

# Estimation of the decline of Georgia's exports due to economic weakness in Russia

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Berlin/Tbilisi, April 2022

# Summary

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- GEO exports to RUS amounted to USD 0.6 bn in 2021, accounting for 18% of total exports and 3.4% of GDP
- However, RUS is facing sanctions with a strong impact on its economy; as a consequence, GEO exports will certainly decline
- We **estimate the drop in exports** by looking at the effect of depreciation and recession in RUS, the possibility to substitute exports to RUS from sanctioning countries and a potential reorientation of GEO exports to other destinations
- According to our estimations, GEO exports to RUS might decline by ca. **USD 93 m or 0.6% of GDP in 2022**
- The drop in total exports is slightly lower, due a limited reorientation of exports: **USD 65 m or 0.4% of GDP**
- GEO is expected to **substitute EU wines and waters** on RUS market mitigating the price & income shock
- Exports of **brandy** face the strongest effect, with a likely decline of USD 17 m
- **Noticeable shock on GEO, esp. on exports of agro-food products; magnitude of shock depends on further developments, but downsize risks prevail**

# Outline

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1. Introduction
2. Method for estimation
3. GEO exports to RUS
4. Impact on exports for top 10 product categories
5. Overview of sectoral impact and aggregate effect

Annex

# 1. Introduction

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- RUS is the important destination for GEO exports accounting for 18% of its total goods exports in 2021
- Due to RUS invasion into UKR, the RUS economy was sanctioned resulting in:
  - Sharp depreciation of RUS currency fostering also inflation
  - Restrictions on exports of selected goods to RUS from the EU, the USA and other countries
  - Exit of many multinational companies from RUS market
- As a result, GEO exporters to RUS face:
  - Reduced demand due to price and income effects
  - (Potentially) increased demand due to substitution effect

## **Aim of the briefing:**

- Identify products most affected by the RUS market shock
- Quantify the impact of the shock, including price & income effects, substitution potential and opportunities for reorientation

## 2. Method for estimation

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The impact assessment includes three effects:

- i. Price and income effect: less demand from RUS due to RUB depreciation and deep recession
  - RUS GDP in USD is likely to drop by almost 34% in 2022
  - We estimate for relevant products the reduction of imports in RUS; we do so by looking at the drop in imports in RUS during the economic crisis in 2014/2015 ('benchmark product response')
- ii. Substitution effect: GEO exports can potentially substitute exports to RUS from sanctioning countries
  - Impact estimate is based on the share of products from sanctioning countries in RUS imports, expected GEO production capacity and export price
- iii. Reorientation effect: GEO exporters can potentially compensate the losses at the RUS market by exporting to other destination
  - Impact estimate is based on the structure of GEO total exports and GEO price competitiveness

See Annex for examples on how the estimation is conducted

# 3. GEO exports of goods to RUS

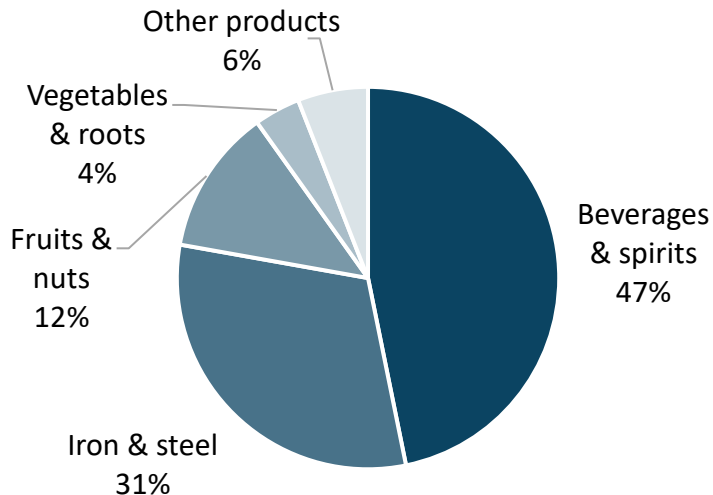


## GEO exports of goods to RUS, 2021:

- Value: USD 555 m
- Growth, 2021/2020: 38%
- Share in total goods exports: 18%\*
- Share in GDP: 3.4%

➤ **Significant role of RUS market**

## Structure of GEO exports to RUS, 2021



## Export structure by sectors, 2021:

- Food & beverages: 48%
- Metals: 31%
- Plant products: 17%
- Other sectors: 3%

➤ **Agro-food exports is most exposed**

Source: WITS; exports of goods without re-exports based on information provided by WITS

\* Excluding copper ore exports (which are not relevant for trade with Russia) would put the share of Russia at 24%.

## 4. Top 10 products of GEO exports to RUS

HS	Product Description	GEO exports to RUS, 2021	
		USD m	Share in total, %
720230	Ferro-silico-manganese	172	31%
220421	Wine of fresh grapes in containers of <= 2 l, excl. sparkling wine	130	24%
220110	Mineral waters and aerated waters, not containing added sugar	60	11%
220820	Spirits obtained by distilling grape	41	7%
220210	Waters with added sugar, sweetener or flavour, for direct consumption as a beverage	26	5%
080930	Peaches, including nectarines	24	4%
080520	Mandarins, including tangerines	16	3%
070190	Fresh or chilled potatoes, excl. seed	14	3%
080810	Apples	8	1%
081040	Cranberries, blueberries	5	1%
	Other products	58	11%
	<b>Total</b>	<b>555</b>	<b>100%</b>

Source: WITS, own estimates; exports without re-exports

- Below we analyse the impact for key products of GEO exports to RUS

# Impact on exports of ferro-silico-manganese (HS 720230)

GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
USA	36%	35%	1,640
<b>Russia</b>	<b>36%</b>	<b>35%</b>	<b>1,640</b>
Turkey	11%	11%	1,511
Italy	2%	2%	1,465
Canada	2%	2%	1,532
Others	13%	14%	1,477

RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
<b>Georgia</b>	<b>62.8%</b>	<b>62.0%</b>	<b>1,005</b>
Kazakhstan	30.7%	31.5%	968
Norway	6.4%	6.4%	994
Others	0.1%	0.1%	828

Sources: WITS, ITC Trade Map, own estimates

- GEO is the largest exporter of ferro-silico-manganese to RUS; in 2021, exports amounted to USD 172 m
- No ban on exports to RUS by other suppliers → no substitution opportunity
- 2015 experience: 20% drop in value of RUS total imports (compared to 2013)
- RUS absorbs 36% of GEO exports; GEO is the 4<sup>th</sup> largest world exporter with diversified exports; exports from UKR (the 2<sup>nd</sup>) disrupted → reorientation opportunities

Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-28	0	<b>-28</b>	+28	<b>0</b>

*Assumptions: price & income effect based on benchmark response = 0.49; no substitution; full reorientation (see Annex for details)*



# Impact on exports of wine of fresh grapes (HS 220421)

## GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
<b>Russia</b>	<b>56%</b>	<b>60%</b>	<b>2,761</b>
Ukraine	10%	11%	2,621
China	7%	6%	3,733
Poland	6%	6%	2,783
Belarus	5%	4%	3,070
Others	17%	13%	3,916

## RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
Italy	24%	22%	2,070
<b>Georgia</b>	<b>19%</b>	<b>22%</b>	<b>1,666</b>
Spain	15%	17%	1,663
France	15%	11%	2,592
Chile	5%	6%	1,762
Others	22%	22%	1,920

Sources: WITS, ITC Trade Map, own estimates; ITC Trade Map reports very similar structure of GEO exports, but higher volume and thus lower price

- GEO is the second largest exporter to RUS; in 2021, exports amounted to USD 130 m
- The EU, the largest supplier to RUS (62% of total imports), stopped shipping to RUS → substitution opportunity for GEO
- 2015 experience: 44% in value of RUS total imports (compared to 2013)
- RUS absorbs 60% of GEO export volume; UKR market (11%) disrupted; EU will reorient globally → limited reorientation opportunities

## Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-47	+47	0	0	0

*Assumptions: price & income effect based on benchmark response = 1.07; substitution of the EU suppliers (see Annex for details); no reorientation*

# Impact on exports of mineral waters (HS 220110)

## GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
<b>Russia</b>	<b>43%</b>	<b>42%</b>	<b>566</b>
Ukraine	19%	23%	444
Lithuania	13%	11%	642
Kazakhstan	9%	8%	595
Belarus	6%	6%	498
Others	11%	9%	643

## RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
<b>Georgia</b>	<b>53%</b>	<b>52%</b>	<b>515</b>
France	15%	13%	603
Italy	11%	11%	516
Armenia	6%	8%	360
Slovenia	5%	5%	558
Others	9%	11%	428

Sources: WITS, ITC Trade Map, own estimates

- GEO is the largest exporter to RUS; in 2021, exports amounted to USD 60 m
- EU, accounting for 36% of RUS imports, stopped shipping to RUS → substitution opportunity for GEO
- 2015 experience: 24% drop in value of RUS total imports (compared to 2013)
- RUS absorbs 42% of GEO export volume; UKR market (23%) disrupted; EU will reorient globally → limited reorientation opportunities

## Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-12	+12	0	0	0

*Assumptions: price & income effect based on benchmark response = 0.59; substitution of EU supplies allowing to fully compensate the losses incurred due to price & income effect; no reorientation*

# Impact on exports of distilled spirits/brandy (HS 220820)

GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
Ukraine	40%	52%	2,617
<b>Russia</b>	<b>40%</b>	<b>33%</b>	<b>4,158</b>
Belarus	8%	6%	4,348
Latvia	2%	2%	3,407
Kazakhstan	2%	1%	4,686
Others	8%	6%	4,434

RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
Armenia	46%	61%	2,523
France	35%	15%	7,756
<b>Georgia</b>	<b>10%</b>	<b>14%</b>	<b>2,308</b>
Kazakhstan	5%	6%	3,008
Spain	2%	2%	4,358
Others	2%	2%	2,454

Sources: WITS, ITC Trade Map, own estimates

- GEO is the third largest exporter to RUS; in 2021, exports amounted to USD 41 m
- FRA & ESP stopped shipping their products to RUS; but: (i) ARM is well-placed to substitute EU; (ii) GEO reports high export price → limited substitution opportunity
- 2015 experience: 50% drop in value of RUS total imports (compared to 2013)
- RUS absorbs 33% of GEO export volume; shipments to UKR accounting for 52% of volume disrupted → no quick reorientation opportunities

Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-17	0	-17	0	-17

Assumptions: price & income effect based on benchmark response = 1.22; no substitution; no reorientation

# Impact on exports of sweet or flavored waters (HS 220210)

GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
<b>Russia</b>	<b>45%</b>	<b>42%</b>	<b>665</b>
Azerbaijan	15%	17%	561
Armenia	8%	8%	604
Ukraine	7%	8%	547
Israel	7%	6%	676
Others	18%	19%	592

RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
Austria	22%	16%	829
Switzerland	20%	14%	836
<b>Georgia</b>	<b>15%</b>	<b>19%</b>	<b>449</b>
Belarus	12%	23%	319
Netherlands	7%	7%	618
Others	24%	22%	649

Sources: WITS, ITC Trade Map, own estimates

- GEO is the third largest exporter to RUS; in 2021, exports amounted to USD 26 m
- EU & Switzerland (CHE) accounting for 60% of RUS imports, stopped shipping to RUS → substitution opportunity for GEO
- 2015 experience: 51% drop in value of RUS total imports (compared to 2013)
- RUS absorbs 42% of GEO export volume, UKR market (8%) disrupted; GEO doubled exports to other than RUS & UKR markets in 2021 → reorientation opportunities if needed

Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-11	+11	0	0	0

**Assumptions:** price & income effect based on benchmark response = 1.24; substitution of EU & CHE supplies to fully compensate the loss; no reorientation

# Impact on exports of peaches (HS 080930)

## GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
<b>Russia</b>	<b>82.9%</b>	<b>67.2%</b>	<b>1,136</b>
Armenia	13.2%	27.3%	445
Ukraine	2.4%	2.9%	758
Belarus	0.5%	0.4%	976
Poland	0.3%	0.3%	908
Others	0.7%	1.9%	370

## RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
Turkey	56%	51%	1,261
Uzbekistan	15%	14%	1,213
Serbia	8%	7%	1,328
<b>Georgia</b>	<b>7%</b>	<b>7%</b>	<b>1,124</b>
Azerbaijan	4%	3%	1,247
Others	10%	18%	628

Sources: WITS, ITC Trade Map, own estimates

- GEO is the fourth largest exporter to RUS; in 2021, exports amounted to USD 24 m
- No ban on exports to RUS by other suppliers → no substitution opportunity for GEO
- 2015 experience: 63% drop in value of RUS total imports (compared to 2013)
- RUS absorbs 83% of GEO exports in value terms and 67% in quantity, occupying high-price segment; ARM exports peaches to RUS and will suffer from the same shock, likely reducing imports → no quick reorientation opportunities

## Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-12	0	<b>-12</b>	0	<b>-12</b>

*Assumptions: price & income effect based on benchmark response = 1.54; no substitution; no reorientation*

# Impact on exports of mandarins (HS 080520)

## GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
<b>Russia</b>	<b>76%</b>	<b>66%</b>	<b>559</b>
Armenia	13%	20%	329
Ukraine	7%	9%	373
Azerbaijan	1%	1%	396
Moldova	1%	2%	247
Others	2%	2%	368

## RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
1. Turkey	48%	51%	656
2. Morocco	18%	17%	764
3. Pakistan	11%	11%	707
4. Egypt	6%	6%	794
<b>6. Georgia</b>	<b>5%</b>	<b>8%</b>	<b>408</b>
Others	12%	8%	1,039

Sources: WITS, ITC Trade Map, own estimates

- GEO is the small supplier to RUS, aiming a low-price market niche; in 2021, exports amounted to USD 16 m
- No ban on exports to RUS by other suppliers → no substitution opportunity for GEO
- 2015 experience: 29% drop in value of RUS total imports (compared to 2013)
- RUS absorbs 76% of GEO exports in value terms and 66% in quantity, occupying high-price segment; ARM exports peaches to RUS and will suffer from the same shock, likely reducing imports → no quick reorientation opportunities

### Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-4	0	-4	0	-4

*Assumptions: price & income effect based on benchmark response = 0.71; no substitution; no reorientation*

# Impact on exports of potatoes (HS 070190)

## GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
<b>Russia</b>	<b>87%</b>	<b>71%</b>	<b>433</b>
Azerbaijan	6%	15%	136
Moldova	2%	4%	177
Ukraine	1%	4%	107
Belarus	1%	1%	265
Others	2%	4%	180

## RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
1. Egypt	62%	63%	378
2. Azerbaijan	26%	23%	446
3. Belarus	4%	7%	239
4. Pakistan	4%	4%	370
<b>7. Georgia</b>	<b>1%</b>	<b>1%</b>	<b>448</b>
Others	3%	3%	430

Sources: WITS, ITC Trade Map, own estimates

- GEO is the minor supplier to RUS; in 2021, exports amounted to USD 14 m
- No ban on exports to RUS by other suppliers → no substitution opportunity for GEO
- 2015 experience: 25% drop in value of RUS imports from AZE\* (compared to 2013)
- RUS absorbs 87% of GEO exports in value terms and 71% in quantity, occupying high-price segment; AZE is the 2<sup>nd</sup> exporter of potatoes to RUS and will suffer from the same shock, likely reducing imports → no quick reorientation opportunities for GEO

## Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-3	0	-3	0	-3

*Assumptions: price & income effect based on benchmark response = 0.61; no substitution; full reorientation*

\* Due to trade sanctions, reaction of RUS total imports in 2015 vs 2013 is not representative; we used imports from AZE as a proxy

# Impact on exports of apples (HS 080810)

## GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
<b>Russia</b>	<b>98.4%</b>	<b>97.6%</b>	<b>512</b>
Kazakhstan	0.4%	0.8%	211
Turkmenistan	0.3%	0.3%	593
Azerbaijan	0.3%	0.5%	317
Moldova	0.3%	0.4%	333
Others	0.3%	0.3%	504

## RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
1. Moldova	27%	32%	618
2. Serbia	25%	21%	888
3. South Africa	9%	6%	1,039
4. Turkey	7%	7%	775
<b>13. Georgia</b>	<b>1%</b>	<b>1%</b>	<b>443</b>
Others	32%	32%	726

Sources: WITS, ITC Trade Map, own estimates

- GEO is the minor supplier to RUS, aiming a low-price market segment; in 2021, exports amounted to USD 8 m
- MDA, the largest supplier, can stop exports to RUS → substitution opportunity for GEO
- 2015 experience: 52% drop in value of RUS total imports (compared to 2013)
- RUS absorbs 98% of GEO exports → no reorientation opportunities

## Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-3	+3	0	0	0

*Assumptions: price & income effect based on benchmark response = 1.27; substitution allows full compensation of losses associated with price & income effect as RUS imports from MDA in 2021 was 206 tt, while GEO exports to RUS in 2021 was only 15 tt, and GEO is price competitive; no reorientation*



# Impact on exports of blueberries (HS 081040 )

GEO exports, 2021

	Share in GEO exp value, %	Share in GEO exp volume, %	Unit value, USD/t
<b>Russia</b>	<b>91%</b>	<b>91%</b>	<b>5,856</b>
UAE	4%	3%	8,279
Germany	1%	1%	7,117
Ukraine	1%	2%	2,904
Armenia	1%	1%	3,965
Others	1%	1%	6,332

RUS imports, 2020

	Share in RUS imp value, %	Share in RUS imp volume, %	Unit value, USD/t
Peru	34%	29%	7,565
Morocco	23%	22%	7,069
Chile	13%	12%	7,356
Serbia	12%	11%	7,358
<b>Georgia</b>	<b>7%</b>	<b>7%</b>	<b>6,406</b>
Others	11%	18%	3,844

Sources: WITS, ITC Trade Map, own estimates

- GEO is the fifth largest exporter to RUS; in 2021, exports amounted to USD 5 m
- No ban on exports to RUS by other suppliers → no substitution opportunity for GEO
- 2015 experience: 65% drop in value of RUS total imports (compared to 2013)
- RUS absorbs 91 % of GEO exports → no quick reorientation opportunities

Estimated effect in 2022, USD m

Price & income	Substitution	Exports to RUS	Reorientation	Total exports
-3	0	<b>-3</b>	0	<b>-3</b>

*Assumptions: price & income effect based on benchmark response = 1.59; no substitution; no reorientation*

## 5. Overview of sectoral impact and aggregate effect

HS	Product Description	Impact on GEO exports to RUS, USD m	Impact on GEO total exports, USD m
720230	Ferro-silico-manganese	-28	0
220421	Wine of fresh grapes in containers of <= 2 l, excl. sparkling wine	0	0
220110	Mineral waters and aerated waters, not containing added sugar	0	0
220820	Spirits obtained by distilling grape	-17	-17
220210	Waters with added sugar, sweetener or flavour, for direct consumption	0	0
080930	Peaches, including nectarines	-12	-12
080520	Mandarins, including tangerines	-4	-4
070190	Fresh or chilled potatoes, excl. seed	-3	-3
080810	Apples	0	0
081040	Cranberries, blueberries	-3	-3
	Other products*	-26	-26
	<b>Total</b>	<b>-93</b>	<b>-65</b>
	<b>% of GDP</b>	<b>-0.6%</b>	<b>-0.4%</b>

Source: WITS, ITC Trade Map, own estimates; \* benchmark response for RUS total imports of products that RUS imports from GEO (excl. top-10 products), 2015 vs 2013: 1.32

- GEO drop in exports to RUS estimated at **USD 93 m or 0.6% of GDP in 2022**
- Due to reorientation, total losses of exports are smaller: **USD 65 m or 0.4% of GDP**

# About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus\*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*\*Advisory activities in Belarus are currently suspended.*

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# Annex: Examples of the estimates (1/3)

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## Example of price & income effect: wine of fresh grapes

**2015 vs. 2013:** RUS GDP in USD went down by 41%

- As a consequence, RUS total imports in 2015 vs. 2013 dropped by 44%
- Benchmark product response for brandy:  $44\%/41\% = 1.07$
- Assumptions: RUS imports from GEO in 2022 will demonstrate the same benchmark product response as in 2015; RUS imports from GEO is equal to GEO exports to RUS

**2022 vs. 2021:** RUS GDP in USD will drop by almost 34%

- GEO exports of grapes to RUS in 2021: USD 130 m
- Estimation of export reduction due to price and income effect:  
USD 130 m x 0.34 x 1.07 = **USD 47 m**
- Relative reduction: 36%, out of which\*
  - 8% due to lower export prices
  - 30% due to lower export quantities

\* estimates are based on the distribution of the reduction in RUS total imports into price & quantity components in 2015 vs. 2013

## Annex: Examples of the estimates (2/3)

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### Example of substitution effect: wine of fresh grapes

- GEO exports of wine to RUS in 2021: RUS 47 tt
- Based on estimates of price & income effect on GEO exports of wine: quantity of GEO exports to RUS in 2022 vs 2021: 30% drop
- Drop in GEO export quantity to RUS in 2022:  $47 \text{ tt} \times 30\% = 14 \text{ tt}$
- RUS imports from the EU in 2020: 262 thousand tons (tt)
- Thus, GEO has ample opportunities for substitution
- Assumption: GEO can fully compensate the loss in exports generated by price & income effect by substituting EU wines on RUS market
- Estimation of additional export due to substitution effect\*: **USD 47 m**

### Possible underlying reaction by RUS consumers for illustration

- Substitution effect: wealthy Russians substitute EU wines by GEO wines
- Price and income effect: upper middle-income Russian continue buying GEO wines, but less well-off Russians switch from GEO wines to domestic alcohol beverages

\* We do not assess full GEO potential for substitution, but only the extent, to which GEO can compensate the losses on RUS market

# Annex: Examples of the estimates (3/3)

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## Example of reorientation effect: ferro-silico-manganese

- GEO exports of ferro-silico-manganese to RUS in 2021: 105 thousand tons (tt)
- GEO total exports of ferro-silico-manganese in 2021: 299 tt
- Based on estimates of price & income effect on GEO exports of ferro-silico-manganese:
  - GEO exports to RUS in 2022 vs 2021: 16% drop, including:
  - Quantity of GEO exports to RUS in 2022 vs 2021: 8% drop
- Drop in GEO export quantity to RUS in 2022:  $105\text{tt} \times 8\% = 8\text{ tt}$
- Top 3 global suppliers of ferro-silico-manganese in 2020: IND (694 tt), UKR (455 tt), NOR (257 tt)
- UKR exports disrupted in 2022 → GEO can partly substitute UKR on global market
- Assumption based on observed trade structures: GEO can fully compensate losses incurred on RUS market by reorienting to other destinations and replacing UKR
- Estimation of reorientation effect\*: **USD 28 m**

*\* We do not assess full GEO potential for reorientation, but only the extent, to which GEO can compensate the losses on RUS market*