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Russian Wheat Policies and Georgia's Strategic Trade Policies

Russia is known for periodically halting its grain exports to impact global wheat prices. This has become a significant policy concern in recent years, most notably during the Covid-19 pandemic and in the wake of Russia's war in Ukraine. Georgia heavily depends on wheat imports, and over 95 percent of its wheat has historically been sourced from Russia. Despite Russia's periodic bans and restrictions on wheat exports occurring every 2-3 years, Georgia is yet to effectively diversify its sources of wheat imports. This policy brief analyses the impact of Russia's most recent wheat policies on Georgia's wheat market, examines Georgia's response, and provides policy recommendations in this regard.

In June 2023, the Georgian government introduced a temporary import duty on wheat flour imported from Russia in response to requests from the Georgian Flour Producers Association. The association began advocating for an import duty after Russia, in 2021, imposed a so-called “floating tariff” on wheat which made it relatively more expensive to import wheat in comparison to wheat flour. As a result of the “floating tariff” on wheat, wheat flour imports skyrocketed and almost fully substituted wheat imports. Eventually many Georgian mills shut down and local wheat producers struggled to sell domestically produced wheat. Such an increase in flour imports raises the risk of completely replacing domestically produced flour with flour imported from Russia.

To address the above, the government has implemented a temporary import duty of 200 GEL (75 USD) per ton on wheat flour imported from Russia (the average import price ranges between 225 USD/ton and 435 USD/ton). In turn, millers have agreed to purchase 1 kilogram of wheat from Georgian farmers for 0.7 GEL (0.3 USD). This policy measure is in effect until March 1, 2024.

The Georgian Flour Producers Association advocates for an extension of the temporary import duty beyond March 1, 2024, to uphold fair competition in the wheat and flour market. According to the Georgian Flour Producers Association, an extension is desirable due to the following ([Resonance daily, 2024](#)):

- Under the import duty, fair competition between wheat flour and wheat has been restored, and Georgian mills have resumed their operations.
- Following the government intervention, farmers have successfully sold over 50,000 tons (on average half of the annual production) of domestically produced wheat. The Ministry of Environmental Protection and Agriculture has reported a 60 percent increase in local wheat production over the past two years, with expectations of sustained growth.

- Wheat imports have resumed, with Georgia importing 20,000 to 25,000 tons of wheat monthly, while prior to the government intervention, the average monthly wheat imports amounted to 15,337 tons (in 2022). Additionally, 8,000 to 12,000 tons of wheat flour, on average, are also imported monthly, while in the absence of government intervention, wheat flour imports surged to over 15,000 tons (in 2022).
- Post-intervention, the price of 100 kilograms of first-quality flour has remained stable, ranging from 45 to 49 GEL. Consequently, the price of bread has not increased but remains steady.
- The import duty has generated an additional 20 million GEL in government revenue.
- Through the efforts of the mills, the country now enjoys a steady and strategically managed supply of wheat, in accordance with UN recommendations. Coupled with the seasonal harvest of Georgian wheat, this ensures complete food security in any unforeseen critical scenario.

While many arguments support the decision to preserve the import duty on wheat flour, in order to make an informed decision on that matter, it is essential to thoroughly assess production, trade and price dynamics in the wheat market in Georgia. Additionally, to design adequate trade policy measures, one has also to consider the issue in a broader perspective and assess the risks associated with a high dependency on Russian wheat, especially given Russia’s history of imposing wheat export restrictions.



Russian Policy on the Wheat Market

Russia has long been one of the dominant players on the global wheat market, and its periodic decisions to halt grain exports have heavily affected international wheat prices (see Table 1). This concern became especially stringent in recent years, during the Covid-19 pandemic and Russia's war in Ukraine.

Table 1. Russia's policy interventions in the wheat market and their estimated impact on wheat prices, 2007-2023.

Trade year (July/June)	Policy intervention	Description	Potential impact
2007/08	Export tax	The tax started at 10 percent but increased to 40 percent in early 2008 and continued until July 2008.	+210 USD per MT
2010/11	Ban on exports	Complete ban on wheat exports from August 15, 2010, through June 30, 2011.	+175 USD per MT
2012	Threat of export ban/taxes	Potential export ban/taxes due to draught.	+130 USD per MT
2014/15	Export tax	Export tax of 15 percent of the customs value from February 1 through May 15, 2015.	+75 USD per MT
2015/16	Export tax	On July 15, 2015, a tax was set at 50 percent of the contract price minus \$99.	+80 USD per MT
2019/20	Export quota	A wheat export quota was set at 7.0 million MT from April 1, 2019, to June 30, 2020	+75 USD per MT
2020/21	Export tax	In February 2021, an export tax was set at \$29.20 per ton and from March through May it increased to \$59.8 per ton. The floating tax then commenced in June.	+95 USD per MT
	Export quota	An all-grain export quota was set at 17.5 million MT from February 15 to June 30, 2021.	
2021/22	Floating export tax	Starting in June 2021, an export tax was set, weekly calculated at 70 percent of the difference between the indicative price and \$200 per ton. This is adjusted upwards as wheat prices reach higher thresholds.	+250 USD per MT
	Export quota	A wheat export quota was set at 8.0 million metric tons from February 15 to June 30, 2022.	
2023/24	Ban on exports	A ban on the export of durum wheat is in place for December 1, 2023, to May 31, 2024.	No price increase so far
	Export quota	A 24-million-ton export quota for Russian grains.	
2023	Withdrawal from the Black Sea Grain Initiative	Russia has withdrawn its security guarantees for ships navigating in the northwestern part of the Black Sea.	Disruption of wheat supply from Ukraine to partner countries (mainly in Africa)

Source: United States Department of Agriculture, 2022. The Government of the Russian Federation. The Kansas City Wheat Futures, The U.S. Wheat Associates.



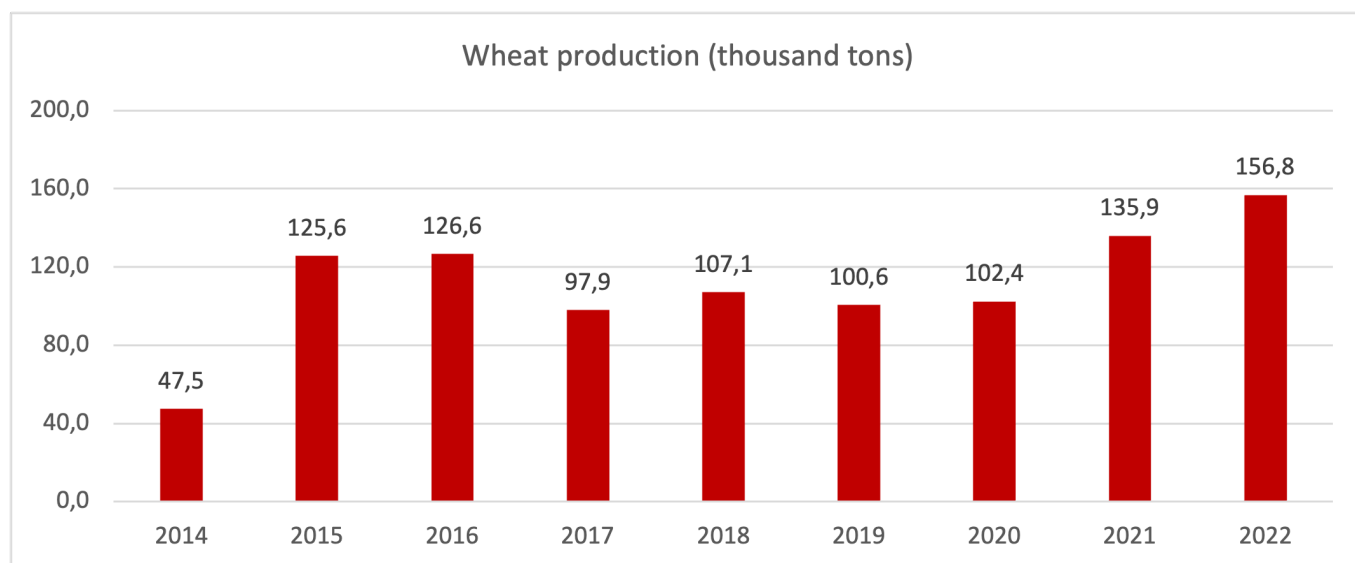
One of Russia’s most recent interventions in the wheat market is its withdrawal from the Black Sea Grain Initiative – an agreement between Russia, Ukraine, Turkey, and the United Nations (UN) during the Russian invasion of Ukraine on the Safe Transportation of Grain and Foodstuffs from Ukrainian ports. While Georgia doesn’t directly import wheat from Ukraine and isn’t immediately threatened by famine, Russia’s export policies regarding wheat have raised significant food security concerns in the country. Georgia heavily depends on wheat imports from Russia, with over 95 percent of its wheat historically being sourced from there. Despite Russia’s recurrent bans and restrictions on wheat exports every 2-3 years, Georgia is yet to successfully diversify its import sources.

The Georgian Wheat Market in Figures

Domestic Production

Historically, Georgia’s agricultural sector has struggled to achieve a large-scale and sufficient wheat production due to the prevalence of small-sized farms. However, over the past decade, Georgian domestic wheat production has shown significant growth (see Figure 1). This growth has been particularly sizeable in recent years, with production increasing by 32 and 53 percent in 2021 and 2022, respectively, as compared to 2020.

Figure 1. Wheat production in Georgia, 2014-2022.



Source: Geostat, 2024.

Such increase in local production positively contributes to the self-sufficiency ratio, which increased from 7 percent in 2014 to 22 percent in 2022, in turn implying higher food security levels.

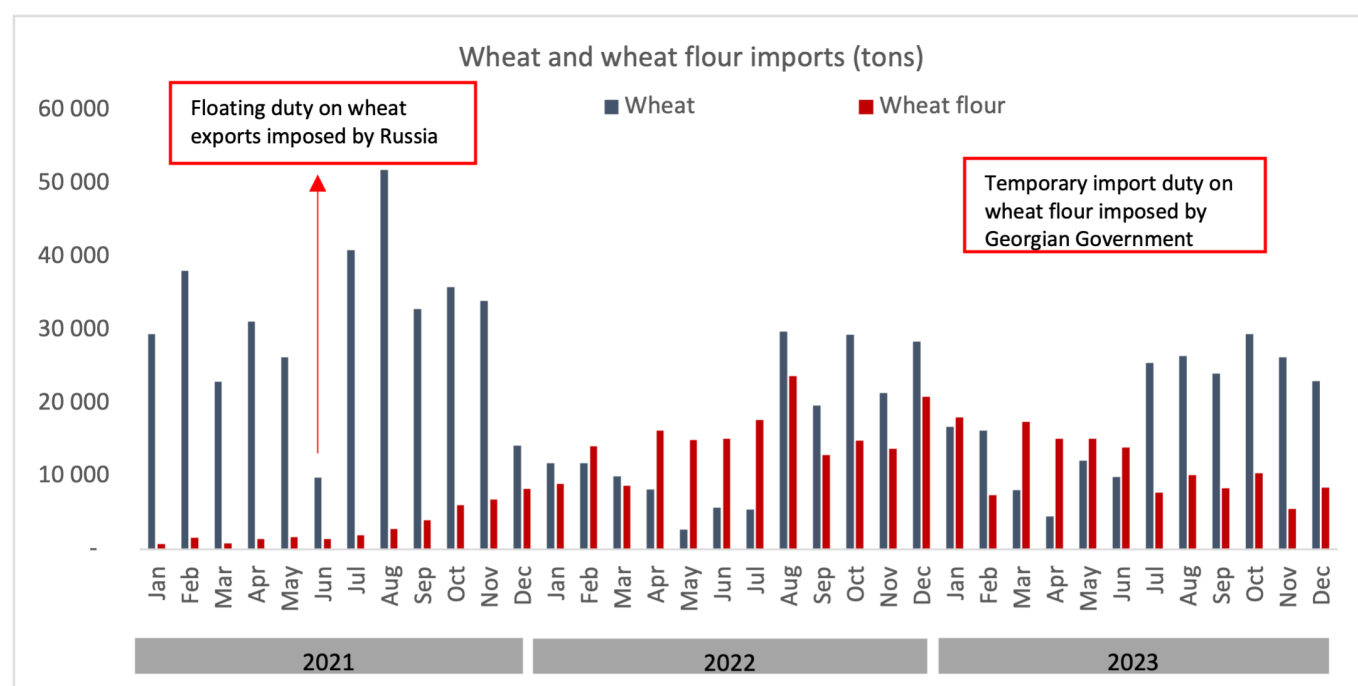
Wheat Imports

Before the introduction of Russia’s floating tariff on wheat, wheat flour imports to Georgia were almost non-existent. However, after the floating tariff was imposed on wheat, imports of wheat

flour increased more than 20 times – from 743 tons in January 2021 to 15,086 tons in May 2023 – peaking at 23,651 tons in August 2022 (see Figure 2). At the same time wheat imports declined by almost 60 percent, from 29,397 tons in January 2021 to 12,133 tons in May 2023, with the smallest import quantity being 2,743 tons in May 2022 (as depicted in Figure 2).



Figure 2. Georgian wheat and wheat flour imports, 2021-2023.



Source: Geostat, 2024. Note: Imports include meslin (a mixture of wheat and rye grains).

After the introduction of the temporary import duty on wheat flour in June 2023, wheat imports have picked up, although not reaching the levels seen in 2021. Similarly, wheat flour imports have declined while remaining at higher levels than in 2021. This indicates a change in Georgia’s wheat market dynamics. Historically, Georgia predominantly imported wheat; now it imports both wheat and wheat flour. This shift must be

considered in future policy design, as it has implications for domestic wheat farmers and mills.

The continued wheat flour imports, despite the temporary import duty imposed by the Georgian Government can likely be attributed to a smaller price gap between wheat and wheat flour import prices (see Table 2).

Table 2. Average import prices of wheat and wheat flour in Georgia, 2021-2023.

Year	Wheat import price (USD/ton)	Wheat flour import price (USD/ton)	Import Price difference
2021	236 (Jan-May)	292 (Jan-May)	24%
	267 (Jun-Dec)	326 (Jun-Dec)	22%
2022	353	375	6%
2023	314 (Jan-May)	297 (Jan-May)	-5%
	241 (Jun-Dec)	243 (Jun-Dec)	1%

Source: Geostat, 2024.

In 2021, prior to Russia’s introduction of a floating tariff on wheat, the import price of wheat flour in Georgia was 24 percent higher than the import price of wheat. After the introduction of the floating tariff, importing wheat became more expensive, and the import price gap between wheat flour and wheat decreased to 22 percent by

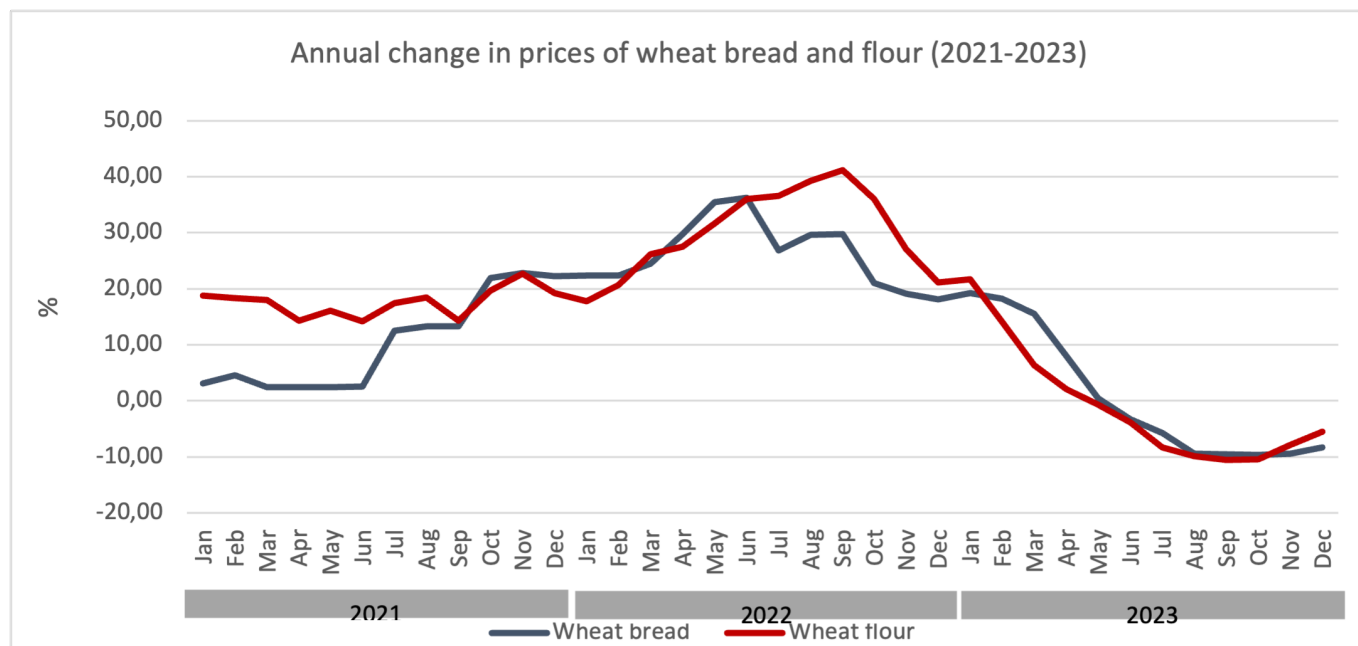
the end of 2021. Subsequently, in 2022, this gap further narrowed, and by the first half of 2023, the import price of wheat flour was 5 percent lower than the import price of wheat. This significant decrease in the price gap resulted in nearly full substitution of wheat imports with wheat flour imports. After the introduction of the import duty



on wheat flour and as international wheat prices declined, a marginal positive price gap has reappeared, amounting to just 1 percent. As it stands, importing wheat flour remains more advantageous than importing wheat. Price Effects Russia's floating tariff on wheat led to increased bread and wheat flour prices in 2021-2022. In June 2022, bread prices experienced the most significant

surge, increasing by 36 percent, while wheat flour prices reached their peak in September 2022 with a year-on-year increase of 41 percent (see Figure 3). The primary reason for this was the record increase in wheat prices, leading to a corresponding surge in wheat flour prices in 2022. This spike occurred as the world price of wheat reached its highest point in five years.

Figure 3. Annual change in bread and wheat flour prices, 2021-2023.



Source: Geostat, 2024.

Nevertheless, in 2023 bread and wheat flour prices decreased, indicating that the import duty on wheat flour did not lead to increased prices. This could partially be explained by the fact that mills pay farmers 0.5 GEL/kg, which is lower than agreed price of 0.7 GEL/kg. Another and more crucial factor is the decline in global wheat prices. They began their descent in June 2022 and have since maintained a downward trajectory. This decrease, combined with increased local production, has so far acted as a barrier to any new bread and wheat flour price increases.

The Way Forward

The question that must be addressed is whether the import duty on wheat flour imported from Russia should be extended.

The import duty may have contributed to increased local production as higher import duties can incentivize local businesses to invest in expanding their production capacity or improving their technology to meet an increased demand. It is however essential to note that the impact of import duties on local production varies depending on the level of domestic competition, the availability of inputs (high quality seed, fertilizer etc.), technological capabilities, and government policies beyond import duties (such as investment incentives, infrastructure development, and regulatory environment). Additionally, import duties can also lead to retaliatory measures from trading partners, affecting overall trade dynamics – potentially incurring unintended consequences. Therefore, while import duties can contribute to an increased



local production under certain conditions, it is just one of many factors influencing production dynamics.

Secondly, as previously detailed, the import duty has so far not resulted in increased bread prices. However, the effect of an import tariff on retail prices depends on various factors, including elasticity of demand and supply, market competitiveness, and the extent to which the tariff is passed on to consumers by importers and retailers. Since demand for bread is inelastic, one has to keep in mind that the importers and retailers can fully pass on the increased cost from an import tariff to consumers.

Given that the floating tariff and the import duty make wheat and wheat flour imports to Georgia more expensive, one should expect future bread price increases. This unless international wheat prices continue to decline and/or producers agree to reduce their profit margins or make supply chain changes. Therefore, an extension of the import duty might be a suitable solution in the short and medium-term, but it should not be seen as a permanent solution.

To limit the risks of food scarcity in Georgia in the long run, it is essential to design strategies helping the country to reduce its dependency on Russian wheat and wheat flour. Some measures to achieve this objective may include:

Further supporting local production. Encourage investment in domestic agriculture to increase the productivity and quality of wheat production in Georgia. This can be achieved through subsidies,

incentives for modern farming techniques, and access to credit for farmers.

Improving the quality of local production. Currently, most of the domestically produced wheat is unsuitable for milling into wheat flour. A significant portion of domestically produced wheat is of poor quality and instead used for feeding livestock. It is essential to invest in research and development to improve the quality of domestically produced wheat. This includes developing wheat varieties that are resistant to diseases and better suited for local growing conditions.

Seeking alternative markets for import diversification. One alternative for Georgia may be to focus on the Kazakh and Ukrainian markets (once the war is over) and negotiate possible ways to decrease the cost of transporting wheat to Georgia with state and private sector representatives.

Reducing the Georgian dependence on Russian wheat imports requires a multifaceted approach that addresses various aspects of agricultural policy, trade diversification, and domestic production capacity.

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