

Trends of Agro-industry

• Economic Development

Georgia is a lower middle income country with GNI per capita as of US\$ 2,530 in 2009. Total number of population is 4.3 million inhabitants, of which 47 percent live in rural area, and the annual population growth is -1.09 percent. Georgia showed a grown up GDP between 2003 and 2007 with average growth of about 10 percent. As a result of the global economic crisis, GDP sharply declined to 2.3 percent in 2008 and further to -3.9 percent in 2009. The military conflict with Russia in 2008 had negatively affected the business environment and the functioning of state institutions. The agricultural sector contributed with only 10 percent of value added to GDP but employed above 54 of total labour force in 2009. Agriculture productivity is low but it has improved in industrial sector. Manufacturing industry generated above 74 percent of total industrial output and accounted about 12 percent of GDP with a negative annual growth as of -6.6% and employed about 5 percent of total labour force in 2009.

• Food and Beverages Demand

Georgia is a net food importer with 80 percent of food requirements are met from abroad. A share of total household expenditure declined to 53 percent in 2009 compared to 62 percent in 2005. The major share in food consumption refers to bakery & macaroni, fruits and vegetables and dairy products but fish and seafood consumption is still low. Demand for processing food products, including ready-to-eat food, is increasing mainly in urban area. Organic food production is just at the beginning of its development, sharing only 0.05 percent in the agricultural land. The Government included bio-farming in its Agricultural Programme.

Food and Agriculture Organization of the United Nations
Regional Office for Europe and Central Asia

Agro-industry Outlook

The food, beverages and tobacco industry forms a large part of the economy, generating GEL1.2 billion (US\$ 0.7 bln), that represents about 43 percent of manufacturing output and 34 percent of manufacturing value added, and employing 21 thousand people (or 31.8 percent of manufacturing labor force) in 2009. There were 1'232 enterprises registered in 2007 (or about 9.2 percent of total number of manufacturing enterprises), most of which are private small or medium-scale enterprises. SME generated above 30 percent of total F&B&T output in 2008. Labour productivity is growing over time. Investments in fixed capital present about 41 percent of the manufacturing investments that have decreased by 45 percent in 2009 to the 2007 level. Important subsectors include beverages (mainly wine and mineral water), processed fruit and vegetables and cereals. Since 2006 of Russian trade embargo on wine, spirits and mineral water, Georgian winemakers, with Government support, have taken steps to diversify exports and improve production quality for expending markets for their products. The F&B industry performance is stable over time in terms of output and employment but not stable in investments share. Domestic retail market has more than tripled from 2001 to 2006. Yet, it is underdeveloped and fragmented across the country but it has been fast emerging in the capital.

Chart 1: Food and Beverages Industry Performance

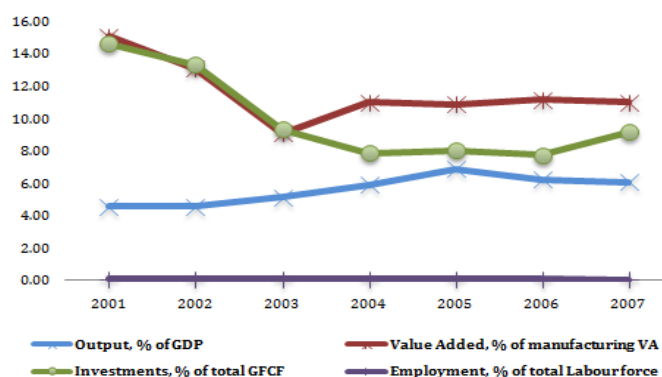
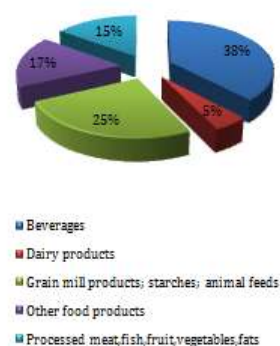


Chart 2: Products Output Share, 2007



GEORGIA

2011

Key Economic Indicators	2009
GDP, US\$ billion	10.7
Manufacturing VA, % of GDP	11.6
Agriculture VA, % of GDP	10.0
Employment in Agric., % of total	53.4
Gross Fixed Capital F., % of GDP	14.4
FDI net inflows, % of GDP	6.1
R&D, % of GDP	0.18
Merchandise Trade, % of GDP	51.3
Merchandise Exports, US\$ billion	1.13
Merchandise Imports, US\$ billion	4.38
Global Merchandise Exports rank	135

Food, Beverages & Tobacco	2009
Output, % of manufacturing	42.6
Value Added, % of manufacturing	34.4
Enterprises, % of manufacturing	9.2
Employment, % of manufacturing	31.8
Investments, % of manufacturing	40.7
FDI inflows, % of total FDI inflow	n/a
R&D, % of Output	n/a
Net Trade, US\$ billion	-0.3
Exports, % of merchandise exp	11.4
Imports, % of merchandise imp	9.8
Exports annual growth, %	-29.1

Agro-industry National Policy Framework

National Development Programme. The key documents setting out the Government policies for the country, agriculture, rural and agro-industry development include: (i) the Comprehensive Strategy in Competition Policy (2010); the Comprehensive Strategy and Legislative Approximation Programme in Food Safety (2010); (iii) the Strategy in Standardisation, Accreditation, Conformity Assessment, Technical Regulations and Metrology and Programme on Legislative Reform and Adoption of Technical Regulations (2010); (iv) the Annual State Control Programme of Food Business Operators (2010); and (v) the Resolution of the Parliament of Georgia On Trust in the Governmental Program and Composition of the Government of Georgia - "United Georgia without Poverty" (2010). The Strategy for the Agricultural Development for 2009-2012, was not endorsed and reviewed in 2010, announcing greater political commitment to promoting growth and jobs in the agricultural sector. The government also launched a state programme of "Cheap Credit" aimed at supporting SME, including farms and other agricultural businesses, as well as the programme - 100 New Agro-industry Enterprises (2007), when companies can also purchase state-owned agricultural land at concessional prices in rural areas. The Government adopted the General Plan for Food and Feed Crisis Management (2010). The Bank of Georgia promoted access to finance through a 'Small and Medium Enterprise (SME) Lending' credit line, approved in 2010.

In February 2010 the government created the Georgian Agriculture Corporation, a state-owned company aiming to become the operational arm of the ministry of agriculture.

Georgia has with the EU a Partnership and Cooperation Agreement since 1999 with an ENP Action Plan from 2006. Together with the UN organisations the country elaborated UNDAF for 2011-2015.

Legal Framework. Georgia has adopted a number of laws to encourage agricultural and agro-industry growth and rural development, including the Law on Food and Tobacco (1999), the Law on Vine and Wine (1998), the Law on privatization of state-owned agricultural land (2005), the Law on Free Trade and Competition (2005) and the Law on Free industrial Zones (2007) among others. In order to involve relevant government institutions and agencies in the drafting process of the Strategy and Legislative Approximation Programme an Inter-agency Working Group was created by the decision of the EU Integration, chaired by the Minister of Agriculture. The Government started registration of food business operators in order to create a sophisticated database by the year 2011.

Trade Liberalization, WTO Accession and Trade Performance

Trade Regulation. Georgia has streamlined its customs procedures and continued to liberalize its trade regime. Georgia adopted the Law on Custom Code and the Law on Customs Tariffs (2006) provides for the reduction of tariff rates and cutting down the number of the existing 16 tariff rates from 12-30% to 12%, from 5-12% - to 5%, and from 0-5% - to 0%. Imports of agricultural products are subject only to tariffs (zero, 5% or 12%) and sanitary and phytosanitary measures. Georgia has signed free trade bilateral agreements with eight countries and with the CIS, out of which seven are in effect. Georgia is one of only fifteen countries in the world that benefit from GSP+ access to the EU market, allowing duty-free access for more than 7000 products as well as with the U.S., Switzerland, Norway, Canada, and Japan. Fixed excise tax rates apply to certain goods such as alcoholic drinks, ethyl alcohol, cigarettes, etc. Georgia was trading with 131 countries in 2009.

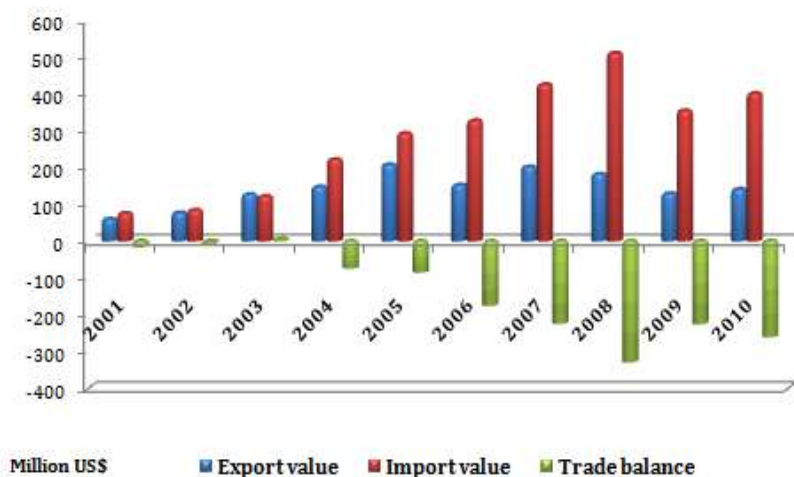
WTO accession. Georgia has been a member of WTO since Jun 2000 and an observer to the Agreement of Government Procurement (GPA) accession with 0.025 percent of contribution to WTO budget in 2011. Simple average of imports duties for agricultural goods applied in 2009 were 7.7 percent. The first Trade Policy Review by the Trade Policy Review Body of the WTO was in Dec 2009. According to the report further structural reforms will be a key to Georgia's sustained development.

Trade Performance. Exports of merchandise goods accounted US\$1.1bln or around 12% of Georgia's GDP, when imports made over 40% of GDP with main export commodities as precious stones, steel, beverages and edible fruits, nuts and citrus, which provide around 50% of total export revenue. In 2009 Georgia had a negative trade balance of US\$0.23bln in F&B that has been steadily increasing over time. Processed F&B products accounted 8% of total merchandise imports and 11.4% of total merchandise exports in 2009 with an average annual export growth as of -29% after a jump of exports by 41% in 2005 and 32% in 2007. Agricultural export was increased by 13% between 2005 and 2009, with the main products such as nuts (10% in total export in 2009), alcoholic beverages other than wine (8%), wine (5%) and mineral waters (3%). From 2005 to 2006, beverages and spirit exports fell by 27% as well as exports of vegetables and fruits due to the Russian trade embargo that caused the loss of the main export market for Georgian agricultural products (especially 80% of wine) and forced wine producers trying to enter new markets, mainly in EU (agricultural export amounted to 21.4% in 2009), the CIS, the U.S., and China. Georgia's is an import-dependent country in food products, except beverages.

Top destinations for F&B products: Uzbekistan (35%), Afghanistan (34%), Tajikistan (13%) and Kyrgyzstan (9%);

Top origins for F&B products: Ukraine (28%), Russia (14%), Brazil (13%) and Turkey (11%) in 2009

Chart 3: Food and Beverages Trade Performance over time



Foreign Direct Investments

Regulation. Law on the Investment Activity Promotion and Guarantees (1996) provides the legal basis for foreign investment in Georgia. The Government had introduced a Foreign Policy Strategy for the period 2006-2009. Georgia can encourage foreign investors with low tax rates, competitive trade regimes with low import tariffs and simplified licensing and permit procedures. However, foreign investors face few restrictions, limitations and bureaucratic hurdles.

For providing with necessary information and facilitating a public-private dialog the National Investment and Export Promotion Agency has established Business Information Centers in Tbilisi and other cities.

FDI inflows. In 2009 Georgia's FDI inflows accounted 6.1 percent of GDP declined by 62 percent to the 2007 level when it was a pick of FDI inflows. Industry shared 21 percent of total FDI inflows. The major investors are Arabic Emirates (25%), Turkey (15%), Panama (11%) and the U.K. (11%). Out of CIS countries Azerbaijan and Russia are largest investors. The vast majority of FDI is directed to the Real Estates sector and industry. There has been very limited investment in export-oriented agribusiness and manufacturing. According to the WIR 2009 Georgia was considered as a country having middle relative importance as in agriculture so in manufacturing.

Food Safety, Certification & Quality Control

Food Safety regulation. Georgia is a member of the Codex Alimentarius Commission and a correspondent member of the International Organisation of Standardization (ISO). Georgia's goal is to approximate its domestic legislative framework with relevant EU Acquis by 2014.

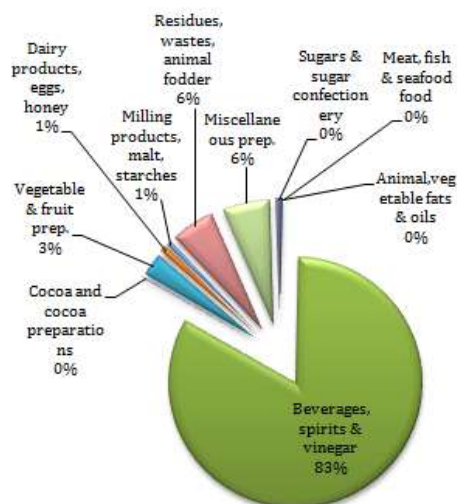
Food products are a subject to the Law on Food Safety and Control (2005), introducing a fundamentally different approach, shifting the emphasis from end-product testing to a focus on the production process and the identification and prevention of threats. The Food Safety Law was amended to extend inspections and traceability to all food and feed operators starting Jan 2011.

The Food Service Rules and Regulations came effective from Nov 2006. In 2010, Georgia drafted and adopted several implementing acts such as the hygiene rules for food and feed business operators, including simplified rules for smaller operators. It also adopted rules on inspections and traceability. A new Code on Safety and Free Movement of Products as well as a Law on Technical Hazard Control were drafted.

Certification. GEOSTM has accepted "The Code of Good Practice" in Nov 2003. The government has adopted a system of "voluntary" standards and certification, whereby the importer can choose to conform his products to Georgian standards or the standards of any EU or OECD member country. If foreign standards for food products are chosen, they must be registered by the importer in the Ministry of Agriculture. Georgian wine can be imported to the EU after receiving end product certification at an EU approved laboratory in Georgia.

Quality Control. Accreditation is implemented by the National Accreditation Body - Accreditation Centre that performs accreditation largely in accordance with international and the EU standards and guidelines in both regulated and voluntary areas. The National Service of Food Safety, Veterinary and Plant Protection under the Ministry of Agriculture is responsible for quality control. A number of food processing enterprises began introducing quality management standards as HACCP.

Chart 4: Share of Exported Product Groups of F&B in total exports. in 2009



Business Environment and Competitiveness

Business Environment. According to the Doing Business Report 2011 Georgia is considered as one of the top 10 economies that made the largest strides in making their regulatory environment more favorable to business by implementing more than a dozen reforms over the 5 years, and being ranked (out of 183 economies) as 12 in 2011 (up by 1 point to 2010). Trading across the borders is ranked as of 35 (down by 4), paying taxes - 61, protecting investors - 20 (up by 21), getting credit - 15 (up by 15 through improving access to credit by implementing a central collateral registry with an electronic database accessible online), and starting business - 8 (down by 2).

Taxation Relieving. Georgia is in the list of top ten countries of the world where the lowest total tax rate (15% of profit). According to the new Tax Code (2010) the tax burden on companies was eased by lowering the corporate income tax from 20 to 15 percent, abolishing the social tax by flattering personal income tax to 20% in 2011 with further decrease to 18% in 2013 and 15% in 2014. Agriculture is tax exempt. Georgia is also a party to 31 double tax treaties.

Competitiveness. According to the Global Competitiveness Report 2010-2011 Georgia is in a transition stage from 1 to 2, it got 93 overall Global Competitiveness Index among 139 countries, having the most five problematic factors of doing business as follows: access to financing, policy instability, inadequately educated workforce, poor work ethic in national labor force and government instability/coups.