Food and Agriculture Organization of the United Nations

Export potential of Georgia's animal-origin products on the EU market

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Summary

- In the framework of the DCFTA, Georgia has to harmonise its standards on animal-origin products with the EU
- Such a harmonisation requires significant resources from both the Georgian and the EU side. Thus, the immediate focus should lie on animal-origin products with a potential for exports to the EU
- Joint research conducted by FAO and GET Georgia identifies the following animal-origin products with strong export potential
  - *Short to medium run*: fish oils, anchovies, wool, honey, hides and skins
  - *Medium to long run*: fresh and chilled lamb/sheep carcasses, frozen poultry meat, cheese
- Thus, policy efforts should be directed at the implementation of food safety measures for these products
- Progress is not only needed on food safety, but also on higher productivity, lower production costs and expanded production scale

Structure

1. Introduction
2. Georgia’s exports of animal-origin products
3. Georgia’s access to the EU market of animal-origin products
4. Methodology for export potential assessment
5. Export potential to the EU market
6. Conclusions

Annex

1. Introduction

- The DCFTA has opened duty-free access to the EU market
- However, to use the opportunities, Georgia has to restructure its food safety system to meet EU standards
- The reform process is time-consuming and costly; thus, it is important to prioritise the efforts of main stakeholders (GEO government & EU Commission)

Aim of the study

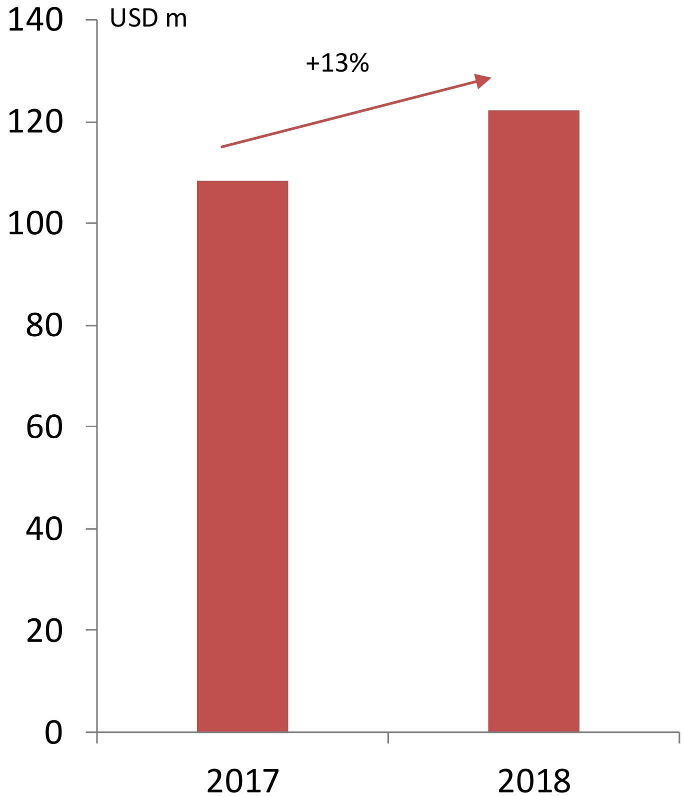
- Identification of GEO animal origin products with the highest export potential to the EU market
- Focus: products already exported by GEO, i.e. medium term view

Key questions

- Which animal-origin products have the highest export potential?
- Which destinations within the EU have the highest potential for identified products?

2. Georgia's exports of animal-origin products

GEO exports of animal-origin products, 2017-2018



Source: Geostat

- GEO animal-origin exports, 2018
  - USD 122 m
  - 13% increase compared to 2017
  - 4% of total exports (2017: 4%)
  - 13% of agro-food exports (2017: 14%)

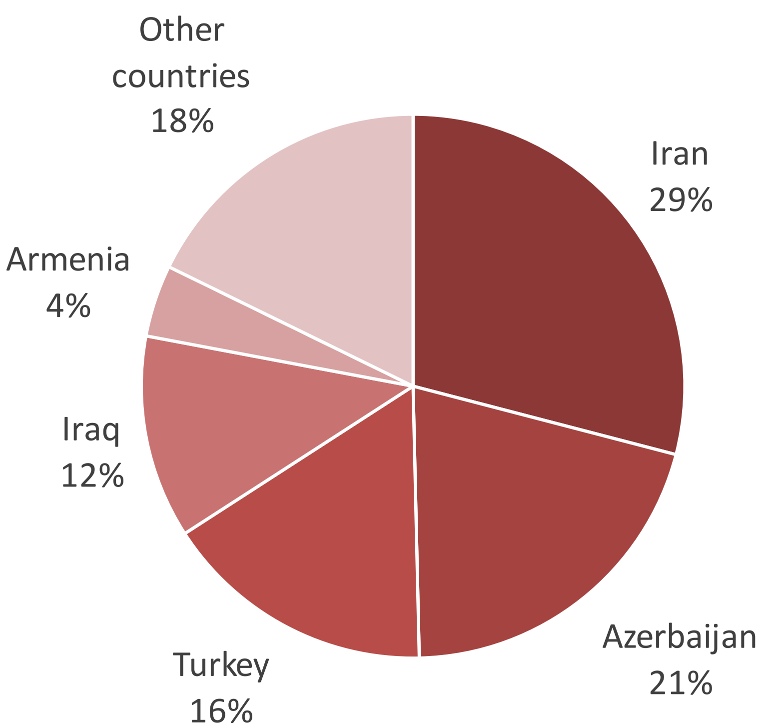
→ **Limited role in total exports**

→ **Animal-origin products' exports grow slower than agro-food products' exports**

- Main export products:
  - Fresh lamb carcasses (25% of total)
  - Live cattle (24%)
  - Flour, meal and pellets of fish (12%)

Animal-origin products exports by destinations

Destination of GEO exports of animal-origin products, 2018



Source: estimates based on UN Comtrade

- GEO animal-origin products exports, 2018
  - Iran: 29%
  - Azerbaijan: 21%
  - Turkey: 16%
  - Other countries: 34%, incl. EU: 0.4%

→ **GEO supplies mostly to neighbouring countries**

→ **Exports to EU is close to zero**

- Dynamics of exports in 2018 vs. 2017
  - Iran: +48%
  - Azerbaijan: +61%
  - Turkey: +14%
  - Other countries: -19%

3. Georgia's access to the EU market

EU import duties

- Duty free for all products without any tariff rate quotas or other restrictions

→ **Very favorable, better than other DCFTA countries**

Geographical indications

- Georgia has already registered geographical indications (GIs) for several animal-origin products like *Sulguni*, *Tushuri Guda* and other cheeses, dairy product *Matsoni*
- Further animal-origin products are in the list of potential GIs
- Moreover, some of Georgian GIs are already known by customers in EU countries such as Poland and the Baltics

→ **Opportunity to use geographical indications branding to attract the EU consumers**

Safety requirements related to animal-origin products

EU approval of the residue monitoring plans

- GEO plan is approved for 1 out of 12 broad categories of animal-origin products – for honey

Verification of the third country establishments

- **Food**: approvals in 1 out of 16 categories, namely "Fishery products" (excl. farmed fish); 8 establishments got access in 2017-2018
- **Animal by-products**: approvals in 3 out of 10 categories; the access granted to 3 facilities for collection or handling of animal by-products including 2 dealing with wool (2016) and 1 – with untreated hides and skins (2017), 1 producer of bee venom (2018), and 1 processing plant dealing with treated hides and skins (2017)

→ GEO intensified the process of alignment with the EU safety requirements, but still, it cannot exports most of its animal-origin products to the EU

4. Methodology for export potential assessment

- Export potential assessment is based on the <u>modified</u> International Trade Centre (ITC) methodology
- Three dimensions of export potential assessment; see also Annex 1
  - i. *Supply side dimension*: export performance of Georgia's animal-origin 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. + in-depth sector verification)

- Identification of top products based on dimensions i. and ii.
- Verification of the list of top products using in-depth sectoral information
- Selection of top-10 products with the highest export potential

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

- Identification of top-5 importing countries for each of top-10 products

5. Stage I: top-10 agro-food products

Rank	Composite score (max=100)	HS2012	HS 2012 Product Description	GEO total exports, 2018, USD thous	EU total imports, 2017, USD thous
1	76	020421	Fresh or chilled sheep carcasses and half-carcasses (excl. lambs)	4,093	121,169
2	76	150420	Fats and oils of fish and their fractions	9,816	479,286
3	72	020712	Frozen fowls of the species Gallus domesticus [chicken], not cut in pieces	1,974	214,910
4	70	030242	Fresh or chilled anchovies "Engraulis spp."	1,477	41,110
5	68	510111	Greasy shorn wool, neither carded nor combed	74	515,481
6	66	410120	Whole raw hides and skins of bovine, unsplit, of a weight per skin <= 8-16kg depending on treatment	1,221	267,575
7	64	040900	Natural honey	10	1,089,818
8	63	410150	Whole raw hides and skins of bovine, of a weight per skin > 16 kg	284	1,584,794
9	58	040690	Cheese (excl. fresh cheese)	296	12,284,688
10	55	020410	Fresh or chilled lamb carcasses and half-carcasses	30,804	523,427

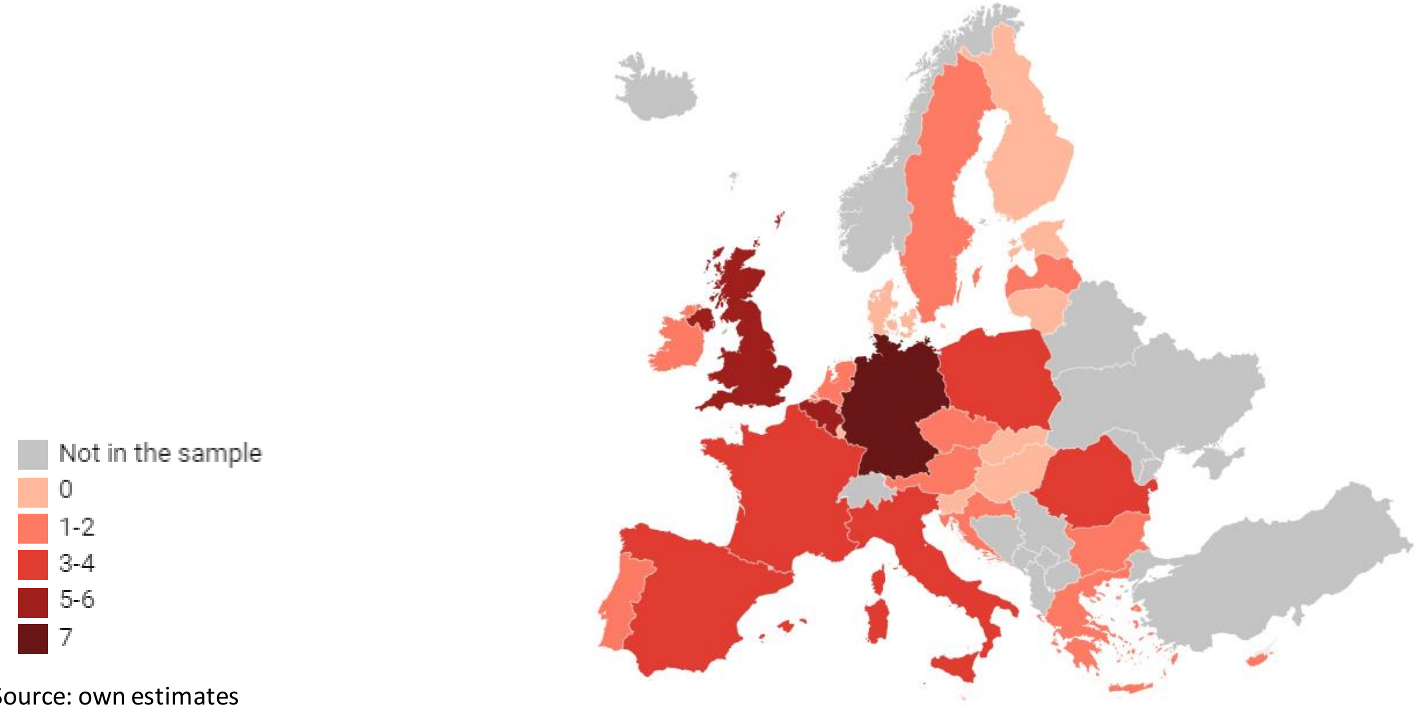
Source: own estimates

Stage II: Destinations within the EU with highest potential

Result of Stage II: 10 tables containing top-5 countries for each product; see next slides

Due to space limitations: here only map with most promising export destinations in the EU for the top-10 products as a group

EU member states ranked by the export potential for top-10 GEO animal-origin products



Source: own estimates

No.1: Fresh or chilled sheep carcasses and half-carcasses, excl. lambs (HS 020421)

Current status of compliance with EU safety requirements: not compliant

Next steps (safety issues): getting EU approval of residue monitoring plan; development of slaughterhouse's network; improving food safety procedures; verification of establishments

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	61	Italy	28	17%	no	yes	no
2	61	France	81	31%	no	yes	no
3	56	Germany	2	53%	no	yes	no
4	53	Spain	6	-22%	no	yes	yes
5	47	Ireland	1	15%	no	yes	no

Source: own estimates

→ **Export potential in medium to long run**

No.2: Fats and oils of fish and their fractions (HS 150420)

Current status of compliance with EU safety requirements: compliant if produced from Black Sea anchovies; not compliant if produced from farmed fish

Next steps (safety issues): for aquaculture: revising the current aquaculture legislation to approach EU standards; getting EU approval of residue monitoring plan; verification of establishments

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	74	Romania	7	47%	yes	yes	yes
2	67	Belgium	29	31%	yes	yes	yes
3	67	France	68	10%	yes	yes	yes
4	65	Greece	40	12%	yes	yes	no
5	65	Poland	10	12%	no	yes	yes

Source: own estimates

→ **Export potential in short to medium run**

No.3: Frozen fowls of the species Gallus domesticus [chicken], not cut in pieces (HS 020712)

Current status of compliance with EU safety requirements: not compliant

Next steps (safety issues): getting EU approval of residue monitoring plan; resolving sanitary issues related to salmonella; verification of establishments

Next steps (other measures): development of the production capacities

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	71	Sweden	15	29%	no	yes	yes
2	64	United Kingdom	58	-31%	no	yes	yes
3	61	Germany	22	11%	no	yes	yes
4	60	Latvia	4	18%	no	yes	yes
5	55	Greece	4	-30%	no	yes	yes

Source: own estimates

→ **Export potential in medium to long run**

No.4: Fresh or chilled anchovies "Engraulis spp." (HS 030242)

Current status of compliance with EU safety requirements: compliant

Next steps (safety issues): --

Next steps (other measures): modernization of the production capacities to increase the productivity and increase price competitiveness

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	64	Spain	23	-11%	no	yes	yes
2	59	Germany	3	37%	no	yes	no
3	54	France	2	8%	no	yes	no
4	53	Croatia	2	0%	no	yes	no
5	53	Italy	9	19%	no	yes	no

Source: own estimates

→ **Export potential in short to medium run**

No.5: Greasy shorn wool, neither carded nor combed (HS 51011)

Current status of compliance with EU safety requirements: compliant
Next steps (safety issues): ---
Next steps (other measures): improvement of logistics, changing motivation schemes - too cheap farm-gate price demotivate farmers to shear sheep; farm-level investments in the production capacities

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	69	Bulgaria	30	32%	yes	no	yes
2	64	United Kingdom	22	62%	no	no	yes
3	58	Czech Republic	197	-6%	yes	no	yes
4	56	Germany	56	-28%	yes	no	yes
5	54	Belgium	10	42%	no	no	yes

Source: own estimates

→ **Export potential in short to medium run**

No.6: Whole raw hides and skins of bovine, of a weight per skin <= 8-16kg depending on treatment (HS 410120)

Current status of compliance with EU safety requirements: compliant

Next steps (safety issues): development of slaughterhouse's network; verification of new establishments

Next steps (other measures): development of the production capacities

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	60	Belgium	5	-44%	yes	no	yes
2	57	Romania	2	-31%	yes	no	yes
3	51	Netherlands	10	123%	no	no	yes
4	51	Italy	216	-6%	yes	no	yes
5	48	Austria	2	-69%	no	no	yes

Source: own estimates

→ **Export potential in short to medium run**

No.7: Natural honey (HS 040900)

Current status of compliance with EU safety requirements: compliant
Next steps (safety issues): train farmers how to meet EU residue requirements; development of laboratories; enforcement of quality standards
Next steps (other measures): development of cooperatives and aggregators; increase in the production capacities

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	60	Spain	77	14%	yes	yes	no
2	59	Poland	54	7%	yes	yes	no
3	59	United Kingdom	131	12%	yes	yes	no
4	56	Cyprus	3	40%	yes	yes	no
5	54	Germany	293	2%	yes	yes	no

Source: own estimates

→ **Export potential in short to medium run**

No.8: Whole raw hides and skins of bovine, of a weight per skin > 16 kg (HS 410150)

Current status of compliance with EU safety requirements: compliant

Next steps (safety issues): development of slaughterhouse's network; verification of new establishments

Next steps (other measures): development of the production capacities

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	65	Italy	752	4%	no	no	yes
2	58	Netherlands	169	5%	no	no	yes
3	57	Portugal	35	1%	no	no	yes
4	54	Austria	145	16%	no	no	yes
5	54	Germany	183	-3%	no	no	yes

Source: own estimates

→ **Export potential in short to medium run**

No.9: Cheese, excl. fresh cheese (HS 040690)

Current status of compliance with EU safety requirements: not compliant

Next steps (safety issues): getting EU approval of residue monitoring plan; resolving animal identification issues; development of slaughterhouse's network; verification of establishments

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	61	Poland	225	13%	no	yes	yes
2	59	United Kingdom	1116	2%	no	yes	yes
3	58	France	892	1%	no	yes	yes
4	57	Romania	122	14%	no	yes	yes
5	57	Belgium	978	1%	no	yes	yes

Source: own estimates

→ **Export potential in medium to long run**

No.10: Fresh or chilled lamb carcasses and half-carcasses (HS 020410)

Current status of compliance with EU safety requirements: not compliant

Next steps (safety issues): getting EU approval of residue monitoring plan; development of slaughterhouse's network; improving food safety procedures; verification of establishments

Top-5 destinations within the EU

Rank	Composite score (max=100)	Country	Import value, 2017, USD m	Import growth, % volume, 2017/2016	Distance advantage vs average supplier, yes/no	Import duty advantage vs applied duty, yes/no	Price advantage vs average import price, yes/no
1	59	Spain	23	77%	no	yes	yes
2	58	Germany	80	36%	no	yes	no
3	51	Cyprus	3	16%	no	yes	no
4	50	Belgium	42	3%	no	yes	yes
5	50	United Kingdom	6	45%	no	yes	no

Source: own estimates

→ **Export potential in medium to long run**

6. Conclusions

- Animal-origin products account for 13% of GEO agro-food exports
- Main export products are fresh lamb carcasses and live cattle shipped to neighboring countries, incl. Iran, Azerbaijan, and Turkey
- Although Georgia has duty-free access to the EU market, difficulties with meeting the EU safety requirements preclude exports so far
- The analysis showed that GEO has an export potential on the EU market with different time horizon depending on GEO compliance with the EU safety requirements:
  - *Short to medium run*: fish oils, anchovies, wool, honey, hides and skins
  - *Medium to long run*: fresh and chilled lamb/sheep carcasses, frozen poultry meat, cheese
- To realise the potential, policy efforts should be directed at the implementation of food safety measures, but also at higher productivity and expanded production, in order to increase price competitiveness on the EU markets

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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)
  - Individual countries (threshold at USD 1 million is applied to exclude 'shallow' markets)

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

HS 2012 Product Code	020421	150420	020712	030242	510111
HS 2012 Product Description	**Fresh or chilled sheep carcasses (excl. lambs)**	**Fats and oils of fish and their fractions**	**Frozen fowls of the species Gallus domesticus, not cut in pieces**	**Fresh or chilled anchovies "Engraulis spp."**	**Greasy shorn wool**
Score_EXP value average 2013-2016	98	99	94	98	92
Score_EXP value 2017	99	99	98	98	91
Score_EXP growth 2016/2013	98	92	97	2	93
Score EXP growth 2017/2016	0	91	97	98	0
score RCA2017	100	99	95	97	0
Score RCA CARG 2017/2013	98	95	100	97	96
Score share in world EXP, 2013-2017	99	99	88	100	86
SUPPLY (max=100)	**84**	**96**	**95**	**84**	**65**
Score_IMP value average 2013-2016	48	79	67	35	76
Score_IMP value 2017	55	78	65	35	79
Score_IMP growth 2016/2013	87	0	65	89	65
Score_IMP growth 2017/2016	78	64	0	67	59
DEMAND (max=100)	**67**	**55**	**49**	**57**	**70**
COMPOSITE Score, Stage1 (max=100)	**76**	**76**	**72**	**70**	**68**
Rank	**1**	**2**	**3**	**4**	**5**

Source: own estimates

Annex 3: Examples for Stage II scoring (HS 020421 “Fresh or chilled sheep carcasses, excl. lambs”)

	Italy	France	Germany	Spain	Ireland
Score Unit Value Ratio 2017	0	0	0	0	0
Score Unit Value Ratio 2013-2016	0	0	0	82	0
Score distance	43	14	29	4	7
Score distance advantage	0	0	0	0	0
Score duty	96	96	96	96	96
Score duty advantage	96	96	96	96	96
INTERCEPT (max=100)	**39**	**35**	**37**	**46**	**33**
Score_IMP value average 2013-2016	93	96	79	89	71
Score_IMP value 2017	93	96	82	89	0
Score_IMP growth 2016/2013	64	71	54	61	93
Score_IMP growth 2017/2016	79	82	86	0	75
DEMAND (max=100)	**82**	**87**	**75**	**60**	**60**
COMPOSITE Score, Stage 2 (max=100)	**61**	**61**	**56**	**53**	**47**
Rank	**1**	**2**	**3**	**4**	**5**

Source: own estimates