CTJ ASSESSMENT SERIES - PART 1:
END MARKET ANALYSIS FOR SELECTED MARKETS FOR CENTRAL ASIAN FRESH AND DRIED FRUIT PRODUCTS

August, 2017
ABOUT THE ACTIVITY

USAID Competitiveness, Trade, and Jobs in Central Asia activity aims to facilitate exports and employment in horticulture and strengthen transport and logistics services across the five Central Asian economies. By incentivizing firms to become more regionally competitive and by addressing cross-border impediments to trade, USAID helps to develop a more diverse and competitive private sector and generate export-driven growth.

Five-Year Project: October 2016 to September 2021
Goals: Expand regional trade and employment in the horticulture, transport and logistics sectors in Central Asia
Approach: Market Systems Development – facilitating market actors to implement activities and achieve goals

The views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.
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I. INTRODUCTION

BACKGROUND AND OBJECTIVES

USAID Competitiveness, Trade, and Jobs in Central Asia (CTJ) activity is a five-year (2016 – 2021) project aimed at increasing the competitiveness of the economies of Central Asia in order to expand trade within the region and to markets beyond and to create jobs. The CTJ project is conducting an assessment to examine the competitiveness of its targeted sectors in order to prioritize project interventions and focus on those having the greatest impact. Every demand-led assessment starts with the end market. This end market analysis is the first step of the broader assessment and focuses on the requirements of key end markets for fresh and dried fruit from Uzbekistan, Tajikistan and Kazakhstan. Specifically, the analysis identifies the critical success factors as defined by international buyers and assesses the competitive position of products from Central Asia in these markets.

The study provides a framework for the CTJ team to be used in identifying, organizing and prioritizing the key value chain constraints and potential project interventions as part of forthcoming assessments. The analysis points to areas of improvement needed to meet the key market requirements, while an in-depth analysis of value chain constraints is the focus of a separate assessment.

STUDY FOCUS AND LIMITATIONS

This analysis focuses on the selected top five (in terms of export value) most common fruit export products from Uzbekistan and Tajikistan. Kazakhstan is not a significant producer of fruit and imports fruit from Uzbekistan and other countries in the region for both local consumption and re-exports. The study takes a product-level view defined at the 6-digit level of the Harmonized System (HS) of tariffs and focuses on the following products within the “edible fruit and nuts” category (HS code 08).

- Fresh grapes (HS code: 080610)
- Fresh apricots (HS code: 080910)
- Fresh cherries (HS code: 080929)
- Dried grapes (HS code: 080620)
- Dried apricots (HS code 081310)

This study does not cover processed (preserved, canned, juiced) and frozen products. In Uzbekistan and Tajikistan only approximately 20% of fruit harvest is processed and sold primarily in local markets. Most fruit is exported either fresh or dried.

Mirror trade data from the Global Trade Atlas database\(^1\) are used. Unless otherwise noted, the 2016 data are used throughout the report. Where 2016 data are not available or not complete, the 2015 data are used. The analysis focuses on the current key markets - Germany, Latvia, Russia, and Kazakhstan – and was informed by secondary research and remote interviews with selected buyers and industry experts in these markets. Additional markets of interest that merit further study are China, South Korea, India, UAE and Scandinavian countries.

\(^1\)https://www.gtis.com/gta/
As these markets are either new or yet unexplored for Central Asia, the end market analysis requires market visits and in-person conversations with buyers.

Lastly, the study objective is to identify critical success factors in end markets from the perspective of buyers – in other words, most important requirements, formal and informal, for products from Central Asia to be competitive in each market. The study therefore does not cover the formal market entry requirements, such as export procedures and documentation, requirements for product labeling, and obligatory marketing standards set by each market (product grades, standards, etc.).

REPORT STRUCTURE

This report is organized as follows:

- **Chapter One**: provides the overview of key end markets for Central Asia and global market trends. It includes a list of critical success factors for Central Asian producers across key end markets, a summary of buyer feedback and a preliminary list of key value chain constraints to meeting market requirements.

- **Chapter Two**: includes individual end market studies for Germany, Latvia, Russia, and Kazakhstan. Each study discusses the critical success factors and competitive positioning of Central Asian products in the market.

- **Annex**: includes selected trade data.

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“Buyers” include a range of distribution channel actors located in end markets of interest, such as importers, wholesalers, distributors and retailers, who are closely familiar with the latest consumer trends and market requirements.
KEY END MARKETS FOR TARGETED PRODUCTS

In 2016, the total world imports of “edible fruit and nuts” (HS code 08) from Uzbekistan amounted to $378 million, out of which $227 million went to Kazakhstan and $60 million to Russia. Total world imports from Tajikistan in the same category equaled $25 million in 2015 with $20 million going to Kazakhstan and $1.5 million to Russia. Presented below are the data for the most significant markets and trade flows for Uzbekistan, Tajikistan and Kazakhstan in each of the product categories subject of this analysis.

**Uzbekistan** has the largest and most diversified product portfolio with significant exports of both fresh and dried fruit. Key markets for fresh fruit are Kazakhstan and Russia, while the markets for dried fruit are more diverse and include Germany, China, and Latvia.

**Tajikistan**’s exports are significantly smaller with the key focus on dried apricots and mixtures of dried fruit and nuts mainly exported to Kazakhstan, Russia, Ukraine and Belarus. Some very small volumes also go to Germany.
Kazakhstan has limited production of fruit due to climatic conditions, and is an importer of all studied products. Kazakhstan’s main export markets for fruit and nuts are China and Russia. The most significant categories are nuts to China ($20.7 million in 2015) and melons to Russia ($885,757) and Latvia ($746,099). For the targeted product categories there are significant re-exports predominantly to Russia. In 2016 Russia’s reported imports from Kazakhstan included $2.3 million of dried grapes, $1.4 million of fresh grapes and small amounts of fresh cherries ($150,445), fresh apricots ($113,335) and dried apricots ($20,701). However, due to large illegal cross border trade, the actual unrecorded re-exports are likely to be significantly higher.

Presented in Annex A, are the top ten import markets globally for each of the five products and their growth trends. For Central Asia, the current and potential markets of interest can be grouped into traditional markets (Russia, Kazakhstan), developing markets (Germany, Latvia, China, South Korea) and aspirational markets (India, UAE, Scandinavian countries). Market growth trends are discussed below with the supporting data included in Annex B.

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3China and Latvia did not report any imports from Kazakhstan in the targeted product categories.
TRADITIONAL MARKETS – UNCERTAINTY AND SOME DECLINE:

- **Russia** is showing a decline in imports of almost all categories, ranging from 14-30%. This is mainly due to the import ban imposed on fruit from the EU in 2014. The market was showing stable growth rates between 2011 and 2013, prior to the ban. This created a market opening for Central Asian producers to increase their share of the Russian fruit market. At the same time, however, the sharp drop in the exchange rate of the Russian Ruble against the US Dollar in 2014-2015 also led to the decline of consumer purchasing power and reduced consumer demand for imported fruits.

- **Kazakhstan** shows some decline in imports of fresh grapes (-9%) and dried apricots (-12%), while imports have grown significantly for dried grapes (32%), fresh apricots (2%), and fresh cherries (51%). Similarly to the Russian market, the local consumer purchasing power has declined due to the drop in the exchange rate of the Kazakh Tenge to the US Dollar, while the increased imports are likely due to re-exports.

DEVELOPING MARKETS – STABLE AND POTENTIALLY HIGH GROWTH:

- **Germany** - key market of interest in the EU - is showing slow, but stable growth in the fresh category (2% for grapes, 4% for cherries, and 1% for apricots) and slight growth of 2% in dried apricots. However, the market for dried grapes, which currently constitutes the largest portion of Central Asia’s exports to Germany, has been declining at 3%.

- **China** is the fastest growing market for all product categories with growth rates of 15-30%. The fastest growth was in fresh grapes, fresh cherries and dried apricots.

- **Latvia**, while not among the world’s top ten importers of targeted products, is a growing market. Imports of dried grapes have been growing at a rate of 18%, while imports of dried apricots and fresh grapes have been steady and imports of fresh cherries and apricots have grown at 5-6%.

- **South Korea** is showing high growth of 11% in imports of fresh cherries, while the fresh grapes market is stable. Imports of dried apricots are stable, while dried grapes are showing a slight decline of 3%. (Uzbekistan has been successfully exporting small amounts of fresh cherries to South Korea since 2012, otherwise this market remains unexplored).

ASPIRATIONAL MARKETS – SMALLER VOLUMES, YET POTENTIALLY HIGH GROWTH:

- **India** is showing a 30% growth in imports of dried grapes, while dried apricots are showing a 16% decline. Imports of fresh cherries have grown at 34%, albeit in very small volumes. (Uzbekistan delivered a small shipment of sweet cherries to India in 2014. Otherwise Central Asia is currently not exporting any fruit to the Indian market).

- **United Arab Emirates**, while not on the list of top ten importers, have been increasing imports of fresh grapes at 13%. Imports of fresh cherries, fresh apricots and dried apricots have been growing as well, although in smaller volumes. (Central Asian fruit is currently not present in the UAE market).

- **Scandinavian countries**, while not among top ten importers globally, represent a market of interest due to high discretionary incomes, consumer health consciousness and the highest levels in Europe of fruit consumption per day in Norway and Sweden. (Uzbekistan exported small shipments of fresh cherries to Norway in 2012 and 2013. Small volumes of dried grapes are currently sold to Sweden and of dried apricots to both Norway and Sweden. Otherwise these markets are unexplored).
KEY GLOBAL MARKET TRENDS AND WHAT THEY MEAN FOR CENTRAL ASIA

The following global market trends, current and emerging, will shape the export market opportunities and requirements for Central Asian producers in the medium to long term.

ECONOMIC AND GEOPOLITICAL TRENDS:

- **Uncertainty in Russia**: In August 2014, Russia announced an import ban on fruits and vegetables from the EU. This resulted in an increased demand on the Russian market for fruit, opening up a significant portion of the market for Central Asian producers. This demand could however be affected by the decline in consumer purchasing power due to the overall economic situation.

- **Increased competition in the EU**: Russia’s ban led to increased competition in EU markets from EU fruit producers that have lost their markets in Russia. Prices for fresh grapes and cherries in the EU markets have dropped and it became more difficult for non-European suppliers to compete in the EU markets during the local production season.

- **Russia’s strive for self-sufficiency**: Reportedly, Russian government has been offering subsidies for investments in local fruit production. Over the long-term this may lead to increased competition in the Russian market from local producers. However, experts do not believe this will have a significant impact on the positioning of fruit from Central Asia in the Russian market, due to different climatic conditions in Russia and high demand for fruit from Central Asia due to its taste.

CONSUMER PREFERENCE TRENDS:

- **Healthy**: Globally, consumption of fresh fruit is growing due to increase in consumer health consciousness. Demand for dried fruit has also been increasing due to popularity of healthy snacks. Dried fruit are used as an ingredient and a natural substitute for sugar in many baked good, snacks, breakfast cereals and by the confectionary industry.

- **Organic**: Demand for organic products in the EU markets grew by almost 30% between 2009 and 2013, and by additional 7% in 2014 and 10% in 2015. European consumers are increasingly focused on reduced use of chemicals. Germany and France together represent over half of the EU organic market.

- **Sustainable**: Consumers worldwide are concerned about sustainability and increased attention is paid to local seasons and locally produced fruit. This increases the pressure on exporters to supply products off-season or in early season, to avoid competition with local producers.

- **Convenient**: As lifestyles are becoming more fast-paced, consumers are looking for ready-to-eat, convenient, yet healthy foods. This trend is especially strong in Northwestern Europe. Retailers are offering freshly cut fruit, snack vegetables, seedless fruit and prolonged shelf life. For Central Asia, this means increased demand for ready-to-eat dried fruit and nut snacks.

- **Unique**: Along with increased volumes of discount retail sales, the higher-end market for specialty niche products is also growing with a particular focus on unique and exotic taste. Consumers are willing to pay premium prices for products that have consistently good taste. Dried apricots are considered an exotic product by the European consumer.
- **Safe:** Increase in food safety concerns requires strict compliance with Maximum Residue Levels (MRLs) and prevention of microbiological contamination. Certification schemes such as GlobalGAP and British Retail Consortium (BRC) are required, especially in the EU markets.

- **Responsible:** Supply chain transparency is becoming a market requirement as consumers demand more socially and environmentally responsible foods from retailers. For example, some of the large European traders are sourcing dried grapes only from partners which are members of SEDEX - an organization dedicated to improvement of responsible and ethical business practices in global supply chains.

**DISTRIBUTION CHANNEL TRENDS:**

- **Growth in supermarkets:** Retail sales of fresh fruit and vegetables are increasingly dominated by supermarkets which drive the market requirements. Traditional fruit and vegetable stores and street markets have seen their market share decrease in most countries. Retail chains usually buy from big importers and focus on quality, volumes and low price. As a result of increasing competition, importers and wholesalers are becoming more specialized and are looking to establish a unique market position. Wholesalers that supply large retailers prefer to work with a middleman who sources from large producers in large quantities. As a result, smaller importers specialize in niche products, for example exotic or organic.

- **Growth in specialty products:** While the mainstream middle market segment is losing market share, luxury or specialized stores have been expanding and servicing niche markets, such as exotic, ethnic or organic. This may be an opportunity for exporters that supply differentiated products in smaller volumes.

- **Emergence of new channels:** With consumers looking for convenience, there has been an increase in home delivery and online purchases of fresh produce, and even some supermarket chains are promoting their home delivery services. This trend is evident not only in EU markets, but also in Russia and other emerging markets.

- **End market segments determine the price margins:** Price margins in fruit value chain vary by market, product and market segment within each market. To price their products producers usually work backwards from retail prices in the targeted end market segment and then look at the different margins expected by the various actors along the supply chain in order to determine their ability to compete in the market. The leading producer countries tend to control the prices in end markets. In general, however, the following breakdown of how the cost is shared throughout the supply chain can be applied to fresh and dried fruit, with variations across markets. Margins for organic compared to conventional products are usually not different - the higher price for organic products is determined by the additional costs involved in certification. For producers in Central Asia, the critical factor will be the cost effectiveness of transporting products to market, as some of the highly perishable products, for example cherries, can only be shipped by air.

<table>
<thead>
<tr>
<th>Price margins</th>
<th>Producer</th>
<th>Exporter</th>
<th>Transport</th>
<th>Importer</th>
<th>Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dried fruit</td>
<td>5-15%</td>
<td>10-15%</td>
<td>5-10%</td>
<td>20-30%</td>
<td>25-40%</td>
</tr>
<tr>
<td>Fresh fruit</td>
<td>25-35%</td>
<td>10-15%</td>
<td>10-12%</td>
<td>8-20%</td>
<td>15-25%</td>
</tr>
</tbody>
</table>

4 Price margins are estimated based on market reports by CBI - Centre for the Promotion of Imports from Developing Countries (https://www.cbi.eu/) and buyer interviews.
KEY MARKET REQUIREMENTS/CRITICAL SUCCESS FACTORS FROM BUYERS’ PERSPECTIVE

To successfully export to end markets, producers need to understand the critical product-level success factors in these markets and how they relate to their own competitive advantage and performance in these markets.

The table below summarizes the critical success factors that have been identified for Central Asian fruit through buyer interviews and rates their importance for each market. (The chart on the right summarizes the ratings across all markets).

The relative importance of each critical success factor is determined by the specifics of individual markets and sometimes market segments within those markets. For example, taste and variety will be less of a consideration for the Russian market, where consumers like the sweet taste for fruit from Central Asia and the market distinguishes the product by taste and size, rather than variety. In the German market, on the other hand, consumer preference for seedless grape varieties and need for impeccable cosmetic appeal will place critical importance on offering the right varieties and quality. In addition, in premium market segments in each market, quality will be most important; for the discount retail chains - price, cosmetic appeal and packaging will be critical; while the open air market segment may place the emphasis on the combination of price and quality. To develop market entry strategies, it is important to understand the structure and requirements of each individual market, based on market visits and conversations with buyers. Market analyses that follow in Chapter Two discuss in more detail each success factor requirements and how producers from Central Asia are currently positioned.

<table>
<thead>
<tr>
<th>Critical Success Factor</th>
<th>Germany</th>
<th>Latvia</th>
<th>Russia</th>
<th>Kazakhstan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price competitiveness</td>
<td>Critical</td>
<td>Critical</td>
<td>Critical</td>
<td>High</td>
</tr>
<tr>
<td>Seasonality/timing on the market</td>
<td>Critical/High</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Food safety standards and certifications</td>
<td>Critical</td>
<td>Critical</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Quality</td>
<td>Critical</td>
<td>High</td>
<td>High/Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Shelf life</td>
<td>Critical/High</td>
<td>Medium</td>
<td>High/Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Cosmetic appeal</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Varieties/color</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Taste</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Size and weight of the fruit</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Delivery time/volumes</td>
<td>Critical</td>
<td>Critical</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Payment terms</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
</tr>
</tbody>
</table>

The table shown below summarizes the current performance of Central Asia’s producers for each critical success factor across all markets based on buyer feedback and points to potential constraints along the value chain that contribute to poor performance. This table provides a framework for the CTJ project team to further identify, analyze and prioritize the key value chain constraints as part of field assessment. Constraints may be related to production, marketing, workforce, technologies, policy and other areas.
<table>
<thead>
<tr>
<th>Critical Success Factors – What does it mean for producers?</th>
<th>Buyer feedback – How is Central Asia currently positioned?</th>
<th>Which value chain constraints likely impact performance? (To be analyzed as part of field assessment: 4)</th>
</tr>
</thead>
</table>
| **Price competitiveness**<br>Provide highest quality at the lowest price - reduce costs of getting product to markets and eliminate risks to importers which increase costs. | • High price of products from Central Asia, relative to quality, is a key issue identified by buyers both in EU and Russia.  
• In Latvia Uzbek dried grapes are 10-15% more expensive and fresh grapes 50% more expensive than Turkish ones.  
• Turkey is able to get cherries to the Russian market in the Far East much cheaper than Uzbekistan, despite the added transportation costs.  
• Importers consider sourcing from Uzbekistan highly risky and potentially very costly, due to:  
  1) unpredictable and frequently changing export regulations and procedures;  
  2) product food safety and quality risks;  
  3) instability in supply;  
  4) Uzbekistan’s 100% pre-payment requirement for exports. (It has been reduced to 25% in February 2017).  
• Higher cost/price is an impediment to exporting to markets further away, as opposed to the traditional markets next door. | • Small volumes of supply/fragmented land plots and lack of effective consolidation for export.  
• Mixed quality requires importers/wholesalers to sort, clean, re-pack product in end markets, adding to costs.  
• Poor exporter understanding of how the price margins are formed in end markets.  
• High competition from informal exports.  
• Unpredictable government policies and frequently chaining customs regulations.  
• In Uzbekistan, monopoly on exports and price setting by Uzagroexport, a publicly owned company, increases the price. (Abolished as of July 1, 2017).  
• In Uzbekistan, mandatory requirement for exporters, not involved in production, to convert 50% of export earnings into local currency at a set exchange rate which is 2.5-3 times higher than the market rate. Exporters sell through intermediaries with a formal status of a producer, where the conversion requirement is only 0-25%. Experts estimate this raises the price by 5-20%.  
• In Uzbekistan, pre-payment requirement for exports adds to the number of intermediaries that carry pre-payment. |
| **Timing on the market/seasonality**<br>Get product to market before competitors in early season “window” to capture higher price. | • Uzbekistan and Tajikistan have 2-4 week early season advantage in Russia and Kazakhstan.  
• To compete in the EU, need to get products to market earlier than European suppliers. For grapes, before June and for cherries, in early May. | • Lack of cold storages shortens the production season.  
• Need well organized logistics, cost effective transportation and reliable cold chain, including pre-cooling, as the product is highly perishable.  
• Extending production season takes time and investment. |
| **Food safety standards and certifications**<br>Ensure food safety and obtain all quality and food safety certifications required by buyers. Minimum MRLs (Maximum Residue Limits) for fresh and allowed levels of SO2 for dried. | • Significant variations in food safety test results within the same shipment. Uncertainty over the quality and food safety of delivered product.  
• Often high levels of SO2 and occurrence of Ochratoxin A in dried fruit.  
• Unreliable local food safety test results, as certificates are often fake and test methods differ from EU labs.  
• Only 2-3 producers in Uzbekistan have GlobalGAP certification required by EU retail chains.  
• No HACCP, BRC or IFS certifications available. | • Poor drying and storage practices and conditions. Need technologies to prevent mold and HACCP standards.  
• Producers use too much Sulphur in dried apricots and lack information on the allowed amounts.  
• Due to small and fragmented land plots, GlobalGAP certification is challenging for individual producers.  
• Production practices need to meet the minimum MRL requirements. However, local market food safety standard requirements are low, slowing adoption.  
• Poor capacity of local phytosanitary testing lab. |
| **Quality; Shelf life; Cosmetic appeal**<br>Deliver product that is consistently clean, with no visual defects, with required shelf life and cosmetic appeal | • Quality is not consistent, mixed quality in one shipment. Good quality on top of the box, poor at the bottom. Up to half of the truck load can be spoiled.  
• Fresh spoils fast, perishes 2 - 5 days after removal from cold storage, and gets damaged in transport. | • Small, fragmented land plots. One truck is filled from 2-3 farms. No quality control in the process.  
• At collection/loading points seasonal workers are paid by volume, little attention is paid to quality.  
• Lack of modern cleaning, sorting, grading, and packing technologies. Manual sorting of dried fruit leads to added elements (stones, sticks, |
appeal. The contents of each package must be uniform and contain fruits of the same origin, variety, and quality.

<table>
<thead>
<tr>
<th>Packaging</th>
<th>Varieties (color); Taste; Size and Weight of the fruit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Grape varieties are not known to consumers in Western Europe. Preference is for white grapes followed by red and smaller quantities of dark ones. In general producers are meeting the requirements for weight and size in fresh grapes and cherries. Taste is a competitive advantage in Russia, Kazakhstan and Latvia. However, in the EU, consumers may not like sweet tasting fruit.</td>
</tr>
<tr>
<td></td>
<td>Dried fruit frequently exceeds the maximum moisture content requirements. Dried fruit is dirty (stems, stones), dried plums spoil fast due to high oil content. Fresh product is shipped unsorted and not palletized in boxes. Requires sorting, cleaning, re-packing upon arrival in end markets. Actual shipments differ from samples. Due to overall poor quality and high degree of damage during transport, cosmetic appeal suffers. Quality and shelf life are not sufficient to meet requirements of supermarkets even in Russia, where standards are lower.</td>
</tr>
</tbody>
</table>

Constraints were identified through interviews with buyers. In depth analysis of value chain constraints was not the focus of this study and issues will be further vetted and analyzed by the CTJ team as part of forthcoming field assessment.

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CHAPTER TWO: END MARKET STUDIES

GERMANY

MARKET SIZE, GROWTH TRENDS, AND CENTRAL ASIA’S EXPORTS

In 2016 Germany imported $10 billion worth of “edible fruits and nuts” and imports have grown steadily at the rate of 3% over the past five years. With a population of 82 million and high discretionary income, Germany is the leading target market for all European and many international fruit producers. In 2016 Germany imported $682 million worth of fresh grapes, $162 million of fresh cherries, $110 million of fresh apricots, $165 million of dried grapes, and $31 million of dried apricots. The imports for fresh fruit have grown at 2-4% over the past five years, while the imports of dried apricots remained stable, and dried grapes have shown a slight decline at 3% over the same period.

Neither Uzbekistan nor Tajikistan are currently represented in the German market for fresh grapes, cherries or apricots. Uzbekistan, however, holds a significant position in the dried fruit market accounting for 4% of dried grape imports ($7 million in 2016) and 3% of dried apricot imports ($2 million in 2015). Uzbekistan’s exports to Germany have experienced a 50-60% growth over the past five years. (In 2016, however, they dropped to $920,000 which is likely related to food safety concerns, discussed further below). Tajikistan supplies very small amounts of dried apricots ($24,000 in 2016), which have however grown at 17% over the past five years.

CONSUMER TRENDS AND MARKET CHARACTERISTICS

- **Focus on price:** Despite high average discretionary income, German market is very price sensitive. Consumers and retailers are looking for top quality at a discount price.
- **Health conscious:** German consumers, especially the ageing population, are increasingly health conscious, which increases demand for both fresh and dried fruit.
- **Demand for exotic:** Global food market trends towards convenience and demand for ready-to-eat products are strongly visible in Germany. In addition, consumers are looking for ethnic and exotic foods. (Dried apricots are considered exotic.)
- **Growth in organic:** Germany’s organic food market is the second biggest in the world and, along with France, accounts for over half of all EU organic market sales. 4% of total food sales in Germany are organic. However, since the German market overall is price conscious, even organic consumers are considered to be price sensitive. This increases competition and places even higher emphasis on quality and uniqueness of products offered in the premium/organic market segment.
- **Stringent requirements:** German market tends to have higher product quality and food safety requirements than most of the EU countries. Buyer requirements for maximum pesticide residue levels and moisture content, for example, are usually even lower than the EU standard allowed ones.
- **Environmental concerns:** German consumers are particularly environmentally conscious when it comes to recycling and disposal of packaging. Suppliers shipping products in retail packaging must comply with the Green Dot system requirements and pay fees for packaging recycling.
- **Seasonal:** There is an increased trend to buy locally grown, seasonal products.

DISTRIBUTION CHANNELS AND MARKET SEGMENTS

The German market is dominated by retail chains that account for more than 87% of all sales of fresh fruits and vegetables. Roughly 50% of them are discounters that pursue low pricing strategy. Open street markets account for 4% of fruit sales, while small independent grocery stores, HORECA sector and direct farm gate sales account for 3% each. The figure below presents the flow of fresh produce through the...
main distribution channels in Germany. The distribution channels are similar for dried fruit, except that around 70% of dried fruit in the market is used as the ingredient for further processing and 30% is re-packed and sold by the retailers or used in the HORECA sector. Processing industry uses dried grapes and apricots as an ingredient in chocolate production, baked goods and breakfast cereals. Smaller quantities are used for production of jams, compotes, yogurt and juices.

- Supermarkets are characterized by very stringent quality and food safety requirements and are also focused on price. This puts a lot of emphasis on producer cost effectiveness and ensuring consistent supply of large enough volumes and transparency of the supply chain.
- Retail chains purchase most of their fresh produce via big importers/distributors, although sometimes they may establish direct supply programs with producers.
- Open air green markets, small independent shops and HORECA are mostly supplied by average size wholesalers. Generally, the wholesale distribution channel is in decline, as individual shops - their main clients - are under pressure from the larger retail chains.
- Local farmers often sell produce directly at the farm gate or online.

Consumer market segments for fruit sales in the German market are organized as follows:

<table>
<thead>
<tr>
<th>Market segment</th>
<th>Product characteristics</th>
<th>Price range</th>
<th>Main sales channel</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium, convenience</td>
<td>Organic; ready to eat; off-season exotic. Premium quality; additional quality and packaging standards</td>
<td>$13-19/kg for dried; Premium, varies for fresh</td>
<td>Organic, specialized stores, some supermarkets</td>
<td>20%</td>
</tr>
<tr>
<td>Mid-market (Mainstream retail)</td>
<td>Good quality, standard retail requirements, uniform product quality, increased competition.</td>
<td>$5-13/kg for dried; Mid-range, varies for fresh</td>
<td>Supermarkets and small independent stores</td>
<td>30%</td>
</tr>
<tr>
<td>Lower segment</td>
<td>Bulk sales, lower quality, often for use as food ingredient</td>
<td>Significantly lower</td>
<td>Discount supermarkets, street markets</td>
<td>50%</td>
</tr>
</tbody>
</table>
Many consumers in the premium market segment are also price sensitive. From suppliers this requires the highest quality and unique product differentiation.

Mid-market fresh and dried fruits are of higher class and standard and are usually sold in the retail segments under manufacturer’s brand or private labels. They have some added value characteristics, such as innovative packaging, making it possible to obtain relatively higher margins. Large retailers require large volumes and consistent supply.

Fresh and dried fruit in the lower segment is sold in high volumes and at relatively low margins. Quality aspects such as sorting and color are less demanding. For dried fruit, smaller size raisins are the most common choice for processors.

Organic sales are split 50/50 between traditional retail and specialist organic stores. However, specialist organic stores are expanding.

Uzbekistan has been mainly supplying dried fruit to processors. However, there are examples of sales to the organic channel. Demand from buyers of organic dried fruit is growing and presents a market opportunity for producers who are able to obtain organic certification.

**KEY COMPETITORS**

**FRESH GRAPES:**
Italy dominates the market for fresh grapes especially in the high production season with a total market share of 34% in 2016. Netherlands held 35% of the market mainly with re-exports from the Southern Hemisphere. Other key EU suppliers are Spain and Greece with market shares of 11% and 6% respectively. The most important overseas fresh grape suppliers are South Africa, Egypt, India, Chile, Argentina and Turkey.

Italian grape suppliers set the price in the market and are difficult to compete with. The high season is August through November when 80% of all grapes are imported into Germany. In 2016, right before the start of the reason, the highest price for grapes was $5/kg. At the start of the season it ranged from $2 – 3/kg and in mid-season dropped to $1-1.8/kg.

**FRESH CHERRIES:**
The top sweet cherry suppliers to the German market in 2016 and their respective import market shares were Austria (44%), Turkey (17%), Netherlands (14%) (re-exports from the Southern Hemisphere), Italy (7%), Greece (6%), and Spain (5%). Sweet cherries are highly seasonal with almost 80% of all imports taking place within the two months of June and July. Significantly smaller volumes are imported in the months of May and August – October. Imports in November - April account for less than 1% of total imports for the year. Germany is also a producer of sweet cherries with local cherries appearing in the market from late June and continuing through August.

The highest price is in May when the first Italian, Spanish and French cherries appear in the market. In 2016 the highest price was $11-12/kg, $6-10 per kg in mid-season, with the lowest prices registered in August at $2.5-4/kg.

**FRESH APRICOTS:**
The largest suppliers are Spain, France and Italy, which together account for 85% of all imports. Other notable suppliers include Greece, Austria and Turkey. With the exception of Spain, production volumes in Europe have decreased since 2012 due to unfavorable weather conditions. This offered new opportunities for exporters from developing countries. The season for apricots is from May to September. In June 2016 the retail price for apricots in European supermarkets was $6.7-8.4/kg.
DRIED GRAPES:
Top suppliers in Germany are Turkey (33%), South Africa (20%) and the United States (12%). Other notable importers, with much smaller market shares, include China, Austria, Iran, Greece and Uzbekistan (4%). Almost all imports from Uzbekistan are of sultanas variety with a negligible amount of raisins. Prices and opportunities in the market are usually determined by the production of raisins and sultanas in Turkey and the United States. The retail prices tend to be stable year round and in May 2017 were $4-5/kg.

DRIED APRICOTS:
Key competitor is Turkey that dominates the import market with an 84% share. (Although experts believe that significant volumes represent re-exports from Central Asia). Uzbekistan is holding 3% of import market. This share grew at 53% between 2011 and 2016. Tajikistan supplies a negligible amount but has also been growing its imports since 2012. The retail prices are usually stable year round and in May 2017 were $15-17/kg.

Critical success factors and Central Asia’s performance

The table below summarizes the key buyer requirements/critical success factors and assesses how producers from Central Asia currently perform against these factors in view of importers. Each CSF is rated in terms of importance for the competitiveness of Central Asian products in Germany.

<table>
<thead>
<tr>
<th>CSFs</th>
<th>Specific requirements and buyer feedback</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price competitiveness</td>
<td>• German market is very price competitive. 50% of the market is held by discount stores with low pricing strategy. In addition, retail chains require that the price is fixed for six months ahead.</td>
</tr>
<tr>
<td>Critical</td>
<td>• Even premium market segment consumers are considered to be price sensitive.</td>
</tr>
<tr>
<td>Timing on the market/seasonality</td>
<td>• For dried fruit seasonality is not an issue as the supply is year round.</td>
</tr>
<tr>
<td>Critical for fresh; High for dried</td>
<td>• For fresh grapes, to compete on the market Central Asian suppliers would need to get their product to market earlier than European grapes which arrive in June from Spain, followed by Italy and Greece.</td>
</tr>
<tr>
<td>Food safety standards and certifications</td>
<td>• For cherries the window to be competitive is short – in early May before first Italian, Spanish and French sweet cherries appear.</td>
</tr>
<tr>
<td>Critical</td>
<td>• Product safety requirements are very stringent, due to market dominance by the retail chains.</td>
</tr>
<tr>
<td></td>
<td>• Need to meet MRLs (Maximum Residue Limits) established by retail chains which are much lower than those permitted by EU regulations, sometimes 30% of the maximum EU permitted ones.</td>
</tr>
<tr>
<td></td>
<td>• Producers have to test for MRL’s while receiving the sanitary certification in the country of origin. Supermarkets demand that importers verify each product batch in laboratories. German buyers usually only trust their national certification bodies. Therefore the laboratories in other countries even within the EU should be accredited by a certified German laboratory.</td>
</tr>
<tr>
<td></td>
<td>• Table grapes are considered one of the most dangerous products from the pesticide residuals point of view and importers check carefully for MRL’s.</td>
</tr>
<tr>
<td></td>
<td>• GlobalGAP certification is required for all suppliers of fresh produce.</td>
</tr>
<tr>
<td></td>
<td>• HACCP certification is also required, but in practice many German buyers insist on higher standards, such as the International Food Standard.</td>
</tr>
<tr>
<td></td>
<td>• Retail chains also require their private label suppliers to have BRC certification.</td>
</tr>
<tr>
<td></td>
<td>• Suppliers shipping pre-packed products must comply with the Green Dot system requirements and pay fees for packaging recycling.</td>
</tr>
</tbody>
</table>
• In 2014 and 2015 dried grapes from Uzbekistan were subject to increased levels of controls and frequency of laboratory checks (50% of imports) due to frequent occurrence of Ochratoxin A in export shipments.
• Each load of dried apricots imported to EU is checked strictly for SO2. Producers in Uzbekistan do not know how to apply SO2 treatment properly and the allowed limits. This makes dealing with apricots from Uzbekistan very risky for importers and may explain the sudden drop of imports of dried apricots in 2016.

<table>
<thead>
<tr>
<th>Quality Critical</th>
</tr>
</thead>
</table>
| **For dried fruit**, although the EU marketing standard defines maximum moisture content, it is a common requirement by the industry that moisture content is lower (usually 14-17% at the time of packing).
| **Dried grapes**: the basic quality requirement is that the fruit is whole and sound, free from insects, mold, and pieces of stem. Needs to meet moisture content requirements - not less than 13% and not more than 31% for the Malaga/muscatel type; maximum 23% for seed-bearing varieties and maximum 18% for seedless varieties and currents. Needs to meet the maximum additives thresholds for sulphur dioxide, oil and sorbitol.
| **Dried apricots** should have no mineral additives, be of uniform color and variety, fruits must be easily separated, intact, clean, not sugary, and free from insects, additional tastes or smells. Test for allergen SO2 and Ochratoxin A must be passed.
| **Fresh fruit**: must be clean, with no visual defects. The contents of each package must be uniform and contain fruits of the same origin, variety, and quality. The visible part of the package must be representative of its entire contents. |

<table>
<thead>
<tr>
<th>Shelf life Critical for fresh; High for dried</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For dried fruit</strong> shelf life requirement is 12 months in proper storage conditions.</td>
</tr>
<tr>
<td>For highly perishable fruit the required shelf life at room temperature is one week.</td>
</tr>
<tr>
<td>Due to the highly perishable nature of sweet cherries they are considered a very risky product, as the shelf life is short and product may be damaged during transportation.</td>
</tr>
<tr>
<td>Most importers prefer to deal with hard sweet cherries that have longer shelf life. Only the first sweet cherries of the season that appear in the market in May that may be soft.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cosmetic appeal High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmetic appeal is very important to German consumer.</td>
</tr>
<tr>
<td><strong>For dried apricots</strong>, despite the perceived health benefits for unsulphured product, many retailers choose to sell sulphured apricots due to their visual appeal.</td>
</tr>
<tr>
<td><strong>For fresh fruit</strong>, cosmetic appearance is considered more important than taste. The natural taste of product is not the most important factor and is often sacrificed due to retailers’ demands for perfect appearance. Produce treatment applied by producers in order to get rich color and bigger sized product often detracts from the product’s taste.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Varieties (Color) High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For dried grapes</strong>: Because dried grapes are often used in mixes together with other fruit, sultanas have a slight advantage over darker colored dried grapes as they mix well with lighter colored fruit. (Uzbekistan mostly exports sultanas to Germany).</td>
</tr>
<tr>
<td><strong>Table grapes</strong>: consumer preference is for seedless varieties (70% of the market and growing). The preference of table grapes by color is around 70% for white grapes, 15% for red grapes and 15%, and declining, for dark grapes.</td>
</tr>
</tbody>
</table>
The most popular varieties during high season are Italia, Vittoria and Thompson Seedless.

- **Fresh cherries:** Consumers prefer dark, big, and meaty sweet cherries. They do not distinguish sweet cherries by variety, rather based on size, darkness and consistency.

### Taste

<table>
<thead>
<tr>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taste is secondary to appearance for the German consumer. However, it is believed that German consumers do not like very sweet tasting fruit. This will be a disadvantage for Central Asia due to high sugar content of its fruit.</td>
</tr>
</tbody>
</table>

### Size and weight of the fruit

<table>
<thead>
<tr>
<th>High</th>
</tr>
</thead>
</table>
| *Dried grapes:* The price of dried grapes is determined by the size of fruit. The common three sizes are jumbo, medium and small. Sizes are calculated according to the number of fruits in 100g of product or according to actual diameter of the fruit. Grapes from Uzbekistan fall into small and medium categories.  
*Table grapes:* German consumers like big grapes, but the overall cosmetic appeal is more important. Buyers prefer grapes with big bunches (over 400 grams) and the size of the berries not less than 20 mm in diameter.  
*Sweet cherries:* Bigger sizes are more popular. Typically importers buy 24-28 mm sized berries. 30 mm berries are the most preferred and command the highest price. |

### Delivery times/minimum volumes/consistency of supply

<table>
<thead>
<tr>
<th>Critical</th>
</tr>
</thead>
</table>
| Because retail chains dominate the market, consistency in supply is critical. Need to be able to consolidate export volumes.  
Three days is the maximum time period that importers can afford for fresh product to be delivered to Germany. Generally importers receive orders from retail chains four days in advance.  
Importers often require the ability to plan deliveries 6-12 months ahead. |

### Payment terms

<table>
<thead>
<tr>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producers need to be able to accept payment terms from importers of at least 30-45 days, due to retailer payment terms and their market dominance.</td>
</tr>
</tbody>
</table>

### Packaging

<table>
<thead>
<tr>
<th>High</th>
</tr>
</thead>
</table>
| *For dried grapes:* Packaging used for dried grapes must protect the quality characteristics of the product, and from bacteriological and other contamination and not pass on any odor, taste, color or other foreign characteristics to the product. Dried grapes are usually packaged in carton boxes with plastic liner inside. They can also be packed in paperboard cartons or wooden boxes of 10, 12.5, 13.5, 14 and 15 kg.  
*For dried apricots:* Usually packed in carton boxes ranging in weight from 5 to 12.5 kg. Some importers request that product is also pre-packed into smaller 200g size packs ready for retail sale. Packages in a lot need each to contain product of the same batch and have a uniform net weight. Cartons, bags and boxes should ensure adequate protection against humidity during storage and transport of the product. Any paper or other material used inside the package needs to be new, waterproof and harmless.  
*For fresh fruit:* There are no unique packaging requirements for fruit in Germany as long as the packaging sufficiently protects the produce from damage. If packaging satisfies this requirement it will be accepted by the buyer whether it is made of wood or carton. Plastic packaging, although accepted, is generally not preferred by buyers. Produce needs to be palletized. For fresh apricots, wholesale packaging is in cardboard boxes or wooden crates. Most produce is sold in 3-5 kg boxes. In European retail stores apricots are sold right out of the wholesale box or in ½ or 1 kilo plastic boxes. Cherries are usually sold in ½ kilo plastic boxes. Some importers require clam shell packaging. |
POTENTIAL MARKET OPPORTUNITIES

- Producers from Central Asia will have a difficult time competing in the German fresh fruit market due to tough competition and long distances/high transportation costs. Getting this highly perishable product to market will require well-organized logistics and reliable cold chain, including pre-cooling. Since price is an important consumer purchasing criterion in Germany, detailed price analysis must be conducted to evaluate the costs and benefits of shipping fresh produce to Germany.

- Some potential may exist for sweet cherries. Uzbekistan is exporting small quantities of sweet cherries to the UK by air, as well as to South Korea and Singapore. Uzbekistan produces hard sweet cherries of large size that are in high demand. The key challenge will be delivering them to market cost effectively and early enough at season start in May. Small shipments of fresh cherries were made from Uzbekistan to Norway in 2012 and 2013 and to Latvia in 2014. However, they were not sustained. Sweet cherries are a very risky fruit as it is highly perishable and the season is very short. As a result, many distributors will not handle the product unless it is pre-sold to the retailer. In addition, wholesalers often require “market protection” for cherries, where exporter agrees to compensate losses of the importer if the product was sold below the price of purchase.

- Uzbekistan and Tajikistan have been growing their market presence in dried fruit and there is a strong demand from German buyers for organic dried fruit. Addressing food safety concerns will be critical requirement for further growing presence in German market, while obtaining organic certifications will open up new market niche opportunities.

- As German consumers are looking for unique products, there is demand for higher value products, such as jams, spreads, chocolate covered fruit, etc. Further assessment is needed to understand the extent of domestic production of processed products (currently estimated at 20% of production) and access the capacity for exports.
Latvia is a small market of only 2 million people, but it is a net importer of fruit. Latvia imported $163 million worth of “edible fruits and nuts” in 2016. Although import levels fluctuate from year to year overall they have grown at 3% between 2011 and 2015. In particular, Latvia’s imports of dried grapes have grown at the rate of 18%. (In 2016 they dropped by almost 30%, however, importers do not believe this to be a long-term trend, rather the market stabilizing after several years of rapid growth.) Imports of dried apricots and fresh grapes have been steady, while imports of fresh cherries and apricots have grown at the rate of 5-6%. In addition to serving the internal market, approximately 43% of all edible fruits and nuts imported to Latvia are further re-exported to the EU (Poland, Lithuania and Slovakia) and Belarus. In 2015, for example, Latvia imported $9.4 million in dried grapes and exported $7.7 million.

Uzbekistan holds a 4% share of import market for “edible fruits and nuts”, while imports from Tajikistan are negligible. Imports from Kazakhstan only amount to a little over $500,000 and mostly include melons. Uzbekistan’s key export to Latvia is dried grapes - $7.5 million in 2015 with an 80% import market share. Imports of dried grapes from Uzbekistan dropped to $4.9 million in 2016, reflecting the overall reduction in market demand. Smaller volumes of dried apricots are exported - $223,000 in 2015 – due to stringent requirements for SO2 levels. While there was a small import of fresh grapes in 2014, at the moment Uzbekistan does not export fresh grapes, cherries or apricots to Latvia, as it cannot meet the stringent quality requirements of EU markets.

**Consumer Trends and Market Characteristics**

- **Focus on price**: Price is the number one consideration for Latvian consumers, as Latvia’s disposable income per household is one of the lowest in the EU. From comparable prices, consumer will choose the product with better quality and taste.

- **Preference for sweet fruit**: Taste however is an important factor for consumers, who prefer sweet tasting fruit. Fruit from Uzbekistan is liked for its taste, but according to importers is not competitive on price and quality. There is a growing demand for fresh cherries from RIMI and Maxima, the two biggest supermarkets.

- **Traditional shopping**: Latvia has a smaller share of supermarkets in retail sales (60%) and a higher share of sales in the open air markets (30%) than in other Baltic countries and the EU overall. When it comes to fresh produce purchases, consumers still come to the open air markets in search of more “natural” products.

- **Low discretionary incomes**: Due to low consumer purchasing power the demand for premium food products is low, about 1% of retail market share, with the mid-range market segment accounting for 60-70% of retail sales and the rest occupied by the low-end market segment.

- **Less stringent than EU**: Although Latvia is part of the EU, requirements for suppliers to have certifications, such as GlobalGAP, are less stringent than in other EU markets. That, however, is bound to change as buyer requirements come in compliance with the EU standard.

**Distribution Channels and Market Segments**

Market share of supermarkets is growing although the rate of growth has slowed down due to the overall economic slowdown as a result of Russia’s sanctions on imports from the EU. Retail chains dominate the sales of fruits and vegetables with a 60% market share. RIMI and Maxima are the two biggest retail chains that collectively control about 70% of the supermarket segment. The open air markets hold a 30% market share, while the HORECA sector and small independent shops each hold a 5% share of sales. The figure below shows the distribution channels for fresh produce. For dried fruit the retail distribution channels are the same, with the exception that 50% of imported dried fruit goes first to the food processing
industry as an input for the preparation of baked goods and confectionary items, and 50% goes to retail sales directly.

- Big importers play the key role in supplying supermarket chains. The critical requirements for the retail chains and big importers who supply them include good quality, impeccable cosmetic appeal, payment terms of 14-30 days, 3-6 month contracts with fixed prices, and steady volumes of supply.

- Small wholesalers and distributors sometimes deliver smaller volumes to retail chains, but their main clients are the open air markets, independent retail stores, and HORECA. Small distributors usually get their supplies from the wholesale markets in Poland and Netherlands where they can buy mixed loads of products. These wholesale markets are also an important source of supply for the big importers/distributors.

- While the share of open air market sales has been declining during the past two decades, it has now stabilized, as consumers show renewed interest in shopping for produce in open air markets. These markets are still considered an important sales channel for perishable fresh produce with shorter shelf life, such as apricots and cherries, since many big importers prefer not to handle these products due to high risk of spoilage.

- Traders in open air markets usually source produce from small distributors/wholesalers or from small truck wholesale markets, where the produce is brought in small quantities by local producers and by traders from wholesale markets in Poland and Lithuania.

- Uzbek fresh fruit is currently not represented in the Latvian market. It is estimated that the dried fruit imports from Uzbekistan, that are not re-exported, are going 50% to the food processing industry and 50% to retail chains. Dried fruit imports from Uzbekistan are transported by road, which is cheaper and quicker than by rail. (Rail is only used if produce is taken to ports where it is loaded on directly ships for transportation to ports of Hamburg or Rotterdam in the EU). However, Latvian importers complain of frequently changing regulations that often allow only for rail transport of exported goods from Uzbekistan.

The table below shows the key consumer market segments in Latvia, for both fresh and dried fruit:
### Market segment

<table>
<thead>
<tr>
<th>Product characteristics</th>
<th>Price range</th>
<th>Main sales channel</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium, upscale</strong></td>
<td>Organic; premium quality; additional standards from processing to consumer packaging; require certifications</td>
<td>$13-15/kg for dried Premium, varies for fresh</td>
<td>Independent stores, supermarkets</td>
</tr>
<tr>
<td><strong>Mid-market</strong> (Mainstream retail)</td>
<td>Good quality, standards retail requirements from the processing industry</td>
<td>$5-12/kg for dried Mid-range, varies for fresh</td>
<td>Open air markets, supermarkets</td>
</tr>
<tr>
<td><strong>Lower price segment</strong> (Bulk product)</td>
<td>Average to good quality, often for use as food ingredient</td>
<td>Significantly lower</td>
<td>Discount supermarkets, food processing industry</td>
</tr>
</tbody>
</table>

- Dried fruit from Uzbekistan is currently split between the low end/processing industry segment and mid to low end retail market segment. A very small premium market segment and low consumer purchasing power leave little room for product differentiation and offering niche products, such as organic dried fruit. In order to increase the share of product going to retail segment as opposed to food processors, improved quality and price competitiveness will be critical for suppliers from Central Asia.

### KEY COMPETITORS

While imports of dried grapes to Latvia have gone down in 2016, the key competitors - Turkey and India - have increased their import volumes, although from a very low base and to still quite insignificant amounts. (In 2016 imports from Turkey were valued at $394,000 and India at $312,778). However, buyers indicate that dried grapes from Uzbekistan, despite earlier success in the market, are currently not very competitive on both price and quality, compared to both Turkish and Indian dried grapes. According to importers, sourcing from Uzbekistan is a highly risky and unpredictable business where it comes to quality, delivery and price, and many of them have been switching to suppliers in Turkey, India, Moldova and Chile.

**DRIED GRAPES:**

Uzbekistan is holding 75% share of the import market for dried grapes in Latvia. However, it is losing its share to other competitors - Turkey (6%) and India (5%). Other suppliers include Chile, Iran and South Africa with a 3% import market share each.

According to importers, dried grapes from Uzbekistan are 10-15% more expensive than Turkish ones. Because importers of grapes are usually bound by the requirement to sign 6 month contacts with their customers (retail chains or food processors) they need to fix prices with their suppliers for 6 months. Due to higher price of Uzbek product, importers are switching to sourcing from Turkey, India, Moldova and Chile. The retail price for dried grapes is stable year around and in 2017 was $3-4/kg.

**DRIED APRICOTS:**

Turkey dominates the imports of dried apricots with a 59% share, followed by Lithuania (21%) and Uzbekistan (10%). Other suppliers include Netherlands, Germany, and Estonia. Imports from Uzbekistan dropped 47% between 2014 and 2016, while imports from Turkey have been growing steadily. This is related to increased food safety concerns with regards to dried apricots. Uzbekistan producers have been unable to consistently pass tests for allergen SO2, which makes imports of this product very risky for importers. Turkish apricots are also considered by importers to be better quality than Uzbek ones – they are cleaner and have no added smells or elements (dirt, sticks, stones, etc.).
Average retail price for dried apricots is $12-14. According to market experts, usually Turkey sets the price and Uzbek suppliers need to offer product that is 10-15% cheaper in order to be competitive.

**FRESH GRAPES:**

Key competitors on the market include the Netherlands with re-exports from the Southern Hemisphere (29%), Italy (21%), Turkey (15%), Lithuania (13%) and Spain (6%). Less notable suppliers include India, Macedonia, Moldova, and Chile. For fresh fruit, Uzbekistan is currently not present in the market.

The high season for grapes is from August until November when 60% of all grape imports take place. Starting from the beginning of December the volume of grape imports drops by 90% compared to November. In 2016, right before the start of the season, the highest price for grapes was $5.2/kg. At the start of the season it ranged from $2-3/kg and in mid-season dropped to around $1/kg. Italy being the main supplier during high season dictates the pricing in the market. Seedless grapes usually command higher price. Popular varieties are the Red Globe and white seedless varieties.

**FRESH CHERRIES:**

Latvia’s imports of fresh cherries have grown at the rate of 6% between 2011 and 2016 and reportedly there is a strong demand for cherries from supermarkets. Key players on the market include Turkey (19%), Hungary (17%), Spain (15%), Netherlands (15%), Poland (13%) and Greece (11%). Other smaller suppliers include Lithuania and Germany.

Sweet cherries are highly seasonal with almost 80% of all imports taking place within the months of June and July. At the beginning of the season the price in Latvia is usually $4-8/kg, with the highest price around $10-11/kg and season’s lowest price around $2-3/kg.

**FRESH APRICOTS:**

Latvia’s import market has grown at the rate of 5% between 2011 and 2016. Leading suppliers are Spain (49%), Greece (13%), and Italy, Lithuania, France – with an 8% import share each. Other suppliers include Netherlands, Turkey, and Poland. The season for apricots is May through September, and prices usually range between $6-9/kg.

**Critical success factors and Central Asia’s performance**

The table below summarizes the key buyer requirements/critical success factors and assesses how producers from Central Asia currently preform against these factors in view of importers. Each CSF is rated in terms of importance for the competitiveness of Central Asian products in Latvia.

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<tr>
<th>CSFs</th>
<th>Specific requirements and buyer feedback</th>
</tr>
</thead>
</table>
| Price competitiveness       | • Consumer first choice is price, second is quality and taste.  
• Price competitiveness is a critical issue for products from Uzbekistan, which tend to be more expensive than competitors. According to importers, Uzbek dried grapes are 10-15% more expensive than Turkish ones. Fresh grapes, when imported last in 2014, were 1.5-2 times more expensive than Turkish ones.  
• Importers who supply retailers and food processors single out good prices and steady supply as their critical requirements, since they are required to sign 3-6 months contracts with their buyers.                                                                                      |
<p>| Critical                    |                                                                                                                                                                                                                                                                                                                                 |</p>
<table>
<thead>
<tr>
<th>Food safety standards and certifications</th>
<th>Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Compliance with EU Marketing standards is required.</td>
<td></td>
</tr>
<tr>
<td>• Voluntary certificates, such as GlobalGAP, are slowly becoming a requirement by supermarkets, particularly the Baltic level ones. However, requirements in Latvia are still less stringent that in other EU markets. Producers from Central Asia usually do not have GlobalGAP, yet some importers are willing to work with them, if the relationships are trusted and the price offered is very attractive.</td>
<td></td>
</tr>
<tr>
<td>• Importers are concerned about the lack of consistency in food safety tests performance of products from Central Asia. Significant variations in test results are often found within different boxes in the same shipment. Dried fruit frequently has high levels of SO2 or Ochratoxin A. For dried apricots, each load is checked strictly for SO2, and Uzbekistan’s produce frequently does not meet test requirements, which makes dealing with dried apricots from Uzbekistan very risky for importers.</td>
<td></td>
</tr>
<tr>
<td>• According to importers, local lab test results from Central Asia have no value and legal power, as documents are often fake and testing methods are different from those used by Latvian customs. This makes importing dried fruit from Uzbekistan a highly unpredictable business, as the test results at Latvian customs often come back poor.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Dried fruit:</strong> according to importers quality is poorer than Turkish product. Dried fruit from Uzbekistan is often dirty and has other elements (sticks, stones, etc). Turkish fruit is clean and has no other smells or elements.</td>
<td></td>
</tr>
<tr>
<td>• Shipments differ from samples. Mixed quality in one load. Requires sorting and cleaning by importers. Some importers started to buy directly from farmers and pack the product directly in Uzbekistan before shipping to Latvia in order to have more control over the product quality.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Fresh fruit</strong> spoils fast and gets damaged in transport. Quality is not suitable for supermarkets. No uniformity in one shipment/package – usually good quality on top, poor at the bottom of the package. Half of the truck may be of good quality, while the rest is bad. No sorting is done, all the sorting needs to be performed in end market.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shelf life</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>• For dried fruit shelf life requirement is 12 months in proper storage conditions.</td>
<td></td>
</tr>
<tr>
<td>• For highly perishable fresh fruit, such as grapes and cherries, the required shelf life at room temperature is one week.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cosmetic appeal</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>• While cosmetic appeal is important, consumers still appreciate the taste more and will buy imperfect product if the taste good.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Varieties (color)</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Fresh grapes:</strong> Consumers mostly prefer white grapes followed by red and then dark ones, in much smaller quantities. Consumers usually prefer mid-sized grapes and like both seedless and seeded varieties. There is a general preference for seedless grapes. However, as they are more expensive, the consumption of seeded grapes is higher.</td>
<td></td>
</tr>
<tr>
<td>• For Central Asia it is not absolutely necessary to offer seedless varieties. Either very big sized grapes or very sweet ones will be popular. However, according to importers, the quality is poor and does not justify the higher price.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taste</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Taste is an important consumer consideration after price.</td>
<td></td>
</tr>
<tr>
<td>• Reportedly, consumers like the sweet taste of fruit from Central Asia. Grapes from Italy and Spain are not always sweet enough for the consumer preference. Since they mostly supply supermarkets, they send grapes to the Latvian market while not yet fully ripe, which affects the taste. Same is true for Greece and Turkey. Therefore consumers are looking for sweet tasting product.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size and weight of the fruit</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Consumers in Latvia prefer bigger sized fruit.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Table grapes:</strong> Generally, the accepted bunch size for grapes is 300-500 grams although bigger sizes are more popular and command higher price.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Cherries:</strong> big sizes (28-30 mm) are most popular.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Delivery times/minimum volumes/consistency of supply</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Buyers report a number of problems with consistency of supply and consider working with Uzbekistan very risky and unpredictable. For dried fruit, they prefer to import from Turkey and India, where supply is stable.</td>
<td></td>
</tr>
<tr>
<td>• Importers who supply retailers and food processors state good prices and steady supply as critical requirements, since they are required to sign 3-6 months contracts</td>
<td></td>
</tr>
</tbody>
</table>
## Critical

| | with their buyers. Orders must be delivered within two weeks from the order. Importers assume a lot of risk if they fix prices with Uzbek suppliers due to unpredictable changes in regulations, for example in customs/export regulations and allowed modes of transportation for exports (road or rail).
| | For fresh fruit, Uzbek suppliers experienced problems getting produce delivered on time. Product often arrives several days late.
| | Ensuring steady supply of required volumes is also an issue due to land fragmentation in Uzbekistan. In addition, when Russian markets pay higher prices on wholesale markets, producers will choose to sell to the Russian markets, limit supply available to the Latvian market. Therefore, some dried fruit importers prefer to purchase all required supply directly in Uzbekistan when available and store it in Latvia at higher cost, in order to assure required supply volumes.

## Payment terms

| Medium | Retail chains normally pay their suppliers within 21-45 days from the day of delivery.
| | However, the 100% pre-payment for exports requirement in Uzbekistan, makes importing risky for buyers. (Reduced to 25% in February 2017).

## Packaging

| High | For fresh fruit: While there are no specific packaging requirements for exporting fruit into the Baltic market, packaging is considered as one of the key problems by buyers of fresh produce from Central Asia. Fresh fruit gets damaged in transport since producers usually pack it in carton boxes, instead of wooden ones, which fall apart during transportation.
| | For dried fruit, need food carton packaging, weighting between 10 and 12.5 kg. The key feedback from buyers includes frequent mislabeling, inaccurate information (such as claims to being organic without proper certification), lack of proper marking to include weight, period of validity, information for producer and importer in Latvia, etc.

## POTENTIAL MARKET OPPORTUNITIES

- As importers have indicated, at the moment fresh fruit from Central Asia is not competitive in Latvia. Attempted imports of fresh grapes and cherries in 2014, where not sustained. The drop in prices due to the Russia’s embargo has made the market even more competitive. Similarly to Germany, the only opportunity in the market may be in supplying early season big-sized sweet cherries. Market demand for sweet cherries is growing with supermarkets reportedly looking for new suppliers. However, well organized logistics and cold chain will be critical for getting this highly perishable product to market early enough to capture higher prices.

- At present, market opportunities are limited to dried fruit. It is critical, however, to address the food safety and price competitiveness concerns of importers. The main focus should be on improving quality consistency, supply volumes and stability of deliveries. With better quality it would possible to increase the share of the product going to the retail segment, as opposed to food processors. Pressure to improve quality and price is particularly strong due to lower consumer purchasing power in Latvia than in the rest of the EU, and a very limited premium market segment that limits opportunities to the mid-range or low-end market segments.
Russia

Market Size, Growth Trends, and Central Asia’s Exports

With a population of 144.2 million people, Russia is one of the largest consumer markets in Europe. In 2016 it imported $3.8 billion worth of “edible fruits and nuts”. Imports in this category have grown at the rate of 3% between 2011 and 2013, but have declined 16% between 2013 and 2016, due to Russia’s ban on EU fruit and vegetable imports. Uzbekistan currently holds only a 2% share of imports in this category, with Tajikistan and Kazakhstan holding much smaller shares.

Russia’s top imports from Uzbekistan in 2016 included $17 million worth of fresh grapes, $10 million fresh apricots, $9.5 million fresh cherries, $1.1 million dried grapes, and $336,000 dried apricots. Kazakhstan was represented in Russia’s imports with $2.3 million dried grapes, $1.4 million fresh grapes, $150,000 fresh cherries and $113,000 fresh apricots. Imports from Tajikistan included $509,000 dried apricots, $221,000 dried apricots, $81,000 fresh grapes, $99,000 dried grapes, $86,000 fresh cherries. Trade statistics may not represent an accurate picture, however, due to reportedly significant illegal unrecorded cross-border shipments.

The ban on imports from such major fruit suppliers as Spain, France, and Italy, has opened space for Central Asian producers to increase their share in the Russian market. Based on official trade data, it appears that Uzbekistan and Kazakhstan have already taken advantage of this opportunity to some extent in 2015 and 2016.

Consumer Trends and Market Characteristics

- **Reduced spending:** With the decline in incomes and increases in retail prices, fruit consumption dropped by 7% in 2015. Consumers are shifting fruit purchases to less expensive fruit, such as apples, citrus and bananas. High demand for exotic fruits from Thailand and Vietnam of just a few years ago has disappeared.
- **Focus on price:** Russia is becoming a more price sensitive market and the premium market segment is shrinking. Lower income populations tend to not purchase fruit on a regular basis, and limit it only for consumption by children or those who are sick.
- **Looking for new suppliers:** At the same time, Russian buyers are actively seeking new fruit and vegetable suppliers following import sanctions on the EU. According to exporters, lack of adequate supply volumes and cold storages are the key factors that limit exports to Russia from Central Asia.
- **Boost to local production:** Russian government has been offering subsidies to increase local production of fruit. However, experts do not believe this will have a significant impact on the positioning of fruit from Central Asia, which is valued for its taste. While Russia produces table grapes, apricots and cherries, the different climate conditions impact the taste. Direct competition with Central Asian fruit may only be limited to the producing regions, but will not impact the rest of the country.
- **Taste is important:** Demand for fresh fruit from Central Asia in Russia will remain high due to its taste. However, limited shelf life prevents it from reaching retailer shelves and everything is sold in wholesale markets. The Russian market for dried fruit is low value, as Russian consumers prefer fresh fruit. Central Asian producers tent to ship higher quality dried fruit to the EU markets and lower quality to Russia. Russian consumer will not pay higher prices for better quality dried fruit and will prefer to buy fresh fruit instead.
- **Growth of regional markets:** While Moscow and St. Petersburg have higher variety of fruit available in the market, in the Far East logistics of getting products to market are harder and demand for fruit is high. Many retailers are looking to purchase from foreign producers directly.
DISTRIBUTION CHANNELS AND MARKET SEGMENTS

The share of retail supermarket chains has been growing as they are able to offer consumers discount prices due to large volumes. 50-60% of the total volume of fruit is sold through supermarket chains. Open air markets and street vendors/kiosks together hold about 30% of fruit sales, with independent grocery stores accounting for 10% and HORECA for 3%. Open air markets, street vendors and grocery stores all receive their supplies from open truck wholesale markets and smaller wholesale “bases”.

- Fruit from Uzbekistan is currently not present in supermarkets due to limited shelf life and is sold primarily in open air markets. Retail chains in Russia reject on average about 10% of all loads received from suppliers due to stringent quality, size and cosmetic appeal requirements.
- Russian consumers buy more fruit in supermarkets due to lower prices. However, they believe fruit quality to be better in open air markets and at street vendors. This is likely because Russian consumer usually defines quality based on taste, rather than cosmetic appeal.
- Street vendors/kiosks are a popular consumer channel. They offer convenience and cheaper prices than open air markets. However, they cannot compete on price with retailers.
- Prices in wholesale markets fluctuate sometimes several times per day, compared to the organized retail market where prices are more stable. Despite these disadvantages, the open wholesale markets remain the main channel for produce that does not satisfy the minimum requirements of retail chains. In addition, cash based on the spot transactions in wholesale markets allow for tax avoidance which is important for a significant number of traders. Therefore, open wholesale market still remains an important destination for fruit traders.

Consumer market segments for fruit in the Russian market are shown in the table below:

According to market interviews, fresh fruit from Central Asia is primarily serving the mid-range market segment with some fruit, such as sweet cherries, able to command high-end segment prices. Dried fruit mainly serves the low end segment, due to poor quality and lower consumer preference for dried fruit compared to fresh.
### Market Analysis

<table>
<thead>
<tr>
<th>Market segment</th>
<th>Product characteristics</th>
<th>Price range</th>
<th>Main sales channel</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>High end</td>
<td>Exotic fruit; big sized dark sweet cherries; big sized grapes (red or white)</td>
<td>$17 per kg</td>
<td>Grocery stores; Open markets and street vendors</td>
<td>5%</td>
</tr>
<tr>
<td>Mid-market</td>
<td>Medium sized fruit, but comparable in taste to premium. Seeded or seedless grapes.</td>
<td>$5-8 per kg</td>
<td>Open markets and street vendors; grocery stores</td>
<td>35%</td>
</tr>
<tr>
<td>Lower segment</td>
<td>Small-sized grapes, usually black; small sized sweet cherries Average quality for use as food ingredient</td>
<td>$3.5 per kg</td>
<td>Supermarkets</td>
<td>50-60%</td>
</tr>
</tbody>
</table>

### KEY COMPETITORS

**FRESH GRAPES:**
Uzbekistan holds a 9% share of Russia’s fresh grape imports. Key competitors include Moldova (13%), India (12%), Chile (10%), and Peru (10%). Other suppliers include Armenia, Egypt, South Africa, China, as well as local producers. Kazakhstan and Tajikistan each hold a less than 1% share of imports.

An estimated 66% of table grape consumption in the Russian market occurs during the peak season of August to November and the prices are lowest during that time. The largest volumes of grapes are sold from September to November and from the second half of December to the first half of January. The lowest demand is observed in spring and the first half of summer. Locally produced grapes are usually sold out by the end of October, after that imports dominate the market. Products from Uzbekistan are usually present in the Russian market from September to November. The best season for selling fresh grapes however is November-December when prices are higher. Adequate storage with proper pre-cooling and cold chain maintenance are required to extend the season into January.

During the season there are not huge price differentials because the retailers use the “produce cards” that mostly only specify a size and a color of grape, and suppliers are chosen based on price offered. Occasionally, the produce cards will also specify whether the berry is seeded or seedless or the country of origin. At the end of May 2017, retail prices ranged from $5.5/kg for red seeded grapes, to $6/kg for white grapes and $8/kg for black Kishmish variety. The price of the Turkish Kishmish variety during the season does not vary much as Turkish grapes set the price levels.

**FRESH CHERRIES:**
Uzbekistan holds an 11% share of fresh cherry imports, while competitors and their respective import market shares include Turkey (36%), Azerbaijan (27%), Serbia (12%), Moldova (6%), Iran, Macedonia, and Chile. Kazakhstan and Tajikistan minor share of 0.2% and 0.1% respectively.

The Russian sweet cherry market is a small one due to the short season and the highly perishable nature of the product. Sweet cherry is a highly seasonal product being sold only four months per year with the peak in June and July, therefore the highest returns are generated early in the season. In addition, large dark cherries (28-30 mm diameter) command the highest price.

At the end of May 2017, the open air market price was $5-8/kg and local sweet cherries where present in the market already. At retail stores, dark sweet cherries sold for $9/kg, while pink ones for $8/kg. Price typically decreases to $3/kg in August.
FRESH APRICOTS:
Uzbekistan holds a leading position in imports of fresh apricots to Russia with a 57% import market share, followed by Moldova (15%), Armenia (10%), and China (6%). Tajikistan and Kazakhstan each account for 1% of the import market. At the end of May 2017 the retail price was $5-8/kg.

DRIED GRAPES:
Top suppliers and their import shares include Iran (39%), Chile (14%), India (13%), Afghanistan (12%), Turkey (11%), followed by Kazakhstan (5%) and Uzbekistan (1%). Imports from Kazakhstan are most likely re-exports from other Central Asian countries. Retail price is usually in the $5-10/kg range.

DRIED APRICOTS:
Russia’s imports of dried apricots are dominated by Turkey (80%), followed by China (6%), Belarus (6%), Tajikistan (4%), Uzbekistan (3%). Retail price ranges from $12-15/kg. Dried fruit from Armenia is considered by consumers to be cleaner and better quality, than from Uzbekistan and Tajikistan.

Critical success factors and Central Asia's performance

The table below summarizes the key buyer requirements/critical success factors and assesses how producers from Central Asia currently perform against these factors in view of importers. Each CSF is rated in terms of importance for the competitiveness of Central Asian products in Russia.

<table>
<thead>
<tr>
<th>CSFs</th>
<th>Specific requirements and buyer feedback</th>
</tr>
</thead>
</table>
| Price competitiveness Critical | • Russia is increasingly a price sensitive market. Price and quality are the most important purchasing criteria for fruit.  
• While fruit from Uzbekistan has a hard time competing on price with Turkish imports, its main competitive advantage is taste that is liked by Russian consumers.  
• According to importers, Turkey was able to quickly take advantage of the market opening created by the ban on EU imports. For example, it can deliver cherries even to the Russian Far East markets, much cheaper than Uzbekistan, despite the longer distances.  
• Higher prices on fruit from Uzbekistan are reportedly due to export monopoly from Uzagroexport, a government entity that sets the export prices and has a monopoly on exports. (This requirement has been changed in July 2017).  
• Due to poor quality, fruit requires sorting and re-packaging by wholesalers in Russia with adds to price. |
| Timing on the market/seasonality Medium | • Central Asian producers have a slight seasonal advantage over competitors in the Russian market, but they are not always able to deliver product to market early enough. When able to get product to the market earlier, producers command higher prices, for example in cherries. |
| Food safety standards and certifications Medium | • Quality standards are not stringent and GlobalGAP is not required, even by most retail chains.  
• Need to meet GOST standard requirements. |
| Quality High/Medium | • Quality is important to Russian consumers. However, quality for fruit is closely linked to taste, which is more important than cosmetic appeal. Producers will buy fruit from Uzbekistan even if it lacks in cosmetic appeal because it is known for its taste and believed to use less chemicals in production that other imported fruit.  
• However, quality is a critical constraint to reaching the growing supermarket channel, due to limited shelf life and high degree of visual defects. Supermarkets have minimum quality requirements that products must comply with - fruit must be calibrated (sized), clean, and have no visual defects. |
- For fresh fruit producers do not have the required technologies for packaging and preservation before shipping. Quality controls and temperature checks are not routinely performed prior to shipping.
- 70% of product is delivered in carton or wooden boxes unsorted and not palletized. Supermarket chains are not equipped to receive and handle such produce. Therefore, wholesalers usually sort through and sometimes deliver to chains the better quality product. However most of fruit from Uzbekistan is still sold in open air markets.
- Dried fruit from Uzbekistan and Tajikistan occupies the lowest price category as competitor products are considered better quality and cleaner. Even though Russian consumers will not pay premium prices for highest quality dried fruit, preferring fresh fruit, basic quality standards must be met to be competitive in the medium segment.

<table>
<thead>
<tr>
<th>Shelf life</th>
<th>High/Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelf life of fresh fruit from Central Asia is not suitable for supermarkets. Turkish producers typically dominate retail chain supply due to longer shelf life offered.</td>
<td></td>
</tr>
<tr>
<td>Uzbekistan does not have the required technologies for packaging fruit and preservation before shipping. Cold chain is not maintained and pre-cooling is not common.</td>
<td></td>
</tr>
<tr>
<td>Temperature controls and the required moisture content are important factors for shelf life of dried fruit.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cosmetic appeal</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmetic appeal is important mainly for retail chains, while in the open air markets, consumers will overlook the visual appearance for good taste. Because fruit from Central Asia is known and liked for its taste, cosmetic appeal is less important.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Varieties (color)</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Varieties are not important in Russia, as consumers distinguish fruit by color.</td>
<td></td>
</tr>
<tr>
<td>For grapes, while red varieties are still quite popular, the Russian consumers are gradually starting to prefer white grapes over dark and red ones. Little attention is paid to the variety itself.</td>
<td></td>
</tr>
<tr>
<td>The perceived value is not influenced by whether the grapes are seeded or seedless. However, there is a slight trend towards increased consumption of seedless grapes.</td>
<td></td>
</tr>
<tr>
<td>Darkness of the fruit is an important factor for sweet cherries.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Taste</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taste is very important to Russian consumers and is currently the key competitive advantage of fruit from Central Asia, liked for their sweet taste.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size and weight of the fruit</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of the fruit is an important factor linked to price.</td>
<td></td>
</tr>
<tr>
<td>For sweet cherries, small cherries (18mm) are acceptable only very early in the season. As the market progresses larger cherries are demanded. The majority of the fruit sold is between 22-30mm in diameter, with smaller fruit sold at a reduced price. Very large dark cherries (28-30 mm diameter) can command more than double the average price.</td>
<td></td>
</tr>
<tr>
<td>For fresh grapes, the important factor is the weight of the bunch. The minimum acceptable is 400-450 grams per bunch with the higher quality grapes weighting at 600-800 grams per bunch.</td>
<td></td>
</tr>
<tr>
<td>Size uniformity of the berries is critical for retail chains, while it is less important for open air markets.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Delivery times/minimum volumes/consistency of supply</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>According to importers, lack of adequate supply volumes and cold storages are the key factors that limit exports to Russia from Central Asia.</td>
<td></td>
</tr>
<tr>
<td>Usually the period of delivery from Central Asia should not exceed 4-5 days starting from the day of the order. Producers are frequently unable to meet that requirement both due to supply issues and due to border delays.</td>
<td></td>
</tr>
<tr>
<td>There is often high degree of variation within one load, as one truck is usually being filled from 2-3 farms and there is no quality control during consolidation.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payment terms</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail chains and distributors who supply them usually pay within 14-30 days. (According for some market informants 10-60 days).</td>
<td></td>
</tr>
<tr>
<td>Due to pre-payment requirement for exports in Uzbekistan, often intermediaries fill the gap by sourcing produce from producers and carrying the load of pre-payment.</td>
<td></td>
</tr>
</tbody>
</table>
Packaging
High

- There are no specific packaging requirements for fruit in the Russian market as long as it is sufficiently protected from being damaged. Several types of packaging from wood, carton or plastic are accepted in Russia.
- For cherries: The preferred box is a 4 kg wooden rather than the cardboard box. However, cardboard boxes and to a lesser extent plastic packaging are usually accepted. Because of limited shelf life, retailers do not buy cherries in large quantities and prefer to have cherries in the producer’s original packaging and not re-packed.
- Palletizing for fresh fruit is desirable but not crucial.
- Packaging for fresh produce from Central Asia is poor quality and labeling is often wrong. Cardboard boxes breakdown during transportation.

POTENTIAL MARKET OPPORTUNITIES

- Russian market has been unstable due to declining consumer incomes and market diversification is advisable to reduce dependence on the Russian market in the long-term. However, due to overall market size, there are also immediate opportunities for Central Asian producers to increase the value and volume of their exports to Russia capturing larger share in the existing market channels. Uzbekistan is currently holding only 2% share of edible fruit and nuts imports to Russia and opportunities are even stronger now as Russian buyers are actively seeking fruit and vegetable suppliers following import sanctions on the EU. Lack of consistent supply volumes and cold storage are key factors that limit expansion of exports to Russia.

- Key opportunities are in fresh fruit, where the taste of products from Central Asia is liked by consumers. While dried fruit are popular, consumers prefer fresh over dried and in general are not willing for pay significantly higher prices for better quality dried fruit.

- According to buyers the main opportunities are in increasing supply chain efficiencies, improving quality and extending the presence on the market past the season’s peak through better storage and cold chain maintenance. Getting product to market requires well-organized logistics and a reliable cold chain, including pre-cooling. Several market informants advocated for establishing permanent representation by Uzbek exporters on the Russian market, to assure quality and consistency of supply, and reduce the number of intermediaries along the value chain to reduce price.
KAZAKHSTAN

MARKET SIZE, GROWTH TRENDS, AND CENTRAL ASIA’S EXPORTS

Kazakhstan has an estimated population of 18 million people. Due to unfavorable climatic conditions, Kazakhstan is not a significant producer of fruit covered in this study and domestic consumption depends exclusively on imports. In 2016 Kazakhstan imported $410 million worth of “edible fruits and nuts”. Uzbekistan was the leading supplier accounting for $227 million of imports, followed by China ($46 million), Poland ($30 million) and Iran ($20 million).

In 2016 Kazakhstan imported from Uzbekistan $51 million in fresh grapes, $41 million fresh cherries, $18 million fresh apricots, $28 million dried grapes and $5 million in dried apricots. Tajikistan is represented on the market with $4.4 million of dried apricots, $2.9 million in mixtures of fruit and nuts, and a small amount for dried grapes. The import volumes tend to fluctuate from year to year, but are growing on average. During past 5 years the total imports have been declined for fresh grapes at the rate of 9% and for dried apricots at 12%, while they have grown significantly for dried grapes (32%), fresh apricots (2%), and fresh cherries (51%).

Kazakhstan also re-exports some of its fruit imports to Russia. Officially, $2.3 million in dried grapes, $1.4 million fresh grapes, $150,000 fresh cherries and $113,000 fresh apricots in 2016, while unrecorded re-exports are likely to be significantly higher due to reportedly high levels of informal cross-border trade.

CONSUMER TRENDS AND MARKET CHARACTERISTICS

- **Large urban markets**: Kazakhstan has a large urban population (approximately 60% of the total population) which fueled rapid growth of retail food sales - at 12.7% per year during 2010 - 2014. Consumer spending on fruits and vegetables has also grown during the same time period. During the past decade large retail chains have entered the market and expanded throughout the country, mainly in Almaty, Astana and other cities.

- **Decline in purchasing power**: However, retail chain sales started to fall sharply towards the end of 2015 due to sharp depreciation of the local currency and declines in incomes. This is expected to lead to a long-term drop in household consumption and decline in retail sales. Some experts believe that the supermarket growth trend of the past few years has come to an end. Retailer market share is shrinking as several retail chains are closing. In fruit sales, in particular, their market share is only about 8-10%. It remains to be seen, however, whether this trend will be reversed in the medium term.

- **Continued dependence on fruit imports**: Although the Government of Kazakhstan is supporting investment in local production, the focus is mainly on greenhouse vegetables (cucumbers and tomatoes) and high value berries (strawberries and raspberries). Market dependence on imports of grapes and stone fruit will remain due to climatic conditions.

DISTRIBUTION CHANNELS AND MARKET SEGMENTS

In fruit sales, distribution channels are dominated by open air market sales, which hold 80% market share. Market share of retail chains is no more than 10% of fresh fruit sales. Small grocery stores account for about 8% of fruit sales. In large urban areas, such as Almaty and Astana, the share of supermarket chains and grocery stores in food sales is higher than in rural areas and together they may equal the share of open air market sales. However, as incomes decline consumers increasingly prefer shopping for fresh produce in open air markets.
An estimated 90% of imports of fresh produce are sold first at wholesale markets, such as the large wholesale market in Almaty, before being distributed to retail chains and small grocery stores. Traders at wholesale markets usually sort, clean, consolidate, and re-pack the produce. Wholesale markets also supply vendors that sell in open air markets and sometimes sell to consumers directly.

Since traders usually serve as the link to retail distribution channels, exporters often lack information on end market trends and consumer preferences.

Retailer requirements for suppliers are stringent – they require a one year contract, set pricing and delivery schedules for each month, and impose significant penalties for breaking the contract. Few importers supply this channel due to stringent requirements and low-pricing strategy.

Since there are reportedly increased exports of processed products from Uzbekistan to Kazakhstan, processing of fresh fruit imported from Uzbekistan in Kazakhstan is limited. The share of fruit imports supplied to local processors is negligible and usually includes fruit of lower quality that cannot be sold fresh.

Significant share of fruit imports from Uzbekistan enters Kazakhstan illegally, which affects the quality of import statistics and limits the enforcement of food safety standards.

**Consumer market segments for fruit sales in Kazakhstan are organized as follows:**

<table>
<thead>
<tr>
<th>Premium, upscale</th>
<th>Organic; premium quality; additional standards from processing to packaging; require certification.</th>
<th>$10-20$/kg for dried Premium, varies for fresh</th>
<th>Supermarkets</th>
<th>Less than 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-market (Mainstream retail)</td>
<td>Good quality, standard retailer requirements</td>
<td>$3 -12$/kg for dried Mid-range, varies for fresh</td>
<td>Open air markets, small grocery stores, supermarkets</td>
<td>70-80%</td>
</tr>
<tr>
<td>Lower segment (Bulk product)</td>
<td>Average to good quality, often for use as food ingredient</td>
<td>Significantly lower</td>
<td>Open air markets, food processing</td>
<td>20-30%</td>
</tr>
</tbody>
</table>
• Fresh and dried fruit from Uzbekistan and Tajikistan is primarily sold in the mid-range and lower market segments. Fresh fruit is mainly sold in the mid-market segment through open air markets and small grocery stores.

• Dried fruit is primarily sold in bulk in open air markets and small grocery stores and is purchased by consumers in small quantities of 100-200 g for use as snacks. However, exporters of dried fruit from Uzbekistan have been increasingly differentiating their products through unique packaging, presentation and branding to add value. The use of dried fruit by the food processing industry is limited.

**KEY COMPETITORS**

Uzbekistan is the leader in the Kazakhstan import market accounting for 55% of fruit and nuts imports which have been growing at 2% between 2011 and 2016. China holds the second place with 11% of imports in the same category.

**FRESH GRAPES:**
For fresh grapes, Uzbekistan dominates the market with 89% of imports, followed by China (6%) and Turkey (4%). China supplies grapes year round, but its grapes are only competitive until May before imports from Uzbekistan arrive in the market offering better price and preferred taste by consumers. During season wholesalers also prefer to place smaller orders with suppliers from the region in order to receive fresh produce faster. Demand for Chinese grapes at that time is low.

In May 2017 at the start of the season the retail price was $3/kg. It usually goes down to $1.5-2 in July (mid-season) and to $1 or less in August as the season ends. In March Chinese grapes capture the highest price, due to off season pricing.

**FRESH CHERRIES:**
Uzbekistan and Kyrgyzstan supply most of fresh cherries to the Kazakhstan market. In 2014 they held 87% and 12% of imports respectively. Minor market shares are held by Turkey and Iran.

Uzbek cherries arrive in the market in May, followed by Kyrgyz ones in June. The retail prices range from $4/kg in June to $2/kg in July, when the season ends.

**FRESH APRICOTS:**
Uzbekistan and Kyrgyzstan also share the fresh apricot market with 80% and 16% respective market shares. Tajikistan holds a 3% share of imports, followed by China with a 1% share.

The season starts with first apricots arriving from Uzbekistan in May and ends in July. The retail price during season ranges between $1.5-2.5/kg.

**DRIED GRAPES:**
Uzbekistan holds a 58% share of imports, followed by Iran (29%) and Afghanistan (10%). The price is stable year around with demand usually increasing during Ramadan. The lowest price is $3-4/kg and can be as high as $5-9/kg.

**DRIED APRICOTS:**
Uzbekistan and Tajikistan split the import market for dried apricots, with small amounts imported from Turkey and China. The retail price in May 2017 ranged between $11-14/kg.
Critical success factors and Central Asia’s performance

The table below summarizes the key buyer requirements/critical success factors and assesses how producers from Uzbekistan and Tajikistan currently perform against these factors in view of importers. Each CSF is rated in terms of importance for the competitiveness of Central Asian products in Kazakhstan.

<table>
<thead>
<tr>
<th>CSFs</th>
<th>Specific requirements and buyer feedback</th>
</tr>
</thead>
</table>
| Price competitiveness             | • Price is an important consumer consideration, particularly as incomes decline.  
• Uzbekistan has a price advantage due to proximity to markets.  
• From South of China in takes 45 days to get product to Kazakhstan by truck.                                                                                                                        |
| Timing on the market/seasonality  | • Uzbek products are at an advantage during season when they dominate the market and are sought out by consumers for their taste.  
• Chinese fruit is available year round and can capture higher prices during off-season.                                                                                                          |
| Food safety standards and certifications | • Retailers may require GlobalGAP, but their share of the market is low and margins offered are lower so importers prefer to sell in open air markets.  
• Need to meet GOST standard requirements. However, due to significant illegal imports, the enforcement of food safety standards is limited.                                  |
| Quality                           | • Kazakhstan is a less demanding market in terms of quality, due to lower market share of retailers and lower quality requirements in the open air markets. Importers in wholesale markets sometimes set the accepted percentage of spoiled product in shipments, for example 20% for nuts.  
• Quality from China is better due to better packaging and proper cold chain. However, relative proximity to markets from Uzbekistan allows for faster transport to Kazakhstan, so quality does not suffer as much as it does during transport to Russia and other markets.  
• Uzbek fruit is usually preferred for its taste and softness. For example, grapes from China have tougher skin due to different production methods, earlier harvesting before fruit is completely ripe, and treatments applied to fruit to ensure longer shelf life.                                                                 |
| Shelf life                         | • Minimum of two weeks after arrival to the wholesale market.                                                                                                                                                                              |
| Cosmetic appeal                   | • Cosmetic appeal is secondary to taste.                                                                                                                                                                                                 |
| Varieties (color)                 | • Popular varieties for grapes include red seeded, kishmish small seedless and white.  
• Consumers across Central Asia share the same preferences.                                                                                                                                                                                      |
| Taste                             | • Taste is the key consideration for the consumer next to price. Consumers prefer the taste of fruit from the region which is more flavorful due to traditional production practices. China uses different production practices which results in a different taste.  
• Reportedly imported Chinese fruit of sweeter varieties is often mislabeled by retailers as fruit from Uzbekistan and Kyrgyzstan, since it is preferred by consumers. |
<table>
<thead>
<tr>
<th>Size and weight of the fruit</th>
<th>• Preferred grape sizes range from 300-500 grams per bunch.</th>
</tr>
</thead>
</table>
| Delivery times/minimum volumes/consistency of supply | • Less stringent volume requirements due to low market share held by retailers.  
• Proximity to markets allows for fast delivery times for Uzbek producers.  
• During season buyers are looking for smaller quantity deliveries of fresh produce, which is an added competitive advantage for regional producers. |
| Payment terms | • Retail chains require 14-30 day payment along with a 1 year contract and pricing schedule for each month, and impose significant penalties for breaking the contract. However, their market share is low compared to open air markets and small grocery stores. |
| Packaging | • Packaging requirements are less sophisticated in Kazakhstan and importer tolerance for poor quality is quite high. |

**POTENTIAL MARKET OPPORTUNITIES**

• Traditional markets like Russia and Kazakhstan have been unstable due to declining consumer incomes. Therefore, gradual market diversification is needed in order to increase the share of developing and aspirational markets in the region’s export portfolio in the long-term.

• In the Kazakhstan market, the growth opportunities for producers from Uzbekistan and Tajikistan are expected primarily in dried fruit. While the margins in fresh fruit are higher, the risks and costs are also higher due to perishable nature of product, seasonal fluctuations of demand and supply, transportation costs and lack of opportunities for product differentiation. As can already be observed in the market, producers from Uzbekistan have been increasingly differentiating their dried fruit products through unique packaging, presentation and branding to capture higher value.
ANNEX A

TOP WORLD IMPORT MARKETS FOR TARGET PRODUCTS AND THEIR GROWTH TRENDS


- Korea, Rep.: 1%
- France: -2%
- Russian Federation: -19%
- Canada: 0%
- Netherlands: -7%
- United Kingdom: 2%
- Germany: 2%
- China: 11%
- United States: 12%


- Japan: -17%
- Belarus: 02%
- United Kingdom: -9%
- United States: 23%
- Russian Federation: -14%
- Canada: -10%
- Germany: 4%
- Korea, Rep.: 11%
- China + HK: 22%


- Netherlands: -23%
- Kazakhstan: 3%
- Belgium: -2%
- Austria: 2%
- United Kingdom: 8%
- Switzerland: 6%
- France: 4%
- Russian Federation: 21%
- Italy: 3%
- Germany: 1%


- Russian Federation: -20%
- Kazakhstan: -12%
- India: -16%
- Brazil: -2%
- Netherlands: 10%
- Australia: -2%
- Germany: 2%
- France: 2%
- United Kingdom: 4%
- United States: 5%
ANNEX B

GROWTH TRENDS IN KEY IMPORT MARKETS (BY PRODUCT, IN USD)

Russia Import Trends

CAGR

Fresh Grapes (-19%)

Fresh Cherries

CAGR

Dried Grapes (-14%)

Dried Apricots (-30%)

Fresh Apricots (-26%)

Dried Grapes (-21%)

Kazakhstan Import Trends

CAGR

Fresh Grapes (-9%)

Fresh Cherries

CAGR

Dried Grapes 32%

Fresh Apricots 51%

Dried Apricots (-12%)

GROWTH TRENDS IN KEY IMPORT MARKETS (BY PRODUCT, IN USD)
Germany Import Trends

Latvia Import Trends
China Import Trends

- Fresh Grapes: 11% CAGR
- Fresh Cherries: 22% CAGR
- Dried Grapes: 7% CAGR
- Dried Apricots: 16% CAGR

South Korea Import Trends

- Fresh Grapes: 1% CAGR
- Fresh Cherries: 11% CAGR
- Dried Grapes: (-3%) CAGR
- Dried Apricots: (-1%) CAGR