AGRO-FOOD SECTOR in ARMENIA

Traditionally Armenia was exporter of various types of products to former USSR, including fruits, vegetables, mineral water, brandy, canned vegetables and foods. After the collapse of the USSR, the supply of agricultural products to Soviet republics and international markets was reduced. During last years the situation has been changed. Armenia is regaining its position in the international markets. Currently, vegetable and food processing can be considered as one of the vital sectors of the Armenian agriculture. During the last years, canned fruit and vegetable industry have shown considerable growth.

Presently, the food processing industry constitutes over 40% of the manufacturing sector in terms of output value.

The Russian Federation absorbs about 75% of Armenia's agro-food exports; CIS countries, about 85%.

Armenia produces fruits and vegetables which, due to the country's soil and climatic conditions, high altitude, and limited use of chemical fertilizers, are rich and flavorful. With modern processing and packaging technologies, there is a possibility for the Armenian fruit and vegetable products successfully to enter international markets. Currently the main processed products for export are soft drinks, mineral water, cigarettes, alcohol, canned fruits and vegetables, milk and dairy products, meat and meat products, and mixed feed.

Food processing sector is one of priority sectors for the Armenian Government. The strengths of this sector are the high quality of local agricultural products, important idle production capacity, availability of qualified workers and relatively low labour costs. It is considered by experts to have a high development potential in particular through the establishment of foreign co-operation and investments.

Given the limited arable land and also due to transport problems it would advisable for the country to specialize in export products with very high quality and high value added.

The country could certainly benefit from the increasing demand in the Western Europe for organic products. An analysis of European markets and legislation would be necessary in combination with a strong marketing strategy.

Like in other sectors, companies in food processing industry suffer from the lack of financing to develop their production.

The processing and packaging capacity is weak and has to be improved to meet international standards. It should be noted that the production capacity of 19 canneries is estimated at 457 million conventional units (0.65kg), but presently only 15% are used.

Companies need to be supported with regard to market information, organization of exports, promotion activities. Trade infrastructure would need also to be improved. For instance, export opportunities to the West would exist for product as mineral water but the transport costs are still too high to make this product attractive despite its very good quality.

Most of Armenia's food processing plants are actively looking for foreign partners to increase their quality of production and their export potential. Several local companies have recently started to process fruits and vegetables using modern technologies.

Since 1997 the food processing sector in Armenia has registered improved performance in sub-sectors where foreign investments have been made – vegetable and fruit canned production, wine, beer, vodka, tobacco.

This confirms dynamism of the Armenian food processing sector as well as a confidence of foreign investors in Armenia's agriculture potential.

Wine and brandy production is the largest part of the food processing industry. Armenian brandy is exported mostly to the Russian Federation, Ukraine, Belarus and other CIS countries. New players are entering this sector, and are investing in product and packaging quality improvements.

Besides the wine / brandy segment, the agro- or food processing area has not received much FDI, whereas many SMEs are active in this sector

In ***fruit and vegetable processing***, large processors produce bulk products like tomato paste and fruit concentrates and purees. Recently, there has been a trend towards value-added, non-traditional packaged products, such as capers, green beans, and grape leaves. Larger companies are also building new laboratories and product testing facilities. The medium and small companies are working with rehabilitated Soviet-era equipment, mixed in with new packaging lines. Overall, this segment is still export-oriented, since domestic demand for processed fruits and vegetables has been weak.

Dried food production may be considered as one of the perspective industries of the Armenian agriculture: it has the characteristics of tradition and is implemented in almost all regions of Armenia. Homemade dried food production is very common in many Armenian families, and the homemade product is often sold along with dried food produced in plants.

Considering the high volume of import to Armenia, price is the competitive advantage of imported dried food. Armenian producers, however, cannot initiate a price war, since the production costs are high, especially due to the low production volumes when diseconomies of scales take place. Large investments are required for organizing large-scale production to achieve economies of scales. At present, the Armenian producers do not have sufficient resources for that purpose.

The dried food sector of Armenia is in its initial steps towards becoming an industry of strategic importance. The market for dried food is new and is still in the stage of formation. However, there are certain activities and steps that can be implemented.

For the Armenian dried food sub-sector to survive and to gain market share in foreign countries (especially EU and US markets) it has to resist the fierce competition of the dried food exported from the countries of Middle East and EU. The main solution is branding of "Armenian dried food", which should itself become a symbol of and be associated with quality and taste.

The ***dairy industry*** has seen a few plants develop (e.g. Ashtarak Kat and Marianna) with modern equipment, advanced technology and better quality control. They are satisfying the growing demand among Armenian consumers who are demonstrating their preferred taste for traditional dairy products, such as cheeses, yoghurt, sour cream and curds. Some smaller cheese producers have successfully carved out their own niches, on the strength of their product quality and / or marketing.

The demand in the dairy sector in domestic markets is linked to increase in disposable income, while the Russian market holds promises for export. As incomes of the domestic population increase it is likely that demand in this sector will further increase as a whole and also that market differentiation will occur based on quality and price. However, any major expansion of the sector is going to rely on exports, for which there is a clear current demand.

In the Russian Federation alone the total demand for cheese was estimated at 450,000 MT per year and production has only managed to reach about 50 per cent of this level leaving a huge demand for imports. Armenia is well placed to compete in the Russian market, if it can supply high quality and consistent quantity of cheeses.

At the same time, per capita consumption of cheeses in Armenia has also been growing. A study of this market indicates that Armenian consumers shift from buying traditional cheeses to buying European cheeses (e.g. Gouda, Edam) as well. Simultaneously, 85% of them (estimated from surveys and focus groups) say that they prefer locally-produced cheese, because they trust local producers and because local product is natural (therefore, perceived to be higher quality). A market niche is, therefore, opening up for local producers to serve the domestic market by making European-type cheeses.

It should be noted that the Government just approved an ambitious cheese development programme offering shares in a proposed international marketing company to interested foreign partners.

The potential for ***fish and fish product processing*** in Armenia is presently under-exploited. Important processed species today are crayfish, rainbow and river trout, and sturgeon. Crayfish are fished wild from Lake Sevan, while the other species are farmed.

The case of crayfish is a good example of export promotion through strengthening of the national regulatory system to ensure quality standards. Crayfish exports to the EU had stagnated at around US$250,000 for years. Then, the EU provided funding for technical assistance to the producers to establish a value chain. The capacity at Saniped (Hygienic and Anti-Epidemiological Inspectorate) was built up to enable the agency to inspect and certify the product. Saniped was recognized by the EU as the competent authority to certify export of the crayfish to EU countries, and as a result, crayfish exports to the EU has recently boomed .

Annual production of trout and sturgeon is estimated to be 2000+ tons and about 400 tons respectively. This represents a significant drop from fish production in Soviet times. However, production is increasing, and industry players say that production can increase many times, depending on the availability of investment funds, since there are enough unused water resources. The limitation is in the size of market to be addressed, since the local market in Armenia is quite small.

As soon as processors can implement the food safety standards, they can begin to exploit the export potential effectively. It has been estimated that Ukraine alone could consume about 300 tons of sturgeon yearly. Meanwhile, fish processors can look to the domestic market, where demand has fortunately been rising, though the export markets are more lucrative. The export price differential could be US$ 4-6 per kg. from the local price of US$ 6.0 per kg. for sturgeon. Profits are naturally highest with greater processing and value addition. Both trout and sturgeon produce 10% eggs by weight; and when these are processed into caviar, trout caviar commands US$ 35 per kg. on the world market, while sturgeon caviar is over US$ 1,000 per kg.

Armenian fish processors are looking for stable marketing arrangements with long-term reliable buyers, but there is a lack of market information which hinders the establishment of such partnerships. Profits can be even higher with such marketing relationships. For instance, processors now pay 20% duty on imported fish feed. About one kg of fish feed is needed per kg. of fish produced; so fish feed represents almost 60% of the production cost. However, if a foreign buyer provides fish feed to a processor, and then the processor exports the produced fish or fish products to this buyer, Government regulations exempt the duty on the fish feed, which is a huge cost savings.