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VISION AND ACTION PLAN TO DEVELOP THE GEORGIAN HAZELNUT SECTOR

PART III: A BRIEF IMPLEMENTATION PLAN TO ACHIEVE A
PROPOSED INDUSTRY STANDARD

19 September 2014

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ACHIEVING THE PROPOSED INDUSTRY STANDARD**

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ACRONYMS

AACREA	Argentina Association of Regional Consortia for Agricultural Experimentation
AGG	Agri-Georgia
EPI	Economic Prosperity Initiative
GHGA	Georgian Hazelnut Growers Association
HEPA	Hazelnut Processors and Exporters Association
NGO	Non-Governmental Organization
SMS	Short Messaging Service
USAID	United States Agency for International Development

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I. INTRODUCTION AND BACKGROUND

All hazelnut industry participants recognize Post-Harvest Handling as a major factor in the quality degradation of the Georgian crop. Early in the season, the yields tend to be in the low 40's and the quality is better, but as the first blush of harvest fades, so does the quality.

Earlier this year, both HEPA and GHGA expressed interest in working together to find a way to address the quality problem faced by their respective memberships. In June 2014, on behalf of the associations, EPI hired a consultant in June to examine the main drivers behind poor quality and to develop a standard for the industry (See "Quality, the "Wild, Wild West," and the Road Ahead," by Thomas C. Beck).

The consultant found that growers were incentivized to preserve weight at the expense of quality. Current payments based solely on weight provide a disincentive for growers to dry nuts and employ proper post harvest handling techniques. As a hazelnut dries, the nut becomes lighter. Since the grower is paid on weight, irrespective of yield, moisture content, or quality, a kilogram actually becomes less valuable to the grower as it is dried and cared for properly. On the other side of the transaction, processors recognize that well cared for hazelnut stock, properly dried, is more valuable than heavier, wet, poorly cared for, product. Yields are higher and less total tonnage is required to fill orders when nuts are cared for properly and of good quality.

Regardless, current pricing and buying behaviors encourage poor quality, providing disincentives for proper treatment of stock. The consultant recommended that to promote quality in the near term, HEPA and GHGA jointly determine, agree, support, and implement a transparent pricing system reflecting the value of quality.

On June 26, 2014, and again July 5, 2014, GHGA and HEPA leadership met to discuss how best to address the inherent quality problems and the development of such a quality pricing incentive system.

At the July 5, 2014 meeting possible premium systems, based on quality, were discussed in detail. One concept discussed, with a number of variants, was based on providing a premium over a predetermined yield and moisture metric. Another concept, with variants, was based on discounting the Turkish market price to reflect Georgian stock's moisture content and expected yield.

Both parties expressed verbal agreement on the feasibility of such an approach at the July 5, 2014 meeting, but no formal policy was adopted at that time. The meeting participants indicated that the premium pricing system should be a matrix chart calculating the value of a kilogram of in-shell hazelnut at each percentage of moisture and each yield percentage. Such a matrix is known of by, and in circulation among, the processors.

The July 5, 2014 meeting concluded with suggestions of how such an agreement would work in principle and how to promote the agreement to the market. The group concluded the meeting, committing to come together again later in July to formalize the agreement.

The follow up meeting did not transpire. The harvest began early. Seasonal and business requirements took priority over bringing together the leadership of the two associations to finalize the discussions. However, informal conversations with personnel and leadership of both associations during August and September indicate there is still interest in reaching such a pricing agreement.

II. IMPLEMENTATION & MONITORING PLAN

After the frenetic pace of the harvest season has passed, both GHGA and HEPA should reconvene on the quality price incentive issue. A joint leadership meeting should be held October 10, 2014. At that meeting, a three-person team should be made responsible for developing the yield/moisture premium matrix discussed at the July 5, 2014 meeting. Before adjourning, the next meeting should be scheduled for two weeks later, October 24, 2014.

Prior to October 24, 2014, the three-person team will submit to GHGA and HEPA leadership the “quality matrix” and their recommendation for determining the daily price for calculating the matrix. Two weeks will be more than adequate as the yield/moisture model already exists in the industry, and at least some processors use such a grid.

On October 24, 2014 the quality matrix and pricing recommendation should be formally presented and discussed at the joint meeting. The group must then decide on the premium calculation method and agree to formally adopt the system on November 7, 2014.

Both HEPA and GHGA will then circulate the tentative agreement to the broader membership prior to the November 7, 2014 meeting. Barring any unforeseen objection or changes from the members, on November 7, 2014, HEPA and GHGA leadership will meet again to formally adopt the pricing system. A press conference will be scheduled, and the associations will jointly announce the new system.

Promotion methods suggested by processors and growers at the July 5, 2014 included posting the information on websites, communicating via SMS as well as using local media outlets. The new system should go into effect for the 2015 season. The pricing system should be promoted again heavily prior to the start of the 2015 season.

To support the growers and provide them critical information, drying centers must provide growers with post drying moisture content and yield data. Drying center testing and accuracy will be checked periodically and verified by trained post harvest handling laboratory experts sponsored by GHGA.

HEPA and GHGA should post the daily yield/moisture matrix on their respective websites, and update the posting daily. Further, the matrix should be posted daily at the factories. Processors will apply the pricing matrix to any GHGA member presenting 50 kilograms or more. Less than 50 kg will not be eligible for the premium pricing system. Lots will be tested for moisture and yield content by the factory or by the factory’s representative. The price paid will be the price indicated on the daily yield/moisture matrix posted at the factory. The price will be transparent, and determined on the basis of the moisture content and the yield of the stock.

Daily, HEPA processors will report to HEPA and GHGA the tonnage purchased and prices paid. Such reporting will allow the associations to monitor the system, providing important data on crop quality levels. Violations or noncompliance with the pricing scheme will be reported to both HEPA and GHGA. Disputes and violations will be made public via web and SMS posting.

III. FOLLOW-ON EFFORTS

Formally adopting the “quality pricing matrix” will provide economic benefit to both growers and processors, focusing them on key elements of quality instead of being solely focused on weight. The incentive will be a catalyst for increased grower interest in improving quality, which will in turn drive industry infrastructure development. Rapid husking, localized drying, storage facilities, all will be sought as growers strive to raise returns by lowering moisture levels and increasing yields. Thus the “quality price matrix” will be an important step in driving changes to the supporting infrastructure.

The associations must not stop at this point in the process. The transparent pricing system is simply the beginning of the long march towards higher quality levels.

Going forward GHGA should continue to educate, encourage and promote uniform and proper post harvest handling methods tailored to Georgia’s environment. GHGA should adopt a formal Post-Harvest Handling Policy reflecting these methods. The policy should in turn be supported by HEPA.

GHGA and HEPA should also endorse a clear definition stating exactly what the Georgian growers should produce. The definition will determine, and become the standard product exchanged at this first step in the value chain.

The Quality Pricing Matrix, The Post Harvest Handling Policy, and the Georgian Growers Standard Product Definition can all be established now, or within the year, and implemented over the next several years. These policies must be mirrored by parallel necessary industry developments. Huskers, drying centers, storage centers, jute bags, and other supporting infrastructure must be encouraged. The two associations will play a large supporting and contributing role in effecting the developments required to improve quality.

Over time behaviors will change and fundamentally alter what farmers produce. Growers will come to understand proper post harvesting handling practices, and the value of following them. The growers will no longer produce wet, improperly dried hazelnuts, which then change hands multiple times on the way to factory drying facilities, resulting in low quality. Instead the nuts will be carefully cared for and dried to six percent in accordance with the Post Harvest Handling Policy and Standard Product Definition. The then stable product will be sold or stored as market prices and growers dictate. Together the near term changes in pricing, policy, education, and infrastructure backed by active associations will allow the long-term realization of the broader industry vision laid out in Part I of this report.

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