

MINISTRY OF FOREIGN AFFAIRS OF DENMARK



Swiss Agency for Development and Cooperation SDC

# **Horticultural Promotion in Kosovo (HPK)**

Project funded by the governments of Switzerland and Denmark

# Fruit and Vegetable Market Structure Study, Kosovo

Implemented by



October 2008

# SUMMARY

A consultant spent three weeks in October 2009 undertaking a short evaluation of the Kosovo horticultural market on behalf of the Swiss-Danish-funded Horticultural Promotion in Kosovo (HPK) Project. The three main objectives of the work were to:

- 1. Review the current Kosovo market for fruit and vegetables and provide a clear understanding of its characteristics, structure, function and procedures;
- 2. Review in more detail the markets for potato, onion, tomato and apple as these are significant in terms of local production;
- 3. Identify constraints and make recommendations to improve marketing and market opportunities for Kosovo farmers.

Like much of its agriculture, horticulture suffered from neglect and lack of investment during the period of the Yugoslav command economy. Following the war with Serbia in 1999, which decimated a large percentage of the local production, the local market was supplied by imports from neighbouring countries, particularly Macedonia and Turkey. However, over the last few years, some donors have recognised the importance of horticulture as an opportunity to create rural employment and to reduce the country's economic dependence on imports. In particular, HPK has supported farmers' efforts to improve yields and quality of horticultural production. The sector is now competing well with imports and, at some times of the year, there are local surpluses. There are also the first signs of the establishment of significant export opportunities.

Many different stakeholders in the market chain were interviewed; it was discovered that Kosovo had a vibrant and competitive horticultural market. In particular:

- 1. At all points of the market chain there were many buyers and sellers;
- 2. Virtually all the buyers and sellers are too small to influence the market on their own:
- 3. It is very easy to get good and accurate market price information:
- 4. As the entry and exit barriers are very low, it is relatively easy for any actor to sell at any point in the chain;
- 5. It appears that market prices are determined by "supply and demand".

The Kosovo market is dominated by the Pristina wholesale market; a very large percentage of the imports and local production are traded at this market. Importers easily bring in fruit and vegetables from neighbouring countries, paying 15% VAT (effectively an import duty), thus giving local production some protection.

It appears that the biggest development taking place in the market is the growth and influence of the supermarkets. It was estimated that supermarkets currently account for about 6% of fruit and vegetable sales. Given the planned expansion for the supermarket chains, this could double in the next two or three years. The Kosovo supermarkets are expected to become a powerful force and efforts need to be made to ensure that they use their position to improve quality and yields.

The country is virtually self-sufficient in potatoes; for most of year, local onions can satisfy demand, and there is surplus tomato production during the peak harvesting

periods. However, most of Kosovo's local apple production found it difficult to compete with imports; mainly due to quality.

Despite having a vibrant and competitive market, there are a number of actions that should be taken to improve the quality of the produce and returns for the farmer. These include:

- 1. Work closely with supermarkets because it is expected that they will become more powerful. If their rise is similar to that in Western Europe, it might lead to the development of a separate market chain that bypasses the wholesale markets, the implementation of certifiable food standards and a reduction in the number of suppliers (to gain economies of scale). As some or all of these changes will probably happen, it is important that donor projects work with supermarkets to try to make sure that the impact on farmers is minimised and to ensure that any production/marketing improvements that are developed by the supermarkets are adopted by the wider farming community.
- 2. Identify and eliminate export constraints at borders because it was noted that there are a number of instances where opportunities for exports have been missed because of "problems" or Non-Tariff Barriers (NTBs) being implemented by neighbouring countries. It was not possible to fully quantify the scale of this missed market opportunity but it is claimed that exporters were not able to maximise their trade to both Montenegro and Albania. Given that these neighbouring markets could absorb some of Kosovo's potatoes, onions and tomatoes, it is important that the NTBs are understood and eliminated.
- 3. Identify and quantify export opportunities, because even though Kosovo is a net importer of fruit and vegetables, it is almost self-sufficient in some product lines. It is important that efforts are made to build on comparative and competitive advantage over some neighbours. Targeting exports helps increase the size of the market opportunity and should also help continue to drive improved efficiencies in production.
- 4. Improved packaging and presentation there have been efforts by HPK and other projects to introduce improved packaging but with very limited success. Much of this work has concentrated on using cardboard boxes for crops such as apples and tomatoes. However, whilst the farmers who were interviewed understood the importance of better quality packaging, they would not pay the extra costs involved in using new cardboard boxes as opposed to either wooden crates or recycled boxes, the inference being that they did not get extra revenue to justify the added costs because the market is not yet ready for them. It is expected that, as local production and quality increases, it might be necessary for producers to improve their packaging to guarantee sales.
- 5. Improved and appropriate quality standards within Kosovo there is considerable discussion and misunderstanding about quality standards. HPK has made considerable efforts to introduce Integrated Production (IP) to farmers; however, this was done without serious consideration to obtaining a market premium. It is important to ensure food quality; therefore HPK should evaluate the opportunity of developing IP into a simpler but certifiable standard, perhaps called the Kosovo Good Agricultural Practice (KGAP). It is suggested that this

- should focus mainly on three areas; the safe and timely application and storage of pesticides, basic principles and practices of food safety, and proper record-keeping and systems of traceability. Ideally, KGAP should be introduced with the cooperation of the supermarkets because it will only work if there is an auditable paper-trail from the farmer to the retailer.
- 6. Support efforts for group marketing- Kosovo suffers from fragmented marketing and production, which leads to higher production and marketing costs and makes competing with imports more difficult. It also makes it much more difficult to develop brands, undertake marketing promotional exercises, and achieve countervailing power in negotiations with buyers. A number of associations have been formed; they are only used for bulk purchases of inputs and sourcing of information but very rarely come together for communal marketing. HPK has an executive who is responsible for working with farmer marketing groups; this work is commendable and should be encouraged. However, it is recommended that instead of working exclusively with farmers on cooperative or communal marketing, HPK could work with traders, or market intermediaries, who purchase from small-farmers. If these traders can trade more efficiently and communicate more effectively with farmers, it should help improve the producers' margins.
- 7. **Promote marketing education,** because most farmers, who were interviewed during the field work, had a good understanding of market prices at different levels of the marketing chain. They obtained this information by talking to neighbours, during regular visits to the markets, and by telephoning traders at the wholesale markets. However, despite their knowledge of market prices, many farmers were still "price-takers" and did not recognise that they could improve their returns by taking greater responsibility for their own marketing. Also, some had a poor or rather naïve understanding of the basic principles of marketing which might be constraining their potential returns. If efforts are made to educate some farmers in the basics of marketing, more of them will become more proactive when selling their produce.
- 8. **Processing** even though there are limited opportunities for processing in Kosovo, it is important that attention is given to support efforts that build on true comparative or competitive advantage. There are a number of reasons for this, which includes: limited comparative advantage, a small local market, and the decimation of the country's infrastructure around 1999. However, there are some pockets of excellence where companies have been able to develop interesting processing opportunities, and some of which have even been successful in export markets. Because profitable processing industries provide market opportunities, and often they can be secure markets for farmers, support for processing should be part of HPK's future work plan.

# **Table of contents**

SUMMARY.		. 2
Table of conf	ntents	. 5
Abbreviation	ns/Acronyms	. 6
1. INTRODU	UCTION	. 7
1.1 Hoi	orticulture Promotion in Kosovo	. 7
1.2 Obj	pjectives of the assignment	. 7
	ontext	
	knowledgements	
	icultural Market	
	cal production	
	ports	
	ports1	
	e size of Kosovo's horticultural market1	
	e market structure and main actors in the chain	
	Observations	
	ickground	
	very competitive market2	
	e growth of supermarkets	
	les of fruit and vegetables through green markets and small-shops2	
3.5 The	ie need to improve quality and packaging	-0 28
	creased local production and introduction of quality standards	
	hat are comparative/competitive advantages for Kosovo horticulture?	
	onstraints to exporting to some neighbouring countries	
	pact of free trade and constraints to exports	
	ocessing	
	√alue Chains	
	ickground	
	otatoes	
	nions	
	matoes	
	pples	
	ons and recommendations4	
	ickground2	
	ork with supermarkets	
	entify and eliminate export constraints at borders4	
		47
	proved packaging and presentation	
	proved and appropriate quality standards	
	proved data collection	
	ipport efforts for group marketing	
	omote marketing education	
	lvertising and promotion	
	· ·	
	ocessing	
	Supply chains for imported fresh fruit and vegetables to the retail and foo	
service outle		յս 61
	UI3 = UIX	. , ,

# **Abbreviations/Acronyms**

CEFTA Central European Free Trade Area

EU European Union

Euro-Retailer Produce working group

Euro-Retailer Produce working group's Good Agricultural

**Practices** 

FAO Food and Agriculture Organisation of the United Nations

HACCP Hazard Analysis and Critical Control Points

HPK
GlobalGap
GAP
Good Agricultural Promotion in Kosovo
Good Agricultural Practices

IP Integrated Production

IPM Integrated Pest Management

IPPC International Plant Protection Convention

KAPS Kosovo Assured Produce Scheme

KGAP KosovoGAP

MAFRD Ministry of Agriculture, Forestry and Rural Development

MIS Market Information Systems

NTB Non Tariff Barrier

SCG Supermarket Consultative Group SOK Statistical Office of Kosovo

SPS Agreement on the Application of Sanitary and Phytosanitary

Measures (WTO)

UK United Kingdom

USA United States of America

VAT Value Added Tax

WTO World Trade Organisation

€ Euro
ha Hectare
kg Kilogram
t Tonne

# FRUIT AND VEGETABLE MARKET STRUCTURE STUDY - KOSOVO

# **Chapter One**

# 1. INTRODUCTION

## 1.1 Horticulture Promotion in Kosovo

Like much of agriculture in Kosovo, horticulture suffered from neglect and lack of investment during the period of the Yugoslav command economy and during the war with Serbia in 1999. Following the war and the decimation of local production, the local markets were supplied by imports from neighbouring countries, particularly Macedonia and Turkey. Now the country is starting to rebuild its economy; horticulture offers interesting opportunities to create rural employment, and to reduce the country's economic dependence on imports. This was recognised by the Swiss Government who initiated the Horticultural Promotion in Kosovo (HPK) Project in 2001. Since its inception, it has been managed by Intercooperation and has been financed by the Swiss and, since 2008, the Danish Government. HPK has made considerable progress at improving the yields and quality of some fruits and vegetables - as well as extending the seasons of others through the introduction of greenhouses. In some cases local production is competing well with imports and, at some times of the year, there are local surpluses. There are also the first signs of the establishment of significant export opportunities.

Most of the focus of HPK has been on improving the ability of local farmers to compete with imports, but there is now a need to more fully understand the horticultural market structure in Kosovo. It is important to evaluate if the market is working efficiently and whether the farmers are getting an acceptable share of the final sale price. Therefore, HPK decided to recruit the services of an international marketing consultant, Dr Andrew Sergeant, to undertake an initial review of the market. He carried out the field research for this assignment on October 13-31, 2008.

# 1.2 Objectives of the assignment

There were three main objectives of the assignment which can be summarised as:

- 1. Review the current Kosovo market for fruit and vegetables and provide a clear understanding of its characteristics, structure, functioning and procedures.
- 2. Review in more detail the markets for potato, onion, tomato and apple as these are significant in terms of local production.
- 3. Identify constraints and make recommendations to improve marketing and market opportunities for Kosovo farmers.

Senior Partner, Accord Associates LLP

The full terms of reference are given in Appendix 1. However, it should be noted that the study is focused mainly on fresh produce; opportunities for improvement in, and the evaluation of opportunities for, processed fruit and vegetables were considered, but not in detail.

## 1.3 Context

Following the break-up of the former Yugoslavia, the agricultural sector in Kosovo had essentially become subsistence farming. The civil war between 1997 and 1999 virtually halted all commercial agricultural activity in Kosovo, as well as much household subsistence activity in the main conflict zones. The NATO military intervention in 1999 brought matters to a head, but in the process wrought further and severe damage to the agricultural sector, particularly to the remaining physical and institutional infrastructures. It was only after the war that confidence and investment in Kosovo agriculture re-started. but even this was still under extremely adverse conditions. Employment opportunities started to increase after the war with the influx of donor-funding for reconstruction, especially housing. By 2001, the influx of monies for reconstruction started to reduce and the agricultural sector was seen as the main source of sustainable employment in Kosovo. Given extremely high levels of food import-dependency, it was possible to identify significant "market" opportunities to reinvigorate local agricultural production. In addition, with a large area of uncultivated land and around 60% unemployment, there was considerable potential for new agricultural projects that could provide employment. Promoting horticulture was seen as a very good means of creating rural jobs.

Horticultural farmers in Kosovo used to be part of the Yugoslav "command economy", and they grew a limited range of products for a captive market of 22 million people. State cooperatives bore much of the responsibility for the input supply, machinery services and marketing, leaving farmers to concentrate uniquely on production. However, this changed dramatically after 1999. The "local" market was reduced to just 2 million people, which required a wide range of products throughout the year but was already being supplied by imports from neighbouring countries. Local production often found it difficult to compete with the quality and prices of imports. Producers found that cultivating crops was no longer sufficient; they had to start taking responsibility for marketing. However, local production had to compete with the good quality of imports and often at prices that made production unattractive for Kosovo farmers. In addition. the commercial environment in which horticultural farmers had to operate changed dramatically in just a few years leaving many of them ill-equipped and unprepared. If the market had changed abruptly - so too had the sector's resources. The troubles decimated the sector's equipment, and what survived was often out of date. Much of the "state-owned" land and infrastructure (including some processing factories) were destroyed or abandoned and are still waiting for legal processes to release them for possible sale before they can become productive again. Historically, it is claimed that Kosovo had a regional comparative advantage in fruit and vegetables, and it was assumed that it could regain this position in the future. However, there have not been many attempts to prove this claim. Certainly, it is a logical assumption that it should have comparative advantage on the local market; exports to the regional market would be more difficult as some of the neighbouring countries have been able to modernise and become much more competitive.

# 1.4 Acknowledgements

During the field work, the consultant met and interviewed about 80 people at all levels of the horticultural market, as well as Government staff. The consultant is therefore pleased to acknowledge a debt of gratitude to many people, particularly the many traders and farmers who were very generous with their time and hospitality. Equally accommodating were the supermarket managers, importers, exporters, and Government employees who gave their opinions freely and offered advice to help understand the Kosovo horticultural market. The assistance of the HPK project staff, which was able to draw on many years of experience, was vital to the understanding of the market.

The continued support and constructive advice and guidance of Neil Parker, Project Manager of HPK, during the time in Kosovo was invaluable. Mr Sylvain Roy, HPK's Agribusiness Advisor, also contributed. Finally, the support received from Arben Musliu was immense; his contributions ranged from organising a wide range of meetings, acting as interpreter and driver, as well as providing knowledge and insights into the Kosovo horticultural market, whilst smiling the whole time.

# **Chapter Two**

# 2. The Horticultural Market

# 2.1 Local production

In order to evaluate the horticultural market in Kosovo, it is important to understand how much fruit and vegetables are traded. The quality of data on horticultural production in Kosovo is extremely weak, but the data for imports and exports collected by the Customs is regarded as more robust. Since the destruction of Kosovo agriculture, caused by the troubles in the mid to late 1990s, staff within the Ministry of Agriculture, Forestry and Rural Development (MAFRD) have understandably concentrated their efforts on rebuilding the industry and focusing on improving farmers' competitiveness rather than collecting data. Therefore, the data on local horticultural production is very weak. HPK has some estimates for the productivity of the crops that they are working on. However, the only source of comprehensive data on horticultural production is provided by the Statistical Office of Kosovo (SOK). Their data shows that total horticultural production in the country is over 270,000t/year and that potatoes and peppers dominate the vegetables and plums and apples are the main fruit (Table 2.1). Other important crops for Kosovo farmers are cabbage, watermelon, tomatoes and onions.

Even though the data can be used as a **basis** for estimating local production, it is difficult to know how much of the production is actually traded in the conventional marketing channels. Much of Kosovo's agriculture is subsistence farming, and when the occasional surplus occurs, the products are given to neighbours, possibly in exchange for something else. It is likely that most of the potatoes are traded because of increased production costs causing them to be grown by bigger and more technically proficient farmers. In addition, HPK staff estimates that most of the peppers, watermelons, tomatoes and onions grown will be traded. In contrast, it is estimated that most of the apples and plums that are grown in Kosovo will not be traded, due to the fact that many of the orchards are not managed properly and the quality is therefore not good enough to compete with imports.

Table 2.1 Horticultural production and area cultivated in Kosovo, 2006

V ( . l. l	C ro p	Area (ha)	Yield (t/ha)	Production (t)
Vegetables	Detete	2.000	22.4	74.007
	Potato	3,090	23.1	71,367
	Pepper	2,733 921	23 27.1	62,859
	Cabbage			24,970
	Water melon	700 787	26.9 19.3	18,822
	T om a to O nio n	810	19.3	15,195 11,341
	Beans mixed	4,484	2.2	9,864
			9.1	
	Pumpkin mixed Cucumber	1,067 277	27.2	9,713 7,526
	Melon	235	11.4	2,673
	Courgette	101	25.3	2,553
	Leek	62	19.2	1,192
	Pumpkin	75	13.7	1,023
	Beans	321	2.6	835
	Garlic	127	5.9	748
	Carrot	39	13.3	517
	Spinach	40	9.9	395
	Lettuce	37	8.6	317
	Aubergine	15	19.4	293
	Beetroot	10	19.2	194
	Other legum es	35	5	175
	Cauliflower	6	12.8	74
	Peas	21	3.2	67
	Radish	6	11.4	65
	Parsley	8	4.8	39
	Mushroom	0	13.5	3
	Total vegetables	16,006	371	242,823
Fruits				
	Plum	1,530	7.5	11,477
	Apple	1,096	8.5	9,318
	Grape	502	8.6	4,314
	Wine grape	418	7.5	3,133
	Pear	293	6.5	1,904
	Blackberry	39	13	507
	Cherry	40	5.9	235
	Sourcherry	31	5.5	169
	Strawberry	40	4.2	167
	Quince	29	5	147
	Apricot	15	7.7	114
	Peach	15	5.4	82
	Medlar	11	6.8	73
	Walnut	46	0.4	18
	Hazelnut Total fruit	2 4 106	0.1	0 31.657
	Total fruit	4,106	93	31,657

Source - Agriculture Household Survey 2006 /SOK

# 2.2 Imports

Imports of vegetables have increased from €11.3 to 13.4 million from 2005 to 2007; fruit imports over the same period have increased from €14.4 to 14.6 million. Tomatoes and sweet peppers dominate vegetable imports, while the main fruits imported are bananas, apples, watermelons, citrus and grapes (Table 2.2). The main vegetables imported can all be grown in Kosovo and therefore, most vegetable imports will take place during the "local off-season". The climate in Kosovo is not suitable for bananas and citrus, but apples, watermelons and grapes are grown locally.

Table 2.2 Imports of certain fruit and vegetables into Kosovo, 2007 (€'000s)

Vegetable	Value	Fruit	Value
Tomato	5,315	Bananas	2,961
Sweet pepper	1,199	Apples	2,201
Cucumber	982	Watermelons	1,782
Dried beans	791	Clementines	1,377
White cabbage	591	Lemons	1,132
		Grapes	834
		Oranges	826
Others	4,506	Others	3,476
Total	13,384	Total	14,589

**Source** – Import/Export data supplied by HPK

Despite the increase in the value of vegetable imports, the quantity has decreased slightly; from 46,000t in 2005 to 45,000t in 2007. However, the quantity of fruit imports has increased from 57,000t in 2005 to 61,000t in 2007. This would imply that the average value of vegetable imports is €289/t and fruit is €239/t. These seem to be very low values and could be due to the under-valuing of imports so as to reduce the VAT liability. Conversations with importers suggest that the average buying price would be at least 50% higher than the value calculated based on the import data.

The main two sources of horticultural imports are Macedonia and Turkey (Table 2.3), followed by Greece and Ecuador. Ecuador is the source of Kosovo's bananas.

Table 2.3 Main sources of Kosovo's horticultural imports (€), 2005/07

	2005	2006	2007
Macedonia	7,639,329	8,221,196	6,263,353
Turkey	6,230,988	7,670,652	7,514,708
Greece	3,636,899	2,502,693	3,306,986
Ecuador	3,417,367	2,880,319	2,967,781
Serbia	897,447	727,098	1,254,377
Syria	685,083	766,955	1,058,827
Holland	610,775	664,051	1,102,650
Albania	630,775	703,219	869,797
Italy	369,803	467,416	726,558
Kyrgystan	360,982	542,629	976,258
Other	1,196,984	2,085,949	1,931,716
Total	25,677,973	27,234,182	27,974,918

**Source** – Import/Export data supplied by HPK

# 2.3 Exports

Exports of horticultural produce are much less than imports. Exports of vegetables increased from €2.0 to 3.5 million from 2005 to 2007; fruit exports over the same period have increased from €36,000 to 807,000. The main exports are potatoes, mushrooms, tomatoes, sweet peppers and sweet potatoes (Table 2.4); the export of sweet potatoes may be simply a misallocation and they are really potatoes. The tomato exports in 2007 were much larger than in the previous two years (€800 and €47,000 in 2005 and 2006 respectively). This was probably associated with a significant shortfall in tomato production in many of the Balkan countries, caused by a widespread drought, but there was good production on irrigated farms around Mamusa which provide this unexpected export opportunity. Fruit exports are very small and in 2007, they consisted mainly of "others" in the category "cranberry, blueberry, bilberry or whortleberry, lingonberry or cowberry and huckleberry". These are probably wild harvested fruit, processed and exported by, for example, AgroProdukt Commerce.

Table 2.4 Exports of certain fruit and vegetables into Kosovo, 2007 (€'000s)

Vegetable	Value	Fruit	Value
Sweet potatoes	1,152	Others	464
Mushrooms	1,096		
Potatoes	441		
Tomatoes	163		
Sweet peppers	126		
Others	493	Others	343
Total	3,471	Total	807

**Source** – Import/Export data supplied by HPK

The main destinations of Kosovo's horticultural exports are Serbia, Albania and Montenegro (Table 2.5). During the field research there was very little evidence of

exports into Serbia and it is possible that this data could in fact be exports to the EU that transited through Serbia. Discussions with traders provided evidence of reasonably significant exports to Albania and Montenegro. The exports to Bulgaria reported in 2007 are probably mainly tomatoes that were grown around Mamusa.

Table 2.5 Main destinations of Kosovo's horticultural exports (€), 2005/07

	2005	2006	2007
Serbia	386,951	1,398,228	1,798,504
Albania	270,669	654,709	1,272,768
Italy	806,172	125,885	129,266
Montenegro	48,756	407,287	478,217
Romania	170,447	198,370	116,234
Germany	164,649	99,043	152,337
Holland	57,341	155,906	10,969
Bullgaria	5,288		136,771
Macedonia	27,132	718	113,399
Slovenia	86,234	10,400	5,790
Other	95,497	55,958	63,066
Total	2,121,140	3,108,510	4,279,328

**Source** – Import/Export data supplied by HPK

The increase in the value of vegetable exports is reflected by an increase in the tonnage exported from 7,000t in 2005 to 23,000t in 2007 (of which 17,000t is probably potatoes<sup>2</sup>). The weight of fruit exported also increased from 70t in 2005 to 680t in 2007. Thus, total horticultural exports were about 24,000t in 2007.

### 2.4 The size of Kosovo's horticultural market

In trying to understand the structure and workings of the Kosovo horticultural market as well as any constraints and imperfections, it is important to estimate the quantities and values traded. There might be some inaccuracies in the data; for example the quantity and value of imports could be underestimated in an effort to reduce the payment of the Value Added Tax (VAT) at the borders and the estimation of local production is based on a household survey; but in the absence of other sources of data, they represent the best information that is available.

The total size of the Kosovo horticultural market can be calculated by combining imports with the locally grown production and then subtracting exports. This would imply that the total fruit and vegetable consumption, including potatoes, in Kosovo in 2007 was 352,000t. Assuming a population of 1.9 million, this equates to a fruit and vegetable consumption of 185 kg per capita per year. However, most of the published fruit and vegetable consumption data normally exclude "potatoes and other starchy tubers"; which

According to the statistics, fresh potato exports were 4,000t and processed (frozen) potatoes were almost 13,000t. The processed figure is almost certainly a very significant over-estimate and the fresh figure a major under-estimate. It is likely that the processed data included fresh potatoes – and it is likely that the total of fresh and processed potatoes is about accurate.

means that the per capita consumption is160 kg per year. This does assume that all the fruit and vegetables grown locally are consumed without any losses; in Western Europe it is normal to assume a 10% loss which covers wastage. If this is applied to Kosovo, then consumption of fruit and vegetables would be 144 kg per capita per year. To put this estimate into perspective, the equivalent data for 2006 in the UK were 128 kg per capita per year and the UK Government's target for healthy eating is for the population to consume 160 kg per capita per year by 2020³. The current fruit and vegetable consumption data for Germany is 180 kg per capita per year⁴. The data for fruit and vegetable consumption in Kosovo is similar to some other European countries, which implies that the data is probably reasonably accurate. It is interesting to note that Germany and the UK consume more fruit than vegetables while the reverse is true in Kosovo⁵.

It is also interesting to compare the Kosovo fruit and vegetable consumption data with some of its neighbours<sup>6</sup>. Serbia and Montenegro consume more fruit than vegetables (118 kg of fruit compared with 70 kg of vegetables per capita per year). In contrast, Macedonia consumes more vegetables (107 kg of vegetables compared with 79 kg of fruit per capita per year). The total fruit and vegetable consumption for these neighbouring countries (188 and 186 kg per capita per year) is approximately similar to the Kosovo consumption calculated above, which again suggests that the estimates based on SOK and Kosovo trade data are reasonably accurate.

It is also important to estimate the total value of the horticultural trade. In most countries potatoes are included in the calculation of the value of the horticultural trade. Given the paucity of comprehensive data, the value of Kosovo's horticultural market has had to be estimated on both the wholesale and retail levels. In order to estimate the size of the horticultural market, the following assumptions have been made:

- The average wholesale price of potatoes was €200/t, making the value of potatoes sold €10.8 million/year.
- The average wholesale price of other locally grown vegetables was €400/t, making the value €66.4 million/year.
- The average wholesale price of locally grown fruit was €800/t, making the value €25.6 million/year.
- The mark-up between import values and wholesale prices was 100%. This would cover the 15% VAT payable at the border, transport costs and probable under-invoicing. Thus the wholesale value of imported fruit and vegetables would be €29.2 and 26.8 million/year respectively.
- The average mark-up between wholesale and retail is 50% based on observations made by the consultant during the market survey carried out in Pristina in October 2008.

Source – Fruit and vegetable consumption data; https://statistics.defra.gov.uk/esg/indicators/h7 data.htm

Source - http://www.austrade.gov.au/Fruit-and-vegetables-to-Germany/default.aspx

In Germany fruit and vegetable consumption is 95 and 85 kg per capita per year respectively whilst in UK the consumption is 67 and 60 kg per capita per year. This compares with 44 and 100 kg per capita per year for fruit and vegetables in Kosovo.

http://faostat.fao.org/site/609/default.aspx#ancor

Therefore, the Kosovo horticultural production and trade is worth about €159 million/year. This assumes that all the local production recorded in Table 2.1 is actually traded and not used for "personal-consumption". If, say, half of vegetables, three-quarters of the fruit, and all the potatoes are traded – then the wholesale value of fruit and vegetables would be approximately €119 million/year, which would have a retail value of €179 million/year.

### 2.5 The market structure and main actors in the chain

Like many horticultural markets, there are many different actors who can interact with others at different points in the market chain. However, it is possible to simplify the **main** produce flows (Fig 2.1) and to describe the **main** actors. Virtually all of the horticultural trade revolves around wholesale markets and this section is dominated by the Pristina market. Even though there are wholesale markets in other towns where importers and traders are based – the dominant market is Pristina, which probably is where most of the prices are established. In other words, the market prices in other towns will reflect the Pristina price, with an adjustment for the costs of transport and marketing.

There are a wide range of distinct actors and locations that can be identified in the Kosovo horticultural market chain. Each of these main actors is described below. As noted above, the horticultural trade is supplied by both local production and imports and it would appear that local production is more important in terms of the volume and value of product sold because two of the main items consumed (potatoes and onions) are mainly produced locally; but imports are very important in the off-season and to meet the demand for products that cannot be grown in Kosovo. Imports are also very important to satisfy the range of horticultural products.

**Farmers**. The backbone of the horticultural chain is the farmers. It is estimated that there 115,000 farmers in Kosovo with an average farm size of 0.88ha<sup>7</sup>. Many of these farmers are only producing for their own family's needs; in fact, MAFRD estimates that there are 86,000 non-commercial farmers. This suggests that there are less than 30,000 farmers who are classed as commercial, and many of whom produce commodities other than horticultural crops. It should also be recognised that because of the difficulties of growing horticultural crops, it is probably only the larger and better farmers who grow fruit and vegetables commercially.

Most of the farmers interviewed stated that they had no serious marketing issues. It appears that the smaller horticultural producers sold to either their nearest local market or to a neighbouring farmer who took the produce to a market further afield. The larger farmers tended to use their own transport to sell to the larger wholesale markets (either Pristina, Prizren, Peja or the seasonal one at Xerxe). It was noticeable that on a number of occasions, when brothers took over the management of a family farm, often one brother would concentrate on marketing and the other brother on production. The brother who focused on marketing would often market their neighbours' produce as well and would effectively become a trader, sometimes basing themselves in one of the wholesale markets or in an adjacent parking lot. For example, a number of farmers were based in the parking lot at the Pristina wholesale market, selling their family's production from the back of an old vehicle or container. They would often stay there for many

\_\_\_

Kosovo; The Bradt Travel Guide by Gail Warrander and Verena Knaus.

months, with the farm continually sending more produce. Other farmers stated that they would often deliver directly to supermarkets or small shops, where they got higher prices. They achieved these higher prices because they eliminated the margins of the market intermediaries. However, the majority of farmers sold their produce to the wholesale marketing system. Virtually all farmers stated that they had no problems selling their crop; obviously they would like higher prices, but generally they believed that they were well-served by the current marketing system. Also, in a limited number of cases, farmers were having some marketing issues because the quality of their produce was poor.

As there are many small-farmers that produce most of the local production, one farmer has little influence on the market. Therefore, they cannot as individuals affect the market price.

Farmer groups. Efforts have been made to establish farmer groups or associations. Many of these groups were established to enable farmers to gain economies of scale to purchase inputs at cheaper prices. They have very rarely been used for formal marketing; although they often provide a forum for the exchange of market information. One group that markets successfully is the Agro Qyshky Potato Association. This is a group of 10 larger-farmers that cooperate in growing and marketing 90ha of potatoes. They have developed successful storage and export of members' produce. They claim to have strict quality standards which have also helped promote joint marketing. However, more often than not, the groups of farmers in Kosovo do not market together — which could be due to the variation in quality standards of the members. Alternatively, the history of collective farming and marketing in the Yugoslavia days might have led to farmers being wary of cooperation. It might also be the realisation that marketing has the biggest impact on farms' profitability and therefore the farmers want to control it themselves.

Traders. Traders are based in wholesale and rural markets. They will rent an area, or stand, from the owners of the market - normally local Government. The cost of renting a stand on the markets is not prohibitive; at the Pristina wholesale market, rents of €150 to 200 per month were quoted and the rent was only slightly less at one of the retail (or green) markets in Pristina. Obviously the size of the stand at the retail market was much smaller than at the wholesale market. Traders based in the wholesale market will buy from farmers, importers, or import themselves, whereas those based in the retail markets will generally buy their produce from the wholesale market, or occasionally buy direct from farmers. Traders based in the wholesale markets will sell to other retail outlets, i.e. small shops and sometimes supermarkets and restaurants; they also sell directly to the consumer. In Pristina, it is easy to differentiate between the two types of markets because the wholesale market is based on the edge of town and it is difficult for retail shoppers to access it. However, in Prizren and Peja, wholesale markets are much closer the centre of town and traders sell both to retail outlets and to the consumer.

In the markets, most traders were selling the same item but often from different sources and there was considerable variation in quality; this resulted in considerable variation in prices. As there were many traders selling the same products, it must be assumed that

It should also be noted that this group has been the recipient of various donor initiatives such as the provision of farm machinery, office equipment and management training. It has also been used to demonstrate that it is possible to achieve GlobalGAP certification in Kosovo.

the traders fixed market prices. Given that there were many traders to whom farmers and importers could sell, it is extremely unlikely that there is any collusion between traders to set the buying prices; certainly, no farmers claimed that there were any unfair trading purchasing practices occurring.

Importers. There are a wide range of importers who are generally based in the main wholesale markets where they sell most of their produce. They have three main outlets for selling the imported produce: other market-based traders, supermarkets, and shopkeepers or restaurants from their own stand. In many markets around the world, a wholesale market-based importer would sell to other traders in the same market at a discount, allowing them to compete equally for trade with shopkeepers and restaurants, but it is claimed that this does not happen in Kosovo. Most of the importers specialise in sourcing from one country, e.g. Macedonia, Albania, Greece or Turkey, and have their own trucks that they use to transport the produce. Some importers are seasonal – when their particular country cannot supply Kosovo competitively, then they will take the truck off the road and revert to buying from other importers and just be traders.

It is interesting that the importers are characterised as traders. They do not really have any long-term strategies, but when they recognise that they can import profitably, they do so. If their normal sources of supply are too expensive to be sold on the Kosovo market, they do not import. It was reported that this trade is based almost entirely on cash and there is little use of credit.

In general, imports occur when local production is insufficient to meet market demand or is of poor quality. It is generally believed that most Kosovo consumers prefer local production because it is thought to be fresher<sup>9</sup>. However, it is difficult to obtain evidence to back up this claim. There is considerable price variation between different sources which appears to reflect quality rather than the source of origin.

There is no formal effort to distinguish between imports and local production. Generally, the consumers make this decision based on what either the shopkeeper says or the packaging the produce is sold in.

**Rural markets**. Most small towns and villages have rural markets. Most of them only operate one day each week, but they form an important outlet for the smaller horticultural producers to sell their crop. Larger farmers will tend to sell directly to the larger wholesale markets. These rural markets are also a valuable source of market information as farmers tend to visit them most weeks to observe trends in market prices. They also provide the opportunity for the itinerant traders to source produce to take to the larger wholesale markets.

**Itinerant traders**. A very interesting group of traders were interviewed at the Pristina wholesale market. These are best described as itinerant traders. Their function is to buy produce from rural markets and move it to larger wholesale markets. Their importance is that if prices drop too low, they buy produce and transport it to higher priced markets. This small group performs a very important role in that they effectively "arbitrage" prices between markets: without them, rural markets could easily get flooded and the prices might collapse.

\_

In contrast, the MSP actually notes that there is a lack of trust amongst the local consumers with regards to the quality of local production.

Pristina wholesale market. This market used to be in the centre of town but the municipality built a new market on the outskirts of Pristina and relocated most of the traders in 2005. It appears to be a very neat and tidy market and serves both the buyers and sellers very well. This new market consists of 807 stands of 14 sq m; the stands are rented to the traders who often take a number of adjoining stands to increase their space. Currently, 143 traders are based in the market and it is estimated that about half of them are "importer/traders" and the other half are just traders. There is no office at the market for the management and there is no base for market inspectors. There is also no record of the trade conducted at the market. The Acting Director of the market estimates that there are 60 to 70t of produce sold each day; but based on interviews with traders, this is a significant underestimate. The cost for renting a stand at the wholesale market is about €100/month and there is no levy on vehicles entering the market. Some of the traders who have stands have installed their own infra-structure such as cold stores. Traders, who sell just outside the market area, such as in the parking lot, do not pay anything.

In addition to the traders/importers who rent stands in the market, there are a considerable number of itinerant traders and farmers who sell their produce in the market's parking lot.

Other wholesale markets. There are wholesale markets in Prizren and Peja and a seasonal one for local production in Xerxe. As noted above, the Prizren and Peja markets tend to be a mixture of wholesale and retail. Interestingly, some of the other even smaller towns, e.g. Ferizaj, Gjilan, have wholesalers who operate out of their own warehouses. There are a number of wholesalers who compete with each other. In other words, there are wholesalers and therefore a wholesale market, but it is not based in a central market. These wholesalers get most of their produce from the Pristina wholesale market on a daily basis, they also buy directly from local farmers, and some are also importers. These wholesalers provide the same functions as those in the larger markets, i.e. they buy from farmers, traders (often at Pristina market) or import themselves. They sell to retailers, shopkeepers, green markets and supermarkets.

**Retail (green) markets**. The retail, or green, markets are the traditional place where most of the fruit and vegetables are purchased by consumers. These are generally situated in the middle of towns near the main population centres. They also sell more than fruit and vegetables, e.g. clothing. It is assumed that these traditional retail markets are under pressure from small-shops and supermarkets. Most of the stallholders interviewed bought their fruit and vegetables every other day from the nearest wholesale market. One also sold produce that was grown on his family farm.

**Small-shopkeepers**. Kosovo has many small-shops selling fruit and vegetables. Some are specialist "green grocers" that sell a wide range of products, but many are simply grocery stores selling a wide range of products including a narrow range of fruit and vegetables. Most shopkeepers obtain their produce reasonably regularly from the nearest wholesale market. Some of the specialist green grocers buy directly from farmers who will deliver to the shop.

**Restaurants/catering outlets**. Most of the restaurants interviewed obtained their fruit and vegetables from the nearest wholesale market; either on a daily basis or every other day.

Supermarkets. As with many other countries, the supermarket sector is growing rapidly in Kosovo. There are a number of chains which are gradually differentiating themselves from each other. The biggest two chains, ETC and Ben-af, expect to double their number of outlets over the next two years and the other chains are also expanding The main chains recognise the importance of fruit and vegetables as a destination category – along with dairy produce, meat and bread. The supermarkets have a range of purchasing strategies; most supermarkets obtain their fruit and vegetables from the wholesale markets, although some buy centrally, others devolve responsibility to the local stores. Many are increasingly trying to source direct from farmers with the aim of improving quality. Some supermarkets also import some products directly, probably with the aim of increasing their margins. Some supermarkets have tried to sub-contract out the management of the fruit and vegetable sections to an individual on a profit sharing basis. It has been reported that this works well for improving quality of the produce sold. It is interesting to note that many of the UK supermarkets followed this same route in the 1980s and 1990s, but when they realised the importance of fruit and vegetables as a destination category, and probably also the potential for profits, they took it back under their own management<sup>10</sup>.

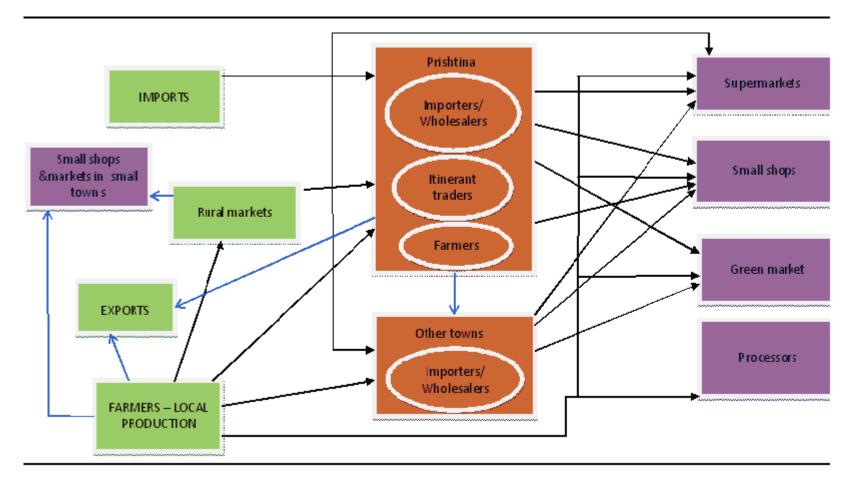
**Processors**. Processors have a very small role in the horticultural market chain. Compared with the total consumption, Kosovo-based processing demand is small. There is one reasonably large potato processing factory, Pestova, and there are some small-scale factories that process produce such as tomatoes when market prices are low. There is some demand for local vegetables in the preparation of some meat products, but again this is small. There is a small but vibrant cottage industry based mainly on preserves. It is possible that as Kosovo increases production and gets more regular market surpluses, processing may become more important. However, this will only happen if it is possible to create a competitive advantage.

What is particularly interesting about the development of Kosovo's Conclusion. horticultural market chain is that is that it has evolved by itself, with very little interference This is probably one of the key reasons why it is vibrant and from authorities. competitive; it is hoped that the vision for further development of the chain will be to continue to allow it to develop naturally with relatively little interference. It is expected that the supply chains will evolve; for example, the supermarkets will become more important players. The opportunity is for Government and other organisations to help and make sure that these changes are as beneficial as possible to the Kosovo economy and population without creating rural any imbalances.

\_

<sup>&</sup>lt;sup>10</sup> For example, ASDA contracted American Fruit Importers in the early 1990s, Tesco worked with Geests in the 1980s etc

Fig 2.1 The main actors and produce flows in the Kosovo horticultural market



# **Chapter Three**

# 3. General Observations

# 3.1 Background

This Chapter discusses the general observations made on the Kosovo horticultural market with the aim of identifying problem areas. Special consideration is given to the issues placing constraints on marketing by the farmers.

# 3.2 A very competitive market

Perhaps the most interesting observation about the Kosovo horticultural market is that it is very competitive; it might not be "perfectly competitive", but it is certainly one of the more competitive horticultural markets. In economic theory, there have been a number of attempts to define the characteristics of a "perfectively competitive market"; it is interesting and relevant to discuss these characteristics in relationship to the Kosovo horticultural market.

Lipsey discusses the five assumptions (or characteristics) that make up a perfectly competitive market<sup>11</sup>. These characteristics can be summarised as:

- 1. There are a large number of sellers and buyers,
- 2. None of buyers and sellers can influence the price on their own.
- 3. Goods being traded are homogeneous,
- 4. There is perfect market information,
- 5. The barriers to entering and exiting the market are negligible, and
- 6. Market prices are determined by "supply and demand".

It is accepted that the model of a perfectly competitive market is often derided as being unrealistic, as in many markets larger producers are more efficient than perfectly competitive smaller producers while transaction costs and information costs can never be negligible (as they will involve using resources with alternative uses). One example sometimes given, as approaching perfect competition in the real world, is staple foods in the agricultural industry, where there are many suppliers (i.e. farmers), relatively inelastic demand, and substitutable products, making it closely approximate to the perfect competition model. However, these characteristics of a perfectly competitive market do provide a good basis for discussion of the competitive nature of the Kosovo market.

There are a large number of sellers and buyers. In Kosovo, there are many farmers selling produce and at each step in the market chain there are many buyers. Even supermarkets compete with buyers from the green markets and shopkeepers to buy from the wholesale market. This is different from Western Europe where a small number of supermarket buyers are dominant in the market. For instance, in the UK 84% of fruit

Lipsey, *Economics* 11<sup>th</sup> Edition, Oxford University Press. 2007.

and vegetables are sold through multiple-retailers (i.e. supermarkets) and four companies control 75% of the grocery trade; in other words **four** companies account for 63% of the fruit and vegetable retail sales<sup>12</sup>.

None of the buyers and sellers can influence the price on their own. Most of the farmers supplying the Kosovo market are too small in their own right for their actions to impact prices. One exception would be Pestova, the biggest producer and processor which grows about 12,500t of potatoes a year. This represents about 20% of the consumption in Kosovo and therefore the company's marketing decision would have an impact on prices; also the market price, that this company achieves, effectively becomes the benchmark for others and it also sets the packaging standards. In the case of imports, as there are many importers, it is unlikely that they will have a significant impact on prices for major items; perhaps an importer that sources a relatively minor fruit and vegetable could influence the market by its decisions.

**Goods being traded are homogeneous**. Horticultural goods are not normally described as homogeneous; for example, there are many different varieties of apple with different eating characteristics, and they can be of very different physical appearance due to variety, disease and post-harvest handling etc.

There is perfect market information. Unlike many other horticultural markets, obtaining market information is relatively easy. Traders and importers do not attempt to hide prices and farmers stated that they had no problem in comparing prices from different markets. There is also a website that publishes weekly price data in six regions<sup>13</sup>. This website may not be used very often by farmers because they have other more appropriate means of getting price data, e.g. using the phone, regularly visiting markets, and talking with neighbouring farmers. However, the website has the potential for helping with strategic planning decisions; indeed the website does present some analysis of longer-term price trends.

The barriers to entering and exiting the market are negligible. In Kosovo, it is relatively easy for farmers to sell at any point in the supply chain. There are instances where farmers sell their produce in the parking lot of the Pristina wholesale market (where they pay no rent). They also sell directly to shopkeepers, restaurants and supermarkets; there are no or minimal entry barriers to trading with each of these market intermediaries. The cost of renting a stand at the wholesale and green markets is not prohibitive. The main extra cost for farmers to access different points in the value-chain relates to transport; if farmers can economically get the produce to different points in the chain, it is relatively simple to market the produce and therefore claim the margins of the market intermediaries they have bypassed. Also, larger-farmers who are able to harvest over a longer period are better able to build up regular sales to buyers further down the value chain. Therefore, it is the larger-farmers with access to transport who are able to make best use of the low entry barriers. This is the theory behind promoting farmers' marketing groups. It is worth noting that in Western Europe, where the multiple-retailers

http://www.food-ks.org/?cid=2,1#

-

Source – Opportunities for Sub-Saharan African Farmers to supply the UK Fresh Fruit and Vegetables, Accord Associates LLP, 2007.

dominate the market, farmers have to have GlobalGAP<sup>14</sup> certification before they can supply the biggest market segment, i.e. selling to the major supermarkets. GlobalGAP is extremely expensive to implement and maintain; but without it, market opportunities in Western Europe are limited and becoming smaller.

Market prices are determined by "supply and demand". The evidence in Kosovo is that market prices are determined by supply and demand; certainly, there are very few buyers or sellers who can actually set the price. There was no reported evidence of any oligopolistic activities by any actors in the marketing chain.

In summary, the Kosovo horticultural market has many of the characteristics of being perfectly competitive; it has many buyers and sellers, there are very low entry and exit barriers to trade, the market information is easily obtained and relatively open, prices are determined by supply and demand and no actor in the market is able to unduly influence The only characteristic which it does not meet is that it does not offer homogeneous products. It is important that the highly competitive nature of the market is recognised because any potential interventions should not interfere excessively with this status. The one area that might start to affect the competitive nature is the expansion of the supermarket trade. However, given that in most European countries, supermarket chains have become increasingly powerful players, it is likely that Kosovo will follow suit; certainly the plans of the existing chains are for a significant expansion of their fruit and vegetable sales. There is an important opportunity for HPK to work with the supermarkets to ensure that any expansion of their activities will percolate down and improve the returns to local producers. While the market is already reasonably competitive, it does not mean that improvements cannot be made. However, caution should be taken before making any interventions which might reduce its competitiveness.

#### 3.3 The growth of supermarkets

As with much of Europe, the supermarket sector is starting to expand rapidly in Kosovo. which might have significant implications for the development of fruit and vegetable sales. To put the potential power of supermarkets into perspective, the UK grocery trade is estimated to be worth £124 billion, with over 100,000 outlets. Supermarkets control 73% of the sales through just 6% of the outlets (Fig 3.1). Multiple retailers are even more important in the sale of fruit and vegetables, accounting for 84% in 2002 (Table 3.1). Given the growth of supermarkets, it is expected that they will be even more dominant in 2008. Fig 3.1 and Table 3.1 have been included because they give an indication of how dominant supermarkets can become and also because it is important for HPK to try to develop similar maps and information about the Kosovo market. It will be much more difficult than in the UK, where there is much more data available, but it should be possible to make some estimates and try to determine the relative scale and importance of the different retail outlets.

GlobalGAP used to be called EurepGAP (Euro-Retailer Produce working group's Good Agricultural Practices) which was established in 1997 by the main EU retailers. The Eurep Board decided to re-brand it as GlobalGAP in September 2007 at the 8th global conference in Bangkok.

Co-operatives 2,334 stores, £2.6bn Multiples 2,427 stores, £3.1bn Convenience Retailing Symbol Groups 51,526 stores 13,035 stores, £8.2bn £24.9bn Non-affiliated independents 25,893 stores, £7.3bn Trad Ret & Dev Conv 44,584 stores £8.7bn UK Grocery Retail Forecourts 7,837 stores, £3.7bn 102,511 stores 123.9bn Co-operatives 911 stores, £2.8bn Supermarkets & Superstores 5,281 stores, £86.5bn 6.401 stores £90.3bn Independents 209 stores, £1bn Alternative Channels

Fig 3.1 Map of the UK grocery trade, 2005

Source – Reproduced from Institute of Grocery Distribution (IGD)

Table 3.6 Value of UK fruit and vegetable sales through different retail outlets, 2000-02 (£ millions)

	2000	2002	% (2002)
Multiple-retailers	6,867	7,021	84%
Greengrocers and	910	841	10%
independents			
Market stalls	248	250	3%
Other	248	250	3%
Total	8,273	8,362	100%

**Source** – Mintel data, taken from Fresh Fruit and Vegetables (May 2003)

The logic behind the establishment of the main supermarket chains was to offer consumers dry goods at cheaper prices, which they achieved by bulk purchases. In the 1970s when they first came to prominence in Europe and in the United States of America (USA), the quality of the fruit and vegetables sold was not very good and it was not a major draw. Therefore, most consumers continued to buy from their local greengrocer. Like Kosovo today, most of the fruit and vegetables sold in the early days of supermarkets were obtained from the same source that most of the other shops used, i.e. the wholesale market. Again, probably similar to Kosovo today, the smaller greengrocers were able to get better quality products from the wholesale markets

because their livelihoods (and profits) depended on keeping the customers happy. In contrast, the buyers who worked for the supermarkets were not as motivated (that is, not as incentivised) as the smaller-shopkeepers, and therefore often bought the lower quality product. It was only in the mid-1980s when the supermarkets recognised that perishable produce could be a very important item to attract customers that they placed more emphasis on improving quality and trying to reduce prices.

Initially in the early 1980s, the supermarkets started to appoint companies (i.e. traders) at wholesale markets to supply fruit and vegetables to the nearby supermarkets. Then they recognised that costs could be taken out of the chain if the produce bypassed the wholesale markets; so the supermarkets identified traders who would build warehouses (with cold stores) to source produce for them. These companies took produce directly from farmers or exporters to these new warehouses, repacked it and then delivered it to supermarkets. Therefore, significant cost reductions were achieved by establishing a different supply chain that bypasses the wholesale markets (see Annex 2) and by encouraging the producers to drive out costs. The supermarkets also wanted to assure quality, which they first achieved by asking suppliers to develop codes of practice based on HACCP (Hazard Analysis and Critical Control Points)<sup>15</sup>. Following the introduction into EU law of directive 882 - a regulation on the traceability of produce - the Eurep board introduced EurepGAP in 1997 which standardised many of the retailers own quality schemes, producers' Codes of Practice and the Assured Produce Scheme in the UK. Most of the supermarkets then recognised the importance of building on the image of safe and hygienic fruit and vegetables and now most have their own standards. These own-standards include Tesco's "Nature Choice" and Marks and Spencer's "Field to Fork" which they heavily promote to attract customers; these private standards have their origins in EurepGAP. It is not the intention to debate the merits of the fruit and vegetable quality standards, but simply to recognise the importance of the perception of quality of fruit and vegetables in establishing the dominant position of supermarkets in Northern and Western Europe. Kosovo supermarkets will likely follow the trend of many of the other Western European chains and try to use fruit and vegetables as a major destination category - but it might be a long time before they implement such demanding standards as GlobalGAP. During some of the meetings with Kosovo supermarket executives, they did state that they believed that it was important for their supermarkets to get a reputation for selling safe and hygienic fruit and vegetables.

There is no data available to know exactly how important the supermarkets are in Kosovo and how quickly they are expanding. However, the management and/or owners of four supermarket chains were interviewed and they have ambitious plans for expansion, aiming to double their floor area within the next two years. All of them recognised the importance of fruit and vegetables as a destination product to attract customers into their stores on a regular basis. This could be done by either selling at lower prices or offering better quality. Like the supermarket chains in Western Europe in the late 1980s, the Kosovo supermarkets are purchasing most of their produce from the same supply chains as all other retailers; therefore, it is difficult to differentiate on quality; if they reduce prices, they would have to accept smaller margins. The other issue that the supermarket management has is that they want to differentiate themselves and they see fruit and vegetables as an opportunity to do this. However, they are unsure who

. .

For example, Sainsburys introduced something called the Production Management System between 1986 and 1989 whereby their technical staff help producers to identify critical hazard points.

they want to differentiate themselves from. For example, are they trying to differentiate themselves from the green markets, small-shops - or from other supermarket chains?

The two biggest supermarket chains, Ben-af and ETC both estimate that the value of their fruit and vegetable sales is about €2.5 million/year, out of total sales of about € 60 to 65 million. In other words, fruit and vegetable sales are about 4 to 5% of total sales value; this is less than the UK which is about 10%. Interestingly, when the floor areas of the main Kosovo supermarkets were measured, the area allocated to fruit and vegetables was about 4%.

In order to understand the approximate importance of supermarkets in the marketing of fruit and vegetables, an effort has been made to calculate the total sales by supermarket chains. One of the managers estimated that the two major chains probably accounted for about half of the grocery sales. If the same ratio is applied to fruit and vegetable sales, this means that it is worth about €10 million/year. In Section 2.4, it was estimated that the retail value of fruit and vegetable sales was in the order €179 million. Therefore, supermarket sales accounted for about 6%; and if the supermarket expansion plans are achieved, then in two or three years, they may represent about 10 to 12% of sales. This would suggest that currently they do not have a major impact on the horticultural market, but perhaps in a few years time they might start to become significant. Therefore, it is important that HPK recognises this and starts to understand and to find a role to ensure that the expansion positively impacts small Kosovo farmers and contributes to the improvement in rural incomes.

The other question that should be discussed in more detail at this point is who the supermarkets are trying to differentiate themselves from. Given the small size of their sales of fruit and vegetables, it would be extremely difficult for a supermarket chain to develop alternative standards and supply chains to differentiate themselves from other chains; it would probably be too much of an investment. Therefore, it is much more likely that the supermarkets will recognise that it is more effective for some or all of them to unite and differentiate themselves from both the green market and small-shops. In other words, it is likely that they will follow a similar approach as the Northern and Western supermarkets.

When supermarkets become more actively involved in establishing their own standards and supply chains that bypass the wholesale market structures, they will probably demand fewer suppliers with the introduction of "category management". For example, Migros in Switzerland has recently reduced the number of fruit and vegetable suppliers from 300 to 30 and is hoping for further reductions.

The evidence and experience from other European countries is that the supermarket sector is going to rapidly expand and become important in the marketing of fresh fruit and vegetables. This represents a good opportunity for HPK to influence and to ensure that developments can positively impact on Kosovo small-farmers. The supermarkets certainly need help in determining their best strategies because, while there is agreement that fruit and vegetables are important as a destination category, there are currently considerable differences about how this can be achieved.

It is sometimes claimed that where there are a few big buyers, such as with the Northern and Western supermarkets, they use their power unfairly to force producers to accept lower prices. This is certainly the case, but in driving out some of the costs, this has

resulted in more efficient production and given rise to economies of scale. This has meant that, in real terms, the retail price of fruit and vegetables has decreased. In addition, the supermarket chains have also made a major contribution in establishing more acceptable food safety and hygiene standards, ensuring the health and social welfare of farm workers, as well as improving respect for the farming environment.

# 3.4 Sales of fruit and vegetables through green markets and small-shops

Green markets and small-shops in Kosovo were the main source for consumers to buy fruit and vegetables before the advent of supermarkets. If supermarkets are going to continue to expand, then there will be considerable financial pressure on these retail outlets. In many other European countries, the number of small-shops selling fruit and vegetables have declined as the importance of supermarkets have grown. In the main towns in Kosovo there are many shops selling fruit and vegetables and it was extremely rare to see any customers purchasing anything. Apparently, there is considerable overcapacity in this market segment. There was even anecdotal evidence that this was happening; small grocery shops were going out of business and not being replaced.

# 3.5 The need to improve quality and packaging

Even though the horticultural market might be competitive, it does not necessarily mean that the quality of the produce and packaging is good. In fact, in many cases, it was noted to be very poor. There have been some efforts by HPK and other donor-funded projects to get farmers to use improved packaging, but most farmers have been very slow in adopting the new practices. The new packaging costs more than the packaging farmers currently use and if farmers want to improve product quality, it means that they might have to get lower marketable yields because of grading out second quality or using more agrochemicals to reduce pest damage.

The use of better packaging was discussed with farmers, most of whom did not believe that it would increase their returns if they invested in improved packaging and more advanced agronomic practices. The inference is that the market will not pay more for produce that was presented in better packaging. Also, it is possible that the overall margin for farmers is lower when they grade out some of the second quality produce. Having noted this, it was also observed that some of the better farmers were starting to size grade some products such as onions and potatoes; but the issue here is that the market for these two items is well supplied and, in order to attract customers, the produce has to be well presented. It is likely that, as local production of other crops start to meet market demand, farmers who present the produce more attractively will be able to market more easily.

It is important that efforts continue to ensure that improved packaging is available to farmers in case the market conditions change and that it does become more profitable to use it. However, in addition, it could be worthwhile trying reusable packaging. For example, it might be possible to use collapsible plastic trays which could be returned to the farmer for reuse; this could be particularly attractive to larger buyers such as supermarkets.

# 3.6 Increased local production and introduction of quality standards

Since its inception, HPK efforts have focused on capacity building and the capability of local farmers to supply the local market, with the marketing logic being that they would have comparative advantage over imports during the main production seasons. This import substitution strategy has worked well and is the probable reason why vegetable imports have decreased slightly, even though fruit imports have increased (Section 2.2). The Project's efforts have focused on trying to improve yields, quality, and packaging, leading to a number of success stories with some of the better farmers.

In addition to working towards improving yields, quality and packaging, it has also tried to introduce "Integrated Production" (IP). This is a method of growing crops with the following objectives<sup>16</sup>:

- Respect for the environment,
- Sustain the multiple functions of agriculture, namely its social, cultural and recreational aspects,
- Sustainable production of high quality with minimal pesticide residues,
- Protect the farmer's health while handling agrochemicals,
- Promote and maintain a high biological diversity in the ecosystem on the farm and in surrounding areas,
- Give priority to the use of natural regulating organisms,
- Preserve and promote long-term soil fertility,
- Minimise pollution of water, soil and air,
- Economic viability.

The objectives of IP are commendable and many are the same as the Good Agricultural Practices (GAP) promoted by Eurep and other organisations. However, it is disappointing to note that little effort is being made to use IP as a marketing tool to enable farmers to achieve better returns. Farmers will undoubtedly have invested more money and/or sacrificed yields following the principles of IP. However, they should be producing a product that is safer to eat, which is a good marketing opportunity to differentiate it from other produce on the market. There are a number of steps that have to be taken before it can be properly exploited, e.g. it needs an independent certification body, more farmers need to become involved to get critical mass, and actors in the marketing chain need to embrace the concept to ensure that its integrity is passed on to the end-users. Perhaps the biggest step that needs to be determined is that the consumers will pay more for safer food.

The sale of IP-certified produce could be extremely important for retailers such as supermarkets to differentiate themselves. However, it is probable that they could achieve this objective without farmers having to invest fully in all the ideals of IP; they could achieve similar differentiation by assuring their customers that their producers follow GAP including the safe use and storage of agrochemicals, full traceability, and the implementation of good hygienic practices.

There is confusion about the need for private standards and where they are necessary for trade; much of this confusion revolves around the status and requirement for

16

Based on Guidelines for Integrated Production of Pome Fruit, IOBC Technical Guidelines, 2002

GlobalGAP. While undoubtedly based on good intentions, this is a misunderstanding of the external commercial and official requirements. Some people appear to be confusing a private protocol, involving a limited set of European supermarkets, with the legal requirements of the countries within the EU. GlobalGAP is a private protocol and not a set of regulations demanded by the EU. It is an important protocol for supplying the largest multiple-retailers in Northern and Western Europe, but it does not prevent trade with smaller retailer groups and wholesale markets. For instance, in the UK, where multiple retailers are dominant, it is estimated that at least £1.34 billion out of £8.4 billion retail sales of fruit and vegetables do not have private certification. In other words, 16% of the UK's fruit and vegetable sales are not GlobalGAP certified and in other EU countries, it is much more. However, given that Kosovo has very little horticultural trade with the EU, and it does not have comparative advantages to expand it significantly, there is virtually no need for GlobalGAP compliance and/or certification. There will be some benefits for companies that have already installed GlobalGAP, i.e. better recordkeeping, reduced pesticide usage, and losses, and there will be some benefits for their customers, i.e. safer food.

Rather than implementing a stifling system of command and control, associated with North and Western European supermarkets, a more appropriate medium-term objective should be to promote a "quality culture" and to facilitate the broader adoption of better agricultural, post-harvest, and packing practices, and associated systems for supply chain management, record-keeping, traceability. These practices/systems could be voluntary; supported by incentives and support services, rather than mandatory and imposed by inspectors and sanctioned by fees, fines, or other penalties. However, a much more sensible strategy would be to define and achieve implementation of a more modest and less stringent version of GlobalGAP for the local Kosovo market. This version could then be used as a promotional tool which should lead to better prices and/or greater market demand. HPK has already made some progress towards a less stringent version with the introduction of IP. It should be reasonably easy to appropriately modify IP into a broader system of GAP; perhaps it could be called KosovoGAP (KGAP) or Kosovo Assured Produce Scheme (KAPS). Then, in the future. if the external markets require compliance with more stringent technical standards or management systems, the movement toward KGAP certification will serve as an effective stepping stone, and also elements in that protocol can themselves be refined to maintain its relevance to the evolving marketplace.

# 3.7 What are comparative/competitive advantages for Kosovo horticulture?

Even though most of the observations so far have been made about Kosovo farmers supplying the local market, there are some horticultural exports (Section 2.3). Based on interviews with the trade, it would appear that these exports fall into two categories: fresh produce to Montenegro and Albania, and much smaller amounts of processed produce to niche markets in the EU. The main export destination according to the import export data is Serbia (Table 2.5), but it is thought that some of these products might be en route for the EU. Also, Pestova exports processed potatoes in the region, and to a much lesser extent, companies such as Progress also sell in the region. It is necessary to have more information about regional trade of processed horticultural products before Kosovo's position can be fully analysed.

The competitive advantage for fresh exports to neighbouring countries is based on the climate; for example, the average temperature in the summer in Albania and Montenegro is too hot for the quality production of certain vegetables and, therefore, the cooler temperatures in Kosovo give it comparative advantage. It is reported that the mountainous terrain in Montenegro makes it difficult to find sufficient land to grow all of its horticultural requirements; this, again, gives Kosovo comparative advantage, and some exporters and growers are taking advantage of this opportunity. The comparative advantage of exports to the EU, mainly wild-harvested berries and mushrooms, is based on having the climate and environment for wild production of specific and relatively unusual products, enabling them to market the produce as "wild-harvested".

# 3.8 Constraints to exporting to some neighbouring countries

A number of exporters, based in Peja and Prizren, were interviewed and they claimed that it was becoming increasingly difficult to export fresh produce into both Montenegro and Albania. In particular, they were having problems with satisfying the phytosanitary requirements with the inspectors on the Montenegro border, where they claimed that inspectors ignored the phytosanitary certificates produced by the Kosovo authorities and demanded their own inspections, which had to be done in Podgorica. Similar problems were reported at the Albanian border, though the details of this were not verified. This non-acceptance of Kosovo certificates seriously impedes exports because the border inspector is only on duty for two hours each day, and only five days per week. The exporter is, therefore, required to take a sample away to Podgorica whilst leaving the truck at the border. The exporter is given a certificate to take back to the border and the vehicle is then released. The sampling and testing in Podgorica of produce has reportedly never resulted in a rejection. However, the barrier at the border has resulted in a number of exporters experiencing significant delays, which has lead to serious reductions in product quality and losses in revenue.

A few years ago, the Peja-based exporters claimed that there was steady trade into Montenegro, but, due to problems at the border, the trade has been seriously reduced. However, the data presented in Table 2.5 suggests that exports to Montenegro are increasing. It remains to be seen if the downturn described by the exporters will be reflected in the 2008 data. This study was neither able to fully investigate the details of the problem nor evaluate the scale of the impediment to trade, but it is important that this issue be seriously evaluated as it is a marketing constraint.

The refusal to accept Kosovo certificates is a non-tariff barrier (NTB) to trade and a complaint should be lodged. Unfortunately, the issue is where to lodge the complaint. Kosovo is not a member of the World Trade Organisation (WTO) and therefore, it is not yet covered by the International Plant Protection Convention (IPPC)<sup>17</sup>. Montenegro is still going through the procedures of joining the WTO; however, they **have** joined the IPPC. If the activities described by the exporters occur, they are illegal in terms Articles 2.3 and 3.3 of the SPS Agreement<sup>18</sup>, which unfortunately is a WTO treaty. However, the IPPC treaty is based on the SPS agreement. As described by the events given by the

In the eyes of the WTO, Kosovo is still a province of Serbia. Therefore, it cannot join the WTO or the other SPS bodies (IPPC, OIE, FAO Codex, Cartagena Protocol, Kyoto Protocol etc). However, Serbia is a member of the WTO and has acceded to most of the SPS bodies, so by extension Kosovo should be included in them as well.

<sup>&</sup>lt;sup>18</sup> Agreement on the Application of Sanitary and Phytosanitary Measures (WTO)

exporters, Montenegro is in clear violation of most of the provisions of Article VII of this treaty. It is, therefore, important that more work be done to first clarify and quantify the problem - then to find out the best way to eliminate the trade barrier so as to enable the Kosovo exporters to have full advantage of the market opportunity. Besides trying to invoke WTO and IPPC treaties and the SPS agreement, the problem could be solved at one of the regular meetings between the executives of the national Customs services. Alternatively, it could be taken up by the Kosovo Ministry of Trade, who could raise the issue with their Albanian and Montenegrin counterparts.

There are some impediments to trade with Albania and Montenegro. These provide an opportunity for HPK to try to understand them and then eliminate them. Once this has happened, there is then the opportunity to build on the trade and create competitive advantage in order to expand it further.

# 3.9 Impact of free trade and constraints to exports

Kosovo is a member of the Central European Free Trade Area (CEFTA), an organisation that was established in 1992. CEFTA is probably the most important multilateral agreement on free trade in Central and South Eastern Europe. The original impetus for establishing it was to both promote free trade within the Area and as an interim to full accession into the EC. As the countries that originally formed CEFTA joined the European Union (EU), they were replaced by other countries. The current membership agreement, signed in 2006, consists of Albania, Bosnia and Herzegovina, Moldova, Serbia, Montenegro and UNMIK on behalf of Kosovo; it became effective in 2007 and aims at establishing a free trade zone by the end of 2010. CEFTA does provide an opportunity for Customs representatives to discuss cooperation on the procedures for certificates, as well as harmonising legislation with EU regulations. In other words, it could provide a forum to discuss the problems of Kosovo's phytosanitary certificates and Montenegro, mentioned in the previous section. In fact, in a presentation by the Trade Policy Advisor for the Ministry of Trade and Industry, it stated that CEFTA is about adopting "WTO principles" and about "addressing NTBs through proper mechanisms" 19. Therefore, CEFTA could represent a way forward to remove the impediment on exports to Montenegro.

CEFTA membership also means that horticultural imports into Kosovo are free from import duties. However, they do incur 15% VAT, which is effectively a 15% import duty, because it appears that most of the importers do not bother to reclaim it when they resell the produce<sup>20</sup>. Similarly, exporters to Montenegro and Albania also pay VAT on entry, which again is effectively an import duty. Therefore, the 15% VAT on imports, coupled with the transport costs, give local farmers a significant comparative advantage. These factors are also a disadvantage for exports.

-

http://www.mti-ks.org/repository/docs/006ceftaconferenceilirciko.pdf

If the importers passed the VAT on to their customers and reclaimed a refund for the money at the border, then the tax would be effectively neutralised.

# 3.10 Processing

Processing, or preserving, of horticultural produce is another potential market opportunity which needs to be considered. However, the processing industry is relatively underdeveloped in Kosovo. There is a significant tradition of preserving vegetables on a household level, but there is very little large and medium scale processing. There are some exceptions; Pestova have made significant investments in building a factory to manufacture frozen French Fries and Potato Chips<sup>21</sup>. There is also some processing of tomatoes into ketchup, but this only happens in years when the market prices are low. Additionally, there is also some preserving of wild-harvested berries and mushrooms for export to the EU. Here are some factors that need to be considered before a competitive horticultural processing industry can be established:

- There must be a reliable source of cheap raw material; normally, farmers grow their vegetables/fruit specifically for processing, under contract, with an obligation to supply at specific times of the year. It is important for farmers to supply at certain times of the year so the processing company can establish production and marketing plans.
- Because of the importance of timely and reliable production, establishing a processing industry on occasional surpluses is not a viable business opportunity.
- Farmers have to grow specific varieties and follow agronomic recommendations to achieve the quality demanded by the processor.
- In order to be competitive, it is necessary for a processor to have "economies of scale" and to be able to spread their overheads. In other words, they need to have considerable throughput and a long processing season.
- A large local market helps to establish a processing factory. This gives a new entrant some protection from imports and allows them to have economies of scale in order to cover establishment costs, which can then be the basis for further expansion into the export markets.
- Reliable power and water supply.

If Kosovo establishes a significant processing industry, it will provide market opportunities for farmers. However, these opportunities will be limited and will require considerable innovation.

-

French fries are referred to as chips in the UK.

# **Chapter Four**

# 4. Specific Value Chains

# 4.1 Background

The terms of reference for this study specifically stated that it should concentrate on the value chains of four crops; namely potatoes, onions, tomatoes and apples. These cover the most important products currently being grown in the country. HPK has undertaken a considerable amount of effort to promote three of them, i.e. onions, tomatoes and apples, but have not been active in the potato sector.

### 4.2 Potatoes

## **Background**

Potato production is perhaps the most successful horticultural crop in Kosovo because the country is self-sufficient and there are significant exports. The climate in the spring and summer is good for potato production. Farmers claim that they are achieving average yields of 35t/ha. Even though it is extremely cold in mid-winter, some of the bigger producers have constructed well-insulated cold stores for storage through the winter until the new season crops become available.

Potatoes are a crop that is suited to larger-scale production because they are expensive to grow (mainly due to the high cost of seed per ha) and they are also susceptible to diseases (e.g. blight), pests, and drought. In order to overcome these issues and to achieve commercially acceptable yields, it is necessary to have good management. However, if good yields are achieved, then gross margins of €2,500/ha are easily attainable<sup>22</sup>. However, besides the high cost of seed, there are significant capital expenditures on machinery and storage.

### Local production and international trade

It appears from the production and trade data presented earlier that Kosovo is self-sufficient in potatoes and is also a significant exporter (Table 4.1).

One of the bigger producers claimed that direct costs of production are about  $\[ \le 3,300 \]$  ha. With yields of 35t/ha and an ex-farm price of  $\[ \le 1,70 \]$  the gross margin is  $\[ \le 2,650 \]$  ha.

Table 4.1 Potato balance sheet, Kosovo 2007

	Quantity (t)	Area (ha)	Yield (t/ha)
Local production	71,367	3,090	23.1
Imports	210		
Exports	17,218		
Consumption	54,359		

Source – SOK and Import/Export data supplied by HPK

Note – Imports and Exports are a combination of potato and sweet potato data

# Issues facing the industry

As Kosovo is self-sufficient in potatoes, if it wants to expand the industry, it needs more export opportunities. Therefore, the main marketing issue that needs to be addressed is to identify further export opportunities and make them more accessible. Opportunities are needed for both fresh and processed products. Interviews with exporters suggest that there are significant exports to Montenegro, Albania, and Serbia. As noted earlier, there are issues with the non-acceptance of Kosovo phytosanitary certificates, but the exporters stated that this does not have a great impact on them due to the fact that the quality does not suffer too much because of the delays. However, due to the fact that their transport is stationary for long delays, there is an added cost to the product and probably results in a slight deterioration of quality. Even though there have been significant exports of pre-packed potatoes to Serbia, it is claimed that Serbian Customs have occasionally refused to allow produce to cross the border, in spite of having all the correct documentation.

Pestova has significantly invested in processing equipment. It manufactures frozen French Fries and potato chips. Currently, the main thrust is producing the potato chips for sale on the local market (70% of production) and the balance is exported to neighbours i.e., Macedonia, Albania, and Montenegro. The local market is protected by the 15% VAT that importers have to pay on chips manufactured in CEFTA countries and, in addition, there is a 10% import duty on imports from the EU. So providing Pestova can purchase potatoes at a sensible price or grow their own potatoes cost-effectively, it is reasonably well protected on the local market. It should also be in a very good position to export competitively to neighbouring countries that do not have their own potato processing industry (e.g. reportedly Albania and Montenegro).

## The main players

There are two main players in the potato industry. There is a minor processing company, Delma Pomfrit, which has a processing capacity of 250t/year. The biggest producer is Pestova, which grows 150ha of potatoes on its own land and contracts another 200ha; it produces annually over 12,000t. It therefore produces 20 to 25% of the country's potato consumption and probably effectively sets market prices. It imports basic certified seeds and multiplies them once before supplying them to its contracted farmers. It imports a range of varieties suited for both the sale on the fresh market and for use in processing. It has the capability of storing 8,000t; half in high quality storage facilities which keep potatoes in good condition for 6 to 8 months, and the rest in less efficient shorter-term storerooms. It also imports potatoes from Egypt and is investigating Albania as a supply source at certain times of the year.

Pestova is not only a significant processor, but it dominates the local fresh market. They have installed a simple cleaning line and pack potatoes into pre-weighted net bags for sale to supermarkets in Kosovo and in neighbouring countries. This is a good example of how producers have improved their end-product in order to sell their produce when the market is over-supplied.

## Summary

The rapid growth of potato production, the establishment of a significant processing factory, and an export industry demonstrates the potential of the Kosovo horticultural industry. It is, therefore, interesting to highlight why it is successful. The success factors of the potato value-chain include:

- It is well suited to the Kosovo climate and the yields are satisfactory.
- Because the seeds are expensive and it is a difficult crop to grow, it is grown by larger and more technically advanced farmers.
- With the correct investment in infrastructure, it is a relatively easy crop to store during the off-season; therefore, local production is able to meet the country's needs throughout the year.
- The investment in processing has expanded the market opportunity.

The success of potatoes in Kosovo demonstrates the key success factors for any horticultural product; namely a good climate, good quality management and the economies of scale due to a large market.

Pestova is often shown as a success in Kosovo and it is a good example of horizontal and vertical integration. However, potatoes are expensive and difficult to grow and store, and there are good processing opportunities. These all lend themselves to the involvement of a large company which can attract significant support from donors and development bankers. It is much more difficult for this model to be applied to other commodities.

## 4.3 Onions

### Local production and international trade

Onions are one of the target crops that HPK has promoted. In particular, it introduced precision seeding and improved storage, which have both been very successful. The precision seeding has allowed farmers to move away from planting 'sets<sup>23</sup>' and has led to reduced production costs, improved yields, and a more uniform bulb size.

The consumption of onions in Kosovo was about 13,000t in 2007 (Table 4.2). The majority of onions were supplied from local production, and less than 2,000t were imported, mainly from Turkey. Imports have decreased from over 3,000t in 2005. The import of onion sets has decreased from 2,400t in 2005 to 500t in 2007.

<sup>&</sup>lt;sup>23</sup> Small bulbs used for planting

Table 4.2 Onion balance sheet, Kosovo 2007

	Quantity (t)	Area (ha)	Yield (t/ha)
Local production	11,341	810	14
Imports	1,922		
Exports	509		
Consumption	13,054		

**Source** – SOK and Import/Export data supplied by HPK **Note** – The import data does not include sets

Local production dominates the market from July to December, but onion sales decrease from January onwards because, traditionally, this is when the local crop is finished and more expensive imports were sold. However, some farmers are making an effort to improve their winter storage capacities in order to take advantage of higher prices. The trade statistics indicate that they are successful at replacing some of the imports. Most of the storage technology is based on using ambient air which keeps the onions dry and prevents sprouting until late winter/early spring. Storing onions for sale after March/April will require a significant investment in specialist infrastructure and it is important for farmers to calculate the economics of this.

# The issues facing the industry

The introduction of precision seeders and basic storage practices has meant that Kosovo is approaching self-sufficiency in onions. Because of the storage costs until June, achieving total self-sufficiency might be difficult. Therefore, it is possible that the local market become oversupplied and it will be necessary to identify export markets or find ways of expanding the local market. According to the trade data, exports increased to 509t in 2007, from 23t in 2005. It is assumed that Kosovo could compete in some of the countries where it is sells potatoes, e.g. Albania and Montenegro. It is not possible to determine whether it has comparative advantage over these countries, but apparently, the precision planter is an innovation to the region, and this could give competitive advantage to onion production in Kosovo.

There is a small market for onions to be used in some food processing, e.g. in the preparation of some meat products. Some farmers, who grade their onions, sell the large and damaged ones to this market. However, the onion processing market is reportedly small.

#### The main players

There are no main players in the onion value chain. One of the largest farmers interviewed only had 4.5ha; i.e. less than 0.5% of the area in onion production. This farmer had the precision seed planter and was responsible for planting about 50 ha for other growers; however, this is still a very small portion of the total production area.

Farmers have the option of selling to a wide range of traders in different markets as well as to the supermarkets and shopkeepers. There is the potential for a big actor to emerge and influence the market chain by building an onion storage facility and exerting a major influence over the late season market.

#### The constraints to improved marketing

The marketing of onions is reasonably effective. Some of the better growers were starting to size grade; one farmer, set up in the Pristina wholesale market's parking lot, had graded his crop into "large" and "medium" onions. The very large and damaged ones were sold for processing. If plantings continue to increase, it is probable that the market will become saturated and farmers will find it more difficult to sell their crop. Therefore, it will become increasingly important for farmers to grade the produce and present it more attractively in order to sell them. While there is nothing wrong with the basic packaging - net bags - it might become important for farmers to market their onions in different pack sizes. Also, if the market is becoming over-supplied, it is important for HPK to have a better understanding of export opportunities in neighbouring countries.

### The future

The local market appears to be almost in balance with local production, which means that market prices will likely fall unless export markets are developed. It is also likely that returns from export markets will not be as high as what farmers are currently receiving, due to the extra transportation costs and VAT that must be paid at the borders of neighbouring countries. If the market becomes oversupplied and prices fall, this will inevitably mean that the less efficient and smaller-farmers will be squeezed out of the market and it will be concentrated on fewer, but bigger, farmers. It also means that the consumers would benefit from cheaper onions.

There are a number of major interventions that HPK could implement to improve returns for farmers. First, it can evaluate export market opportunities. Secondly, it can appraise the economic and technical viability of storage through to April and May. Finally, it can continue efforts to improve yields and quality so that farmers are able to maintain margins despite the anticipated decrease in market prices. Further improvements in production technology and reduction in costs will also help increase opportunities for exports. Processing of onions is interesting, but is probably a small opportunity for Kosovo. Onions can be dried, but this would mean competing with China and Egypt, i.e. countries with cheap labour. It is important HPK develops the capability to understand the opportunities for processed onions.

### 4.4 Tomatoes

# Local production and international trade

Tomatoes are an important part of the diet in Kosovo. It appears that consumption is almost 31,000t (Table 4.3). However, according to data presented in the Tomato Market Profile prepared by HPK, consumption is 3.7 kg/week/household and the report calculates consumption as over 50,000t. This variation in market size does typify some of the problems that exist with the basic data available in Kosovo.

Table 4.3 Tomato balance sheet, Kosovo 2007

	Quantity (t)	Area (ha)	Yield (t/ha)
Local production	15,195	787	19.3
Imports	15,943		
Exports	889		
Consumption	30,849		

**Source** – SOK and Import/Export data supplied by HPK

The market is dominated by local outdoor production between July and September, when prices are at their lowest. Traditionally, during the off-season for local production, the market is supplied by Turkey. However, there has been considerable effort in promoting the use of polythene tunnels/greenhouses in order to lengthen the production season and compete with Turkish imports. In many cases, this has been very successful in achieving both early and late season production. The farmers who grow tomatoes under plastic get internationally competitive yields, and the sale price gives them very attractive margins. However, if the greenhouse producers harvest during the local outdoor production season, the prices are much less attractive, but they still cover their direct costs of harvesting and marketing.

The quality of tomatoes can be extremely variable. The best greenhouse growers produce excellent quality, but the less good growers and outdoor farmers produce fruit which is often misshaped and disease infested. Market prices reflect the differences in quality.

Kosovo exports some tomatoes. In 2007, the trade data shows exports were almost 900t. Most of the tomatoes went to Bulgaria because there was shortage of rain throughout the Balkans, but due to the farmers around Mamusa having irrigation, one Prizren-based trader exported over 25 truck-loads. Efforts to repeat this in 2008 ended in failure; the exporter claimed that the quality of the fruit and packaging were not good enough to compete. Another cause of the problem was that the Bulgarian market was well supplied and the cost of transport and VAT resulted in the Kosovo fruit being too expensive. There is a distinct lack of understanding of the comparative position and competitive advantages associated with exports to Bulgaria and to other countries.

There is a small processing opportunity. Progress, a Prizren-based processing company, buys tomatoes when they are inexpensive to make tomato paste and other products. However, the processor cannot buy tomatoes during the high-priced season and remain competitive with imported tomato products. This processor is important in determining a "floor-price" for tomatoes.

# The issues facing the industry

Tomatoes are highly perishable, and unlike potatoes and onions, they have to be sold very soon after they are harvested. From July to September, Kosovo production normally satisfies local demand and there can also be surpluses; there are often severe marketing issues. It was reported that 2008 was a good example of the effects of over production; farmers complained that prices were "too low", which meant they had losses and some farmers did not even bother to harvest their crop. It is, therefore, likely that there is a need to re-structure the industry; it is likely that some of the less efficient

producers will not be able to make enough money to replant. Also, farmers will have to consider grading the produce to only supply top quality, and imaginative packaging could be needed to induce sales during periodic surpluses. Some farmers should consider producing under contract for a processor; this at least should give them a guaranteed market outlet. If some farmers decided to produce under contract, then they could grow higher dry matter varieties which would improve processing efficiency.

HPK is continuing its efforts in promoting production in greenhouses. This could put pressure on the early and late season prices. An analysis by HPK, shows that the sale price of €0.30/kg is needed for greenhouse production to break even and €0.26 to 0.28/kg, if there is another crop grown before or after the tomatoes. Given that prices are often inferior to this, it means that there will be a considerable need to improve yields, quality and marketing opportunities.

Small quantities of tomatoes are exported. While it was noted that almost 900t were exported in 2007, it was an unusual year. Only 10t and 182t were exported in the two previous years. It is expected that exports will be back to the 2005/06 levels in 2008, despite low market prices. It is hoped that, in the low market price years, exports would be higher as this helps improve the price and returns for the farmers. As noted earlier, some traders, who wanted to sell tomatoes to Montenegro in 2008, were unable to sell the products because of NTB issues at the border; some exporters even claimed that they had to throw tomatoes away because they had over-heated at the border and rotted. It is important to clarify the export opportunity to neighbouring countries and if there is real comparative advantage. Then, assisting exporters to take advantage of it will help reduce possible oversupply on the local market, which would lead to better prices.

#### The main players

There are no major players in the tomato supply chain. Even when tomato growers form an association, it is mainly to help with procurement of inputs rather than to market cooperatively. A group such as the Mamusa Vegetable Association could be an important player in the market if its members had a unified marketing strategy (it claims its members have 72ha of tomatoes). The President of the Association claims that his members have average yields of 140t/ha, which means that his association produces about 10% of Kosovo's production.

## The constraints to improved marketing

It is important that some consideration be given to improved marketing for tomatoes, especially for the outdoor producers as they already face issues with periodic surpluses. It is likely that the greenhouse producers will soon benefit from increased market opportunities. Therefore, consideration needs to be given to evaluating the export market opportunities and constraints. In theory, there might be some limited opportunity for the sale of some tomatoes to the local processing industry; but this could only become a permanent feature if the farmers and processors adopt a professional and technically appropriate approach. During times of oversupply, it is important that farmers grade their produce and only market the best. This will mean a reduction in marketable yield; but farmers should be able to sell them faster. Finally, HPK has made considerable efforts to persuade farmers to use better packaging. However, improved packaging has not yet been adopted, probably because it is more expensive and the end-consumer is not prepared to pay more for attractively packaged produce. It might

be possible to introduce collapsible plastic trays, which are used in many countries, for sale to the supermarkets and then the trays could be re-used.

Given its highly perishable nature, it will be extremely difficult for donor interventions to improve marketing of tomatoes. What HPK can do is to spend more effort educating farmers and farmer groups about the principles of marketing so they make more informed and strategic decisions. It is particularly important to understand that it will be virtually impossible for donor or Government interventions to make improvements to the market when it is oversupplied. Improved export opportunities will help, but will not remove sufficient excesses to improve prices. The answer probably lies with farmers having a better understanding of marketing.

#### The future

Support to the horticultural industry must take into consideration the oversupply of tomatoes during the months of July to September. It is also important to realise that the margins being made by the greenhouse producers are not particularly attractive. Data collected by HPK shows that **profit** generated by typical greenhouse production would be eliminated if average tomato prices fell by 10%. Even if growers adopt improved technologies for tomato production, the **profit** would be eliminated by a 15% reduction in market prices.

# 4.5 Apples

### Local production and international trade

The data for apple production and trade appear to be very inconsistent. Using trade and statistical data, it would appear that consumption is about 19,000t (Table 4.4). However, in the HPK's Apple Market Profile, it states that consumption is about 11,000t (local production of 2,530t and imports of 8,201t<sup>24</sup>) and that consumption is 3.2kg/week/household which would put total consumption nearer 40,000 to 50,000t.

Table 4.4 Apple balance sheet, Kosovo 2007

	Quantity (t)	Area (ha)	Yield (t/ha)
Local production	9,318	1,096	8.5
Imports	9,929		
Exports	3		
Consumption	19,244		

**Source** – SOK and Import/Export data supplied by HPK

**Note** – The import and export data include "cider apples" which would appear to include eating apples in some years

Interviews with market traders confirm that much of the commercially traded apples are imported from Macedonia. During the field work for this assignment, even though October is the harvest season for apples in Kosovo, most of the apples being sold on the market were imported. The explanation given was that the quality of Kosovo production

Kosovo horticultural market, October 2008

This import figure is less than Table 4.4 because the Profile has not been updated for a few years and is using 2004 data.

was poor and could not compete with imports. So farmers preferred to store the fruit and hope that the market would take them in the winter months. Even though the number of orchards visited was limited, the quality of fruit was disappointing, due to considerable pest damage, and it was, therefore, easy to understand why consumers prefer to purchase imported fruit. However, one farmer visited did have exceptional quality fruit, which was comparable to imports, and he was able to sell his fruit on the local markets at similar prices as imports, leading to very attractive margins. This, again, demonstrates the importance of good quality and management.

The trade data suggests that there are no apple exports; however, some farmers claimed that fruit used to be exported into Montenegro, but now the exports have stopped due to problems at the border. However, it is also possible that the Montenegrins prefer the quality of the Macedonian fruit.

### The issues facing the industry

The Kosovo apple industry does not appear to be competing well with imports. There does not appear to be any comparative disadvantage for apple production in Kosovo; the climate is suitable and there are some very good orchards. However, many of the orchards are reported to be poorly maintained. The biggest issue facing the industry is how to get the majority of orchards managed to an acceptable standard; in other words considerable efforts are required to understand why apple farmers are so reluctant to apply good management techniques to their enterprises.

There is considerable talk about trying to help farmers invest in new storage sheds. However, it is important that this is only promoted with improved technology so that fruit quality is improved; there is little point in trying to store sub-standard fruit as it may deteriorate even faster when stored.

#### The main players

As with the onions and tomatoes, there are many small players in the supply chain and no large actors. The largest growers only have 3 to 4ha and are, therefore, insignificant players in the totality of the market. However, if some of the associations tried to market cooperatively, they could become a major force. For example the UVB Apple Association consists of 25ha of orchards and 12 members. The Pema Apple Growers Association has as much as 47ha of orchards amongst its 17 members. Unfortunately, the members of these Associations market their produce individually, but they do exchange market information.

# The constraints to improved marketing

Despite quality problems with much of the fruit, the farmers were generally able to sell their produce easily. They claimed that Macedonian fruit provided very strong competition. Even though imported fruit is subject to 15% VAT and also incurs significant transport and marketing costs, it is still able to out-sell local production. The real issue revolves around the quality of the local production because when the Kosovo fruit quality is as good as the competition, the farmers are be able to sell their product competitively with imports and they make attractive margins.

The Kosovo growers did appreciate that they could use better quality packaging which might make their produce more attractive; but they claimed that boxes that had been supplied for tests were poor quality and expensive<sup>25</sup>.

#### The future

Considerably more work is required to fully understand the problems facing the apple industry. Efforts are needed to improve quality and then there needs to be a technical and financial evaluation of the opportunities for storage.

<sup>25</sup> Boxes were supplied by the EU-funded Market Support Project.

# **Chapter Five**

# 5. Conclusions and recommendations

# 5.1 Background

In many ways the Kosovo horticultural market works well, i.e.

- There are many types of buyers and sellers at all points in the market chain, and prices are determined by supply and demand reflecting variations in quality,
- There is considerable competition at all points and virtually no collusion amongst players,
- There are very few barriers to enter and exit the market,
- Market information is freely available.

Despite the current marketing structure having many facets which contribute to an efficient and competitive market, there are areas where marketing can be improved. In addition, it is expected that there will be changes to the way the market operates which might have a profound impact on its efficiency and competitiveness in the future. The main change will probably be associated with the increased power of the supermarkets, and therefore, their impact on the horticultural market chain. This might well lead to a demand for higher standards of food safety and hygiene, coupled with certification, improved quality and presentation, a reduction in the number of growers and market intermediaries supplying them, and efforts to drive down production and marketing costs. Many of the changes could indeed be beneficial to the overall marketing chain and Kosovo production.

In addition to the expected increase in sales through supermarkets, it is also important to develop export opportunities. These are important because they increase the size of market opportunities, build on any potential comparative/competitive advantages, and help to reduce possible oversupply on the local market. Exporters and producers will be better able to take advantage of these export opportunities if quality (including standards), packaging, and yields are improved.

# 5.2 Work with supermarkets

It is expected that the retail trade in Kosovo will mimic Northern and Western Europe. In other words, supermarkets will expand quickly and there could be considerable investment by Western European retailers. In Western Europe, and in many of the East and South European countries, there are fewer companies exerting more influence in the retail trade. In the West, the supermarkets have driven many changes or reforms to the horticultural market and the industry needs to be aware that some of these changes may also occur in Kosovo. For example, the rise of Western European supermarkets has led to:

- The development of a separate market chain that bypasses the wholesale markets, which has led to the decline of traditional market structures.
- The implementation of much higher food standards and certification this has led to improved food safety and more product uniformity,
- A considerable reduction in the number of suppliers, including farmers, which has caused many small-farmers and traders to become redundant, and
- The reduction in production and marketing costs, which has resulted in the decrease of many horticultural prices in **real terms**<sup>26</sup>.

What is almost certain is that the power of the supermarkets will increase in Kosovo; it is expected that their floor area will double within the next two or three years. However, what is not known is how quickly this expansion will have an impact on the horticultural market. It is probable that even the supermarkets themselves do not realise the level of impact they have on the horticultural market structure. It has already been noted that some of the supermarkets recognise the opportunity for using fruit and vegetables as a "destination category" and/or as a way of differentiating themselves from other retail outlets, but again they need help in refining their strategy.

Therefore it is strongly recommended that HPK works with the supermarkets to try to understand what their objectives are, to try and help them purchase more, better quality local produce (rather than simply relying on imports), and to give them assistance that will have a positive impact on local farmers. Specifically, it is recommended that:

- HPK appoints someone who will take responsibility for interviewing supermarkets in order to understand their aims and objectives and to more accurately estimate their importance in horticultural marketing;
- This will entail interviewing all of the main supermarket chains in order to understand their turnover of fruit and vegetable sales (and total turnover), expansion plans (floor area of total retail sales and for fruit and vegetables specifically), efforts to promote fruit and vegetables, to introduce quality standards and procurement strategies. It will be important to understand how they plan to promote fruit and vegetables as a destination category (e.g. cheaper price, better quality, and how do they define quality). The supermarket executives interviewed stated that they also wanted to use fruit and vegetables as a means of differentiating themselves from their competitors. The supermarkets need some help in understanding who their main competitors are this should be a good entry point for HPK activities.
- Once the basic data has been collected, it should be possible to develop profiles
  of supermarkets, and quantify their importance with respect to fruit and vegetable
  sales. Then, it should be possible to estimate how important they would be in the
  short to medium-term.
- A Supermarket Consultative Group (SCG) be formally established. This group could have a number of objectives, including working with the supermarkets to promote the procurement of local produce, the introduction of private sector standards, improving product quality, and the use of improved packaging (and possibly the recycling of boxes). It is assumed that HPK would initially provide the catalyst for the creation of SPG and HPK would help with administration, but

<sup>&</sup>lt;sup>26</sup> Price changes have been less than the rate of inflation

in the long-term, the group would be financed and administered by its members. In fact, it could be similar to, or even aligned with, the Euro-Retailer Produce Working Group.

- The SCG would be a useful group to consider the introduction of improved or recyclable packaging.
- The SCG could also be the catalyst for the introduction and promotion of KGAP, which should lead to farmers getting a market reward for certification.
- Explore the opportunity for supermarkets, either jointly or individually, to advertise
  and promote the benefits of locally-grown fruit and vegetables. If the SCG
  members adopt specific quality standards, recognised by consumers, the
  retailers could organise specific advertising campaigns aimed at increasing the
  consumption of locally grown produce.
- Once the SCG has been established, HPK should start to organise study tours for supermarket executives to gain a better understanding of how more advanced retailing groups procure fruit and vegetables. HPK would need to research the most appropriate countries to study in consultation with the SCG<sup>27</sup>. It is assumed that the supermarkets would not be subsidised for these study tours, but it is still important for HPK to play an active role in ensuring that strong efforts are made to encourage supermarkets to buy locally-grown produce and, where possible, from smaller-farmers.

The establishment of an SCG will be an extremely important step in improving the quality standards and packaging of Kosovo fruit and vegetables, which will "trickle down" to the wholesale market supply chain. It is recognised that it will take time to establish the SCG and to gain the confidence of the majority of supermarkets. However, it is important to use their anticipated expansion as a vehicle for improving quality and increasing, or at least maintaining, procurement from small-farmers.

# 5.3 Identify and eliminate export constraints at borders

It has been noted that there are numerous instances where opportunities for exports have been missed due to "problems" or Non-Tariff Barriers (NTBs) implemented by neighbouring countries. It was not possible to fully quantify the scale of the missed market opportunity; but it is claimed that exporters were not able to maximise their trade with both Montenegro and Albania. Given that neighbouring markets offer much better transport cost comparative advantage than more distant countries, it is essential that this missed opportunity is properly understood and quantified. If it is a significant impediment to marketing of local produce, steps should be taken to remove the constraints. It is, therefore, recommended that:

- HPK appoints an officer to focus on this marketing impediment.
- The officer holds meetings with exporters and traders who are trading with, or used to trade with, neighbouring countries and tries to estimate the scale of lost business.

Kosovo horticultural market, October 2008

There are two broad options for the destinations of study tours. The most advanced methods are probably in the UK and a visit would give a good idea of long-term targets for procurement strategies. Alternatively, tours could be organised in some neighbouring countries, where the fruit and vegetable marketing is less advanced than Western Europe, but there are still ways for the Kosovo supermarkets to learn.

- The officer also accompanies some traders to fully understand the issues with phytosanitary certificates that are described in Section 3.8.
- The scale of the missed opportunity needs to be quantified and the procedures need to be properly described. The introduction of NTB to trade is a serious violation of the CEFTA, as well as other WTO agreements. Normally these disputes can be settled by sensible dialogue and cooperation between the ministries of both countries; but it is important that, before the trade dispute is escalated, the legal status is fully understood. It will probably be necessary for HPK to hire a short-term technical expert to advise the Kosovo authorities as it requires a good understanding of the legal aspects of various international treaties.
- The Terms of Reference for a short-term trade specialist need to be developed after the initial research into the scale of the missed opportunity and the real cause of the impediment have been evaluated.

Kosovo is part of CEFTA and has allowed fruit and vegetable imports from neighbouring countries to enter without any barriers or delays; therefore, it is only correct that its neighbours follow the same internationally agreed treaties. It is strongly recommended that the scale of the missed export opportunity is quantified and actions are described to remove these NTBs.

# 5.4 Identify and quantify export opportunities

Overall, Kosovo is a net importer of fruit and vegetables (Section 2.2). However, in Section 4.2, 4.3 and 4.4, it was noted that the country is a net exporter of potatoes, it is almost self-sufficient in onions, and, at certain times of the year, it has a significant surplus of tomatoes. Even though the market opportunities in neighbouring countries were not analysed, traders often reported that there are certain times of the year when Kosovo has climate comparative advantages over, for example, Albania and Montenegro. It was also noted that as a result of HPK efforts to import precision onion planters, it has conveyed comparative advantage over some neighbours for onion production.

Whilst it is very important for HPK to continue its support to farmers producing for the local market, it is imperative that it also helps maximise comparative advantages and helps establish a competitive position in export markets, as these will lead to increased market opportunities. Therefore, it is important that export opportunities are confirmed and quantified, and trading partners are identified. It is recommended that HPK:

- Appoints an officer to focus on identifying and promoting fruit and vegetable export market opportunities;
- Meets with existing exporters (which can be combined with 2.4 above) and identifies priority products and markets;
- Undertakes initial deskwork to review the scale of international trade for the target products in the target markets;
- Visits the target country to meet importers and traders to verify the market opportunity, gather basic price data, marketing costs (including transport), packaging requirements, and identify appropriate trading partners. It should also identify any potential problems or barriers to trade. This initial visit is important because it will identify who is Kosovo's competition in the market and therefore,

- confirm its comparative position and its ability to export **profitably**. Within Kosovo, identify exporters and larger-growers, which have the potential to meet the requirements of the importers in the target market.
- Decides whether to organise an "inward buyer" mission or "outward marketing" tour. There are benefits of both; an inward buyer mission is useful if there are many potential exporters and few importers and it has the advantage that the buyers can understand the production systems and constraints within Kosovo. Outward marketing tours are more common because there are considerable learning opportunities for the exporters and/or producers allowing them to understand the quality standards of the competition.
- Organises the tours and gives careful briefings to the potential exporters about opportunities and issues.
- Informs exporters, in association with the Ministry of Trade, of any trade missions to neighbouring countries where they could usefully participate.
- Identifies, in conjunction with exporters, other export opportunities and continues to promote further trading opportunities once the first mission was arranged.

Given that the biggest opportunities for increasing market size will be in neighbouring countries, it is not expected that export market activities will take place in the EU. However, if Kosovo companies do identify market opportunities further afield, then HPK could give them assistance. Similarly, if EU importers want to secure products from Kosovo, then after due consideration, HPK could help identify potential trading partners. One relatively simple way of helping promote exports to the EU is to continue to support study tours to exhibitions such as SIAL and Fruit Logistica, where the companies that have real export opportunities can participate.

# 5.5 Improved packaging and presentation

HPK and other projects have tried to introduce improved packaging but with very limited success. Much of this work has concentrated on using cardboard boxes for crops such as apples and tomatoes. However, whilst the farmers who were interviewed understood the importance of better quality packaging, they would not pay the extra costs involved in using new cardboard boxes as opposed to wooden crates or recycled boxes, the inference being that the extra revenue does not justify the added costs.

The farmers, who were making more effort with improved packaging and presentation, were the producers of potatoes and onions. Using different size nets and some basic size grading, the farmers claimed that it made marketing easier. The success of the introduction of improved presentation is probably a reflection of the fact that production is almost in balance with demand and therefore, retailers can be more particular when buying; the improved presentation makes the products more attractive to discerning buyers.

It is normally assumed that improved presentation is important, and it can also help reduce quality losses during transport and differentiate produce when markets are well supplied. It is also important if producers want to have access to external markets. However, the key is that the packaging must not add-costs to the supply chain unless there are improved returns - either higher selling prices or reduced losses. It is, therefore, important that HPK continues to promote improved packaging for farmers, and continues with marketing education to encourage farmers to consider better

presentation. However, it is obviously important that it only promotes the use of **good** quality packaging and not flimsy cardboard boxes that have been distributed by some other donor-funded projects. When producers feel sufficiently confident that it will lead to an improved return, it is expected that they will adopt the new technology. HPK is working with a packaging company to introduce new technologies to improve local corrugated box production; this is sensible as it should help ensure the price competitiveness of boxes and the quality. Finally, it has already been mentioned that using collapsible, reusable plastic trays for some produce could be an interesting way of reducing the packaging costs and have positive environmental impacts; this should be further investigated and possibly promoted via the supermarkets.

# 5.6 Improved and appropriate quality standards

Within Kosovo, there is considerable discussion and misunderstandings about quality standards, especially private standards such as GlobalGAP. As it is important to work to ensure food quality, HPK should evaluate the opportunity in turning their efforts of introducing IP towards improving the returns of farmers and helping to improve food safety for the consumers. It was suggested earlier that consideration should be given to the establishment of KGAP.

It is recommended that KGAP focuses on three main areas that would centre on the core aspects of the protocols within GlobalGAP - yet not include some of the wider ranging issues or documentary requirements. The three main areas should be:

- 1. The safe and timely application and storage of pesticides,
- 2. Basic principles and practices of food safety, and
- 3. Proper record-keeping and systems of traceability.

There are a number of administrative issues that require careful thought. For example, it is important that KGAP is designed and implemented with direction and oversight provided by a Council. This Council should eventually have significant representation from major buying organisations (i.e. supermarket chains, processors, hotel and restaurant chains), and from the national farmers unions, agrochemical associations, and Government. HPK could be the major catalyst and provide secretarial functions while KGAP is being established. At the start, it will also need to provide resources to establish suitable standards, preparation of training manuals, and an appropriate auditing system. Perhaps the biggest issue is to identify the organisation that would undertake the training and auditing of the farmers.

Therefore, in order to establish KGAP, it is recommended that HPK:

- Appoints an officer who takes responsibility for the evaluation of the potential for KGAP and fully itemises the issues that need to be addressed before it can be established.
- Researches the history and evolution of private standards such as EurepGap, GlobalGAP and other national schemes to see what lessons can be learned for Kosovo
- Discusses with the main buyers their interest in working to establish KGAP and
  efforts to use it as a marketing or promotional tool. One of the key reasons that
  supermarkets should be interested in KGAP is that it will help them prove "due

- diligence" in case of any issues associated with the sale of "unsafe" fruit and vegetables.
- Discusses with farmers and farmer representatives to fully ascertain their interest in establishing KGAP. One of the key reasons for their involvement is that it will help to improve marketing opportunities and margins, and make achieving international private standards easier<sup>28</sup>.
- Discusses with the main buyers the concept of establishing a KGAP Council.
- Identifies organisations that would be capable of training the farmers, as well as an organisation that would undertake the auditing process.
- Establishes achievable standards and prepares the manuals for record- keeping, assuming that there is appropriate interest amongst the major buyers. This would probably be done in conjunction with an international expert on private standards and with the identified training organisation.
- Prepares a budget for implementing KGAP and then prepares a financial plan. In many developing countries, the cost of implementing private standards has been too costly for small-farmers and has, therefore, often been funded by donors. It would be recommended that perhaps the farmers could make a contribution to the training, but would not be expected to cover the full costs.

It must be stressed that the concept of KGAP, along with other private standards, be established and overseen by the private sector in order to respond to their needs. It would not be a minimum legal standard. However, there would be many people in Kosovo who would benefit from its establishment. For example:

- The **end-consumer** has greater assurance about the safety and hygiene of fruit and vegetables.
- The retailers, restaurants and hotels benefit because they can market their produce as being safer. If there is a problem, they can prove "due diligence" by implementing sensible training and traceability schemes in an attempt to minimise risks.
- Workers on farms benefit because they will be taught to apply pesticides in a safer manner and will work in a healthier environment. Also, it has been noted that when farm staff are taught better food hygiene standards, they are also applied at home.
- The producer will benefit because better record-keeping will increase understanding of enterprise profitability. Achieving KGAP certification would help achieve "preferred supplier status" with their biggest customers and gaining certification would make it easier to achieve other private standards needed for export.

In addition to the above benefits, the introduction of KGAP would ensure that more care is given to the environment, i.e. there would be a reduction in, and the safer use of, pesticides. It is recognised that these efforts in improving food standards are only targeted at the high-end of the horticultural market. However, it is hoped that in time more of the farmers supplying wholesale market outlets would also adopt the improved practices, especially if as predicted, the supermarkets become more important in the sale of fruit and vegetables.

If farmers have implemented a system such as KGAP, it will make it much easier for them to achieve organic or fair trade certification.

# 5.7 Improved data collection

The horticultural data in Kosovo is, at best, variable. This makes the understanding of trade opportunities and profitability very difficult. Since its inception, HPK has accumulated a considerable amount of data, which has proved useful, but it is important that this data be updated and checked. In particular, the market trade data is weak; e.g., the volumes of produce sold are very inconsistent. There is a website that publishes some market price data (http://www.food-ks.org/?cid=2,1#). This was established by the EU-funded Marketing Support Project (MSP) in mid-2006 and is now financed by the Raiffeisen Bank. Market price data is collected from six regions once a week and the website is updated each Monday. The information is distributed via the website, various newspapers, TV, and radio stations. MSP's final report claims that farmers find the data very useful, but in the interviews made during the research for this study, farmers claimed that they personally collect their own price data by being in regular contact with the markets. No doubt this website is useful, but it risks suffering from the same issues that many other market information systems have suffered from in the past, i.e. getting accurate price data. However, the website does undertake some historical analysis of price data, which should be invaluable for farmers in the strategic planning of crop programmes.

Even though appropriate efforts are being made to collect and disseminate market price data, there is very little effort being made to understand the size of the market. For example, interviews with traders and management at the biggest wholesale market, Pristina, show a wide range of estimates of the throughput. Import data could be more accurate, but there is an incentive to "under-invoice" as it results in a reduction in the VAT liability. Also, HPK has interesting yield and production data from the farmers it works with. However, it tends to work with the better farmers and the yield estimates are considerably higher than those obtained from the household survey presented in Table 2.1. More accurate production and trade data would be an invaluable source of information for developing strategies for Government, private sector businesses, as well as farmers. HPK should continue its efforts in this area to gain a more **comprehensive** picture of the scale of the Kosovo horticultural trade.

It is the lack of good market and trade data that makes it virtually impossible to quantify the trade between the different actors described in Fig 2.1.

# 5.8 Support efforts for group marketing

Fragmented marketing and production is certainly a constraint for the development of Kosovo horticulture<sup>29</sup>. It leads to higher production and marketing costs, which makes it difficult to compete with imports. It is also difficult to develop brands, undertake marketing promotional exercises, and achieve countervailing power in negotiations with buyers.

It is strange that there are a number of associations that have been formed that are only used for bulk purchases of inputs and sources of information - but rarely come together for communal marketing. The members discuss market information but do not market together. There are very few producers who are big enough to become significant

See MSP Final Report

players in the market and consequently, the producers find it difficult to negotiate advantageously with buyers. HPK has an executive who is responsible for working with farmer marketing groups; the work is commendable and should be encouraged. However, it is recommended that:

- More effort is made to understand why Kosovo farmers do not market together. Is
  it because of a lack of trust between farmers or the recognition that joint
  marketing could lead to variations in quality?
- Alternatively, instead of working exclusively with farmers on cooperative or communal marketing, HPK could work with traders, or market intermediaries, who purchase from small-farmers. If these traders can trade more efficiently and communicate more effectively with farmers, it could help improve the producers' margins.

# 5.9 Promote marketing education

Most farmers, met during the field work, had a good understanding of market prices at more than one point in the marketing chain. They obtained the information by talking to neighbours, by regular visits to the local markets, and by telephoning traders at the wholesale markets. However, despite the knowledge of market prices, many farmers are still "price-takers" and do not recognise that they could improve their returns by taking greater responsibility for their own-marketing. Also, some had a poor, or rather naïve, understanding of basic marketing principles, which could constrain their potential returns. Examples of lack of marketing awareness included:

- A tendency to accept the price offered rather than negotiate, i.e., farmers were price-takers, which were often caused because the farmers were too small and did not have sufficient size to negotiate prices.
- Few instances of cooperation to reduce transportation and other marketing costs or to gain increased bargaining power.
- A lack of understanding of how prices could be increased by improving quality;
   and
- Little effort to differentiate through, for example, better quality and improved packaging.

The farmers' limited understanding of marketing and their reluctance to take responsibility is typical in many countries where Governments have established marketing boards or authorities. The authorities set prices; in other words, market forces do not apply. Even though it has been a few years since Kosovo's markets have emerged from a controlled economy, not enough farmers are benefiting from pro-actively selling in a liberalised market. If Kosovo is going to successfully modernise its horticulture, it is important that farmers' marketing skills are improved. It is necessary that farmers take responsibility for their commercial decisions – including their choice of crops and their subsequent marketing. One tool that can be developed is "Farmer Marketing Education" (FME), which is a serious effort to educate farmers on the basics of marketing and demonstrate how returns can be improved if they take a more proactive approach.

Intercooperation has considerable experience with implementing FME; for example, in Bangladesh. FME provides farmers with the necessary tools and confidence to make their own marketing decisions. It is important that government, donor-assisted project and Non-Government Organisation (NGO) officials not give marketing recommendations to farmers because, if the advice turns out to be incorrect, the trust with the small-scale farmer breaks and further extension messages cannot easily be delivered<sup>30</sup>. All too often, public sector extension staff and marketing specialists are not up-to-date with market information – marketing education should teach farmers to rely on these officials only after they have proved that they are a reliable and the best source of information. In fact, an important part of marketing education is to discourage the passive dependency on government and donor projects to solve problems; and to stimulate farmers to find solutions themselves. Also, marketing education is designed to teach more than just farmers; it should also include traders, agro-processors and government officials. It is important that these groups are assisted, though the main thrust should be to train the farmers and their representatives.

There are a number of elements to FME, including the following:

- Demonstrate to farmers why they must take responsibility for marketing their produce and highlight the improvement in returns from a pro-active marketing strategy;
- Show how group marketing can improve profitability with cost reductions and higher prices through a better negotiating standpoint;
- Explain the advantages of group marketing. Group marketing can operate at many levels – from jointly paying for transportation to market where they sell as individuals or through formal marketing agreements where a group of farmers gives the authority to one person to develop a strategy and market for all of them;
- Explain why farmers and traders need market information and how to use it to improve their profitability. Demonstrate how it can be used for improving negotiating positions and for pre-planting decision-making.
- Explain the principles of a free market and how market prices change over the short and longer term.
- If farmers have an improved understanding of how the market works, they will better understand the inevitable risks associated with particular crops and would be better able to evaluate the benefits of a guaranteed market offered by a processor<sup>31</sup>;
- Explain how to calculate the profitability of a crop that has a long harvesting season (e.g., tomatoes) and why it is better not to sell when the market price does not cover the direct harvesting and marketing costs. Farmers must learn to expect some price variations, but as long as the total revenue gives an acceptable margin over total costs, the variations are acceptable;
- Give farmers the tools to be able to evaluate the advantages and disadvantages of supplying agro-processors i.e., a guaranteed market at lower prices;

\_

A good marketing extension officer would provide the farmer with information that would allow him/her to make better marketing decisions. For example, a historical record of daily market prices would help a farmer decide when to plant their crop in order to meet the high market prices. Also, a good marketing extension officer would help bring actors in the marketing chain together to improve the flow of information.

For example, if a farmer has a well informed background as to how the market works, then accepting a lower price from a processor for a guaranteed market would seem more attractive.

- Market information is more than providing price data; it covers information such as quality, who is supplying the market, and what is the likely future supply position. Market intelligence is also an important issue – for example, competitor information on planting and productivity. FME encourages farmers to look for the answers to these questions from a range of different sources;
- Show how to calculate marketing costs, and
- Stimulate the discussion on possible actions to reduce marketing costs.

# It is strongly recommended that HPK reviews the opportunity for introducing FME into Kosovo. HPK management should:

- Appoint an officer to review Intercooperation's promotion of Marketing Education in other countries<sup>32</sup>.
- Obtain copies of the Food and Agriculture Organisation of the United Nations (FAO) booklets on using market information and costs<sup>33</sup> as well as horticultural marketing<sup>34</sup> and a set of videos<sup>35</sup> in order to see if they have any relevance for Kosovo farmers.
- Develop appropriate materials to help with the training of trainers if the concept of improving farmers' marketing skills is adopted.
- Bring other stakeholders into the marketing education process as part of improving marketing education. One of the core philosophies is to eliminate the "us versus them" culture between the farmers and the other actors in the marketing chain. It is therefore important to stimulate discussion between market intermediaries and encourage the flow of information in order to develop a culture of mutual co-operation. It is also important to recognise that all the market intermediaries must also make a reasonable margin.

# 5.10 Advertising and promotion

In the terms of reference, it was asked if consideration should be given to advertising and promoting horticultural produce; either for individual growers or a nationwide campaign. Virtually all Kosovo producers are too small or too individualised to be able to create a brand name; the odd exceptions, such as Pestova, are starting to develop their own brand. It could be possible for Government or a donor-project to start a 'Buy Kosovo fruit and vegetable' campaign. However, this would only work if Kosovo fruit and vegetables are of consistent quality. Even after consistent quality has been achieved, there is still a considerable amount of effort required, because as the Final Report of the MSP states, "There is still much to do in building the trust of the Kosovo consumer in Kosovo agri-food products". It is not worth developing a promotional campaign until some of the following criteria have been achieved:

It was considered for possible implementation in Kosovo in 2003.

Marketing Extension Guide - Understanding and Using Market Information by Andrew W Shepherd, Food and Agriculture Organisation of the United Nations, Rome 2000 & A Guide to Marketing Costs and how to calculate them by Andrew W Shepherd, Food and Agriculture Organisation of the United Nations, Rome 1993.

Horticultural Marketing by Grahame Dixie. FAO Marketing Extension Guide No. 5 – Rome 2005.

Horticultural Marketing – Marketing Extension & Horticultural Marketing – Extension Techniques; both are available from The Food and Agriculture Organisation of the United Nations in Rome.

- There is a guaranteed minimum quality standard that can be proven, e.g. KGAP
- Product quality is consistent, and
- There is a large volume of supply so that the costs can be spread over the year.

This is confirmed by the efforts of the MSP, which decided that that one of the most effective ways of improving the quality of local produce was to introduce labels and improved packaging. It worked with three Associations, "Anadrini" Vegetable Growers Association, "Frutti" Farmers Association, and "Pema" Farmers Association in 2006. During the field research for this assignment, there was no reference by the Associations to these labels and neither were they noted on the market. As reported earlier, the Associations did not adopt the use of the packaging. Therefore, considerably more care and thought are required before further efforts can be made to introduce labels.

It is recommended that consideration be given to a sensible promotional strategy of produce that can be proven and independently verified to have met minimum quality standards. For example, if the concept of KGAP takes off, then the supermarkets could have a promotional campaign to help differentiate their produce from other shops or the green markets. However, this will only work if a sufficient number of farmers are certified, or at least compliant, with the private standard to guarantee a regular supply of raw material. It is also important that the supermarkets ensure they can **prove** that they only sell from certified farmers.

# 5.11 Processing

It has been noted that, currently, there is little horticultural processing in Kosovo. There are a number of reasons for this, including limited comparative advantage, a small local market, and the decimation of the country's infrastructure around 1999. However, there are some pockets of excellence, where companies have been able to develop interesting processing opportunities; some of which have been successful in export markets. It is important to remember that there are some issues to be addressed before successful processing investments can be made (see Section 3.10). However, because profitable processing industries do provide market opportunities, and often they can be secure markets, HPK should consider appointing an officer who can evaluate possible assistance to processors. This help might be in the form of innovation. It is therefore recommended that HPK:

- Nominates an officer to become the processing expert.
- Helps potential investors in horticultural processing evaluate business plans.
- Helps to provide contact with technical support to ensure that the most appropriate technology is used.

# **ANNEX 1**

# **TERMS OF REFERENCE**

# Fruit and Vegetable Market Structure Study, Kosovo

Terms of Reference (third draft)

May 2008

# Background

#### **HPK**

'Horticultural Promotion in Kosovo' – financed by the Swiss and Danish governments - is working towards the development of the horticultural sector. It aims to help increase employment in rural areas, make local production competitive with imports, thereby capturing the local market.

The Project began in 2001 and is likely to continue its operations until 2012. It has been financed since the beginning by the Swiss Government and, as of 2008; it is jointly financed by both the Swiss and the Danish governments. It is managed by Intercooperation – a Swiss not-for-profit foundation for development and international cooperation.

HPK's operations cover field vegetables, greenhouse production, soft fruit (such as strawberries), top fruit (such as apples) and medicinal and aromatic plants.

It works with (i) producers, nurseries, processors and traders; (ii) representative bodies such as producer associations; (iii) service providers – such as input suppliers, advisers and banks; and (iv) Government and other national bodies.

It currently has eleven local and one international staff members who work out of offices in Pristina and Gjakova. Its approaches are based on the general principles of Intercooperation and adapt flexibly to changing situations.

#### Context

Horticultural producers in Kosovo used to be part of the Yugoslav command economy and were responsible for producing a limited range of products for a captured market of 22 million people. Unfortunately, their situation has become unrecognizable since that time because now their 'local' market has been reduced to just 2 million people. Now the local market demands a wide range of products throughout the year and is already being supplied by an efficient and well-tested system of imports. The producers are finding that cultivating crops is no longer enough – they now have to sell their products –

and, more difficult yet, they have to produce what the market demands – and when it demands it. The context in which the producers have operated has changed dramatically leaving them ill-equipped and unprepared to compete – both individually and collectively.

If the market has changed abruptly – so too have the sector's resources. The troubles have not only disrupted social systems but also decimated fixed assets. The area under commercial orchards, for example, has collapsed from over 12,589 ha in 1984 to less than 435 in 2001 – and what remains is largely comprised of aging trees of old varieties. A similar situation is reported with strawberries – once an important crop covering 130 ha – it had diminished to practically zero in 2001. Much of the 'socially-owned' land and infrastructure (including the substantial processing capacity) lies abandoned – waiting for legal processes that are gradually releasing them onto the market.

#### The Market

In former Yugoslavia, Kosovo farmers were part of a supply chain with a market of 20 million inhabitants. The turmoil in the 90s proved disastrous - first the farmers lost their strong position in the former Yugoslav market and then, as a result of the war in 1999, they also lost their position in the domestic market. Neighbouring countries stepped in to fill this void in the Kosovo market.

The market for fresh fruits and vegetables in Kosovo is still dominated by products largely imported from the region - particularly from Turkey and Macedonia. The market share of domestic products has started to show tentative signs of increasing over the last few years.

Tomato, pepper, onion, potato, cabbage, cucumber, watermelon and apple are the main fruit and vegetable products consumed in Kosovo and are also major production items in the country as well as major imported items.

The Pristina and Prizren wholesale markets represent the two main hubs for distribution of fresh fruits and vegetables in Kosovo. The position of Prizren, (close to the border with Albania) makes it the main outlet to Albania – and it is increasing in importance as trade with Albania increases. During the main production season, the ad-hoc roadside market in Xerxe serves as a very important point for collection and supply of locally-produced products such as tomatoes and peppers.

The new chains of supermarkets, recently established in Kosovo, are strongly impacting consumers' purchasing behaviour. Domestic consumers increasingly prefer to buy fresh products at the new retail outlets rather than in green bazaars (assembly markets).

### Objective of the study

This will be the first major study on the structure of the Kosovo market for fruit and vegetables. Its objective is to provide a clearer understanding of the overall characteristics, structure, function, and procedures of the marketing of fruit and vegetables in Kosovo - including intra-Kosovo trade as well and imports and exports – and the trends in these various elements.

The study should also highlight the major opportunities and threats that the fruit and vegetable market is currently experiencing in Kosovo. In this context, a particular accent should be placed on suggestions of strategies which will permit the horticultural sector to continue to develop especially in increasing the competitiveness, the revenues, and job creation among the principle stakeholders implicated in the horticultural value chain.

This study should be limited to essentially fresh and/or stored horticultural products, signifying that processed horticultural products will not play an integral part of this study. Additionally, in order to avoid complicating the interpretation of the information contained in this study and to target a more simplified view of the market, this study will be limited to the major horticultural products in Kosovo, which are:

- Apples for the Fruit sub-sector
- Potatoes, Tomatoes and Onions for the Vegetable sub-sector

The results and recommendations of the study should provide useful guidance for further development to agents of change in the horticultural and market sectors - including the key stakeholders, government, donors and their projects. The study should also raise issues that need to be discussed, identify further studies needed and provide the related outline ToR. The mission would also contribute to a round-table discussion of stakeholders at the end of the mission.

### Scope

The scope of the study is mainly oriented toward a general market analysis of fresh and stocked horticultural products in Kosovo. This will be considered as the main section of the study. Also, given the importance of the apple, potato, tomato, and onion production in the country, a separate analysis of each value chain will be conducted.

# Outputs

The outputs of the mission will include:

- A draft report to be presented two days before the end of the stay in Kosovo
- A short presentation of the main orientation of the study, followed by a discussion, to be presented to the project (principle staff members) two days before the end of the stay in Kosovo
- A short presentation of the main orientation of the study, followed by a discussion, to be presented to the main stakeholders on the last day of the stay in Kosovo
- A study containing a maximum of 40 pages (+ annexes) submitted to the project (by e-mail) within two weeks of the end of the mission in Kosovo. This study should be organized in function with the general framework which is presented in the following pages. Also, a synopsis of two or three pages should be written and presented at the beginning of the study document

### Methodology and logistics

- The methodologies used in the study would include visits to markets, retail outlets and production sites, examination of documentation provided by the Project and discussions with informants
- A questionnaire targeting the major points to be investigated and analyzed will be prepared, sent, and collected to a limited number of key stakeholders by the project's team members implicated in the study
- Up to three project staff will support and collaborate with the consultant
- All logistics including travel, board, and lodging within Kosovo will be arranged by the Project

# Duration of contract in work days

(Note: a maximum of 6 days per week is paid)

Preparation at home base and background reading		
Travel to and from Kosovo	2	
Mission in Kosovo	18	
Writing at home base	5	
Total work days	27	

#### List of reference documents

- SPHPK, July 2001, Quick market survey assessing the market potential of winter vegetables grown in Kosovo, SPHPK, Pristina, 17 pp.
- SPHPK, September 2001, Consumption habits and purchasing behaviours of fruits and vegetables in Kosovo, SPHPK, 39 pp.
- Fischer Ch., August 2002, The market for fruit & Vegetables in Kosovo and Balkan Regional Market Study, SPHPK, Pristina, 57 pp.
- Ubo Creation, April 2004, Study on the consumer behaviour, SPHPK, 9 pp.
- Dixie G., February 2005, Value chain development for vegetables, SPHPK, 21 pp.
- SPHPK, May 2007, Balkan market overview fresh fruits and vegetables, SPHPK, 28 pp.
- SPHPK, Market profiles: tomato (2005), strawberry (2005), onions (2005), apple (2005), lettuce (2007), carrot (2007), cucumber (2007), watermelon (2007).
- HPK, International trade of fresh fruits & vegetables, Kosovo: 2004 (May 2006), 2005 (Nov 2006) & 2006 (May 2007).

#### - General Plan -

The following table outlines the major points that should be developed in the study. In order to ease the collection of information, certain elements contained in the table will be investigated and treated by project team members prior to the arrival of the international consultant. There are two major reasons for this, which are:

- Avoid losing time during the mission in data collection
- Allow project team members, directly concerned by the study, to actively play a role in the study and to find useful information which will be helpful in their work at the heart of the project

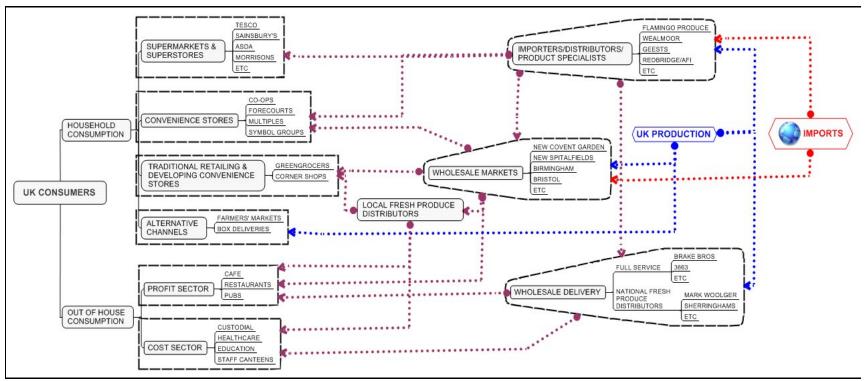
Additionally, it is to be noted that the gathered elements, which have been incorporated and treated by the team members of the project should be used and adapted according

to the needs of the study. This responsibility will fall to the international consultant who will take the time to understand and interpret the elements collected during his stay in Kosovo. Also, it will be the international consultant who will be responsible for the final incorporation of the given elements by the team members of the study.

The table found on the following pages outlines the major points which should be treated during the study and should constitute the basis for the structure of the study. The last column on the right highlights the main points to investigate and analyze before and during the stay of the international consultant in Kosovo. It is to be taken as a reminder of the points to consider. Please note that it is simply a general structure which can be adapted and amended by the consultant. In order to separate the tasks, the elements which should be handled by the team members of the project are in bold in the table.

### **ANNEX 2**

# Supply chains for imported fresh fruit and vegetables to the retail and food service outlets - UK



Source – Accord Associates LLP

Note – Symbol stores would include Lidl, Spa etc

The produce that is sold in the supermarkets has a different supply chain to the small shops and traditional outlets.