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Export potential of Georgian agro-food products in the EU market

With 29%, agro-food products make up for a significant share of Georgian exports. Despite having a free trade agreement with the EU, however, Georgian agro-food exports to the EU underperform. About 2/3 of all agro-food exports go to the CIS region. In terms of dynamics, exports to the CIS surged by 43% in 2018, whereas exports to the EU market only increased by 14%.

Against this background, we assess the export potential for Georgian agro-food products and identify the most promising export destinations in the EU. The assessment is based on multiple indicators capturing the Georgian export performance, demand of potential destination markets and trade cost proxies.

The analysis reveals that fresh berries – especially blueberries – are top on the export list. Moreover, juices, jams and nuts show high potential. Additionally, some vegetables and oils, which might not have been on the radar of some exporters in the first place, could prove to be potential export products.

Among most promising export destinations Austria, Poland and Germany stick out. They are followed by Spain, Italy, the United Kingdom and Finland.

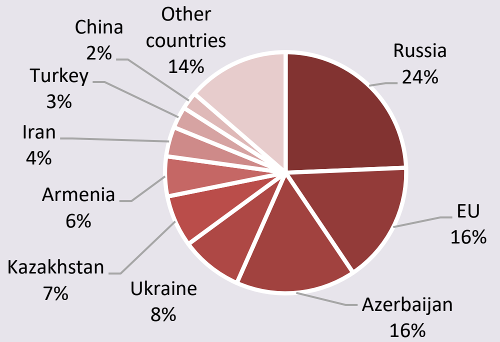
Our research shows that there is potential for higher agro-food exports to the EU. Making use of the given potential could help to boost total exports, allow for higher prices and profits as well as diversify the export structure to be better shielded against external shocks. On the back of the DCFTA with the EU, Georgia has the institutional basis in place to benefit from the given opportunities.

The situation of Georgian agro-food exports

With 29% of total exports, agro-food products represent a significant share in the Georgian export structure. In 2018, Georgian agro-food exports increased by a robust 23% to USD 960 m. Alcoholic beverages and mineral water were among the main contributors to this strong growth. At the same time, exports of hazelnuts dropped for the second year in a row due to bad harvests caused by the brown marmorated stink bug.

In terms of export destinations, the CIS region is clearly the dominant partner for Georgia absorbing about 2/3 of all Georgian agro-food exports. Among CIS countries Russia and Azerbaijan stand out with an export share of 24% and 16%, respectively. The EU combines for about 16% of all exports. Interestingly, the CIS region is also the key driver in recent dynamics with an increase in agro-food exports by 43% in 2018. In contrast, agro-food exports to the EU only increased by 14%.

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



Source: estimates based on UN Comtrade

This unbalanced trade pattern exists despite the fact that Georgia has recently signed many free trade agreements (FTAs), including the ambitious "Deep and Comprehensive Free Trade Area" (DCFTA) with the EU. However, the use of these FTAs – in particular, the DCFTA – remains very moderate. Against this background, we assess the export potential for Georgian agro-food products and identify the most promising export destinations within the EU.

The methodology

The assessment of export potential is based on the modified International Trade Centre (ITC) methodology and combines three dimensions:

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: costs associated with Georgian exports to a particular partner compared to other destinations

In the first stage, we identify the top-20 products with the highest export potential. In the second stage, we identify the top-10 importing countries in the EU for each of the top-20 products. The analysis is conducted by attributing scoring values for the three dimensions, and then estimating composite indicators.

In total, 181 Georgian agro-food products are included in the analysis. This sample excludes exports with an average value below USD 5000 m, beverages, tobacco products as well as products which are subject to veterinary control.

Products with the highest export potential in the EU

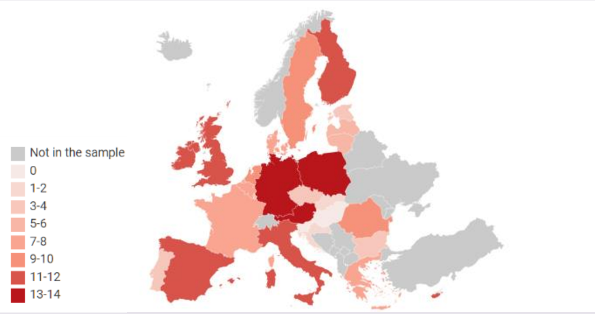
The analysis reveals that the product group with the highest potential on the EU market is fresh berries, in particular blueberries. This result comes as no surprise as European consumers have a high demand for berries and thus are willing to pay high prices. Additionally, there exists a 6-week supply shortage in the EU that cannot be filled by the EU's traditional supplies for berries – a clear chance for Georgia to step in.

Other high potential products are juices and (processed) fruits, for which Georgia has already some experience in exporting to the EU. Moreover, all sorts of nuts are high potential candidates for export. In 2017, Georgia exported mixtures of nuts and other seeds in a value of more than USD 6 m of which about 80% went to the EU market. Additionally, some vegetables and oils could prove to be successful, even though they might not appear on an exporter's top list in the first place.

Top export destinations within the EU

Aggregating the top-20 products as a group and then ranking them according to the number of appearances gives a map, which shows the most promising export destinations within in the EU. It can be seen that Poland, Austria and Germany form the top-3 export destinations within the EU. This group is followed by countries such as Spain, Italy, the United Kingdom and Finland.

EU member states ranked as potential export destinations of GEO agro-food products



Source: own estimates

Conclusion

The analysis showed that there is potential for higher agro-food exports to the EU with regard to specific products and destinations. Therefore, farmers, trading companies and the government should try to actively grasp the identified opportunities. Three main reasons support this view. First, total exports could be increased and thereby exert positive effects on the agro-food sector, the rural development and GDP. Second, higher prices and profits could be reached, which could be a stimulating factor for investments. Third, diversifying agro-food exports reduces the risks related to the geographical concentration of exports to one region.

The DCFTA with the EU provides a solid institutional basis for expanding Georgian agro-food exports. Still, to capture these opportunities in full, domestic production challenges should be addressed, including land and labor market constraints.

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A more comprehensive analysis is provided by the Policy Briefing PB/02/2019 "Export potential of Georgia's agro-food sector on the EU market and other non-CIS countries"

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The German Economic Team advises the Government of Georgia on economic policy issues since 2014. It is funded by the German Federal Ministry for Economic Affairs and Energy and implemented by the consulting firm Berlin Economics.

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