

Promoting Georgian exports of agro-food products to the EU

– The role of volume, transport and logistics –

Dr Hans Gutbrod, Veronika Movchan

Berlin/Tbilisi, February 2020

Summary

- Despite the DCFTA, actual exports of agro-food products to the EU have remained small and concentrated. What limits it?
- Limited volume of production as well as transport and logistics bottlenecks play a key role in constraining exports
- What could be done to resolve these issues:
 - Focus on increasing volumes through targeted FDIs, export acceleration and the use of the PEM Convention
 - Provide key logistics infrastructure (ferries, airport cargo terminals, logistics zones)
 - Target vocational education to support exports
 - Stimulate domestic demand for logistics, in particular by further development of GeoGAP quality standards
 - Bundle interests & close information gaps

Structure of the presentation

1. Current Georgia's exports of agro-food products to the EU
2. Volume (and certification) as barriers to agro-food trade
 - Volume of GEO agricultural production and exports
 - Bottleneck – volume
 - Bottleneck – certifications
3. Specific barriers in transport and logistics
 - Specific barriers – general issues
 - Specific barriers – case studies
4. Proposals for addressing bottlenecks

Introduction

- EU-GEO DCFTA in place since 2014
- Potential for exporting GEO agro-food products to EU is there, as shown in Policy Briefing PB/02/2019 by the GET, including fresh berries, fresh peaches, nuts and others
- However: other than beverages and hazelnut, actual exports of agro-food products to the EU have remained small and concentrated on very few products
- Key question: why limited expansion?
- Anecdotal evidence: volume as well as barriers in transport and logistics sector play a key role

Aim of study and approach

Aim of this study:

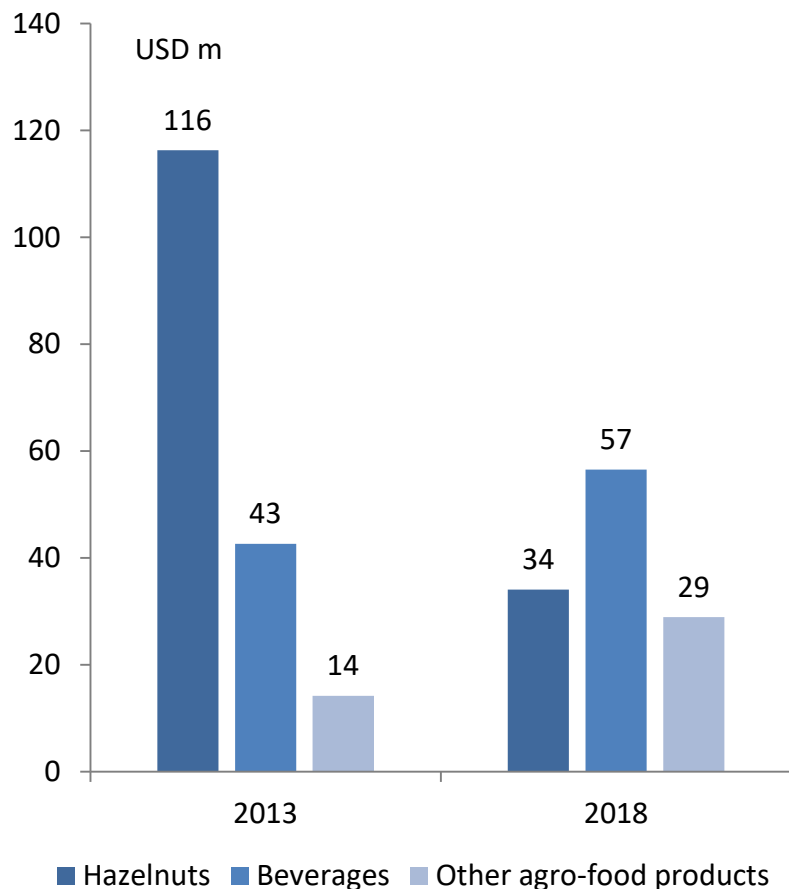
- Identify challenges and bottlenecks in volume, transport and logistics for exports of selected agro-food to the EU
- Provide solutions to address the key challenges

Approach:

- Interviews with exporters in key sectors, government representatives, sector specialists, transport and logistics companies
- Focus on various key products with high export potential (see PB/02/2019) and other products that already are being exported to the EU

1. Current Georgian exports of agro-food products to the EU

GEO agro-food exports to the EU, 2013 vs. 2018



Source: UN Comtrade, own estimates; agro-food exports include codes HS 01 – 24; re-exports are not included

GEO agro-food exports to the EU, 2018:

- Nominal: USD 120 m (2013: USD 173 m)
- % total agro-food exports: 12% (2013: 22%)
- **Reduced EU role in total agro-food exports since the DCFTA. Why?**

Agro-food exports to EU by product categories, 2013 vs. 2018:

- Hazelnuts: -71%
- Beverages: +33%
- Other products: +104%
- **Dropped hazelnuts exports due to disease**
- **Other exports grew but from very low base**

Top-10 agro-food products in GEO exports to the EU in 2018

| HS code | Description | GEO agro-food exports to EU, USD m | Share in GEO agro-food exports to EU | Growth, 2018/2013 |
|--------------|---|------------------------------------|--------------------------------------|-------------------|
| 080222 | Fresh or dried hazelnuts o, shelled | 34 | 28% | -71% |
| 220421 | Wine of fresh grapes, <= 2 l (excl. sparkling wine) | 18 | 15% | 80% |
| 220820 | Spirits obtained by distilling grape wine or marc | 18 | 15% | -9% |
| 220110 | Mineral waters and aerated waters, not containing added sugar | 16 | 13% | 88% |
| 200819 | Nuts and other seeds, incl. mixtures | 7 | 6% | 141% |
| 200799 | Jams, jellies, marmalades | 6 | 5% | 19834% |
| 220710 | Undenatured ethyl alcohol, of >= 80% | 3 | 3% | n/a |
| 110630 | Flour, meal and powder of produce of chapter 8 | 3 | 2% | 2% |
| 200979 | Apple juice, unfermented, Brix value > 20 | 2 | 2% | 32% |
| 120999 | Seeds, fruits and spores, for sowing | 1 | 1% | -37% |
| Total | | 120 | 91% | |

Source: UN Comtrade, own estimates; agro-food exports include codes HS 01 – 24; re-exports are not included

- Other than hazelnuts and beverages, value of exports of agro-food products to the EU is small
- Top-10 products account for 91% of total → high concentration

2. Volume of GEO agricultural production

| Product | Production, thsd. t | Ratio exports to production | Ratio imports to production |
|----------------------------------|---------------------|-----------------------------|-----------------------------|
| Grapes and products (excl. wine) | 181 | 0.0 | 0.0 |
| Potatoes and products | 180 | 0.2 | 0.1 |
| Maize and products | 143 | 0.0 | 0.6 |
| Wheat and products | 98 | 0.5 | 5.7 |
| Wine | 86 | 0.7 | 0.0 |
| Beer | 84 | 0.1 | 0.1 |
| Oranges, mandarines | 57 | 0.4 | 0.2 |
| Tomatoes and products | 50 | 0.1 | 0.6 |
| Barley and products | 44 | 0.0 | 0.0 |
| Alcoholic beverages | 39 | 0.9 | 0.2 |
| Nuts and products | 26 | 1.2 | 0.2 |
| Apples and products | 20 | 0.8 | 0.5 |
| Onions | 9 | 0.0 | 2.0 |
| Beans | 6 | 0.0 | 0.8 |
| Oats | 4 | 0.0 | 1.0 |

Sources: FAO, authors' estimates; 2017; non-animal products only, largest items in terms of domestic production

- Domestic production tends to be small, mostly < 100 thsd. t
- Only few agro-food products are export-oriented

Volume of GEO agro-food export to the EU in 2018

| HS | Description | GEO exports to EU, thsd.t | ACTUAL: Share GEO in EU product imports | HYPOTHETICAL: GEO <u>total</u> volume as share of EU product imports |
|--------|---|---------------------------|---|--|
| 220110 | Mineral waters, not containing added sugar | 24.1 | 0.5% | 3.4% |
| 220820 | Spirits obtained by distilling grape wine or marc | 20.2 | 15.3% | 24.5% |
| 080222 | Fresh or dried hazelnuts, shelled | 6.6 | 3.5% | 5.5% |
| 220421 | Wine of fresh grapes, <= 2 l (excl. sparkling wine) | 5.3 | 0.2% | 2.2% |
| 200979 | Apple juice, unfermented, Brix value > 20 | 2.6 | 0.4% | 0.4% |
| 220210 | Waters, with added sugar, sweetener or flavour | 1.5 | 0.0% | 0.7% |
| 070200 | Tomatoes, fresh or chilled | 1.5 | 0.0% | 0.1% |
| 200819 | Nuts and other seeds, prepared or preserved | 1.4 | 0.4% | 0.8% |
| 200971 | Apple juice, unfermented, Brix value <= 20 | 1.3 | 0.2% | 0.2% |
| 220710 | Undenatured ethyl alcohol, strength of >= 80% | 1.1 | 0.0% | 0.0% |
| 200799 | Jams, jellies, marmalades | 1.1 | 0.2% | 0.5% |

Sources: UN Comtrade, Trade Map; EU means EU-28; all HS 6-digit agro-food products for which volume of exports to the EU exceeds one thousand tones

- Limited volume of agricultural export to the EU, in products other than spirits and hazelnuts

Bottleneck – Volume (1/2)

- Most EU importers require volume to reduce transaction costs
- Apart from beverages and hazelnut, Georgia currently does not produce volume for consistent exports:
 - Out of 500 large companies in government database, less than 10 (< 2%) in primary agriculture production
 - Georgian supermarkets are importing many products, as local supply limited
 - In blueberry sector, for example, sector insiders say less than five companies are EU export-ready
 - Blueberry sector leaders together have less land under management (ca. 200 ha) than mid-sized EU producers, such as Polish *Blueberry Group* (230 ha)

Bottleneck – Volume (2/2)

- With limited volume:
 - Unit costs are higher
 - Irregular provision of transport, “no established pipeline to Europe”
 - Provision of key transport and logistics services (including laboratories) in Georgia often not yet commercially viable
- Challenge is to cover operational expenditures of ventures, not establishing the facility/machinery/laboratory itself

Bottleneck – Certifications

For fresh products, many EU retailers require certifications such as Global G.A.P. (Good Agricultural Practice), or similar, to ensure safety & production standards:

- Certification requires investments (equipment, buildings, sanitary facilities), usually of at least EUR 30,000
- Annual certification costs are around EUR 10,000 plus staff time & usually require English skills
- Costs are in addition to usual operations, putting individual certification beyond the reach of most farmers
- In Georgia, only six companies, as of mid-2019, are Global G.A.P. certified. (Israel 1,200+, Serbia 300+)

➤ **Certification requirements only allow large or mid-sized businesses to export fresh produce to most EU markets**

3. Specific barriers in transport and logistics

3.1. Specific barriers – general issues:

- Current export cost structure by types of transportation
- Packaging for Export – Cost, Advance Payment, Time
- Samples – Extra Shipment Costs
- Information Challenges

3.2. Specific barriers – case studies:

- Wine
- Berries
- Herbs

3.1 Current export cost structure: road/truck (1/2)

- Three main routes with various trade-offs:
 - **Batumi-Burgas ferry (roll on, roll off) and via Bulgaria into Europe:** considered safest and fastest route, not entirely regular
 - **Poti-Odessa ferry, and via Ukraine into Europe:** cheapest but with various risks to cargo
 - **Land:** Sarpi via Turkey, more trucks available, but more delays and higher fuel costs
 - New ferry service to Constanta/Romania not yet factored in

Current export cost structure: road/truck (2/2)

- Typical cost of refrigerated truck: around EUR 4,000-5,000 to Western Europe
 - Prices can fluctuate, occasionally very low when importing trucks return empty to EU
 - At peak harvest times, refrigeration trucks can be scarce and/or expensive, with prices up to EUR 5,500 to Western Europe
 - For perishable fruits/vegetables with low prices/per kg, low labor costs in Georgia can be offset by high transport cost to EU
- **Produce from Georgia can have added transportation cost of additional EUR 0.15 – 0.35/kg compared to Northern Italy/Southern France (& more if truck not full)**

Current export cost structure: ship/container

- Container from Poti to Antwerp approximately EUR 2,000, including some transport inside Georgia, i.e. significantly less expensive than truck (added costs from EU harbor)
- Requires 28 days or more to Antwerp or Rotterdam, primarily for non-perishable products
- Can be viable for special products
- Caveat: non-perishable products often have worldwide commodity prices, providing advantages for large scale production

Current export cost structure: air

- Costs vary, but typically around EUR 1-2 per kg to EU
- Suitable for selected products that are valuable relative to weight, such as berries or herbs
- Only from Tbilisi Airport, no other cargo terminals
- Service still fairly irregular, according to current exporters
- No full cooling chain, if cargo needs to transfer to other destination

Packaging for export – cost, advance payment, time

Fruits, berries and some vegetables require specialty packaging; with low volumes, few/no producers in Georgia

- Packaging can be 10-20% of harvest cost
- Foreign suppliers require pre-payment, adding capital outlay
- Blueberry producers order packaging from Italy, adding transport cost & delivery time
- Some exporters bring food-grade pallets from EU (incl. transport cost to Georgia EUR 35; in Italy EUR 17)
- Exporters report that distance from package producers in Turkey leads to delays and losses if harvest delayed

Samples – extra shipment costs

- Export usually requires samples (for certification, testing, and client review)
- In the absence of established and recognized local laboratories, even samples for laboratories (soil, produce) need to be sent abroad
- Samples of perishable items usually sent by air-freight, adding considerable cost (EUR 100-200 per batch)

Information challenges

- EU agro-food markets are dynamic, with significant weekly price fluctuations, hard to follow from afar
- Knowledge on transport and logistics fragmented
- Process requires separate steps (phyto-sanitary certificates, export papers, customs declarations, insurances)
- No map of refrigeration facilities, no agro-journal, limited newsletters, platforms or forums
- Limited expertise in-country, on refrigeration and packaging

3.2. Specific barriers in wine – availability and cost

Transport costs & transport availability are an issue

- Per truck, one pallet of wine costs approximately EUR 500 to bring to Germany, adding approx. EUR 0.50 to the cost of each bottle
- Shipping by pallet is complicated, requires extensive organization, adds risk, and can take weeks to organize
- Shipping in a full container requires significant capital, as total value is approximately EUR 80,000, and VAT (20%) has to be paid on import, adding capital outlay
- Bonded warehouses can be solution, but adding complexity

Specific barriers in blueberry – time & cooling chain

Blueberry exports are hampered by transport & logistics:

- Attractive product, volumes expanding, but prices very seasonal, thus planning difficult
- Challenging for road transport to Western Europe, as typical shelf-life is 20-30 days & transit takes seven days (five with two drivers)
- Air transport is viable, but challenges with regularity and cooling chain to destination (see above)
- Main growing areas in Western Georgia are far from Tbilisi, adding another transport component

Specific barriers in herbs – requires cargo terminal

Herbs are occasionally exported, but volumes typically not enough to supply Georgian market:

- Sector has successful market leader with certification
- Currently, some winter export to Bulgaria, via truck
- Export by plane currently requires additional transport to Tbilisi, adding complexity
- Cargo terminal at Kutaisi Airport would facilitate growth of export from dynamic Kutaisi/Tskhaltubo herb cluster

4. Proposals for addressing bottlenecks

- Focus on increasing volumes through FDI, export acceleration and the use of the PEM Convention
- Provide key logistics infrastructure
- Target vocational education to support export
- Stimulate domestic demand for logistics
- Bundle interests & close information gaps

Increase volumes: attract FDI

Targeted FDI attraction to address cluster & volume problems:

- Active recruitment of 4-6 firms in targeted agriculture sectors
- Identify firms with long-term outlook & direct access to EU retail shelves to assist in building transport and logistics value chain
- Ideally target firms that work with smaller farmers (aggregation, potential group certification)
- Focus on niche products with development potential due to unique location/climate
- Develop at least some ready-to-invest projects, with land & access to water, electricity, road

Increase volumes: accelerate export by existing producers

Accelerate growth of current exporters by

- Continued access to inexpensive capital
- Reducing/absorbing some of the growth risks
- Providing equity capital at lower investment thresholds (especially from IFIs)
- Reducing thresholds for consulting support
- Providing targeted support with vocational education and training, including shorter courses

Increase volumes: take advantage of PEM Convention

Increase volumes of exports eligible for preferential access to the EU by

- Using intermediate inputs originating from the Pan-Euro-Med zone for manufacturing of goods in Georgia
- The inputs originating from the Pan-Euro-Med zone can be used alongside with Georgian inputs
- Applicable for processed products only
- Applicable for countries within the Pan-Euro-Med zone, with which Georgia has FTAs that in turn allow using the PEM Convention
- For details: see GEO PB/02/2020

Note: the PEM Convention stays for the Regional Convention on pan-Euro-Mediterranean preferential rules of origin

Provide logistics infrastructure: potential ferry to Bulgaria

Broadly positive view on contribution of planned regular ferry to Bulgaria (potential government initiative)

- Main gain in avoiding additional customs, complications, delays
- Reduction in fuel cost, though ferry also costs EUR 700-800 per truck
- Driver can drive without break upon arrival
- Regularity essential – currently ferries often wait to fill up with trucks, making transport dates unpredictable.
- Caveat: this study could not establish whether there would be sufficient volume, and what the costs and opportunity costs would be

Provide logistics infrastructure: Kutaisi Airport Cargo Terminal

- Project under discussion, and in various plans
- Likely would have transformative impact in the region, as it would facilitate direct access to several markets (caveat: budget airlines and destinations often do not have cargo facilities)
- Some industry insiders believe that multiple-investor facility is more doable than large facility with single investor
- In one suggestion, provide cargo logistics zone (access roads, plots ready for development, including building permits) as intermediary step

Provide logistics infrastructure: logistics zones

- Consider *logistic zones* across the country with land-plots close to major roads, with good access roads, electricity, water, gas, internet, and building permits, to create logistics structure across country
- Successful EU practice, with limited investment cost for municipalities & geographic cluster formation for relevant services
- Lower risk for investors, ease of investment
- Significant potential for public-private-partnerships

Target vocational education to support export

- Continue to emphasize transport & logistics as a key sector for vocational education and training
- Work closely with industry, including by offering shorter training units
- Draw on experience of neighboring transit countries, including their training institutions
- In schools: continue to develop foreign language skills, as export requires significant coordination on technical level

Stimulate domestic demand for logistics

- Continue developing and enforcing standards for domestic market, to increase readiness for export
- Support further development of GeoGAP quality standards in the agro-sector, to stimulate domestic demand for packaging and other key parts of logistics value chain, including laboratories

Bundle interests & close information gaps

- Address information gaps: trade journals, mapping of services & including refrigeration and storage, transport offerings, potentially even with B2B platforms (see some of Export Development Association's initiatives)
- Consider bundled shipping for laboratory tests
- Existing business associations to focus even more strongly on addressing information gaps and facilitating exchange, drawing on established platforms
- Sustainability beyond donor assistance essential

About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

The German Economic Team is financed by the Federal Ministry of Economics and Energy (BMWi). The consulting firm Berlin Economics has been commissioned with the implementation of the project.

CONTACT

Anne Mdinardze, Project Manager Georgia
mdinaradze@berlin-economics.com

German Economic Team
c/o BE Berlin Economics GmbH
Schillerstraße 59
10627 Berlin

Tel: +49 30 / 20 61 34 64 0
info@german-economic-team.com
www.german-economic-team.com
Twitter: @BerlinEconomics
Facebook: @BE.Berlin.Economics

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