

# **Agriculture and food production: Potential in Georgia**

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In cooperation with ISET Policy Institute

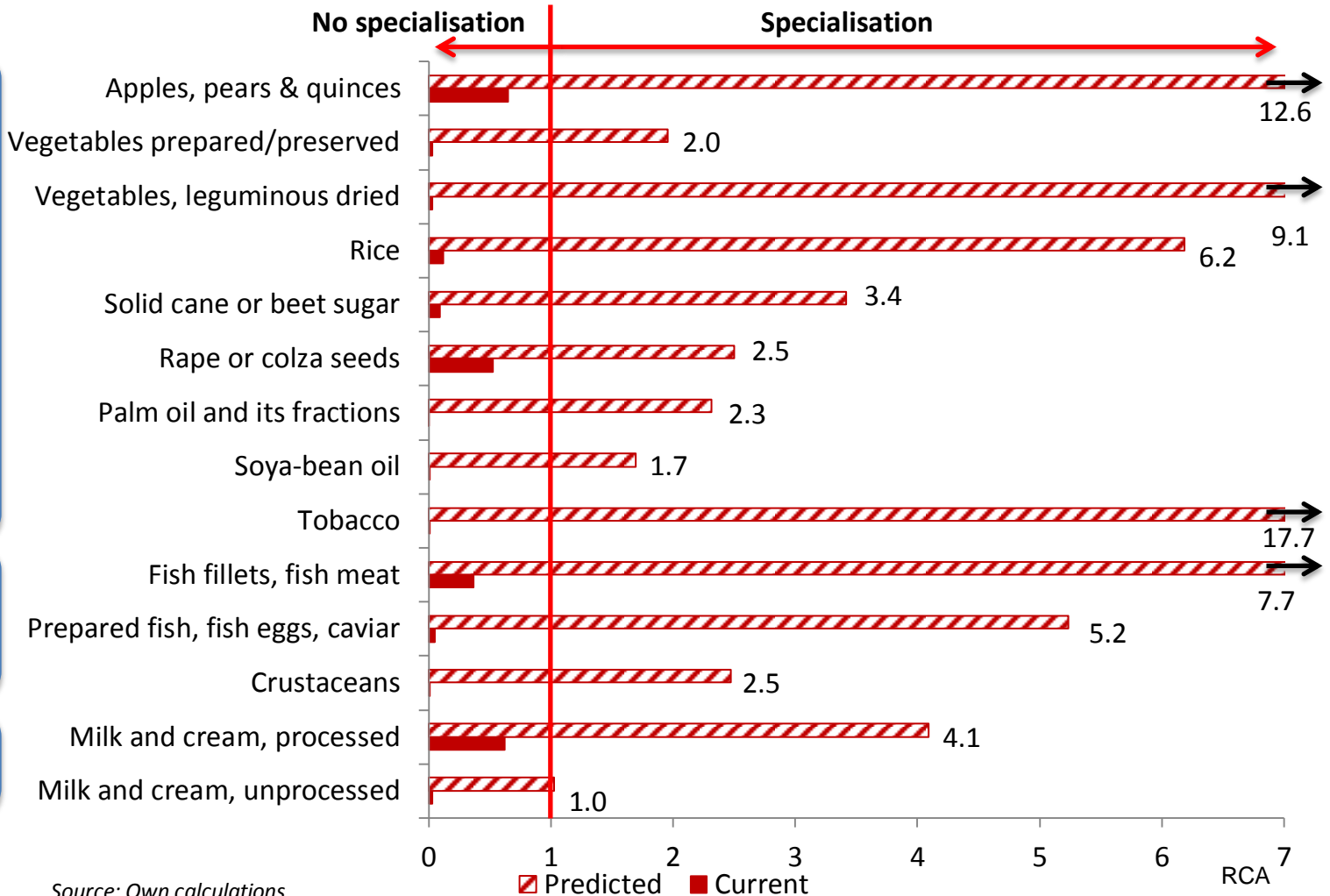
Berlin/Tbilisi, September 2015

## Georgia's potential for producing agricultural and food products

- We predicted potential for Georgia to specialise in 14 agricultural or food (agri-food) products (PP/01/2015) in three broad categories:
  - **Fruit and vegetable; tobacco**
  - **Dairy products**
  - **Fish and seafood**
- New potential additional to existing specialisation in agriculture (e.g. wine)
- We proceed in two stages:
  1. Analysis of current situation in Georgia and on the world market
  2. Competitive potential of Georgia for producing these goods
- **Goal: Plausibility check of predicted potential**

# 14 products predicted as potential for Georgia

- Fruit,  
vegetable,  
plant products**
- Fish and  
seafood**
- Dairy products**

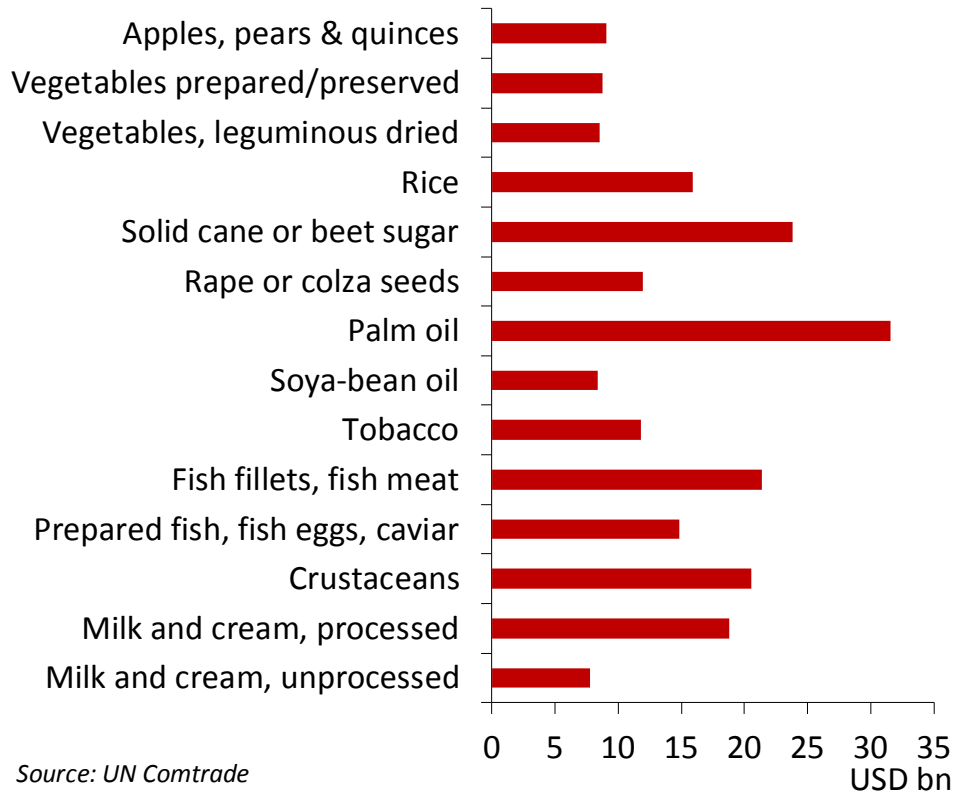


Source: Own calculations

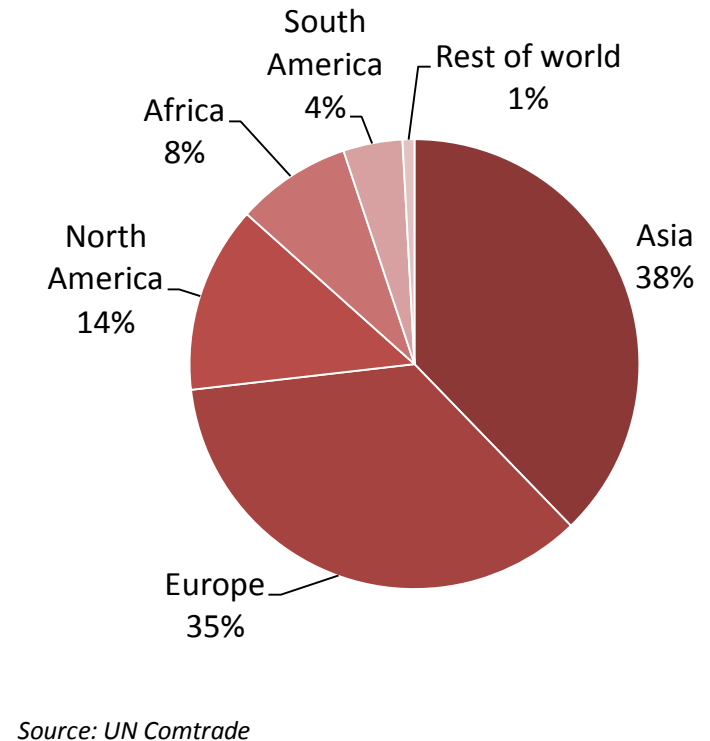
# **1. Agricultural and food products: Current situation in Georgia and on the world market**

# World market for 14 selected agri-food products

World trade, 2012-2014 avg., USD bn



Imports, 2012-2014

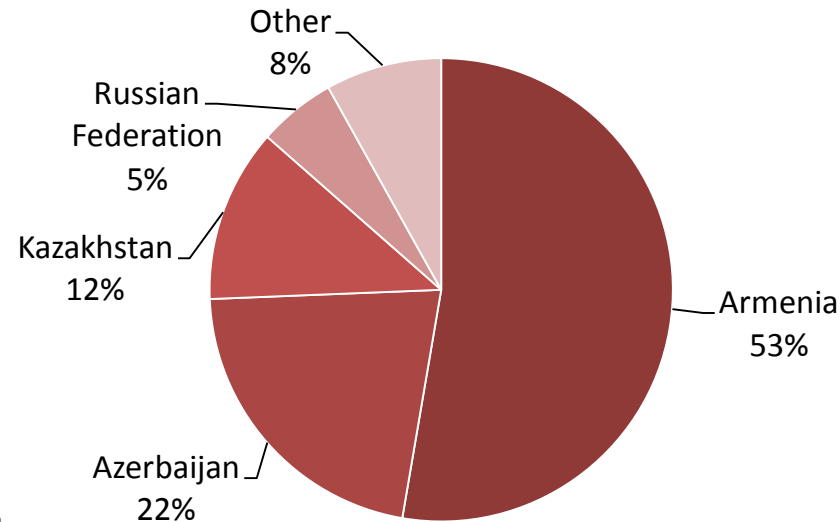
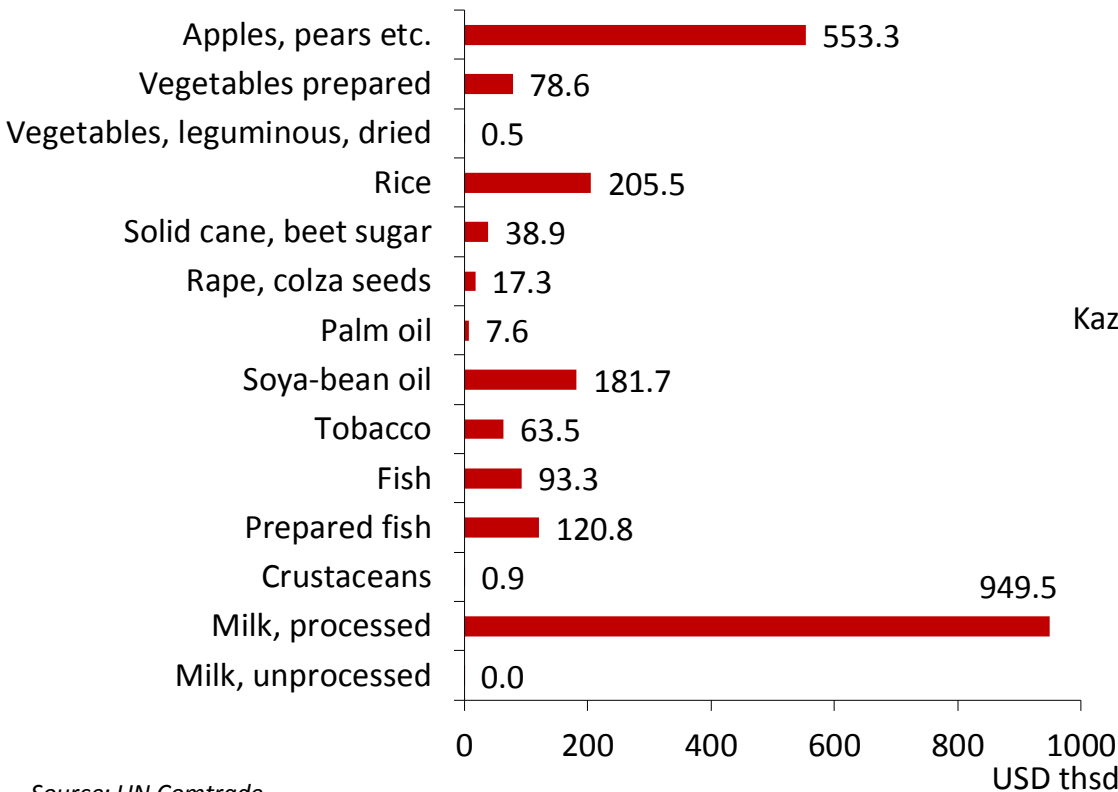


- Annual global trade volumes of around USD 130 bn in 9 fruit/vegetable/plant products, USD 55 bn in 3 fish/seafood products and USD 27 bn in 2 dairy product categories
- Large imports by European and Asian countries

# Current exports of Georgia, 14 products

Georgian exports, 2012-2014 avg., USD thsd.

Destinations of exports 2012-2014



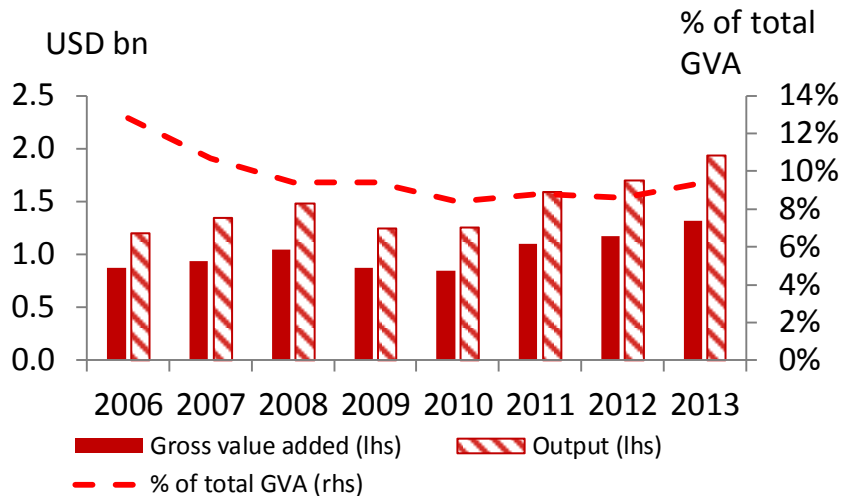
Source: UN Comtrade

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- Trade in these products at present in very small volume and highly regional
- Processed milk and apples/pears have largest trade volumes
- Very small volumes (e.g. palm oil) indicate re-exports only

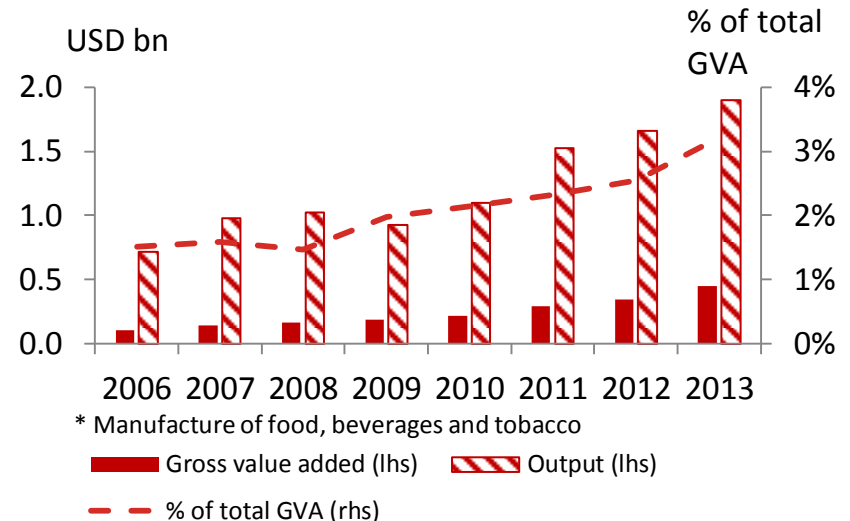
# The surrounding sectors: Agriculture and food processing

## Output and GVA in agriculture



Source: Geostat

## Output and GVA in food processing\*



Source: UN Comtrade

- Agriculture: Around 50% share of total employment, very low productivity
- Trade deficit (around USD 0.5 bn) in agriculture/food products
- Four categories (nuts; alcohol, spirits and liqueurs; wine; mineral waters) account for ca 75% of all agricultural exports
- Some successful examples of export-oriented food processing firms highlight potential
- Raw material availability often binding constraint to food processing industry

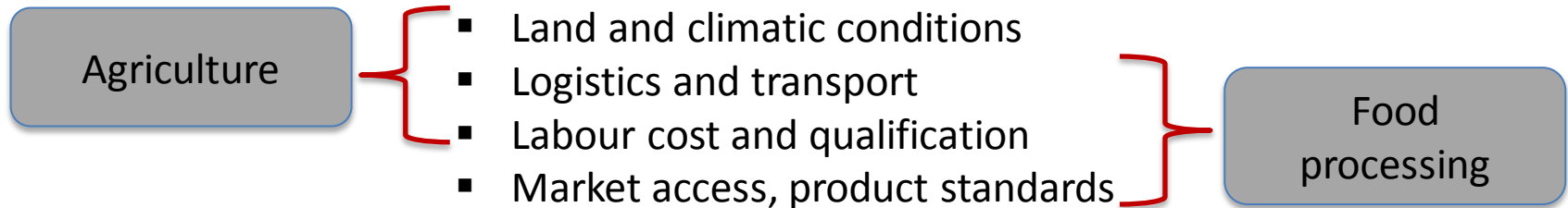
## 2. Competitive potential of Georgia



## Competitive factors in the agri-food sector

- Agricultural competitiveness depends on
  - Suitability of land and climatic conditions (differs by product)
  - Logistics and transport
  - Labour cost and qualification
- Food processing industry competitiveness depends on:
  - Competitively priced raw materials
  - Logistics and transport
  - Labour cost and qualification
  - Market access, meeting standards of export markets

- **We thus analyse:**



# Competitive factor 1: Land and climate (1)

Importance

Competitive-ness of Georgia

- Appropriate climate and land conditions are required for agricultural production
  - Existing specialisation in many agri-food products (e.g. wine, waters)
  - New products can be successful (examples: hazelnuts, kiwis)
  - 22 different microclimates and large variety of terrain – coast, flatlands, mountainous areas
- **Analysis must be differentiated by product:**

Product	Required climate/land	Conditions in Georgia	Conclusion
Apple, pears & quinces	Sunny, moderate temperatures	Ideal climate, many domestic varieties	+
Vegetables	Depends on variety, soils should be loose and well drained	Very good for many types of vegetables	+
Rice	120 days of warm sunny weather, flooded fields, much water	Suitable only in West Georgia	(+)
Cane and beet sugar	Tropical (cane) or moderate climate	Not very good, but it is still produced in Kartli Region	-

## Competitive factor 1: Land and climate (2)

Product	Required climate/land	Conditions in Georgia	Conclusion
Rape or colza seeds	Temperatures around 10° C are ideal, well-draining soils work best.	Climate and soil conditions is satisfactory for producing	+ (as winter crop)
Palm oil	Only grows within 10 degrees north or south of the equator.	Unsuitable	-
Soya-bean oil	Wide range of soils feasible, warm weather.	Good conditions	+
Tobacco	Hot and humid	Excellent conditions in mountainous part of Adjara	+
Fish/Crustaceans	Sufficient oxygen. Ocean, river or aquaculture	Black sea contains little marine life. Good potential in rivers, lakes and for aquacultures.	+
Milk and Cream	Pastures with grass, moderate temperature	Sufficient rainfall and sunlight	+

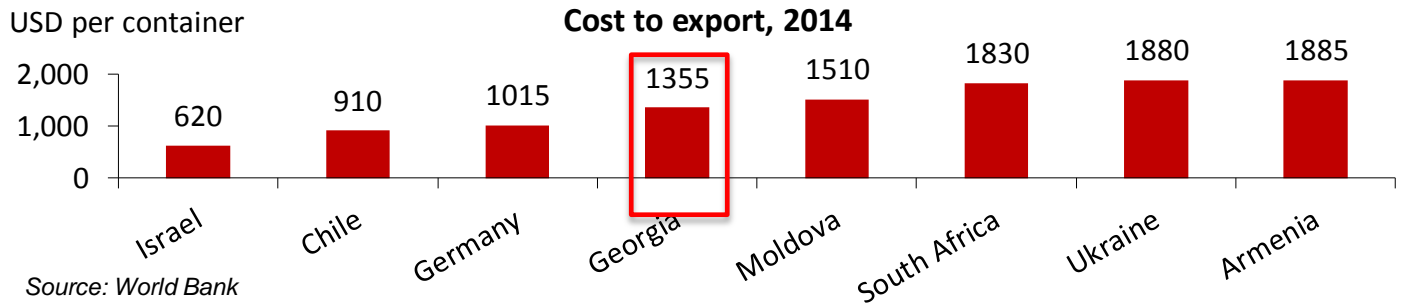
### The bottom line

- **Palm oil, cane/beet sugar unsuitable, limited potential for rice**
- **All other products/raw materials seem feasible**
- **Clear comparative advantage in agriculture translates into these products**

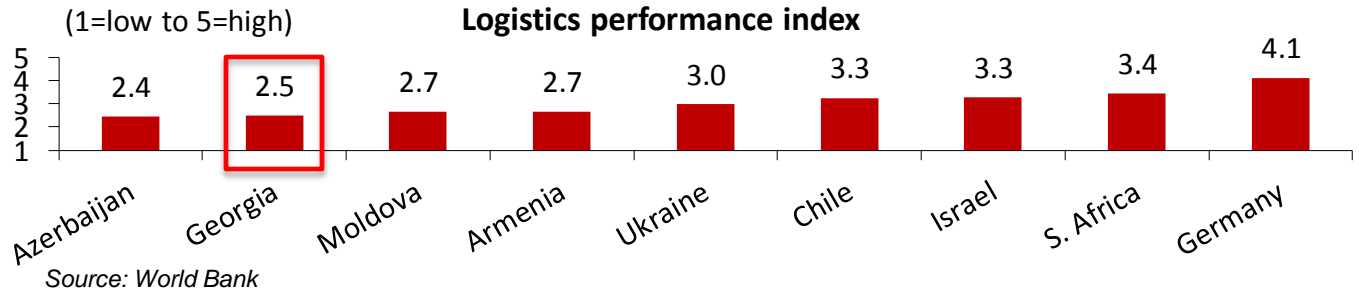
# Competitive Factor 2: Transport and logistics

Importance

- Transport under adequate conditions (e.g. refrigeration) necessary, particularly for fruit, fish/seafood and dairy products
- Primary **roads** are satisfactory, secondary and rural roads often in poor shape
- Rail** system not in good shape and has high freight tariffs
- Port** at Poti allows exports by sea, but with limited regular connections



- Logistical infrastructure lags behind most competitors: (1=low to 5=high)



Competitive-ness of Georgia

The bottom line

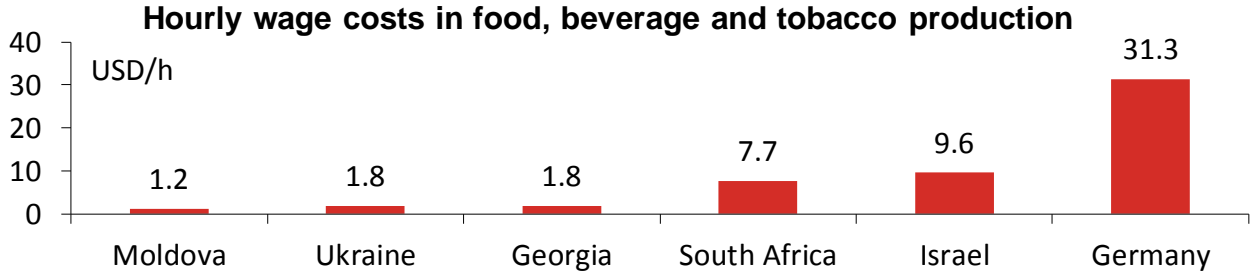
- Internal transport in rural area (farm to factory) more difficult than export (factory to port)
- Transport-friendly location choice will be crucial and sometimes constraining factor
- Investments in refrigeration equipment / own logistical infrastructure may be necessary

# Competitive Factor 3: Labour cost and qualification

Importance

Competitiveness of Georgia

- Agriculture and food processing are labour intensive sectors
- Large labour availability due to high employment in sector and low productivity
- Very low average wages (only salaried workers in data, not self-employment)
- Wages for skilled workers likely to be higher, but still competitive



Source: National Statistics Bureaus

- South Africa and Israel successfully export at much higher wage cost, but also with higher productivity
- Israel very good at agricultural product innovation
- If productivity can be raised through investment, labour costs in Georgia will be a major comparative advantage for the agri-food sector

The bottom line

- Attractive wage conditions, good availability of labour, training will be required
- If production of raw materials is outsourced, contractors should be assisted with know-how and capital investments

# Competitive Factor 4: Market access, product standards

Importance

Competitive-  
ness of Georgia

- Food products are subject to stringent product standards
- Market access often constrained for agri-food products (tariff and non-tariff barriers)

## Market access

- Many interesting markets (e.g. Asia) have low tariff and non-tariff barriers
- Privileged access to EU market due to DCFTA
- Some entry price requirements remain: Apples, pears, tomatoes, cucumbers
- Some products under anti-fraud mechanisms: These quotas will be reviewed if Georgian production increases
- Access to Russian market subject to political risks

## Product standards

- Most stringent for animal products (i.e. fish/seafood, dairy)
- Georgian agriculture at present lacks investment to meet standards
- But also successful examples of domestic companies exporting to advanced economy markets (kiwi fruit, processed vegetables - tomato puree, pickles)
- Meeting standards a question of willingness to invest in external know-how and new equipment

The bottom line

- **Good access to attractive nearby markets (EU, Middle East)**
- **Standards require investment, but successful cases already exist**

## Policy implications

- **Research:**
  - Public research institutions should investigate in depth feasibility of producing and exporting new crops and products
  - Experimentation by private sector should be encouraged and monitored
- **Investment attraction:**
  - Potential investors should be actively engaged for investments
  - Higher value-added production (e.g. processed/premium products) should be encouraged
  - Attracting investors in logistics will reduce costs to agri-food investors
- **Transport:**
  - Modernisation of transport system should be continued and strengthened
  - Upgrading of rural secondary roads should be prioritised in areas of potential investment
- **Standards:**
  - Donor organisations should be approached for help in implementation
  - Enforcing product quality nationwide builds international reputation

## Summary and evaluation

Current situation

Competitive factors

- Large agricultural sector, but low productivity and trade deficit
- Land and climate conditions suitable for a wide range of new agri-food products
- Primary roads in satisfactory condition; poor shape of rural roads may make transport of perishable products difficult
- Very competitive wages in agriculture and food processing
- Good market access
- Investment needs in technology (standards and logistics)

Conclusion

- **Excellent potential for diversification of agri-food exports**
- **Larger investment needs for higher value-added, processed products, but also larger economic benefits**
- **Attractive high-potential products:**  
**Apples/pears; processed vegetables, (processed) fish, (processed) dairy products, tobacco, rape/colza seeds**



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