

EMBASSY OF INDIA
YEREVAN (ARMENIA)

Market Survey

Processed Food
Georgia

April 2005

Location	South Caucasus
Area	69,500 sq km
Capital	Tbilisi
Neighbors 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	Hydro Power 26,000 rivers), manganese, non-ferrous and rare metals, coal and oil (minor)
Population (2002)	4.4 mn (Urban 2.8 mn), Growth rate: - 0.2 per thousand. Regular migration abroad. Estimated 280,000 Internally Displaced Persons
Ethnic groups	Georgians 84%, Armenian 6%, Russian 1.5%, Azeri 6%
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, written in a unique ornate, rounded alphabet. It is the largest among the Ibero-Caucasian languages, a non-Indo-European group. The script, with 33 letters, draws on ancient Eastern Aramaic.
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, while Ajara is semi-independent)
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 both the Head of State and Government, elected by popular vote for a five-year term. Can hold office for maximum of two terms
Legislative branch	Unicameral Supreme Council (235 seats); last elections: March 2004.
Currency	Georgian Lari (US\$ 1 = 1.83 Lari April 2005)
GDP (2004)	US\$ 5.4 bn (US\$ 12bn ppp)
Per capita GDP (2004)	US\$ 1200 (app)
Per cap GDP (PPP)	US\$ 2,500
GDP growth rate(2004)	8.5 % (2003- 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, 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 communications and manufacturing enterprises are

Transport & Communication	continuing Railways 1563 kms, Highways 21000 kms, Airport- Tbilisi connected with all major European Countries						
Exports (2004) US\$ 515mn (est)	Citrus fruits, tea, wine, other agricultural products; diverse types of machinery; ferrous and nonferrous metals; textiles, chemicals, fuel re-exports. Major buyers are Russia, Turkey, Armenia, Azerbaijan, Bulgaria.						
Imports (2004) US\$ 1.25 Bn (est)	Fuel, grain and other food items, machinery and parts, transport equipments. Major imports from Russia, Turkey, Azerbaijan.						
Business opportunities	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, GUUAM, 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	6.03
Main items of bilateral trade	(scrap) (scrap)						
	India's major imports are scrap (aluminum and copper) while major exports are pharmaceuticals, meat, tobacco, coffee and (since 2003) sugar						

New Political Environment in Georgia

As a result of central political changes in November 2003, (so called peaceful/velvet rose revolution) the rule of the old regime came to its end in Georgia. After persuasive victory in the 2004 January elections the New President and the New Government came to power. They brought a new reform vision and a new strategy for statehood building; to ensure coherent implementation of the state reform programs. The creation of new favorable business environment is a core of these reforms.

New Business Environment in Georgia

- Anti-corruption measures
- Launch of new phase of privatization
- Liberalization of tax code
- A package of new liberal business-related legislation

- Improvement of fiscal administration, higher level of institutional efficiency
- Property rights, protection of investments are guaranteed by law

Altogether provide for a substantially new business environment in Georgia.

INTRODUCTION

This survey gives a general overview of Georgia's food sector, in particular, food processing. The report is based on data provided by official and non-official sources. The purpose of this survey is to assess the possibility of exporting processed food from India to Georgia by analyzing the existing situation in the Georgian processed food market.

GENERAL OVERVIEW

Traditionally Georgia has been a net exporter of food products and a major supplier of vegetables, fruit, tea, essential oils, citrus, wine, mineral waters, cognac, canned fruits, and vegetables to the rest of the Soviet Union. The country used to contribute more than 10 percent of all inter-republic trade in food and agricultural products, and the value of the Georgian food exports to the rest of the former Soviet Union exceeded by factor of 1.7 the value of food imports from Soviet republics. During recent years, however, the supply of agricultural products from Georgia to the FSU republics and international markets has been substantially reduced. The country has lost its position on export markets and, as a result, Georgia became a net importer of food products.

Georgia is largely an agriculture-based economy. More than 50 percent of the population is engaged in this sector. Therefore, agriculture could play a critical role in the recovery of the Georgian economy. It used to be one of the main production sectors and still continues to produce, although at a substantially lower level. Currently, farmers are poorly linked to growing urban and export markets. The sector is depressed and stuck in a low input and low output cycle as access to markets and financial resources are limited. Many food processing operations that made canned fruits and vegetables closed their operations in the past decade.

After the collapse of the Soviet Union, the process of rehabilitation of the Georgian agro-sector took almost 10 years. Currently, Georgian food processing industry is reviving.

FOOD PROCESSING

Food processing is a major industry in Georgia's economy. During Soviet times, the size of some branches of the Georgian food processing industry grew in excess of the limits of the domestic market and acquired a significant share of the ex-Soviet market. According to a special characteristic of the food processing industry, the output of some products (wine, tea, canned fruit, citrus juice and mineral water) far exceeds the level needed to sustain domestic consumption. At the same time, however the country is not self-sufficient in other basic agricultural products and foodstuffs, such as wheat, sugar, vegetable oil, and milk.

VEGETABLE AND FRUIT PROCESSING

Vegetable and fruit processing could be easily considered as the most vital sector in Georgia, as well as that with the best export potential. However, in the past several years, the output of this sector of the food industry fell considerably, following the pattern experienced in other sector. The present poor situation could be easily demonstrated by the fact that in year 2000 the total output of vegetable and fruit processing sector dropped from 760 million cans to 1.2 million. According to currently available information (2003-2004), 55 food processing plants out of 58 are not operational.

At the same time during the last several years canning industry showed considerable growth. In 2003 - 2004 processing of fruits and vegetables increased by 47 percent.

In the canning industry, the bulk of the productive capacities have already been privatized. Enterprises were sold by lease bid, competitive bidding, and transformation into joint-stock companies. According to the official privatization strategy, all shares of every canning factory can be sold and investors may acquire majority ownership of the companies.

In addition, the products of the Georgian canning industry are still in demand in the CIS countries, which represent a large market for distribution.

Activity in the field is regulated by the Law of Georgia on Fruit Production. Ministry of Agriculture and Food was working on harmonization of legislation with European standards and on a legislative base.

USEFUL CONTACTS

GEORGIA FOOD IMPORT

A global buyer of processed, prepackaged and bulk foods for distribution into Georgia. It buys processed, prepackaged and bulk foods globally, for distribution into Georgia.

15 Khoshtaria Street
Tbilisi, Republic of Georgia
Tel: +995 32 983528 / 986121
Fax: +995 32 252169

GREBI

Industrial Company of Georgia
Georgian Canning Production
Tbilisi, Airport Settlement
Tel: 765820
E-mail: greb@gol.ge

AROMA-PRODUCTS

Fruit Processing Company
Guramishvili ave. 17
Tel/Fax: 613356
e-mail: info@aroma.ge

FOOD HOUSE

Tsereteli 39a
Tel: 345304
Fax: 341336

NIKORA

Processed Food Production (Meat & Dairy Products, Spices)
M. Kavtaradze 11, Tbilisi

Tel/Fax: 691180
e-mail: nikora5@posta.ge

Association of Canning Industry Professionals

Tamaz Kacheishvili, President
41, Kostava Str., Tbilisi 0179, Georgia
Tel: (995 32) 935870
Fax: (995 32) 998526

Iceberg (cold storage and food processing enterprise - sausages, butter, ice-cream)

Amiran Manjavidze, director
Ponichala, Tbilisi
Tel: (995 32) 996181, 722159

MAJOR IMPORTERS OF PROCESSED FOOD IN GEORGIA

<u>IMPORTER COMPANIES</u>	
TAMARA FRUIT	ARMENIA
IGRADO	GERMANY
SCHWARTAU	GERMANY
FRAGATA	GERMANY
GOLD	GERMANY
HEINZ	GERMANY
CHUMAK	UKRAINE
KIKNOS	GREEK
PINAR	TURKEY
GOZDE	TURKEY
LORATO	SPAIN

PRICES OF PROCESSED FOOD ON GEORGIAN MARKET

Description	Unit of Measure	Price in GEL
Canned Fruit	350 gm	1.50 – 4.00
Pickle (cucumber)	400 gm	1.00 – 3.00

Mixed Vegetables	400 gm	2.00 – 3.00
Tomato Paste	400 gm	2.00 – 3.00
Salad Cream	400 gm	1.50 – 3.00
Jams	250 gm	2.00 – 5.00
Canned Corn	250 gm	1.50 – 2.00
Mushroom Marinade	350 gm	3.50 – 5.00
Olives	350 gm	2.00 – 4.00
Dried Fruit	200 gm	2.50 – 3.50
Fruit Sauce	400 gm	2.20 – 2.80

TAXATION

Customs fee – 0.2 %

Customs duty – 12%

VAT – 20%

In Total – 34.6%

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

Calculation of Taxes in Total:

$$(Y \times 0.2\%) + ((Y + Y \times 0.2\%) \times 12\%) + (Y + Y \times 0.2\% + (Y + Y \times 0.2\%) \times 12\%) \times 20\%$$

OPPORTUNITIES FOR INDIAN COMPANIES

Opportunities for Indian agribusiness companies in Georgia can be found in the fruit and vegetable, essential oil industries. There is a great need for food processing and packaging equipment, as well as for modern, highly efficient and energy efficient agricultural machinery, and modern technologies.