



POLICY PAPER N2024/04

RUSSIAN WHEAT POLICIES AND GEORGIA'S STRATEGIC RESPONSES

APRIL 2024

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ABSTRACT

International wheat prices have emerged as a significant policy concern in recent years, notably during the Covid-19 pandemic and Russia's war in Ukraine, as Russia has been known for periodically halting its grain exports to impact global prices. Georgia heavily depends on wheat imports from Russia, with over 95% of its wheat historically sourced from there. Despite Russia's recurrent bans and restrictions on wheat exports every 2-3 years, Georgia has yet to successfully diversify its import sources. The policy brief analyzes the Impact of Russian wheat policies on Georgia's market and Georgia's response to trade restrictions.

In June 2023, the Georgian government introduced a temporary import duty on wheat flour imported from Russia in response to requests from the Georgian Flour Producers Association. The association began advocating for an import duty after Russia, in 2021, imposed a so-called “floating tariff” on wheat which made it relatively more expensive to import wheat in comparison to wheat flour. As a result of the “floating tariff” on wheat, wheat flour imports skyrocketed and almost fully substituted wheat imports. Eventually, many Georgian mills shut down and local wheat producers struggled to sell domestically produced wheat. Such an increase in flour imports raises the risk of completely replacing domestically produced flour with flour imported from Russia.

In order to solve the aforementioned problems, the government of Georgia has established a temporary import tax on imported wheat flour. The import tax on flour came into effect from June 2023 and amounted to 50 GEL per ton. At a later stage, from 10 October 2023, this tax rose to 250 GEL (92 USD). In turn, millers agreed to purchase 1 kilogram of wheat from Georgian farmers at 0.7 GEL (0.3 USD). The tax was supposed to be in effect until 1 March 2024, however it was extended to 1 September. In addition, under a governmental decision, an import tax was imposed on barley and bran after flour and was set at 100 GEL.

The Georgian Flour Producers Association advocates for an extension of the temporary import duty to uphold fair competition in the wheat and flour market. According to the Georgian Wheat and Flour Producers Association, further extension is desirable due to the following reasons ([Resonance daily, 2024](#)):

- Under the import duty, fair competition between wheat flour and wheat has been restored, and Georgian mills have resumed their operations.
- Following the government intervention, farmers have successfully sold over 50,000 tons (on average half of the annual production) of domestically produced wheat. [The Ministry of Environmental Protection and Agriculture](#) has reported a 60% increase in local wheat production over the past two years, with expectations of sustained growth.

- Wheat imports have resumed, with Georgia importing 20,000 to 25,000 tons of wheat monthly, while prior to the government intervention, the average monthly wheat imports amounted to 15,337 tons (in 2022). Additionally, 8,000 to 12,000 tons of wheat flour, on average, are also imported monthly, while in the absence of government intervention, wheat flour imports surged to over 15,000 tons (in 2022).
- Post-intervention, the price of 100 kilograms of first-quality flour has remained stable, ranging from 45 to 49 GEL. Consequently, the price of bread has not increased but remains steady.
- The import duty has generated an additional 20 million GEL in government revenue.
- Through the efforts of the mills, the country now enjoys a steady and strategically managed supply of wheat, in accordance with UN recommendations. Coupled with the seasonal harvest of Georgian wheat, this ensures complete food security in any unforeseen critical scenario.

While many arguments support the decision to preserve the import duty on wheat flour, in order to make an informed decision on that matter, it is essential to thoroughly assess production, trade and price dynamics in the wheat market in Georgia. Additionally, to design adequate trade policy measures, one has also to consider the issue in a broader perspective and assess the risks associated with a high dependency on Russian wheat, especially given Russia's history of imposing wheat export restrictions.

RUSSIAN POLICY ON WHEAT MARKET

Russia has long been one of the dominant players on the global wheat market, and its periodic decisions to halt grain exports have heavily affected international wheat prices (see Table 1). This concern became especially stringent in recent years, during the Covid-19 pandemic and Russia's war in Ukraine.

Table 1. Russia's policy interventions in the wheat market and their estimated impact on wheat prices, 2007-2023.

TRADE YEAR (JULY/JUNE)	POLICY INTERVENTION	DESCRIPTION	POTENTIAL IMPACT
2007/08	Export tax	The tax started at 10% but increased to 40% in early 2008 and continued until July 2008.	+210 USD per MT
2010/11	Ban on exports	Complete ban on wheat exports from August 15, 2010 through June 30, 2011.	+175 USD per MT
2012	Threatens export ban/taxes	Potential export ban/taxes due to draught	+130 USD per MT
2014/15	Export tax	Export tax of 15% of the customs price from February 1 through May 15, 2015.	+75 USD per MT

2015/16	Export tax	On July 15, 2015, a tax was set at 50% of the contract price minus \$99.	+80 USD per MT
2019/20	Export quota	A wheat export quota was set at 7.0 million MT from April 1 to June 30, 2020	+75 USD per MT
2020/21	Export tax	In February 2021, an export tax was set at \$29.20 per ton and from March through May increased to \$59.8 per ton. The floating tax started in June.	+95 USD per MT
	Export quota	An all-grain export quota was set at 17.5 million MT from February 15 to June 30, 2021.	
2021/22	Floating export tax	Starting June 2021, an export tax was set weekly calculated by 70% of the difference between the indicative price and \$200 per ton. This formula is adjusted higher as wheat prices reach higher thresholds.	+250 USD per MT
	Export quota	A wheat export quota was set at 8.0 million metric tons from February 15 to June 30, 2022.	
2023/24	Ban on exports	A ban on the export of durum wheat is set from December 1, 2023 to May 31, 2024.	No price increase so far
	Export quota	A quota for the export of grain from Russia in the amount of 24 million tons.	
2023	Withdrawal from Black Sea Grain Initiative	Russia has withdrawn security guarantees for ships navigating in the northwestern part of the Black Sea.	Disruption of wheat supply from Ukraine to partner countries (mainly in Africa)

Source: United States Department of Agriculture, 2022.
The Government of the Russian Federation.
The Kansas City Wheat Futures, The U.S. Wheat Associates.

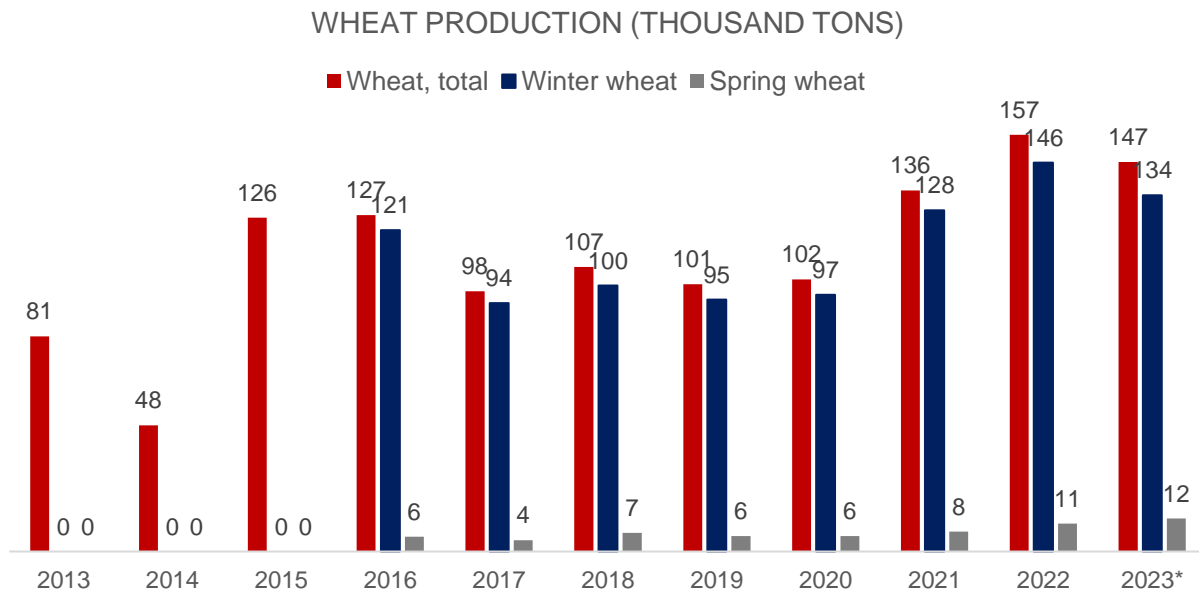
One of Russia’s most recent interventions in the wheat market is its withdrawal from the Black Sea Grain Initiative – an agreement between Russia, Ukraine, Turkey, and the United Nations (UN) during the Russian invasion of Ukraine on the Safe Transportation of Grain and Foodstuffs from Ukrainian ports. While Georgia doesn’t directly import wheat from Ukraine and isn’t immediately threatened by famine, Russia’s export policies regarding wheat have raised significant food security concerns in the country. Georgia heavily depends on wheat imports from Russia, with over 95 percent of its wheat historically being sourced from there. Despite Russia’s recurrent bans and restrictions on wheat exports every 2-3 years, Georgia is yet to successfully diversify its import sources.

GEORGIAN WHEAT MARKET NUMBERS

DOMESTIC PRODUCTION

Historically, Georgia’s agricultural sector has struggled to achieve a large-scale and sufficient wheat production due to the prevalence of small-sized farms. However, over the past decade, Georgian domestic wheat production has shown significant growth (see Figure 1). This growth has been particularly sizeable in recent years, with production increasing by 32% and 53% in 2021 and 2022, respectively, as compared to 2020. The preliminary data for 2023 is also quite high and amounts to 147 thousand tons. Of this, traditionally, 91% falls on winter wheat; although it is also worth noting that the production of spring wheat, while still rather small, has doubled compared to 2016 (Figure 1).

Figure 1. Wheat production in Georgia, 2013-2023



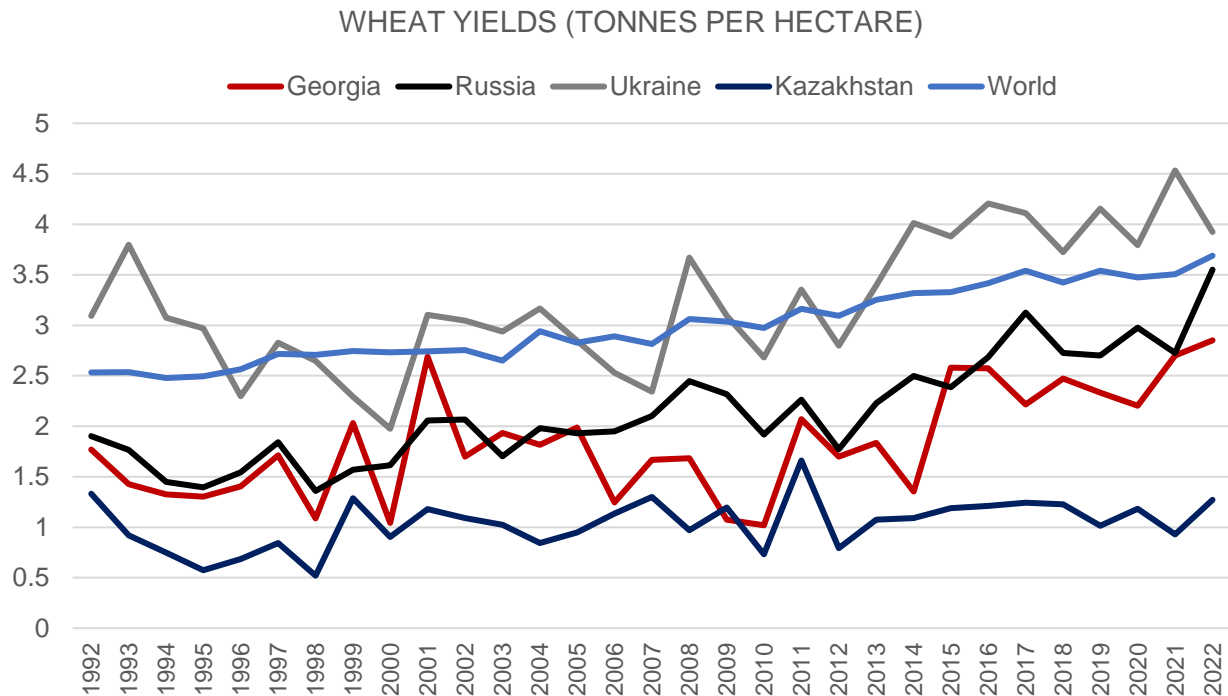
Source: Geostat, 2024

Note: * Preliminary data. Adjusted data for 2023 will be available on June 14, 2024.

Such increase in local production positively contributes to the self-sufficiency ratio, which increased from 7% in 2014 to 22% in 2022, in turn implying higher food security levels.

It should moreover be noted that despite the increase in production, in terms of productivity, Georgia does not stand out with a high indicator (2.9 t/ha), and according to the 2022 data, Georgia’s wheat yields are below the world average (3.7 t/ha) (Figure 2).

Figure 2. Wheat yields

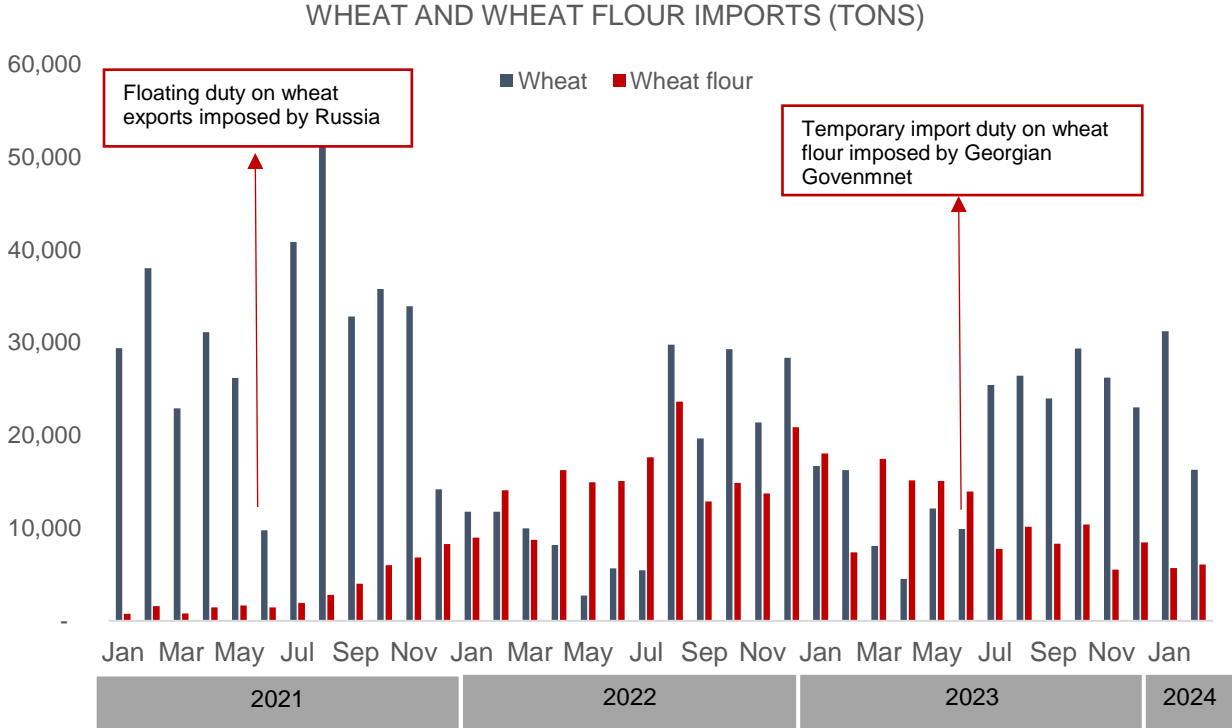


Source: <https://ourworldindata.org/grapher/wheat-yields>

WHEAT IMPORTS

Before the introduction of Russia’s floating tariff on wheat, wheat flour imports to Georgia were almost non-existent. However, after the floating tariff was imposed on wheat, imports of wheat flour increased more than 20 times – from 743 tons in January 2021 to 15,086 tons in May 2023 – peaking at 23,651 tons in August 2022 (see Figure 3). At the same time wheat imports declined by almost 60 percent, from 29,397 tons in January 2021 to 12,133 tons in May 2023, with the smallest import quantity being 2,743 tons in May 2022 (as depicted in Figure 3).

Figure 3. Georgian wheat and wheat flour imports, 2021-2024.



Source: Geostat, 2024. Note: Imports include meslin (a mixture of wheat and rye grains).

After the introduction of the temporary import duty on wheat flour in June 2023, wheat imports have picked up, although not reaching the levels seen in 2021. Similarly, wheat flour imports have declined while remaining at higher levels than in 2021. This indicates a change in Georgia’s wheat market dynamics. Historically, Georgia predominantly imported wheat; now it imports both wheat and wheat flour. This shift must be considered in future policy design, as it has implications for domestic wheat farmers and mills.

The continued wheat flour imports, despite the temporary import duty imposed by the Georgian Government can likely be attributed to a small price gap between wheat and wheat flour import prices (see Table 2). The gap further declined in 2024, and the average import prices of wheat and wheat flour equalized.

Table 2. Average import prices of wheat and wheat flour in Georgia, 2021-2024.

YEAR	WHEAT IMPORT PRICE (USD/TON)	WHEAT FLOUR IMPORT PRICE (USD/TON)	IMPORT PRICE DIFFERENCE
2021	236 (Jan-May)	292 (Jan-May)	24%
	267 (Jun-Dec)	326 (Jun-Dec)	22%
2022	353	375	6%
2023	314 (Jan-May)	297 (Jan-May)	-5%
	241 (Jun-Dec)	243 (Jun-Dec)	1%
2024	251 (Jan-Feb)	251 (Jan-Feb)	0%

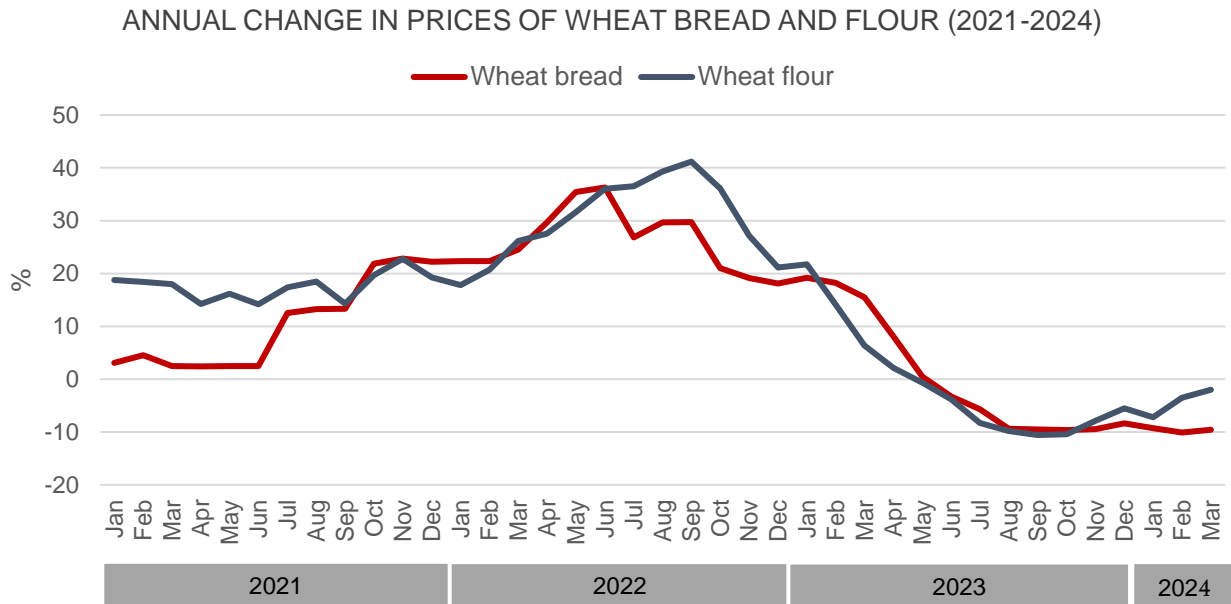
Source: Geostat, 2024.

In 2021, prior to Russia's introduction of a floating tariff on wheat, the import price of wheat flour in Georgia was 24 percent higher than the import price of wheat. After the introduction of the floating tariff, importing wheat became more expensive, and the import price gap between wheat flour and wheat decreased to 22 percent by the end of 2021. Subsequently, in 2022, this gap further narrowed, and by the first half of 2023, the import price of wheat flour was 5 percent lower than the import price of wheat. This significant decrease in the price gap resulted in nearly full substitution of wheat imports with wheat flour imports. After the introduction of the import duty on wheat flour and as international wheat prices declined, a marginal positive price gap has reappeared, amounting to just 1%. However, during the first two months of 2024, even this slight gap disappeared, making the import of wheat flour more profitable than the import of wheat.

PRICE EFFECTS

Russia's floating tariff on wheat led to increased wheat flour and bread prices in 2021-2022. Wheat flour prices reached their peak in September 2022 with a year-on-year increase of 41 percent, while in June 2022, bread prices experienced the most significant surge, increasing by 36 percent (see Figure 4).

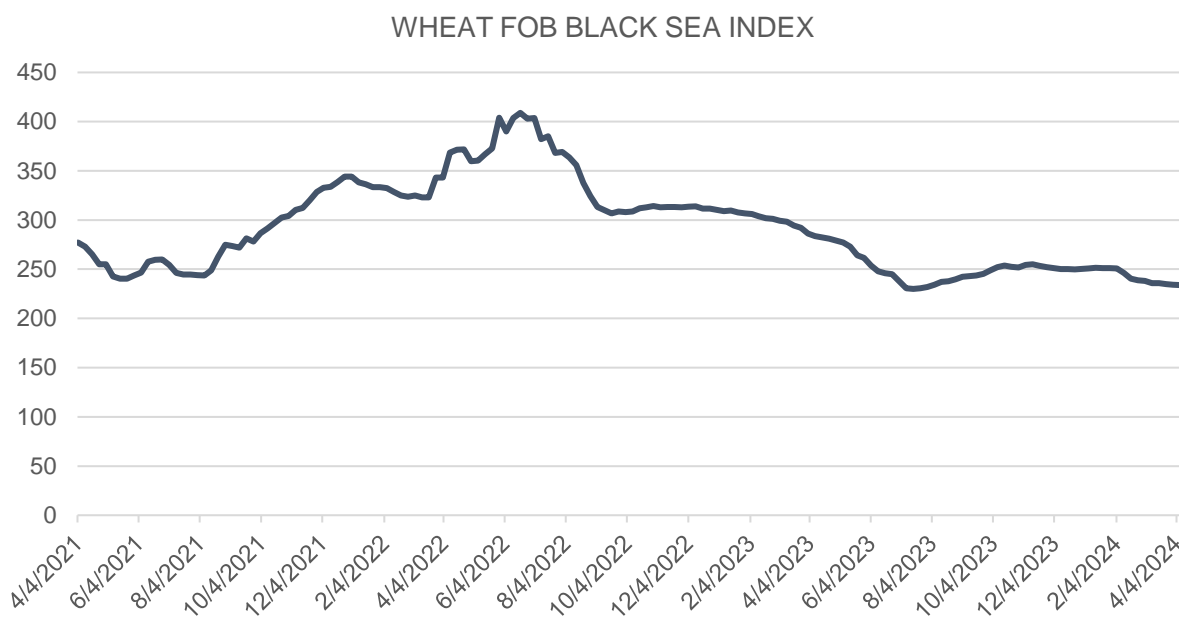
Figure 4. Annual change in bread and wheat flour prices, 2021-2024.



Source: Geostat, 2024

The primary reason for this was the record increase in wheat prices, leading to a corresponding surge in wheat flour prices in 2022. This spike occurred as the world price of wheat reached its highest point in five years (Figure 5).

Figure 5. Wheat price at international market



Source: <https://www.investing.com/indices/wheat-fob-black-sea-index-historical-data>

Nevertheless, in 2023 bread and wheat flour prices decreased, indicating that the import duty on wheat flour did not lead to increased prices. This could partially be explained by the fact that mills pay farmers 0.5 GEL/kg, which is lower than agreed price of 0.7 GEL/kg. Another and more crucial factor is the decline in global wheat prices. They began their descent in June 2022 and have since maintained a downward trajectory. This decrease, combined with increased local production, has so far acted as a barrier to any new bread and wheat flour price increases.

CONCLUSIONS AND RECOMMENDATIONS

The question that must be addressed is whether the import duty on wheat flour imported from Russia should be extended.

Generally, the import duty can contribute to increased local production as higher import duties can incentivize local businesses to invest in expanding their production capacity or improving their technology to meet an increased demand. It is however essential to note that the impact of import duties on local production varies depending on the level of domestic competition, the availability of inputs (high quality seed, fertilizer etc.), technological capabilities, and government policies beyond import duties (such as investment incentives, infrastructure development, and regulatory environment). Additionally, import duties can also lead to retaliatory measures from trading partners, affecting overall trade dynamics – potentially incurring unintended consequences. Therefore, while import duties can contribute to an increased local production under certain conditions, it is just one of many factors influencing production dynamics.

Secondly, as previously detailed, the import duty has so far not resulted in increased bread prices. However, the effect of an import tariff on retail prices depends on various factors, including elasticity of demand and supply, market's competitiveness, and the extent to which the tariff is passed on to consumers by importers and retailers. Since demand for bread is inelastic, one has to keep in mind that the importers and retailers can fully pass on the increased cost from an import tariff to consumers.

Given that the floating tariff and the import duty makes wheat and wheat flour imports to Georgia more expensive, one might expect future bread price increases unless international wheat prices continue to decline, or if producers agree to reduce their profit margins or make supply chain changes (the latter requires time). Given that bread prices have currently not increased and a rise in international prices is not expected either, it is viable to extend the import duty on wheat flour.

Nevertheless, it should be also noted that import duty might be a suitable solution in the short and medium-term, although it should not be seen as a permanent solution to the challenges of the wheat sector of Georgia.

To limit the risks of food scarcity in Georgia in the long run, it is essential to design strategies helping the country to reduce its dependency on wheat and wheat flour imports. Some measures to achieve this objective may include:

Establishing a long-term vision for the development of the sector. In order for participants in the wheat and flour value chains to better plan their activities and develop the sector sustainably, it is important for the state to develop a strategy for the development of the sector in collaboration with stakeholders. The strategy should set specific goals for the sector over the long term. It is

also important to develop an action plan that outlines the major actions to be implemented for achieving the defined goals.

Increasing wheat yields. Since Georgian agriculture is characterized with small-scale farming, it is critical to focus on increasing wheat yields to eventually increase local production. Access to modern agricultural technologies, extension services, and finance are thus crucial in reaching this objective.

Improving the quality of local production. Currently, most of the domestically produced wheat is unsuitable for milling into wheat flour. A significant portion of domestically produced wheat is of poor quality and instead used for feeding livestock. It is essential to invest in research and development to improve the quality of domestically produced wheat. This includes developing wheat varieties that are resistant to diseases, adapted to climate change, and better suited for local growing conditions.

Investments in infrastructure. Proper storage of wheat and investments in storage facilities are important to maintain a high quality of wheat. This can be achieved both through state support programs and foreign direct investments in the development of storage capacity.

Incentivizing wheat farmers. As the country's wheat production is particularly important from the point of view of food security, and concurrently compared to other agricultural crops, wheat (and cereals in general) is not considered a high value crop, it is essential to develop support mechanisms for the wheat sector based on the mechanisms of the EU Common Agricultural Policy (CAP).

Encouraging value-added creation. Some of the methods to increase the economic value of wheat production include development of related industries (flour, bread products, confectionery); flour fortification; focusing on the production of wheat varieties that are distinguished by taste qualities; organic and sustainable production; etc.

Seeking alternative markets for import diversification. One alternative for Georgia may be to focus on the Kazakh and Ukrainian markets (once the war is over) and negotiate possible ways to decrease the cost of transporting wheat to Georgia with state and private sector representatives.

Reducing the Georgia's dependence on Russian wheat imports requires a multifaceted approach that addresses various aspects of agricultural policy, trade diversification, and domestic production capacity.

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