Seedless Watermelons:

Albanian Export Opportunities to Europe and the Region

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This report was commissioned by AAC and DAI Albania and prepared by OTF Group, USA, a consulting firm that focuses on country competitiveness projects in emerging economies around the world. Please refer any questions to the author, Sally Christie (schristie@otfgroup.com).

Executive Summary and Key Observations

Seedless watermelons are a growing segment of the melon industry, with popularity increasing due to their convenience and taste. Coupled with the increase in smaller watermelons, these two trends are driving consumption and creating value added niches within the overall watermelon industry.

Albania has the leading per capita consumption of watermelon in the world, and already has an established watermelon export industry. It can capitalize on its history of watermelon production and the current agricultural support programmes to develop an export based industry for seedless watermelons. In addition, Albania should focus on producing small varieties of seedless melons. Mini seedless watermelons represent the "sweet spot" to capture a premium niche; albeit one that is still very competitive.

The most attractive markets for this niche product are the premium markets of the EU 15. The EU15 / Western European markets are growing in demand and pay a premium for watermelons. Exports to the EU15 from all destinations have grown by 71% over the last 5 years. Albania should build off of export entry into Italy and look to Northern and Western European countries with potential in terms of size (Germany, France, UK) or in terms of price points (Sweden, Netherlands). As concerns about environmental cost and carbon footprinting grow in the western European markets, Albania can capitalize on its relatively closer access to some northern European countries (Germany, Scandinavia) with an advantage over other suppliers such as Greece or Spain.

The CEE and Eastern European regional markets are growing fast, both in terms of imports and also exports. While Albania's watermelon exports are growing very fast to the region, there is limited potential for premium seedless varieties. Regional markets, such as Poland (size) and Hungary and Bulgaria (growth) may be attractive markets as less demanding destinations for secondary quality product.

While potential exists, this is nonetheless a highly competitive industry with many established producers and constant downward pressure on prices. In general, the barriers to market entry for suppliers of fresh fruit are very strong, especially for new producers. The number one requirement, from a product standpoint, is quality, both in terms of the actual product (appearance and taste) as well as the ability to meet exacting EU import compliance and certification standards. Finally, Albania must be able to deliver the quantities required by importers; in the case of seedless watermelons, these are not onerous, but the consistency and reliability of delivery is often a greater challenge.

As a first point of entry, Albania should not approach retail directly, but seek out professional importers of fruits in targeted markets that have a history of working with developing countries. Before approaching these players, Albania should ensure that production has attained the necessary quality and certifications are in place. Once production is assured, Albania should use location, quality, and responsiveness to consumer needs as their comparative and competitive advantages to approach suppliers.

In sum,

- Albania has a well established domestic watermelon industry and a "watermelon culture" (e.g. high local production and consumption) that it can leverage to build a viable export industry

- The move to produce seedless watermelons is in line with existing market trends that see strong growth in the seedless category.

- Albania should focus on producing small, seedless melons.

- Albania should target the premium markets of the EU, while using regional, less demanding markets for secondary quality product.

- Albania should build off of export entry into Italy and look at Northern and Western European countries with potential in terms of size (Germany, France, UK) or the price points (Sweden, Netherlands).

- Albania should use location, quality, and responsiveness to consumer needs as their comparative and competitive advantages

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I. Production & Consumption

Seedless watermelons are a relatively new category in the fresh fruit world that has gradually increased in popularity over the last 2 decades. For watermelons in general, there is increasing experimentation with varieties, focusing especially on shapes and sizes, and the trend is for both seeded and seedless varieties to become smaller.

Production Overview and Trends

Three-fourths of the world production is grown in Asia, with China the leading country. Production is growing relatively quickly in most of the top producer nations. Algeria and Iran are the two fastest growing producers in the top 10. No official statistics are available for seedless, but they have experienced strong growth; in the US they are estimated to account for 50% of production.[1]

Top Producing Countries – Global

Main Producer Country	Production (in 000 of tons)	Growth 1995 - 2005
China	69212.49	12%
Turkey	3970	-13%
Iran	3259.41	50%
USA	1718.92	-4%
Brazil	1505.13	1%
Egypt	1500	-13%
Russia	964.58	13%
Korea	904.9	8%
Mexico	865.77	1%
Algeria	857.94	87%

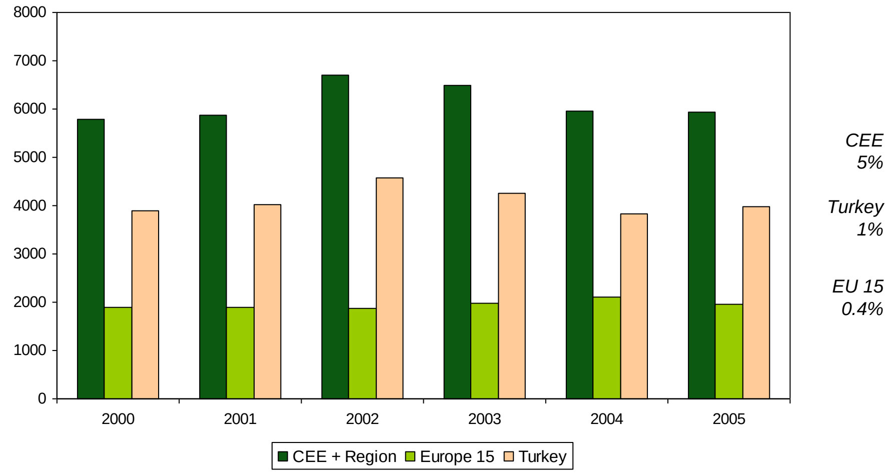
Source: Faostat 2005

Europe produces approximately 2.3 million tons annually of all types of watermelon. 12 countries of the EU 15 have no significant watermelon production. The only countries of the EU 15 with any significant domestic production are Spain [723,000 tons in 2005], Greece [697,000 tons] and Italy [519,000 tons]. Production in these main producer countries has remained relatively stable / flat over the last 10 years.

In the CEE / Regional market, Romania is the largest producer, producing 628,000 tons in 2005. Hungary, Ukraine and Albania are the next most significant producers. Overall, production is rising though erratic.

[1] Please note that because of the lack of available specific data around seedless, most of the production, consumption and trade numbers refer to watermelons in general.

Watermelon Production Trends: Europe and Region



Source: FAOTSTAT, CAGRs are 1995 – 2005, Graph 2000 – 2005; Production in 000 of tons

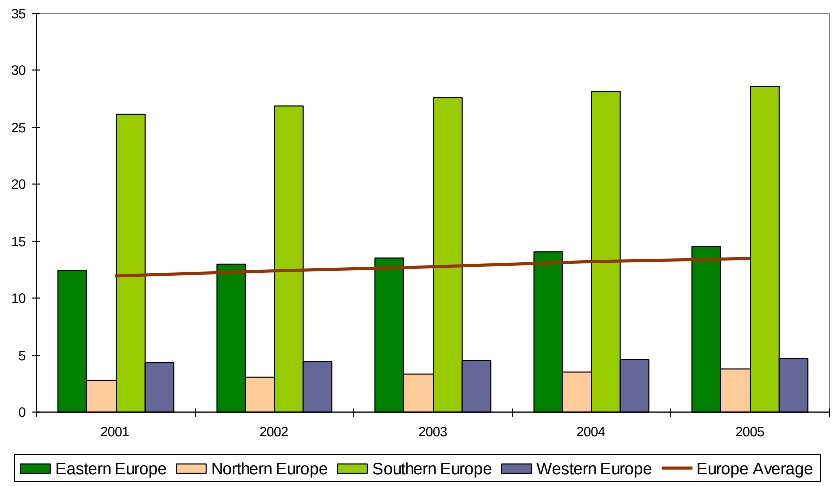
Consumption Overview and Trends

Albania is the largest per capita consumer of watermelons in the world, while Azerbaijan and China are experiencing the highest increases in per capita consumption. In the EU15, the highest per capita consumption of watermelons is in Greece, Spain and Italy, not surprisingly also the biggest producers.

Analyzing a divided Europe, Southern Europe has the highest consumption per capita of watermelons, though the size of the market remains relatively small. Not surprisingly, Northern and Western Europe have the smallest per capita consumption, following the tendency of watermelon to be associated with the warmer summer months. After the three producer countries (Spain, Greece, Italy), Germany, France and UK are the largest markets in terms of total consumption. Eastern Europe in general has more than double the per capita consumption of west and northern Europe.

Consumption overall is relatively flat, though there may be a statistical explanation that masks increasing popularity, especially for smaller varieties (see below).

Consumption Per Capita: Europe and CEE



Source: Faostat. Consumption per kg across years.

Seasonality and Prices

Watermelon is grown commercially in areas with long frost-free warm periods. Watermelon, perhaps more than other fruits, is heavily associated with summer and the "picnic season" which tends to dominate supply and consumption. The popularity of salad and fruit bars is helping to increase sales during the non-picnic seasons and make the watermelon more of a year round crop, but the association nonetheless remains.

Production Schedule

Months of Greatest Demand: Summer in Europe

Region	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
South America	■	■	■	■							■	■
Morocco				■	■							
Spain						■	■	■	■	■		
Albania						■	■	■	■	■		
USA					■	■	■	■	■	■		

■ **Current months of greatest commercial production**

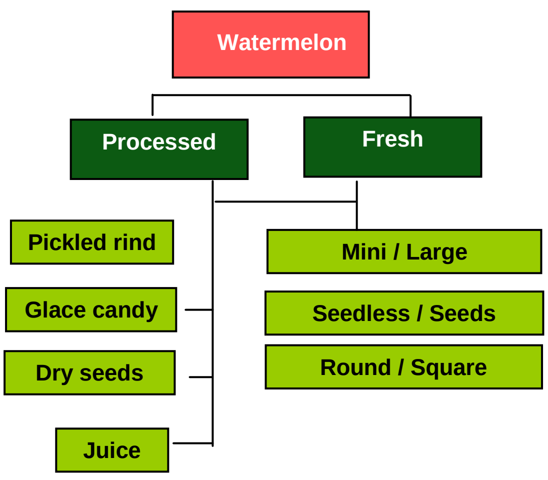
Source: Internet B2B marketplaces, Commercial Watermelon Production, University of Georgia at http://pubs.caes.uga.edu/caespubs/pubs/pdf/B996.pdf; Correspondence and interviews with industry experts; Hortivar FAO website; OTF Group Analysis

Seedless watermelons are more difficult to grow as they require much higher levels of inputs and managerial skill, but in terms of prices they can command a premium. While pricing information for watermelons in general is available from trade sources, specific prices and differentials for seeded vs. seedless are not readily available or tracked over time periods.

As an example of the premium price, following data points are sample prices for seedless watermelons from the Rotterdam Wholesale Market, December 2007: Red Flesh Seedless $1.76 - $1.61 / kg. By comparison, the sale of a Mickey Lee, a common seeded variety, wholesaled for $0.59 / kg the same day, showing a wholesale mark up for the seedless of almost 300%. Watermelon prices tend to be quite volatile as supply and demand fluctuate throughout the year

Value Addition

Value addition with watermelons (both seedless and non)[2] happens in variety of ways. The following graph shows the options for derivatives (left side of graph) and value addition with the fresh fruit (right side).



Source: OTF Group

Value Addition and Derivatives

Size: Consumers are increasingly preferring smaller watermelons. The traditional "picnic size" is declining in popularity and being replaced by small, "mini" watermelons. Miniature seedless is an interesting niche.

Seedless: Seedless watermelons are more convenient to eat and have experienced strong growth, capturing about 50% of the US market and a similar percent of the European market. In the Australian market, seedless watermelon has now all but replaced the seeded variety. Seedless watermelons are more difficult to grow (requiring higher levels of inputs and managerial skill) but can command a premium. One study from Vietnam shows that growing seedless watermelons, farmers can make double the profit of traditional watermelons.

Shape: The Japanese "invented" the square watermelon to fit small fridges and increase the efficiency of transport. Pyramid shaped melons have also been produced. Fruits are grown in glass boxes and conform to the shape as they grow. Prices up to 4X the regular price of $25 / melon have been achieved in Japan, but production is limited. Not much work has been done to date on commercializing this production technique, and while it represents an interesting development in the world of watermelons in general, it does not have immediate relevance or applicability for Albania.

Square watermelon in Japan, retailing for up to $100 / piece

[2] *Note that some of the information, graphs and tables contained n this report refer to watermelons in general and not specifically to seedless watermelons. In those cases, the graphs are to be used as indications rather than for the actual statistical data, ditto for the observations and analysis.*

Packaging and Cutting: A final and common method of adding value to fresh watermelon is to pre-cut and pre-package for the consumer. These options are increasingly popular amongst retailers and consumers. This trend favors the seedless varieties for better presentation, and large melons for better size slices. However, from the producers' stand point, this form of value addition is irrelevant: pre-cut watermelon does not transport or last well and needs to be prepared at the retail level.

Factors Driving Consumption and Demand

Within the official statistics that are the basis for analysis, the seemingly flat trends of production and consumption mask an important fact associated with the growing popularity of smaller varieties: "Consumption is now globally level, but this can hide increases if the watermelons are smaller varieties. Changes in the type of watermelon demanded—namely smaller "icebox melons" influence the statistics: Per capita use is a weight-based volume measure, which may be accurately reflecting declining average melon weight. At the same time, per capita use can not reflect possible increases in eating occasions of smaller individual melons and pre-wrapped melon quarters."[3]

In addition, non-statistical research indicates that growth in the seedless watermelon sub-category is strong, and consumers are turning more and more to seedless varieties, as well as smaller varieties.

In general, the same trends that are influencing fruit and vegetable consumption everywhere are increasing the popularity of watermelons:

1. **Health and fitness trends:** A push towards more healthy living and healthy lifestyles. Obesity is becoming a serious health problem in many EU countries. Increasing the consumption of fruit and vegetables is one of the measures most often mentioned by consumers to reduce weight. For watermelons, there is also growing awareness of the health benefits, centered around the lycopene content, which is higher than in tomatoes.
2. **Opening up of new markets in Eastern Europe**: Especially in the eastern countries, consumption patterns are changing fast towards Western European eating habits.
3. **Immigration:** Immigrants often keep (part of) their culinary traditions, using specific fruit and vegetables that may be unfamiliar to native Europeans. Countries like Turkey and the region have higher consumption of watermelon than northern and Western Europe and this will drive demand in their adopted countries.

Specifically for watermelons and seedless watermelons, the following three drivers of consumption are apparent:

1. Introduction of more **pre-cut and wrapped product** responding to the push for convenience has dramatically helped increased consumption
2. Introduction of new **smaller varieties** better suited to shrinking household sizes size
3. Surging popularity of **seedless melons**, also speaking to the need for convenience and easy consumption
4. Growing **popularity of salad bars**, and the growing use of watermelons in salad bars, also encourages consumption.

[3] USDA Commodity Highlight: Watermelons at http://151.121.68.30:80/briefing/Vegetables/vegpdf/Watermel.pdf

The following chart highlights key consumption trends (all foods) for Europe across the next few years, and matches each trend with the implication for seedless watermelons and Albania:

Key European Consumption Trends to 2010

Key Consumption Trends to 2010	Implications for Albania & Seedless Watermelons
Greater demand for convenience	Smaller, seedless varieties respond to this trend
More diversity of choice	Small seedless are a relatively new item
Growth of demand for ethnic / exotic ingredients	Watermelon juice / pickled rind are two derivative products that have not yet achieved mainstream status
Increased demand for organic products	Organic seedless watermelons may be an interesting market, but it is a "niche of niche" – extremely small market
More ready cooked, take out foods	Pre-cut, pre-packaged will increase growth overall of watermelon consumption but this will not impact premium potential in country
High growth in private label	Not relevant
Polarization of markets (premium and budget)	Albania needs to stay at the premium end with exports (currently in low budget)
Demand for open, honest and informative labeling	Not relevant, though see Lycopene Labeling example under Marketing, Section VI

Source: CBI Fresh Fruit and Vegetables 2006

Production and Consumption Summary & Implications for Albania

Watermelons are a growth industry, with seedless an expanding market that appeals to consumer tastes. Production and consumption appear stagnant but are actually increasing, statistics borne out by the trade analysis (below). Albania has a high consumption of all types of watermelon, bringing a strong "watermelon culture" to potential intensified and commercialized production. Mini seedless watermelons represent a "sweet spot" to capture a premium niche; albeit one that is still very competitive. .

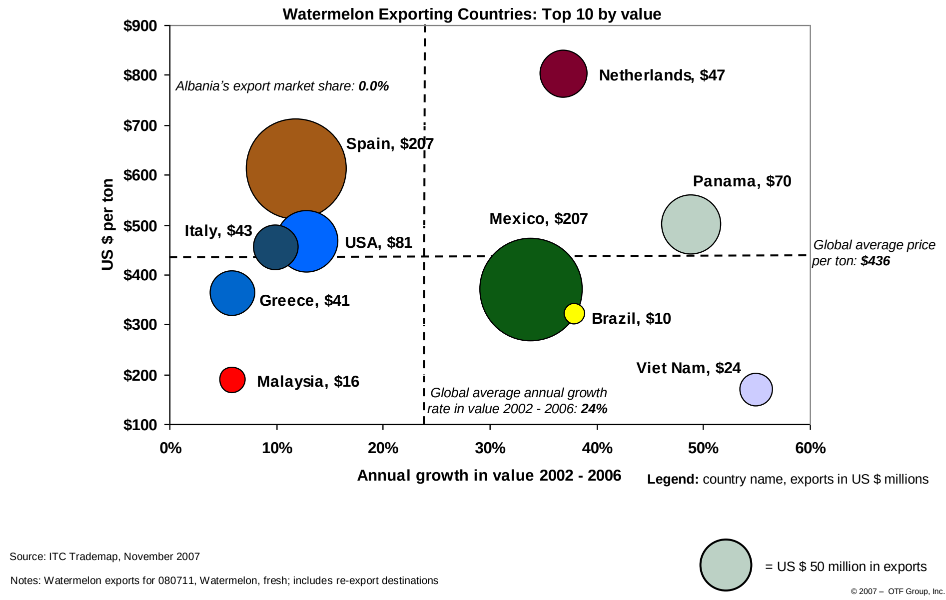
II. Trade Analysis: Imports and Exports

Export Overview

The majority of world watermelon trade tends to be concentrated within regions, due largely to the bulkiness of the product and the associated cost of transportation and competition from local suppliers. Globally, the value of watermelon exports grew by 24% from 2002 – 2005, while the production / tonnage grew by only 8%, indicating a global move to smaller watermelons and premium varieties, such as seedless, which command a premium.

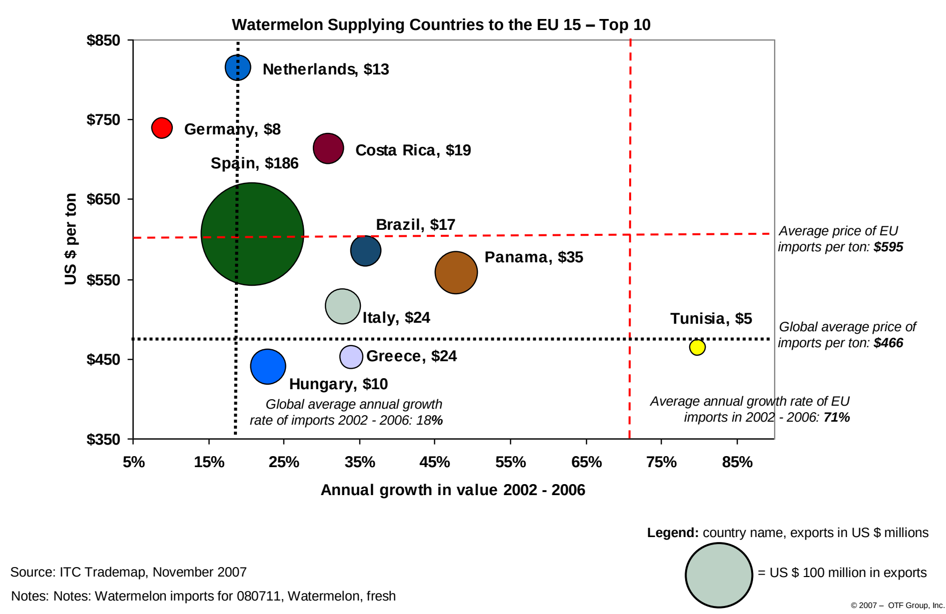
Spain and Mexico are the largest global exporters. Mexico's exports grew faster than the average, but their prices are below the global average. Spain's exports grew slower than the average, but they are able to charge higher prices as they supply the attractive markets of the EU. Both countries sell most of their production within their respective regions: Spain's largest customer is within the rest of Europe, while Mexico supplies the US market.

Leading Global Exporters



Within the EU15, 12 countries have no significant watermelon production. These countries are served by Greece, Spain, Italy, as well as by the CEE and regional exporters such as Hungary. Netherlands is a re-export hub. Other imports to this significant market (the total EU15 imports of watermelons in 2005 was $365 million) come from further a field and include Costa Rica, Brazil, and Panama. These are the main suppliers during the winter months. As an exporter to the EU, Costa Rica is able to charge high prices which indicate the possibility for premiums for non-EU exporters. Tunisia's growth is strong and coupled with the significant increase in production seen for Algeria (see Section I) may indicate a regional push:

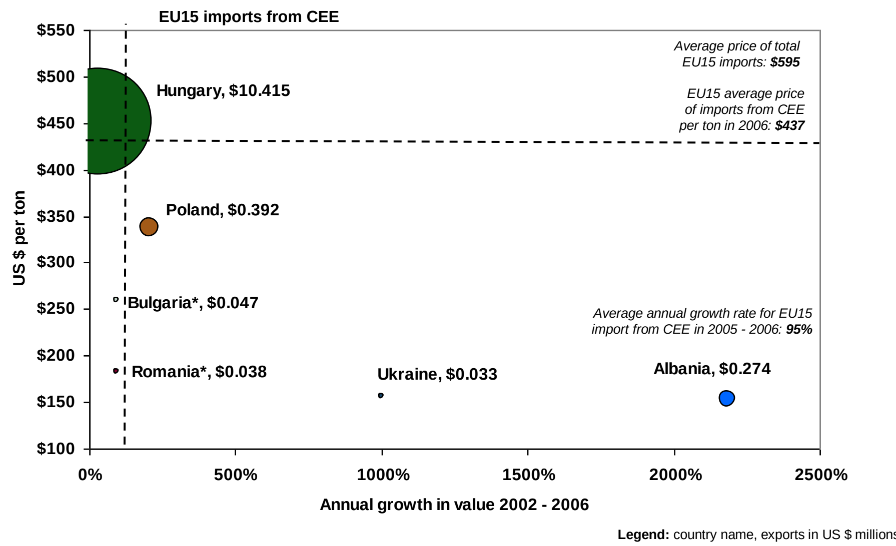
Leading Suppliers to the EU 15



Exports into the EU grew by 71% over the last 5 years. This high average annual growth is mainly due to the growth of exports of Peru (6088%) and Macedonia (7670%), neither of whom are a major Top 10 importer into the EU. The EU 15 pay a higher price on average than the global markets, indicating a willingness to pay for a premium product. The data shows that exporting watermelons to EU is promising compared to the rest of the world.

The total value exported from the CEE and Eastern European region to the EU 15 was approximately $12 million. Hungary is the only significant important exporter of watermelons to the EU15 from CEE countries, followed by Poland. Hungarian exports did not grow significantly between 2002 and 2006, but the rate of EU 15 importing from the CEE has increased by 95% over the last 5 years. The prices charged by CEE countries are lower than the average price paid from the EU 15 market. In general, the CEE is not an important supplier to the EU15: their market share is only 3.1%. Rather, CEE countries export ¾ of their production within the region.

CEE Exports to EU15



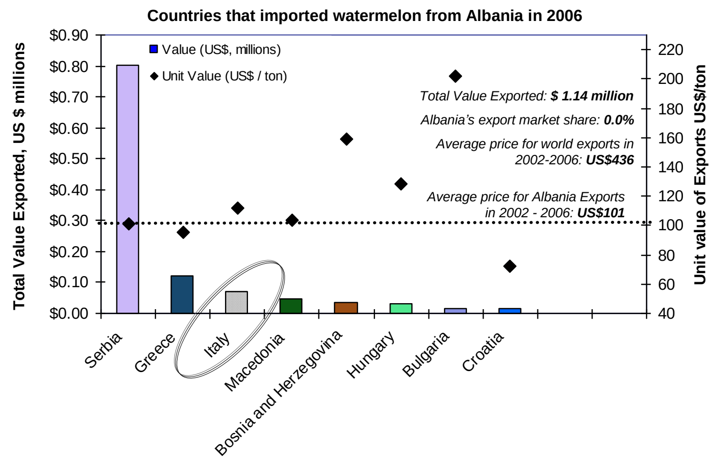
Source: ITC Trademap, November 2007

Notes: Watermelon exports for 080711, Watermelon, fresh

Albania Exports

Regular watermelons are exported on a regular basis from Albania. Seedless are a new, high potential variety. The growth of Albania's exports for all types of watermelons is outstanding (see graph above) but the price of is watermelons is the lowest among CEE countries. The statistics show that Serbia is Albania's largest market, as well as other countries in the region. Amongst the EU 15, Greece and Italy were the major markets for Albanian watermelons in 2006, albeit at low prices. The prices paid by some neighbor countries are well above average. Bulgaria is the highest paying regional importers of watermelons, though still well below global averages.

Albania Exports of Watermelon



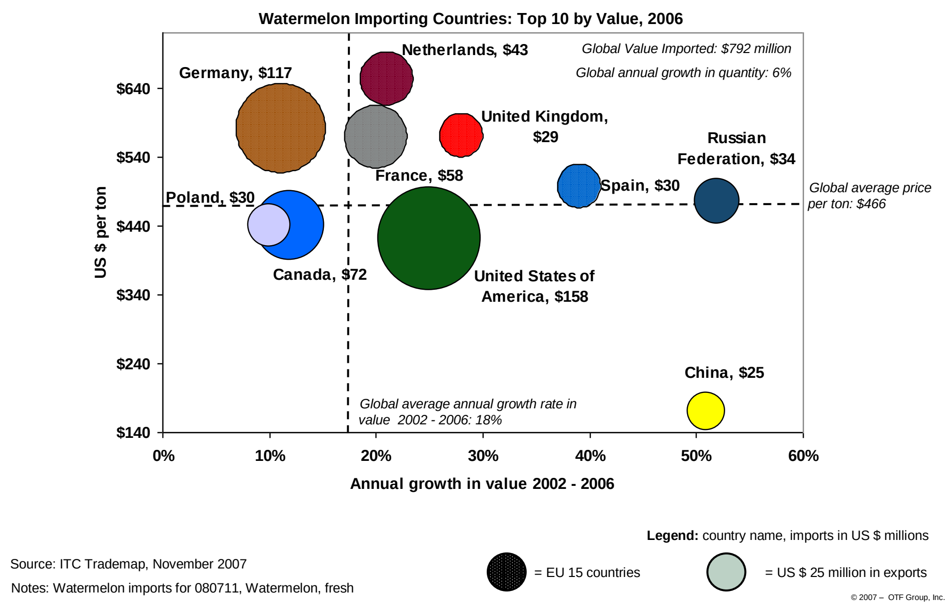
Source: ITC Trademap, November 2007

Notes: Watermelon exports for 080711, Watermelon, fresh

Import Overview

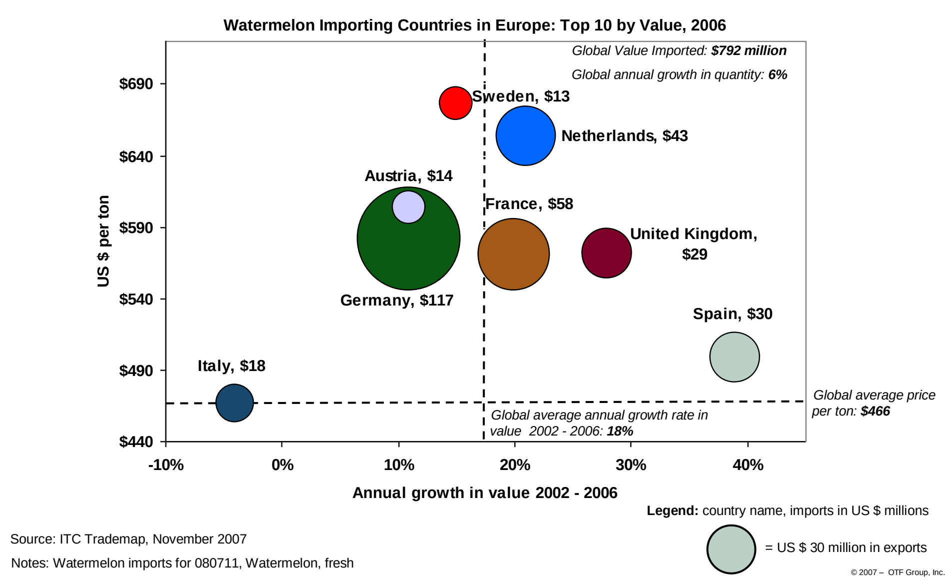
Imports are used to complement supply in cold weather countries who cannot grow year round or who cannot grow at all: of Western and Northern Europe, 12/15 countries have no significant production. The largest global importer is the USA, almost entirely supplied by Central America, including Mexico. The European Union's (EU 15) imports represent 46% of world imports for watermelon. Comparative to the prices paid by the US, the EU pays premium prices for watermelons, an average of $595/ton vs. the global average of $466/ton. The total global value of imports in 2006 was $792 million. Between 2002 – 2006, volumes imported rose by 6%, while value rose by 18%, indicating a move to a higher value per unit as commanded by seedless and mini varieties.

Imports – Top 10 Global Importers



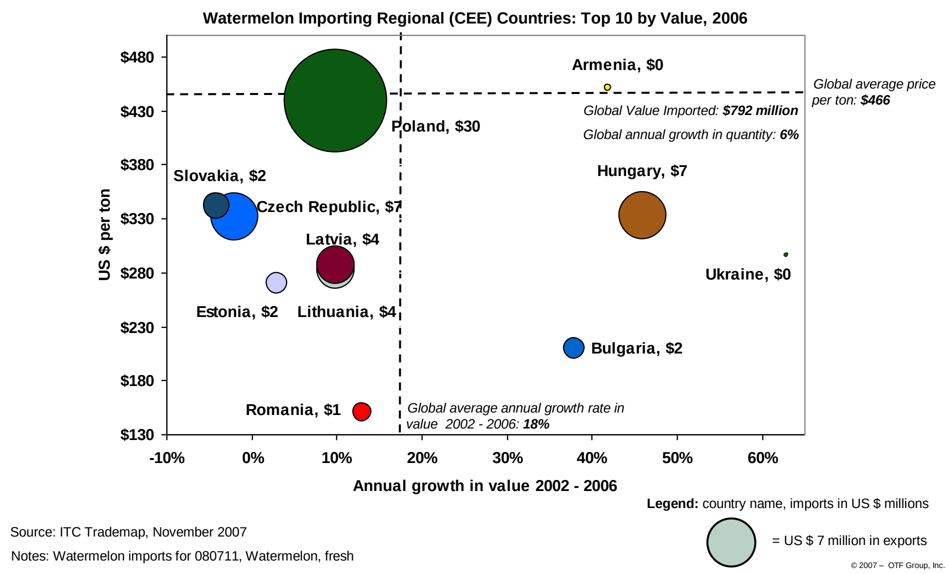
Europe has experienced very strong growth in imports, indicating increasing demand. Between 2001 and 2005, the imports of watermelons increased by 21% in terms of value and 54% in volume, slightly reversing, however, the trend towards a higher value per unit. In 2005, imports reached $365 million and 828,000 tons. In terms of the major markets for watermelons, the top importers are Germany (26% of total import value), France (14%), the Netherlands (9%), and the United Kingdom (7%). Spain is the fastest growing market and EU countries pay premium prices. Sweden and the Netherlands pay the highest prices, up to 50% more than the global average price for imports.

Leading European Importers



Within the CEE, the largest importer of watermelons (all varieties) is Poland, followed by the Czech Republic and Hungary. The prices paid by most CEE countries (excepting Albania) are lower than the average world price of imports. The growth of imports for Ukraine (63%), Hungary (46%), Armenia (42%) and Bulgaria (38%) show an increasing domestic and inter-regional demand for watermelon, albeit for non premium varieties.

Leading Central and Eastern European (CEE) Importers



Trade Analysis Summary & Implications for Albania

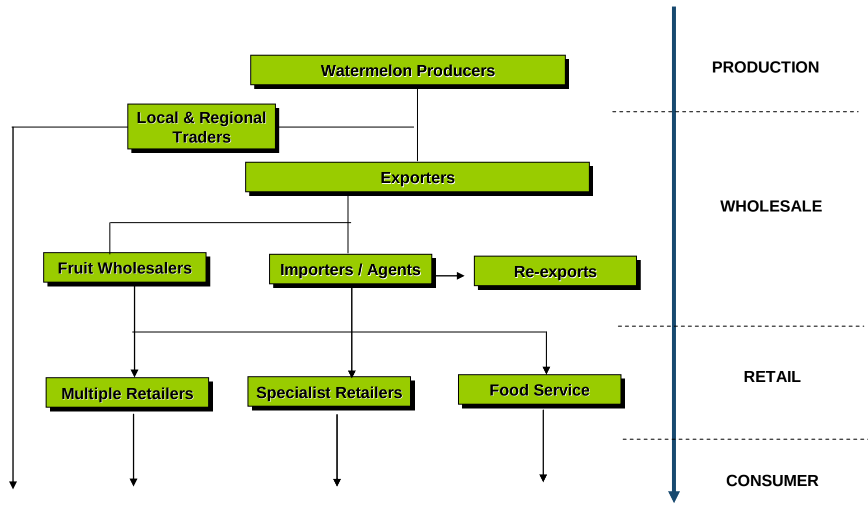
The EU15 / Western European markets are growing in demand and pay a premium for watermelons. They are also the only viable market where seedless watermelons can command higher prices. Within the EU15, Germany, France and the UK are the largest markets of the non-watermelon producing countries that are dependent on imports, and Sweden and the Netherlands pay the highest average prices. Albania should target these markets while continuing to build off of their entry into the Italian market. The regional markets are growing fast, both in terms of imports and exports. However, these regional markets are small compared to the EU15, and pay below average prices. Potential for premium varieties in these markets will be limited.

III. Trade Structure

Distribution Channel Overview

Generally, the distribution channels for fresh fruit conform to the following pattern:[4]

Watermelon Distribution Channels



Source: CBI, others; Notes: hybrid based on limited knowledge of local market and regional distribution; general for fruits not specific to watermelons

Wholesalers and Importers

In general, there are strong tendencies towards concentration in the supply of fresh fruit and vegetables throughout the EU, although the extent and progress vary per country. This trend is driven by buyer concentration, described below.

Wholesalers and importers are increasingly being squeezed by the rise of ever more efficient retailers in the form of multiples / supermarkets and are at threat by the emergence of new distribution networks controlled with information technology, which can bypass intermediaries. This increasing "professionalism" of the value chain has crowded out the smaller players. For example, in the Dutch vegetable and fruit sector at least 500 wholesaling firms with a turnover of more than $70,000 are in business, yet 2% of wholesalers control 25% of the market, with an average turnover of $36 million.

Nonetheless smaller scale players do exist, primarily in the exotic and specialty fresh produce trade. Because of the premium nature of their products and the lower volume demands than "commodity" fruits or vegetables, many specialty fruit and vegetable importers have less stringent requirements in terms of volume and frequency of delivery (see Section V). However, they are still demanding customers: one survey showed that fruit importers respond to perhaps 1 out of 20 samples offered, and then will actually work with only 1 in 50 enquiring suppliers.

Watermelons in general are somewhat immune to the above described trend of consolidation. Watermelons, especially niche products like seedless and mini, are still a good smallholder crop, with less supplier concentration than with other relatively high value fruits. The production and

[4] The distribution chain is a hybrid based on limited knowledge of local market and regional distribution; it is general for all fruits and not specific to watermelons

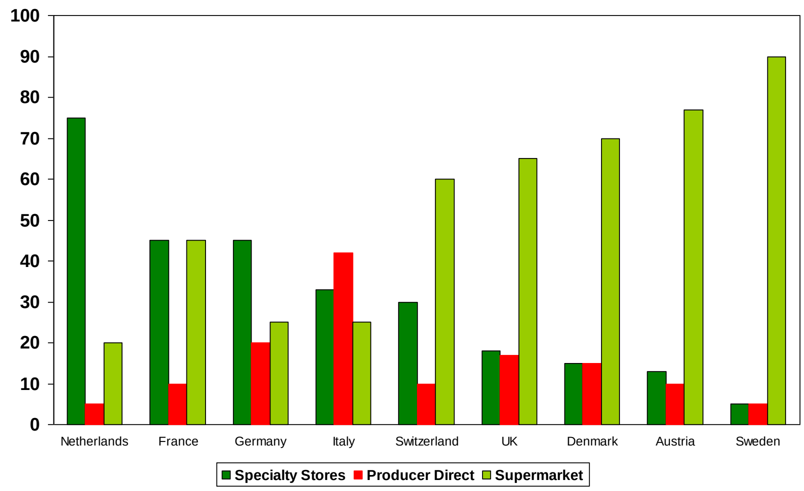
supply channels for watermelon still tend to be very fragmented and dominated by small producer groups with low market linkages.

In Albania, melon farmers are exporting through regional importers. Larger producers prefer to sell to traders even though the prices are 10-15% lower than wholesale market. Wholesale markets also supply regional traders and regional traders re-export to other countries

Retail

Greengrocers still sell a substantial volume of fresh products, but their share has declined dramatically throughout the EU. The market share of these specialized retailers in selling fruit to the consumers has decreased from more than 40 per cent in the 1980's to about 30 % today. The share of supermarkets has increased from 50 to over 60 %, a development that is still in progress. These trends, however, vary by country. The following graph shows the regional differences in retail for fresh products:

Regional Differences in Distribution Channels



Source: Luanne Lohr, Factors Affecting International Demand and Trade in Organic Food Products, www.ers.usda.gov/publications/wrs011/wrs011j.pdf

Hypermarkets and supermarkets act as catalysts to the increasing sales of pre-packed produce. Their fruit and vegetable assortments have become larger and deeper. Retailers and breeders (product development companies) are increasingly collaborating to develop new and innovative products. Supermarkets use their power to push new varieties, qualities and innovation.

The rise of multiple stores / supermarkets has radically altered the market structure of fresh fruit and vegetable distribution. The concentration at the retail level has an ever-smaller number of very professional players dominating distribution. This, in turn, has also provoked changes in the supply chains to retailers, where larger entities have emerged, with a stronger customer orientation. Supermarket chains increasingly seek to ensure their supplies through direct contact with growers and grower associations, especially for bulk fruits and vegetables, which already have a considerable market.

Major retailers prefer to work with a limited number of suppliers, which favors large producers. Only large-scale producers or suppliers have sufficient financial resources to bear the costs and risks associated with high-level production over a longer period.

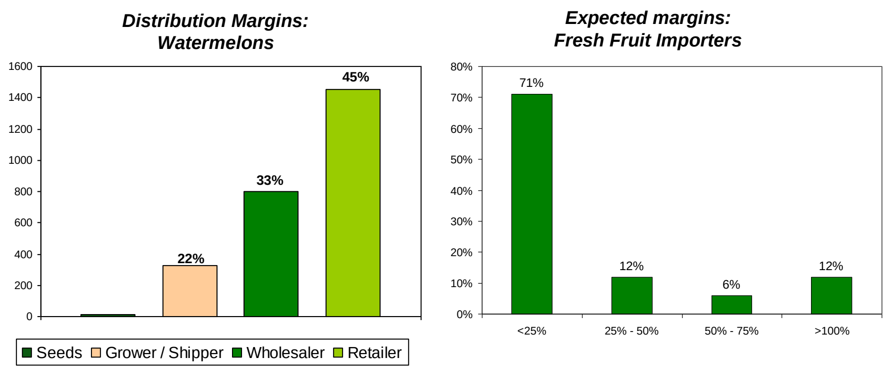
The expansion of multiples is increasing throughout the CEE region, bringing with it their concentrated approach to suppliers.

For smaller scale producers of premium specialty fruits, directly serving the multiples is a difficult, if not impossible, proposition. In the short to medium term, while working on production volume and quality increases, new entrants to the market must rely on importers and traders who effectively act as middlemen to the retailers (both multiples and individual outlets).

Distribution Margins

Margins in this business are very tight, typically less than 10%. The driver of profitability is scale. Even smaller scale specialty fruit importers, who represent a good first option of choice for Albania to target to access the EU market, typically report low margins.

Distribution Margins



Source: Monsanto Cirrus Presentation; OTF Group Fresh Fruit EU Importer Survey, November 2005, N=17/24;

IV. Market Entry: Tariffs and Non-Tariff Barriers

Subsidies and Tariffs

The market for fresh fruits and vegetables in the EU is freer than other agricultural markets. For most fruit and vegetables, nevertheless, import duties are payable, but for most developing countries these duties are waived. To help developing countries, the EU developed a Generalized System of Preferences (GSP) to promote the sustainable development of and trade with developing countries, of which Albania forms a part. There are no EU subsidies for the production of watermelons.

The following table summarizes the tariffs payable by Albania for EU exports of watermelons:

Measure Type	Tariff
Third country duty	8.8 %
Unit price	37.85 EurUP/100 kg
Tariff preference	0 %

Source: EU Export Help Desk

For more information on EU tariffs and trade barriers to entry, consult the EU Export Helpdesk for Developing Countries, at http://export-help.cec.eu.int.

Non-Tariff Barriers to Entry

Non tariff barriers include social, environmental and quality-related market requirements which are growing in importance in international trade and are specified by European buyers through labels, codes of conduct and management systems. Food safety standards and marketing standards (or quality standards) have been laid down in the EU for products which are supplied fresh to the consumer, thereby reducing transaction costs and uncertainty in the product supply.

The importance of food safety and quality certification in fresh fruit and vegetables is growing, relating to all points in the value chain from production to post-harvest. Retailers have set out their own standards, including GlobalGAP (formerly EurepGAP), BRC, HACCP, ISO, etc. In addition, individual supermarket chains often impose their own quality standards above and beyond.

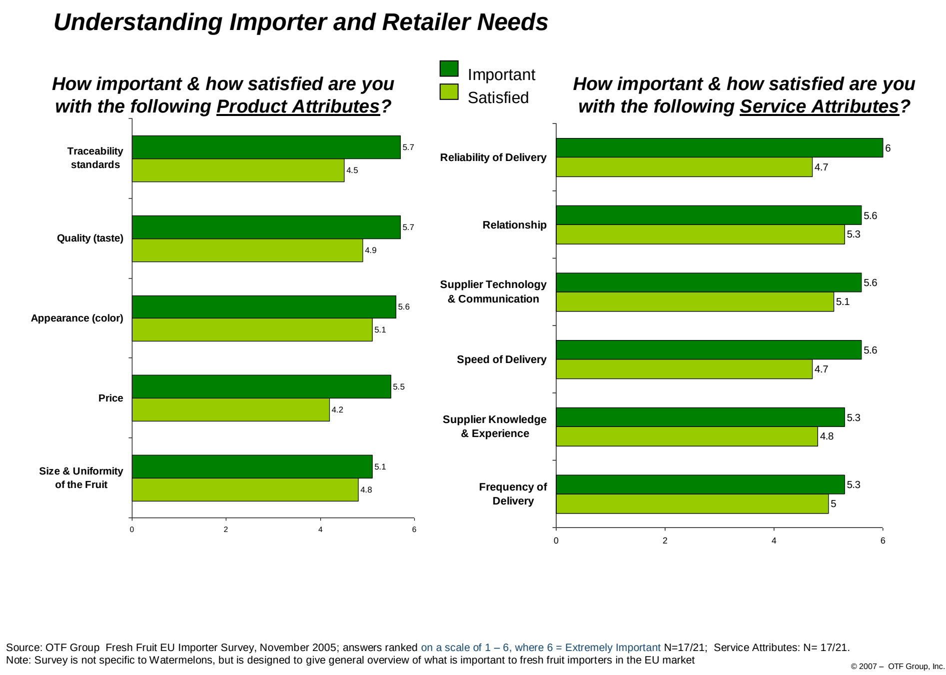
While many of these requirements are technically still "voluntary" the requirements for exporters to fulfill these and other emerging standards, for example relating to pesticide use and residue, and even carbon foot printing, will become more mandatory as the years evolve. Ensuring compliance, meeting and going above and beyond, are becoming the minimum "get in the game" attributes for new suppliers.

More information can be found at www.cbi.nl by consulting the following document "EU Market Access Requirements: Introduction".

V. Market Entry: Requirements for Success

In order for newcomers to the demanding export markets for fresh fruit to succeed, and regardless of the route / strategic position taken, they must understand their customers and the product and service requirements to be baseline competitive.

An understanding of importer and retailer needs is crucial for success. The following charts outline, in general (not specific for watermelons) the service and product attributes required by fresh fruit importers in Europe:



Among **product** attributes, Traceability is extremely important, even higher than the perceived quality of the product. Not surprisingly, Price appeared in the Top 5 – this is a low margin business with high turnover where, as one importer put it: "Every penny counts". Significant supplier dissatisfaction exists with Traceability Standards and Price, indicated by satisfaction ratings being lower than importance ratings.

Among **service** attributes, Reliability of Delivery was the one "non-negotiable": this is a zero inventory business. Also around Delivery, Speed and Frequency rounded out the most important attributes, though frequency does not necessarily mean daily. Relationship issues, including Supplier Technology and Communication were also highlighted as important. The most dissatisfaction exists with Reliability, as well as with Speed of Delivery

Specifically for watermelons, quality is determined by a number of factors: weight, size, skin color, skin pigmentation (striped or solid), rind thickness, color inside (red, yellow, orange), texture of flesh (crunchy or mushy), sweetness, seeds. Customers' wants in terms of their desired attributes are described in the following order:

- **Size is important**. European consumers prefer smaller melon varieties, weighing 2-5 kilograms each.
- **Shape is important to some customers:** long or round is an important characteristic for the purchase decision.

- **Next is color:** Stripes, light green or dark green external color. Internal colors can be dark red, pink or yellow. Amongst consumers, a deep, dark red is preferred.

- **Taste is the final characteristic** of what the customer wants. Taste is difficult to anticipate, but most customers prefer a melon with high sugar content and one that has a firm flesh.

Specifically for the US market, there is a preference for an oval or blocky-shaped watermelon with light-green stripes on a dark-green background, with dark-red flesh with small, distinctly black seeds. This level of detail needs to be achieved for the target markets for seedless watermelons destined for European consumers.

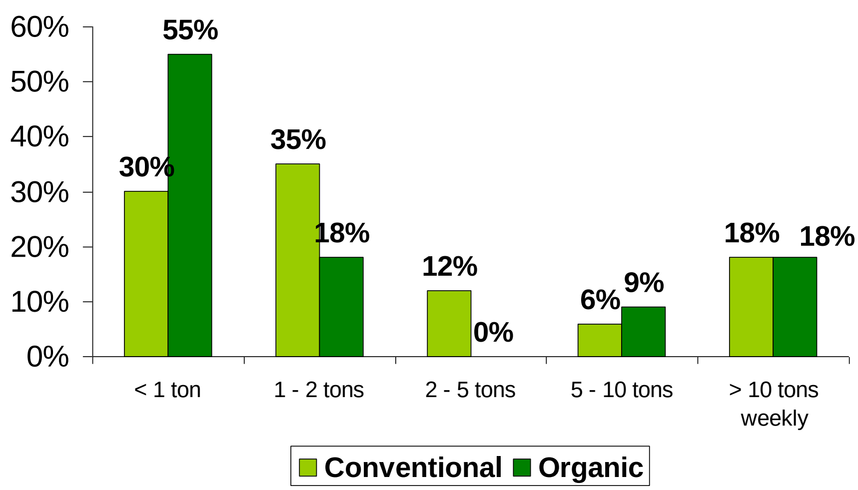
Quality, encompassing the direct product characteristics (appearance, taste) as well as the production path and traceability, is the most important attribute to purchasers all along the value chain. But quality is just a “get in the game” baseline requirement. In addition, each potential entrant into the market place has to determine their competitive advantage when approaching the importers and retailers. There are three reasons a supermarket (and suppliers to a supermarket) will take on a new supplier: 1) Price advantage; 2) off season opportunity; 3) new and unique product. Unless a new supplier can offer one of these three criteria, they have little chance of entering the market.[5]

Minimum Quantity and Frequency Requirements

In general, exotic and specialty fruits have lower frequency of shipments and smaller quantities demanded than regular “commodity” fruits. As the following sets of graphs indicate, more than half the fresh fruit importers surveyed are happy with weekly deliveries. With regards to quantity, 1 – 2 tons per week is an acceptable amount for conventional fruit in general. It is important to note that watermelons are generally bought and sold by type and weight, rather than variety.

Requirements for Success

What is the minimum QUANTITY of delivery per week you would be prepared to accept from a supplier?

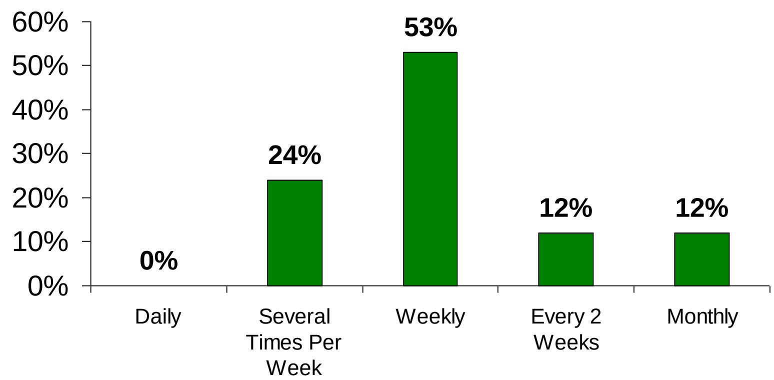


Source: OTF Group Fresh Fruit EU Importer Survey, November 2005; Minimum quantity N = 17 / 24 ; Minimum frequency N= 17 / 24

[5] Adapted from information contained in the report “Export Market for High Value Vegetables from Tanzania”, DAI Washington 2007

Requirements for Success

What is the minimum FREQUENCY of delivery of fresh fruit that you would accept?



Source: OTF Group Fresh Fruit EU Importer Survey, November 2005; Minimum frequency N= 17 / 24.

While watermelon is not per se an exotic fruit, smaller seedless varieties do fall under the specialty fruit category. As seen above, watermelons, and seedless watermelons only more so, are generally immune to the consolidation and scale trends witnessed by the rest of the industry, making minimum order requirements even lower.

Packaging Requirements

Packaging requirements can vary by importer and by transport method, but generally the desired transport container for watermelons is a one-piece, regular-slotted, corrugated fiberboard box containing 12-15 kilograms per box. The box should have dividers between each melon and be of sufficient strength to withstand overhead weight. Watermelons within boxes need to be uniform in size.

New Supplier Characteristics

The required product quantities, reliability and quality are all baseline requirements for exporters looking to enter the demanding European markets. When fruit importers were asked specifically around their service requirements for taking on a new supplier, the following responses, while not surprising, are nonetheless informative: reliability and honesty are the most important attributes for importers looking to work with new suppliers, followed by product quality and supplier experience & know how, as well as good communication.

Competitive Threats

The following analyses the major threats to entry for developing countries to the EU in general, matched with the implications for Albania and watermelons:

Threats to Accessing Opportunities in Europe to 2010 (all food)

Major threats for exporters from developing countries looking to serve EU market	Implication for Albania and Watermelons	Level of threat
Overproduction of fruit in EU countries, leading to low-priced domestically produced fruit and vegetables competing with more expensive, imported products	Not applicable for watermelon as few European producers	**Low**
Stagnating or declining consumption of fruit and vegetables in old EU countries; consumers will not consume more food but will make changes in eating habits and choice of products ("battle for stomach share")	Watermelon consumption is growing	**Low**
General price pressure on food, influencing the retail prices of fruit and vegetables; price reduction is expected to continue in the near future	Need to enter and stay at premium end of market, though margins for seedless watermelons are competitive	**High**
First-mover advantage for new products eroding fast, since other producers are likely to copy the product or production process rapidly, inducing a spiral of overproduction and falling prices	Always a worry but some medium to long term potential for Albania to differentiate itself by branding its products	**Med**
Certification, requiring for example EurepGAP for the production process of fresh fruit and vegetables and GMP/HACCP/BRC for processed fruit and vegetables1, requiring serious managerial and technical efforts and involving costs	Significant production investments required; AAC will support production	**Med**
Fluctuating prices of fruit and vegetables, induced by fluctuating supply	Timing of production season with seasons of demand	**Med**
Increased consolidation in buyers market, leading to increased buyers' power, forcing producers to cost-efficient and large-scale production and making it more difficult for small-scale and new producers to break into the market	Watermelon is still a good smallholder crop but distribution channel pressures are real	**Med**
High (and rising) fuel prices increasing the cost of transport	Albania is relatively close to premium markets of Western Europe, so should not be too affected by the emerging "carbon footprinting" trend	**Low**

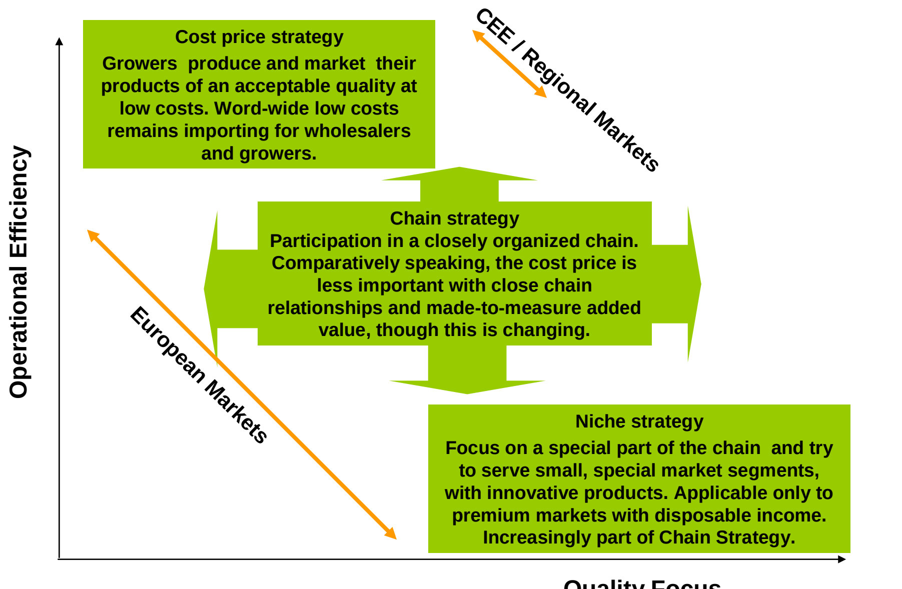
Source: Threats from CBI Report 2006; OTF Group Analysis

VI. Opportunities for Albania & Recommendations

Strategic Positioning

There are three main broad strategies that can be used in targeting new horticulture markets. The following graph outlines the options:

Summary of Strategic Options for Albania



Sources: VEK Horticulture Report 2002; Tanzanian Exports to US Fresh fruits; OTF Group Analysis

The supermarkets chains are becoming dominant and revolutionizing distribution in the fruit and vegetable industry. Even if not directly dealing or selling via supermarkets, increasingly the effect of the multiples is being felt across the board. The "Chain Strategy" is now taking over and encompassing elements of the other strategies, especially in the EU15 markets.

For Albania, given the incipient nature of the sector, as well as the premium potential of seedless watermelons, the strategy to pursue is a niche strategy based on quality and responsiveness to market needs. This option avoids scale and excessive dependency on price as the winning attribute of the product. The main niche opportunities for watermelons are around size and shape, as well as quality (built around health benefits). Four niches and their implications for Albania are explored below:

Niche Opportunities

	Description	Potential for Watermelons
Packaging and Cutting	Washing, cutting and preparing of fruit and vegetables produced outside of the EU is increasingly being done in the country of origin. Examples are sliced runner beans, topped and tailed mange-tout peas, mixed packs of fruit and vegetables for stir-fry meals, cut and sliced pineapples and kiwifruit.	While this is a strong category for watermelons in general, it is not relevant for producers. Fresh watermelons pre-cutting is usually done in store due to difficulties of transport. Albania will not be able to capture this niche section of value addition with watermelons.
Organic	Organic fruit and vegetables are one of the major product categories in the organic segment (next to dairy products). Sales of organic products are increasing in almost all countries of the EU. Germany, Sweden and Denmark are forerunners, with France, the UK and others catching up quickly. The organic market is less developed in southern and eastern Europe, but there is potential for growth.	The growth of organic segments in western Europe markets is strong, and this may be an interesting niche for Albania. However, producers, especially new producers, have to be careful about going “too niche”, or “niche of niche” – e.g. organic mini seedless is a convergence of three niches and represents a very small market opportunity. Pursuing organic production is not relevant for a regional strategy.
Small Vegetables	Small vegetables in small packages such as mini cucumbers, mini sweet peppers and cherry tomatoes, which can be consumed as a healthy snack. Driven by health conscious consumers coupled with demand for convenience.	Relevant for watermelons. The trend to wards smaller, more convenient fruits converges with the growth of the smaller watermelon segments and represents a way to capture a double premium (seedless and size).
New Varieties	Producers, often in conjunction with wholesalers and / or retailers, pursue innovation and new varieties of fruits and vegetables.	Seedless is no longer considered a new variety by consumers. While seedless was a revolutionary innovation a decade + ago, it is no longer considered an innovation and is becoming a standard fruit. Nonetheless, growth is strong.

Source: CBI and others; OTF Group Analysis

Marketing and Branding Opportunities

More than other high volume fruits, watermelons have some distinct branding opportunities. Marketing opportunities for watermelons are around size and shape, as well as quality, which in the case of watermelons includes the health benefits.

Health benefits are proven to be an increasingly important selling point for watermelons: Watermelons have more lycopene than tomatoes. This is a little known fact, but can be an important marketing tool. In the United States, the National Watermelon Promotion Board recently conducted a scientific study on the impact of the “Lycopene Leader” logo on sales of watermelon. Over the 6 weeks of the trial, the stores using the Lycopene Leader logo sticker saw 36% increases in both volume movement and sales of their cut watermelon. These test results are consistent with consumer research findings showing that 74% of consumers would be more likely to purchase watermelon if they knew about its health benefits. The sticker sample follows:

While neither Albania nor Europe have a “watermelon promotion council” like the States to spearhead such an initiative, nonetheless the increasing awareness of the health benefits will lead to an increase in consumer demand. Should importers or exporters in Albania or Europe of watermelons decide to associate in the manner of the US model, pursuing such a publicity campaign could be a good use of resources.

Geographic Choice of Market

The following table summarizes the distinct opportunities and threats of a strategy focused on either the western European markets, on the regional CEE markets:

Western Europe Markets		Regional CEE Markets
Possibility for niche products, higher price points possible though still a relatively competitive market with margin pressure.	**Product and Niche Potential**	No price advantage for premium products, strategies will be more based on cost and quantity. Potential for premium products may exist in the medium to long term.
Proximity of Albania to the European markets is a positive, but it must also compete against leading European producers close by (Italy and Greece).	**Access**	Informal access via traders based in neighboring countries or in Albania. Fast growing consumption and demand in the region is a positive.
Standards are stricter: Access is more difficult, quality standards and non tariff barriers proliferate. Higher investments are required on the production side to bring production to meet norms demanded..	**Quality Control**	Quality standards are lower, access is more informal. Emergence of supermarkets and chains in the region will change this situation in the short to medium term.
Need for higher quality in product and in packaging.	**Packaging**	Less need for quality in product and packaging.
Distribution is formalized Contracts are formal and relationships take time to build; once established tend to be long term and many retailers and importers may actively support producers as needed.	**Distribution**	Distribution is informal. Some forward contracts with importers from neighboring countries. Relationships are informal and more likely to fall apart.
Information (statistics, contact numbers, market information) is available from secondary sources, but perception is that information is limited / access is difficult	**Information**	Statistical information is limited and difficult to obtain.

Given the niche potential of seedless watermelons, Albania should focus on the premium markets of Western Europe, using the regional markets for secondary quality.

Summary of Recommendations for Albania

- Albania has a well established domestic watermelon industry and a "watermelon culture" (e.g. high local production and consumption) that it can leverage to build a viable export industry

- The move to produce seedless watermelons is in line with existing market trends that see strong growth in the seedless category.

- Albania should focus on producing small, seedless melons.

- Albania should target the premium markets of the EU, while using regional, less demanding markets for secondary quality product.

- Albania should build off of export entry into Italy and look at Northern and Western European countries with potential in terms of size (Germany, France, UK) or the price points (Sweden, Netherlands).

- Albania should use location, quality, and responsiveness to consumer needs as their comparative and competitive advantages.

VII. Next steps

The identified opportunities and trends outlined in this report need to be matched with production capabilities. From a market facing perspective, areas of further investigation include:

- Incorporate learnings from Macedonia USAID project, especially market entry experiences
- Develop a detailed survey of European and regional importers (including supermarkets) to determine specific requirements for seedless watermelons
- Begin establishing contact with importers and wholesalers
- Match price potential with internal production costs

VIII. Sources

Data Sources and Websites

- CBI, www.cbi.nl
- Trademap Statistics, www.trade-map.org
- FAOStat, www.fao.org
- Fresh Plaza, www.freshinfo.com
- AliBaba B2B Trade Leads, www.alibaba.com
- Horticultura, www.horticultura.com [check this] or Eurostat depending on monthly production sources
- Intracen and MNS News Service, www.intracen.org
- National Watermelon Promotion Council (USA), www.watermelon.org
- EU Export Helpdesk for Developing Countries http://export-help.cec.eu.int
- www.monsanto.com

Selected Articles, Web Resources and Documents

- CBI Report, "European Market for Fresh Fruit and Vegetables 2006"
- ; "Study of the Horticulture Subsector in Rwanda", VEK Horticulture Consultants 2002
- "Australia: mini melons on the move" Freshplaza Article available at www.freshinfo.com
- "Commercial Watermelon Production", University of Georgia, article available at http://pubs.caes.uga.edu/caespubs/pubs/pdf/B996.pdf
- "Cucumbers, Melons, and other Cucurbits", article available at http://www.answers.com/topic/cucumbers-melons-and-other-cucurbits
- Vegetable Crops Hotline, May 1996, available at http://www.entm.purdue.edu
- "HCM City craves seedless watermelon" at http://vietnamnews.vnanet.vn/2004-09/08/Stories/14.htm
- CBI Report, "European Market for Fresh Fruit and Vegetables 2006"
- "Fruits & Vegetables: Survey of the market for Fruits and Vegetables in Denmark", available at www.dipo.dk
- "Export Market for High Value Vegetables from Tanzania", DAI Washington 2007
- "Know the Rules When Shipping to Europe", AG Exporter Article
- The international competitiveness of fresh tomatoes, peppers and cucumbers" by Jo Wijnands for the Agricultural Economics Research Institute (LEI)

Selected Interviews and Industry Conversations

- Utopia UK (2)
- The Greenery, Netherlands
- Special Fruit Belgium