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Overview of the hazelnut sector in Georgia: past trends and the way forward

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AUTHORS:

Salome Gelashvili
Salome Deisadze
Elene Seturidze

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INTRODUCTION

Historically, hazelnuts have been one of Georgia's main crops in terms of economic value; as the country is located on the Black Sea coastal area, which has suitable soil and climate conditions for growing hazelnuts. Even as early as the fourth century B.C., populations grew wild forms of hazelnut, which later adapted to local conditions and formed regional varieties (GEONUTS, 2023).

According to the 2014 Agricultural Census, approximately 107,000 agricultural holdings (17% of all such holdings) are involved in hazelnut production (Geostat (National Statistics Office of Georgia), 2014). More than half of these hazelnuts are produced in the Georgian region of Samegrelo-Zemo Svaneti, where the crop is a major source of income for rural households engaged in agriculture.

Together with wine, hazelnuts also represent the leading agricultural commodity in terms of production and export. The sector has grown significantly during the last decade, while local producers and experts believe that there is the potential for further expansion in both production and quality, which could provide Georgia global leadership in this sector. Yet it is important to ask, does Georgia have a real prospect to achieve this ambitious goal? What are the key constraints to growth and how is it possible to capitalize on opportunities for growth? This policy brief reviews the hazelnut sector and its challenges, and moreover it provides recommendations for strengthening the position of Georgian hazelnuts on international markets.

TRENDS IN INTERNATIONAL TRADE

Hazelnuts are one of the most prominent export commodities for Georgia. In 2021, Georgia was among the top five exporters of hazelnuts (both in shell and shelled), with the rankings as follows: Türkiye (54.2%), Italy (14.4%), Chile (6.4%), the United States (6.0%), and Georgia (4.8%) (%) (UN Comtrade, 2023). The productivity measured by average yield per ha is also relatively high in this sector. While the United States has the highest yield (2,848 kg/ha) of the top five exporting countries, Georgia is next with an average of 1,800 kg per ha. Georgia currently ranks 6th in the world by average yield per ha, while the top hazelnut exporters – Italy and Türkiye – stand at 15th and 17th positions, respectively (Table 1).

Table 1. Top 5 Hazelnut Exporting Countries in 2021

COUNTRY	AREA HARVESTED (HA)	PRODUCTION (TONS)	YIELD (KG/HA)	RANKING BY AVERAGE YIELD PER HA
Türkiye	738,920	684,000	926	17
Italy	82,590	84,670	1,025	15
Chile	24,456	35,291	1,443	8
USA	24,686	70,310	2,848	1
Georgia	25,550	46,000	1,800	6

Source: FAOSTAT, UN Comtrade, 2023

Between 2010 and 2021, hazelnuts accounted for around 4.4% of Georgia's total exports (Geostat, 2023). The quantity of exported hazelnuts reached its highest level in 2013 (30 ths. tons), however in the following years this fell notably (20 ths. tons in 2014 and 19 ths. tons in 2015) (Figure 1). After a significant increase (42%) in the quantity of exported hazelnuts in 2016, their export dropped dramatically in both quantity and value in 2017; mainly due to decreased production and the Asian Stink Bug (*pharosana*) infestation. Consequently, hazelnut exports again decreased in both quantity and value until they got back on track in 2020.

Figure 1. Quantity and Value of Exported Hazelnuts



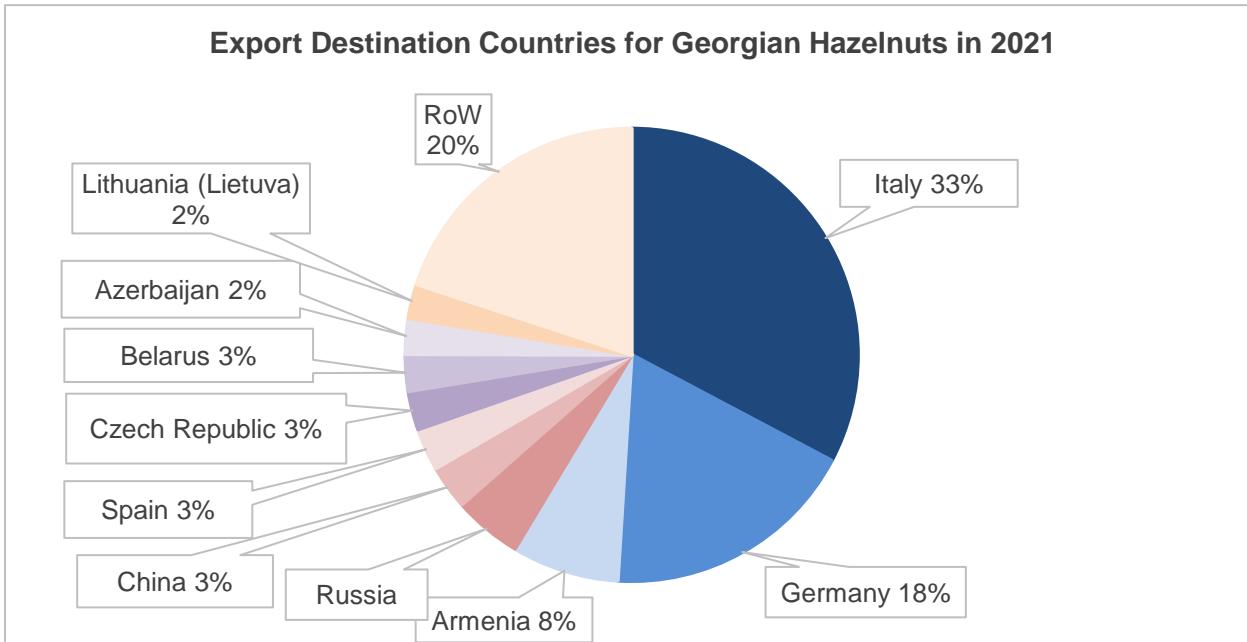
Source: Geostat, 2023

Note: *January-November 2022

The main destination for hazelnut exports is the EU market, which receives 65% of the total export on average (between 2010-2022). The same figure for CIS countries stands at 20%.

In 2021, around half the total hazelnut export went to Italy (33%) and Germany (18%) (Figure 2). That year, the export value of 1 kg of hazelnuts was higher in Germany (5.85 USD per kg) than in Italy (3.86 USD per kg). On average, between 2010-2021, the market share for Italy has been at 20%, closely followed by Germany at 19%.

Figure 2. Export Destination Countries for Georgian Hazelnuts in 2021



Source: Geostat, 2023

In terms of export diversification, the Herfindahl-Hirschman Index (HHI) – measuring market concentration – was 1,371 in 2021, thus indicating well-diversified destination markets. Between 2010-2021, moderate market concentration was only seen in 2015 and 2016, beyond which the HHI regards export markets as rather diversified.

In relation to the prices in the top five hazelnut exporting countries, Georgian hazelnuts retain the lowest cost at 2.7 USD and 5.9 USD per exported kg of in shell and shelled hazelnuts, respectively (Table 2). In comparison, the price is highest for in shell American hazelnuts (4.6 USD) and for shelled Italian hazelnuts (9.2 USD). This indicates that the quality of Georgian hazelnuts does not match those from other top exporting countries.

Table 2. Price of the Exported Hazelnuts from Top 5 Hazelnut Exporting Countries in 2021

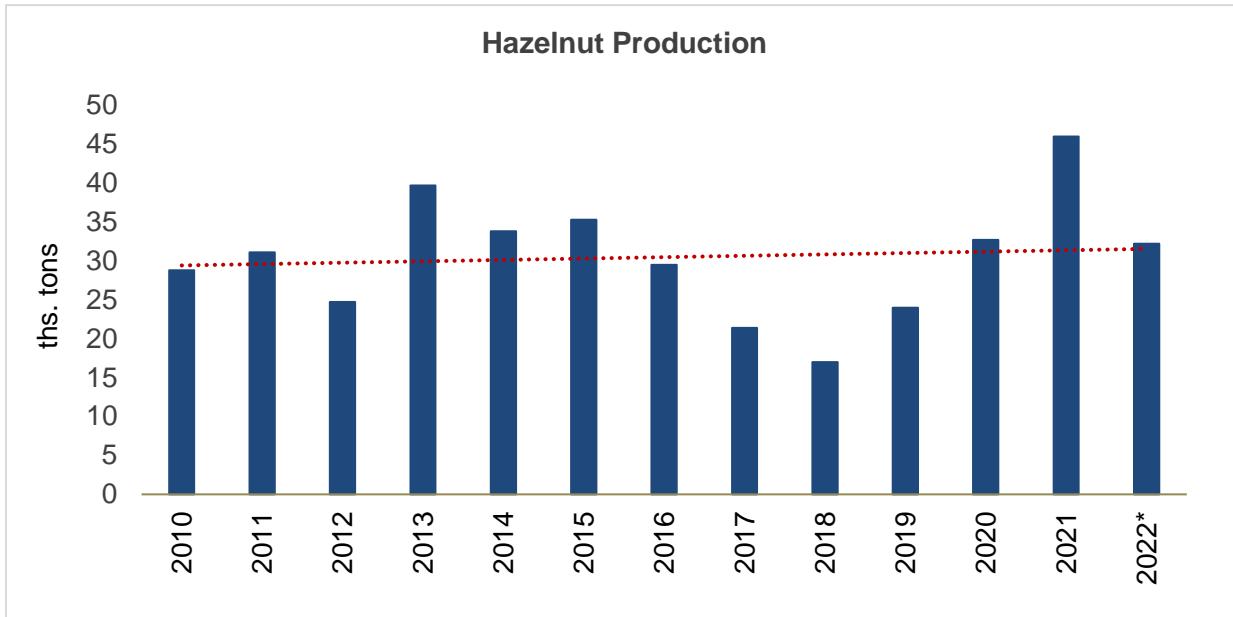
COUNTRY	PRICE OF EXPORTED HAZELNUTS (IN SHELL) (USD/KG)	PRICE OF EXPORTED HAZELNUTS (SHELLED) (USD/KG)
Türkiye	3.0	6.4
Italy	4.3	9.2
Chile	4.1	9.0
USA	4.6	8.9
Georgia	2.7	5.9

Source: UN Comtrade, 2023

DOMESTIC PRODUCTION AND GOVERNMENT POLICY

Over the last decade, hazelnut production has varied from a minimum of 17 ths. tons in 2018 to a maximum of 46 ths. tons in 2021 (Figure 3). The most challenging years for the sector were 2017-2018, as hazelnut trees suffered from various fungal diseases in 2017 and an Asian Stink Bug (*pharosana*) invasion subsequently worsened the situation. As a result, the quantity of hazelnut production declined, and their quality also worsened. However, the hazelnut sector rebounded in 2019: in the following years, production increased and reached its maximum of 46 ths. tons in 2021.

Figure 3. Hazelnut Production in Georgia (2010-2022)



Source: Geostat, 2023

Note: * expert estimation

Predominantly due to unfavorable weather conditions, production declined in 2022, consequently reversing its increasing 3-year trend. According to various stakeholders, farmers were also unable to carry out crop maintenance measures properly, resulting in concerns about decreased production and the quality of the nuts.

GOVERNMENT POLICY IN THE HAZELNUT SECTOR

The hazelnut sector has received a substantial amount of attention from the Government of Georgia (GoG). The sector is considered in various strategic documents related to agriculture, and there are several governmental programs supporting agricultural producers, including hazelnut growers. Since 2014, hazelnut growers have been able to benefit from an agroinsurance program implemented by the Rural Development Agency (RDA), under the Ministry of Environmental Protection and Agriculture (MEPA). Local growers can also benefit from the Plant the Future program, which includes a perennial gardens co-financing component, with the provision of financial and technical assistance to beneficiaries that develop new perennial gardens. Another supporting program – the Preferential Agro Credit Project – envisages preferential agrocredit/agroleasing from financial institutions for fixed and current assets of enterprises engaged in primary agricultural production, processing, and storage (RDA, 2023).

In 2022, the GoG launched a new program for supporting hazelnut production (RDA, 2023). This program aims to support the primary production of hazelnuts through incentives and subsidizing the inputs of hazelnut orchard owners and proprietors. Farmers should register in the hazelnut orchard cadastral registry to participate in this program. Using the hazelnut cadastre, the GoG aims to collect data on production and varieties, and to take appropriate measures that support the sector based on respective data analyses.

This latest program is being implemented by the RDA, with around 20 mln. GEL being allocated during the initial stage. This is the second instance in which the government has designed a support program solely for hazelnut growers. The first such program was introduced back in 2017, when the GoG supported hazelnut growers in the fight against the Asian Stink Bug invasion.

CHALLENGES AND OPPORTUNITIES

Being among the top exporters signals a strong position for the Georgian hazelnuts sector. Nevertheless, production is still quite volatile and issues with quality represent the biggest weakness in the sector. Low quality is likely driven by the numerous challenges that hazelnut growers face domestically, even in the absence of external shocks like the stink bug invasion and a reduced global trade in nuts.

The most critical challenges in the hazelnut sector include labor force shortages, a lack of drying and storage facilities, underdeveloped drainage services, low availability of machinery services, limited access to finance, poor awareness of new technologies, a lack of trust among value chain actors, underdeveloped contract farming, and a lack of cooperation (ISET Policy Institute, 2018). While each of these challenges remain pivotal to development in the sector, labor force shortages, the lack of drying and storage facilities, and underdeveloped drainage systems in West Georgia are particularly pressing issues.

Labor force shortage: There is shortage of pickers during the harvest period. Despite increased daily payments, there is still a labor force shortage – some hazelnut producers have to bring workers from other Georgian regions which increases production costs. Certain laborers also prefer to work in hazelnut orchards in Türkiye, where they can earn more due to the larger scale of operations. Potential solutions to this issue include offering higher salaries to workers or replacing manpower with machinery. Although both options require additional costs from producers, cooperation might reduce the costs on each farmer, for instance groups of farmers purchasing machinery jointly.

Lack of drying and storage facilities: According to the Georgian Hazelnut Growers Association (GHGA), there are currently seven hazelnut drying facilities which cannot meet the existing demand for storage. Inappropriate storage methods result in excessive moisture accumulation,

which contributes to rot, disease, and worms (ISET Policy Institute, 2018). There is therefore a need to promote and facilitate new, modern drying and storage facilities. One option is for the GHGA to lead the development of an investment strategy and a communication plan with donors and potential private investors to attract investment in storage facilities.

Underdeveloped drainage systems: While irrigation is a common requirement in the East Georgia, artificial drainage is often required in the West. Under the Irrigation Strategy for Georgia 2017-2025, the GoG planned to drain 100,000 ha by 2025 (Georgian Amelioration, 2017). However, this result seems to be unlikely to be achieved as, firstly, the law on water resource management has not been adopted and Georgian Amelioration (GA), which is in charge of irrigation and drainage throughout the country, is not able to charge farmers for drainage services because there is no legal basis for enforcing the payment of drainage charges – even though GA owns the drainage networks and is responsible for pumping costs. Secondly, the strategy itself focuses mostly on irrigation and covers drainage to a limited extent. In light of these challenges, GoG reduced their target in 2021 and announced that 75,000 ha of land would be drained by 2030. Thus, in order to accelerate the growth of drained areas, it is recommended to move forward with the development of the institutional and legal framework for water resource management.

THE WAY FORWARD

There are several possibilities that may help strengthen the position of Georgian hazelnuts on the global market.

1. Focusing on increasing prices by prioritizing quality over quantity. One has to deal with the existing constraints to ensure that all currently produced nuts are of high quality. Once this objective has been achieved, more emphasis can be placed on increasing the quantity of hazelnuts. Future trends regarding global demand for hazelnuts should also be taken into account when considering the expansion of hazelnut plantations.
2. Adding value to products made from hazelnuts via the development of hazelnut processing for various products marketed as “traditional” or “healthy”; traditional Georgian Churchkhela being the most famous example of such a product. Hazelnut producers should capitalize more on opportunities offered by the confectionary industry (AGENDA.GE, 2019).
3. Market diversification through entering Asian and Middle Eastern markets. Although in general Georgian hazelnut export markets are diversified, half of the export is to Europe, and given that certain European companies may, for different reasons, switch to domestically produced hazelnuts in the future, Asian markets have to be considered to reduce such risks. Georgian traders might therefore try to build networks in China or the United Arab Emirates, which are slowly becoming more prominent importers of hazelnuts (EastFruit, 2021).



Product diversification through the introduction of other nuts. In order to stay competitive in the long-term, product diversification could also be considered. Given that the hazelnut is a traditional product in Georgia, switching to the production of other types of nuts (almonds, pecans, cashews) might prove challenging, but as Georgia's climate and soil conditions are suitable for nuts, there may be the potential for diversifying production. Similar to market diversification, product diversification would also strengthen the position of Georgian nuts on the global market.

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ISET Policy Institute

www.iset-pi.ge

iset-pi@iset.ge

+995 322 507 177