FREE NETWORK

POLICY BRIEF SERIES

Salome Deisadze, ISET Policy Institute
Phatima Mamardashvili, ISET Policy Institute
Daviti Zhorzholiani, ISET Policy Institute
February 2019

Agricultural Exports and the DCFTA: A Perspective from Georgia

On June 27, 2014, Georgia and the EU signed an Association Agreement (AA) and its integral part - the Deep and Comprehensive Free Trade Area (DCFTA). In this policy brief, we discuss the changes and analyze the agricultural exports statistics of Georgia since 2014. Furthermore, we will provide the recommendations to capitalize on the opportunities that the DCFTA offers to Georgia.

Georgia is a traditional agrarian country, where agriculture constitutes an important part of the economy. 36.6% of the country's territory are agricultural lands and 48.2% of the Georgian population live in villages. Although 55% of population are employed in agriculture, Georgia's agriculture accounts for only 15.8% of its GDP (Geostat, 2019). Agricultural exports constitute an important part of Georgia's economy, accounting for about 25-30% of total exports.

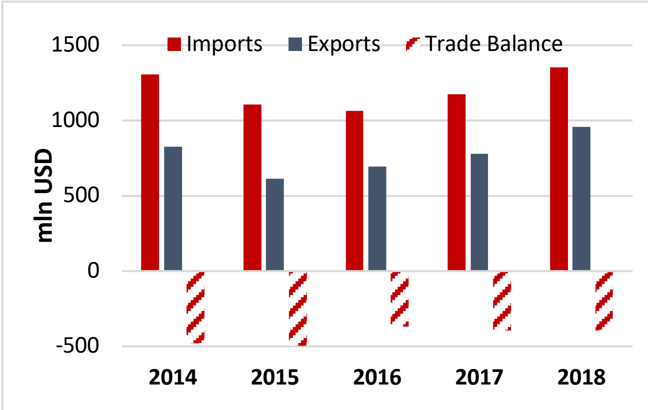
On June 27, 2014, Georgia and the EU signed an Association Agreement (AA) and its integral part, the Deep and Comprehensive Free Trade Area (DCFTA). On July 1st, 2016, the DCFTA fully entered into force. The DCFTA aims to create a stable and growth-oriented policy framework that will enhance competitiveness and facilitate new opportunities for trade. The DCFTA widens the list of products covered by the Generalized System of Preferences+ (GSP+) and sets zero tariffs on all food categories (only garlic is under quota), including potentially interesting products for Georgian exports – wine, cheese, berries, hazelnuts, etc. (Economic Policy Research Center, 2014).

As July 2018 marked only two years since the implementation of the DCFTA between Georgia and EU, valuable conclusions on its impact cannot be formulated yet. In this policy brief, we will give an overview of Georgia's agricultural trade statistics, particularly, we will focus on agricultural exports and provide recommendations for capitalizing on opportunities offered by the DCFTA.

Georgia's agricultural trade

Despite its potential and natural resources, Georgia is a net importer of agricultural products. In 2018, Georgia's agricultural exports increased by 23.2% (181 million USD), while the respective imports grew by only 15.5% (179 million USD) compared to 2017. Therefore, the trade balance (the difference between exports and imports) remained almost unchanged at (-394) million USD (Figure 1).

Figure 1: Georgia's Agricultural Trade (2014-2018)



Source: Geostat, 2019

Out of the sharp increase in agricultural exports, 100 million USD are attributed to tobacco and cigars. Since Georgia cultivates very little tobacco, the growth was instigated mostly from the import, slight processing and re-export of tobacco products. Consequently, the export of tobacco and cigars increased by 240% in 2018, and it currently holds second place (after wine) in Georgia's total food and agricultural exports. It should be mentioned that wine exports contributed to 26 million USD in export growth.

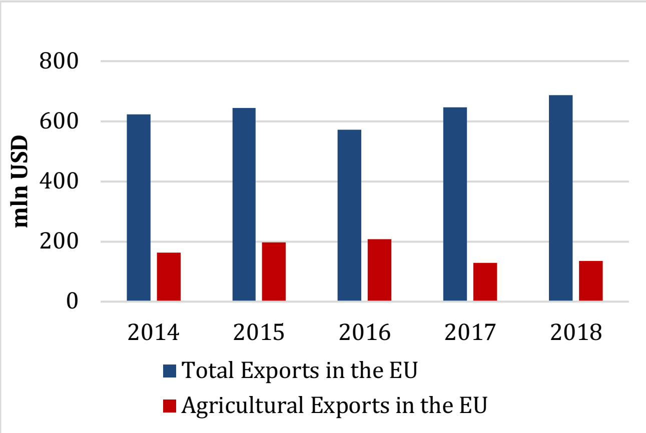
Over the last five-year period, the top export countries for Georgia were mainly neighboring counties (Azerbaijan, Russia, Armenia, Turkey); for imports, we see the same neighboring countries as well as China and Ukraine. Observing the trade statistics over the years, 45% of Georgia's agricultural exports were destined for markets in countries of the former Soviet Union, so-called Commonwealth of Independent States (CIS), while the EU's share in Georgia's total agricultural exports was 24%.

Trade relationships between Georgia and the EU

The EU is one of Georgia's largest trade partners. The EU's share of total Georgian imports was 28%

in 2018, and for exports, 24%. Total exports have been more or less stable since 2014, except for 2016, when an 11% decrease was observed (Figure 2). Specifically, for agriculture, in 2017, the EU's share of Georgian imports was 22%, and its share of exports was 19%. During the same period, the top export products were hazelnuts (shelled), spirits obtained by distilling grape wine or grape marc, wine, mineral and aerated waters and jams, jellies, marmalades, purées or pastes of fruit.

Figure 2: Total and Agricultural Exports to the EU (2014-2018)



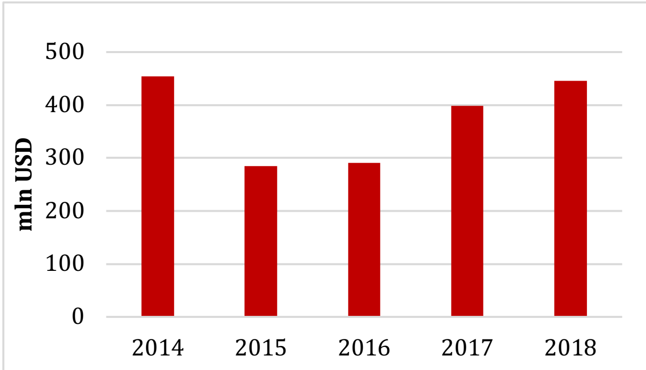
Source: Geostat, MoF, 2019

In 2015 (before the full enforcement of the DCFTA), Georgia's agricultural exports to EU countries (including the United Kingdom) increased by 20% compared to the previous year. This positive trend remained in 2016, when the same indicator increased by 5%. In 2017, which was quite a bad year in terms of harvest in Georgia, we observed a 38% decrease in the country's agricultural export to the EU (Figure 2). This decrease was mainly caused by a significant decrease (64%) in hazelnut exports during the same period. The reason for such a large decrease is that hazelnut production suffered from various fungal diseases due to unfavorable weather conditions in 2017. The Asian Stink Bug invasion worsened the situation, and in the end, hazelnut exports dropped dramatically in both value and quantity. In 2018, Georgia's agricultural export in EU slightly increased by 6% compared to 2017.

Trade relationships between Georgia and CIS countries

It is interesting to observe agricultural trade within the same time period with CIS countries. In 2018, the CIS' share of Georgian imports was 51%, and its share of exports was 60%. The top export products to CIS countries were wine, mineral and aerated waters, spirits obtained by distilling grape wine or grape marc, hazelnuts (shelled), and waters, including mineral and aerated, with added sugar, sweetener or flavor, for direct consumption as a beverage. As we can see in both EU and CIS countries, the top export products are more or less the same. However, the main export destination market for Georgian hazelnuts are EU countries, but wine is mostly exported to the CIS countries.

Figure 3: Agricultural Exports to CIS Countries (2014-2018)



Source: Geostat, MoF, 2019

Due to the worsened economic situation in CIS countries, Georgia's agricultural exports to these countries decreased by 37% in 2015. Such a sharp decrease was mainly driven by a significant decrease in the export of alcoholic and non-alcoholic beverages, hazelnut, and live cattle. However, since 2015, Georgia's agricultural exports to CIS countries have been increasing; we observed a slight 2% increase in the value of agricultural exports in 2016, while the same indicator was 37% in 2017 (Figure 3). That was mainly caused by the increased exports of alcoholic and non-alcoholic beverages (wine by 61%, spirits by 28%, mineral and aerated waters by

22%). In 2018, Georgia's agricultural export in CIS countries increased by 12% compared to 2017.

Conclusion

Despite its potential and comparative advantage in agriculture, Georgia is still a net importer of agricultural products and has negative trade balance (-394 mn USD). Two years after the DCFTA came into force, it is challenging to know its impact on Georgia's agricultural trade due to the insufficient passage of time since. Notwithstanding, we can formulate some conclusions from trade statistics. The diversity of the destinations for Georgia's agricultural exports has not changed through the years. Georgia's agricultural exports has increased to the EU, but at a quicker pace to CIS too. Furthermore, Georgia's share of agricultural exports to CIS countries is still significant (60%).

While it is obvious that Georgia needs to diversify its agricultural export destination markets, there are several challenges facing small and medium size farmers and agricultural cooperatives in Georgia that are not specific to implementation of the DCFTA. As the previous regime (GSP+) with the EU already covered most products, the DCFTA did not represent a significant breakthrough. On the path to European integration, the biggest challenge for Georgia is to comply to non-tariff requirements such as food safety standards and SPS measures. The attention should be paid on providing consultations to farmers regarding certification processes and standards and better information sharing (e.g. developing online platforms).

In Georgia, agri-food value chains are not well-developed and lack coordination among different actors. In order to capitalize on opportunities offered by the DCFTA, government and private sector should work together to improve logistics infrastructure. There is a need for upgrading at every stage of export logistics: warehousing, processing, labeling, regional consolidation, final customer services. In this regard, there are high approximation costs for business that should be considered as long-term investment to modernize agriculture and improve food the safety system in the country. This would boost the export potential not only to the EU, but to other countries with similar requirements as well.

References

ISET Policy Institute, 2016. "DCFTA Risks and Opportunities for Georgia"

Economic Policy Research Center, 2014. "Agreement on the Deep and Comprehensive Free Trade Area and Georgia". Available only in Georgian

Salome Deisadze

ISET Policy Institute (ISET-PI)
s.deisadze@iset.ge
www.iset-pi.ge

Salome Deisadze is a researcher at the Agricultural Policy Research Center at ISET (International School of Economics at TSU) Policy Institute. Along with other research projects, she is involved in Agri Review publishing and writes monthly highlights on food price changes in local and international markets. Her research interests lie broadly in the area of agricultural economics and rural development.

Currently, Salome Deisadze is a PhD student at Tbilisi State University. In 2016, she received Master's degree in economics at ISET. She holds Bachelor's degree in Economics and Business Administration with module of Macroeconomics from Iv. Javakhishvili Tbilisi State University (TSU).

Phatima Mamardashvili

ISET Policy Institute (ISET-PI)
p.mamardashvili@iset.ge
www.iset-pi.ge

Phatima Mamardashvili, Dr. Sc., ETH Zurich is an assistant professor at ISET and also serves as the Head of the Agricultural Policy Research Center (APRC) at the ISET Policy Institute (ISET PI). Her research and teaching interests include Agricultural Economics, Environmental Economics, and Econometrics.

Phatima received her Dr.Sc. degree from ETH Zurich for the dissertation entitled Measuring economic and environmental performance of Swiss dairy farms using stochastic frontier analysis; (2013). She earned her Bachelor's degree in Agriculture from the Georgian State Agricultural University (2005) and her M.Sc. degree in Agricultural Sciences with a major in Food and Resource Economics from ETH Zurich (2009).

Daviti Zhorzholiani

ISET Policy Institute (ISET-PI)
d.zhorzholiani@iset.ge
www.iset-pi.ge

Daviti Zhorzholiani is a researcher at Agricultural Policy Research Center at ISET (International School of Economics at TSU) Policy Institute. He is responsible for producing indices and mainly specializes in agriculture price data.

Daviti Zhorzholiani is a PhD student at Tbilisi State University. He holds a Master's degree in economics from ISET (2017). He earned a BA in Economics from Tbilisi State University (2014).

FREE NETWORK

freepolicybriefs.com

The Forum for Research on Eastern Europe and Emerging Economies is a network of academic experts on economic issues in Eastern Europe and the former Soviet Union at BEROC (Minsk), BICEPS (Riga), CEFIR (Moscow), CenEA (Szczecin), KEI (Kiev) and SITE (Stockholm). The weekly FREE Network Policy Brief Series provides research-based analyses of economic policy issues relevant to Eastern Europe and emerging markets. Opinions expressed in policy briefs and other publications are those of the authors; they do not necessarily reflect those of the FREE Network and its research institutes.