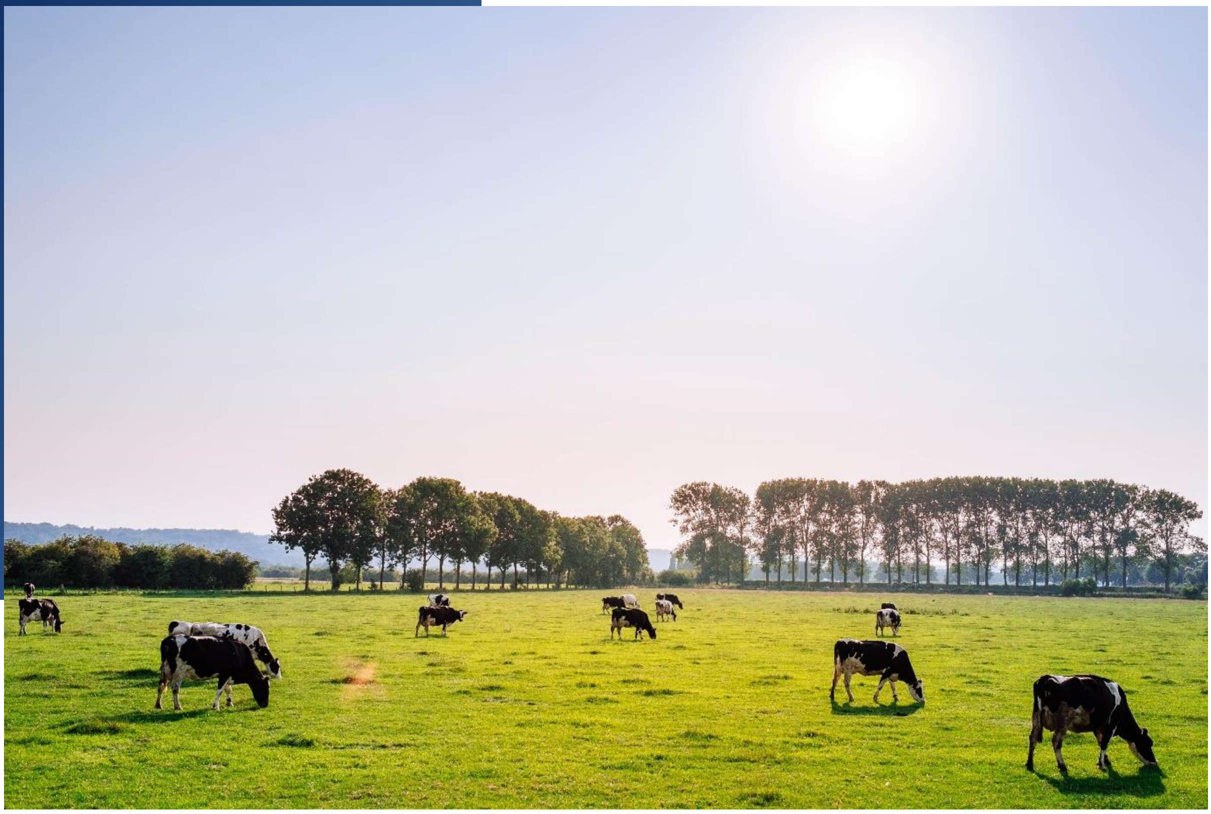

Meat Market in Georgia

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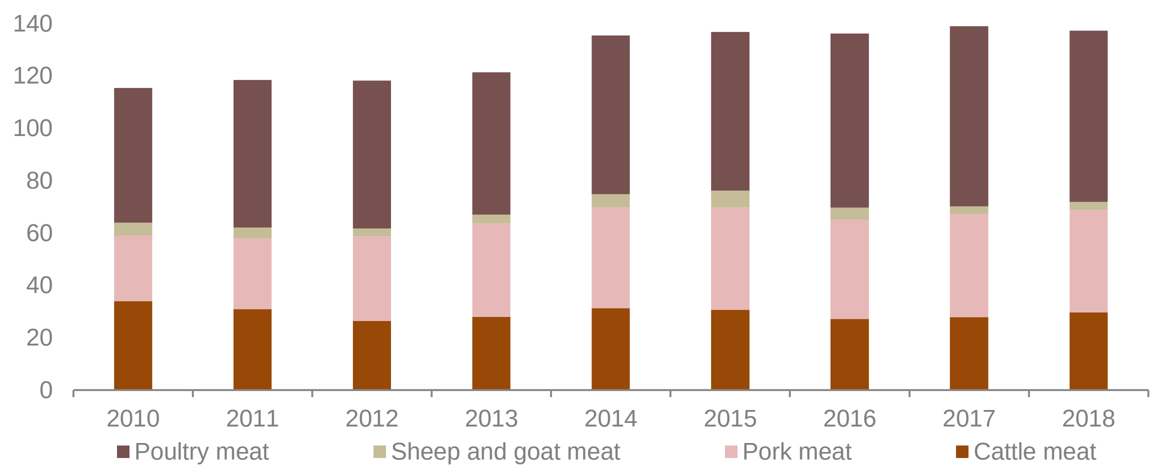
Consumer demand for meat and meat products in Georgia is increasing every year. It is difficult to argue what exactly led to an increase of average meat consumption: it could be a general change in taste, an increase in prices for other substitute products, the promotion of healthy lifestyle (meat is one of the major sources of proteins), or other.

Apart from the growth of meat consumption, the following trends of the Georgian meat market have been revealed:

- Local meat production is mainly extensive and does not respond to market signals properly;
- The meat market largely depends on imported products (import has been exceeding domestic production since 2008);
- The majority of imported meat is frozen, which is significantly cheaper than locally produced fresh meat;
- Much of the exported meat derives from re-export due to underdeveloped local production and favorable geographical location;
- The price of cattle meat has increased and the respective meat consumption has been partly substituted with cheaper pork and poultry meat.

The average growth rate of meat consumption (CAGR) in 2010-2018 was 2%. The following chart gives the distribution of meat consumption among cattle, pig, sheep & goat, and poultry meat in thousand tons:

Structure of meat consumption in 2010-2018



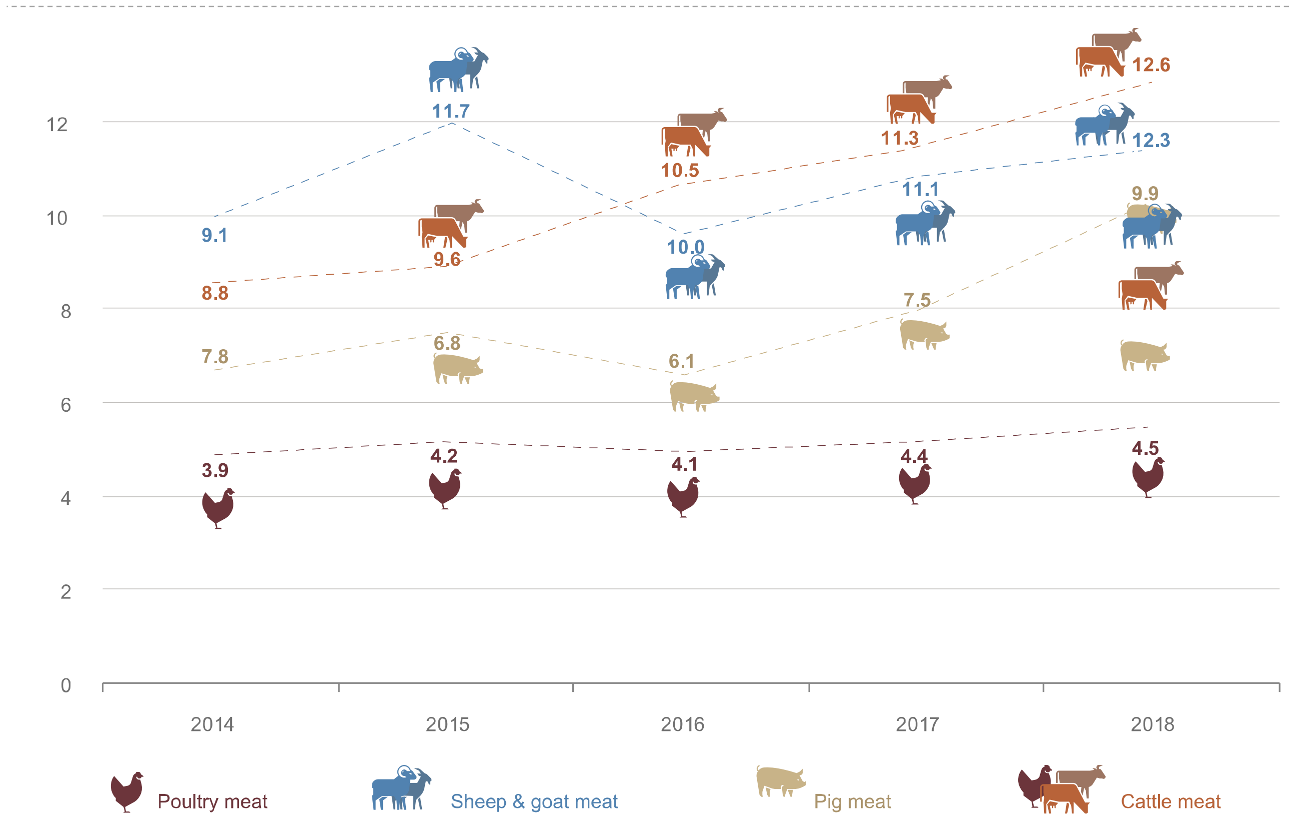
Source: National Statistics Office of Georgia

The chart above captures several trends in meat consumption:

- Meat consumption of cattle decreases;
- Meat consumption of pork and poultry increases with 5.1% and 2.7% annual growth rate respectively;
- Meat consumption of sheep and goat is characterized by unstable temporary trends.

The consumers' decision-making process is generally influenced by many factors, but Georgian static consumer is especially price-sensitive, which is proved by the statistics provided below about various meat prices in GEL.

Meat prices at the farm door in 2014-2018



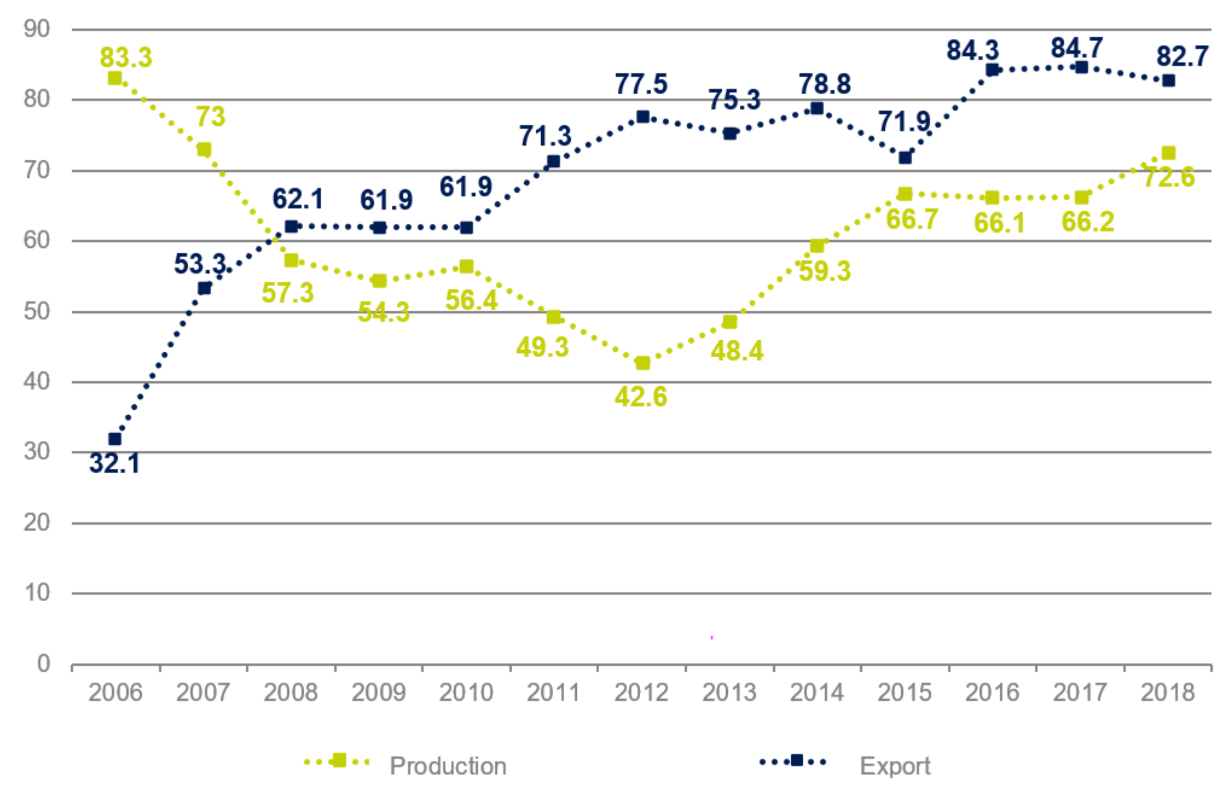
Source: National Statistics Office of Georgia

As the graph shows, only cattle prices increase steadily with an average annual growth rate of 7.5%. It is the highest among the annual average growths of all meat types. In terms of quantitative units, cattle meat is the most expensive one as well. On the other hand, poultry meat is the cheapest and least characterized by significant fluctuations. As a rational response to market signals, Georgian consumers have replaced part of expensive cattle meat with relatively cheap pork and chicken meat.

It is also interesting to see the ability of the Georgian meat market to satisfy the demand by its domestic production and to what extent it depends on imported products. Based on the statistical data, it turns out that the market largely depends on import. Local meat production has not outscored imports since 2008. Since then, the scale of meat production has almost halved from 83.3 thousand tons (2006) to 42.6 tons (2012). After

2013, there is a positive trend in the local meat production, although it remains dominated by imports and amounts 72.6 thousand tons, less than the benchmark of 2006. The dynamics of domestic production and imports in thousand tons is presented in the following graph:

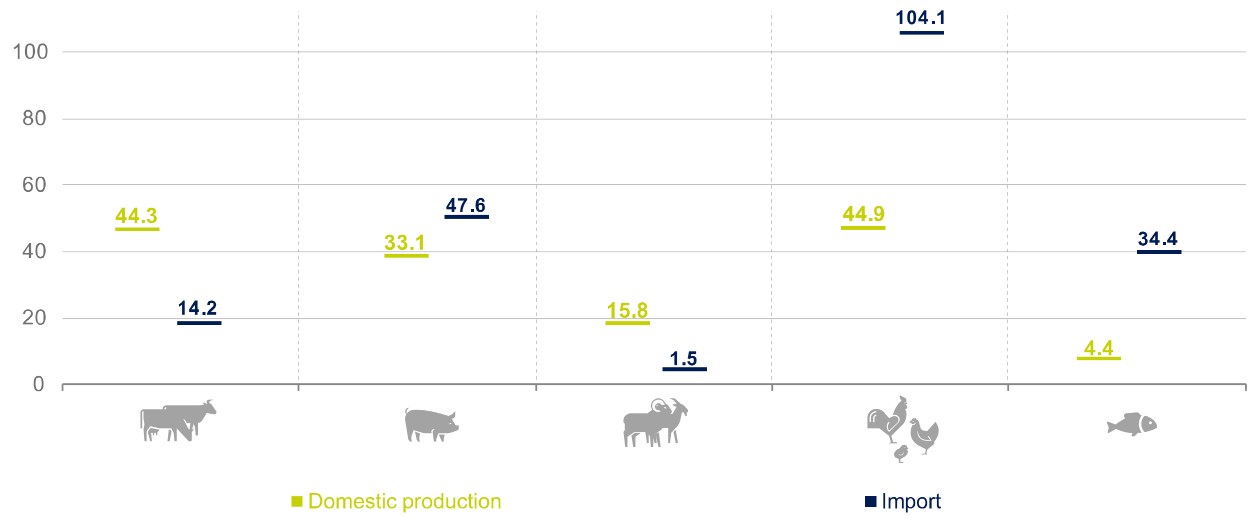
Meat import and domestic production in 2006-2018



Source: National Statistics Office of Georgia

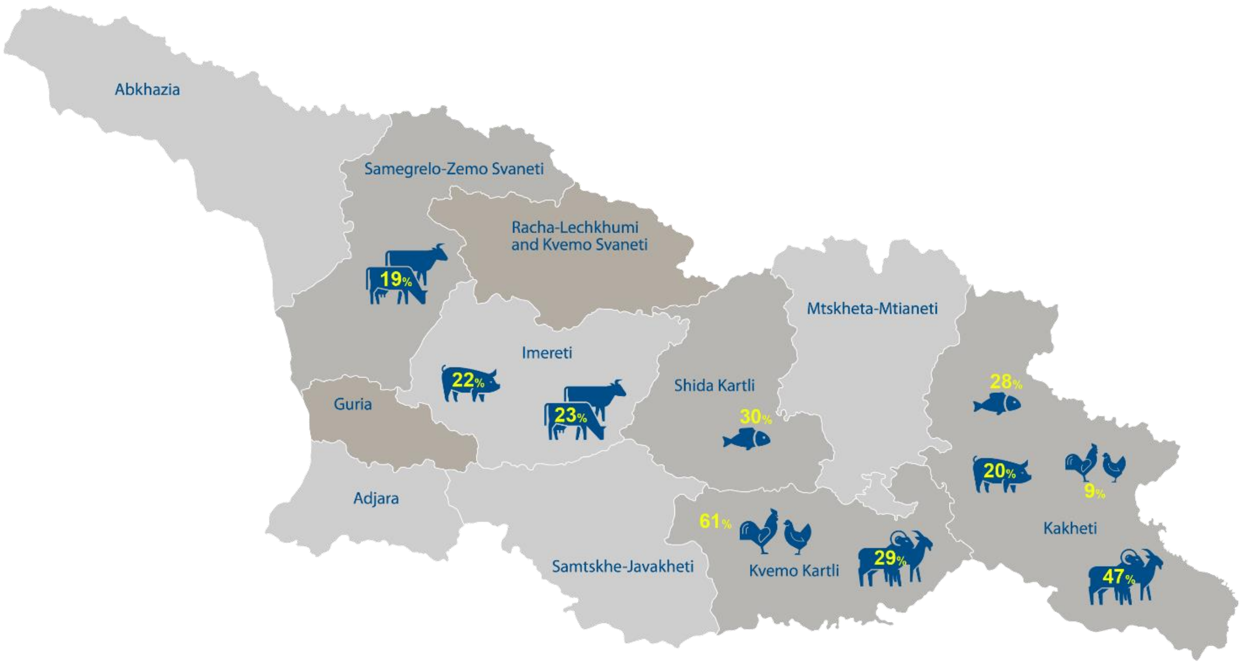
It is also interesting to know which meat markets depend on imported products the most and least. As the graph clearly shows, the market for cattle and sheep & goat meat largely depends on local production. In contrast, the market for pork, fish, and poultry is largely import-based. The statistics provided below includes data in thousand tons including fish industry, tracked by the National Statistics Office of Georgia since 2018:

Domestic production and import in each meat sector in 2017-2018



Source: National Statistics Office of Georgia

The leader region of Georgia in meat production is Shida Kartli with a 29% share of total meat production. (2018). In particular, the following regions are leading in the production of each meat sector:



- Re-exported goods make up a dominant percentage of Georgia’s total exports in this field. This is a result of Cattle meat: Imereti (23%) and Samegrelo - Zemo Svaneti (19%)
- Pork meat: Imereti (22%) and Kakheti (20%)
- Sheep and goat meat: Kakheti (47%) and Kvemo Kartli (29%)
- Poultry meat: Kvemo Kartli (61%) and Kakheti (9%)
- Fish meat: Shida Kartli (30%) and Kakheti (28%)

205 enterprises in Georgia are engaged in meat products production, processing, production of semi-finished products and sausages. In addition to these 205 enterprises, there are also 106 animal slaughterhouses. The current slaughterhouse capacities do not fully meet the requirements of HACCP and there is a need for conducting relevant activities to increase the productivity in line with HACCP standards. The HACCP system is recommended by the Food Safety Agency as the best way to protect consumers. Using HACCP standards, meat producers and suppliers protect their businesses and meat consumers from possible diseases.

Almost all households in Georgia are engaged in livestock, though their main goal is not an expansion of production, but personal consumption. For example, about 94.8% of households own up to 10 cattle, while more than 100 cattle are owned by only 0.4% of households. One of the reasons for low productivity is mixed animal breeds, which are characterized by low productivity. In addition, local farmers have no practice of artificial fertility. Animal reproducing is carried out through the natural way, which impedes the development of productive breeds.

Local farmers lack competence in terms of effective farm management practices. They struggle to select a proper ration to increase productivity. Veterinary services tend to be problematic too, as there is a lack of professional veterinarians in Georgia, although there are veterinary pharmacies in regional centers where farmers can get consultations. The National Food Agency has 600 veterinarians and paratroopers under contract, which have been conducting preventive vaccinations for diseases and animal registration financed by the state. However, the qualification of veterinarians has to be improved. Veterinary, as a profession, is not popular in Georgia and therefore only the Agrarian University gives students the opportunity to become veterinarians.

Another problem associated with Georgian agriculture, in general, is pasture management as there is no such practice at all in the country. Pastures owned by public do not provide high-quality grass and they have been exploited excessively which has led to cattle being overweight.

In terms of meat monitoring process, the National Food Agency is responsible for monitoring food safety, controlling animal health and preventing the spread of animal diseases. The agency regularly checks slaughterhouses and market operators as well as conducts regular vaccinations.

There are state as well as donor-funded programs in Georgia, which aim to strengthen the value chain of agricultural products. The state implements preferential agro-credit projects with low interest rates in order to encourage agricultural enterprises. On the other hand, international donors provide both direct and indirect assistance to Georgian farmers, state institutions, and agricultural products processing companies.

The assessment of the situation in the Georgian meat market reveals the following fundamental problems:

- Extensively developed local production;
- Abundance of small households and therefore lack of scale effect;
- Unproductive mixed breeds;
- Dependence on imports;
- Frequent non-compliance with HACCP standards of slaughterhouses and meat producers;

- Lack of modern farm management practices;
- Improper veterinary services.

The following steps are needed to develop the meat market and support Georgian farmers in the future:

- Increase state support for improving and maintaining animal breeds, as well as improving access to artificial fertility services;
- Households do not have enough finances to buy highly productive breeds, which require some financial assistance or co-financing;
- Veterinary as a profession should be popularized and encouraged, especially among youngsters.
- Long-term schemes should be elaborated to bring foreign specialists into Georgia and share their veterinary and modern farm management practices with Georgian farmers;
- The regional consulting centers of the Ministry of Environmental Protection and Agriculture of Georgia should be used as a platform for delivering information and services to meat farmers;
- Meat farmers should be encouraged to register and low interest rate bank loans should be easily accessible for them;
- Cattle and other agricultural animals should be included in commercial insurance packages;
- Encourage cooperation between farmers and establishment of cooperatives;
- Increase consumer awareness to enable customers identify healthier and safer meat products;
- Increase technical and financial capacity of the National Food Security in order to monitor animal health and safety more effectively;
- Introduce quality mark on meat products, which will increase the trust on locally produced meat products.

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