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Azerbaijan, Republic of

Grain and Feed

Wheat Situation

2000

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Report Highlights:

Cereal production continued at low levels, but appears to have stabilized and may begin a slow turn-around this year as a combined result of adjustments to free market conditions, better weather conditions and additional outlets for wheat sales at commercial mills. Imports of wheat products have continued at 650,000-700,000MT per annum, mostly from Kazakhstan and Ukraine. Renovated and new mills are importing more wheat and less flour.

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

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Executive Summary

Cereal production continued to fall in 1998, but appears to have stabilized and began a slow turn-around beginning this year as a combined result of adjustments to free market conditions, better weather conditions and additional outlets for wheat sales at commercial mills. Grain production dropped over forty percent since 1990, after the breakup of the Soviet Union and the beginning of a difficult transition to a market oriented agricultural sector. Agriculture's share of the economy declined from 32% to under 20% of GDP and imports began to displace production of many foods, including wheat. With plots of just a few hectares, low production and high charges by intermediaries, many producers pay a milling fee to small local mills, keeping most their flour for their own consumption and selling just a small portion on local markets. Last year, local production accounted for about half of total availability, with imports split between flour and wheat. Imports of both commodities from Russia predominated in MY98 (July-June), as traders took advantage of lower duties for Russia and quick cash sales. MY1999 trade was dominated by imports of higher quality wheat from Kazakhstan.

Production

Wheat (mostly red winter wheat) can be grown throughout the country but is concentrated in seven provinces in Central Azerbaijan including Agcebedi, Terter, Berde, Isamilli, Saki, Aksu, Celilabad Beylogan and Goranboy. A small portion of the crop is irrigated. Government statistics indicate that the 1999 (July-June) wheat harvest reached 992,000 tons from 489,689 hectares, 150,000 higher than the previous year, but government statistics are a bit misleading as they sometimes include barley, rye, oats in delivered quantities.

Wheat millers and other experts believe that production was closer to 900,000 MT, reflecting the combined result of poor weather (three dry years in a row), lack of inputs, and insufficient production incentives. Over 80% of wheat was once irrigated, but much of the equipment is in disrepair and can no longer be used.

Farmers, who were used to receiving seeds and other inputs from the Government during Soviet times, continue to have difficulties accessing credit for seeds, fertilizer, herbicide and pesticide purchases, although a number of bilateral and multilateral assistance projects are being developed for this purpose. Much land was shifted to cash crops, like potatoes and vegetables, which need less land preparation, are easier to grow and can be immediately sold for cash. With a relatively small amount of improved seed available locally, many farmers continue to recycle their seed, with the end result of lower quantity and quality wheat.

The trade and Government officials expects MY 2000 production to be up to 20% higher (largely from yields), assuming a continuation of normal weather conditions during the latter stages of production. Also, they expect some farmers will make an effort to improve wheat quality for cash sales to commercial mills.

A recent study by an inland miller estimated production costs for irrigated wheat in Goranboy as follows (Manat 4,400=US\$1):

| | |
|------------------|---------------|
| Soil cultivation | 60,000 manat |
| Plowing | 20,000 |
| Seed | 200,000 |
| Planting | 35,000 |
| Bordering | 20,000 |
| Irrigation (3X) | 195,000 |
| Fertilizer app. | 185,000 |
| Herbicide app. | 45,000 |
| Harvest | <u>75,000</u> |
| Total | 835,000 |

The total production cost, at 3 tons per hectare (irrigated) is about 280,000 manat or about \$62 per MT. In season, producers of good quality wheat can reportedly receive about \$120-\$130 per ton (An additional \$10-20 goes to the intermediaries who buy small amounts and consolidate/deliver to the mills.) Last year, some producers reportedly received about \$170 off-season, when there was a temporary shortage of wheat imports. An independent study in the fall of 1999 found wheat priced at 616 manats per kg. on-farm, 775 per kg. wholesale and 886 manats kg. retail. Flour was priced at 1,279 manats per kg. wholesale and 1,524 manats per kg. retail.

Consumption

The State Bread Corporation, which owned most cereal storage facilities, was abolished in 1997 and ex- State mills are almost all in private hands. Some have closed. Turkish millers (Fatoglu, Yetis, Kayalar, Atapala, Bereket/Anrabulu) have invested in the sector by purchasing (mostly with minority local partnerships) and renovating and/or constructing five mills, the largest with a production capacity of 150 MT/day (expandable with additional machinery to 300 MT/day). Another Chechen/Azeri joint venture, Karat, reportedly has 350MT/day capacity. A few residual government-owned mills with 100-150 MT capacity are also operating under contract. The Azerbaijan Government offered a number of incentives to investors, including an initial five years of tax-free profits.

There are only two macaroni/pasta factories operating in country. Most pasta on retail shelves is imported. The percentage of wheat which is used for feed is relatively high (estimated here at 200,000 MT, reflecting the high quantity of poor quality grain produced, which cannot be used for flour, wheat marketing problems, and lack of commercial feed. Bread is still the staple food of Azerbaijan- with the most popular being “tandır”, which can only be produced with high gluten indexed wheats. Local, lower quality flour in local markets, can sell for as low as 800 manat/kg. and better quality flour from commercial mills at US\$12- \$12.50 (about 1,000 manat/kg.) bread quality flour in 50 kg. bags.

Per capita wheat consumption for food, almost all bread, is estimated at 160 - 175 kg per person per year (or total national consumption of about three tons per day). With an estimated 7.5 million consumers, this results in national consumption of about 1.2-1.3 million tons. Adding 150,000 tons of feed wheat production, 100,000 tons carry over stock, and 100,000 tons recycled as seed (200kg./hectare) total availability can be derived at about 1.6 MMT.

Trade

Duties and tariffs for wheat imports are applied by differing methods and to differing degrees. Wheat imports in Gence from the CIS Republics including Kazakhstan (estimated border price 85-90 plus \$64 transport by rail to Samur and inland trucking) are assessed a 20.5% VAT plus .3% customs clearance charge. The initial 20.5% VAT (paid to customs at the time of entry) is deducted from the VAT which is collected at the time of sale of the finished product. For imports from Russia an additional 5% import tax (and the .3% clearance) are charged at the time of entry. There is no initial VAT assessment, but the full 20.5% VAT is collected when the flour is sold. Likewise for local purchases, the full 20.5% VAT is charged at the time of purchase so that millers only save up to 5.3% by using domestic wheat. Flour imports are assessed a 35% import tax, in addition to the full VAT. (Current VAT and tax policies give mills no incentives for domestic wheat purchases, but this could change if the government applies new policies designed to support producers.) Under invoicing and other anomalies can often lower the amount of duty paid at the entry or final sales points. There is also reported corruption and/or collusion between government and private sector officials, which can come into play when determining duties.

In 1999, the Government seriously considered a barter exchange with a CIS country for 500,000MT of wheat in exchange for petroleum products. The contract ran into a good deal of criticism, and was not concluded. In addition to Azeri milled flour, retail stores stocked flour from Turkey, Dubai, Italy, Pakistan, Kazahstan, India and Russia. Government statistics show imports of 113,217 tons flour and 388,000 tons wheat (values \$24.5 and \$51.6 million) in 1998. From January-November 1999, official statistics show 276,107 MT wheat (\$37.5 million) and 75,154 MT (\$12,772 million) from Russia, 21,118 MT wheat, 4,973 MT flour from Ukraine, 95,000 MT wheat from Kazakhstan, 2,687 tons MT, 1,841 tons MT flour from Moldova and 15,900 MT flour from Turkey and 5,148 MT wheat flour from the United States.

Flour imports are actually believed to have reached to an estimated 250,000 tons (much unregistered), almost half of all imports in 1999, reflecting excellent prices offered by Russians interested in quick cash sales. Some traders and millers expressed concern that large shipments of U.S. wheat products to Russia in 1999 had facilitated flour exports to neighboring countries, despite export limitations clauses in the bilateral agreements. At the time of this report, about 80% of the imported wheat was coming from Kazakhstan, and the balance from Ukraine. The Kazakh wheat is reported to be the excellent quality (protein, gluten content) and preferred in the current market scenario.

A number of mills have expressed an interest in importing US wheat under GSM-102 , but have been unable to locate banks in Turkey which are willing to cover foreign risks (there are no approved Azeri banks). FAS also announced a Supplier Credit program for the country, which has not yet been used.

Policy

Years of Soviet agriculture practices left soil depleted, salinization levels high and irrigation canals filled with silt. Diesel oil prices also increased, and when it was available, farmers could spend days on line. Most farmers were dependent on the State Order system, which mandated production, but also provided farmers with inputs like fertilizer, chemicals and equipment, as well as an assured market. In addition, the break-up of the state farms and collectives resulted in smaller privatized units, which were generally not economic for wheat production. This all led to a downturn in production of several important crops, including wheat and cotton.

In 1999, the Central government provided farmers with relief from most taxes, with the exception of the land tax, and also provided a 50% subsidy for fuel. An inter-ministerial proposal for development of the agricultural sector was approved in November, 1999, although details of the program are not yet worked out. Direct U.S.-Azerbaijan Governmental assistance is prohibited by the U.S. Congress (political/humanitarian concerns). The USG does provide humanitarian food aid to refugees and displaced persons. USAID has several agricultural development programs with the private sector and NGO's. Bilateral (EU-TACIS, Japan, Holland) and multi-lateral (World Bank, ADRA, Islamic Bank) technical support is being provided for establishment of rural credit institutions, model farm programs, and farmer markets.

PSD Wheat

| PSD Table | | | | | | |
|------------------------|-------------------------|---------|-------------|---------|--------------------|---------|
| Country | Azerbaijan, Republic of | | | | | |
| Commodity | Wheat | | | | (1000 HA)(1000 MT) | |
| | Revised | 1998 | Preliminary | 1999 | Forecast | 2000 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 07/1998 | | 07/1999 | | 07/2000 |
| Area Harvested | 540 | 600 | 500 | 600 | 600 | 0 |
| Beginning Stocks | 150 | 50 | 150 | 100 | 150 | 100 |
| Production | 950 | 850 | 850 | 900 | 1050 | 0 |
| TOTAL Mkt. Yr. Imports | 600 | 700 | 700 | 700 | 650 | 0 |
| Jul-Jun Imports | 600 | 700 | 700 | 700 | 650 | 0 |
| Jul-Jun Import U.S. | 15 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 1700 | 1600 | 1700 | 1700 | 1850 | 100 |
| TOTAL Mkt. Yr. Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Jul-Jun Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Feed Dom. Consumption | 150 | 150 | 150 | 150 | 150 | 0 |
| TOTAL Dom. Consumption | 1550 | 1500 | 1550 | 1600 | 1600 | 0 |
| Ending Stocks | 150 | 100 | 150 | 100 | 100 | 0 |
| TOTAL DISTRIBUTION | 1700 | 1600 | 1700 | 1700 | 1700 | 0 |