



## The chapters of the Oxfam report

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## THE DCFTA AND INTERNATIONAL ECONOMIC INTEGRATION

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## The Deep and Comprehensive Free Trade Agreement

The Association Agreement with the European Union aims: 'to achieve Georgia's gradual economic integration into the EU Internal Market, ... in particular through establishing a Deep and Comprehensive Free Trade Area which will provide for far-reaching market access on the basis of sustained and comprehensive regulatory approximation.'

- Remove all tariffs (border taxes) on imports and exports between the EU and Georgia
- Allow unrestricted circulation of capital between the two, including that of companies from one investing in the other
- Revise Georgia's laws to approximate those of the EU's Internal Market

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## The DCFTA and agriculture

- Georgia must adopt the EU regulations that govern business, including strict regulations on hygiene, food safety and animal health
- If done comprehensively this alone is a colossal task, involving the assimilation of 375 EU directives and regulations by 2030
- A project to do so started in 2010, with a plan to match 43 directives and regulations by 2014, later extended to 2020

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## What do EU agricultural regulations entail?

'In Europe, food safety begins with livestock health, which means regular vaccination and constant observation for contact with ill or unvaccinated animals.

'Besides, all livestock should be registered and undergo veterinary supervision.

'In addition, there are norms for slaughtering, processing of meat, hygiene and so on.

'It will take several years for our industry to match all these requirements.'

- Lia Todua, manager of Consumer.ge (მომხმარებელი.გე)

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### EU companies' advantages

- To a large extent this cooperation will benefit the EU's companies, due to their greater size and technical and managerial capacity
- The EU's combined gross domestic product (GDP) in 2014 was €13,921 billion, more than 1,000 times Georgia's GDP of €12.1 billion
- As an example, the introduction of EU-style competition law in Georgia might seem redundant, since even a national monopoly is likely to be far smaller than any leading EU company in the same sector

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### Omissions from the DCFTA

There are no requirements to approximate the EU's advanced legislation on the environment and labour, except as regards food safety and the health of livestock

- Rules forbidding the use of genetically modified organisms (GMOs) must be taken on
- But there is nothing on other effects on the rural environment, such as pesticide run-offs, the misuse of chemicals and soil depletion

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### Other poorer countries' experience of integration in the EEC/EU

First wave of 'accessions', 1973-1986:

- Greece, Ireland, Portugal and Spain were integrated rapidly and successfully
- Helped by generous benefits from the Common Agricultural Policy and Regional Development

East and Central European accessions, since 2004:

- GDP growth of 9-38% over 10 years in eight of the first ten countries to join, but declines in Cyprus and Slovenia
- Mixed record in the three more recent members, including growth in Romania of 65%
- But the impact on distribution of income and the situation of farmers and rural areas is less clear

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### Small agrarian countries in other regions under globalisation

- Elsewhere, many small agrarian countries have faced increases in food imports and declining self-sufficiency in food under globalisation
- This is partly because the markets for internationally traded goods and the *informal* markets used by smallholders are disconnected
- Food safety and other standards are achieved very differently in these different environments

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### GEORGIAN AGRICULTURE AND FOOD SECURITY

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### Georgian agriculture and food security

- By some measures, Georgia is in a good position for basic food supplies and elementary nutrition
- Georgia was placed 16<sup>th</sup> among 118 countries in the *Global Hunger Index* for 2016, with an overall score for hunger of 8.2 – rated as 'low'
- However the prevalence of non-communicable diseases – in particular heart disease and diabetes – is alarming
- One of the main reasons is lack of diversity in people's diets
- 61% of people are deficient in meat and fish consumption, 45% in fruit and vegetables and 20% in dairy products

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### The macro-economics of Georgian food

- At least 66% of Georgia's food is imported
- This varies greatly between products: 92% of milk and milk products are domestically produced but only 8% of wheat
- Government expenditure on agriculture has increased, but only from 0.44% of the budget in 2010 to 2.9% in 2014
- One reason for overlooking agriculture is that it only provides 9.1% of GDP (2015), and so it seems of little *economic* significance
- But this is partly because of the very facts that agricultural incomes are low, and much domestic agricultural trade is not officially recorded because it takes place on informal markets

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### Why the Agricultural Strategy was needed

- In this context, the Government's Agricultural Strategy of 2015 and other recent measures are very welcome and necessary
- Statistics show that agricultural production and activity have picked up since 2010, but much progress is still needed
- Yields of some important annual crops are still below the average levels of the 1970s
- The 572,000 family farms in Georgia average only 1.2 HA in size, and other agricultural holdings no more than 49.2 HA (2014)
- Only 22 per cent of family holdings are run by a person under 45

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### AGRICULTURAL TRADE AND THE DCFTA

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### Georgia's agricultural trade and the EU

- The EU accounted for only \$36.8 million of Georgia's agricultural trade deficit in 2015, with \$208 million worth of exports and \$245 million of imports
- Hazelnuts were the biggest agro-food export to all countries, worth \$176 million, followed by wine (\$96 million), mineral and fresh water (\$82 million) and spirits (\$65 million)
- However, even with zero tariffs, poorer countries generally have great difficulty exporting agricultural produce to the rich world because of *commercial* product standards

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### The DCFTA's impact on agricultural trade

- Many agrarian countries became reliant on imports of basic foods for the first time as their markets opened up
- However, prices in Georgia are relatively low, which suggests that substantial penetration by more expensive EU products is unlikely in the short term
- Production of fruit and vegetables could become *more* protected from low-quality imports after the application of the EU's SPS (food safety) measures
- Exports to countries outside the EU could also increase
- But overall, few significant effects are expected from the DCFTA for EU-Georgia agricultural trade

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### OPENING THE INVESTMENT FRONTIER

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### Free movement of capital under the DCFTA

- Little-noticed risks to Georgian agriculture could arise in the areas of *food retailing, land investment and tax revenues*
- Any foreign-owned supermarkets are likely to look to foreign sources of supply, for the sake of scale and reliability
- In many countries, supermarket chains have purchased only abroad or from large farms or a few smallholders
- In Zambia, farmers in one area threatened to 'burn down the [supermarket] company that had robbed them of their livelihoods'
- Most countries find it difficult to support smallholders in these circumstances
- At most an indirect approach may be possible, encouraging cooperative production and marketing, and raising smallholders' standards

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### Risks to smallholders from land investments

- Between 2000 and 2011, foreign governments and companies bought plots of land equivalent in area to nearly the whole of north-west Europe
- Much larger investments than hitherto might come to Georgia too
- Elsewhere, residents regularly lose out as land is acquired 'with limited (if any) consultation... limited (if any) compensation, and a lack of regard for environmental sustainability and ... access to ... resources'
- In Ukraine, rural people have not resisted developments of this sort and 'peasants' rights' ideas have been absent
- Georgia should monitor all land acquisitions from abroad and listen to local residents throughout each process

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### Corporate investments and taxation

- In 2013, the two largest national sources of foreign investment in Georgia were the Netherlands and Luxembourg. These are well-known channels for corporate 'tax planning'
- Corporations channel profits into small countries with favourable tax rules by manipulating international payments on royalties, intra-group debts and other technicalities
- The situation is perilous both for government revenues and the balance of payments, and Georgia too will face this risk
- This is causing serious concern to *leading EU governments*
- 16 bilateral investment treaties (BITs) between EU members and Georgia also enable companies to seek compensation in special tribunals when they consider themselves to have been treated unfairly by government actions

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### ...a situation to be watched with great care and concern

Smaller and poorer countries are in a weak position to ensure that:

- Foreign corporations pay the right amounts of tax
- Land investments do not exploit existing residents
- Large-scale food retailing adequately supports domestic agricultural development
- and to discover and pursue any abuses

The government of Georgia will no doubt watch these questions carefully. It should take as much professional advice over them as it possibly can

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### POLICIES FOR RURAL REGENERATION

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### Actions to assist smallholder farming

International experience shows that public action is essential to improve the position of smallholders. These are some requirements:

- Increase the Ministry of Agriculture's budget to 10 per cent of government expenditure by 2020
- Support the expansion of the sown agricultural area, especially for staple food crops
- Assist all farmers to meet the new food safety standards introduced under the DCFTA
- Improve the agricultural extension and training service, with services generally provided free
- Special support for agriculture in high mountain regions, adapting other countries' models

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## Rural and gastronomic tourism

- Visits to Georgia are likely to become attractive for Europeans due to the country's relative proximity and unique features
- Tourism can provide non-farm incomes for many rural residents and immediate outlets for Georgian farm produce, indirectly earning foreign currency
- Georgia's cuisine can be promoted through gastronomic tours in rural areas, and at ski resorts and adventure holidays
- It is not hard to think up appealing slogans, such as 'The Land of the Golden Fleece' and 'Where Wine was Invented'

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## Smallholders and wine

- Every visitor to Georgia knows about its wine, but few other foreigners do
- Georgian wines on western export markets are generally grouped with those of other little-known origins, and fetch mediocre prices
- The government can assist by working on *Appellation Contrôlée*, Geographical Indications and indigenous grape varieties to establish a global reputation for distinctive high-quality wines
- Many vines are grown by smallholders, not on estates – as in some other countries, such as France
- Among tree crops, excellent models of smallholder production and marketing exist for tea in Kenya and coffee in Colombia

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## What does the DCFTA mean for Georgian smallholders?

1. Under globalisation, many small agrarian countries have faced increases in food imports and declining self-sufficiency in food
2. Few significant effects are expected for EU-Georgia agricultural trade from the DCFTA, but Georgia might benefit in both exports and imports in trade with other countries
3. Any foreign-owned supermarkets are likely to look to foreign sources of supply and not Georgian smallholders, for the sake of scale and reliability
4. Many countries have failed to prevent foreign acquisitions of land from exploiting existing residents
5. Smaller and poorer countries are in a weak position to ensure that foreign corporations pay the right amounts of tax
6. The government of Georgia needs to watch these questions very carefully
7. Tourism can provide non-farm incomes and outlets for Georgian farm produce, earning foreign currency indirectly
8. Many vines are grown by smallholders. Excellent models of smallholder production and marketing exist for tea in Kenya and coffee in Colombia

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Thank you!

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