



Case Study regarding Apricot Primary Packing in Tajikistan

May 2011

1. Background

This document provides some insights into dried apricot packing in Tajikistan and is intended to provide a leading practice model for other initiatives of a similar nature.

Farming still leads industry in importance in the economy of Tajikistan. Whilst cotton growing surpasses all other categories of the country's agriculture, other important branches include the cultivation of fruits, grains, and vegetables. Horticulture has been important in the territory of Tajikistan since antiquity, and apricots, pears, apples, plums, quinces, cherries, pomegranates, figs, and nuts are produced. The country exports almonds, dried apricots, and grapes.

Apricots, after apples, may be the most widely cultivated fruit in the world. They had been cultivated in Armenia by the Copper age (3rd Millennium BC); others think the first were in India around 3,000 BC and others in China. Alexander the Great's conquest of Persia brought the Apricot to Europe, where it now grows, in almost every country. The Spanish brought them to the New World, and today most of American apricot production still occurs in California. Most of the dried apricots we eat come from Armenia, Turkey and Tajikistan. Apricots are grown in many districts in both southern and northern Tajikistan.

Our case study packer is based in the Ferghana Valley, northern Tajikistan. The business buys dried apricots from local farmers and bazaars in the region, then sorts, cleans and packages them for Western export markets. Transportation for export and any secondary packaging are downstream activities managed by customers.

The 2007 harvest was the worst failed harvest in 40 years in Tajikistan due to consistent freezing rain during the March pollination season. No processing was possible that year. Renovations to the processing facility were not completed in 2008 so no apricots were processed. In June 2009, 11 tonnes from the 2009 harvest were shipped to the US. A further 11½ tons were shipped in August 2010.

The packer was required to initially manage negotiations with the shipping company and issues with US customs brokers have been addressed in the initial exportation process. All the necessary documentations in both Tajikistan and the US for shipping a food product to the US have had to be completed. At that time, no other company had ever shipped a food product from Tajikistan to the US.

A new apricot primary processing facility is now being refurbished just outside Khujand and close to the bazaars, markets and railhead. This facility will provide greater capacity (up to 360 tonnes p.a.) and should be completed in time for the 2011 apricot harvest.

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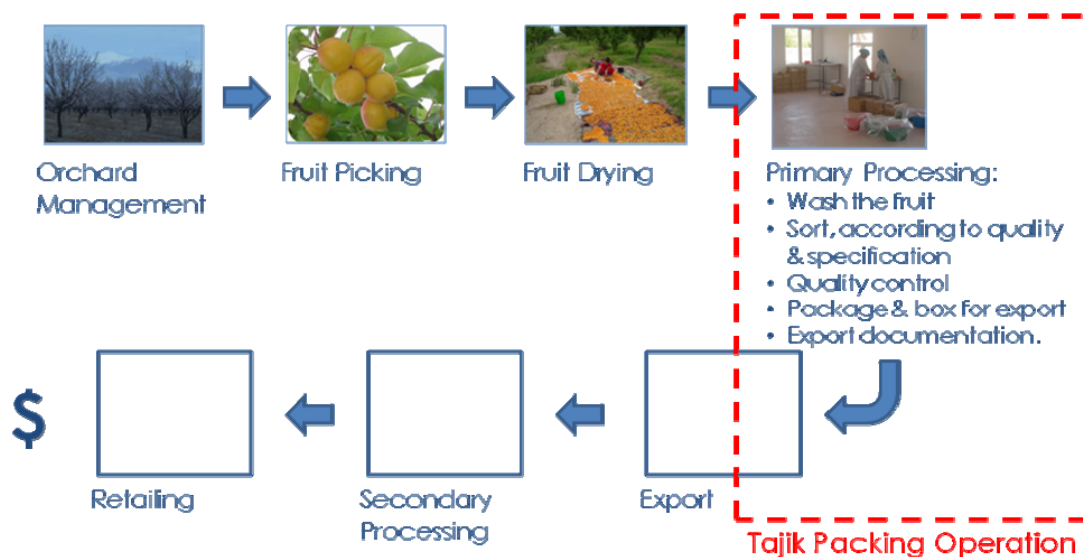
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2. Apricot Drying Value Chain

The following diagram depicts the value chain regarding apricot drying and the components served by the Tajik Packing operation.



3. Findings

Apricots: Asht region has 11,000 hectares and Isfarhan and Kanibaden (south of Khujand) have 14,000 hectares. The apricots are sourced from the local bazaars and the packer pays an additional fixed delivery charge per tonne of dried apricots delivered to the primary processing plant. They buy fairly high quality dried apricots so that there is a lower % of poor quality products which need to be sorted and then resold at the market at a lower price. Target price for purchase is 9.5-10 Somoni per kg dried apricots (US\$2.2).

Primary processing: In the plant the workers sort, clean and then pack the apricots into plastic bags and 12.5kg cardboard boxes. There will also be an additional sulphuring step prior to packing. The business has some fixed staff – director, accountant, production manager, quality control but most are contract staff, hired to meet demand during the season. As sales volumes increase they expect to buy and store more dried apricots during the season and pack them throughout the year.

Export Transportation: in 40 tonne containers (so they don't get damaged in transit), via rail to Latvia and via ship to US. The processing plant is close to the railway depot and there is a railway line from the site to the depot. It takes 6-7 weeks to ship them to the US. It is important to have a full container otherwise part containers wait around to get connected to other part containers before shipping and the quality could deteriorate during this time. After processing/packing and shipping, the product sells for approximately 15-16 Somoni (US\$3.5/kg) ex factory. The net margin after all his costs is expected to be from 13%, growing to 25% as the number of containers

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shipped increases. To make any profit the packer needs to ship more than one container (19 tonnes) p.a.

Marketing: Tajik apricots (from the Ferghana Valley) have a distinctive flavour and have 25-50% more sugar than Turkish/Syrian apricots. The US market for dried apricots is growing and there are also other potential markets e.g. Netherlands and South Africa

Customer: Currently one wholesaler in the US who takes 1 container (19 tonnes) p.a. He expects this to grow to 3 containers in 2011. Payment terms are 15 days after shipment for the current customer. New US customers will pay the first delivery on receipt and then can negotiate better payment schedule. A lot of operating capital is required up front.

Cost Summary as a % of sales income:

Raw materials	63%
Packaging materials	2%
Export documentation	2%
Direct Labour	8%
Other costs	<u>12%</u>
Net profit margin	13%

4. Conclusion

- It is essential to have someone working in the export market place managing the import and transportation of the goods.
- The goods have to meet the standards of the importing marketplace. This involves establishing Western primary processing standards (cleanliness, hygiene, safety etc. working conditions).
- It is important to understand the quality requirements of the customer and factor them into the buying strategy (i.e. quality/price/waste/resale).
- Success in this business has come from focussing expertise on one area of the value chain rather than all. Furthermore this enables the packer to seek the best suppliers of dried apricots in each season.
- The director needs hands-on involvement and together with a good local manager to recruit the right team to support the production. Proximity of the management to the plant as well as to the source of the raw materials and the transport for export is important.

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