



MARKET BRIEF: GRAPES

An Overview of Export Growth



Grapes

This publication was prepared by USAID's Agricultural Credit Enhancement Program in collaboration with the Statistics & Marketing Information Department of the General Directorate of Policy and Planning of the Ministry of Agriculture, Irrigation and Livestock.

MARKET BRIEF

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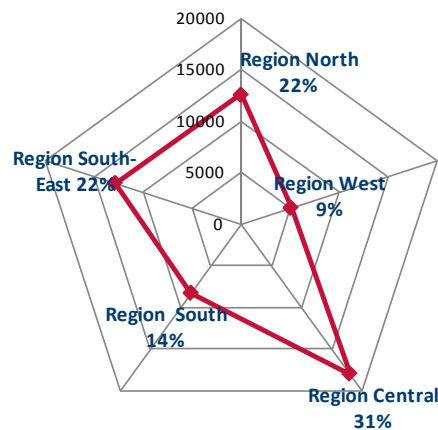
Domestic production of grapes was estimated at around 864,000 ton in 2009, while the area harvested has increased by 12% in the last 10 years (Central Statistics Organization). Domestic grape production is present in the south-east region with Kandahar as one of the main producing provinces, northern and central regions, with Sar-e-Pul, Parawan and Kabul as main producing provinces but also west of the country in Herat, as the graph shows. Domestic production accounts for the largest part of domestic consumption since very low quantities are imported from abroad.

This market brief explores the export potential of grapes, by evaluating different factors such as domestic and international production and supply, trade flows and prices, aiming to answer following key questions:

- 1) Can grape exports be price competitive
- 2) which countries should constitute target markets and
- 3) when and where is the markets window?

The answers to these questions are important because: 1) grapes are one of the most widely cultivated fruit in the country, accounting for more than one third* of the fruit cultivated area in Afghanistan, 2) understanding and successfully pursuing market opportunities can positively impact the subsector.

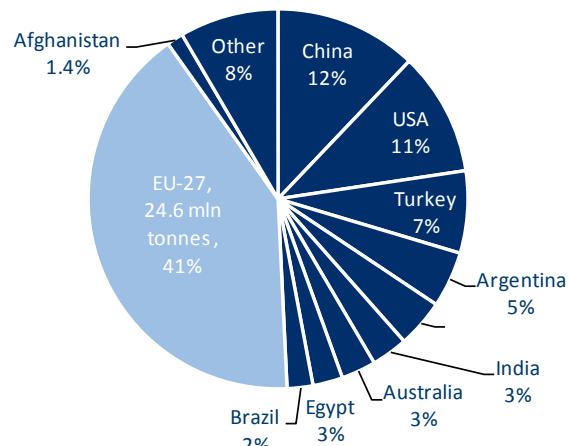
Graph 1: Grapes production by region, 2009



Source: Central Statistics Organization

Grapes are the most produced commodity among fruits and vegetables in the country but Afghanistan is barely quoted as a producing country. According to the national data it accounts for 1.4% of total global production being ranked among the top 15 producers. However, it remains a small scale producer as compared to EU-27, providing 41% of global supply and 24,956 thousand ton or China and the United States with 12% and 10% of total supply respectively. Details on global producers are given in graph 2. The countries listed in there represent the main competition to be expected in the international markets.

Graph 2: Main Grape Producing countries, 2009



Source: FAO Online

*CSO Yearbook 2009



Trade Flows

Graph 3: Exports of Grapes during 2000- 2009 (000 USD)

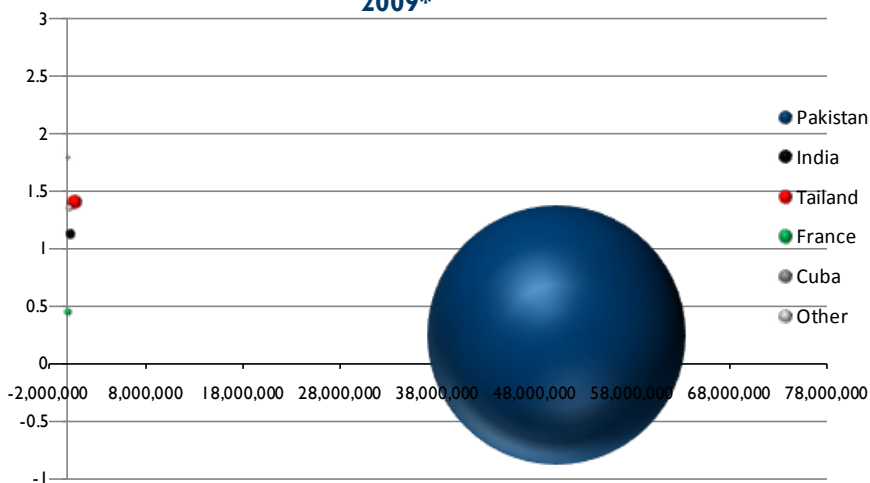


Source: CSO Yearbook 2009

Exports

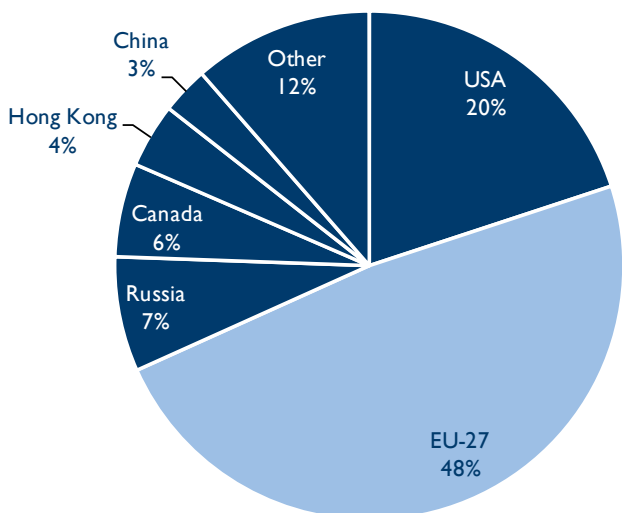
At a national level, exports of grapes have vigorously grown by 423% during the last decade, reaching 15.5 million USD in 2009. Grapes were the main item exported among fresh fruits and vegetables in 2009, signaling export growth potential. Nevertheless on a country export-revenue perspective it is not an item of major importance. Fresh fruits account for only 8% of total exports with grapes estimate approx. 4%. Are there chances of exports' expansion? In which direction should exporting efforts be directed in the short run, considering the different factors ? Graph 4 shows the existing geography of exports of grapes, the typical case of a commodity supplying mainly regional markets. The main export partner is Pakistan, with 50.2 million USD accounting for 97% of total exports, during this decade. Exports have also occasionally flown to other regional countries such as India and to countries of the European-Union.

Graph 4: Export partners of Afghanistan during 2000-2009*



Source: UNSTAT database, *X = Value in US\$ Y = Export Price in US\$/Kg Size = Quantity in Kg

Graph 5: Main Grape-Importing Countries, 2009



Source: UNSTAT online database

Graph 5 on the other hand shows in which countries main international flows are directed to. Interestingly enough, main producing countries such as EU-27, USA and China, are also importing countries. European Union and USA are large markets, nevertheless they are self sufficient to a certain extent. Intra EU imports account for 60% of the domestic consumption. Main non EU supplying countries are Chile (11%), South Africa (13%), Brazil (3.8%), Argentina (2.4%), India (1.7%) and Turkey (1.4%)*.

From a price perspective, EU is a lucrative market; for instance grape prices in one of the main ports, in Rotterdam varied on average between 2-3.2 USD during 2009 (USDA). Yet the high hygiene, packaging standards and other non tariff barriers, as well as high transport costs lower the chances for Afghan entrepreneurs to become consistent suppliers for this market, in the short run. A similar logic applies to the fresh fruit market in United States and Canada.

Therefore, in the short run export attempts are most likely to succeed if they concentrate in less demanding markets, that are geographically near, with lower standard expectations, but still lucrative in terms of size and possible profit. Russia, India and even Kazakhstan are regional countries that could match these criteria.

In the following paragraphs the price competitiveness of the Afghan grapes in some of these areas is evaluated.

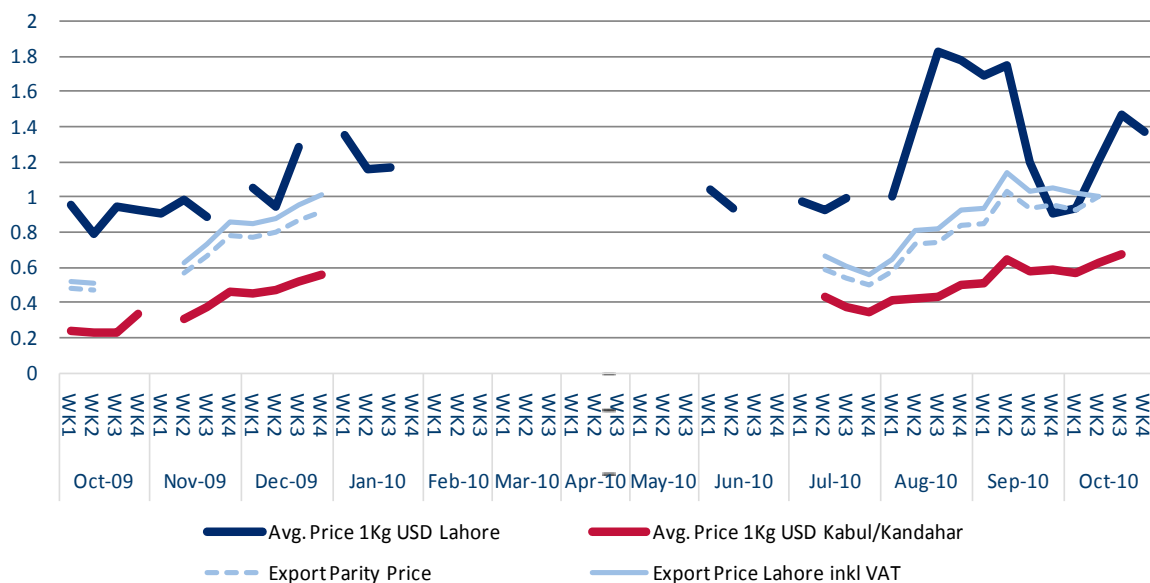
The most lucrative markets can be pursued as the next step.

Prices

Existing Markets-Pakistan

Afghan grapes are price competitive in the existing export market, Pakistan. Grape prices in Kabul/Kandahar and Lahore during the same period, October 2009-October 2010 as shown in graph 6 demonstrate a 154% difference between the average price in Kabul, 0.45 USD/kg and the average wholesale price Lahore 1.15USD/kg. Transport costs including custom clearance and insurance and the import tariff of 35% for grapes boost the average export price to 0.75 USD/kg, leaving room for an average possible profit margin of 62%. The average export parity price including VAT reaches 0.81 USD/kg, which is substantially lower than the wholesale price in Lahore. However given that the prices oscillate in each market, the time of entry in the market is an important factor to maximize profit.

**Figure 6: WS Price of Grapes in Lahore, Kabul and the Export Price
Kabul-Lahore, in USD, Oct 09 - Oct 10**



Source: AMIS Pakistan, TAMAS, USAID's ADP/E, MALOMAT-Roshan & USAID's IDEA NEW, *Export Price includes Transport Costs, Custom Clearance and Import Tariff (Pakistan grapes 35%)



New Markets

Even though the average price, which an entrepreneur can sell grapes at, in the wholesale market of Lahore is 0.75 USD/kg, fluctuations in the average export price related to Kabul prices can boost the profit margin to 145% of domestic price, if combined with high prices in Lahore (third week of August 2010).

On the other hand, the profit margin drops below 0 if the entrepreneur tries to sell grapes during the last week of September and the first week of October, when Lahore prices were at a low.

New Markets- India

Graphs 7 and 8 show wholesale prices of grapes in two Indian wholesale markets, Rajasthan and New Delhi, as well as wholesale prices in Kabul/Kandahar during 2009 - 2010. A similar price trend pattern is observed in both seasons as prices tend to increase towards the end of the season.

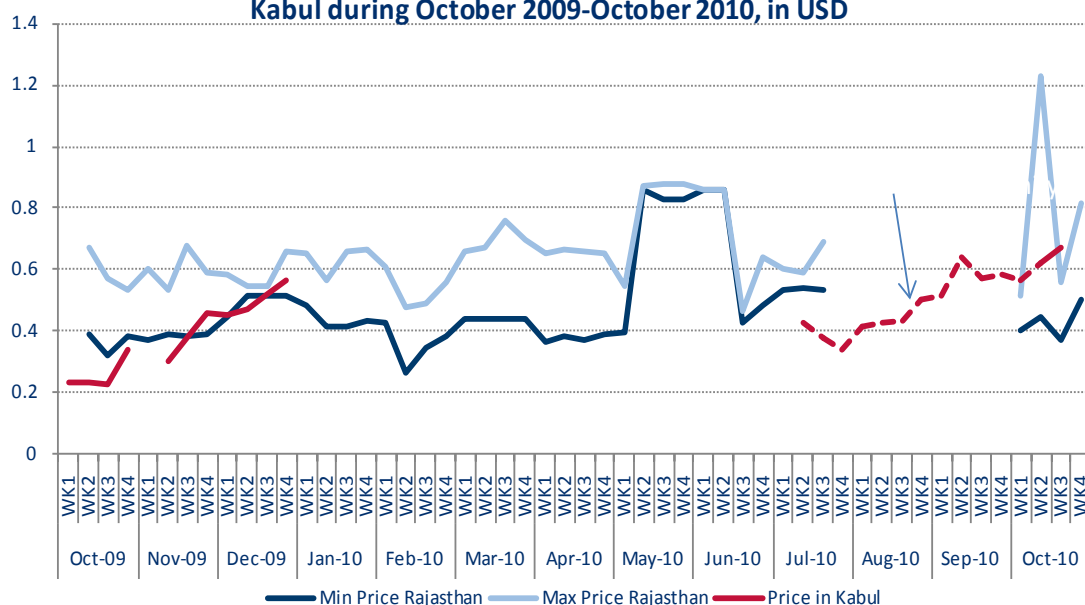
The 139 percent increase from the beginning of the observation in October 2009, to the end of the year is probably due to the decrease in supply and seasonal demand while the overall price shift in 2010 is supported also by a stronger currency in 2010.

The wholesale price comparison with Rajasthan shows that prices on the respective wholesale markets do not differ a significant amount. The average minimal wholesale price in Rajasthan is 0.45 USD while the high price average 0.65 USD/kg.

The narrow difference between the prices in these two areas shows that the export of grapes to Rajasthan is almost unfeasible since the export price would exceed the market price most of the time. Nevertheless there was a window of opportunity at the beginning of the season in 2010.

The Rajasthan market was not sufficiently supplied with grapes during the period of July-October while the export price to

Graph 7: Price of grapes in wholesale markets in Rajasthan India and Kabul during October 2009-October 2010, in USD



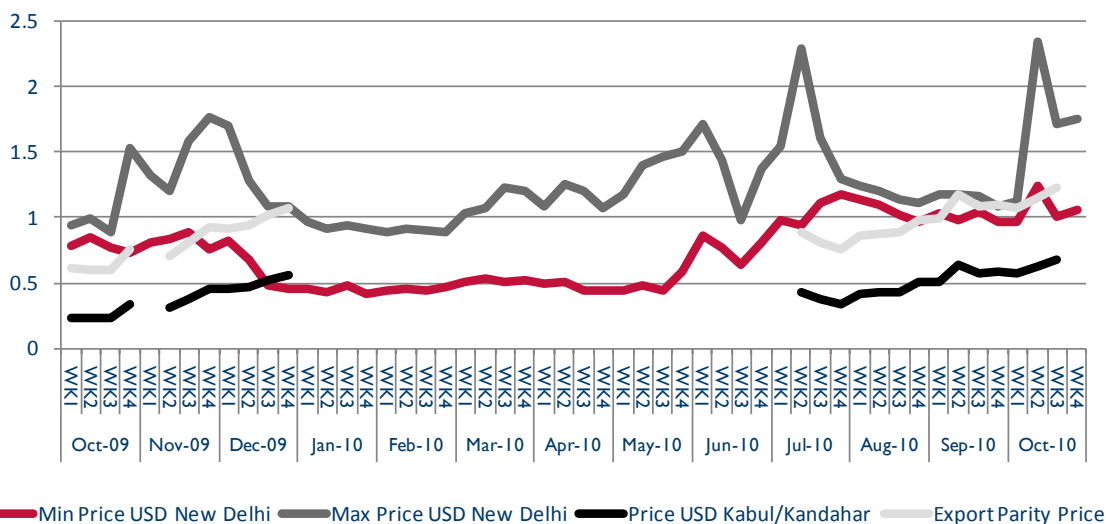
Source: www.agmarknet.nic.in, TAMAS, USAID's ADP/E, MALOMAT-Roshan & USAID's IDEA NEW, *Export Price includes Transport Costs, Custom Clearance and Import Tariff (India grapes 40%)

Rajasthan would fluctuate around 0.8 USD/kg, a price that can be assimilated by the market in that period, even though it is not that competitive.

Better export perspectives are signaled from the exports parity calculation in the Indian capital; New Delhi. The average wholesale price there fluctuated between 0.73 USD/kg low and 1.3 USD/kg high. A 63-180% difference as compared to the Kabul/Kandahar price, showed room for extra export costs to reach and supply the New Delhi wholesale market. After adding average custom clearance and transport costs and the import tariff (40% for grapes), the export price with which the New Delhi Market can be reached is 0.91 USD/kg. The export price Kabul/Kandahar is higher than the minimal price of grapes and lower than the maximal price average. Under this condition the timing of provision becomes of high importance. As the graph 8 shows the possible profit margin is high during the first 1.5 month October-November 2009 and during the first two first months of the 2010 season.

The average profit margin in the period October – November 2009 varied between 20-75%, while in July-August 2010 varied between 28-73%. Quantities and supply tends to decrease during these months in New Delhi as well. The analysis of these two wholesale markets in India during the period 2009-2010 raises awareness of three important factors for the export decision. First, differentiating between areas in large territories such as India and choosing the market where exporting makes economic sense. Second choosing carefully the timing of exporting to maximize profits. The third factor is price competitiveness of complementary services. Graph 9 shows two scenarios of the Export Price breakdown by component, the first takes in consideration existing transport cost of around 9000 USD for 40 inch containers and the second 30% lower transport costs (6400 USD). A lower transport tariff would decrease the average export price by 10% as well as the transport cost share to the export price. This would contribute immediately to higher margins for the trader and therefore more traded volumes in the respective market.

Graph 8: WS price of grape in New Delhi, Kabul and the Export Price Kabul- New Delhi, in USD, Oct 09-Oct 10

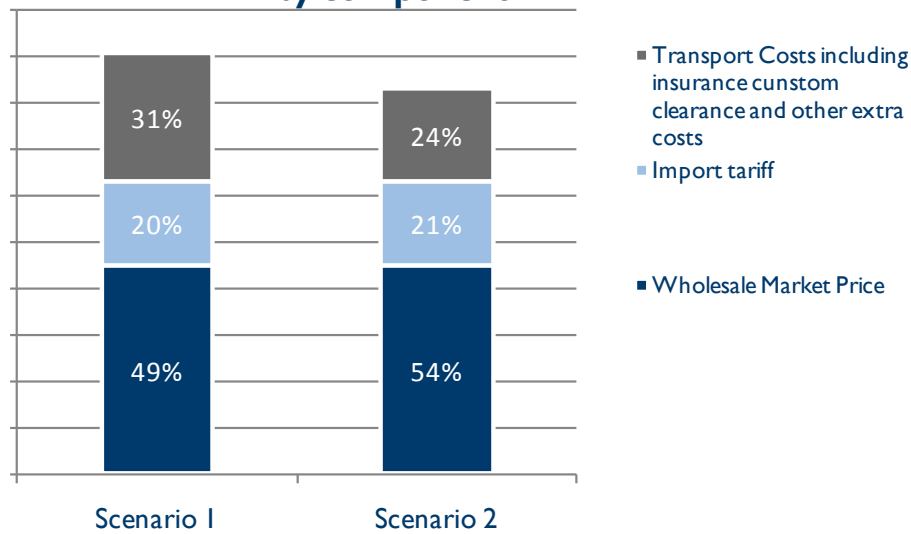


Source: www.agmarknet.nic.in, TAMAS, USAID's ADP/E, MALOMAT-Roshan & USAID's IDEA NEW, *Export Price includes Transport Costs, Custom Clearance and Import Tariff (India grapes 40%)



New Markets

Graph 9: Grape Price per Kilogram Composition by component



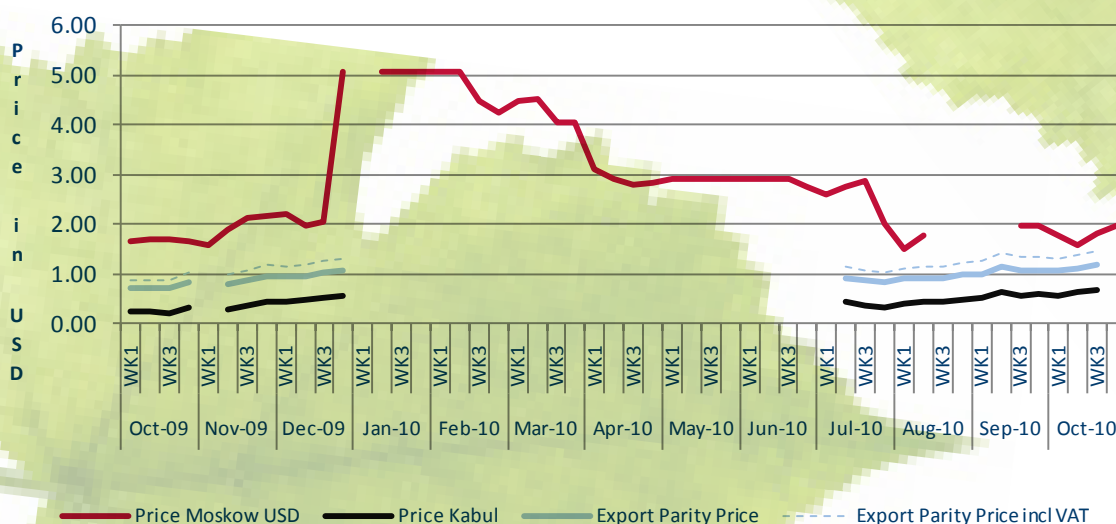
Source: ww.agmarknet.nic.in, TAMAS, USAID's ADP/E, MALOMAT-Roshan & USAID's IDEA NEW, *Export Price includes Transport Costs, Custom Clearance and Import Tariff (India grapes 40%)

New Markets - Russian Market

Even better prospects are shown through the observation in the Moscow market. Grapes at the Dimitrowski wholesale market are sold at such a high price that even the extremely high transport costs of almost 0.5 USD/kg, can not challenge the price competitiveness of Afghan grapes in that market. The average wholesale price throughout the year in the Moscow market is 2.88 USD/kg. This price is almost 6 times higher than the average

wholesale price in Kabul. Mainly because of transport costs the average export price jumps to 0.94 USD/kg bringing the difference between the export price and the Moscow market price to 82% on average. As observed from the graph, gains would be much higher if grapes were traded in this market during the period January-April. In this case market timing is not important to make a profit but to achieve higher profit.

Graph 10: Wholesale prices in Kabul, Moskow and export parity price Kabul-Moskow, in USD/kg, during Oct 09-10



Source: Fruit Inform, TAMAS, USAID's ADP/E, MALOMAT-Roshan & USAID's IDEA NEW, *Export Price includes Transport Costs, Custom Clearance and Import Tariff (Russia grapes 5%)

Even though not a global player in terms of production, grapes constitute a widely grown fruit in Afghanistan. Domestic production has proven to be able to meet most of domestic demand and also successfully export to regional markets.

There is possibility of further export expansion however export destinations must be chosen strategically. Large markets such as EU, USA and Canada seem lucrative yet they pose high market entry standards such as hygiene, packaging, grading and quality standards, accompanied by high complementary services costs and challenges for entrepreneur to meet both. Therefore in the short run attempts to expand exports should be concentrated in geographically near and less demanding markets with lower standards but still lucrative in terms of size and possible profit.

Existing regional export markets must be operated carefully and preliminary observations before market entry are necessary, in order to maximize profit. In the case of the Pakistan market the lower transport costs leave room for a profit but timing of export can make a difference in gains.

New Markets: Afghani grapes proved to be competitive in markets not yet explored. The export calculations in two different markets in India showed that it is important to differentiate between areas within large territories like India and Russia and choose markets that make economic sense.

The Moscow market accounts for a substantially higher price where grape exports could make a profit throughout the year, despite very high transport costs. The Russian import tariff on the other hand is much lower than tariffs implemented in the region.

An important issue to be further addressed is the competitiveness of the complementary services throughout the export value chain such as transport and post-harvest handling services including labeling, packaging and storage. The non competitiveness of these services contributes negatively to the competitiveness of the product. Less profit on the complementary services would mean more profit for all actors involved in the export process, instead of profit for none.

Like in the case of raisins, key nodes for the success of new export market entry, are entrepreneurs in the value chain, who will recognize and maximize benefits taking into account all that is necessary, vertical or horizontal integration, better marketing of products, informed decision making and/or development of new business models, in order to meet the demand of new and existing markets.

A new export oriented marketing strategy could be the supporting backbone of the sub-sector to assist all actors to improve marketing features such as quality and hygiene standards, packaging, labeling and other post harvest procedures, in order to access high value markets in the long run.

