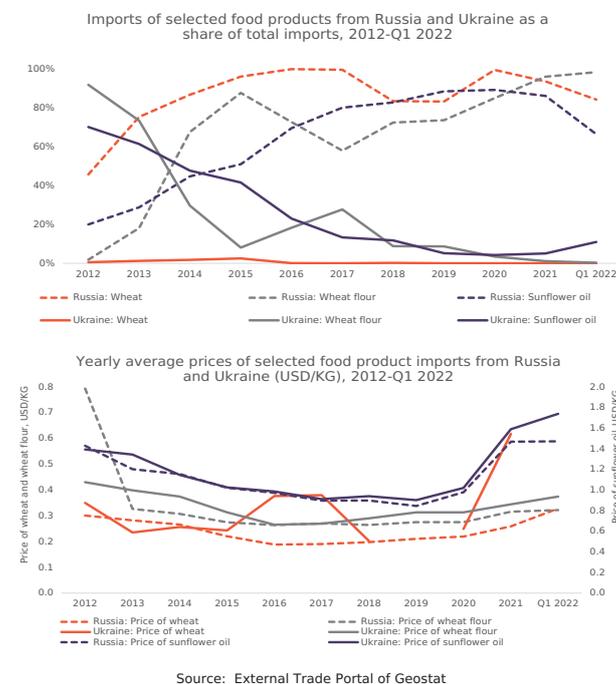


PMC RC stands firmly with Ukraine, supports its sovereignty and territorial integrity, and condemns Russia's ongoing military aggression. At this horrible time, we will of course maintain our long-standing commitment to support Ukraine's democratic progress. While the most devastating outcome of this war is the humanitarian catastrophe of Ukraine and the destroyed lives of people, it is also essential to discuss the ramifications of this war that are being felt worldwide. In this bulletin, we discuss threats to food and energy security of Georgia amid Russia-Ukraine War.

Russia and Ukraine are prominent players in the global trade of food and agricultural products. Pertinently, wheat exports from Russia and Ukraine accounted for 30% of the global wheat market in 2021. Furthermore, in 2021 exports from both countries combined represented 55% of the world's sunflower oil supply¹. In terms of energy provision, Russia supplies 11% of the world's oil, making it the world's largest exporter of this precious commodity. Meanwhile, Russia is the top gas exporter globally as well, supplying 19% of the world's natural gas. Thus, Russia is a major player in the global energy market, with Europe in particular being highly dependent on Russian gas and oil².

Food Security

Considering the roles of Russia and Ukraine in the global food market and the high dependence of Georgia on imports of essential goods it is worthwhile to analyze Georgia's reliance on Russia and Ukraine with regard to major food products. Therefore, in this issue, we analyze the top three essential food products for which Georgia has the highest dependence on imports from Russia and Ukraine. In 2018, imports of wheat from Russia and Ukraine accounted for 75.3% of the total domestic supply for Georgia, while in the same year imports of sunflower oil from those two countries accounted for 92.2% of the total domestic supply of sunflower oil in Georgia³.

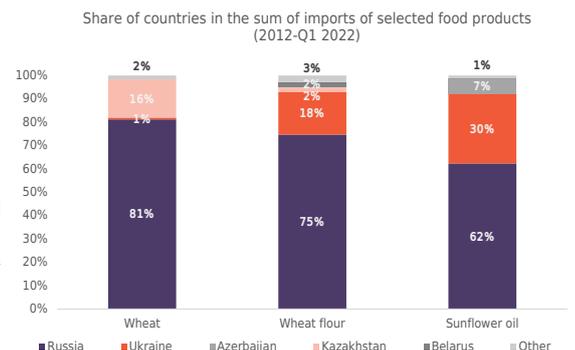


Source: External Trade Portal of Geostat

shown a drastic increase (YoY increase of 343.6%) in the same year. Therefore, Russian wheat flour imports mostly substituted the Russian wheat in response to the barriers imposed on the wheat trade by Russia.

Similar to the situation for the import of wheat flour to Georgia, the share of Ukraine in total sunflower oil imports has also been declining throughout the last decade, while Russia's share increased steadily from 2012 to 2020, reaching 89.2%. Again, this could also be explained by the relatively low prices of imported oil from Russia (on average, throughout the last decade the price of sunflower oil was USD 1.12/KG) compared to Ukraine (1.18). It must also be mentioned here that despite the decreasing prices of Russian exports, the share of sunflower oil imports from Russia declined to 66.4% of total sunflower oil imports by Q1 2022. This could be attributed to a combination of the economic shock of the war in Ukraine and imposed export tariffs on sunflower oil by Russia⁶.

The analysis of the sum of imports throughout the last decade shows a similar picture of high dependence on Russia and a high concentration of the import market. This is especially vivid in the case of wheat, as 81% of wheat imports came from Russia, followed by Kazakhstan with 16%. Most of the wheat flour imported to Georgia also comes from Russia (75%), followed by Ukraine (18%). In the case of sunflower oil, 62% of imports to Georgia come from Russia, followed by Ukraine (30%) and Azerbaijan (7%).



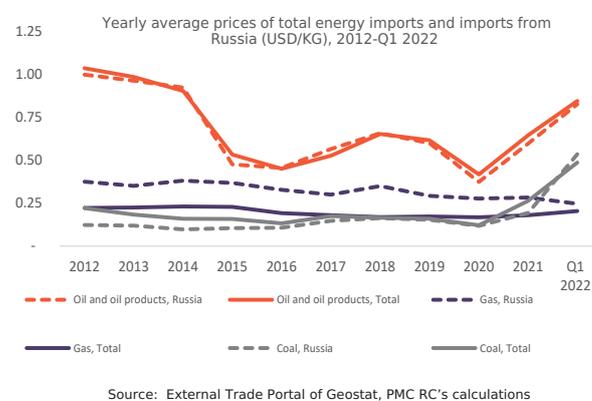
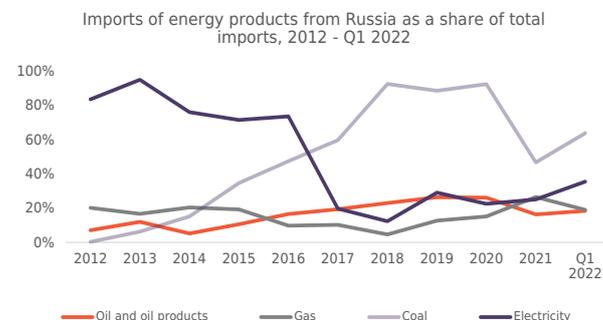
Source: External Trade Portal of Geostat

Finally, considering Georgia's lack of import diversification in the reviewed products, some of the other major global exporters of the covered products are worth mentioning. According to FAOSTAT, in case of wheat, the USA and Canada follow Russia as the top exporting countries, however, due to logistical issues other less globally prolific exporters could be more relevant to Georgia, including Kazakhstan, Romania, Bulgaria, Poland, and Hungary. For wheat flour, Turkey is among the top exporting countries, followed by Kazakhstan, both of which could be appropriate sources for the Georgian market. Apart from that, Turkey is the third-biggest exporter of sunflower oil after Russia and Ukraine. However, despite the attractiveness of Turkey as a trade partner, to stabilize local market conditions, it imposed temporary export restrictions in March 2022 on a number of food products, including grain and cooking oil⁷.

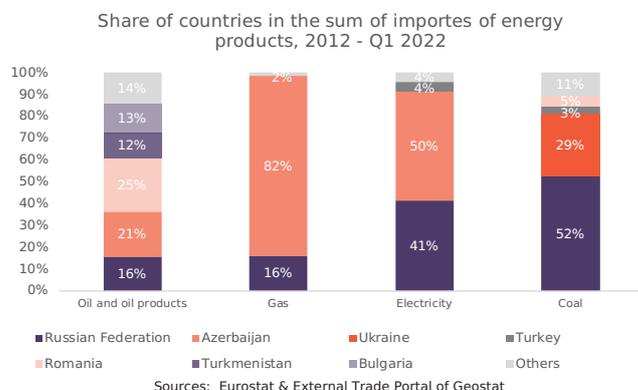
Energy Security

The Georgian energy market lacks its own sources and is highly dependent on imports. Indeed, Georgia's energy production covered only 21.1% of its total energy demand in 2020⁶. Considering that Russia is a major energy exporter across the global market but is currently being targeted by large-scale sanctions aimed at damaging its economy and limiting its role in global trade⁹, it is crucial to ascertain any possible threats this development may pose to the energy security of Georgia.

In 2020, Georgia imported only 6,162.8 terajoules (TJ) of electricity, while producing 40,175.3 TJ itself (meaning that only 5.3% of its domestically available electricity came from imports), which suggests that Georgia is largely capable of satisfying domestic demand for electricity. However, of the electricity Georgia imports from abroad, a considerable share comes from Russia. In 2020, 23% of Georgia's total expenditure on energy imports went to Russia, but by Q1 2022 this had increased to 36%. From a longer-term perspective, Georgia's dependence on Russian electricity imports has notably declined during the past decade – the share of Russian electricity imports was as high as 95% in 2013.



Looking at the sum of Georgia's expenditure on imports of energy products by country for the period of 2012 until Q1 2022, the energy market of Georgia is heavily concentrated. Moreover, the major player across all energy products is Azerbaijan, followed by Russia. Gas imports are the least diverse compared to other imported energy products, with 82% of gas being imported from Azerbaijan and 16% from Russia. The two major players when it comes to the heavily concentrated electricity imports are also Russia (50%) and Azerbaijan (41%). More than half of the coal imported during the covered period came from Russia (52%) and a large share (29%) also came from Ukraine. Georgia's imports of oil and oil products are the most diversified compared of all energy products. The major players in this case are Romania (25%) and Azerbaijan (21%), but Russia also accounts for 16%.



Reliance on energy imports from Russia is currently one of the most critical issues in global political decision-making. The EU recently adopted €300 billion plan (RepowerEU¹⁰) to reduce its dependence on Russian fossil fuels. One objective of the plan is to increase the share of renewables in the EU's energy mix, which is also relevant to Georgia, considering the potential of its hydro energy resources. As for further diversifying imports of non-Russian fossil fuels, the EU plans to increase imports from other large gas exporters such as the US, Canada, and Norway, to continue cooperation with Gulf states for oil imports, while for coal the US, Colombia, South Africa, and Australia are considered the most likely countries to fill the gap. Likewise, it is crucial that Georgia focuses its policies toward ensuring the energy security of the country, increasing its energy independence by fully utilizing the capacity of its own energy production (especially hydro energy), and diversifying its imports.

1 Impact of the Ukraine-Russia conflict on global food security and related matters under the mandate of the Food and Agriculture Organization of the United Nations (FAO)
 2 <https://www.iea.org/topics/russia-s-war-on-ukraine>; <https://www.oecd.org/economic-outlook/>
 3 <https://ourworldindata.org/ukraine-russia-food>
 4 <https://for.gov/view/53945/aaqarFveloSi-rusul-xorbals-TandaTan-yazaxuri-Caanacvlebs.html>
 5 <https://bm.ge/ka/article/ruseti-marcvleulis-egsportze-kvotirebis-meqanizms-aamogmedebs/101831>

6 <https://businessformula.ge/News/5613>
 7 <https://www.fas.usda.gov/data/turkey-turkey-imposes-temporary-ban-certain-agricultural-exports>
 8 Geostat ENERGY BALANCE OF GEORGIA, 2020. Statistical Publication 2021
 9 See our publication: Assessment of the Effectiveness of Sanctions Against Russia
 10 https://ec.europa.eu/commission/presscorner/detail/en/ip_22_3131

Basic Economic Indicators	2017	2018	2019	2020	2021
Nominal GDP (mIn USD)	16 248.5	17 596.6	17 470.7	15 888.1	15 888.1*
GDP per Capita (USD)	4 358.5	4 722.0	4 696.2	4 274.6	5 015.3*
GDP Real Growth (%)	4.8%	4.8%	5.0%	-6.2%	10.4%
Inflation	6.0%	2.6%	4.9%	5.2%	9.6%
FDI (mIn USD)	1 978.3	1 306.3	1 310.8	616.9	1 152.8*
Unemployment Rate (%)	21.6%	19.2%	17.6%	18.5%	20.6%
External Debt (mIn USD)	5 177	5 434	5 741	7 535	7 535
Poverty Rate (relative)	22.3%	20.5%	20.1%	20.1%	-

*Preliminary data



DISCLAIMER

PUBLICATIONS presented on the website are prepared by PMC Research Center only for informational and/or marketing purposes. Nothing in the PUBLICATIONS constitute, or is meant to constitute, advice of any kind, and the reader is responsible for their interpretation of all content and acknowledges that any reliance thereupon shall be entirely at their risk. PMC Research Center cannot be held liable for any claims arising as a result of the reader's use of the materials.

The PUBLICATION is presented "as is" without any representations or warranties, expressed or implied.

Without prejudice to the general message of the first paragraph above, PMC Research Center does not guarantee that:

- o the PUBLICATION will be constantly available; or
- o the information contained in the PUBLICATION is complete, true, accurate, or non-misleading.

PMC Research Center reserves the right to modify the contents of PUBLICATIONS from time to time as it deems appropriate.

PMC Research Center absolves itself of any liability of violations of other parties' rights, or any damage incurred as a consequence of using and applying any of the contents of PMC Research Center's PUBLICATIONS. PMC Research Center will not be liable to the reader (whether under contract law, tort law, or otherwise) in relation to the contents of, use of, or other form of connection with, the PUBLICATION.

The reader accepts that, as a limited liability entity, PMC Research Center has an interest in limiting the personal liability of its officers and employees. The reader agrees that they will not bring any claim personally against PMC Research Center's officers or employees with respect to any losses suffered by the reader in connection with the PUBLICATION.

The reader agrees that the limitations of guarantees and liabilities set out in the PUBLICATION disclaimer protect PMC Research Center's researchers, officers, employees, agents, subsidiaries, successors, assignees, and sub-contractors as well as PMC Research Center itself.

If any provision of this disclaimer is, or is found to be, unenforceable under applicable law, that will not affect the enforceability of the other provisions of the PUBLICATION disclaimer.

Giorgi Khishtovani
Research Director
g.khishtovani@pmcginternational.com

Nika Kapanadze
Researcher
n.kapanadze@pmcginternational.com

Nana Kajaia
Research Assistant
n.kajaia@pmcginternational.com

Anastasia Chkhenkeli
Research Assistant
a.chkhenkeli@pmcginternational.com