Ministry of Agriculture and Agrarian Reform

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on

"Enhancing Exports of Fruit and Vegetables to the EU markets"

held in Damascus on May 3, 2003

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Ministry of Agriculture and Agrarian Reform

A seminar was held in Damascus on May 3, 2003 in the framework of the Agricultural Policy Forum promoted by the National Agricultural Policy Centre (NAPC), with the support of the Project GCP/SYR/006/ITA-Phase II.

Professor José-María García-Alvarez-Coque, international consultant to FAO, presented a lecture on **"Enhancing Exports of Fruit and Vegetables to the EU markets"**. The lecture reported on the main results of a research study on Syrian exports of fruit and vegetables to the EU markets, undertaken by a team of researchers of the National Agricultural Policy Centre (NAPC) supervised by the international consultant Mr Coque.

This report aims at presenting detailed information on all current and potential windows in the European Union that could help improving the penetration of Syrian exports of fruit and vegetables in the EU markets. It is an advanced step of a previous study carried out under the project GCP/SYR/ 006/ ITA- Phase I, whose objective was to examine the impact of the Association Agreement (AA) currently under negotiation between Syria and the EU.

Synthesis of Presentation

Mr Coque started his lecture by describing the main quantitative trends of the world and EU trade in fruit and vegetables. In spite of its protection policies and support to local production, the EU is still one of the main commercial targets for the countries with exporting capacity. As a global trader, the EU imported in 1999-2000 about 38 billion dollars of fruit and vegetables, accounting for 10.4 per cent of the world consumption of these products, against 9.4 per cent accounted for by North America.

The elements on which Syria bases its advantage in accessing the EU markets of fruit and vegetables are: (i) the relative specialisation of Syrian exports in fresh vegetables (28% of total agricultural export value in 1999), and fresh fruit (15%); (ii) the expected signature of the AA, which will probably open new and more stable opportunities for Syria; (iii) the dynamism of the EU fruit and vegetables market with respect to some products of interest for Syria (eg. cherries, table grapes, garlic, onions, tomatoes and potatoes); and (iv) the overspecialisation of Syrian exports towards AFTA countries, which accounts for over 90 per cent of Syrian horticultural exports.

The specialisation of Syrian horticultural exports towards Arab markets is understandable, given the geographical proximity and the cultural and economic links between Syria and its Arab neighbours. However, the present absence of Syrian products in European destinations highlights the possible constraints of Syrian horticultural export development. This is due to the interaction of a number of forces, mainly related to the lack of exporting incentives, caused by the protectionist EU commercial policies and by the low degree of adaptation of the Syrian produce to the recent developments brought up by industrial economies in the marketing of fruit and vegetables.

Mr Coque then considered the domestic situation of Syrian production of fruit and vegetables. The first conditions for exporting are believed to be the availability of supplies and price competitiveness at the farm level. In fact, Syria is characterized by a variety of producing regions, which allow the country to keep export activities during different seasons for several products. A comparison between farm monthly prices in Syria and in some EU Member States, referred to the period 1998-2000, shows that Syrian farm prices have frequently undercut EU farm prices, and suggests price advantages for Syrian at the farm level for certain products and seasons. However, Mr Coque highlighted the fact that the country is facing high logistic costs in order to enhance its foreign trade. Particularly, transportation costs of some perishable products such as potatoes, tomatoes, and table grapes result particularly soaring. On the other hand, domestic overproduction, considered as a sign of inefficiency in the marketing chain, allows instead for profitable exports by pushing farm prices down.

A challenge for Syria rests on the possibility of breaking the vicious circle of inefficiencies in the marketing chain, which negatively affect export results. At the same time, efficiency gains hardly appear in the Syrian marketing chain because of the lack of export incentives related to a still limited market access to the EU.

The AA will probably lead to enhanced market opportunities, even though EU concessions will tend to be limited as suggested by a close examination of the agricultural protocols corresponding to the AA between the EU and several Mediterranean countries (Morocco, Tunisia, Jordan, Egypt and Lebanon) already signed. Tariff concessions are managed through calendars and quantitative limits for tariff preferences. For some products, minimum entry prices are applied, although the EU has granted entry price reductions for given products and seasons to some countries such as Morocco and Egypt. Mr Coque indicated that these remarks are not aiming at drawing a pessimistic view of the future, as the Association framework will involve an important step in the right direction.

If the EU grants market access concessions, Syria should aim at taking significant shares of the EU market, as other Mediterranean countries have already done. However, even with improved market access, competition is fierce. This is the case, in determined seasons, for some products such as tomatoes (spring and summer), potatoes (summer and autumn), clementines (autumn), table grapes (summer and autumn), apples (autumn), cherries (winter), and onions (summer). It is unlikely that Syria will be able to export to the EU significant volumes in these seasons, when European domestic production is relatively large. The possibilities for Syria to enter the EU market are more likely through efforts to grow crops that can be harvested ahead or after the main producing seasons in the EU.

Afterwards, the lecturer referred firstly to market access, and secondly to consumption and distribution trends in foreign markets as necessary conditions for export success. He underlined that, whatever the Syrian strategy for internationalisation is (no matter whether it points to regional integration with Arab countries or with the EU), the country has to take into account the modern market trends, which in the EU point to a number of qualitative changes in fruit and vegetables consumption. Indeed, consumers in industrial economies tend to buy fruit and vegetables as “convenience” products (take-away, “meal solutions”), snacks (“eating on the move”) or products which guarantee good health and respect for the environment. Those products addressed to satisfy basic needs have seen their price reduced, while the prices of those products linked to emotion and convenience are less price sensitive though, at the same time, have to comply with the specifications of modern distribution. Only companies with close monitoring of the market and wide control of the production process are able to quickly adapt to the frequently contradictory consumers’ behavior in industrial societies.

The process in most Western and Central European countries appears to be not only consumer driven, but also mastered by large distribution firms. A major move in the commercialisation of fruit and vegetables has been the progressive disappearance of small retailers and the parallel consolidation of sales in the hands of big retailers. In 1999, the 10 top companies carried out 40 per cent of food sales in Europe. In 2005, it is projected that the same percentage will be accounted for by the 5 top companies. As an example, it is worth mentioning the case of the first European food retailer (Carrefour), which has a total turnover equivalent to fourth times the Syrian GDP. These progressive changes are leading to a sharp reduction of the number of suppliers in the international market of fruit and vegetables; therefore, in the medium-term, a small number of companies will supply a larger volume of these products.

Thus, Mr Coque strongly emphasized the fact that Syria can perfectly take part in the international market of fruit and vegetables by making a steady effort in introducing Syrian firms in world marketing chains. Supply chains enforce internal mechanisms and develop chain wide incentives assuring timely performance of production and delivery commitments. These elements, based on shared information, reciprocal scheduling, product quality assurances and transaction volume commitments, call for long-term agreements among Syrian companies, EU importers and distribution companies. As for quality assurance, it must not be seen as a factor of differentiation but rather as a precondition to have a presence in the market.

After having stated that all the necessary changes must be carried out by the private sector, Mr Coque put the accent on the role that the Government could play in facilitating needed adjustments. While the public sector cannot substitute private traders in the dynamic market of fruit and vegetables, there remains a need for policies orientated to (i) support companies willing to undertake quality assurances (including organic production and other certification categories), (ii) facilitate large scale co-ordination between producers and traders; (iii) favor international co-operation leading to the adoption of the most modern marketing techniques; (iv) promote Syrian products in foreign markets and increase the number and quality of the Syrian network of contacts with European companies; (v) encourage further steps towards foreign direct investment as a way of promoting international co-ordination and of transferring marketing know how.

Mr Coque then provided some policy recommendations that might frame a strategy for exporting fruit and vegetables to the EU. The leading guidelines of the lecturer’s policy recommendations can be summarized as follows:

1. Adopting a "learning-by-doing" approach. This means to avoid a short-term approach for the planning of export activities to the EU. This orientation would include an export strategy for fruit and vegetables. This picture is compatible with the idea that the AFTA markets become a preliminary step for Syrian exports to acquire experience that will be exploited when Syria gets higher access to the EU, within the AA framework.

2. Understanding the leading role of the private sector in the exporting activity. Accepting this, the Government may take part in the provision of certain public goods, such as (i) the improvement of the regulatory framework concerning product standards for both domestic and exporting market; and (ii) the supply of "support services" based on dissemination of information, training, research, promotion and quality policy. The Syrian fruit and vegetable market would probably improve its efficiency with a more open trade policy setting.

3. Building a quality policy, aimed at moving actors' mentality towards quality. This could consider the creation of a Fruit and Vegetable Quality Body, with the participation of relevant actors of the fruit and vegetable sector. Areas to be covered would be the monitoring of quality at different points of the marketing chain as well as the analysis of actions to be taken to enforce the European standards, with an assessment of the implementation costs for the producers.

4. Favouring co-ordination in the fruit and vegetable sector. Syria needs associations of actors, aimed at sharing information and exchange of experiences and view-points on further steps to be taken in specialized areas. These co-ordinated efforts should not end up as public or parastatal activities but as adequate interfaces with the private actors.

5. Encouraging the concentration of supply. Small and medium companies that supply traditional commerce will tend to decrease and larger business oriented companies will be increasingly relevant for creating export value. Government action could point to (i) granting of specific lines of credit to companies that undertake high overheads and to (ii) setting up of promotion activities. Government's assistance should be subjected to several conditions related to job creation (eg. as already established in Investment Law nº 10) and to the affiliation of a minimum number of growers to the companies' exporting programs. The assistance of the SEBC and the creation of public export agencies also appear to be crucial.

6. Promoting human resources. Government could support the development of tailor-made training and education modules at the different stages of the marketing chain. Training activities may well need international assistance and consider co-operation with foreign companies that would help to communicate product specifications directly to Syrian actors. The SEBC could take a significant part in the training activities directed to the marketing of fruit and vegetables,

with support by EU funding. The Government role would focus more on the training activities addressed to farmers (good agricultural practices).

7. Strengthening international co-operation. Mechanisms for networking Syrian and foreign companies must be established to favor transfer of knowledge. These include contacts with farming associations in the EU to share experiences on the adaptation to distribution and consumers' trends. International technical assistance would be helpful to prepare Syrian missions to the EU, with the goal of studying the implementation of quality systems and of forms of co-ordination between the agents of a particular export sector, with attention paid to the experience of the Producer Organisations (PO) and the inter-branch organisations in Europe.

8. Exploiting the AA's "windows". The AA becomes a framework for a dynamic process of negotiations and progressive opening of the EU trade barriers, which could be accelerated with an interim implementation of the AA's provisions related to agricultural trade. Taking full advantage of the EU concessions, including the filling of most of the tariff-quota offered by the EU, would be important for providing Syria with arguments for a further opening of the EU markets. This will require adequate training for the Syria trading actors to understand the administrative procedures for exporting to the EU. If concessions in the form of Exchange of Letter leading to tariff preferences are agreed, the Syrian government will have to implement an effective system of control for Syrian exports to comply with the limits agreed.

9. Improving market information and transparency. The creation of information systems about domestic and foreign markets becomes critical for improving the transparency of the fruit and vegetable transactions. These systems will be difficult to create without financial and technical assistance from international donors

10. Facilitating FDI. Foreign investment is a critical way of promoting international co-ordination and of transferring marketing know-how. There is a growing consensus about the need for simplify the procedures and rules governing investment in Syria. Government's efforts already point to easing investment and have to continue in the future. The fruit and vegetable markets should be included in the list of possible targets for foreign investors, considered by the General Investment Council (GIC).

Summary of Discussion

The lecture stirred up the interest of the participants, whose names can be found in Annex 1, and was followed by an animate debate that can be summarized according to the following main subjects raised by the audience and commented by Mr Coque.

1. EU Policy and Market Access

Subsidies and Non Tariff Barriers (NTBs) such as entry prices and import certificates are part of the EU policy. In spite of many multilateral agreements and negotiations, the fruit and vegetables sector in the EU is still subsidized. This policy is still in force, but time for reform is approaching; further WTO negotiations could eventually be a tool for overcoming these obstacles.

The entry price is a political issue: its level is decided by the EU at the Council level. However, some correlations can be found between domestic productions and entry price levels. The reduction of entry prices only applies to sensitive products such as fruit and vegetables and differentiates according to season. Only few Mediterranean countries, like Egypt and Morocco, by signing the AA with the EU, have been granted reduction in entry prices. Indeed, it should be mentioned that, in the negotiations of the AA, Syria might obtain reductions in entry prices of some agricultural products.

On the other hand, Syria has to face many complex problems related to import certificates for fresh products, while other Arab countries, such as Tunisia, instead, agreed special provisions with the EU in terms of exchange of letters concerning, for instance, flower cuts in order not to suffer from the quota administration procedure. The AA will open new windows if Syria complies with the regulations on Certificates of Origin (CO). As a result, Syria has to train stakeholders in order to improve their negotiation skills and cope with the complexity of CO.

2. Logistics and Competitiveness

Lower transportation costs would significantly improve competitiveness in the destination market. In fact, logistic and marketing costs account for two thirds of the whole trade value of perishable products calculated at wholesale prices. With regard to the Syrian case, the value of products in the destination market reflects both transportation costs and further expenses due to other logistic difficulties. On the contrary, Turkey, for instance, in addition to the advantage of its geographical location, signed transportation agreements with many European countries, and thus can offer its products at lower prices at the destination markets.

3. Internal Arrangements for Exporting Agents

Exporting companies should keep control over their supply of exports through effective coordination. One way to achieve this could be through the marketing board approach, establishing associations or advisory groups, or concentrating supply. However, the marketing board approach might not be advisable because it leads to excessive control and could become constraining for the dynamism of the exporting sector. The establishment of associations or advisory groups is a more flexible solution; besides gathering all actors together in order to take decisions suitable for all, it would help identify problems and enhance human resources. Supply concentration in the hands of larger exporting companies is highly desirable. As empirical evidence shows, the last trends in the commercialization of fruit and vegetables indicate a progressive expansion of big retailing companies and a contraction in the number of small retailing ones. As a result, only few big export companies will be able to work.

4. New General Consumer Trends

Quick changes in present society affect the behaviour of customers in buying products or contracting services. It is clear that exporting fruits and vegetables to the EU needs a marketing approach that is very aware of consumer trends. These trends refer to a shift of consumers' behaviour retreating from the traditional consumption of fruits and vegetables and moving, first, towards the choice of snacking and eating outside home, and, second, towards an "environmentally friendly" attitude, which has given rise to a demand for natural, additive-free and fresh products

Moreover, European consumers are giving rising importance to food safety, environment, quality, convenience, and service. Nowadays, compliance with food safety has become a precondition for quality certification, which is a key word for any export strategy. The EU has built up a significant body of laws on food safety and plant health which are binding in all countries of the Union, and which partially apply to non-EU countries exporting to the EU. Thus, Syrian exporters will have to comply with quality specifications, however not yet compulsory, which in Europe are being set by arrangements such as Eurep-Gap, led by the big distribution companies in association with European producers.

Annex 1: List of Participants

SYRIAN-EUROPEAN BUSINESS CENTRE

Poul, Gadegaard, *Business Consultant*.
Eluce, Gadegaard, *Business Consultant.*
Hala, Rizk, *Business Consultant*.

Food& Agriculture Organization

Jacque, Vercueil, *FAO Consultant.*
Fabrizio De Filippis, *FAO Consultant, University of Rome (Italy*).
Pirro, Tomaso, *FAO Consultant*.
Carmela, Grillone, *FAO Consultant.*

AL Thawra Daily

Maa'louf, Fawzi, *Journalist***.**

Syrian Times

Fateh, Tamador**,** *Journalist.*

Agricultural Chambers' Federation

Mohammed Al Alo*, President.*
Salloum, Najdat, *Director.*
Fawas, Khldoun*, Agriculture Chamber of Raka.*

BarkaiCompany

Janbert, Riad, *Director of the company.*

Faeha Al Sham Company

Auiob,Majd, *General Director of Public Affair*s.
Daas, Ahmmad, *Director of Marketing*.

Privet Sector

Naif, Mohammad, *Ramak Group*.

Agricultural Engineers Syndicate

Kalil, Akram, *Agricultural Engineers Syndicator.*
Al-Shaik, Ahmmad, *Deputy of Syndicator*.

University of Damascus, Faculty of Agriculture

Mahmmoud, Ali, *Professor.*
Yassin, Abd Al-Aziz, *Professor.*
Atwan, Saman, *Professor.*

University of Damascus, Faculty of Economy

Abd Al-Raouf, Riad, *Professor.*

State Planning Commission

Al-Abrash, Mohammad Bashar**,** *Director of Finance.*
Darwaza, Jihad, *Teacher.*

Agency for Combating Unemployment

Bakir, Kaled Al-Hajy.
Hamdan, Suhel.
Roustom, Ziad.

Ministry of Agriculture and Agrarian Reform

Al Bahra, Mohammed Ehsan, *Deputy Director, Ali Al Ali Project.*
Mansour, Antoon, *Ali Al Ali Project.*
Melhim, Riad, *Ali Al Ali Project.*
Al Khouri, Sahar, *Ali Al Ali Project.*
Al Gadban, Ali, *General Establishment for Poultry.*
Al Yzawy, Bashar, *Deputy of General Establishment for Poultry.*
Ali, Wasim, *Deputy of General Planning for Poultry*.
Ibrahim, Ryad, *Agricultural Affairs Dept.*
Ussef, Mahassen, *Agricultural Affairs Dept.*
Katteb, Mohammad Marwan, *Agriculture Affairs Dept.*
Au Assaf, Hayat, *Agricultural Affairs Dept*.
Hinawy, Hanan, *Agricultural Affairs Dept*.
Hafez, Shoukran, *Agricultural Affairs Dept*.
Ishak, Yusra, *Agricultural Affairs Dept*.
Al Kassar, Husam, *Agricultural Affairs Dept*.
Al Kabaz, Mohammad Nazer, *Agricultural Economics Dept*.
El Masri, Ghada, *Agricultural Economics Dept*.
Refai, Abdulhadi, *Extension Dept.*
Barafi, Mohammad Ali, *Extension Dept.*
Othman, Saleh, *Extension Dept.*
Al Shawwa, Haitham, *Extension Dept.*
Al Sehnawy, Ali, *Journalist.*
Nasmeh, Abdul Rahman, Al *Badia Development Project*.

General Commission for Agricultural Scientific Research (GCASR)

Amatoury, Mouyen.
Braighleh, Samer.
Mansour, Fayez.

National Agricultural Policy Center (NAPC)

Husni, Wafica.
Shehadeh, Widad.
Atieh, Basima.
Al Ashkar, Haitham.
Al Saadi, Usama.
Zoughbi, Samira.
Baghasa, Hajar.
Sheheideh, Akram.
Dawoud, Manahel.

The seminar was also attended by 20 of the NAPC trainees.

Annex 2: Slides of the Presentation

Enhancing Export of Fruit and Vegetables to EU markets

Jose-Maria Garcia-Alvarez-Coque
Polythecnic University, Valencia

Project GCP/SYR/006/ITA - Phase II

Food and Agriculture Organization of the United Nations — Italian Cooperation — Ministry of Agriculture and Agrarian Reform

The EU market for fruit and vegetables

- One of the world largest markets:
  - 10.5 per cent of the world consumption
    - 29 million tons of fruits
    - 41 million tons of vegetables
- Moderate import growth:
  - Total imports growing at 1.5 per cent per year.
  - Significant changes in product composition.
  - Though protected, still a large importer from non-EU countries.

Why would Syria be interested in the EU market?

- Syria is a horticultural exporter.
  Shares in total Syrian agricultural export value:
  - Fresh vegetables: 28 %
  - Fresh fruit: 15 %
  - Processed F&V 3.5 %
- The import EU market is still growing for some products of export interest for Syria.
  - Potatoes, onion, garlic, table grapes, apples, cherries, apricots, tomatoes.

- The Association Agreement will open:
  - New market opportunities.
  - Stable framework for trade.
- Syrian exports are over-specialized on AFTA markets
  - Except for potatoes and garlic, the EU destination accounts for < 1 % of total Syrian export value.

Structure of Syrian exports 1998-2000 (%)

Region/ Product	AFTA (%)	EU	Central Europe	Rest of World	Total exports (Metric Tons)
Tomatoes	84.72	0.06	0.04	15.17	155,428
Potatoes	36.25	61.99	0.03	1.73	31,415
Apples	99.59	0.01	0.00	0.40	19,125
Pears	99.94	0.01	0.00	0.05	10,165
Cherries	63.95	0.04	0.00	36.1	10,392
Oranges	97.33	0.01	0.05	2.61	16,093
Mandarins	97.57	0.03	0.16	2.25	13.088
Grapes	99.44	0.04	0.00	0.51	26.585

Source: Customs Department, NAPC.

Factors of success for fruit and vegetable exports:

Comparative advantage for fruit and Vegetable production

Market access in the EU

Adaptation to EU distribution and consumer trends

Farm-price comparisons

- Monthly price comparisons were performed between Syria and 5 EU countries for 1998-2000.

Percentage of observations where Syrian prices undercut farm-prices in EU countries:

Product	%
Apple	13
Pears	6
Oranges	22
Mandarins	42
Lemons	21
Grapes	87
Apricots	88
Cherries	91
Cucumbers	90
Potatoes	37
Onions	67
W.Melons	100

Why low prices?

Factors of success for fruit and vegetable exports:

Comparative advantage for fruit and Vegetable production

Market access in the EU

Adaptation to EU distribution and consumer trends

The EU market-access issue

- For most fruits and vegetables extra-EU sources sharply reduced in some parts of the year: import substitution.

On what depends the benefits of the Association Agreement?

- Seasonal pattern of the entry price system.
- Extent of quantitative limits and calendars.
- Management of non-tariff barriers.
- Adaptation of Syrian harvesting seasons to EU concessions.

The agricultural protocols. The tomato case

Country	Calendar	Tariff Quota (MT)
Jordan	1 December to 31 March	-
Morocco	1 October to 31 March	150,676 5,000 in October
Tunisia	15 November to 30 April	-
Egypt	1 November to 31 March	-
Lebanon		5,000

- Percentage of Syrian tomato harvest:
  - From December to March: 25 %
  - From October to April: 48 %

The entry price. Seasonal variations

Period	Entry price (Euro/MT)	Entry price (Morocco) (Euro/MT)	% of Syrian harvest
April	1126		6
May	726		2
June to September	526		50
1 October to 20 December	626	461	22
21 – 31 December	726	461	2
1 January to 31 March	846	461	18

Factors of success for fruit and vegetable exports:

Comparative advantage for fruit and Vegetable production

Market access in the EU

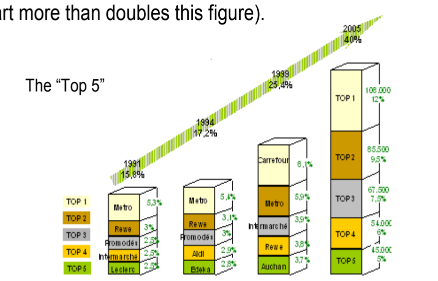
Adaptation to EU distribution and consumer trends

What EU consumers demand.

- Products are not classified by botanic varieties…
- but by emerging consumer goals:
  - Convenience: take-away, eating in front of TV, meals solutions.
  - Snacking: “eating on the move”
  - Health and environment.
- Contradictory consumer behavior:
  - Quick to prepare but also healthy
  - Authentic, but also of convenience
  - Cheap but available the whole year
  - Unusual but with affordable price
  - Homogeneous in appearance, but ecological.

The modern distribution.

- The first European group (Carrefour) has a turnover of 50 billion € (Wal-Mart more than doubles this figure).

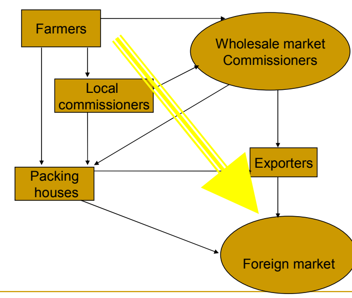


Source: Eurodata 2000

Implications for horticultural traders

- Number of suppliers is reducing, with greater volumes.
- Relations based on trust and reputation.
- Specialized working teams per customer.
- Quality becomes not a factor of differentiation, but a precondition.
- Supply chains enforce internal relations and develop wide incentives for assuring timely production and delivery. They are based on shared information and reciprocal scheduling, product quality assurances and transaction volume commitments.

The traditional marketing



The public role in breaking the vicious circle