



AZPROMO PROJECT PLAN

PROJECT: Development of Tea, Zaqatala and Lenkaren

- 1) Executive Summary
- 2) Background & Sector Review
- 3) Project Objective
- 4) Project Description
- 5) Location Description
- 6) Marketing Strategy
- 7) Tea Production Process
- 8) Project Management and Organization Structure
- 9) Project Implementation Schedule
- 10) Budget and Balance Sheet



I. Executive Summary

“Milli Chay” is a new project established in the local agricultural sector in Azerbaijan. Its aim is to cultivate tea plantations in Zagatala-Balaken and Lenkean-Astara regions. The objective of the project is meeting the local demand on tea as well as decreasing the tea import to the country. The project is owned by the newly established entity, and it will be financed by the third party. The entity has acquired the patent of specific tea cultivating technology which has been successful over 20 years in the UK. The project will achieve return on investment in 3 years.

II. Background & Sector Review

Agriculture in Azerbaijan

Agriculture is the sector which has a big development potential in Azerbaijan. Recently, it constitutes 7% of country's GDP, and the growth rate of the sector is about 5-6%. Almost half of the territory of Azerbaijan is agricultural, which makes 4.8 million hectares of land. Although the share of plant growing in the agriculture is relatively low in comparison to livestock, the country started to invest more in this area of agriculture.

The main focus in plant growing is on cereal, dried pulses, and fodder crops. According to State Statistical Committee of Azerbaijan, 64 % of total sown area is used for production of cereals and dried pulses, while 24% is used for fodder crops. The share of fruits and vegetables is comparatively low, although there is a high potential for their development. The use of technology may increase the productivity of this type of crops.

Tea growing in Azerbaijan

Azerbaijan is the second country in the CIS after Georgia for planting of tea. It has a unique taste and has been cultivated here for several centuries. Its main place of concentration is the southern part of Azerbaijan, specifically Lenkeran and Astara area.

According to the recent reports from 2014, the plantation of tea has decreased during the last several years from 10,896 tons in 2011 to 7,486 tons in 2013. Out of each 1,000 hectare of area, only 0.5 hectare is producing tea. However, the domestic production is insufficient for meeting the local demand. This is why; the country imports 61,385 kilograms (2014) from abroad.

The current sellers of tea are Sun Tea, Final, Azerchay, Purrengi and Berga Bergamot Etili Cay brands. These are the main competitors and the leading companies in the local tea market. The demand for tea is high and is inelastic because tea is important in Azerbaijani culture. A significant portion of tea is imported from abroad, but it is relatively expensive. Therefore, producing tea within the country is a good business opportunity because it is more advantageous in terms of costs and proximity in the market.

There are specific regulations set by Ministry of Agriculture of Azerbaijan for tea planting.

III. Project Objective

To cultivate large plantations of tea in several regions of Azerbaijan to cover the local demand as well as to decrease the imports to the country due to cost and price inefficiency.

IV. Project Description

To establish large plantations of tea in Lenkeran-Astara and Zagatala-Balaken regions. Availability of favorable climate and soils will enable us to get high yields of crops, and this will implicitly help to expand the business.

V. Location Description:

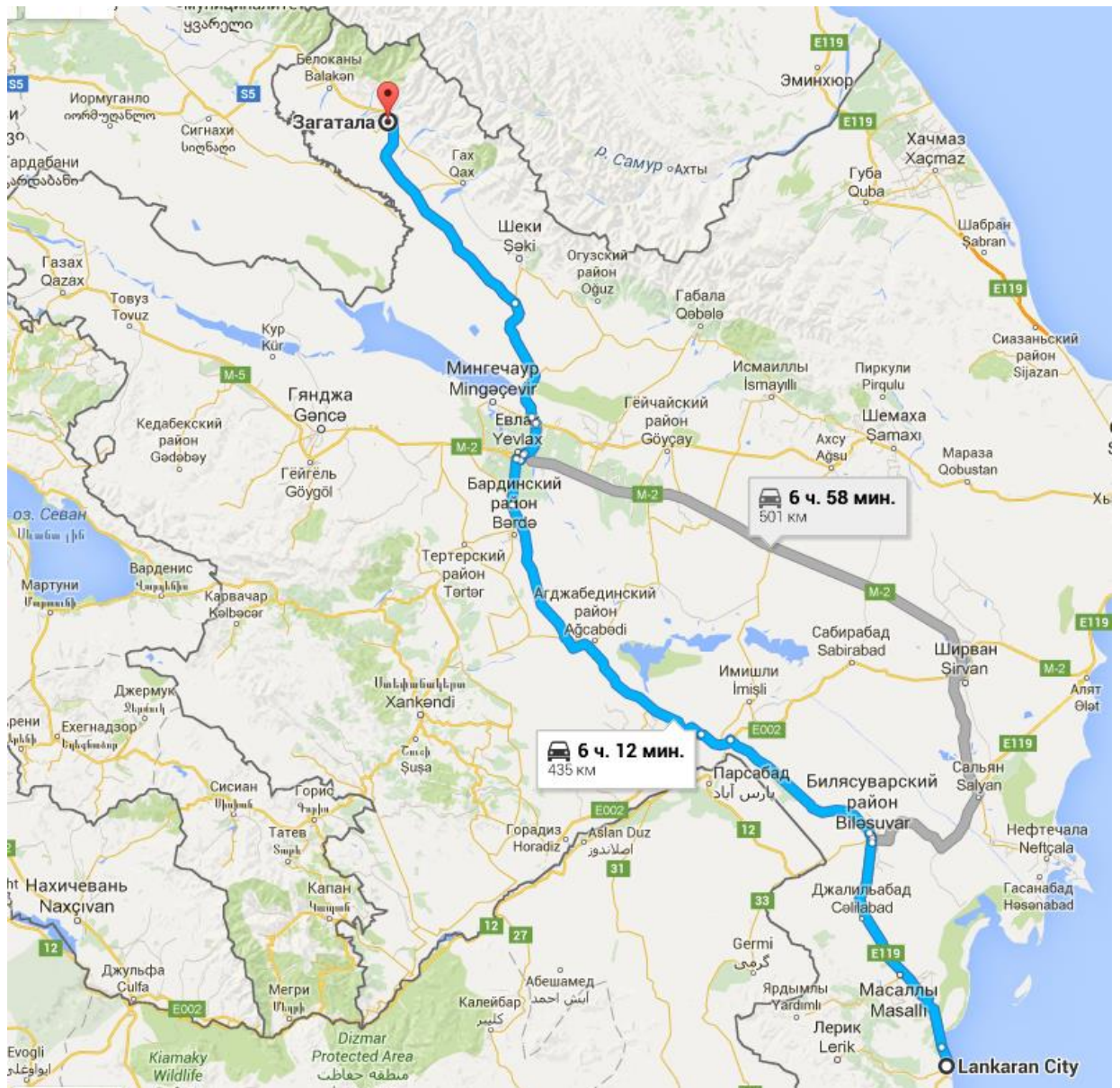
Lenkeran- Astara is historically the region for tea cultivation; that is why; the majority of new plantations will be located there. Situated on the shore of Caspian Sea, it makes it easier to transport the crops to northern regions. Moreover, the government has constructed highways through these region, and it also enables transportation of the crops.



Another location of the plantations will be in Zağatala Balaken region, because the productive soils and climate of these areas will be able to have rich crops. Moreover, this region is crossed by highways, and is suitable for transportation.

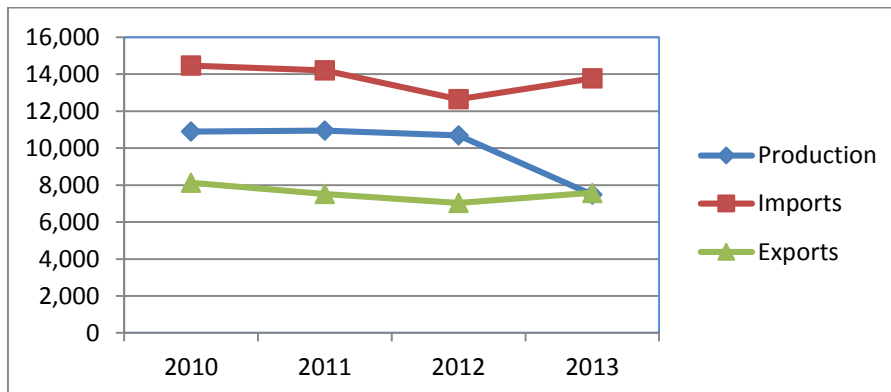


The locations of the project implementation are identified on the following map:



VI. Marketing Strategy

The UN Comtrade Database reports that in 2014 world imports of tea to Azerbaijan were 61,385 kilograms. Local production of tea in Azerbaijan in 2013 was 7,486 tones. The figure below shows the trend of exports, imports, and production of tea in Azerbaijan at the time between 2010 and 2013.



The trend shows that the production of tea considerably decreased in the country. Exports are almost constant during the given time frame. It is important to notice that the import of tea is prevailing and it is constant during these years. From this figure, it can be concluded that the country's tea consumption depends mainly on imports, and that is why there is a room for improvement of the local tea production.

Key customers of tea are local population. To elaborate, the population gets the product through retailers. In 2014, the independent small grocers were dominating in the tea retail. However, the proportion of small markets has declined due to the rising power of local supermarkets and hypermarkets.

The market is penetrated with the local tea producers as well as the products imported from abroad. The main local competitors are Sun Tea, Final, Azerchay, Purrengi and Berga Bergamot Etirli Cay brands. They owe the prevailing share of the local market. There are small brand in the market as well, however, they constitute small share of the market.

The competitive advantage of Azerbaijan in tea production can be analyzed in terms of 4Ps. As a product it has a unique taste, and is popular among foreigners. In terms of price, it is cheaper to produce the local tea, rather than to import it from abroad, considering the huge fees at customs and transportation costs. The local production can be distributed at a lower cost since Azerbaijan has appropriate transportation systems and infrastructures for that.

Azerbaijan has a strategic location; that is why, in the long run there is a high potential to export the local tea abroad.

VII. Tea production process

The productivity of tea crops depends on several factors. The consistency of the soil as well as the planting methodology matters for getting rich harvest of tea. Tea plantations should be planted in accordance with specific technology. Importantly, the reaction of the soil (ph) as well as the depth to put the tea plants should be considered.

If tea bushes are planted in accordance to the standards, they are able to give crops twice a year. Moreover, tea is perennial; therefore, the crops can be collected during several years.

VIII. Project Management and Organization Structure



The project will be organized by the new business entity “Milli Chay” with support from AZPROMO. Financing will be established through investment from third party, who will share the ownership of the business.

IX. Project Implementation schedule

The initial plan is to operate the project for 5 years. Depending on the profitability of the business, the management will decide whether the project will be continued.

Project Implementation	1 month	2 months	10 months	1 month
Project Team				
Cultivating the land				
Soft seedlings				
Planting in open fields				
Gathering crops				
Drying leaves				

X. Estimated Budget and Balance Sheet

Assets:	Year 1:	Year 2:	
Cash	\$ 100 000,00	\$ 90 000,00	
Inventory	\$ 500 000,00	\$ 600 000,00	
Land	\$ 850 000,00	\$ 850 000,00	
Equipment	\$ 200 000,00	\$ 180 000,00	
Marketing	\$ 500 000,00	\$ 300 000,00	
Patent tea tech.	\$ 200 000,00	\$ 210 000,00	
Total Assets	\$ 2 350 000,00	\$ 2 230 000,00	
Liabilities:			
Bank Loan	\$ 350 000,00	\$ 350 000,00	
Interes Payable	\$ 55 000,00	\$ 50 000,00	
Payables	\$ 500 000,00	\$ 425 000,00	
Equity:			
Profit	\$ 500 000,00	\$ 460 000,00	
Share Capital	\$ 945 000,00	\$ 945 000,00	
Total Liabilities:	\$ 2 350 000,00	\$ 2 230 000,00	



XI: Sources of Information:

<http://www.agro.gov.az/btklk/bitkiilikd-mtrqqi-texnologiyalar/ay-bitkisinin-becriilm-texnologiyasi/>

<http://comtrade.un.org/data/>

<http://www.worldbank.org/en/country/azerbaijan/overview>

http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade_Azerbaijan.pdf

<http://www.agro.gov.az/aqrar-bazar/topdansat-bazarlar/>

http://www.azerbaijan.az/Economy/Agriculture/agriculture_e.html

http://azpromo.az/uploads/agriculture_broshure_small_1.pdf

<http://comtrade.un.org/pb/CommodityPagesNew.aspx?y=2013>

<http://www.stat.gov.az/source/agriculture/>

<http://www.euromonitor.com/tea-in-azerbaijan/report>