

**EMBASSY OF INDIA
YEREVAN**

**Coffee Market Survey
Georgia**

April 2005

GEORGIA – FACT SHEET

Location	South Caucasus
Area	69,500 sq km
Capital	Tbilisi (1.3 mn pop)
Neighbours and Boundaries	Armenia-164 kms, Azerbaijan – 322 kms, Russia –723 kms, and Turkey-252 kms
Coastline	310 kms
Ports	Poti, Batumi
Land	Largely Mountainous
Land use	Agricultural 42%, water 2% and forest 34%, Irrigated land 4000 sq. km
Economy	Traditionally agricultural, producing fruit, wine, oils, tobacco and spices. Industries include manganese and coal mines, crude oil and gas production and food processing.
Natural resources	Hydropower (26,000 rivers), manganese, non-ferrous and rare metals, minor coal and oil, forests, coastal climate and soils allow for important tea and citrus growth
Electricity (2001)	Production 7.2 bn kWh, consumption 7.6 kWh
Population (2003)	4.4 mn (Urban 2.8 mn), Growth rate: - 0.2 per thousand. Regular migration abroad. Estimated 280,000 Internally Displaced Persons. Male/female ratio: 0.9:1.0
Ethnic groups	Georgians 84%, Armenian 8%, Russian 6%, Azeri 6%, Ossetian 3%
Life expectancy	73 years
Literacy rate	99%
Religion	The Orthodox Church of Georgia is one of the oldest Christian communities in the world, dating back to 337. Most Georgians belong to this faith. There are small communities of Muslims, Catholics, Slav Orthodox believers, Armenian Apostolics and Zoroastrians. Orthodox 75% (Georgian Orthodox 65%, Russian Orthodox 10 %), Islam 11%, Armenian Apostolic 8%, others 6%.
Language	Georgian, with 33 alphabets, written in a unique rounded alphabet. It is the largest among the Ibero-Caucasian languages, a non-Indo-European group.
History	Georgian history dates back over 2,500 years and Georgian is one of the oldest living languages. Tbilisi, located in a picturesque valley divided by the Mtkvari River, is over 1,500 years old. Much of Georgian territory was besieged by its Persian and Turkish neighbours along with Arabs and Mongols from 7 th to 18 th centuries. After eleven centuries of mixed fortunes, including a Golden Age from 11 th to 12 th centuries, Georgia turned to Russia for protection. Russia annexed Georgia and exiled the royalty in 1801. Pockets of Georgian resistance to foreign rule continued, and the first Republic of Georgia was established in May 1918 after the collapse of Czarist Russia. By March 1921, the Red Army had reoccupied the country and Georgia became part of the Soviet Union. On 9 April 1991, the Supreme Council of Georgia declared independence.

Political system	Presidential Republic (President is Head of State and Executive)						
State structure	Federal country consisting of two autonomous republics (Abkhazia and Ajara), and 12 regions divided further into rayons (Abkhazia has broken away as has another region South Ossetia)						
Independence Day	9 April 1991						
National Holiday	May 26 (coinciding with establishment of first Republic of Georgia on 26 May 1918)						
Constitution:	Adopted August 1995						
Head of State:	President Mikheil Saakashvili elected President in January 2004. President is Head of State and Government, elected by popular vote for a maximum of two five-year terms						
Legislative branch	Unicameral Supreme Council (235 seats); last elections: March 2004.						
Currency	Georgian Lari (US\$ 1 = 1.83 Lari APR 2005)						
GDP (2004)	US\$ 5.4 bn (US\$ 12 bn ppp)						
Per capita GDP (2004)	US\$ 1,200 (app)						
Per cap GDP (PPP)	US\$ 2,500						
GDP growth rate(2004)	8.5% (2203=11.1%)						
GDP-composition	Agriculture:20%; Industry:23%, Services: 57%						
Unemployment	Officially 10.8%, actually close to 50%						
External debt (2004)	US\$ 2.4 bn						
Reserves end-2004	US\$ 300 mn						
Avg. monthly wage (2004)	US\$ 50						
Major crops	Potatoes, hazelnuts, tea, citrus fruits, grapes (excellent wines)						
Industry	Some 72 power plants, breweries and distilleries, chemical, petrochemical ("tea kettle" refineries), food processing and shipbuilding (at Batumi), cement (at Kaspi and Rustavi) are main industries. Surviving relics of Soviet era include SU aircraft factory, Kutaisi Auto Plant, machine tools, textiles, shoes, chemicals and wood products. Privatisation began after independence in 1991 and large-scale sell-offs of infrastructure enterprises are continuing						
Transport & Communication	Railways 1613 kms, Highways 21,000 kms, Airport- Tbilisi connected with all major European Countries						
Exports (2004) US\$ 515 mn (est)	Scrap metal, machinery, chemicals; fuel re-exports; citrus fruits, tea, wine, textiles. Major buyers are Russia, Turkey, Armenia, Azerbaijan, Switzerland, Ukraine						
Imports (2004) US\$ 1.25 bn (est)	Fuels, machinery and parts, transport equipment, grain and other foods, pharmaceuticals. Major imports from Russia, UK, Turkey, Azerbaijan, US, Germany, Ukraine, France						
Business opportunities for Indian companies	Mahindra Bolero vehicles assembled at Kutaisi Automobile Plant. Pharmaceuticals, small and medium scale industries, Information Technology and agriculture (tea, silk farming and meat) are priority sectors.						
International Organisations	Member of the CIS, OSCE, UN, WTO, Black Sea Economic Cooperation Organization, G8, IMF, World Bank and NATO's Partnership for Peace Programme.						
Bilateral trade (US\$ mn)	1998	1999	2000	2001	2002	2003	2004
India's exports	0.7	1.4	1.2	2.1	4.2	5.5	5.77
India's imports	0.4	0.3	1.3	4.6	1.9	5.9 (scrap)	6.03 (scrap)
Main items of bilateral trade	India's major imports are scrap (aluminum and copper) while major exports are pharmaceuticals, polyesters, meat, machinery, tobacco, coffee and (since 2003) sugar						

Introduction

This survey is based on information obtained through Customs Department and various official and non-official sources.

The purpose of this survey is to assess the possibility of exporting Coffee from India to Georgia by analyzing the existing situation in the Georgian coffee market.

Current Market Situation

Georgian Coffee market today is full of cheap-low quality coffee. Low purchasing power and lack of a coffee culture explain this fact. Two types of coffee – Coffee (solute) powder and Coffee beans – are mostly available on market.

Georgia does not have expertise in grilling coffee. Owing to shortage of knowledge and experience, high quality coffee can be spoiled in the process of grilling or mixing with soy-beans.

There is no local coffee production in Georgia. 90% of the total import is green coffee-beans which is processed, packed and sold locally, but the quality of the coffee-beans is poor.

According to the information given by Customs Department, about 200 tones of coffee-beans are imported quarterly but this information does not reflect reality. The reality is that about 50% more is imported illegally, mainly from Armenia. Coffee is imported also from Malaysia, America and Russia.

The most realistic overview of Coffee Market can be obtained from medium and low class restaurants, pubs, bars and cafes in Tbilisi. There are about 48 such places in Tbilisi.

There are about 15 different types of packaged coffee sold in the Georgian market, but the only difference between is the packaging, the quality is the same.

There are 9 different kinds of coffee grilled and sold by weight but the type of coffee-bean is the same – green. Coffee-beans that are improperly processed are sold at a lower price after reprocessing.

There are no coffee imports from Brazil, as the quantities are small and the smuggling factor too high. The price for the cheapest Brazilian coffee is USD 0.40 per can of 50 gms.

Solute coffee market is quite big, and is dominated by Nescafe. Other companies wishing to enter this segment of the Georgian coffee market should introduce a quality not lower than that of Nescafe, at an acceptable price with at least 6 months aggressive advertisement campaign.

Coffee Processing Factories

There are three main Factories processing coffee-beans in Georgia.

“Lambada”

“Kazbegi”

“Coffee House”

High Quality Product

There are some types of expensive high quality coffee available in the market. The wholesale prices of high quality coffee range from 44 Georgian Lari (GEL) to 55 Lari per kg (US\$ 1= GEL 1.80 as of September 2004). Wholesale prices of cheap coffee start from 12 Lari/per kg. Big restaurants buy low quality cheap coffee and make 80 cups from 1 kg of coffee. Some restaurants have started buying high quality coffee, making about 200 cups from 1 kg coffee, without any dilution of quality.

High quality, processed, grilled coffee-bean imports constitute only about 6% of the total requirement.

The Importer Companies are:

“Molongo” – France

“Lavanza” – Italy

“Kartie Neur” – France

“ILI” – Italy

Coffee Categories

So called “Turkish” and solute coffee are the most popular in Georgia. There is no big requirement of Espresso coffee in Georgia, which is mainly sold in high-class restaurants, bars and cafes. For example, in a medium class restaurant, if 20-30 cups of “Turkish” coffee are sold per day, only 5-8 cups of Espresso are sold. In cheap restaurants the best seller is Turkish coffee of the lowest quality. Espresso is not served at all.

Solute coffee can not be prepared properly in Georgia because the equipment required is very expensive.

Brands of “instant” solute coffee available in Georgia

Nescafe
Pele
Mocona
Chibo
Carte Neuar
Marnerro
Davidov

The best sellers

The best selling brands are Nescafe and Pele. Market studies suggest that the proportionate daily sales are Nescafe (6-7 cans), Pele (5-6), Chibo (2) Mocona (1) Davidov(3-4) and Carte Neuar (3-4).

The central distribution office in the Caucasus region for solute coffee is in Tbilisi, from where it is distributed all over Georgia and Armenia.

Solute or instant coffee is mainly served in bars, restaurants and cafes. Cold solute coffee is very popular in summer but mostly cheap low quality coffee is used.

Espresso

Espresso coffee is quite expensive by Georgian standards, people (other than foreigners) do not know this type of coffee and it needs special machines which cost around US\$ 7,000. It is not profitable for the owner of the restaurant to buy this machine as the demand for Espresso in a typical restaurant is 4-8 cups a day. Years would be required to recover the cost of the machine. Only about 6-8 restaurants in Georgia sell Espresso.

So called “Turkish Coffee”

Turkish coffee is very popular in Georgia. Low quality cheap Turkish coffee is imported from Russia, Syria, Armenia, Turkey, Malaysia. High quality expensive Turkish coffee is imported from Italy, France, Germany and Spain.

Foreign Company’s Interests in Georgian Coffee Market Development

Some Italian coffee companies have opened their offices in Georgia to service the regional market (Armenia, Azerbaijan and Georgia). Italian coffee is of very high quality but the prices are very high and the market small. Nevertheless, the Italian companies seek to establish a first-comer advantage in the Georgian coffee market. They plan to market Italian coffee for US\$ 6-7 per kg ex-factory.

Taxation

Taxation tariffs on coffee imports into Georgia:

Customs fee – 0.3 %

Customs duty – 12%

VAT – 20%

Total (cumulative) – 34.7%

Y = Cost of product at Customs (includes invoice price of product, transportation, insurance and other overheads).

Calculation of Taxes in Total:

$(Y \times 0.3\%) + ((Y + Y \times 0.3\%) \times 12\%) + (Y + Y \times 0.3\% + (Y + Y \times 0.3\%) \times 12\%) \times 20\%$

Conclusion

The main element of the strategy for developing a coffee market in Georgia is to have reasonable quality at an economic price. Aggressive advertising would be required to promote a new product in a market with very low average purchasing power.