



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.07

Voluntary Report - public distribution

Date: 3/10/2004

GAIN Report Number: AJ4003

Azerbaijan, Republic of

HRI Food Service Sector

Sector Update

2004

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Report Highlights:

The Azeri HRI sector has experienced some growth due to the beginning of construction of the Baku-Ceyhan pipeline, and new opportunities are emerging for a range of high-value food products as a result. Nonetheless, per-capita income remains low throughout the country, limiting the overall potential of growth in this sector.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Ankara [TU1]
[AJ]

HRI I. EXECUTIVE SUMMARY

The past decade has brought considerable changes to the lifestyles of Azeri people; the emergence of a local business class and the increase of the number of expatriates residing in and visiting Azerbaijan over the past decade has led to rapid development of the HRI food service sector. These changes caused new HRI sub-sectors to appear in the form of foreign cuisine restaurants, fast food outlets, celebration houses and catering companies.

The HRI Food Service sector turnover for 2002 is estimated at about USD 25 million. The total Number of HRI Food Service outlets is 3,875, out of which 1,450 are located in Baku. About 80 percent of these outlets in the HRI Sector are privately held, while the remainder is in the government sector.

Since the majority of Azeri population cannot afford to eat outside home, the major target for the HRI sector are executives and managers working in foreign companies and organizations, expatriates and local businessmen. The number of local executives and managers working in foreign organizations is about 31,000 people. Local businessmen also exhibit a tendency to have dinner in restaurants. Thus, the development of HRI food service sector is driven largely by the development of the oil & gas sector.

Oil & gas sector

The major driver of the HRI sector is the oil and gas sector and its related industries. This sector has attracted about USD 8 billion in foreign investments and is supposed to draw even more. Oil and gas companies (oil companies and sub-contractors) are attracted to enormous prospects in Azerbaijan. The recent launch of the Baku-Tbilisi-Ceyhan pipeline increased the expectations from the oil & gas fields. Nevertheless, the oil boom has not fully materialized. The total revenues expected from the flagship oil project (Azeri Chirag Guneshly) alone, are between USD 22 and USD 40 billion. All the catering companies operating in Azerbaijan keep an eye on that sector, while serving their established clientele, consisting mostly of expatriates.

The major trend in HRI food service is that the growth has shifted from traditional type of restaurants to foreign cuisine, fast food restaurants and catering.

ADVANTAGES	CHALLENGES
Azerbaijan has firm potential for tourism, which will lead to increased opportunities for US Exporters to Azerbaijan.	The tourism sector is still in infancy, limiting the opportunities for US Exporters.
The development of the oil sector provides considerable opportunities for the HRI Food service sector.	Current penetration of US products in HRI Food Service Sector is limited.
The number of foreign-cuisine restaurants is increasing and there are two international hotel chains (Hyatt-Residence and Radisson).	The demand for preprocessed foodstuffs in the HRI Food Service Sector is low due to their perceived inferior quality.

ADVANTAGES	CHALLENGES
Hotels restaurants and catering companies are interested in California wines.	US wines have yet to establish themselves in Azerbaijan.
Azeris readily adopt western tastes and foreign cuisines have already become quite popular.	Import regulations are sometimes ambiguous and inconsistently interpreted by Customs Officials.
Profits of Catering Companies serving Oil & Gas companies, operating under Production Sharing Agreements (PSA) with GOAJ are tax-exempt.	Transportation costs are less for products from neighboring countries.

II. MARKET STRUCTURE AND SUB-SECTOR PROFILES

A. Distribution Channels and New to Market Exporter information

The HRI sector works mostly with importers and local producers in order to procure the needed food items. The HRI sector in most cases contacts importers directly while bypassing wholesalers and retailers. However, in some cases wholesalers/retailer are the importers and HRI purchases food items from them. Some foodstuffs are even purchased from individuals, which import them from abroad. Usually food items such as high-quality wines, liquors, vodkas, coffee and exotic products are purchased this way because high prices do not allow them to be imported in wholesale quantities. In some cases, direct imports are made, but they are quite limited.

HRI Food Service Sector also purchases many products from local producers. The locally produced foodstuffs include sturgeon, caviar, poultry, sausages and other meat products, milk and milk products including mozzarella cheese, beverages and bottled waters, fruits, fruit juices and vegetables.

Some hotels that provide mostly Azeri cuisine also purchase foodstuffs from the local bazaars. The purchased food items at bazaars are various meats, fruits and vegetables.

The import procedures are of some concern, because at the customs the goods are often held for a considerable length of time. This has become a source of significant risk for fast moving consumer goods, which has an adverse effect on cheap imports of goods. In most cases the delays occur because about 80% of the food market is regulated by hidden monopolies. This fact creates significant challenges for the HRI Food Service Sector participants.

In order to import foodstuffs U.S. exporters and consolidators are advised to contact top importers and hotels directly. In order to find such information U.S. exporters should contact the Azerbaijan Chamber of Commerce and Industry (ACCI). ACCI works with foreign companies in assisting to enter local markets.

Contact Information for Chamber of Commerce and Industry:

President: Suleyman Tatliyev

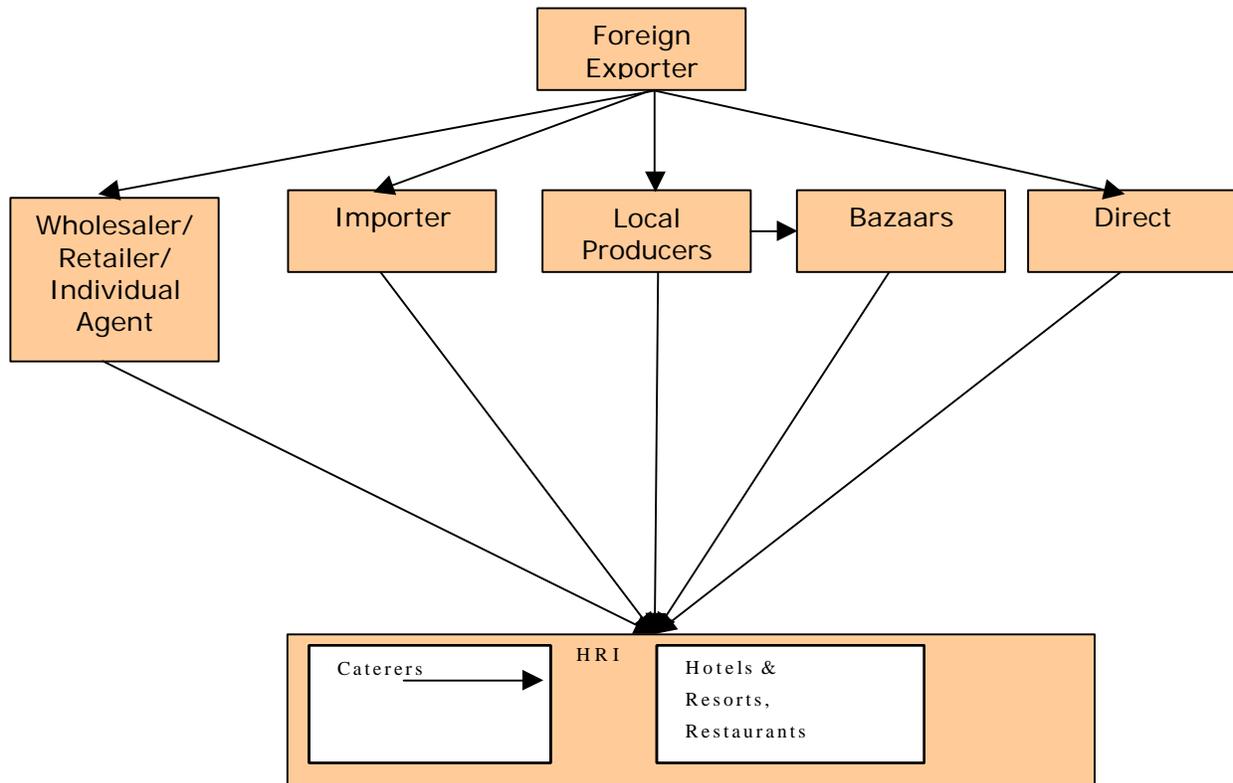
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B. Sub-sector profiles, Hotels & Resorts:

Hotels

There are approximately 100 hotels in Azerbaijan, of which 6 have foreign investments. The total number of rooms in the hotels is over 5,000, out of which about 500 are luxury suites, 3,500 are 1st class rooms, and about 1,000 are tourist class rooms.

Major hotels are located in the city of Baku and major opportunities for U.S. exporters are in the capital, which accounts for almost half of the population of Azerbaijan. There are 20 hotels in Baku, however only 5 have more than 100 rooms. The total number of rooms in the hotels in Baku city is about 3,000, out of which 350 are luxury suites, 2,000 are 1st class rooms, and the remainder are tourist class rooms.

Hotels contact importers and distributors for their imported food and beverage needs. Hotels usually do not conclude exclusive contracts with food suppliers. Hotels also purchase goods

from traditional bazaars and individual import agents. In this case, payments are made in cash and no delivery is provided. Some hotels have in-house catering companies that provide services for business meetings and conferences, as well as special occasions.

The nature and quality of food items purchased by hotels varies from one hotel to another. Four and Five star hotels purchase top-quality food items regardless of the price. For example, they purchase high quality coffee, the highest quality meat products and exotic foods like ocean fish, shrimp and squid.

Hotels do not purchase much preprocessed food items because of their perceived inferior quality. While hotels with local-cuisine restaurants purchase foodstuffs from bazaars and local producers, products like rice, and flour products are imported. An increase in the number of local producers of high quality products compliant with international standards also creates obstacles for US exporters.

Though it is rare for hotels, they do sometimes make direct imports from abroad.

The list of the largest Hotels and Hotel chains in Azerbaijan

Hotel	Number of Rooms	Type of purchasing Agent
Hyatt Regency Baku	160	I, DI, LP
Grand Hotel Europe	94	B, C, I.
The Crescent Beach Hotel	262	C
Ascot Lodge	16	C
Azerbaijan	500	LP, I
Baki	270	LP, I
Apsheron	437	LP, I
Old Inturist	50	LP, B
Radisson Plaza Hotel	40	C

Importer	I
Direct imports	DI
Caterer	C
Local Producer	LP
Bazaar	B

Resorts

The number of resorts in Azerbaijan meeting western standards is quite small, and the food items they purchase are mostly locally produced. While opportunities do exist in upscale resort areas, especially in alcoholic beverages, meats and poultry, these resorts import foods and beverages indirectly.

Restaurants

The development of the restaurant sector in the last decade was marked by the appearance of three niche sectors, which are foreign cuisine restaurants, fast food outlets and celebration houses.

Major opportunities for U.S. Exporters exist in the luxury restaurants sector, serving the local elite and foreign expatriates. These restaurants offer high-quality and diverse cuisine at a

price. Restaurants with local cuisine buy most of the food items directly from local producers and from bazaars. Foreign cuisine restaurants, however, buy ingredients from importers and make imports themselves from Dubai, and other countries of origin. Examples of ethnic restaurants available include Japanese (sushi), Continental, Mexican, Chinese, Indian, Thai, Italian, French and Russian. All of these restaurants rely on imports for their special ingredients. There are more than 100 luxury restaurants operating in Baku city. The luxury restaurant segment is concentrated mainly in Baku city, and some 5 star resort areas.

Since the target market for restaurants is wide, it is common in some Azeri restaurants to offer several types of cuisine at once for wide range of tastes. A limited number of restaurants offer Azeri cuisine only. Nevertheless, specialized restaurants do have stable positions in the market. The rest of the restaurants offer wide variety of cuisine.

Most of the high-end restaurants prefer to work with foreign corporate clients and try to establish long-term relations with them. However, despite the trend, some restaurants direct their marketing efforts to attract local businessmen.

Other restaurants comprise the largest market share of HRI food service sector. The menu offered by them is about the same. The food items they purchase mostly come from local producers, and nearby countries such as Russia, Iran, Georgia and Turkey.

Below is a list of major luxury restaurants in Baku

Restaurants	Type of cuisine
1. 865 Gourmet house	Continental cuisine
2. Adam's Diner	American/Indian cuisine
3. Afrodita	European & Oriental cuisine
4. Amburan	Azeri cuisine
5. Antep Sofrasi	Turkish cuisine
6. Asya Turk Restaurant	Turkish cuisine
7. Azerbaijan	Azeri Cuisine
8. Avilla	Azeri and European Cuisine
9. Aqua Park	Mixed Cuisine
10. Bay of Bengal	Indian and Chinese Cuisine
11. Bah Bah Club	Azeri Cuisine
12. Beluga Bar	Sturgeon
13. Baku Entertainment Center	Azeri and European Cuisine
14. Baku Gourmet Shop	Snack foods
15. Black Jack	European Cuisine
16. Buena Vista	Spanish Cuisine
17. Britannia Bar (Hyatt Park)	British Pub
18. Blues	European and Azeri Cuisine
19. Cafe de Paris	French Cuisine
20. Chanag gala	Azeri Cuisine
21. China Town	Chinese Cuisine
22. Chaplin's	English Pub
23. Churasco	Steak House
24. Delhi	Indian Cuisine
25. Dolce Vita	Italian Cuisine
26. Elite Complex	Turkish Cuisine
27. Finnegan's	Irish Pub
28. Fisherman's Wharf	Seafood and Louisiana Cooking
29. Georgian Home	Georgian Cuisine
30. Cleopatra	Lebanese, Azeri and European Cuisine
31. Lemon Grass Restaurant	Euro-Asian Cuisine
32. Maharaja	Indian Cuisine
33. Man Fu Lou	Chinese Cuisine
34. Melting Pot	Japanese Cuisine
35. Robatabar	Japanese Cuisine
36. Pancho's Mexicana	Mexican Cuisine
37. Patio	European Cuisine
38. Pizza Gusto	Italian Cuisine
39. Radisson Plaza	Italian and Turkish

40. Scallini	Italian
41. Shafa Stadium	European and Eastern Cuisine
42. Shusha	Azeri Cuisine
43. Taj Mahal	Indian Cuisine
44. Tandir Garden	Trans-Caucasian Cuisine
45. Terrace Restaurant	Oriental and Chinese Cuisine
46. W Club	Euro Asian Cuisine
47. Walkabout	European, Asian, and international
48. White Club	European Cuisine
49. Wild West Restaurant	American steakhouse
50. WOK	Chinese Cuisine
51. Ying Yang	Chinese Cuisine
52. Zorbaz	Greek Cuisine
53. Zumrud	Azeri and European Cuisine

Fast Food Restaurants

Fast food is a new concept in Azerbaijan. Only one international fast-food chain (McDonalds) is operating in Azerbaijan. McDonald's has only two outlets one of which is a drive-through outlet. Most of the foodstuffs are imported from other countries. For example, meat is imported from Austria. Another international chain (Baskin Robbins) closed because the demand was low due to high prices. The fast food sector is represented mostly by individually owned outlets with mostly Azeri, Turkish and Georgian cuisine. Consumers are most familiar with this cuisine and it is relatively inexpensive. The most popular fast food meals are kebabs, doner kebabs, pide etc. Fast food outlets use mostly locally produced food products. The price for a fast food meal ranges between USD 1.0-3.0 for a meal and a soft drink. Fast food outlets offer meals "to go" as well, which is new in Azerbaijan.

A recent development in the fast food sector is the appearance of new cafeteria-style bakeries, which offer cakes, pizzas, rolls and drinks. These outlets are gaining popularity due to efficiency (service is faster than in traditional fast food outlets) and low cost. These outlets open under brand names that have gained awareness positive attitudes in very short period of time.

Top fast food restaurant companies profile			
Company Restaurant/ Name	Current Number of Restaurants	Nationality	Purchasing Agent
McDonald's	2	American	Catering company
American Fast Food	1	American	Direct imports
Anadolu	2	Turkish	Wholesaler
Istanbul	4	Turkish	Wholesaler
Portofino	1	Italian	Local importers
Pizza Gusto	1	Azeri	Importers and local producers

Celebration Houses

This new HRI sub-sector has emerged after the collapse of the Soviet Union. Celebration houses are the places where Azeris have wedding and birthday parties, reunions & official gatherings. Usually, the celebration houses have several halls of different sizes to meet the requirements of each customer. This business has taken large market share from hotels and restaurants, which used to provide the same services for higher price. The cuisine is mostly Azeri, and the menu is about the same in all celebration houses. The most commonly consumed purchased foodstuffs are meats, sausages, sturgeon, caviar, mayonnaise, cheeses, alcoholic beverages (vodkas and champagnes) and non-alcoholic beverages (all locally produced). While this sub-sector is quite large, it provides little opportunities for U.S. exporters since most of the food items are purchased from local producers.

Institutional Food Service Sector

In the former, the institutional food service sector provided food for most companies that had cafeterias for their employees, schools, hospitals etc. After the collapse of the Soviet Union, the majority of enterprises closed down and few new enterprises were launched. Individuals renting the area run cafeterias in schools. Most of the foodstuffs are purchased from local producers.

The military food service sector does not provide any opportunities for U.S. exporters. The military uses mostly local foodstuffs. Nevertheless there is a possibility that the military will contract out catering services.

In early and mid 1990s a new catering sub-sector emerged. Great expectations about Azeri oil reserves have brought many companies to Azerbaijan stimulating the catering business. Along with large international catering companies like Aramark and Catermar, new local companies occupy a large market share of the catering market constituting intense competition to international companies. However, international catering companies serving the needs of the oil and gas sector are operating under Production Sharing Agreements (PSAs) with the Government of Azerbaijan, according to which the companies become exempt of all taxes. Thus, PSAs give foreign catering companies a competitive advantage over local ones.

All catering companies have underutilized production capacities (about 20 percent capacity utilization level in foreign caterers and 40 to 60 percent in locally owned companies) because they are awaiting the oil boom, which will boost their sales volumes. Meanwhile, catering companies serve their established clientele and focus on their established tastes. Nevertheless, the tastes of consumers do change and this provides opportunities for new products in the market.

The cost for one meal offered by caterers varies in the range of \$4-14. Local catering companies usually sell at much lower prices than foreign caterers do.

Catering companies usually purchase foodstuffs from importers, local producers, bazaars, and import directly from Dubai.

One of the characteristics of the institutional food service sector is that some hotels, restaurants (including fast food outlets), food importers and supermarkets offer not only delivery, but also catering services to the companies.

LIST of caterers

Caterer	Nationality	Target Audience
Caspian Development Corporation	British	Companies and government bodies
Parkgate Enterprises Ltd	N/A	Companies and shops
Abela Azal	Azeri	Airlines
Strachans and Aramark Ltd	American (Scottish branch)	Oil & Gas Sector
Tais	Azeri	Large local factories
Universal Sodex Co	British	Large local factories
Azerbaijan P. Dussman	German	Foreign local companies
Catermar	American	Oil & Gas sector
Baku Catering Company	Azeri-Turkish	ISR Plaza business center, Embassies, local businesses etc.
Anadolu	Turkish	Companies and Public
Citimart (supermarket)	Indian	Foreign companies
Canyon Catering Services	American	Oil & gas sector
Caspian Sea Ventures Corporation	British	Oil & Gas sector
Fortuna Co (importer of foodstuffs)	Azeri	Companies
Gama S.P.A	Azerbaijan Italy	Oil & Gas Sector
Hyatt Hotels Baku	American	Foreign Companies
Pizza Gusto (Fast Food)	Italian	Companies
Rezayat Projects	U.A.E. (Multinational)	Dubai companies
Universal Ltd.	Azeri	Local and Foreign Companies.
Oscar (restaurant)	Azeri	Companies

III. COMPETITION

Meats - HRI Food Service Sector imports meat products from Australia, New Zealand, China, and the United States. Highest quality meat products are also imported from Brazil. Local production of meat products also provides intense competition for U.S. Exporters.

Poultry - High-end HRI Sector participants usually import poultry from Denmark and Brazil, because locally produced poultry has inappropriate taste characteristics. The United States has traditionally supplied a large share of this market.

Sausages are imported mostly from Russia and Poland due to their perceived high quality and acceptable price.

Eggs, dairy products and nuts are locally produced and imports of these foodstuffs in the HRI Sector are limited.

For wines, the competition comes from French and Italian wines which are popular in the HRI Sector. Among imported wines, Georgian wines are gaining popularity and producers seek

ways to penetrate the Azeri market. Georgian wines were popular in Soviet Union and had good brand recognition. Local production of wines is also developing and Azerbaijan has great potential in wine making. Azerbaijan was one of the leading wine suppliers in the former Soviet Union.

IV. BEST PRODUCTS PROSPECTS:

Products present in the market

The HRI Food Service Sector is small and the quantities of products with best prospects are quite small. Products now present in the market:

Poultry: HRI Sector in Azerbaijan remains a promising market for U.S. poultry products. An increasingly wide range of cuts and other products (franks) are in demand in Azerbaijan. (Note: Azerbaijan recently banned imports of US poultry due to the discovery of low-pathogen avian influenza in Delaware.

Meat Products: There is limited demand for red meat products in Azerbaijan, such as tenderloins and boneless meat.

Liquors: Along with French and Italian wines, wines from the United States (California) and Chile are quite popular in Azerbaijan. Also good opportunities exist for hard alcohol such as vodkas and tequilas.

Fruit Juices The HRI Food Service Sector is exhibiting growing demand for Natural fruit juices and nectars.

Seafood: Although Azerbaijan is rich with fish products such as caviar, sturgeon, salmon, etc., Azerbaijani HRI Food Service Sector is a promising market for ocean fish, shrimp, squid, and other seafood.

Sauces: mustards, ketchup, Asian, Mexican and other ethnic sauces and flavorings.

Vegetables: Broccoli has some market potential in the restaurant sector.

Breakfast Cereals: Breakfast cereals are gaining popularity in Azerbaijan and are being currently imported from Russia, and other countries.

Confectionery: candy bars, cookies, waffles,

Products Not Present in the Market

High-value perishable items.

Products unsuccessful in the market

The HRI sector focuses on established tastes of consumers occasionally offering new products. So far, there has not been any food product that failed in the market.