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Policy Paper

Topic: Citrus Fruit Industry of Azerbaijan after Manat's
Devaluation

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Introduction

Azerbaijan implemented two significant devaluations in 2015 decreasing AZN's rate against USD from 0.78 to 1.55.

From 2006 till 2015, until the first devaluation, Azerbaijan kept the strength of its currency, but devaluation of the national currency of Azerbaijan's main trade partners, especially Russia, made its exporting products more expensive in dollar terms since Russia is the main market for Azeri's non-oil products. But considering the favorable situation after AZN's devaluation, it is now cheaper to increase local production, especially agricultural products. Additionally, as a result of tensions between Russia and Turkey, there is a huge vacant market for agricultural goods in Russia which is a good opportunity for Azerbaijan to export. Citrus fruits are one of them.

In 2013 the production of citrus fruits in Azerbaijan was 39,998 tons; in 2012, 31,622 tons and regarding to past year's data, it kept increasing year by year after 2008. According to the data there was no import of lemons in the first half of 2014, while orange import was just 4.2 tons. However, in 2015, 6,000 tons of lemon (worth \$ 1837.3 thousand) and 10,000 tons of orange (worth nearly \$3 million) were imported to the country. And it means that Azerbaijan has legalized its citrus fruit imports. There is a small percentage of local production in the lemon and orange market in Azerbaijan.

Problem Statement

Considering the fact that the manat lost half of its value against the dollar last year, which was believed to be the worst performance of all currencies, also which resulted in the central bank's reserves to fall from almost \$15 billion to \$6.8 billion by the end of November 2015, Prime Minister's Office aims on submitting a policy option to the President of Azerbaijan about the ways of providing better opportunities for local producers of citrus fruits.

Since 2005, Azerbaijan has doubled its fresh fruit and berry production, which now stands at around 1 million tons. An increase can be seen in the production of some pome fruits and berries. However, this increase cannot be observed with the citrus fruits. There are strong competitors like Turkey with share of 69%, Iran with 29%, Ecuador with 1.16%, USA with 1.08% and France with 0.053% of import of citrus fruits. The production of the citrus fruits loses its advantage against the imported fruits to country.

As a country whose export of more than 90%, government revenue of three-quarters and gdp of 40% relies on oil and gas, the fall of the oil prices affected Azerbaijan negatively. This proved for once more how dependent Azerbaijan was on oil and gas, and how crucial it is to change it.

Objectives

Considering the current situation of Azerbaijan after the AZN devaluation and the problems associated with this we should reach some goals in order to decrease the harm of devaluation to the country's economy and at the same time take advantage of this situation. Agriculture including the citrus fruits' production would be a good tool for these purposes.

First, we should make sure that our country is able to provide local demand for citrus fruits which will decrease money outflow from country considering that Azerbaijan provides most of its citrus fruit consumption from abroad. We should create a competitive environment where our local producers are able to compete with goods coming from foreign countries and can easily bring their produced goods to the market without any artificial obstacles which will create an incentive for local farmers to produce more and will increase local citrus fruit output.

Second, we should make sure that we are able to export our goods abroad which will let us to get currency inflow especially considering the vacant Russian market for citrus fruits after facing political problems with Russia. We should take advantage of this situation and get as much share from this market as possible, which will provide continuous revenues to Azerbaijan and local farmers.

Implications for policy of successful state will almost always be the product of domestic action, though it can be significantly enabled by well-targeted, responsive international assistance. A focus on governance structures that address inequities and inequalities and promote accountability is likely to promote stability over time. This includes informal as well as formal institutions

Ensuring the funding of the trade system restructuring, protecting the economic and political interests of the governing party, promoting diversity in the domestic market, advocating for the rights of local suppliers of citrus fruits, encouraging positive communication with the neighboring countries and clearing responsibility for strategic decisions in relations to trade in governmental authorities are the other objectives of the policy.

Policy Options

Considering the problem and goals there are 3 possible options to be considered.

Option 1. Increasing the availability of the credits to producers

Increasing the availability of the credit to producers will affect positively to the production of citrus fruits; after the credits being given to the producers, they will generate the supply, as now the producers have the money to employ, to purchase the necessary tools, resources on time which will be used wisely to invest in the production, and then get the product with no delay. And after the production reaches a satisfying amount and pleases the local demand, the export of the goods to Russian market can be considered easily.

However, it might geopolitically put Azerbaijan in a tough situation by attracting the international arena's and Turkey's attention to itself for increasing economic relations with Russia. Additionally, people might use these credits for personal, non-business uses which will make the situation worse.

Option 2. Encourage cooperation among economic actors

Increasing the production of citrus fruits and meeting the local demand provide country's food security by its own resources have to be the main priorities of Azerbaijan before encouraging its exportation. One way to foster production of citrus fruits is to encourage cooperation among economic actors, particularly small and medium sized enterprises in this field.

The objectives of such cooperation can involve agricultural research and extension, technology generation and transfer (developing intensive crop farming) and innovative practices.

The ways of creating such business cooperation can be following:

- 1) Farmer organizations
- 2) Local groups of small businesses
- 3) Networks as organizations supporting inter-firm cooperation and collaborations such as chambers of commerce, business clubs.

The development of local citrus fruit sector is heavily depended on development of SMEs and independent farmers in Azerbaijan. As we know there are many SMEs and farmers involved in citrus fruit production and because of the

smallness implying their scarcity of resources, they are not able to compete based on economies of scale, so are more willing to cooperate and network with other companies or stakeholders.

But, there also can be some drawbacks such as, SMEs or independent farmers can become big clusters and agree upon to create monopolies in the market. Government would not want to face such a problem which is very obvious to happen.

Option 3. Provide information to producers about destination markets and foreign competitors.

Providing information to producers about their international rivals is very essential as the success in global markets depends on knowledge accumulation and deployment. Identifying competitors is important before finalizing the decision about which business category and market segment to compete in. It is vital to the success of a new or existing business because it reduces risk, time, required resources, and expense. Providing information helps the producers to identify the competitors because most of the time the competitor is not who they are thought to be. For example, if we are a manufacturer of citrus fruits, our direct competitors are probably other brands of citrus in the market. But what about watermelon, strawberry or the apple? The target consumer may be making a choice among all these items for a "fruit " purchase, including citrus fruits. Or the target buyer may be considering a drink purchase among alternatives for "fruits ". The producers must narrow the choices and decide which industry, product or service categories, brands, geographic areas, channels of distribution, etc., to compete in. Without this knowledge and analysis, seller's strategy or invasion to local (even international) market will not be effective and efficient, particularly if they have a very limited budget. Additionally, a citrus fruit supplier operating in a domestic market also gets the opportunity to operate in different areas and this gives the him an opportunity to have bigger markets to advertise to. Even in domestic markets, businesses are still trying to trade with each other to promote their business to other businesses in the area. An advantage to marketing domestically is that the firm may be entitled to tax benefits for offering jobs to the nation and for giving people opportunities for work. A firm that markets domestically helps countries by offering more jobs, bringing in additional business to the market and stimulates trading within the market.

Recommendation

Considering options suggested above we recommend country to take following policy decisions:

- Decrease interest rates of agricultural credits taken for the production of citrus fruits
- Make sure that farmers use these credits for agricultural uses by creating a monitoring system and take the output of production as a decision making base for future credits
- Provide continuous information about risks, possible markets and competitors to local producers using local TV channels, newspapers and other channels.

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