

Georgian-German Business Dialogue - Co-operation in the field of agriculture

Investment and partnership opportunities
in the Georgian agricultural business

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Export potential of Georgia's agro-food sector on the EU market

Top 15 products

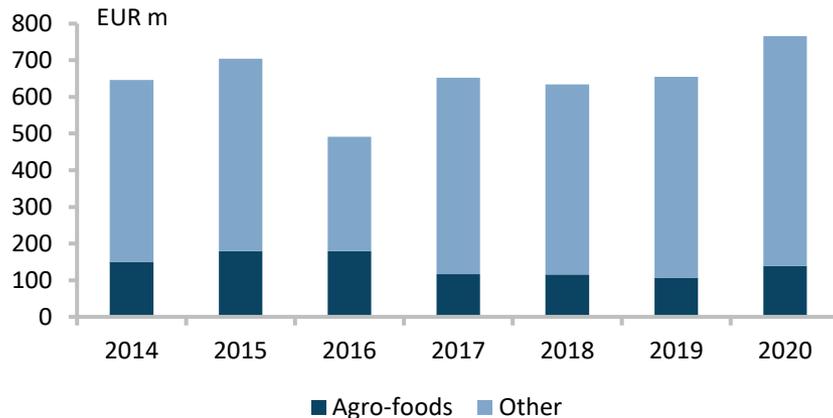
1	Fresh cranberries, blueberries, etc.
2	Fixed vegetable fats and oils and their fraction
3	Fresh peaches, incl. nectarines
4	Fresh or chilled potatoes
5	Solid residues resulting from the extraction of soya-bean oil
6	Nuts and other seeds, incl. mixtures, prepared or preserved
7	Mixtures of fruit juices
8	Jams, jellies, marmalades, purées or pastes of fruit
9	Crude sunflower-seed oil
10	Solid residues resulting from the extraction of sunflower seeds
11	Fresh apples
12	Juice of fruit or vegetables
13	Tomatoes, fresh or chilled
14	Fresh or dried walnuts, shelled
15	Apple juice, unfermented, Brix value <= 20

Source: German Economic Team, Policy Briefing PB/02/2019

- GEO has potential to increase production in the agricultural sector and to intensify exports to the EU
 - Reasons:
 - Different climate zones
 - Strong performance in Soviet times
 - Good access to the EU market due to GEO-EU free trade agreement (“DCFTA”)
 - Research by GET on behalf of the GEO government:
 - Identification of top 15 products with high potential for being exported to the EU
- **Large potential in agro-food sector**

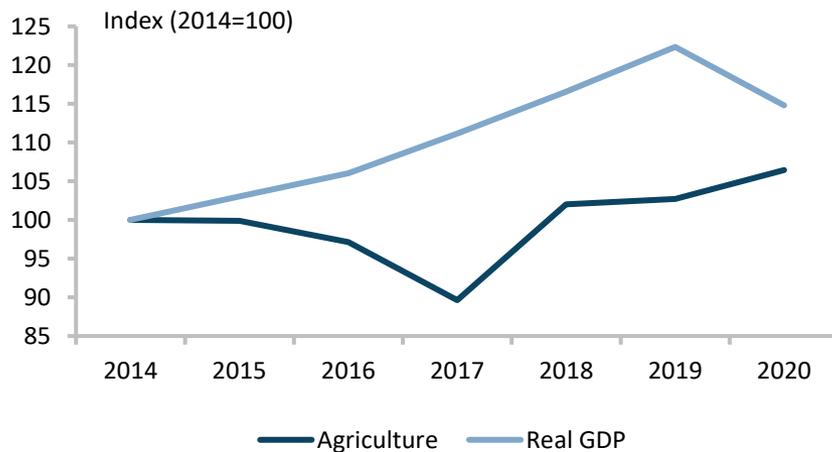
Potential vs. status quo in the agro-food sector

Georgia's exports to the EU



Source: Eurostat; Agro-foods: Harmonised System (HS) Codes 01-24

Growth of agriculture and real GDP



Source: Geostat

Status quo in agriculture

- Low dynamics
- Average growth of agriculture 2014-2019: only 0.5% p.a.
- Limited exports of agro-food to the EU
- Under 20% of total exports to the EU; no positive trend
- In fact: GEO is a net importer of agro-food; 2019, net imports: USD 363 m

Overall economic development in GEO

- Remarkable performance
- Average GDP growth 2014-2019: 4.1% p.a.
- **Agro-food sector is lagging behind and far from reaching its potential**
- **Need for reforms and modernisation**

How to grasp the existing potential?

Long list of measures

- Improve infrastructure and logistics: cooling, transport, etc.
 - Better education for management & agronomy
 - Establishment of clusters
 - Better access to finance for medium-size companies / business expansion
 - Consolidation of land (today: very small plots)
- **Thus: no single measure enough for changing the situation**

The key role of FDI in agro-food

- Key factor for grasping potential: productive FDI into agro-food
- Reasons:
 - Direct access to shelves in the EU
 - Technical and managerial know-how
 - Capital
 - Bigger size and readiness to invest in infrastructure
- International experience shows that FDI – if well managed – contributes to modernisation of agro; see experience in Ukraine, Chile and Uruguay
- Situation in GEO: FDI flows into sector are very low (< 1% of total FDI)
- **Thus: Productive FDI key for modernisation of agro-food sector in GEO**
- Key point: FDI are good for foreign investors, but also for Georgia
 - Common practice in agro: watch what neighbours are doing and learn from this
 - Development of management skills of GEO people

Effect of productive FDI and policy implications

Effect of productive FDI on agro-food sector

- Modernisation of sector
- Contribution to regional development and poverty reduction
- More exports to EU, better trade balance
- Better use of DCFTA with EU

Policy implications

- Important for GEO government to target potential investors in agro-food
- At the same time: GEO government should make it easier for productive investors from DEU/EU to enter the market and buy land

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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