Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 8/30/1999

GAIN Report #AJ9001

Azerbaijan, Republic of

Retail Food Sector

Market Brief

1999

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Report Highlights:

The Azeri marketplace is full of a variety of goods and food stuffs, but it requires persistence, patience, and strong local partners to enter sucessfully. Competitive prices are key. Soviet-era attitudes are changing, but it remains an incomplete process. The economy will boom when the Caspian Sea energy resources are fully channelled, so great potential exists.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ankara [TU1], AJ

approval nor constitute endorsement by USDA/FAS.

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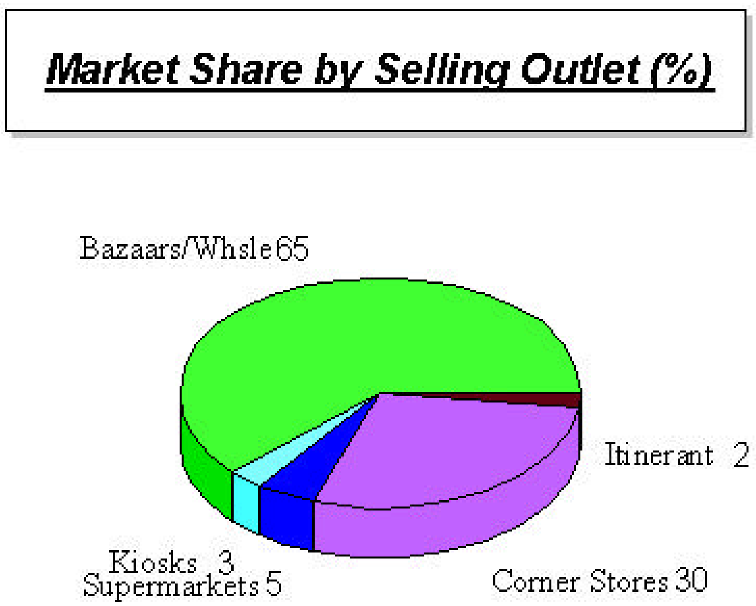
SECTION I - EXECUTIVE SUMMARY

The Azerbaijan food marketplace is one centered around the traditional bazaar, where the merchants sell their fresh meats or produce or other products off their six to ten running feet of frontage on the bazaar aisle, with their competitors hawking right alongside them. This is the traditional, central buying place in most Azeri cities, towns, and villages. Prices are cheaper here than most other retail outlets, and everything from spoons to vacuum cleaner bags to one-quarter beef carcasses can be found here in wholesale or retail quantities - two qualifications that keep the customers coming. Everyone buys here, including the HRI food service industry.

A few wholesalers (alcohol & beverages, rice, sugar, butter, flour, & poultry) also sell at retail and provide consumers with another place to procure food items relatively cheaply. Supermarkets exist, but they are limited in numbers and are mostly located in Baku, the capital and primary city of Azerbaijan. Small groceries and convenience (corner) stores fall in-between the bazaar and the supermarket, with a number of more-permanent kiosks and itinerant street-corner vendors, filling in the gaps and competing for the impulse purchases. No firm statistics exist on the food retail sector, but industry sources estimate that, of the marketplace share breakout, the bazaar and wholesale segment has approximately a 60% share, with supermarkets holding only 5%. The corner stores, kiosks, and street vendors capture the remaining 35% between them, with corner stores getting the largest slice, 30%, to only 3% for kiosks and 1-2% to the itinerant street vendors.



Azeris reportedly spend upwards of two-thirds of their incomes on food and alcohol, between $1.5 to $2 billion. Scratch cookers, Azeris prefer their food fresh, relatively unpackaged and have little demand for convenience yet. Years of influence of the Soviet system have left Azeris with a food marketing system only recently privatized and looking to find its way in a more efficient fashion. Newer supermarkets have appeared to take their place in Baku, but are only holding place as the eagerly awaited economic boom from the energy sector has not yet swept over Azerbaijan. With a very low per capita income, the average consumer wants food as fresh and as cheap as possible. Azeris who can afford to shop at the Ramstore chain's five supermarket locations or at the other few competing supermarkets, where they find a full selection of fresh, processed, and packaged products presented in modern, clean surroundings. If they cannot shop at these stores, as most cannot, they shop in the bazaar, conveniently supplementing as they can afford, from the corner shops, kiosks, or scattered groups of itinerant street vendors sprinkled throughout the city.

The shaking off of the Soviet-era systems and, most importantly, attitudes is an incomplete process. Infrastructure is underdeveloped (especially cold stores), credit is extremely scarce, and change is slow to come (even though agriculture is the most privatized economic sector). Retailers serve extremely price conscious customers. The Azeri marketplace is full of a variety of goods and food stuffs, but requires patience and persistence to enter. The Government of Azerbaijan (GOA) plays a critical role in the entry process. After a competitive price, good contacts and strong local representation are the key components for successful selling to this market. Food stuff imports must be done by a registered person or firm (registered with the Ministry of Justice). Animal products require a license for importation, obtainable from the State Veterinary Committee. Poultry products also require local lab test results for moisture content and salmonella. Other necessary documentation for importation includes a signed import contract, a commercial invoice, a certificate of origin, a phytosanitary certificate (as appropriate), bill of lading, and a customs declaration. An Islamic Halal slaughter certificate is not required. Product labeling requirements include (on each unit and on outside packaging): name & complete address of exporting company, name and type of commodity, production and expiration dates, product weights. English labels are acceptable but it is preferable to also have at least the product name in Russian (though labels in the Azeri language are best).

Import duties on food stuffs and alcohol range from 0 to 70%, with most subject to a final, constructed duty of 38%. The Government establishes a minimum price for an item, and bases the duty (usually 15%) on that price if invoice prices are lower. The final import duty paid is constructed based on a customs duty, a 20% VAT, and a customs processing fee of 0.15% of the declared customs value. The customs duty is assessed on the invoice, or minimum, price (whichever is higher), then the sum of that customs duty amount and the invoice, or minimum, price is multiplied by the VAT rate. The customs duty is added to the VAT sum and together these make up the final duty charged (plus the customs processing fee). For re-export, a duty is charged, usually also about 38% of the customs value (a similar calculation involving a 15% customs duty and 20%VAT).

Azeri Food Market "Snapshot"

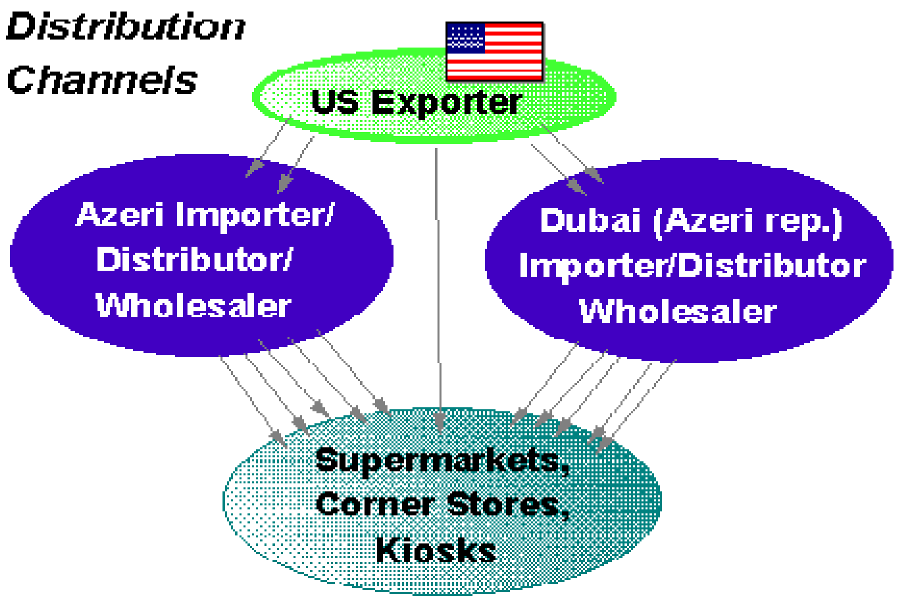
ADVANTAGES	CHALLENGES
Azeris appreciate and desire Western products	Western imports are too expensive for the average Azeri consumer to purchase currently
Supermarkets have opened in the major city and are preferred by those who can afford to shop there	Retailers "buy" goods on consignment, shifting market risk to the suppliers, which is difficult, given such a high re-export tax in place (averaging 38%)
Food is a major expenditure for all Azeris (2/3 of income) and they are discriminating customers as a result	Infrastructure is limited and very underdeveloped, with little change happening until the energy sector brings in the anticipated large revenues
Imported processed food stuffs are the norm for Azeris, with little local production	With limited revenues, the Azeri government is very aggressive in assessing duties and business taxes
Natural gas was recently found in very large amounts, further adding to country's economic potential	Azeris are most familiar with Russian products, and prefer their familiar tastes
American oil industry's activities in the economy have introduced American food tastes into the HRI sector	Azeri economy languishes, and personal incomes remain very low, so Azeri consumers must be very price conscious

SECTION II - MARKET STRUCTURE AND SUB-SECTOR PROFILES

Supermarkets

Retailer Name/Outlet Type	Local or Foreign Ownership	Annual Est. Sales ($mil.) For 1998	Number of Outlets	Locations	Type of Purchasing Agents
Grand Stores (Gulf Trading Co., sub. of T. Choithram & Sons)	Dubai	<$1 million	One	Baku	100% direct importers, from allied firms in Dubai
CitiMart (Nipro International, sub. of Al Maya Lal's group of Co.s)	Dubai	$.5 - 1.5 million	One	Baku	80% direct imports (much Indian product), balance from local wholesalers &distributors
Continental	Azeri-German J.V.	$.5 - 1.5 million	One	Baku	Direct importing, mostly from Germany
Ramstores (market leader with 12,000+ sku's)	Turkish (Koc Holding Group)	$18 million	Five, w/expansion plans for two more stores within the next year	Baku metropolitan area	Direct importing, local wholesalers (100+ suppliers)

Supermarkets in Azerbaijan are led by the Ramstores' five stores, one a large supermarket/small hypermarket facility. The other four locations are urban-style, with no on-site parking and a complete, but limited in sku's product line. Ramstores is confident in the future growth potential of the Azeri market, yet the other supermarkets share with Ramstores a limited market of elite Azeri and various expatriate and diplomatic consumers. Until the economic boom arrives from the exploitation of the energy resources, these supermarkets will jockey for position in a stagnant market with excess capacity among them. Ramstores has the backing of one of the biggest Turkish holding groups, so they will remain the Azeri supermarket leaders until the market matures substantially.



- *Just a few importer/distributors have national distribution*
- *Most items are purchased by retailers on a consignment basis*
- *Some stores import directly themselves*
- *Some Dubai traders have Azeri offices*
- *There are very few wholesalers - only 7 or 8, there are more importer/distributors*

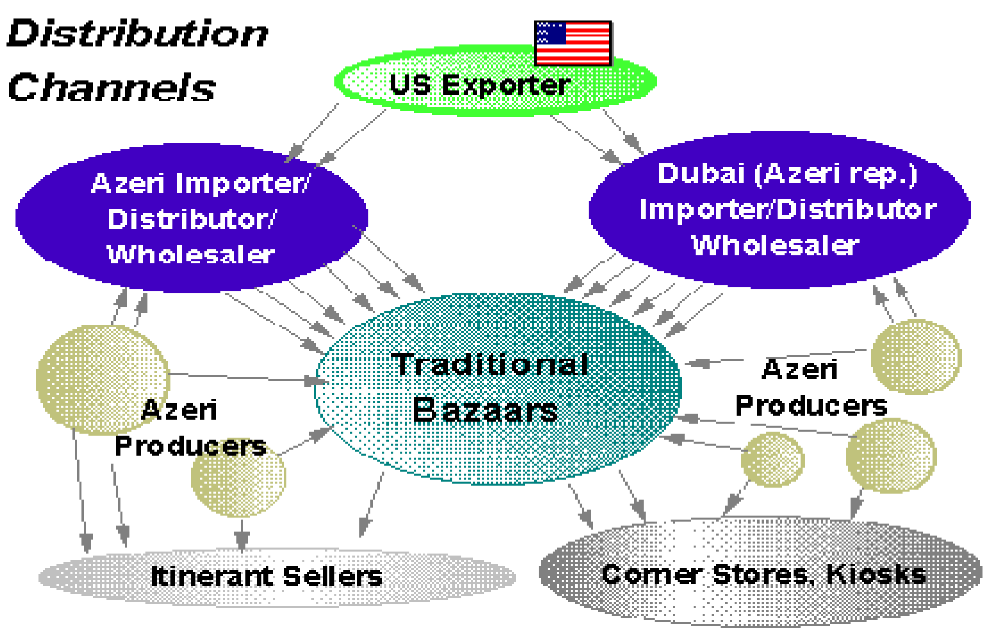
Convenience stores

Corner grocer and convenience stores, kiosks, and itinerant street vendors make up the bulk of the retail outlets in Azerbaijan. Numbering anywhere from 2500--3000, these independent outlets cover the range from small groceries and mini-convenience stores to fruit or beverage and snack stands to farmers and other aspiring retailers working the corner until the police come along to move them along. These operations often buy direct from the producers, at the bazaar, or from the wholesalers or importer-distributors. Azerbaijan has seen the opening of six or seven gas station minimarts operations in the last year, all stationed on the main feeder roads into the city. The mini-mart portion of these facilities is very underutilized at the moment (patrons aren't used to stepping out of their cars when filling up), but the infrastructure is in place.

Bazaar (traditional) and wholesaler markets

The bazaars are a time-honored method of selling in this region, preceding the Soviet system and lasting through the collapse. The Soviets did bring one improvement to the bazaar, they expanded the bazaar concept in the larger cities, placing them in locations spread throughout the city. Baku has eight within easy reach of most of the population. Bazaars feature sellers with an established location, who buy directly from producers or importer-distributors or wholesalers who truck the items up to the Bazaar's doors early every morning. The sellers then obtain the day's selling stock and begin the merchandising when the Bazaar opens to the consumers. Sellers sell by weight or piece, wrapping purchases in paper or in small plastic bags. Prices are cheapest here and products the freshest.

Wholesalers buy in bulk directly from overseas suppliers or importers and from Azeri producers and sell both wholesale and retail, usually specializing in a limited product line. The few retail sales they do are normally by the box, or whatever the smallest sized packaging their particular commodities come packaged in. For example, American chicken leg quarters are sold by the 18 kilogram box, a minimum of one box or more.



-Importer/distributors are

the key to selling via this most important channel

- *Large variety of items in very small spaces - fresh, chilled, & processed items, depending on seller's space*
- *Bazaars are the traditional, dependable place to shop for Azeris*
- *Between them, the bazaars, corner stores, kiosks & itinerant street sellers sell 95% of food items purchased*

Food Processing and HRI Food Service Sectors

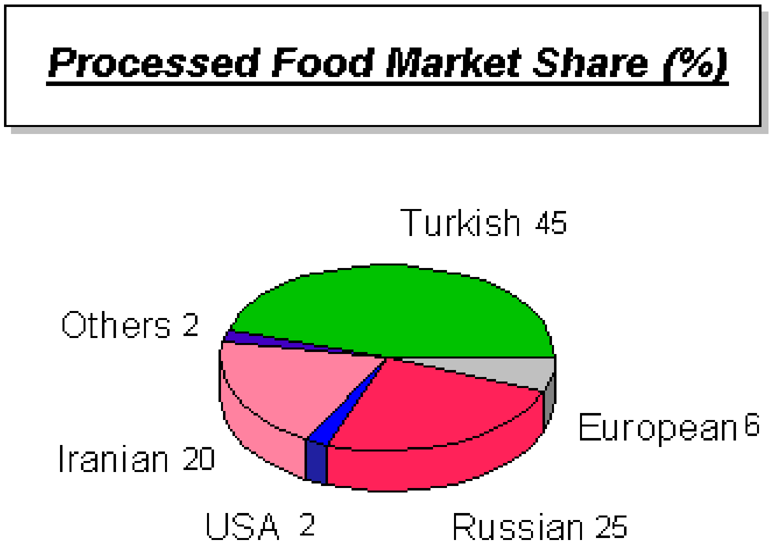
Normally covered in separate reports, these two sub-sectors of the agricultural sector are weakly developed in Azerbaijan and will be covered here briefly.

The food processing industry was much more active during Soviet times. At the industry's peak, there were 43 processing plants, working mostly during harvest periods. After the break-up of the Soviet Union the usual state-determined markets disappeared, inputs became scarce, and many of the processing facilities stopped functioning. This sector has received some attention from the government recently. The Ministry of Agriculture has expressed an interest in sourcing used processing equipment to upgrade the various production facilities from the antiquated Soviet plant stock. Most packaging is done with glass jars and bottles, which are in shortage. Out of the 43 plants, it is reported that 17 have potential for substantial production, if investments can be found for both working capital and physical plant revitalization. The primary items processed at these plants include tomato paste, apple concentrate, and fruit, especially pomegranate, juices. The industry is primarily located in the main fruit and vegetable growing areas in the northeast (Guba for fruit) and southeast (Lankara for vegetables). Only one of the fruit processing plants has been able to enter into a joint-venture with a foreign business. A German firm, Janke, contracted in the early 1990s for apple juice concentrate - this arrangement produces an estimated 2,000 metric tons annually. Another Azeri firm produces and packages a pomegranate sauce which is sold locally and is used much like soy sauce. (It is especially good for sturgeon and other fish dishes.) Caviar, the delicacy of the Caspian Sea region, is the leading Azeri processed food item. The smaller sized portions, in 28, 56, 114, and 500 gram sizes, are packed in glass dishes with a tin top, and the largest portion available, 1000 grams, comes in an all metal tin. Varieties include the premium *Beluga*, next *Sevruga*, followed last by *Sturgeon*. Other processed fish products include smoked and dried fish sold unpackaged in the bazaar and other retail outlets.

The Hospitality, Restaurant, and Institutional food service sector exists but most of these businesses are self-sufficient. They keep the procurement, preparation, and presentation of meals fully in-house due to a lack of viable alternatives. At the present time, there are two catering firms servicing the offshore oil industry in the Baku area and another firm servicing the airport and international airlines. Given that the oil industry workers are still largely expatriates, one of the two oil catering firms sources containers of frozen and processed items (western brands) through their centralized network from outside Azerbaijan and deals with local wholesalers for fresh fruit, vegetables, and some meats. The Azeri oil workers favor meat (lamb) dishes and reportedly see fruit consumption as a hobby. The ten or twelve larger hotels in Baku and the many restaurants are self-reliant in sourcing and serving food items. They shop at the bazaar or make arrangements with the various wholesalers. A small number (10-15) of these are targeted at Western (especially American) expatriates. No major international restaurant chains have opened operations in Baku, although McDonald's will be opening a store in the Fountain Square area sometime in the next year. This operation reportedly will start with sourcing 100% of supplies from outside Azerbaijan, but plan to shift to local suppliers within the first two years. There are a few Turkish, or other foreign-owned, modern style, fast food restaurants in Baku, but many locally-owned restaurants featuring Azeri cuisine. Estimated size of the HRI sector is $15-20 million annually but returns are low in this sector, averaging 4-5% yearly.

SECTION III - COMPETITION

Azerbaijan's 2500 - 3000 food marketplaces feature Turkish, Russian, European (UK, German, & French), and Iranian items, with a limited number of U.S. products available (mostly sourced out of Gulf area traders). Other than in poultry and softdrinks, U.S. products have little penetration of the Azeri marketplace. European products are found in the supermarkets and are preferred by the elite. Turkish products are the most widely found, covering the full range of luxury to staple items and are found in the most outlets. Turkish products have been making strong in-roads in the Azeri marketplace in the last three to four years. Russian products are losing their previously superior position (wide distribution & availability) due to their perceived inferior quality. Russian products and their tastes are the most familiar (and popular) to the Azeri population, especially meat products like sausages, but the inadequate packaging suffered by Russian product contributes to their declining share. Russian and Polish-types hard candies are very popular. Inexpensive Polish processed meat products are also in the market. Russian products' low prices have helped them stay in the Azeri market. Iranian products take up the bottom position in the market and offer a better value for their rock-bottom prices than Russian products, which are priced slightly more expensive than Iranian items.



There is almost no Azeri processed products in the market, only some fruit-related items (juices, jams, sauces), a few dairy products, and caviar. In fresh items, Azeri fruit and vegetable production is quite abundant during seasonal periods and is preferred. Azerbaijan was a powerhouse supplier to the former Soviet Union, providing approximately 1.6% of it's food supply. The Azeri diet includes large amounts of red meats and fish and the local producers respond with traditional cuts of meat and fish. Local poultry production garnishes the bottom of the market. A lack of well-developed cold store chain facilities, together with limited per capita income, limits the import competition in meat proteins, other than in chicken. It also limits the development of other frozen and chilled items.

Market promotions usually take the form of discounts or longer terms. Advertising support is very limited and there is little in-store promotion, other than for alcoholic and other beverages. Turkish companies offer the most support, a complete package from credit to advertising.

SECTION IV - BEST PRODUCT PROSPECTS

Due to the flat economy, stagnant incomes, and stalled business development resulting from the lack of a take off in the energy sector, opportunities are limited for introducing many new items at the time of the writing of this report. Even in this market, though, niches can be developed with the proper Azeri contacts. The majority of items are sold on consignment in the outlets other than the traditional bazaars. Buying on credit is extremely limited--most retailers will not take the "selling" risk. Some items having promise include chicken & chicken products, butter, sausages, beef, and a small amount of pork (which is about 5% of the red meat market). Frozen butter is one of the most promising niches, as Azeris prefer to cook in butter instead of oil. Other dairy products, such as yoghurt and cheeses, could do well also. Condiments have promise, especially mayonnaise. Bottled water has seen dramatic growth in the last year - an Azeri brand leads in market share. Medium-grain American rice has solid potential, as much comes in now from the Gulf.

For any item being considered for the Azeri market, a competitive price is the primary concern for the potential importer. With no middle class to demand a plentitude of processed goods, a world-competitive price is key for selling to the Azeri mass market, while the luxury market will stay quite limited as long as the energy market remains weak. Much of the imported products on Azeri shelves have been brought in via the Gulf, reportedly shipped to Bandar Abbas, Iran, where they are railed up to the Azeri border and off-loaded onto trucks bound for Baku or elsewhere. This route is not the most competitive way for any item possessing a minimal critical mass for "rail-able" loads. Other, less expensive routes exist. Local representation is another critical component for success in the Azeri marketplace. As with many other former Soviet states, Azerbaijan features a shifting enforcement of customs and tax codes. With extremely low official salaries paid to the GOA officials, wading through the process can be unpredictable. A good local partner/agent/representative can help to get through the process without undue difficulties.

SECTION V - POST CONTACT AND OTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting American agricultural products to Azerbaijan, please contact the office listed immediately below:

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End of report.