

SECTOR AT A GLANCE

CHALLENGES IN THE ENFORCEMENT OF TECHNICAL REGULATIONS IN DAIRY SECTOR

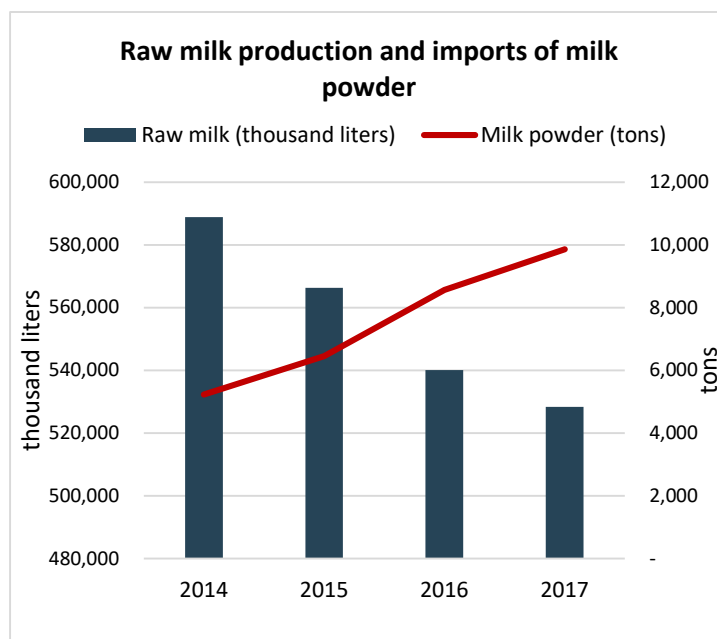
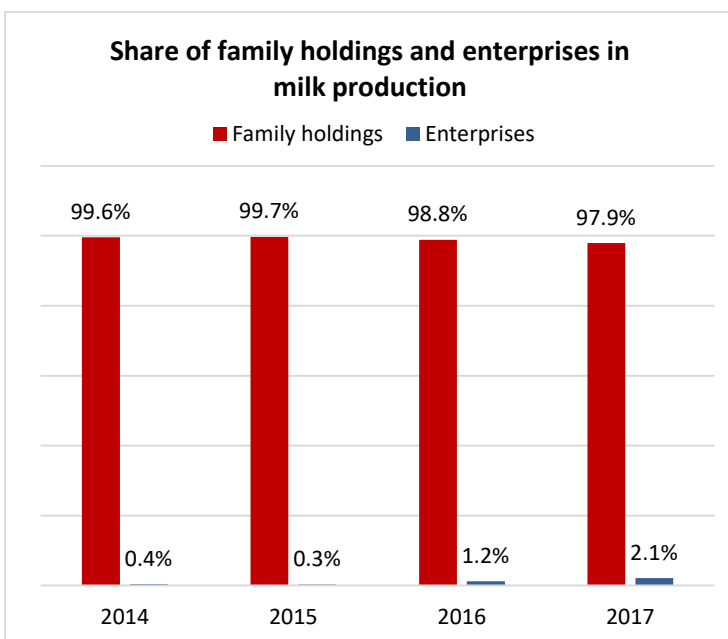
On April 3, 2015 the Government of Georgia adopted a technical regulation in the dairy sector in order to define major principles for the production, processing, and distribution of dairy products. Later in 2017, the regulation was amended and the law now strictly regulates the labelling of dairy products and particularly the use of terms such as “cheese” and “butter”. According to the regulation, a product can be called “cheese” only if it is produced from raw milk, and the use of milk powder for cheese making is prohibited. As for butter, it can only be produced with milk fat and the use of vegetable oil is not allowed.

While the regulation has been in force for a couple of years now, there are significant challenges to its implementation. It is particularly difficult to control the usage of milk powder in cheese production given that most cheese producers are unregistered family holdings.

Milk powder is used not only by unregistered family holdings but by registered producers as well, due to the desire to minimize production costs and in response to the deficit of safe, high quality raw milk in the country.

Statistics show that milk production in Georgia is declining while imports of milk powder are increasing. In 2017, Georgia imported milk powder from 19 countries and 24% of imports came from Ukraine. Imports of vegetable oils are also increasing and most of them come from Azerbaijan (62%).

The major challenges associated with the implementation of technical regulations include the absence of control over non-registered dairy producers, who produce more than 97% of milk; lack of control over registered dairy producers and retailers, and low awareness of consumers about their role in the enforcement of technical regulations.



Source: Geostat and the Ministry of Finance, 2018

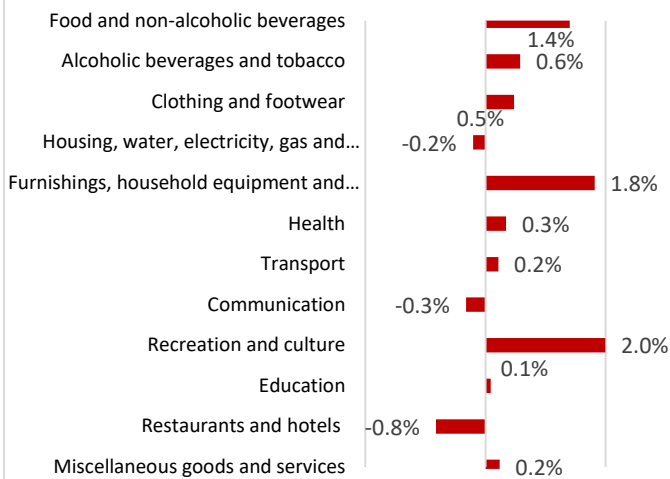
PRICES

DOMESTIC PRICES

On a monthly basis, price levels in the country stayed relatively steady; the Consumer Price Index (CPI) in November 2018 increased slightly by 0.7% compared to October 2018. Compared to November 2017, CPI experienced a 1.9% increase.

In the category of food and non-alcoholic beverages, month-on-month prices increased by 1.4%, contributing 0.41 percentage points to the overall CPI change. The main drivers were price changes in the following sub-groups:

Percentage Change in Prices m/m (November 2018 VS October 2018)



Vegetables (5.7% ↗)



Milk, cheese, and eggs (3.3% ↗)



Fruit and grapes (-8.3% ↘)

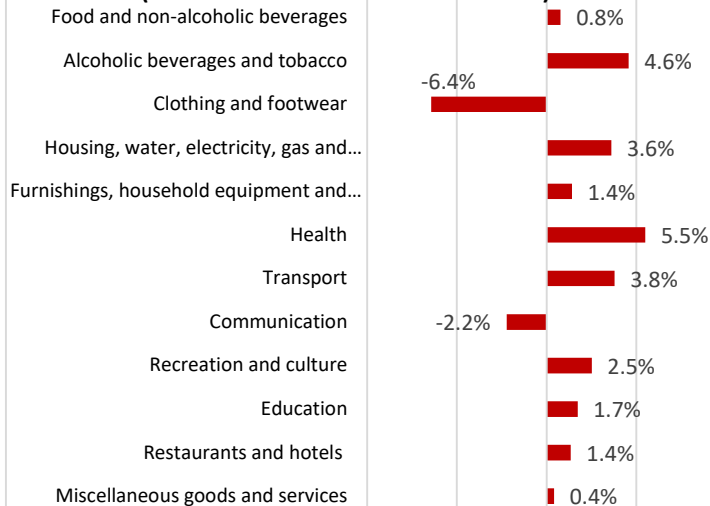


Source: Geostat, 2018

On an annual basis, prices increased slightly by 0.8% in the category of food and non-alcoholic beverages, contributing 0.25 percentage points to the overall CPI change.

In November 2018, significant price changes were observed in the sub-category of cereals and cereal products:

Percentage Change in Prices y/y (November 2018 VS November 2017)



Buckwheat (-34% ↘)



Corn flour (19% ↗)



Wheat flour (5% ↗)

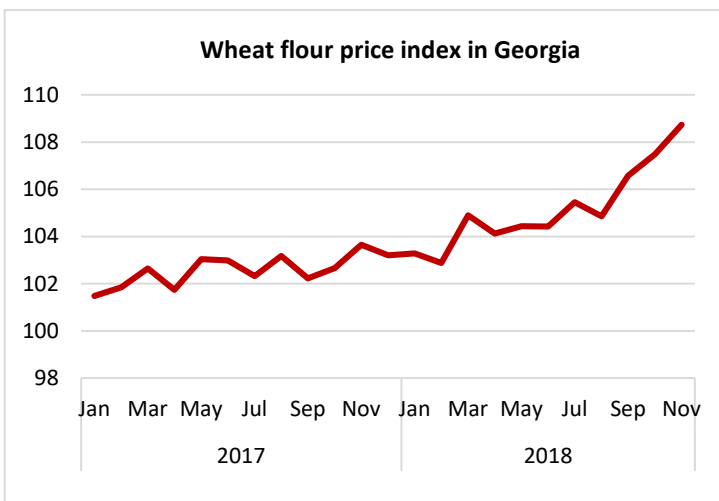


Source: Geostat, 2018

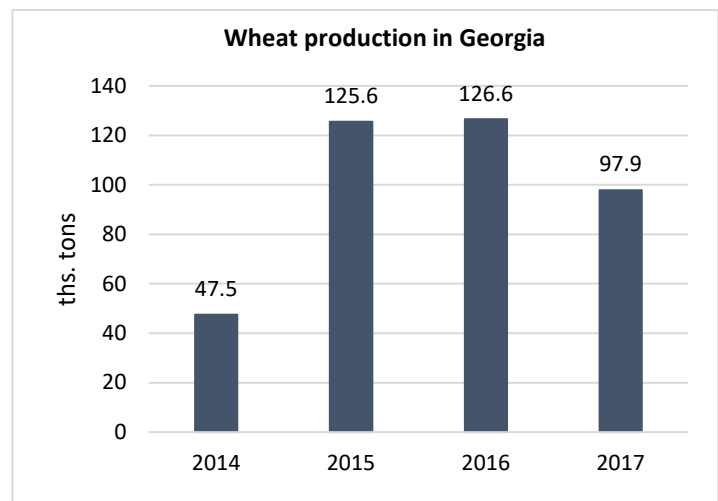
WHEAT AND WHEAT PRODUCTS IN THE SPOTLIGHT

Recently the increased price of wheat bread has gained a lot of attention [from the public](#). In November 2018, prices of wheat bread increased by 4% compared to November 2017. This can be explained by the increased price of wheat flour (5% increase on annual basis). Starting from January 2018, annual wheat prices have been higher than the corresponding indicators in the previous year. One explanation is a shortage in supply due to a bad harvest in 2017. In 2017, wheat production was 97.9K tons—23% lower than the previous year (126.6K tons).

International prices might put additional upward pressure on wheat flour prices in Georgia. According to [the Food and Agriculture Organization \(FAO\)](#), international wheat prices went up due to deteriorated crop prospects and decreased supply globally. [According to ISET-PI's research](#), it requires seven months for prices to fully transmit from international wheat to Georgian flour prices. Accordingly, Georgian consumers might expect further price increases in wheat and wheat product prices.



Note: December 2016=100 and is a base month



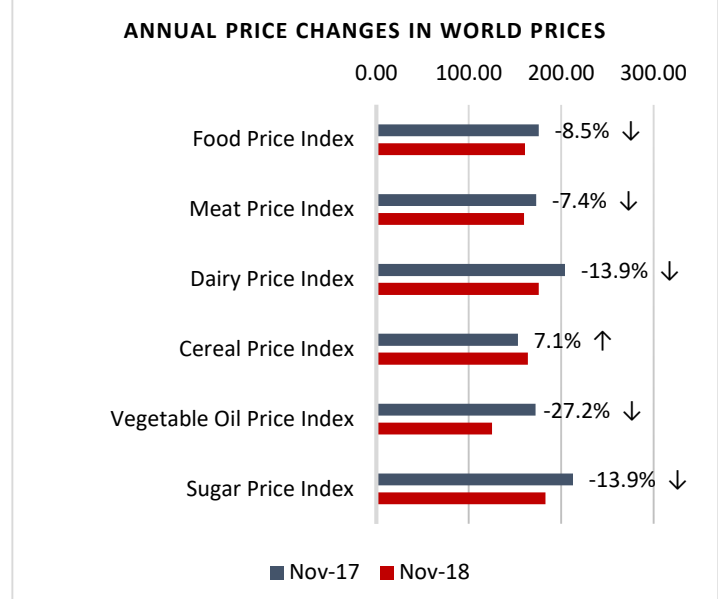
Source: Geostat, 2018

INTERNATIONAL PRICES

In November 2018, international prices maintained their downward trend and marked their lowest level since May 2016. The Food Price Index, measured by the Food and Agriculture Organization (FAO), decreased by 1.3% in November 2018, compared to October 2018. The main drivers were weaker vegetable oil (-5.7%), dairy (-3.3%), and cereal prices (-1.1%). Meat prices also dropped, but slightly by 0.2%. On the contrary, sugar prices increased by 4.4%—marking the third consecutive monthly gain since August 2018.

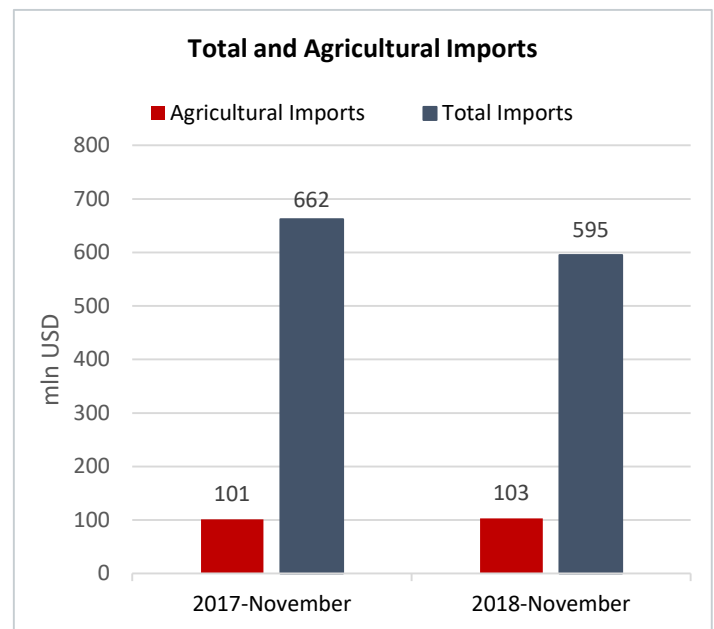
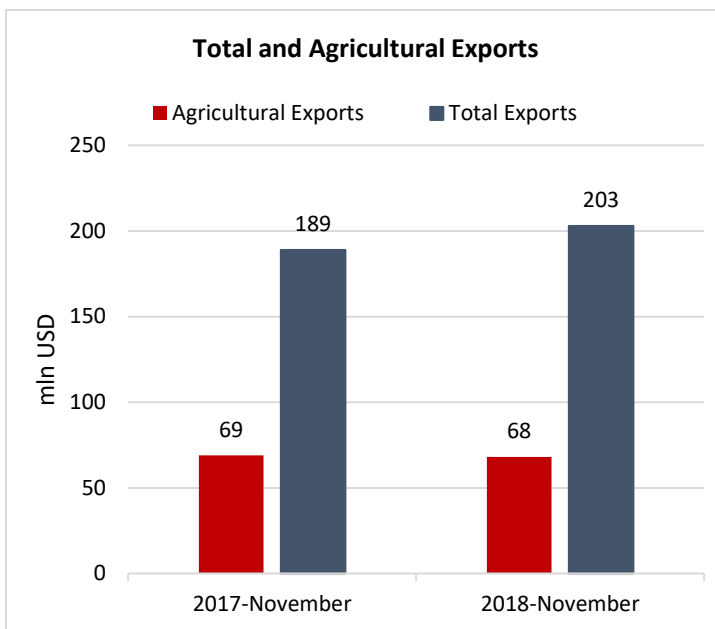
On an annual basis, the FAO Food Price Index declined by 8.5%. Prices dropped for the following sub-categories: Vegetable Oil (-27.2%), Sugar (-13.9%), Dairy (-13.9%), and Meat (-7.4%). Meanwhile, the Cereal Price Index increased by 7.1% compared to November 2017.

Source: FAO, 2018



TRADE HIGHLIGHTS

During November 2018, Georgia's agricultural exports (including food) amounted to 68 mln USD, which is roughly one third of the total Georgian export value. While comparing this indicator to November 2017, it is down by 3 percentage points. As for imports, in November 2018, Georgia's agro imports reached 103 mln USD, which constituted 17% of total Georgian imports. Year over year (compared to November 2017), agricultural imports increased by more than 1%.



Source: MoF data, 2018

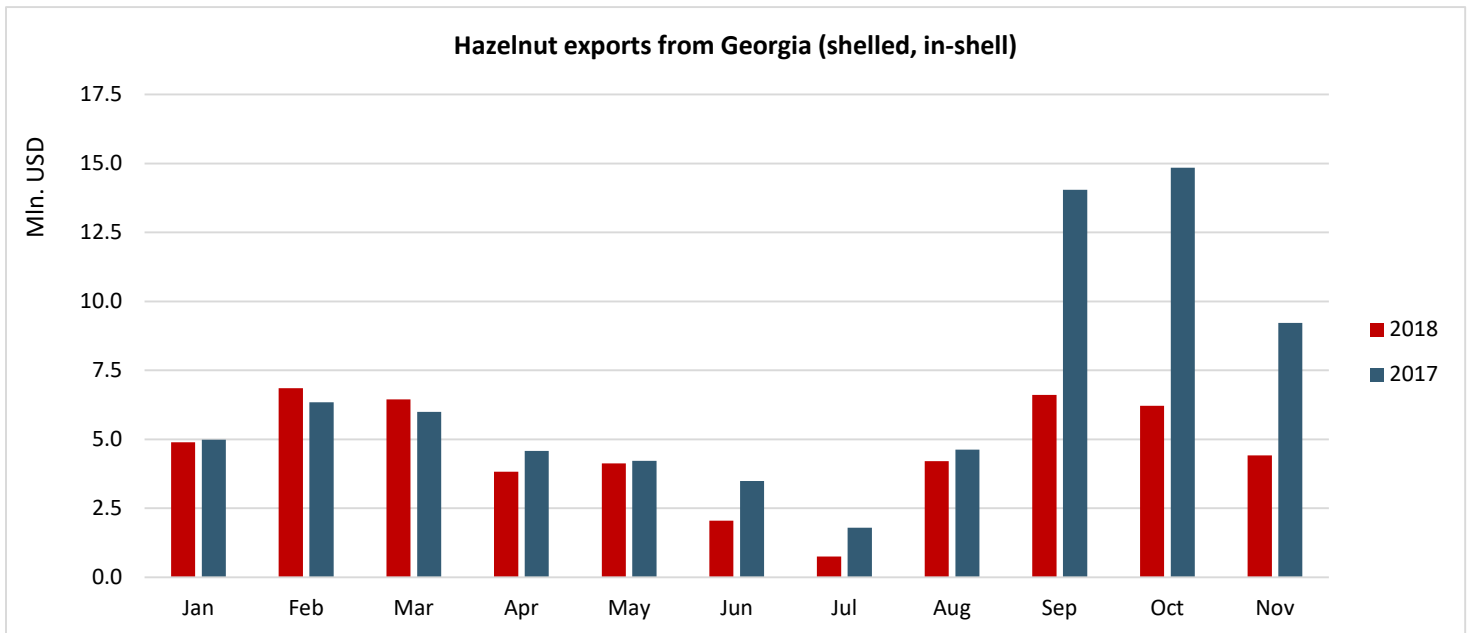
Note: Agricultural exports include food exports

HAZELNUT TRADE STATISTICS

Hazelnut exports (shelled and in-shell) from January to November 2018 amounted in total to 50.4 million USD, which is just 68% of the corresponding value in 2017. The significant decline in monthly export values was observed for the whole autumn. The biggest part of this decline was due to a decline in export quantities, but price also played a role. For instance, this November the value of exported hazelnuts (shelled and in-shell) was 2.08 times less than the same figure for 2017, while according to the Ministry of Finance of Georgia's trade data, the quantity of exported hazelnuts (in tons) reduced by only 1.93 times.

The official production statistics for 2018 are not available yet, but [according](#) to the National Food Agency, hazelnut production forecasts in terms of quantity are promising and expected to substantially outperform the previous year's production figures. Nevertheless, hazelnut quality is still low as the harvest suffered heavily from powdery mildew, fungus, and other diseases (stinkbug [effects](#) were relatively low this year).

The Hazelnut Processors and Exporters Association of Georgia [cites](#) the low quality of the product as one of the reasons for relatively low export prices of Georgian hazelnuts compared to the Turkish counterpart. On the other hand, lower quality in 2018, combined with a relatively small stock left from 2017's harvest, negatively affected the export quantities of the hazelnut, as well (month by month comparisons of 2017 and 2018 export values are given in the graph below).



Source: MoF data, 2018

POLICY WATCH

Land registration process in Georgia has been prolonged

The land registration process with state supported services has been prolonged by six months and citizens of Georgia will be supported with various services during the registration process by the Public Registry until July 1, 2019 instead of January 1, 2019.

For more information: http://www.bm.ge/ka/article/miwebze-sakutrebis-registraciis-procesi-6-tvit-gaxangrdzlivda/27611/?fbclid=IwAR2azKROhLvEuW9IoXC3_DEobL4m5yeSrhZCrYtexv8dOSDK4t46A-4VRI

Land O'Lakes International Development starts to work in Georgia

Working alongside experts at Michigan State University and the Georgian Farmers Association, Land O'Lakes International Development will work with Georgian dairy and livestock agribusinesses to improve food safety and quality protocols.

For more information: https://www.bizjournals.com/atlanta/prnewswire/press_releases/Georgia/2018/10/08/CG32060