDITIONAL INFORMATION

INTERVIEWS

Point of Contact	Organization Name
Merab Ardzenadze	Georgia Industrial Asset Management Group
Manuchar Grigolashvili	Sherato Batumi Procurement Director
Zaur Phutkaradze	Minister of Agriculture-Adjara
Rezo Ormotsadze	USAID EPI Project COTR
Tina Mendelson	EPI COP
Konstantine Kobakhidze	EPI Ag Component Leader
Temur Chelidze	EPI Ag. Component Deputy Leader
Giorgi Iakobashvili	EPI Agribusiness Advisor
Aleks Antoniuk	EPI Hazelnut Value Chain Manager
Guram Memarne	EPI Mandarin Value Chain Manager
Giorgi Akhalaia	EPI Marketing & Sales Component
Natalia Beriuashvili	EPI BEE Component
Pavle Mgeladze	Head of Policy and Analytical Department – Ministry of Agriculture
Alexander Kharlamov	Gebruder Weiss
Levan Nebieridze	Vengo Transportation Company
Giorgi Gorgisheli	Legi Group
Gary Lazor	Deloitte Consulting
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Giorgi Kacharava	Iceberg Tbilisi
George Jakhutashvili	Georgian Fruit and Vegetable Export Co
Jener Belkania	Agroexport Georgia
Merab Chitnava	AgriGeorgia
	Ltd Agroservis

	Ltd Skalta
	Ltd Georgian Mandarin
	Ltd Fruitilia
	Ltd AgriExport
	SubTropic Association
	AgroServis Center
	Village Legva
	Hutsubani Community
	Farm Group Gocha Meskhi
	Farm Group Kulilishari
	Naturale
	Ltd Tomka
	GNIA
	Chamber of Commerce

RESOURCES

Food and Agriculture Organization
United States Department of Agriculture
Foreign Agriculture Service
National Agriculture Statistics Service
Agricultural Marketing Resource Center
Economic Research Service
GeoStat
Fruit-Inform
Centre for Promotion of Imports from Development Countries
UNCOMTRADE
ITC Trade Map
Florida Department of Citrus
Cornell University
Turkish Fresh Citrus Promotion Group
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CropLife Foundation

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