

Export potential of Georgia's agro-food sector on the EU market and other non-CIS countries

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Summary

- Agro-food exports increased by 23% in 2018 and account for 29% of total exports of goods in Georgia
- However, ca 2/3 of exports are destined to traditional CIS markets
- Increasing agro-food exports to the EU and other non-CIS countries entails benefits like higher total exports, higher prices and less risks
- In this research, we identify 20 agro-food products with the highest chance of increasing shipments to the EU (top-20 products)
- Furthermore, for each of these products we identify the 10 most promising destination within the EU (top-10 countries)
- The same exercise is applied to other non-CIS countries such as China and Turkey
- These results could contribute to grasping the opportunities created by the DCFTA with the EU and by FTAs with other countries

Structure

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2. Georgia's exports of agro-food products
3. Methodology for export potential assessment
4. Export potential to the EU market
5. Export potential to other non-CIS countries
6. Conclusions

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1. Introduction

- GEO agro-food exports increased by robust 23% in 2018
- As such, they accounted for 29% of total GEO exports of goods
- However, ca. 2/3 of exports of agro-food are destined to CIS countries
- CIS countries are also the main drivers for the recent export expansion
- Against this background, it is useful to assess export potential of agro-food products to the EU and other non-CIS countries

Aim of the study

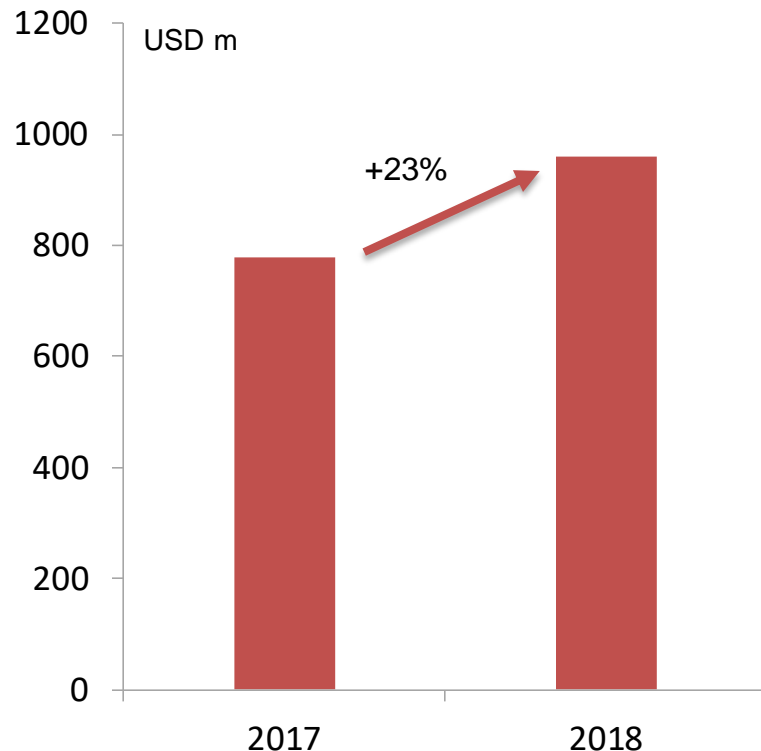
- Identification of GEO agro-food products that could be channeled to the EU and other non-CIS markets
- Focus: products already exported by GEO, i.e. short-medium term view

Key questions

- Which agro-food products have the highest export potential?
- Which destinations have the highest potential for identified products?

2. Georgia's exports of agro-food products

GEO exports of agro-food products, 2017-2018

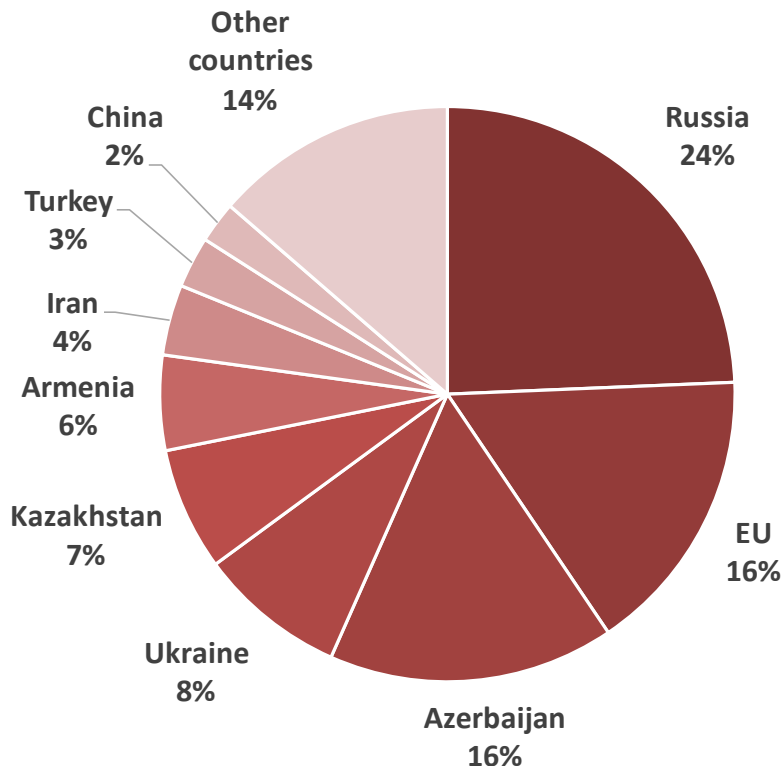


- GEO agro-food exports, 2018
 - USD 959 m
 - 23% increase compared to 2017
 - 29% of total exports (2017: 28%)
- **Strong growth of agro-food exports, along with other product groups**
- Main contributors
 - Wine & other alcoholic beverages
 - Mineral water
- At the same time: exports of hazelnuts dropped for the second year in a row

Source: Geostat

Agro-food exports by destinations

Destination of GEO agro-food exports, Jan-Oct 2018



- GEO agro-food exports, Jan-Oct 2018
 - CIS: 66%
 - EU: 16%
 - Other countries: 18%

CIS accounts for ca. 2/3 of exports; clear dominance

Dynamics of exports in 2018 vs. 2017

- CIS: increase by 43%
- EU: +14%
- Other countries: +4%

CIS region also the key driver of recent positive dynamics

Source: estimates based on UN Comtrade

3. Methodology for export potential assessment

- Export potential assessment is based on the modified International Trade Centre (ITC) methodology
- Three dimensions of export potential assessment; see also Annex 1
 - i. Supply side dimension: export performance of Georgia's agro-food products*
 - ii. Demand side dimension: import performance of potential partners*
 - iii. Trade cost dimension: indicators for costs associated with GEO exports to a particular partner compared to other destinations*

Stage I (based on dimension i. and ii.)

- Identification of top-20 products with the highest export potential

Stage II (based on dimension ii. and iii.)

- Identification of top-10 importing countries for each of top-20 products

Sample of potential agro-products

Criteria	Number of Products
Total agro-food products (HS 01-24)	898
Excluding products for which Georgia's average annual exports (2013-2017) are under USD 5,000	319
Excluding beverages(HS 22) and tobacco products (HS 24)	300
Excluding products subject to veterinary control (except for natural honey)	181

→ Out of this sample of **181** products, we identify the top-20

4. Export potential to the EU market

Stage I

- Identification of 20 products with the highest potential on the EU market (“top-20”); see example of scoring in Annex 2

Stage II

- Identification of top-10 destinations within the EU for each of top-20 product; see example for scoring in Annex 3 and full list in Technical Note TN/01/2019

Stage I: top-20 agro-food products (1/2)

rank	Composite score (max=100)	HS2012	HS 2012 Product Description	Level of processing	GEO total exports, 2017, USD thous	Share of exports to EU, 2017
1	81	081040	Fresh cranberries, blueberries, etc.	Raw	468	0%
2	76	151590	Fixed vegetable fats and oils and their fraction	Processed	3,275	30%
3	74	080930	Fresh peaches, incl. nectarines	Raw	4,219	0%
4	70	070190	Fresh or chilled potatoes	Raw	4,731	0%
5	69	230400	Solid residues resulting from the extraction of soya-bean oil	Processed	3,513	0%
6	69	170199	Sugar and chemically pure sucrose, in solid form*	Semi Processed	3,926	0%
7	68	200819	Nuts and other seeds, incl. mixtures, prepared or preserved	Processed	6,294	80%
8	67	200990	Mixtures of fruit juices	Processed	657	54%
9	66	200799	Jams, jellies, marmalades, purées or pastes of fruit	Processed	6,797	93%
10	66	151211	Crude sunflower-seed oil	Processed	292	0%

Source: own estimates,* According to sectoral experts, export potential is not plausible

Stage I: top-20 agro-food products (2/2)

rank	Composite score (max=100)	HS2012	HS 2012 Product Description	Level of processing	GEO total exports, 2017, USD thous	Share of exports to EU, 2017, %
11	65	230630	Solid residues resulting from the extraction of sunflower seeds	Processed	441	0%
12	64	080810	Fresh apples	Raw	849	0%
13	64	200989	Juice of fruit or vegetables	Processed	3,645	27%
14	64	070200	Tomatoes, fresh or chilled	Raw	3,903	1%
15	63	080232	Fresh or dried walnuts, shelled	Raw	211	100%
16	61	200971	Apple juice, unfermented, Brix value <= 20	Processed	379	90%
17	61	110100	Wheat or meslin flour	Semi processed	6,520	0%
18	61	200979	Apple juice, unfermented, Brix value > 20 at 20° C	Processed	2,940	97%
19	61	200939	Single citrus fruit juice, unfermented	Processed	1,451	3%
20	60	100199	Wheat and meslin*	Raw	1,359	0%
Total value					USD 56 m	

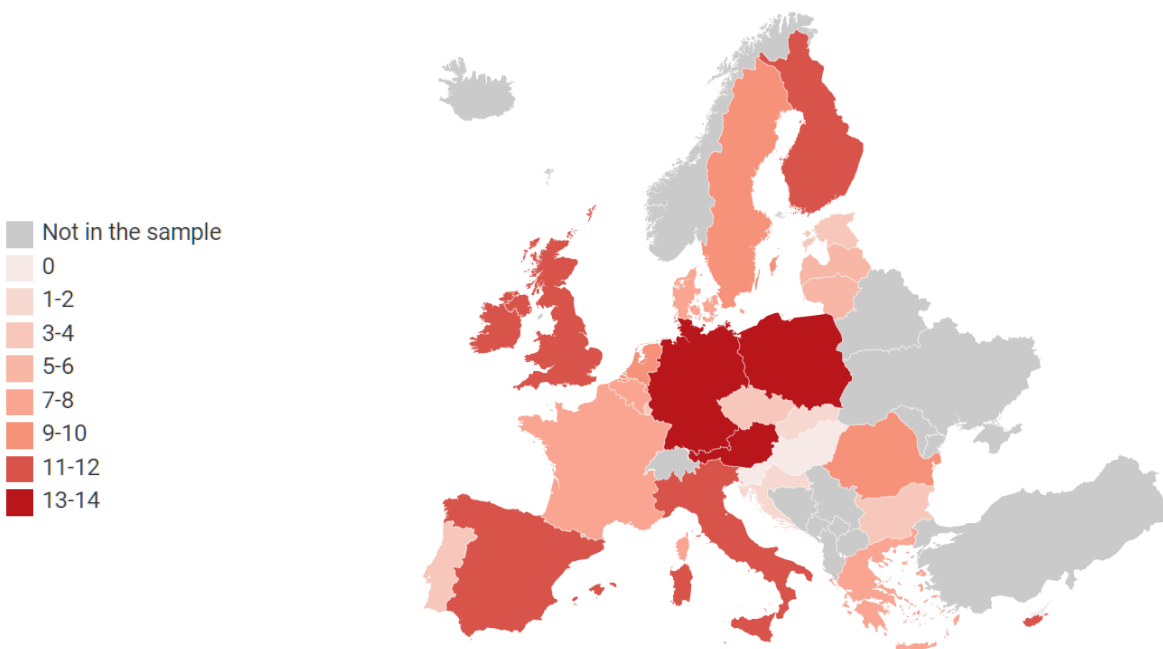
Source: own estimates, * According to sectoral experts, export potential is not plausible

Stage II: Destinations within the EU with highest potential

Result of Stage II: 20 tables containing top-10 countries for each product; see Technical Note TN/01/2019

Due to space limitations: here only map with most promising export destinations in the EU for the top-20 products as a group

EU member states ranked by the export potential for top-20 GEO agro-food products



Source: own estimates

5. Export potential to other non-CIS countries

Stage I

- Identification of 20 products with the highest potential on other non-CIS markets (“top-20 products”)

Stage II

- Identification of top-10 destinations to other non-CIS countries for each of top-20 product; see full list in Technical Note TN/02/2019

Stage I: top-20 agro-food products (1/2)

rank	Composite score (max=100)	HS2012	HS 2012 Product Description	Level of processing	GEO total exports, 2017, USD thous	Share of exports other non-CIS markets, 2017
1	70	110100	Wheat or meslin flour	Semi processed	6,520	99%
2	70	230400	Solid residues from the extraction of soya-bean oil	Processed	3,513	0%
3	69	070200	Tomatoes, fresh or chilled	Raw	3,903	0%
4	69	200819	Nuts and other seeds, incl. mixtures, prepared or preserved	Processed	6,294	8%
5	68	151590	Fixed vegetable fats and oils and their fractions	Processed	3,275	70%
6	67	151211	Crude sunflower-seed oil	Processed	292	0%
7	67	210111	Extracts, essences	Processed	71	99%
8	66	090240	Black tea	Raw	326	18%
9	65	170199	Sugar and chemically pure sucrose, in solid form*	Semi processed	3,926	0%
10	65	081090	Fresh tamarinds and other fruit	Raw	926	6%

Source: own estimates, * According to sectoral experts, export potential is not plausible

Stage I: top-20 agro-food products (2/2)

rank	Composite score (max=100)	HS2012	HS 2012 Product Description	Level of processing	GEO total exports, 2017, USD thous	Share of exports other non-CIS markets, 2017
11	64	080810	Fresh apples	Raw	849	9%
12	64	200799	Jams, jellies, marmalades, purées or pastes of fruit	Processed	6,797	1%
13	63	151620	Vegetable fats and oils and their fractions	Processed	356	0%
14	63	080930	Fresh peaches, nectarines	Raw	4,219	0%
15	62	200979	Apple juice, unfermented, Brix value > 20	Processed	2,940	0%
16	61	200939	Single citrus fruit juice	Processed	1,451	88%
17	59	081040	Fresh cranberries, blueberries, etc.	Raw	468	10%
18	59	230630	Solid residues from sunflower seeds	Processed	441	100%
19	59	100199	Wheat and meslin*	Raw	1,359	0%
20	59	081050	Fresh kiwifruit	Raw	173	84%
Total value					USD 48 m	

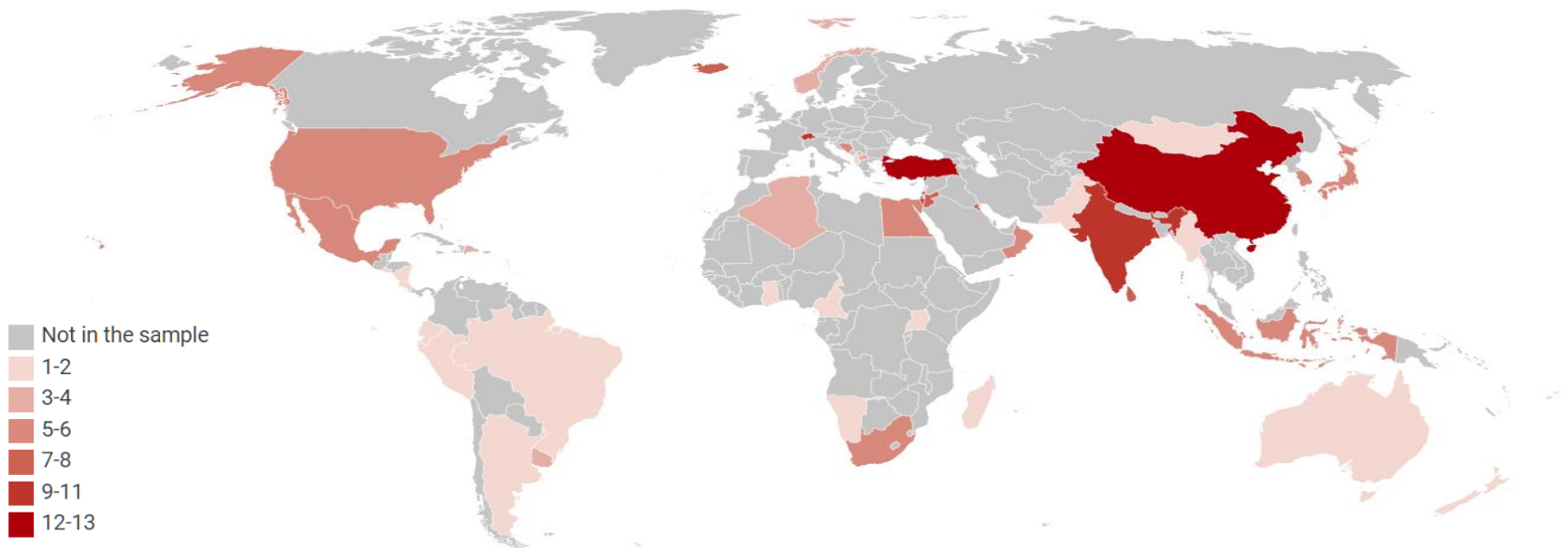
Source: own estimates ,* According to sectoral experts, export potential is not plausible

Stage II: Export destinations with highest potential

Result of Stage II: 20 tables containing top-10 countries for each product; see Technical Note TN/02/2019

Due to space limitations: here only map with most promising export destinations of non-CIS countries for the top-20 products as a group

Non-CIS countries ranked by the export potential for top-20 GEO agro-food products



Source: own estimates

5. Conclusions

- Our research shows that there is potential for higher agro-food exports to the EU and other non-CIS markets such as China and Turkey
- By “potential” we mean specific business potential for concrete products and destinations
- In our view, farmers, trading companies and government should try to grasp the identified opportunities, for three main reasons:
 - Increasing total agro-food exports; positive effect on agro-food sector, rural development and GDP
 - Reaching higher prices and profits; positive effect on investment
 - Diversifying agro-food exports; reduction of risks related to the geographical concentration of exports to the CIS
- The DCFTA with the EU and other FTAs provide a solid institutional basis for grasping the identified opportunities

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Annex 1.1: Supply side dimension of methodology

- *Total export value.* The larger the total exports of the country, the greater its potential for expansion
- *World market share.* It is an indicator of the competitiveness of the product. While the total export value is biased towards large industries, the world market share could show the potential of smaller industries
- *Total export growth (in volume).* The faster the export growth, the better it is for export potential
- *Revealed comparative advantage (RCA).* The RCA is traditionally used to evaluate competitiveness of exporters

Annex 1.2: Demand side dimension

- *Total value of imports.* It shows the potential size of the market
- *Import growth (in volume).* Higher import growth signals a demand expansion and thus could produce more opportunities for the exporter than a stagnant or declining market

- In this analysis, the calculations are done separately for:
 - Target market as a whole (EU, other non-CIS markets)
 - Individual countries

Annex 1.3: Trade cost dimension

- *Average tariff faced by Georgia.* It allows comparing different markets putting the countries with more liberal tariff regime up
- *Average tariff advantage of Georgia compared to the country's applied average.* It reveals the relative competitiveness of the exporter on the importing market
- *Relative unit value.* It shows whether the exporter can supply to the importing market cheaper than its competitors can. Markets with disadvantageous unit value are excluded from consideration
- *Distance to the country from GEO.* The distance is an important proxy of transportation costs
- *Distance advantage of Georgia compared to the country's average distance of imports.* It reveals whether Georgia is better off placed than its potential competitors if the distance of shipping is compared

Annex 2: Examples for Stage I scoring (EU market)

HS 2012 Product Code	081040	151590	080930	070190	230400
HS 2012 Product Description	Fresh cranberries, blueberries, etc.	Fixed vegetable fats and oils	Fresh peaches, incl. nectarines	Fresh or chilled potatoes	Soya-bean solid residues
Score_EXP value average 2013-2016	74	91	92	90	98
Score_EXP value 2017	81	92	95	96	92
Score_EXP growth 2016/2013	96	66	86	72	84
Score EXP growth 2017/2016	62	81	71	76	0
score RCA2017	77	94	93	91	81
Score RCA CARG 2017/2013	99	82	88	76	67
Score share in world EXP, 2013-2017	71	92	91	87	78
SUPPLY (max=100)	80	85	88	84	72
Score_IMP value average 2013-2016	61	63	81	87	99
Score_IMP value 2017	76	64	81	88	99
Score_IMP growth 2016/2013	97	81	0	0	66
Score_IMP growth 2017/2016	93	56	76	49	0
DEMAND (max=100)	82	66	60	56	66
COMPOSITE Score, Stage1 (max=100)	81	76	74	70	69
Level of processing	raw	processed	raw	raw	processed
Rank	1	2	3	4	5

Source: own estimates

Annex 3: Examples for Stage II scoring (EU market) (HS 081040 “fresh cranberries, blueberries, etc. ”, EU)

	Netherlands	Germany	United Kingdom	Ireland	Austria
Score Unit Value Ratio 2017	71	61	82	79	86
Score Unit Value Ratio 2013-2016	75	68	71	82	46
Score distance	36	43	25	21	79
Score distance advantage	93	71	89	96	82
Score duty advantage	96	96	96	96	96
INTERCEPT (max=100)	74	68	73	75	78
Score_IMP value average 2013-2016	93	89	96	54	68
Score_IMP value 2017	93	89	96	54	71
Score_IMP growth 2016/2013	57	46	54	79	0
Score_IMP growth 2017/2016	46	89	36	61	86
DEMAND (max=100)	72	79	71	62	56
COMPOSITE Score, Stage 2 (max=100)	73	73	72	68	67
Rank	1	2	3	4	5

Source: own estimates

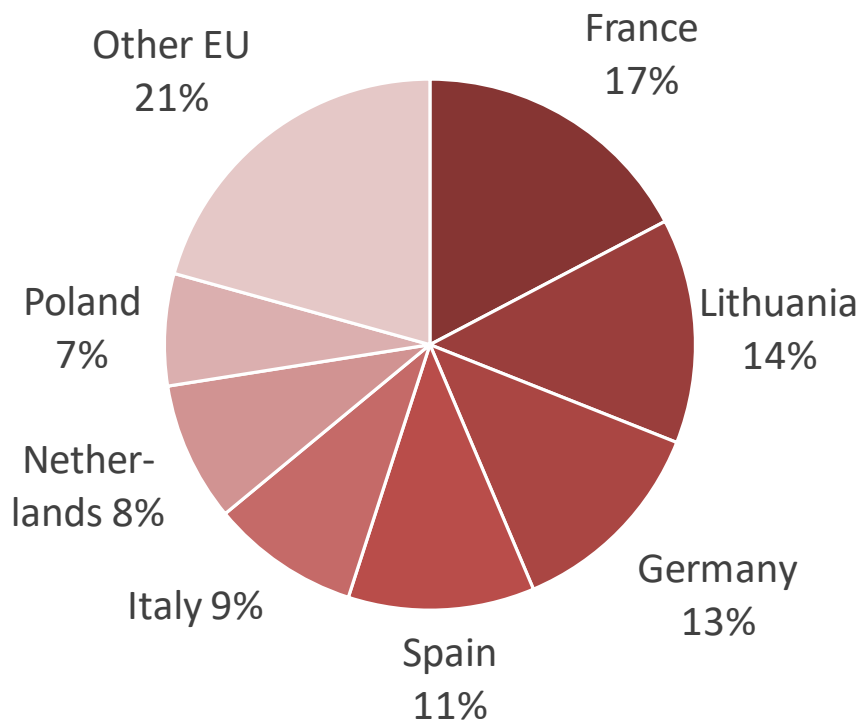
Annex 4: top-10 destinations within the EU for HS 081040 “fresh cranberries, blueberries, etc.”

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance to GEO, km	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no
1	73	Netherlands	237	21%	3202	yes	yes
2	73	Germany	215	71%	3050	yes	yes
3	72	UK	338	4%	3545	yes	yes
4	68	Ireland	8	27%	3954	yes	yes
5	67	Austria	32	51%	2339	yes	yes
6	63	Spain	92	51%	4020	no	yes
7	63	Poland	29	32%	2140	yes	yes
8	62	Belgium	48	20%	3228	no	yes
9	62	Finland	5	45%	2456	yes	yes
10	61	Romania	4	151%	1546	yes	yes

Source: own estimates

Annex 5: GEO agro-food exports to the EU as of today

Geographic structure of GEO exports to the EU, Jan-Oct 2018



- GEO agro-food exports to EU, Jan-Oct 2018
 - USD 125 m
 - 14% increase yoy
 - 16% of GEO total agro-food exports
- Key growth drivers
 - Wine
 - Mineral water
- Exports of hazelnuts lost its position as the leading export product due to the stink bug problem

Source: estimates based on UN Comtrade