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Trade Policy Review Body

TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

GEORGIA

This report, prepared for the second Trade Policy Review of Georgia, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Georgia on its trade policies and practices.

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Document WT/TPR/G/328 contains the policy statement submitted by Georgia.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Georgia. This report was drafted in English.

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SUMMARY

1. At the start of the review period (2009 to 2015), average annual real GDP growth rebounded from -3.7% in 2009 to an average of 5.8% in 2010-2013. GDP per capita increased by over half to reach US$3,681 in 2014, although Georgia's overall impressive growth performance was not matched by commensurate declines in unemployment and poverty. While the current account deficit has narrowed from a peak of 22% of GDP in 2008, it has remained significant at 10–13% of GDP during 2010–12.

2. Real GDP growth slowed significantly to 3.3% in 2013 from 6.4% in 2012, reflecting slower global growth, weak domestic demand and economic deceleration related to the political transition that prompted investor caution. Growth for 2014 recovered to 4.8% (just below the Government's 5% target) but the depressed economies of Georgia's major trading partners are expected to halve growth to around 2% in 2015.

3. Exports of goods and services remained under 40% of GDP for most of the review period (although increasing in 2013 and 2014) and the merchandise trade deficit averaged 23% of GDP, underlining the challenge for the Government to reduce the country's significant trade imbalance. The deficit has been conditioned by robust import growth due to growing domestic demand, FDI- and tourism-related imports and relatively high energy and commodity prices for most of the review period.

4. In early 2015, Georgia’s economy was hit by a combination of significant external shocks: the Russia-Ukraine crisis, the deepening recession in the Russian Federation (both of which have created ripple-effects through the region) and currency devaluations in trading partner countries. Because of these shocks, in the first half of 2015 Georgia’s exports were 25% lower than in the same period of the previous year and remittances from Georgian workers abroad were down 23.3%. The economies of many of Georgia’s main trading partners are slowing by even more, and the depreciation of their exchange rates is hurting Georgia’s export performance.

5. The commodity structure of Georgia’s exports has not changed much since the previous review with resource-based products, such as agriculture, ferro-alloys, copper ores and concentrates, and other minerals, accounting for over 40% of merchandise exports. The dependence on resource-based products with limited employment generation has remained relatively high whereas the share of more processed, employment-generating products is limited.

6. Although the share of manufactures in exports rose from 42% to over 55% during the review period, motor vehicle exports accounted for a significant part of this. Used cars are imported mainly from Japan, the United States and Germany with a portion being reconditioned and refurbished in Georgia before being re-exported to neighbouring countries (mostly Azerbaijan, Armenia, and Kazakhstan). While there is some local value added in such refurbishing activity, the bulk of these exports should more properly be considered as re-exports. The re-export of used cars declined in 2014 because of the more stringent requirements on used cars introduced by Azerbaijan.

7. Commonwealth of Independent States (CIS) countries continued to be Georgia’s largest trading partners, increasing their share of Georgian exports from 37% to 51% during the review period. Georgia's main export destinations in 2014 continued to be Azerbaijan (taking 19% of Georgian exports), Armenia (10%), the Russian Federation (almost 10%) and Turkey (8.4%). With the opening up of the large Russian market in mid-2013, exports to the Russian Federation have increased, in particular of Georgian wine, mineral water and certain agricultural goods.

8. Services exports rose from 12% of GDP in 2009 to over 18% of GDP in 2014, growing at a faster rate than merchandise exports. Transport and tourism receipts account for around 90% of exports although this high share may be expected to fall as the level of development increases. Georgia has not yet begun to emulate other comparable countries that have managed to tap into the markets for information technology and other business services. Imports of services are dominated by road and maritime transport.

9. Foreign direct investment (FDI) is a critical element for the Georgian economy and while it has declined from its 2007 peak (at 19.8% of GDP), it remains high compared to peers and is an

important source of financing at 10.6% of GDP in 2014. FDI inflows, comprising equity capital, reinvested earnings and other capital, rose sharply to US$1.7 billion in 2014, the increase reflecting higher investment in manufacturing and transport and communication. Gross national savings declined sharply at the beginning of the review period but are showing signs of recovery.

10. The broad objectives of Georgia's trade policy remain largely unchanged from the previous review: integration into the world economy, including implementation of WTO membership obligations as well as obligations under other agreements, notably the Association Agreement with the EU; continued trade policy liberalization; facilitation of export and import procedures and streamlining of NTB regulations; and diversification of trade relations by establishing preferential regimes with important trading partners.

11. Integration with the EU remains the mainstay of Georgia's foreign economic and trade policy. In 2014, Georgia signed an Association Agreement (AA) with the EU, including a Deep and Comprehensive Free Trade Area (DCFTA). The agreement aims at promoting closer harmonization and integration with the EU. The DCFTA includes the complete elimination of tariff and non-tariff barriers on nearly all goods and substantial liberalization of services trade. A wide range of trade regulations are also due to be implemented, as the DCFTA envisages wide-ranging approximation of Georgia's trade-related legislation with EU legislation.

12. As a member of the WTO since 2000, Georgia grants MFN treatment to all WTO Members. Georgia is an observer to the Government Procurement Agreement. Georgia has GSP arrangements with the United States (temporarily terminated), Japan, Canada, Switzerland and Norway. In 2009, Georgia terminated its membership of the CIS organization but has maintained bilateral FTAs with eight CIS countries and also has an FTA with Turkey, a Trade and Investment Framework Agreement with the United States and is due to commence FTA negotiations with the EFTA states in September 2015. Georgia and China are completing a joint feasibility study on a possible Georgia-China Free Trade Agreement and have also signed a memorandum of understanding on strengthening cooperation for the Silk Road Economic Belt initiative.

13. The Ministry of Economy and Sustainable Development is the executive authority which determines, implements and coordinates state policy in the field of trade. In the ministry, the Department for Foreign Trade and International Economic Relations is exclusively involved in the formulation of foreign trade policy. As part of its daily functions, the department closely cooperates with several trade-related bodies under the ministry and collaborates with other relevant entities, including in the private sector. The Department implements the mandatory notification submission procedures to the WTO.

14. The main instrument regulating foreign trade in Georgia is the revised 2011 Tax Code of Georgia, which defines objects subject to import taxation, customs regimes and procedures as well the exemption of certain goods from import duties. Legislative amendments have taken place in several trade-related areas.

15. Regarding measures affecting imports, Georgia has continued to bring its border policies including its customs regulations and trade facilitation measures into line with international and WTO practices. Georgia implemented a number of reforms to facilitate trade, in particular the opening of customs clearance zones. Georgia has indicated that it is going through the necessary process to notify the WTO of its adherence to the Trade Facilitation Agreement.

16. Georgia has bound its tariffs on all products, with a simple average of the final bound tariffs being 7.6%. The simple average applied MFN tariff remains low at 2% since 2010 despite being increased slightly from 1.6% in 2009. The simple average MFN tariff for agricultural products (WTO definition) fell from 7.2% in 2009 to 6.7% in 2015, and that for non-agricultural products increased from 0.2% to 0.8%. Its applied tariffs generally fall into three bands: 0%, 5%, and 12%. In addition to the customs tariff, the Government applies VAT of 18% and excise taxes on imported goods; in principle these apply equally to domestically-produced and imported goods. The contribution of customs duties to overall tax revenue has averaged a little over 1% during the review period; excise taxes and VAT collected on imports have ensured that taxes affecting trade have maintained a significant share of around one quarter of total tax revenue. Fixed customs fees also apply to imports.

17. Georgia does not apply contingency measures and has not elaborated relevant legislation for such measures. Georgia notified to the WTO its list of products prohibited from importation/exportation, and that import/export permits are required only to protect public health, national security and the environment.

18. Georgia is an observer to the WTO GPA and is currently assessing the prospects for joining the agreement. Amendments to existing legislation resulted in a revised Law on State Procurement which applies to the procurement of all goods, works and services funded from state and local budgets. The government procurement market accounted for about 10% of GDP during the review period. The new legislation entered into force in 2010, when e-procurement was introduced and since has been functioning effectively; according to the European Bank for Reconstruction and Development (EBRD), Georgia's public procurement regime achieved the best ranking in the region, indicating high compliance with international standards.

19. There are minimal export restrictions in terms of export taxes or licensing. According to the authorities, Georgia does not provide export subsidies, and does not have export financing instruments. Export support is mainly in the form of facilitating the participation of exporters in international trade fairs and planning buyer missions. Reflecting Georgia's location, which provides an alternative transit route to central Asia (other than the routes via China or the Russian Federation), the Government operates free industrial zones (FIZs) where investors may conduct processing activities in connection with the transit of goods. Incentives in the form of tax exemptions or reductions continue to be provided to international financial companies, international companies operating in FIZs, and to free warehouse companies.

20. Georgia has continued to develop its national quality infrastructure in accordance with international and EU practices. Its TBT strategy stipulates that Georgia refrain from adopting national standards in the areas where relevant international standards exist. About 98% of all standards adopted in Georgia are international or European standards. The Government is aware that in order to increase the export potential of agriculture, SPS systems need to be developed in accordance with international/European norms. Lack of effective SPS regulations, in particular for food safety continues to hamper Georgian exports of its agricultural products. The Ministry of Agriculture is preparing to approximate Georgia's regulatory framework to about 350 EU directives/regulations.

21. New amendments to the Law on Competition were adopted in March 2014. This law was developed as part of the anti-monopoly reform and aims to strengthen the institutional framework for promoting free trade and competition. The Government also issued a decree to set up the Competition Agency, which oversees most economic sectors except for energy and telecoms.

22. Most state-owned enterprises (SOEs) were privatized before the review period and currently the major SOEs include: Georgian Railways (the only major market player), Georgian Oil and Gas Corporation (GOGC), Georgian State Electrosystem (GSE) and the Enguri hydropower plant. During 2012, 100% of the assets of Georgian Railways, GOGC, GSE and others were placed into the Partnership Fund, a state-run fund to facilitate foreign investment into new projects by providing co-financing.

23. Georgia has been amending its IP legislation in accordance with regional and international trade requirements. The IPR legislation is aligned with international standards, and Sakpatenti, the national intellectual property centre, is making efforts to raise public awareness of IP rights and improve enforcement. The adoption by Georgia of Paragraph 6 of the Doha Declaration regarding public health is under consideration.

24. Georgia's economy has undergone significant structural change since independence. Twenty years ago, shares in GDP of agriculture, industry and services were more or less evenly split. The share of agriculture has since declined steeply and stood at an estimated 9.2% of GDP in 2014, although the sector remains important, given that agricultural production accounts for 45% of rural household income and subsistence agriculture accounts for 73% of rural employment. Agriculture thus still provides an important safety net for the rural population and also makes an important contribution to exports. The low productivity level in the agricultural sector is conditioned, *inter alia,* by low investment, lack of funding, and limited information about markets and new technologies.

25. Agriculture has however shown positive signs of recovery in recent years, which is partly driven by the improvement in trade relations with the Russian Federation and a significant increase in public spending on agriculture. The Government is increasing public funding to agriculture, either through specific funds (to promote private sector participation) or subsidies to small-holder farmers. It is recognized that improving agricultural productivity and facilitating the movement of labour from agriculture into higher productivity activities are essential for strengthening economic opportunities in rural areas. Imports of agricultural products are subject only to tariffs and SPS measures. Georgia's domestic support for agriculture falls under the definition of Green Box measures exempt from reduction commitments.

26. Georgia is a net importer of fuels and energy products. The country relies on imports of natural gas, oil products and some hard coal to meet most of its energy needs. Net imports represent 77% of total energy supply, up from 47% in 2002, as Georgia has had to increase its reliance on imports to meet robust demand. Azerbaijan is the largest trading partner with Georgia in energy, and is the main source of imports of natural gas and oil. Due to its geographic location, Georgia acts as a transit country for the import-export and transit operations of energy carriers in the Caucasus region. Georgia is connected by gas pipelines to Armenia, Azerbaijan, the Russian Federation and Turkey. It is also connected by an oil pipeline to Azerbaijan and Turkey. Georgia imports natural gas from Azerbaijan and the Russian Federation and it transits gas to Armenia and Turkey. Georgia imports oil for transit to European countries.

27. In 2014, the manufacturing sector accounted for around 10.6% of GDP and 14.8% of employment, making labour productivity more than twice the level in the rest of the economy. Underpinned by Georgia's WTO membership, the sector is liberalized and open to international trade. Since 2009, exports have nearly tripled to US$2.9 billion in 2014, mostly of mining, agrochemicals (fertilizers), metal products, food processing (such as wine, mineral water and nuts), construction materials and equipment and refurbished passenger vehicles.

28. Problems concerning technological sophistication and innovation are the main reason for low export diversification and limited access to new markets. To support the private sector, two new agencies - the Entrepreneurship Development Agency (EDA) and the Innovation and Technology Agency - were established in 2014 to promote entrepreneurship by improving access to finance, entrepreneurial learning, consultancy services and export promotion and innovation.

29. Georgia's economy has become increasingly service-based and services made up over two-thirds of the economy in 2014. Georgia’s financial sector is dominated by banking with a small non-bank financial services market and an inactive private securities market. Currently, there are 19 commercial banks (with branch offices), 16 of which are foreign-controlled. Commercial banks account for more than 90% of financial system assets. Commercial banks play the leading role in financing the economy. Concentration in the banking system is relatively high with the five largest banks controlling more than 80% of total sector assets. Regarding the foreign presence of banks, there are no distinctions made between domestic and non-local banking entities within the National Bank of Georgia's (NBG) supervisory framework. Within the process of ongoing supervision, NBG cooperates with the supervisory authorities of those countries where the parent banks of locally-licensed foreign banks are incorporated. NBG has established memoranda of understanding with a number of foreign supervisory authorities.

30. The telecommunication sector dominates the ICT market in Georgia and is well penetrated by service providers, most of them international companies. Telecommunications are regulated by the independent and self-financed Georgian National Communications Commission (GNCC), which is subject to comprehensive rules on independence and transparency. The regulatory framework is relatively well developed and largely aligned with EU requirements although there are still challenges, such as ensuring that the regulator has sufficient powers to enforce market access requirements or in the area of universal service regulation. The state does not have any outstanding ownership stakes in the telecom operators. Mobile penetration has reached 111% (compared to 69% in 2009) driven by increased competition and pressure on prices as well as limited access to fixed-line services in rural areas.

31. Over the past decade, successive governments in Georgia have revised rules and updated regulations on the supply of transport infrastructure and services. They have restructured institutions and delegated to line agencies the authority for modernizing the transport system. This has helped draw private investment into aviation (airports and airlines), maritime services (ports

and shipping), road transport (all freight and intercity passenger), and pipelines (oil and gas from Azerbaijan and Kazakhstan). The railway is now a state-owned enterprise with the authority to raise capital in the open market, leaving the road network as the only physical asset owned and operated in a traditional, public-sector manner.

32. One of the potential drivers of economic growth is tourism, which makes the development of the tourism sector, and related business opportunities and private investments, a priority for the Government. During the review period, Georgia has experienced growth in the number of visitors, with the number of international arrivals exceeding the five million mark in 2014 and with 5.8 million expected in 2015. This has facilitated a considerable increase in tourism receipts, rising from US$954 million in 2011 to US$1.8 billion in 2014. The great bulk of visitors to Georgia are from neighbouring countries (Azerbaijan, Armenia, Turkey and the Russian Federation), which suggests that there is potential for diversification into higher spending tourist markets from OECD and other countries across the world. A national tourism development strategy has been elaborated with the help of the World Bank to determine how to improve the sector's performance, define implementation priorities and facilitate job growth.

33. Looking ahead, Georgia remains vulnerable to external shocks given its heavy reliance on FDI and remittances, high current account deficit and high dollarization. Growth is expected to slow to 2% in 2015 in line with slowdowns in the EU and neighbouring Azerbaijan and Armenia and a projected recession in the Russian Federation. The year 2016 could see some recovery in growth to 2.5% as the external environment improves slightly. Beyond that, economic growth could rise over the medium term based on greater policy certainty, improved market access, and a strong reform agenda. Medium-term growth prospects depend on a number of factors, including: improved economic ties with the EU; improved relations with Russia (which will benefit trade and tourism); and the robust reform program outlined in Georgia's development strategy, which will support growth in private investment. Growth prospects further depend on Georgia's ability to take advantage of the AA/DCFTA with the EU, which should improve market access and encourage FDI.

1 ECONOMIC ENVIRONMENT

1.1 Introduction

1.1. After gaining independence in 1991, Georgia's economy collapsed and it remains one of the only countries in the South Caucasus and Central Asia that has not reached its pre-independence real GDP level; as of 2013, Georgia's GDP was estimated to be 80% of its 1990 levels.[1] Georgia's trade policy review in 2009 showed how since the Rose Revolution in 2003, the Government established a structural reform programme that aimed, *inter alia,* to liberalize trade, improve infrastructure, upgrade the business environment, strengthen public finances and combat corruption. As a result, growth accelerated to an average rate of 9.4% during 2004-2007.

1.2. This acceleration was halted by the twin shocks in 2008: the conflict with the Russian Federation (preceded in 2006 by the closing of the Russian market) and the global financial crisis. The impact of the crises was relatively short-lived and the economy rebounded in 2010-2013, with growth averaging 5.8%. Over the past decade or so, GDP per capita increased from US$920 in 2003 to US$3,680.8 in 2014, although Georgia's overall impressive growth performance was not matched by commensurate declines in unemployment and poverty.

1.3. The key event of this review period occurred in June 2014, when Georgia signed the Association Agreement (AA) with the European Union. The AA includes a Deep and Comprehensive Free Trade Area (DCFTA), which is planned to enhance Georgia's trade prospects and boost economic growth by bringing its legislation closer to that of the EU. It will also remove the existing barriers on the trade of goods and services with the EU. Georgian products will have to meet certain EU requirements not only for export, but also when consumed within the country. Despite improvements in trade relations between Georgia and Russia, economic ties between the two countries remain fragile. While the Russia-Ukraine crisis had no impact of on Georgia in the first half of 2014, the country could face headwinds from a further escalation of tensions in the region.

1.2 Main Features of the Economy

1.4. As noted in the previous review, Georgia's economy has undergone significant structural change since independence. Twenty years ago, shares in GDP of agriculture, industry and services were more or less evenly split. The share of agriculture has since declined steeply and stood at an estimated 9.2% of GDP in 2014, although the sector remains important, given that agricultural production accounts for 45% of rural household income and subsistence agriculture accounts for 73% of rural employment[2] (Table 1.1). Agriculture thus still provides an important safety net for the rural population and also makes an important contribution to exports.

1.5. The sector has still not recovered from the 2006 collapse when the cultivated area decreased by around 40% mainly due to the Russian trade embargo and the subsequent dismantling of public services in agriculture. The total sown area in 2014 was less than half the area sown in 1990. The low productivity level in the agricultural sector is conditioned, *inter alia,* by low investment, lack of funding, and limited information about markets and new technologies. In the mid-2000s imported food products accounted for an estimated 50% of consumption, which is puzzling for a country with such substantial resources for food production.

1.6. Agriculture has however shown positive signs of recovery in recent years, which is partly driven by the improvement in trade relations with the Russian Federation in 2012 and a significant increase in public spending on agriculture. The Government is increasing public funding to agriculture, either through specific funds (to promote private sector participation) or subsidies to small-holder farmers. It is recognized that improving agricultural productivity and facilitating the movement of labour from agriculture into higher productivity activities are essential for strengthening economic opportunities in rural areas.

[1] World Bank (2014a), p.3.
[2] Estimates by the World Bank Group (2015b), p.11.

Table 1.1 GDP by sectoral activity, 2009-14

	2009	2010	2011	2012	2013	2014
GDP by economic activity (2003 prices, % change)						
Agriculture, forestry and fishing	-6.5	-4.1	8.5	-3.7	11.3	1.5
Mining	10.5	5.0	-8.6	6.6	2.8	1.8
Manufacturing	-9.4	18.6	13.4	13.2	8.6	3.9
Electricity, gas, and water supply	5.6	3.5	7.1	0.7	5.1	-2.8
Construction	-4.0	4.4	3.9	18.2	-10.5	13.5
Services	-4.9	10.1	7.0	7.0	3.8	5.5
Trade and repair	-15.9	12.8	5.2	7.1	5.4	6.1
Hotels and restaurants	-5.0	12.8	9.8	11.4	4.6	5.6
Transport	-0.4	15.6	6.9	7.0	3.2	6.4
Communication	-3.1	10.8	8.1	10.1	0.9	7.1
Financial intermediation	2.7	13.4	24.3	14.8	7.0	10.0
Real estate, renting and business activities	-4.3	10.4	12.4	5.3	9.6	8.5
Public administration	0.9	0.9	3.2	3.3	2.2	2.6
Education	4.5	3.2	2.7	3.1	2.4	2.1
Health and social work	8.7	2.8	1.3	2.9	0.0	2.2
Other	-12.9	11.0	9.0	7.1	1.5	-0.1
Share of sectors in current GDP (%)						
Agriculture, forestry and fishing	9.4	8.4	8.8	8.6	9.4	9.2
Mining	0.8	1.0	1.0	1.0	0.9	0.8
Manufacturing	8.1	9.2	9.9	10.2	10.6	10.6
Electricity, gas, and water supply	3.2	3.0	3.0	2.8	3.0	2.8
Construction	6.5	6.1	6.7	7.8	6.7	7.3
Services	70.2	70.7	68.6	68.2	68.0	68.0
Trade and repair	15.1	16.8	16.9	16.7	17.3	17.4
Hotels and restaurants	2.2	2.3	2.2	2.3	2.3	2.3
Transport	7.3	7.9	7.5	7.6	7.7	7.7
Communication	3.9	3.7	3.0	3.1	2.8	2.9
Financial intermediation	2.9	2.6	2.6	2.8	3.0	3.3
Real estate, renting and business activities	4.0	4.9	5.4	5.5	5.8	6.0
Public administration	15.8	13.0	11.6	11.2	10.1	9.9
Education	4.9	4.9	5.0	4.9	5.2	5.0
Health and social work	6.6	6.7	6.1	6.1	5.7	5.7
Other	4.0	4.7	5.0	4.9	4.7	4.4
Less: FISIM adjustment[a]	1.4	1.3	1.2	1.3	1.4	1.5

a FISIM = financial intermediation services indirect measures.

Source: National Statistics Office of Georgia online information.

1.7. Georgia's economy has become increasingly service-based and services made up over two-thirds of the economy in 2014, followed by manufacturing (10.6%), agriculture (9.2%), and construction (7.3%). Within services, the largest sub-sectors are trade and repair (17.4%), public administration (9.9%), transport (7.7%) and real estate and business (6.0%). The large but declining share of public administration can be attributed to the increase in public sector wages before and at the start of the present review period. The post-2009 economic recovery has been relatively broad-based with the decline in agriculture starting to slow and even reverse (Table 1.1). Services, in particular transport and tourism, and manufacturing have been the main contributors to growth since 2010.

1.8. One of the potential drivers of economic growth is tourism. This makes the development of the tourism sector, and related business opportunities and private investments, a priority for the Government. International tourist arrivals have increased 10-fold since 2005 when Georgia hosted 560,000 visitors. Tourism and travel is therefore one of the fastest growing sectors in Georgia and, according to the World Bank, a key generator of jobs, accounting for 14.2% of total employment in 2013 and 16% of GDP (directly and indirectly), and forecast to continue growing by 4.8% per annum. The sector currently provides nearly 20% of export earnings. A national tourism development strategy has been elaborated with the help of the World Bank to determine how to improve the sector's performance, define implementation priorities and facilitate job growth.

1.3 Main Economic Developments

1.3.1 Macroeconomic performance

1.9. Strong growth in Georgia since 2004 was driven in large part by capital inflows and the non-tradable sectors. The twin shocks in 2008 interrupted capital inflows and private investment and growth plummeted; in 2009 GDP contracted by 3.7% (Table 1.2). The Government rapidly implemented a fiscal stimulus programme to support recovery, including a large public investment package and increased social transfers. These efforts resulted in growth quickly rebounding, averaging 5.6% during 2010-2014.

Table 1.2 Selected macroeconomic indicators, 2009-14

	2009	2010	2011	2012	2013	2014
Real GDP, 2003 prices (GEL million)	12,085.5	12,835.0	13,757.2	14,637.7	15,123.7	15,844.6
Real GDP, 2003 prices (US$ million)	7,234.7	7,201.2	8,157.3	8,864.6	9,092.3	8,973.7
Current GDP (GEL million)	17,986.0	20,743.4	24,344.0	26,167.3	26,847.4	29,187.0
Current GDP (US$ million)	10,766.9	11,638.3	14,434.7	15,846.9	16,139.9	16,528.5
GDP per capita at current market price (GEL)	4,101.3	4,675.7	5,447.1	5,818.1	5,987.6	6,499.7
GDP per capita at current market price (US$)	2,455.2	2,623.0	3,230.7	3,523.4	3,599.6	3,680.8
National accounts						
Real GDP (% change)	-3.7	6.2	7.2	6.4	3.3	4.8
Exports of goods and services (% of GDP)	29.7	35.0	36.2	38.2	44.7	42.9
Imports of goods and services (% of GDP)	48.9	52.8	54.8	57.8	57.6	60.4
Unemployment rate (%)	16.9	16.3	15.1	15.0	14.6	..
Prices and interest rates						
Inflation (CPI, % change)	1.7	7.1	8.5	-0.9	-0.5	3.1
Lending rate (%)	17.87	15.85	15.00	14.81	13.59	11.91
Foreign currency	18.54	15.66	13.80	13.73	12.64	10.90
Deposit rate (%)	10.81	10.06	11.54	10.71	9.73	8.43
Foreign currency	9.49	7.67	8.16	8.17	6.04	4.83
Exchange rate						
lari/US$ (period average)	1.670	1.782	1.686	1.651	1.663	1.7659
Nominal effective exchange rate (% change)	-0.4	-7.1	5.4	6.7	0.6	0.3
Real effective exchange rate (% change)	-1.5	-4.6	9.3	1.8	-3.3	-0.8
General government balance						
Revenue	29.3	28.3	28.2	28.9	27.7	27.6
Tax revenue	24.4	23.5	25.2	25.5	24.8	24.8
Expenditure	30.0	26.4	23.8	24.8	25.0	26.4
Net operating balance	-0.7	1.9	4.5	4.1	2.6	1.2
Fiscal balance excluding grants	-8.7	-6.8	-1.8	-1.6	-2.0	-3.0
Public debt (end-period)	30.9	33.6	29.7	32.5	33.9	35.3
Domestic	9.4	8.8	7.7	7.2	7.5	8.8
Foreign	25.2	28.0	24.7	25.3	26.4	26.5
Saving and investment (% of GDP)						
Gross national savings	1.8	10.4	14.0	18.1	19.5	..
Gross domestic investment	13.0	21.6	26.2	28.9	24.8	29.8
Savings-investment gap	-11.2	-11.2	-12.2	-10.8	-5.2	..
External sector (% of GDP, unless otherwise indicated)						
Current account balance	-10.6	-10.3	-12.7	-11.7	-5.8	-9.7
Goods balance	-22.4	-22.6	-24.2	-26.7	-21.7	-25.7
Exports	17.2	20.6	22.3	21.8	26.0	24.2
Imports	39.7	43.1	46.6	48.5	47.7	49.8
Services balance	3.3	4.7	5.2	7.0	8.8	8.2
Exports	12.3	14.1	14.0	16.2	18.5	18.4
Imports	9.1	9.4	8.8	9.1	9.7	10.2
Worker remittances, net	2.9	3.6	4.3	4.5	4.9	4.6
Capital account	1.6	1.7	1.0	0.8	0.8	0.7
Financial account	8.6	8.9	11.6	11.0	5.1	9.3
Direct investment, net	6.3	5.8	6.2	3.9	5.1	6.5
Balance of payments	5.7	1.8	4.0	0.2	-0.3	-0.2
Terms of trade (2000=100)	133.1	137.0	138.1	134.8	132.6	..
Merchandise exports (% change)[a]	-22.4	29.1	34.7	7.3	21.2	-4.7
Merchandise imports (% change)[a]	-31.4	17.6	33.9	14.3	0.2	7.0
Service exports (% change)[a]	4.6	23.4	23.0	26.9	16.5	2.0
Service imports (% change)[a]	-21.5	11.7	15.8	14.4	7.9	7.7

	2009	2010	2011	2012	2013	2014
Foreign currency reserves (US$ million, end period)	1,891.6	2,041.4	2,594.9	2,651.6	2,601.5	2,490.5
% of GDP	17.6	17.5	18.0	16.7	16.1	15.1
Gross external debt (US$ million, end period)	8,820.2	10,099.5	11,573.9	13,236.2	13,220.6	13,443.9
% of GDP	81.9	86.8	80.2	83.5	81.9	81.3

.. Not available.

a Growth rates based on trade figures taken from the balance of payments in US$.

Source: National Statistics Office of Georgia online information; National Bank of Georgia online information; IMF, International Financial Statistics online information.

1.10. Growth has largely been powered by services, construction, and non-tradables in general. Manufactured exports have not expanded rapidly as a share of GDP during this period and total exports of goods and services remained under 40% of GDP for most of the review period, rising slightly in 2013 and 2014. While the current account deficit has narrowed from a peak of 22% of GDP in 2008, it has remained large at 10–13% of GDP during 2010–12.

1.11. Real GDP growth slowed significantly to 3.3% in 2013 from 6.4% in 2012, reflecting slower global growth, weak domestic demand and economic deceleration related to the political transition that prompted investor caution. Growth for 2014 recovered to 4.8% (just below the Government's 5% target) but was expected to halve to around 2% in 2015 due to the depressed economies of Georgia's major trading partners.

1.12. In early 2015, Georgia's economy was hit by a combination of significant external shocks: the Russia-Ukraine crisis, the deepening recession in Russia (both of which create ripple-effects through the region) and currency devaluations in trading partner countries. Because of these shocks, Georgia's exports were 25% (January-May, 2015) lower than in the same period of the previous year and remittances from Georgian workers abroad were down 23.3% in the same period. The economies of many of Georgia's main trading partners are slowing by even more, and the depreciation of their exchange rates is hurting Georgia's export performance.

1.13. Despite growth, unemployment has been high and it remains perhaps the most significant public policy challenge. Georgia's robust growth performance was accompanied by high unemployment, which remained in the 12-13% range during the pre-crisis boom. It peaked at nearly 17% in 2009 and fell to around 15% in 2012. According to the authorities, in 2013-2014 it was 14.6% and 12.4%, respectively. Georgia has been able to create significant new employment but this has been insufficient to bring about overall net job creation.

1.14. According to the World Bank[3], the majority of the workforce – between 51% and 52% – is employed (mostly self-employed) in agriculture, which contributes only 9.2% of GDP and is characterized by largely family-based subsistence farming with a relatively small agri-business sector. Low productivity levels in agriculture have contributed significantly to rural poverty. The average wage earned in agriculture is only about one-third of that in manufacturing, which employs just over 4% of the workforce. The highest wages are in mining and quarrying and construction (accounting for 1% and 3% of employment respectively). Wages are also appreciably higher in services, both public and private, which employ over 35% of the workforce.

1.15. Despite improvements over the last decade, Georgia still has a large informal sector, estimated by the OECD to be of the order of 22% of GDP in 2010. Non-observed or shadow activities are particularly prevalent in the construction sector, in repair services and in the restaurant and bar sectors. Small and medium enterprises make up over 90% of active businesses in Georgia and 43% of employment but accounted for only 20.6% of value added and 18.2% of turnover in 2013.[4] As the World Bank notes, countries with a large informal economy typically show a scarcity of new medium-size and large firms and an excess of small and inefficient or inactive firms which would otherwise have disappeared.[5]

[3] World Bank (2014b), p.32.
[4] Geostat/The World Bank (2013), p.19.
[5] Geostat/The World Bank (2013).

1.3.2 Fiscal policy

1.16. The Government has affirmed its commitment to fiscal consolidation in its current development strategy, *Georgia 2020*.[6] The Government is pursuing fiscal policies that support inclusive growth while maintaining a sustainable fiscal position. Measures to improve the tax system, the business environment and the quality and composition of public spending have been implemented. Between 2009 and 2013 there has been a sharp reduction in the fiscal deficit. The fiscal deficit amounted to an estimated 3% of GDP in 2014, which was less than budgeted because revenue exceeded the budget, reflecting higher receipts from excise tax on tobacco and VAT. The deficit is likely to expand to at least 4% of GDP in 2015 as slowing growth reduces revenue.

1.17. Regarding revenues, Georgia continues to have an attractive tax and customs regime. Following major tax reforms in 2004, the number of taxes was reduced from 21 to 6; VAT at 18% is competitive with that applied in neighbouring countries while income tax peaks at 20%, corporate tax at 15% and dividend and interest income tax is at 5%. There is no payroll tax or social insurance tax, no capital gains tax and no wealth, inheritance tax or stamp duty. The tax environment is being made more conducive for business through policy reform and better tax administration, which should encourage business activity and eventually generate higher revenues.

1.18. Public debt was 35.3% of GDP in 2014 and is expected to climb to 40% of GDP by the end of 2015. Given the constraints of Georgia's narrow financial markets, banks are the main purchasers of public debt. Small domestic savings limit non-bank financing for the budget, leaving the economy overly dependent on inflows from abroad.

1.3.3 Monetary policy

1.19. Monetary policy is focused on inflation targeting, implying a free exchange-rate float. To achieve the goal of price stability, the National Bank of Georgia (NBG) set a 6% inflation target for 2014, falling to 5% for the two following years. However, in 2012 and 2013, Georgia experienced price deflation, due to lower food prices and the strength of the lari, which led to significant monetary easing. Heavy dollarization of Georgia's economy continues to undermine the effectiveness of monetary policy. In 2013, foreign exchange deposits accounted for 56% of all deposits. Over two-thirds of housing loans are denominated in US dollars and more than 80% of Georgia's public debt is in foreign currency. The NBG is promoting de-dollarization to encourage banks to loan in local currency.

1.20. The increase of inflation in 2010 and 2011 was not caused primarily by internal monetary pressures but was principally attributable to external pressures including increases in energy prices. In 2010, the annual rate of inflation rose sharply to 7.1% owing to increased prices worldwide and unfavourable climatic conditions which resulted in bad harvests and supply shortages of agricultural products. After a further increase in 2011, Georgia experienced deflation in 2012 and 2013 resulting from a sharp decline in global food and fuel prices and a slight appreciation of the lari which lowered import prices. Inflation was low in 2014, owing to weak commodity and global food prices but it is forecast by the Asian Development Bank (ADB) to reach 5% in 2015 and 2016, partly as a result of the further devaluation of the lari.[7]

1.3.4 Structural reforms

1.21. Georgia's medium-term development plan (*Georgia 2020*) aims to achieve inclusive, and sustainable growth averaging 7% annually. This assumes that structural reforms will support rapid growth in investment, employment, and firm productivity and also ensure the realization of potential benefits associated with the DCFTA in terms of higher exports and FDI. The plan is based on four pillars: maintaining macroeconomic stability, strengthening competitiveness of the private sector, developing human capital, and enhancing access to finance.

[6] Government of Georgia (2014).

[7] Because foreign earnings are lower, the lari depreciated by more than 20% against the US dollar since January 2014. Although this depreciation is large, it is in line with the depreciation experienced by many other countries, given the strength of the US dollar. Indeed, most currencies in the region have depreciated by even more.

1.22. Regarding competitiveness, while Georgia has done well on the Doing Business index[8], there is a pending reform agenda to support private sector competitiveness. This is concerned mainly with the need for the protection and enforcement property and intellectual property rights, improved land titling and collateral registration, the establishment and enforcement of a competition framework aligned with international standards, and facilitating access of MSMEs to markets and information. Broad competitiveness indicators, such as those documented by the World Economic Forum (WEF), suggest that during the review period Georgia has improved its competitive ranking in some areas but appears to have failed to do so in the areas of education, competition, finance and innovation (Table 1.3).

1.23. Regarding innovation, development of new firms and export lines in high value addition sectors is hampered by the lack of a skilled workforce, low R&D spending, and limited use of innovation and technology. It is important to ensure increased investments in R&D and their commercialization, to support Georgian entrepreneurship, technological modernization as well as increased competitiveness. There is need for diversified tertiary education and training, especially in the technical and vocational areas to enhance firms' basic innovation management capabilities and skills. As laid out in the *Georgia 2020* strategy document, the Government is now looking at ways to develop an institutional framework to facilitate innovation and scale up of the most productive and innovative SMEs.

1.24. The Georgian Innovation and Technology Agency (GITA) is working on raising capacities for innovation. Aiming to develop innovation infrastructure for Georgia's regions, the Agency's goal is to build Regional Innovation Hubs and Community Innovation Centres, which will increase the number of new Georgian products in the regions; raise awareness about trends; raise digital literacy; increase the number of entrepreneurial, skilled inhabitants; develop new start-ups in the regions; develop new business approaches and increase competitiveness of the region.

Table 1.3 Georgia's selected global competitiveness rankings 2008-9, 2012-13 and 2014-15

Selected Indicators	Ranking			
	2008-09 (134 countries)	**2012-13 (144 countries)**	**2014-15 (144 countries)**	**Trend**
Property rights	109	131	85	+
Efficiency of legal framework	100	98	77	+
Quality of infrastructure	80	55	54	+
Quality of primary education	81	91	92	-
Quality of the education system	83	114	98	-
Intensity of local competition	114	127	105	+
Market dominance	95	121	103	-
Anti-monopoly policy	111	141	127	-
Professional management	68	92	78	+
Financial services	94	100	89	+
Local equity market	107	126	126	-
Securities exchange regulation	103	119	121	-
Firm-level technology absorption	108	116	103	+
Local suppliers' performance	131	134	120	+
Capacity for innovation	97	116	110	-
Spending on R and D	121	125	126	-
University-industry collaboration	109	134	128	-
Overall	**90**	**77**	**69**	**+**

Source: World Economic Forum: Global Competitiveness Reports 2008-09, 2012-13 and 2014-15.

1.25. Improving private sector competitiveness and further enhancing the investment climate, especially for SMEs, entail, *inter alia:* (i) Moving from deregulation to smart regulation to fill gaps in the existing business environment (competition policy, strengthened legal enforcement of

[8] Georgia's ranking on the overall ease of doing business improved to 15th (of 189 countries) in the World Bank's Doing Business 2015 Report from 112th (of 145 countries) in the 2005 report. However, rankings in key areas lag, including insolvency resolution and business exit and judicial independence.

property rights including intellectual property rights, updated investment legislation, improved bankruptcy procedures, and more effective dispute resolution); (ii) Promoting exports by leveraging the DCFTA to support market access[9], realizing Georgia's potential as a regional logistics and transit hub, and increasing productivity and exports in the agriculture sector; (iii) Strengthening innovation capacity through financial support and a well-defined framework for collaboration between the private sector, research, and the Government; and (iv) Leveraging Georgia's locational advantage and renewable resource potential to meet its growing energy needs and develop electricity exports. In this regard, significant reform is under way (Box 1.1).

Box 1.1 Major structural reform developments

Georgia's investment climate remains among the best in the region. Large-scale privatization is very advanced, tax and customs bodies are generally well run, and tangible results have been achieved in fighting corruption. At number 15, Georgia is a top-rated transition country in the World Bank Doing Business 2015 report. The new Government has pursued various policies to strengthen regulatory frameworks for markets and to improve the business environment. For example, the Entrepreneurship Development Agency (EDA) was established, which will begin operating in the second half of 2014. The EDA will provide training to entrepreneurs and start-ups, support export promotion, and adapt small and medium-sized enterprises (SMEs) to meet DCFTA requirements. In June 2014 the Government also launched the *Produce in Georgia* programme, which aims to support SMEs and stimulate local production.

Georgia signed an Association Agreement, including a DCFTA, with the EU. The agreement with the EU was officially signed in Brussels on 27 June 2014 and then ratified by parliament in July 2014. The aim of this agreement is to provide better access for Georgian goods and services to the EU by creating a modern, transparent and predictable trade and investment regime, and by enhancing institutional capacity through the adoption of European standards. Trade relations with the EU will likely be reinforced as a result of the DCFTA. The EU is one of Georgia's main trading partners, accounting for 21 per cent of exports in 2013. As part of the agreement, Georgia will also receive technical and financial support from the European Union. The AA/DCFTA covers a broad range of cooperation areas and provides for further development and strengthening of political dialogue, including foreign and security matters, as well as domestic reform. Priority is given to reforms in public administration, agriculture, rural development and the judicial system. In August 2014 Moody's changed the outlook on Georgia's Ba3 sovereign rating to positive from stable, driven by the expectations that the DCFTA will attract further foreign direct investment and bolster the country's export performance.

The government approved the *Georgia 2020* Socio-economic Development Strategy in June 2014. The main objective of the strategy is to achieve faster, inclusive and sustainable growth by maintaining a stable macroeconomic environment and strengthening human capital, and health, education and social safety nets. The strategy also aims to improve private sector competitiveness by building on past successes and further enhancing the investment climate, especially for SMEs. The Government is expected to formulate a specific action plan to achieve long-term development objectives.

New amendments to the law on free trade and competition were adopted in March 2014. This law was developed as part of the anti-monopoly reform and aims to strengthen the institutional framework for promoting free trade and competition. The Government also issued a decree to set up a competition agency. In addition, the law on food safety underwent amendments, which were approved by parliament in April 2014.

Reforms in the agricultural sector have been passed. In July 2014 the President signed amendments to the law on ownership of agricultural land. Pursuant to the law, agricultural land in Georgia can no longer be acquired by a foreigner, a legal entity registered abroad or a legal entity incorporated by a foreigner in Georgia. This moratorium will remain in effect until 31 December 2014. Meanwhile, the Government of Georgia is developing a policy on the ownership of agricultural land.

The electricity regulatory authority approved the new Transmission Grid Code in April 2014. The document detailing the grid code fully meets EU requirements. The development of these codes is part of the Government's commitment to a broader set of sector reforms within the Georgian Electricity Market Model 2015. In addition, the Ministry of Energy amended the Electricity Market Rules in January 2014 to enable the adoption of the grid code by the electricity regulatory authority, and to give new hydropower and renewable energy projects priority access to the transmission grid.

Source: EBRD Georgia Transition Report 2014. Viewed at: http://2014.tr-ebrd.com/georgia/.

[9] Detailed implementation steps regarding many trade and trade-related areas have been defined by the Government's 2015 National Action Plan for the Implementation of the Association Agreement between Georgia and the EU; approved by Decree No. 59 of 26 January 2015.

1.3.5 Current account balance

1.26. Georgia's relatively high current account deficit fell from close to 12% of GDP in 2012 to less than 6% in 2013, the first single-digit deficit since 2004, due to improvements in the trade balance (Table A1. 1). Imports slowed down due to the slump in investment while exports grew strongly due to the resumption of trade with the Russian Federation (which quickly became Georgia's third largest export market after the embargo was lifted) and a good performance in traditional CIS and EU markets. The services balance continued to improve supported by tourism, and remittances also grew. The current account deficit widened to an estimated 9.7% of GDP in 2014. Higher growth drove a 7% rise in imports while exports declined in the face of lower export demand, reduced remittances from the Russian Federation (which represent half of total transfers from abroad) and lower tourism receipts.

1.27. The current account deficit is projected by the ADB to grow further to 12% of GDP in 2015, due to an anticipated decrease in merchandise exports, reflecting the slowdown that started in 2014 and the continued decline in remittances. Afterwards, the IMF projects the current account deficit will decline to 5% of GDP by 2019, depending on continued fiscal consolidation, exchange rate flexibility and implementation of structural reforms to improve export competitiveness, and the positive effects of the FTA with the EU.[10] In light of Georgia's economic vulnerabilities, the IMF approved a 2-year Stand-By-Arrangement (SBA) as a macroeconomic safety net and then approved a 3-year SBA in 2014, which aims to facilitate Georgia's external adjustment, reduce macroeconomic vulnerabilities, rebuild fiscal space and support growth.

1.4 Trade Performance

1.4.1 Merchandise trade

1.28. The merchandise trade deficit averaged 23% of GDP during the review period, underlining the challenge for the Government to reduce the country's huge imbalance between imports and exports. The deficit has been conditioned by robust import growth due to growing domestic demand, FDI- and tourism-related imports and relatively high energy and commodity prices for most of the review period.

1.29. Georgia’s export performance over the last decade indicates that exports and tradable goods have not served as a leading source of rapid and sustainable productivity growth. Although merchandise exports have grown by about 10% per year over the last decade, the export share of GDP has not changed much since 2004 and remains below that of other high-growth smaller economies. The commodity structure of Georgia’s exports has also not changed much over the last decade, with resource-based products such as metals and minerals still dominant, while employment-generating processed products remain secondary.

1.4.1.1 Composition of trade

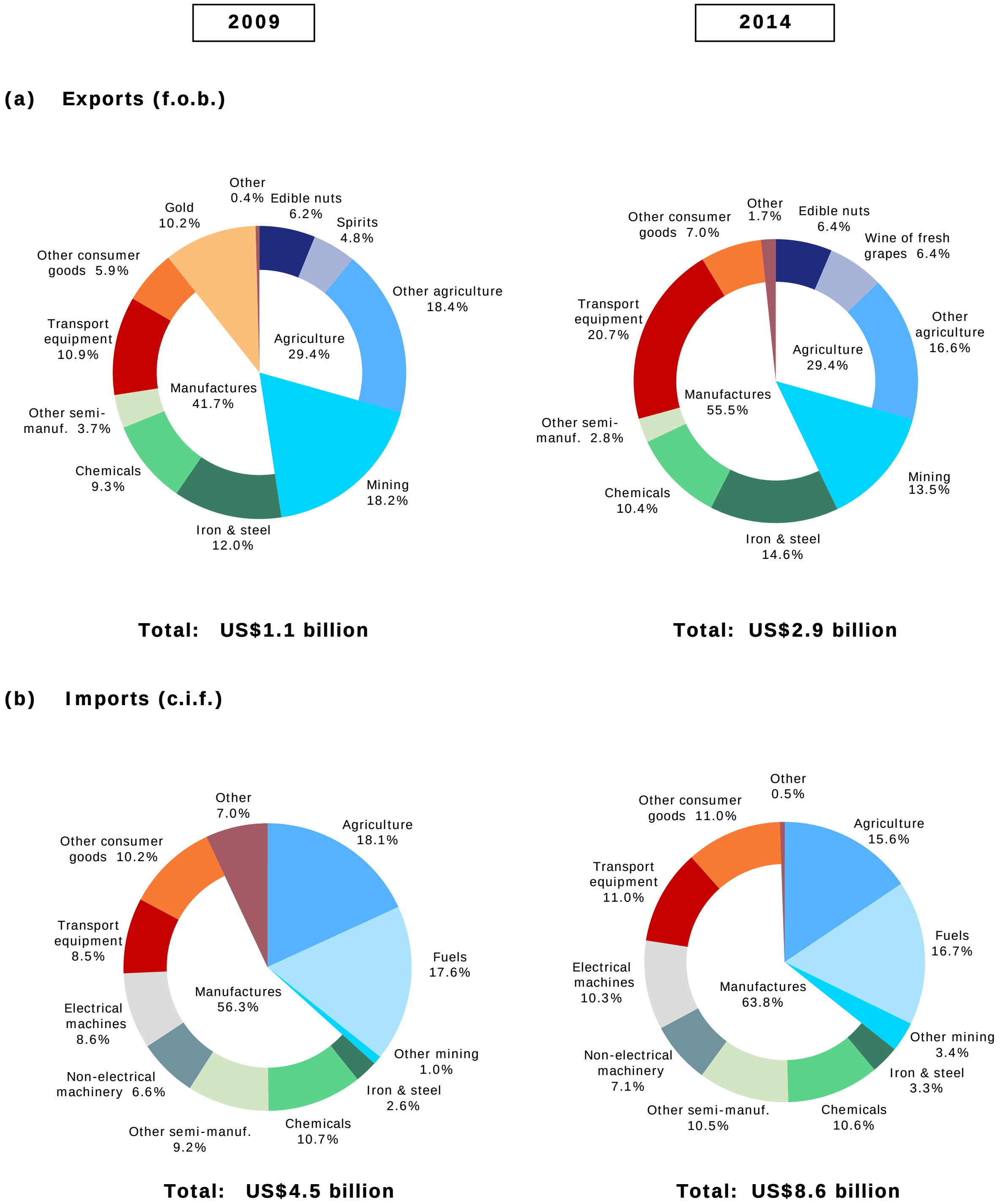
1.30. The structure of Georgia’s exports has not changed significantly since 2009 with primary products (agriculture, ferro-alloys, copper ores and concentrates, and other minerals) accounting for over 40% of exports (Chart 1.1 and Table A1. 2).

1.31. The share of manufactures in exports rose from 42% to over 55% during the review period with motor vehicle exports more than doubling from 7% to 18% of exports. This is related to a considerable increase in exports of used cars to neighbouring countries, mostly Azerbaijan, Armenia, and Kazakhstan. The used cars are imported from other countries (mainly from Japan, the United States, and Germany), with a portion being reconditioned and refurbished in Georgia before being re-exported. While there is some local value added in such refurbishing activity, the bulk of these exports should more properly be considered as re-exports. For the bulk of these re-exports, any local value added has more to do with transport and logistics, with Georgia becoming a major regional marketplace for automobiles. The re-export of used cars declined in 2014 because of the more stringent requirements on used cars introduced by Azerbaijan. Export of vehicles to Armenia did not decline. According to the National Statistics Office of Georgia, the

[10] IMF (2014), p.52.

export of cars in 2014 to Armenia increased by 7% and amounted to US$129.3 million. Other leading exports are minerals or chemical fertilizers, medicaments and bars and rods of iron.

Chart 1.1 Product composition of merchandise trade, 2009 and 2014



Source: UNSD, Comtrade database (SITC Rev.3).

1.32. The dependence of the merchandise export basket on resource-based products with limited employment generation has remained relatively high whereas the share of more processed, employment-generating products seems to be limited.

1.33. During the review period, there was little change in the overall composition of imports (Chart 1.1 and Table A1. 3). Georgia's largest import category is hydrocarbons (oil and gas) which accounted for 16.7% of imports in 2014. Other major imports are food, motor cars, telephones for cellular networks or for wireless networks, semi-manufactures, gas turbines, electronic and computer equipment and pharmaceuticals. Import growth was spurred at various points by strong demand for intermediate goods in manufacturing and an increase in investments. The strong performance in the manufacturing sector raised the demand for intermediate goods, while the significant increase in gross capital formation increased investment-related imports.

1.4.1.2 Direction of trade

1.34. CIS countries continued to be Georgia's largest trading partner, increasing their share of Georgian exports from 37% to 51% during the review period (Chart 1.2 and Table A1. 4). Georgia's main export destinations in 2014 continued to be Azerbaijan (taking 19% of Georgian exports), Armenia (10%), the Russian Federation[11] (almost 10%) and Turkey (8.4%). With the opening of the large Russian market in mid-2013, exports to the Russian Federation continued to grow and increased three-fold in the 1st half of 2014 (year-on-year).

1.35. In spite of the large size and proximity of the EU and Turkish markets, Georgia's exports to both destinations appear to be significantly below potential. Overall, the share of Georgia's exports to the EU has remained fairly stagnant at about 21% since 2009 (it even declined to 15% in 2012), although in the first four months of 2015 the EU's share reached 30%. The EU member State accounting for the largest share of Georgia's exports is Bulgaria. This suggests that the EU remains a largely untapped potential market for Georgia. The share of exports to Turkey have more than halved during the review period (from 20% to 8.4%). The share of exports to the United States has more than doubled during the review period, while the share going to Canada has declined from 10% to under 2%.

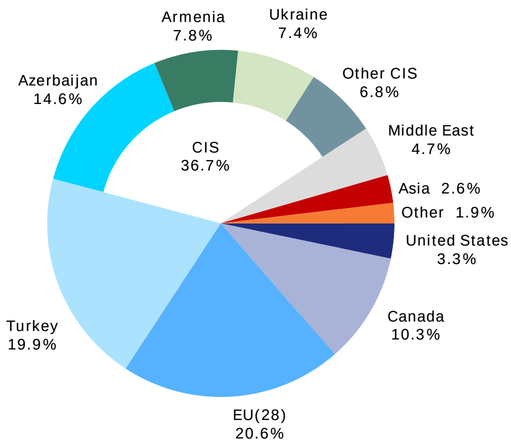
1.36. The EU is Georgia's main trade partner, accounting for around one-fifth of exports and over one quarter of imports. Germany, Romania, Italy and Bulgaria account for half of EU imports from Georgia (Chart 1.2 and Table A1. 5). Other significant sources of imports in 2014 were Turkey (20.1% of total imports), China (8.5%), Azerbaijan (7.4%), the Russian Federation (6.7%), and Ukraine (6.4%). Turkey supplies mainly consumer goods and domestic appliances and Azerbaijan is Georgia's main supplier of oil and gas.

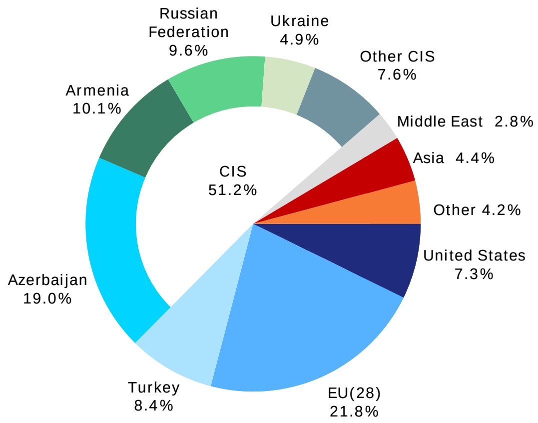
[11] One big change in Georgia's export structure over the past decade has been the reorientation away from the Russian market after 2005. During 2000–05, the share of Georgia's exports to the Russian Federation averaged 19% which fell to 8% in 2006 and to 2% by 2008, due to the trade embargo imposed by the Russian Federation. Processed food (primarily wines, spirits, mineral waters, fruits, and nuts) exports to the Russian Federation declined sharply after Russia imposed a ban on wines and mineral water from Georgia in 2006. Most of these exports were redirected to Ukraine, the Caucasus, and other transition countries.

Chart 1.2 Direction of merchandise trade, 2009 and 2014

2009	2014

(a) Exports (f.o.b.)

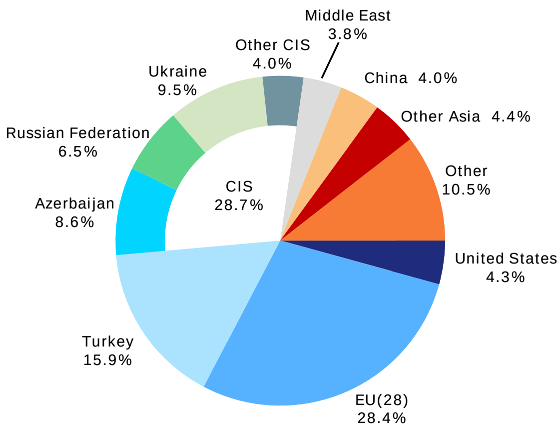


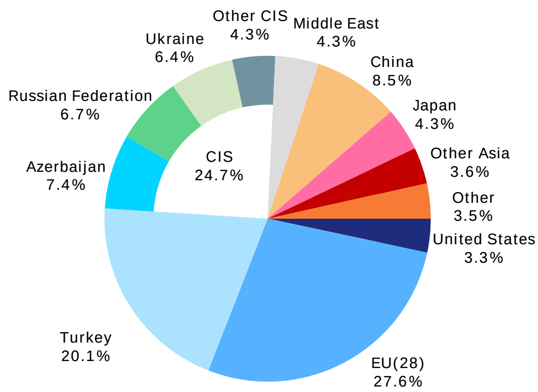


Total: US$1.1 billion

Total: US$2.9 billion

(b) Imports (c.i.f.)





Total: US$4.4 billion

Total: US$8.6 billion

Source: UNSD, Comtrade database.

1.4.2 Services trade

1.37. During the review period, services exports increased from 12% of GDP in 2009 to over 18% of GDP in 2014, growing at a faster rate than merchandise exports, reaching US$3 billion. (Table 1.4). Exports are dominated by transport and tourism receipts, which account for around 90% of exports. Georgia has not yet begun to emulate other comparable countries that have managed to tap into the markets for information technology and other business services. Imports of services are dominated by road and maritime transport.

Table 1.4 Composition of trade in services, 2009-14

	2009	2010	2011	2012	2013	2014
Total credit (US$ million)	**1,329.3**	**1,640.8**	**2,018.9**	**2,562.0**	**2,983.8**	**3,043.5**
	% of total credit					
Maintenance and repair	0.3	1.4	0.1	0.1	0.1	0.1
Transportation	47.0	42.5	39.6	33.3	32.3	31.9
Sea transport	6.3	6.8	6.9	5.1	5.4	5.2
Air transport	6.1	6.2	7.3	6.5	7.0	6.6
Rail transport	7.9	7.5	7.7	6.4	5.3	4.9
Road transport	4.7	4.4	3.7	4.3	4.6	4.3
Pipelines and electricity transmission	21.7	17.4	13.8	10.9	9.8	10.8
Travel	35.8	40.2	47.3	55.1	57.6	58.7
Business	19.5	19.3	19.2	21.5	21.0	21.1
Personal	16.3	20.9	28.1	33.6	36.7	37.6
Construction	0.5	0.6	0.4	0.3	0.3	0.2
Insurance and pension	1.2	2.3	1.0	0.7	0.6	0.7
Financial service	1.0	1.0	0.9	0.8	0.3	0.2
Royalties and licence fees	0.6	0.3	0.2	0.1	0.1	0.1
Telecommunication, computer and information	2.4	2.0	1.9	1.9	1.8	1.9
Other business services	2.7	2.5	2.7	2.7	2.3	2.1
Personal, cultural and recreational services	1.1	0.8	0.9	0.6	0.7	0.6
Government services	6.7	5.2	4.6	3.8	3.3	2.9
Other[a]	0.9	1.1	0.4	0.6	0.5	0.8
Total debit (US$ million)	**977.6**	**1,092.5**	**1,265.2**	**1,447.4**	**1,561.9**	**1,682.4**
	% of total debit					
Maintenance and repair	0.4	0.4	0.3	0.3	0.2	0.2
Transportation	50.3	50.8	54.7	55.6	56.9	55.5
Sea transport	13.2	14.2	18.5	16.5	18.9	18.4
Air transport	13.2	12.1	12.3	12.6	12.8	12.0
Rail transport	4.0	4.5	5.0	3.3	2.8	2.6
Road transport	19.8	20.0	18.9	23.1	22.3	22.5
Travel	18.6	18.2	16.9	17.7	18.8	17.7
Business	13.2	11.9	11.2	12.4	12.8	12.4
Personal	5.4	6.3	5.7	5.4	6.0	5.3
Construction	2.1	0.9	0.5	0.4	0.6	0.4
Insurance and pension	11.0	11.0	10.9	9.4	7.9	8.4
Financial service	1.8	1.3	1.6	1.5	0.8	0.8
Royalties and licence fees	0.9	0.7	0.6	0.5	0.9	1.2
Telecommunication, computer and information	2.1	1.6	2.2	2.2	2.4	2.7
Other business services	5.2	5.6	6.7	6.0	5.6	5.7
Personal, cultural and recreational services	1.1	1.1	0.9	0.9	0.8	0.7
Government services	6.6	8.2	4.7	5.4	5.2	6.5
Other[a]	0.0	0.2	0.0	0.0	0.0	0.0

a Manufacturing services on physical inputs owned by others.

Source: National Bank of Georgia online information.

1.5 Foreign Direct Investment

1.38. FDI is a critical element for the Georgian economy and while it has declined from its 2007 peak (at 19.8% of GDP), it remains high compared to peers and remains an important source of financing accounting for 10.6% of GDP in 2014 (Table 1.5). In 2014, FDI amounted US$1,758 million, 87% higher than in 2013. This increase reflects higher investment in manufacturing and transport and communication, and more recently construction services.

Table 1.5 Net inflows of foreign direct investment, 2009-14

	2009	2010	2011	2012	2013	2014
Total inflows (US$ million)	**658.4**	**814.5**	**1,117.2**	**911.6**	**941.9**	**1,758.4**
% of GDP	6.1	7.0	7.7	5.8	5.8	10.6
Inflows by origin (% of total)						
EU	34.1	30.5	49.6	48.3	41.5	46.6
Netherlands	4.9	9.0	21.6	3.9	16.3	21.3
United Kingdom	11.0	7.2	4.9	10.3	5.9	6.1
Luxembourg	1.4	0.9	3.9	4.6	15.1	6.2
CIS countries	0.2	11.2	17.3	9.5	14.0	25.5
Azerbaijan	4.5	7.1	12.4	6.5	8.7	19.4
Russian Federation	1.6	5.9	5.0	2.2	0.2	4.7
Armenia	-0.8	-2.0	-1.1	0.7	0.4	0.7
China	-0.3	-1.0	0.9	4.0	9.5	12.4

	2009	2010	2011	2012	2013	2014
United States	-1.5	16.7	2.5	2.2	4.8	10.3
Turkey	14.9	11.3	6.8	8.9	4.5	3.6
Panama	11.4	-0.6	0.2	1.1	2.7	4.0
Other	41.3	32.0	22.8	26.0	23.0	-2.5
Inflows by sector (% of total)						
Agriculture and fishing	3.4	1.1	1.3	1.8	1.3	0.7
Mining	2.3	6.6	3.6	0.5	4.6	2.4
Manufacturing	19.0	21.5	10.8	18.4	10.6	11.7
Energy sector	-0.3	2.7	18.3	19.7	26.0	10.8
Construction	16.0	0.6	4.3	4.6	5.3	18.0
Hotels and restaurants	5.7	2.1	2.0	1.9	-1.4	7.1
Transports and communications	15.0	26.4	11.3	8.0	14.9	24.7
Health and social work	0.0	0.1	1.5	1.9	0.1	-0.5
Real estate	22.4	14.6	20.1	5.8	4.5	7.9
Financial sector	7.5	13.2	15.0	17.8	17.7	6.6
Other	9.1	11.1	11.7	19.5	16.5	10.7

Source: National Statistics Office of Georgia online information.

1.39. During the review period, the majority of foreign (and local) investment has flowed into domestic infrastructure (transport, telecoms, energy, real estate) and domestic-oriented services (financial services, retail and construction). During this period imports have increased to satisfy domestic demand for construction materials, food and consumer goods as domestic production of these inputs has not kept pace. There has been relatively limited investment in export-oriented agri-business but there has been significant investment in manufacturing.

1.40. The largest investors during the review period have been the Netherlands, Azerbaijan and more recently China.

1.6 Outlook

1.41. Georgia remains vulnerable to external shocks given its heavy reliance on FDI and remittances, high current account deficit and high dollarization. GDP growth is expected to slow to 2% in 2015 in line with slowdowns in the EU and neighbouring Azerbaijan and Armenia and a projected recession in the Russian Federation. According to the ADB, GDP growth could recover at 2.5% in 2016 as the external environment improves slightly.[12] Beyond that, economic growth could rise over the medium term based on greater policy certainty, improved market access, and a strong reform agenda. Medium-term growth prospects depend on a number of factors, including: improved economic ties with the EU; improved relations with the Russian Federation (which will benefit trade and tourism); and the robust reform programme outlined in the *Georgia 2020*, which will support growth in private investment. Growth prospects also depend on Georgia's ability to take advantage of the AA/DCFTA with the EU, which will improve market access and encourage FDI.[13]

[12] ADB (2015), p.117.

[13] A trade sustainability impact analysis commissioned by the EU suggests a potential increase in GDP growth of 4.3% in the long-run. This will require labour and capital reallocations to more productive sectors, involving capacity building on planning and implementation, regulatory approximation particularly in trade facilitation, technical barriers to trade, and intellectual property rights and upgrading of, and investment in, human capital.

2 TRADE AND INVESTMENT REGIME

2.1 Introduction

2.1. Georgia has made sweeping economic reforms during the last ten years, developing from a near-failed state in 2003 to a relatively well-functioning market economy in 2015. Georgia has achieved significant results in terms of curbing low-level corruption, streamlining an inefficient administration, eliminating unnecessary licensing requirements, improving the State's tax collection capabilities, liberalizing its trade regime and generally improving Georgia's attractiveness based on ease of doing business. However, progress has been coupled with shortcomings, particularly in the aftermath of the 2008 financial crisis and the war with the Russian Federation.

2.2. At the same time, it is notable that following parliamentary and presidential elections in 2012 and 2013 respectively, a peaceful transfer of power took place for the first time in Georgia's modern history. Since 2012, the Government has broadly continued the previous Government's low-regulation, low-tax free market policies while modestly increasing social spending. Also, the Russian Federation lifted its embargo on Georgian wine, mineral water and certain agricultural goods in 2013 that had been in place since 2006.

2.3. Integration with the EU remains the mainstay of Georgia's foreign economic and trade policy. In 2014, Georgia signed an Association Agreement (AA) with the EU, including a Deep and Comprehensive Free Trade Area (DCFTA). The agreement aims at promoting closer harmonization and integration with the EU. The DCFTA includes the complete elimination of tariff and non-tariff barriers on nearly all goods and substantial liberalization of services trade. A wide range of trade regulations are also due to be implemented, as the DCFTA envisages approximation of Georgia's trade-related legislation with EU legislation. The EU estimates that in the longer run (5-10 years after implementation) Georgia's exports could increase by 12% and imports by 7.5% while GDP could be 4.3% higher. A more stable and predictable regulatory environment and free trade with the EU should also make Georgia more attractive for FDI.

2.4. Georgia's investment legislation, aiming to open the economy to increased international business activity and foreign investment, remains largely unchanged from the time of the previous review. However, the Government's medium-term development strategy aims to overhaul current legislation to better correspond to international norms and practices but without so far specifying what will be put in place of the current legislation.

2.2 General Institutional Developments

2.2.1 Constitutional framework

2.5. Under its 1995 Constitution, which separates government into executive, legislative and judicial branches, Georgia was defined as a presidential republic. However, recent constitutional amendments entered into force in 2013, distributing the presidential powers between the prime minister and parliament. The president remains head of state and commander-in-chief but can no longer initiate draft laws, suspend acts issued by the Government or convene emergency sessions of parliament. The amendments roll back the concentration of powers granted to the presidency in 2004 and increase the role of parliament regarding the direction and execution of foreign and domestic policies.

2.6. The government led by the prime minister is the supreme body of the executive branch. During the current review period, Georgia successfully navigated a complex and unprecedented political transition with two landmark elections in which power changed hands peacefully, two changes of prime minister, a change of president, and a constitutional shift in the political system, while continuing to deliver on a detailed reform and approximation agenda in the framework of the Association Agreement with the EU.

2.7. Parliament is responsible for ratification of international treaties, while the executive is responsible for implementation. Ratification was required to complete the national procedures relating to Georgia's WTO accession. International agreements ratified by parliament, including the WTO agreement, have precedence over domestic laws and other acts in Georgia apart from constitutional law. Georgia's laws provide for the right to appeal administrative rulings on matters subject to WTO provisions to an independent tribunal, in conformity with WTO obligations.

2.8. Following the adoption of the 1995 constitution, a legal system was established with a constitutional court and a 3-level system of common courts: district or first instance courts; appellate courts where decisions of first instance courts can be appealed; and the Supreme Court which is the final instance court for administering justice. Despite far-reaching reform measures (including new rules for the appointment of judges by a non-political body of professionals and a significant increase in judges' salaries) the judiciary has failed to win a reputation for independence. The inefficiency of the judicial system and weak capacity of the courts are factors in the feeble protection of property rights and poor settlement of commercial disputes.[1] The Government recognizes this challenge and is taking steps to reinforce the independence of the judiciary through new rules that increase transparency and diminish the opportunity for political interference. In this regard, basic judiciary reform based on the Venice Commission recommendations is among the priorities of the current Government.[2]

2.2.2 Framework for doing business

2.9. In its medium-term economic strategy document, *Georgia 2020*[3]*,* the Georgian Government duly recognizes that, in spite of improvements (Box 2.1), there are still problems in the legal, regulatory and institutional framework for doing business. In order to tackle these problems and deficiencies, the Government plans, *inter alia,* to: improve the protection of property rights; increase the efficiency of the system for resolving commercial disputes; further streamline tax administration; overhaul investment legislation; improve the legal and institutional frameworks for competition and the development of capital markets as well as the mechanisms for resolving insolvency and closing a business. As noted below, in accordance with the EU-Georgia Association Agreement and the DCFTA, the Government is introducing best European practices in several areas, including protection of Intellectual Property Rights and promotion of competition.

Box 2.1 Framework for doing business

In recent years Georgia has significantly improved the legal, regulatory and institutional framework for doing business. According to the 2015 Doing Business report, Georgia has the highest ranking in Eastern Europe and Central Asia.[4] Its ranking on the overall ease of doing business rose to 15th of 189 economies.[5] In addition, radical reform of public sector management and robust enforcement of anti-corruption policies have curtailed petty corruption. In the Trace International 2014 Business Bribery Risk Index, Georgia is ranked 11th out of 197 countries. Business interactions with government and government service transparency are assessed as the lowest corruption risk domains of Georgia.[6] Georgia's ranking in the Transparency International Corruption Perceptions Index 2014 rose to 50th of 175 countries from 79th of 180 countries in 2007.[7] According to the World Justice 2014 Rule of Law Index Georgia is ranked 1st out of 13 Eastern European Countries and globally 24th by the absence of corruption.[8] Considering the achieved results and international ratings, Georgia has moved to a new stage of fight against corruption and much like in European democracies, the main targets for Georgia now are to achieve a high level of transparency and accountability, increase access to public information and enhance involvement of citizens, further improve corruption prevention mechanisms in corruption-prone areas, and foster economic development through taking advantage of new technologies and innovative approaches in public governance. The Government's strong commitment to continuing the process of reforms in a consultative and participatory format and initiating a new wave of anticorruption reforms was expressed through the adoption of the new comprehensive Anti-Corruption Strategy and 2015-2016 Anti-Corruption Action Plan. The Strategy and Action Plan are based on the 13 Strategic Priorities for the Fight against Corruption adopted by the Anti-Corruption Council of Georgia at the initial stage of strategic development. Among the Strategic Priorities are prevention of corruption in political parties, the procurement and financial management system, the tax and customs system, health and social affairs as well as the private sector.

[1] Freedom House ranked Georgia low on judicial framework and independence in its study *Nations in Transit 2013: Authoritarian Aggression and the Pressures of Austerity*, online information viewed at: https://freedomhouse.org/report/nations-transit-2013/nations-transit-2013-authoritarian-aggression-and-pressures-austerity.
[2] Bertelsmann Stiftung (2014), p.12.
[3] Government of Georgia (2014).
[4] World Bank (2014d).
[5] World Bank (2014d).
[6] Trace International's online information: http://www.traceinternational.org/trace-matrix/.
[7] Transparency International's online information: http://www.transparency.org/cpi2014.
[8] The World Justice Project (2014).

In 2014, Moody’s affirmed Georgia's BA3 rating and changed the outlook on sovereign rating to positive. Also, Fitch affirmed its BB- rating and changed the outlook from stable to positive.
Heritage Foundation ranked Georgia as the 22nd freest economy in the world, citing improvements in 6 out of 10 economic freedom categories, including management of public finance, investment freedom, monetary freedom, and property rights. According to Heritage Foundation's Index of Economic Freedom 2015 Georgia’s ranking score improved by 0.4 points compared to the previous year and amounted to 73.0. Forbes recognizes Georgia as the fourth least tax burdened country in the world after Hong Kong, China; Qatar and UAE.

Source: Georgian authorities.

2.3 Economic and Trade Policy Objectives

2.10. The broad objectives of Georgia's trade policy remain largely unchanged from the previous review in 2009: integration into the world economy, including implementation of WTO membership obligations as well as obligations under other agreements, notably the Association Agreement with the EU; continued trade policy liberalization; facilitation of export and import procedures and streamlining of NTB regulations; and diversification of trade relations by establishing preferential regimes with the country's main trading partners.

2.11. The coming into effect of the DCFTA in September 2014 is a landmark achievement for Georgia during the current review period and is at the heart of its new development strategy, *Georgia 2020.* The main goal of this strategy is sustainable and inclusive economic growth that benefits a majority of the population. This will be achieved by private sector growth, supported by an efficient and transparent government, respect for property rights, openness to trade and integration with international financial markets. The objective of political and economic integration with the EU is recognized as a cornerstone of Georgia's 2020 strategy. The strategy emphasises Georgia's geographic potential as a trade and logistics hub to link Asia and Europe via the Caucasus. In line with this, the implementation of the reforms mandated by the EU-Georgia DCFTA are considered an integral part of the policy agenda.

2.3.1 Trade aspects of *Georgia 2020*

2.12. The strategy notes that the implementation of its obligations under the Association Agreement is important for increasing its export potential, integrating with European markets and facilitating penetration of EU markets by Georgian exports. *Georgia 2020* also emphasises that export expansion and diversification is mainly up to the private sector with the Government acting as an effective partner for businesses seeking to identify export markets. Government can protect the interests of national exporters in international markets, develop national quality infrastructure in accordance with international requirements and seek to reduce technical barriers to international trade.

2.13. The Government aims to reduce remaining technical barriers to trade in order to facilitate export development and integration with international and European markets and to increase the competitiveness of Georgian products and services. In this context, national quality infrastructure will be developed and national quality institutions will be integrated with international and European systems. Georgia intends to meet its obligations under the DCFTA, including the obligations concerning harmonization of metrology, standardization, accreditation, compliance evaluation, technical regulation and market supervision systems with European systems.

2.14. To ensure the penetration and maintenance of Georgian agricultural products in international markets, the Government is introducing measures to increase the awareness of Georgian entrepreneurs of: food safety, veterinary and phyto-sanitary issues; the steps that are to be taken according to the DCFTA; the requirements of international and European markets; relevant export procedures; and facilitating the further development of Georgian brands.

2.15. In order to increase the competitiveness of Georgian products and services and support their establishment in international markets, the Government will support the creation of systems facilitating export development, which will raise entrepreneurs’ awareness of Georgia’s export products and export markets. In this context, a special role will be played by the Entrepreneurship Development Agency to strengthen export potential and inform the entrepreneurs about potential export markets and requirements existing in those markets and supply international markets with information on products and services offered by Georgia.

2.16. These efforts are aimed at increasing the role of exports in the process of development of the Georgian economy, which means increased export volumes, greater product diversification and improved penetration rates in new markets of more value added products.

2.4 Trade Policy Administration

2.4.1 Institutions

2.17. Georgia applies WTO provisions uniformly throughout the customs territory controlled by the central government, including in regions engaging in border trade or frontier traffic, special economic zones and other areas where special regimes for tariffs, taxes and regulations are established. The parts of the country under central government control are divided into ten regions headed by governors and the capital city of Tbilisi headed by a mayor. The central Government of Georgia continues to be deprived of customs control over the regions of Abkhazia and Tskhinvali region/South Ossetia, due to the existing situation in these regions.[9]

2.18. The Ministry of Economy and Sustainable Development (MoESD) of Georgia is the central body of executive authority which determines, implements and coordinates state policy in the field of trade. In the ministry, the Department for Foreign Trade and International Economic Relations is exclusively involved in the formulation of foreign trade policy. As part of its daily functions, the department closely cooperates with the responsible bodies under the ministry (Technical and Constructions Supervision Agency, Georgian National Agency for Standards and Metrology, Georgian National Tourism Administration, Unified National Body of Accreditation, Georgia's Innovation and Technology Agency and Entrepreneurship Development Agency) and collaborates with other responsible entities, including some in the private sector, such as the Georgian Chamber of Commerce and Industry, the International Chamber of Commerce (ICC), American Chamber of Commerce in Georgia (AmCham), and the EU-Georgia Business Council. The Department implements, *inter alia,* the mandatory notification submission procedures to the WTO.

2.19. The Department is structured into four divisions: WTO Affairs and Trade Negotiations; Trade Policy and Regional Economic Relations; European Affairs and Bilateral Economic Relations; Non-Tariff Regulation of Foreign Trade. The main functions of the Department for Foreign Trade and International Economic Relations include: participation in elaboration of the foreign economic policy of the country; cooperation with international financial and donor organizations and international and regional economic organizations; elaboration of proposals for the development of bilateral regional and multilateral trade relations; trade balance analysis and elaboration of recommendations; analysis of implementation of obligations entered into under the international agreements and conventions, preparation of appropriate conclusions and proposals; analysis of implementation of WTO commitments, preparation of proposals for trade legislation in order to be in line with WTO requirements; cooperation with relevant European authorities working on Euro integration issues; and issuance of: certificates of origin, permits for export, import, re-export and transit of the goods of dual use, and re-export of goods from Georgia produced in CIS countries in compliance with the existing legislation.

2.20. Coordination mechanisms between relevant agencies exist at government level regarding trade policy implementation. Notably, DCFTA preparatory work and coordination were carried out by an interagency working group as of 2009 and from February 2014[10] the MoESD is responsible for monitoring DCFTA implementation, coordination with line ministries, reviewing action plans and reporting activities, as well as for coordination with the Office of the State Minister of Georgia for European and Euro-Atlantic Integration. The Ministry was in charge of the DCFTA negotiations and DCFTA implementation is handled by a special interagency sub-commission (chaired by MoESD) established under the State Commission for EU Integration chaired by the Prime Minister.

[9] See paragraph 3 of section 1 and paragraph 11 of section 2 of the Secretariat report of the 2009 TPR of Georgia in document WT/TPR/S/224/Rev.1.

[10] Based on Government Decree No. 186 of 7 February 2014.

2.21. Other significant bodies/agencies in trade policy implementation are:

- Trade-related agencies under the MoESD, including: Georgian National Agency for Standards and Metrology (GEOSTM); Accreditation Centre of Georgia (GAC); Technical and Construction Supervision Agency (TCSA); Georgian National Tourism Administration; various transport agencies; Entrepreneurship Development Agency (EDA); Georgian Innovation and Technology Agency (GITA); the Entrepreneurship Development Agency (EDA) and Innovation and Technology Agency (GITA), which each established under the MoESD as a legal entity of public law (February, 2014) in order to promote SMEs development and support to growth of their competitiveness;

- National Food Agency under the Ministry of Agriculture;

- Competition Agency;

- State Procurement Agency (SPA);

- National Intellectual Property Centre (Sakpatenti);

- Georgian National Communications Commission (GNCC);

- Customs under the Revenue Service of the Ministry of Finance;

- Conformity assessment bodies and testing/validation/calibration laboratories;

- National Statistics Office of Georgia (GEOSTAT), responsible for trade statistics and SME surveys; and

- Business and sectoral associations, chambers of commerce e.g. EU-Georgia Business Council (EUGBC); Georgian Chamber of Commerce and Industry (GCCI); American Chamber of Commerce in Georgia (AmCham).

2.4.2 Regulatory developments during the review period

2.22. The main instrument regulating foreign trade in Georgia is the new 2011 Tax Code of Georgia, in which chapter 28 defines objects subject to import taxation, customs regimes and procedures as well the exemption of certain goods from import duties and other regulations in line with Section 10 of the Tax Code. The Tax Code also defines the list of products subject to excise tax and list of goods and services exempted from VAT.

2.23. According to the authorities, Georgia is fully aligned with WTO requirements in terms of the removal of barriers for imported goods. At the same time, a number of important measures need to be implemented to ensure the recognition of the safety of Georgian goods to meet the requirements of foreign markets and to promote Georgian exports. On technical regulation, in 2010 the Government adopted the *Governmental Strategy in Standardization, Accreditation, Conformity Assessment, Technical Regulation and Metrology* and the related *Programme on Legislative Reform and Adoption of Technical Regulations* and in 2012 major legislative changes were carried out in the field of technical regulations. A *Market Surveillance Strategy for Industrial Products* was adopted in 2011 and the responsible body, the Technical and Construction Supervision Agency (TCSA), was set up in 2012 under the MoESD; this body oversees the compliance of industrial products entering the market with the requirements of technical regulation.

2.24. On food safety and SPS measures, in 2010 Georgia produced the *Comprehensive Strategy in Food Safety, Veterinary and Phyto-sanitary* as well as the *Legislative Approximation Programme* to achieve harmonization with EU legislation. In other policy areas - services, customs, government procurement, IPR protection and competition - a number of laws exist and are referred to in the *Georgia 2020* development strategy. A competition law was approved in 2014 and the related enforcing authority, the Competition Agency, has been established.

2.5 Main trade agreements and arrangements

2.5.1 World Trade Organization

2.25. In June 2000, Georgia became the 137th Member of the WTO, constituting a significant step towards Georgia's integration into world trade. It was the fourth former soviet republic to become a member, after the Kyrgyz Republic, Latvia and Estonia. Upon its entry into the WTO, Georgia was granted MFN treatment by all WTO Members and conferred MFN treatment in return. Also, Georgia is also a beneficiary of the GSP schemes offered by the following countries: the United States (temporarily terminated), Japan, Canada, Switzerland and Norway. In 2005, Georgia became the beneficiary of the GSP+ scheme, which grants tariff-free access to the EU market to for 7,200 products.

2.26. Georgia is an observer to the Government Procurement Agreement (GPA). According to the authorities, the Law on Government Procurement fully complies with WTO requirements and has been in force since 2006. Georgia is an observer to the GPA.

2.27. As a Member, Georgia is required to make periodic notifications under the various WTO Agreements. Since, 2010, the Ministry of Economy and Sustainable Development ensures the timely provision of notifications to the WTO pursuant to the following agreements: Agriculture (art. 18.2), Import Licensing Procedures (art. 7.3), GATS (art.3 .3), Subsidies and Countervailing Measures (art. 25.1), and Technical Barriers to Trade (arts. 2.9 and 2.10). According to the authorities, Georgia is actively using WTO technical assistance programmes, EU technical assistance programmes and bilateral technical assistance provided by other donors and countries. During the review period, Georgia has participated in a number of trade-related technical assistance activities organized by the WTO and partner institutions.

2.28. Georgia is cooperating with other recently-acceded members in the RAMs group, mostly on the issues regarding developing countries and their engagement in WTO negotiations. In respect of the Doha Development Agenda (DDA), Georgia attaches importance in particular to the multilateral system of notification and registration of geographical indications for wines and spirits under TRIPS.

2.29. Georgia has not been involved in any direct or indirect trade disputes in the WTO during the review period.

2.30. Georgia's trade relations with the Russian Federation have been affected by the Russian trade embargo on Georgian agricultural products. In 2013, imports into Russia of Georgian wine and mineral water resumed after an embargo that had been in place since 2006 was lifted. The Russian Federation also reopened the border to Georgian freight at the same time.

2.5.2 European Union

2.31. After six rounds of negotiations as part of the EU-Georgia Association Agreement, Georgia concluded negotiations with the EU on the Deep and Comprehensive Free Trade Agreement (DCFTA) in July 2013. In June 2014, Georgia signed the Association Agreement with the European Union, reaching an important milestone under the EU Eastern Partnership programme. The Agreement marks years of cooperation between Tbilisi and Brussels under the Eastern Partnership program. It envisages the gradual improvements needed in areas such as trade, environment, agriculture, tourism, energy, transport, and education to bring Georgia in line with EU standards. Overall, the process is focused on democracy and the rule of law, human rights, good governance and economic development.

2.32. The DCFTA provisionally came into force on 1 September 2014, enabling Georgia to export duty-free to the EU. Under the Generalized System of Preferences (GSP+), Georgia already enjoyed low or zero tariffs for two-thirds of its exports to the EU. However, certain regulations on Georgian products will remain; one agricultural product, garlic, will be duty-free but subject to a quota.

2.33. The DCFTA promises to enhance Georgia's trade prospects and to boost economic growth by bringing its legislation closer to that of the EU. It will also remove the existing barriers to trade of goods and services with the EU. The DCFTA covers trade in goods, including tariff elimination, provides for further opening of the services market and improvement of establishment conditions for investors. It contains provisions on the facilitation of customs procedures, on anti-fraud measures and trade defence instruments. A bilateral dispute settlement procedure is envisaged to solve issues in an expeditious manner. The DCFTA also sets a path for further reforms in trade-related policies, such as hygiene standards for agriculture products, the approximation of regulations for industrial products, enforcement of intellectual property rights at the border, rules on public procurement and approximation to EU rules in the services area.

2.34. Moreover, Georgian products will have to meet certain EU requirements not only for export, but also when consumed within the country. This marks the beginning of a lengthy process to improve sanitary and phyto-sanitary standards, intellectual property rights protection, competition, technical regulations on industrial products, and customs and trade facilitation; this process will involve short- to medium-term costs. The Government has elaborated a DCFTA implementation action plan for 2014-17.

2.35. Georgia has prioritized its various technical assistance needs in the framework of implementing the DCFTA Action Plan 2014-2017. Georgia's needs in terms of funding, training and capacity building relate in particular to (i) increasing the diversification of Georgia's export structure; (ii) meeting new implementation challenges in the areas of standards and SPS measures; (iii) developing capacity in customs and trade facilitation; (iv) improving know-how in rules of origin; (v) elaborating e-commerce legislation and a platform for trade in services; and (vi) meeting the challenges in the areas of public procurement, IPR protection and competition.

2.5.3 Other agreements and arrangements

2.36. European Free Trade Association (EFTA): In November 2014, EFTA expressed its intention to start negotiations in 2015 on a free trade agreement with Georgia. According to the authorities, the first round of negotiations is scheduled to be held in September 2015.

2.37. Commonwealth of Independent States (CIS): In 2009, Georgia terminated its membership of the CIS organization, while maintaining its right to remain a party to the CIS free trade area arrangements and the bilateral agreements. Georgia has eight bilateral FTAs with: Azerbaijan, Turkmenistan, Armenia, Ukraine, Kazakhstan, the Republic of Moldova, Uzbekistan and the Russian Federation (though trade has occasionally been restricted by the Russian Government). The bilateral agreements provide for duty-free trade in industrial and agricultural goods but do not cover trade in services, investment or government procurement. In 2014, the CIS countries accounted for just over half of Georgia's exports and a quarter of imports.

2.38. Turkey: Turkey has been an important trading partner, accounting for 20% of Georgia's imports in 2014, since a free trade agreement between Georgia and Turkey came into force in 2008. According to this agreement, customs tariffs on industrial products have been fully eliminated. Both countries maintain certain types of tariffs on agricultural products. Also, on the Turkish side some agricultural products are subject to tariff quotas.

2.39. The United States: Georgia has been able to export many products duty-free to the United States under the GSP programme. In 2007, Georgia and the United States signed a Trade and Investment Framework Agreement (TIFA), which set up a joint US-Georgia Council on Trade and Investment that addresses trade and investment issues, including trade capacity building, intellectual property, labour and environmental issues. In 2012, the US and Georgia established a High-Level Dialogue on Trade and Investment aimed at identifying measures to increase bilateral trade and investment, including a possible FTA. Expert-level discussions are ongoing on different trade policy areas.

2.40. China: Georgia and China have signed a joint declaration concerning a joint feasibility study on a possible Georgia-China Free Trade Agreement. The first meeting of the Joint Working Group set up for this purpose was held in April 2015, at which the parties agreed that the Working Group will study and identify the benefits and impacts that may derive from a possible FTA and will prepare a final joint feasibility study report, including recommendations. Georgia and China have also signed a memorandum of understanding on strengthening cooperation for the Silk Road Economic Belt initiative.

2.41. GUAM (Georgia, Ukraine, Azerbaijan, Moldova): A priority for Georgia is cooperation within the framework of the GUAM Organization for Democracy and Economic Development, including the development of a transport corridor for GUAM countries and the implementation of the agreement of the GUAM free trade regime. Guam members are also discussing a draft protocol for the implementation of the Facilitate Trade and Transport (FTT) project which aims, *inter alia,* to reduce border control time and increase customs efficiency.

2.42. Black Sea Economic Cooperation Organization (BSEC): In the framework of BSEC,[11] Georgia pays special attention to enhancing cooperation in the areas of railway and vehicle transportation, as well as the energy sector, due to existing and future projects in these fields. Georgia is committed to further cooperation in the following spheres: tourism, telecommunications, agriculture, small and medium enterprises (SMEs), and science and technology.

2.6 Foreign Investment Regime

2.43. Georgia is open to foreign investment, and the Georgia National Investment Agency (GNIA) (http://investingeorgia.org/en/), established in 2002, is the official state agency that encourages and supports foreign investors to come to Georgia. The Law on the Georgian National Investment Agency lays down the rules for the establishment and operation of GNIA. Due to the importance of FDI and advanced support from Government, in 2015 the Law was changed and the Agency moved under the supervision of the Government of Georgia and is accountable directly to the Prime Minister.

2.44. The *Georgia 2020* strategy document points to the perceived inadequacy of the current investment regime, noting that Georgia's current investment legislation is "outdated and disconnected from reality". Moreover, as the existing norms are scattered among several normative acts, the Government will therefore ensure replacement of the existing investment legislation with new legislation that will correspond with international norms and best practices.[12] The Government is planning to amend legislation affecting investment-related issues in Georgia, namely the Law of Georgia on the Investment Activity Promotion and Guarantees and the Law of Georgia on State Promotion of Investments. The aim is to improve the investment climate in Georgia and amend the legislation in accordance with the best practices worldwide.

2.6.1 Legal framework

2.45. National treatment is applied to all investors and all sectors of the Georgian economy are open for foreign investment. The legislation lists a number of exceptions concerning the ban on investment in nuclear and chemical weapons, human cloning, narcotics, activities banned by international agreements to which Georgia is a party, import and sale of petrol/gas containing more than 0.013 grams of lead per litre. In addition, only the State may issue currency, banknotes, and certificates for goods made from precious metals, and import narcotics or psychoactive drugs for medical purposes. The Law on Promotion and Guarantees of Investment Activity, which has been in place since 1996, defines the legal basis for realising both foreign and local investments and their protection guarantees on Georgian territory. The aim of the law is to establish an investment promoting regime. Except for the ownership of agricultural land, the law secures equal treatment and rights for both foreign and Georgian investors. The law protects foreign investors from subsequent legislation that alters the condition of their investments for a period of 10 years.

2.46. Aiming to further optimize procedures for investment and entrepreneurial activities, the Law on State Promotion of Investments was adopted in 2006. Other legislation governing foreign investment includes the Constitution, the Civil Code, the Tax Code, the Law on Entrepreneurs, the Bankruptcy Law, the Law on Common Courts, the Law on Competition, the Accounting Law, and the Securities Market Law.

2.47. In July 2011 Parliament passed the Act of Economic Liberty, which imposes fiscal constraints on the Government to reinforce the confidence of local and foreign businesses in the

[11] Members of the Black Sea Economic Cooperation Organization comprise: Albania; Armenia; Azerbaijan; Bulgaria; Georgia; Greece; Republic of Moldova; Romania; Russian Federation; Serbia; Turkey; and Ukraine. See online information: http://www.bsec-organization.org/Pages/homepage.aspx.

[12] Government of Georgia (2014), p.22.

stability of Georgia's economy. This law prohibits the executive branch from moving away from its current fiscally conservative policies. It mandates that the budget deficit stay below 3% of GDP, total public debt below 60% of GDP, and budgetary expenditures below 30% of GDP. The Act of Economic Liberty bans the introduction of new state taxes or increases in existing taxes (excise tax being an exception) by means other than a nationwide referendum. The Act also reiterated the Georgian Government's commitment to free movement of capital by banning limitations on repatriation of money or exchange control for residents and non-residents, except in cases involving criminal liability or other instances defined by Georgian legislation.

2.48. Georgia does not screen foreign investment in the country, other than imposing a registration requirement and certain licensing requirements. Legal overhauls in 2005[13] simplified the business registration process, reducing paperwork and fees and shortening the processing time. Procedures for setting up a business in Georgia are simple and efficient, based on a transparent system that promotes the establishment of new enterprises, according to the authorities. According to the 2015 Doing Business report prepared by the World Bank, Georgia holds the fifth place among 189 countries, in terms of starting a business. Entrepreneurs can register a business in one day. After the legislative reforms, business registration became centralized and information is publicly available upon request from the National Agency of Public Registry. According to the Doing Business report of 2015, starting a business in Georgia needs 2 days.

2.49. All companies are required to register at the National Agency of Public Registry (NAPR) of the Ministry of Justice of Georgia, providing: founders' and firm principals' identification information; incorporation documents; area(s) of activity; and charter capital. This information is made public and any person may review such information/documents free of charge via the official website of NAPR (http://napr.gov.ge/). Business registration and tax registration have been unified in a single procedure since 2010. NAPR assigns a unique identification number to the company during the registration process; the given number is used also as a tax code (taxpayer's ID number). Information concerning the business registration is automatically transferred to the Ministry of Finance for tax purposes. According to the authorities, the term for ordinary registration service at NAPR is one business day and an expedited service is also available for the same day.

2.50. The Government has privatized the majority of the largest formerly state-owned enterprises (SOEs) in the country. Successful privatization projects include major deals in energy generation and distribution, telecommunications, water utilities, port facilities, and real estate assets. Foreign investors have participated in most major privatizations of state-owned property. A list of entities available to be privatized can be found on the website www.privatization.ge.

2.51. Ownership and privatization of property is governed by the following laws and regulations: the Civil Code, the Law on Ownership of Agricultural Land, the Law on Private Ownership of Non-Agricultural Land, the Law on Management of State-Owned Non-Agricultural Land, and the Law on Privatization of State Property. Property rights in extractive industries are governed by the Law on Concessions, the Law on Deposits, and the Law on Oil and Gas. The effective Georgian legislation in the field of intellectual property consists of: Patent Law; Law on Trademarks; Law on Appellations of Origin and Geographical Indications of Goods; Law on Topographies of Integrated Circuits; Law on Copyright and Neighboring Rights; Law on New Breeds of Animals and Varieties of Plants; Law on Border Measures Related to Intellectual Property. Financial sector legislation

[13] In 2005, the Government eliminated 84% of existing licensing requirements and created a "one stop shop" for licenses. By law, the government has 30 days to make a decision on licences, and if the licensing authority does not state a reasonable ground for rejection within that time, the licence or permit is deemed to be issued. The Government only requires licences for activities that affect public health, national security, and the financial sector. The Government currently requires licences in the following areas: weapons and explosives production, narcotics, poisonous and pharmaceutical substances, exploration and exploitation of renewable or non-renewable substances, exploitation of natural resource deposits, establishment of casinos and gambling houses and the organization of games and lotteries, banking, insurance, securities trading, wireless communication services, and the establishment of radio and television channels. The law requires the State to retain a controlling interest in air traffic control, shipping traffic control, railroad control systems, defence and weapons industries, and nuclear energy. Only the State may issue currency, banknotes, and certificates for goods made from precious metals, import narcotics for medical purposes, and produce control systems for the energy sector.

includes the Law on Commercial Banks, the Law on National Banks, and the Law on Insurance Activities.

2.52. Foreign individuals and companies may buy non-agricultural land in Georgia. In June 2013, Parliament passed a temporary legal ban restricting non-Georgian citizens (including Georgian entities with foreign minority shareholders) from purchasing or inheriting agricultural land until December 2014. Since June 2014 the above-mentioned legal restrictions have been suspended and currently foreign natural and legal persons are entitled to buy and inherit agricultural land. In February 2014, Parliament passed amendments proposed by the Ministry of Economy and Sustainable Development of Georgia that provide for establishing a government-appointed committee to judge foreigners' applications to purchase agricultural land, and that exempts commercial banks from the ban. Parliamentary debate continues on whether to repeal or amend the legislation.

2.6.2 Dispute resolution

2.53. Georgian investment law allows disputes between a foreign investor and a governmental body to be resolved in Georgian courts or at the International Centre for the Settlement of Investment Disputes (ICSID), unless a different method of dispute settlement is agreed upon between the parties. The Georgian Government in principle agrees to accept binding international arbitration of investment disputes between foreign investors and the State. The Ministry of Justice oversees the Government's interests in arbitrations between the State and private investors. Apart from this, Georgia tries to promote alternative means of dispute resolution, especially international commercial arbitration, mediation and court-ordered mediation. Georgia has recently adopted the changes to the Law on Arbitration, which make the law more consistent with the internationally recognized standards.

2.54. As noted above, ongoing judicial reforms in the Georgian court system mean that litigation can take long periods of time. Disputes over property rights have at times undermined confidence in the impartiality of the Georgian judicial system and rule of law, and by extension, Georgia's investment climate. The Government has identified judicial reform as one of its top priorities and Parliament has passed reforms aimed at strengthening judicial independence. In May 2013, parliament reorganized the High Council of Justice, the institution charged with overseeing the administration of the judiciary, to make it more independent and free from political considerations.

2.6.3 Investment and tax treaties

2.55. Georgia has 31 bilateral investment treaties in force and has concluded agreements (in force) for avoidance of double taxation with 49 countries.

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Introduction

3.1. Georgia has brought its border policies, including its customs regulations and trade facilitation, in line with international and WTO practices. Georgia implemented a number of reforms to facilitate trade, in particular the opening of customs clearance zones. Georgia has indicated that it is going through the necessary process to notify the WTO of its adherence to the Trade Facilitation Agreement.

3.2. Georgia bound its tariffs on all products, with a simple average of the final bound tariffs being 7.6%. The simple average applied MFN tariff remains low (2% since 2010), despite being increased slightly from 1.6% in 2009. The simple average MFN tariff rate for agricultural products (WTO definition) fell from 7.2% in 2009 to 6.7% in 2015, and that for non-agricultural products increased from 0.2% to 0.8%. Its applied tariffs generally fall into three bands: 0%, 5%, and 12%. Georgia notified to the WTO its list of products prohibited from importation/exportation, and that import/export permits are required only to protect public health, national security and the environment. Georgia has no legislation on contingency measures regarding anti-dumping, countervailing or safeguard measures and thus has not adopted any.

3.3. The government procurement market accounted for about 10% of GDP. New legislation entered into force in 2010, when e-procurement was introduced, and since has been functioning very well. According to the European Bank for Reconstruction and Development (EBRD), Georgia's public procurement regime achieved the best ranking in the region, indicating high compliance with international standards. The Government is currently assessing the prospects for joining the Government Procurement Agreement (GPA).

3.4. According to the authorities, Georgia does not provide export subsidies, and does not have export financing instruments. Export support is mainly in the form of facilitating the participation of exporters in international trade fairs, planning buyer missions and various campaigns or publications. Reflecting Georgia's location, which provides an alternative transit route to central Asia (other than the routes via China or the Russian Federation), the Government has been establishing free industrial zones (FIZs) where investors may conduct processing activities in connection with the transit of goods.

3.5. Georgia combined its customs tariff and the tax code into a new Tax Code in 2010 aiming at increasing transparency. The new Tax Code introduced tax benefits to micro and small businesses. Incentives in the form of tax exemptions or reductions continue to be provided to international financial companies, international companies operating in FIZs, and to free warehouse companies.

3.6. Georgia has continued to develop its national quality infrastructure in accordance with international and EU practices. Its TBT Strategy stipulates that Georgia refrain from adopting national standards in the areas where relevant international standards exist. About 98% of all standards adopted in Georgia are international or European standards. The Government is aware that in order to increase the export potential of agriculture, SPS systems need to be developed in accordance with international/European norms. Lack of effective SPS regulations, in particular for food safety continues to hamper Georgian exports of its agricultural products. The Ministry of Agriculture (MOA) is preparing to approximate Georgia's framework to about 350 EU directives/regulations.

3.7. New amendments to the Law on Competition were adopted in March 2014. The Competition Agency regulates most economic sectors except for energy and telecoms. The new legislative framework appears to be up to international standards, and the Agency has been active in dealing with anti-competitive cases or merger applications.

3.8. The State Property Agency (SPA) is responsible for the privatization of state-owned enterprises (SOEs) and the selling of non-agricultural land and property, and the renting of agricultural land belonging to the State. 256 SOEs are owned by the SPA, of which only 69 are more or less functioning. The largest SOEs were put into a Partnership Fund in 2011 and 2012, which was established to facilitate foreign investment by providing co-financing.

3.9. Georgia has been amending its Intellectual Property legislation in accordance with regional and international trade requirements. The IPR legislation is aligned with international standards, and Sakpatenti, the national IP centre is making efforts to raise public awareness of IP rights and improve enforcement. The adoption by Georgia of Paragraph 6 of the Doha Declaration regarding public health is under consideration.

3.2 Measures Directly Affecting Imports

3.2.1 Customs procedures, customs valuation, and rules of origin

3.10. Since the previous review in 2009, Georgia's customs procedures have been further simplified, with the number of documents required to import/export reduced, the time shortened, and the cost lowered. In 2015, according to the World Bank, Georgia ranks 33rd among 178 economies in terms of the ease of trading across borders (Table 3.1).

Table 3.1 Trading across borders

Year	Rank (out of 178 economies)	Documents to import (number)	Time to import (days)	Cost to import (deflated US$ per container)	Documents to export (number)	Time to export (days)	Cost to export (deflated US$ per container)
2009	n.a.	7	14	1,726	8	12	1,777
2010	n.a.	4	11	1,467	4	10	1,491
2011	n.a.	4	11	1,576	4	10	1,592
2012	n.a.	4	11	1,893	4	10	1,495
2013	n.a.	4	10	1,604	4	9	1,363
2014	31	4	10	1,584	4	9	1,345
2015	33	4	10	1,595	4	9	1,355

n.a. Not applicable.

Source: World Bank, Doing Business online information: http://www.doingbusiness.org/Custom-Query/georgia [05/01/15].

3.11. Customs procedures are regulated under the Tax Code of Georgia, and relevant regulations, instructions and by-laws. According to the Deep and Comprehensive Free Trade Area (DCFTA) under the Association Agreement between the EU and Georgia, which came into provisional application on 1 September 2014, Georgia undertook to approximate its customs regulations in line with those of the EU. The Revenue Service (RS) under the Ministry of Finance is responsible for implementing the Tax Code and conducting customs clearance and other border related procedures (including SPS related inspections and licensing procedures), and passport control of truck drivers.[1]

3.12. Georgia implemented a number of reforms during the review period to facilitate trade: in 2010, Georgia reduced the cost of trade and simplified the documentation requirements, and opened the first customs clearance zone (CCZ). Currently there are six CCZs, offering trade facilitation services such as: filling out customs declarations; conducting customs clearance, examination, and inspection; issuing certificates and permits; providing parking areas and areas dedicated to banking service providers; and providing consultation services. The authorities stated that placing all services in a single area streamlined customs procedures.

3.13. Import declarations may be submitted directly by the importer, his/her legal or authorized representative, or the customs administration (when the importer or importer's legal or authorized representative makes a request to the customs clearance zone to fill in the declaration on his/her behalf).[2] Customs clearance takes on average less than one working day (Table 3.2), depending on whether the import declaration is submitted in advance, whether goods are in the form of consolidated cargo, and type of the applied customs control (for dual-use goods, dangerous goods, etc.).

[1] The Ministry of Internal Affairs is in charge of passport control for pedestrians and light vehicles at the border.

[2] RS online information, viewed at: http://www.rs.ge/Default.aspx?sec_id=5415&lang=2#. In addition, it should be noted that the Civil Code of Georgia provides definitions and the regulatory framework for legal representatives and authorized representatives in order to act on behalf of the authorizing person.

Table 3.2 Summary of procedures and documents for trading across borders, 2015

Customs procedures	Import procedure		Export procedure	
	Time (days)	Cost (US$)	Time (days)	Cost (US$)
Documents preparation	5	255	4	255
Customs clearance and inspection	1	240	1	0
Ports and terminal handling	2	800	2	300
Inland transportation and handling	2	300	2	800
Totals	10	1,595	9	1,355
Documents required:	Bill of lading, commercial invoice, confirmation/receipt of payment of customs clearance fees, customs import declaration		Bill of lading, certificate of origin/note from manufacturer, commercial invoice, customs export declaration	

Source: World Bank (2014c), *Doing Business 2015 – Going beyond Efficiency - Economy Profile 2015 Georgia*. Viewed at: http://www.doingbusiness.org/~/media/giawb/doing%20business/documents/profiles/country/GEO.pdf.

3.14. Simplified customs procedures are available for goods of "Golden List" members. These goods may be released directly at the border, or may be transported to the warehouse of this importer. Payment of customs duty, VAT and excise may be deferred for 30 days for the importation of these goods, and the supporting documents to the customs declaration may be presented in electronic version when all the paper documents are kept at the declarer's premises. To become a "Golden List" member, a company must be registered as a VAT payer; have an annual trade value of at least GEL 5 million; have paid import duties amounting to at least GEL 900,000 and/or have submitted at least 100 commodity declarations for import or export; and have not committed any serious customs offences during the last 12 months.[3]

3.15. The Revenue Service carries out customs formalities and procedures on the basis of a risk management system in accordance with random and selectivity criteria. All customs operations are fully automated through ASYCUDA World and its supplementary software (such as Oracle® system). Each e-declaration is routed through different risk channels:

- green channel: goods are not subject to documentary check, no physical examination, and are released immediately;
- blue channel: goods are examined after being released (post-clearance control);
- yellow channel: goods are subject to full documentary check, no physical examination;
- red channel: goods are subject to both documentary check, and physical examination.

3.16. In January 2011, the Revenue Service introduced a post-clearance audit; the corresponding e-declaration goes through the blue channel. In 2014, 85.5% of the e-declarations were routed through the green channel, followed by 7.3% through the yellow channel, 5.2% through the red channel, and 2% through the blue channel.

3.17. Preshipment inspection has been abolished since 2001, in accordance with Ordinance No. 543 of the President of Georgia.

3.18. Georgia has indicated that it is going through the necessary process to notify the WTO of its adherence to the Trade Facilitation Agreement (TFA). On 3 November 2014, the Revenue Service in cooperation with the Ministry of Economy and Sustainable Development established a national working group for the classification of Section I of the TFA into A, B and C Categories. The working group (composed of customs, legal and IT experts) prepared a report on the evaluation of the compliance of the Georgian legislation with the TFA commitments. The classification of Section I was carried out based on international standards of the World Customs Organization Revised Kyoto Convention, although to which Georgia is currently not a contracting party. From April 2015, the

[3] RS online information, viewed at: http://www.rs.ge/Default.aspx?sec_id=5277&lang=2#.

Ministry of Foreign Affairs began the necessary procedure to submit the TFA and Category A commitments to the Parliament for its ratification.

3.19. According to the OECD Trade Facilitation Indicators, compared to the average of Europe (non-OECD) and Central Asia and lower-middle-income countries, Georgia performs better in the areas of simplification and harmonization of documents, automation and internal border agency cooperation. Its performance for advance rulings is below the averages of Eastern Europe and Central Asia and lower-middle-income countries.[4]

3.20. Customs valuation is based on the WTO Agreement on the Implementation of Article VII of the GATT 1994, and is determined in accordance with paragraph 1 of Article 213 of the Georgian Tax Code, and Chapter V of the Instructions approved by the Order No. 290 of the Minister of Finance (26 July 2012). Accordingly, customs value is determined on the basis of the transaction value of the imported goods. If the transaction value cannot be determined, other alternative methods may be used.

3.21. The Customs Department of the Revenue Service does not apply a reference price approach for the valuation of second-hand goods (including second-hand vehicles). When the Revenue Service doubts the declared value, it will examine the goods to determine their value. The examination is based on documentary checks, images (such as photos) of goods, a detailed examination of markings and a physical examination.

3.22. If the value declared is not accepted by the Revenue Service, the Valuation and Classification Division of the Customs Department will then re-examine. Appeals may be made to the Dispute Resolution Board of the RS, the Dispute Resolution Board of the Ministry of Finance, and/or the courts. From 2013 to 2014, there were four court cases concerning customs valuation, regarding the results of the examination carried out by the RS. Importers may request a preliminary release of the goods during the appeal process, after presenting a guarantee (equal to the difference between the importer's declared value, and the value determined by the RS).

3.23. Non-preferential rules of origin are regulated by both the Tax Code, and Decree No. 420 of Georgia on "approval of criteria for the originating country, form of origin certificate, and rules for filing and issuing them".

3.24. Preferential rules of origin are determined and implemented in accordance with the RTAs that Georgia has signed (Table 3.3), and the rules of origin of the countries providing preferential treatment within the scope of GSP for Georgian exports.

Table 3.3 Georgia's rules of origin

Preferential rules of origin	
Agreement	**Rules**
CIS (excluding the Russian Federation)[a]	All imports from CIS partners enter Georgia duty-free and quota-free. A good originates from a CIS country: if it is: • If it is wholly obtained in that country. • Where raw materials, or materials which originate in one or more countries are subject afterwards to stage-by-stage processing in other countries, are used in production of the final goods in one of the signatory States of the Agreement, the country of origin of such goods is the country where it was subject to the last substantial processing/transformation. • Where third countries are involved in the production of the goods, the country of origin of the goods is determined in compliance with the criterion of substantial processing/transformation of the goods: (i) a change in the tariff clarification at the heading level; (ii) specific conditions for manufacturing and processing operations are specified for a large number of products (mainly food and chemical products) in a List of Conditions annexed to the Rules; these conditions determine whether the goods can be considered to originate from the country where the operations took place; (iii) the rule of *ad valorem* percentage, whereby the value of the materials to be used or the added value must reach a fixed percentage in the price of finished products. The goods must be shipped directly from the territory of one of the Parties, and they must be purchased directly from an enterprise or incorporated company in one of the Parties.

[4] OECD online information, viewed at: http://www.oecd.org/tad/facilitation/Georgia_OECD-Trade-Facilitation-Indicators.pdf.

Preferential rules of origin	
Agreement	**Rules**
CIS (Russian Federation)	The following goods are considered to have originated in the Russian Federation: (a) goods fully produced in the Russian Federation; (b) goods produced from raw materials originating in third countries which have been sufficiently processed in the Russian Federation to have undergone a change in tariff classification based upon the Harmonized System of tariff classification; and (c) goods in paragraph (b) provided that the total value of the finished goods does not exceed the fixed share of the export part of the final goods, or the value of the non-originating goods does not exceed 50% of the ex-works price of the final product.
EU	Products are generally considered as originating in a Party: if they are wholly obtained in a Party; or if they are obtained in a Party, incorporating materials which have not been wholly obtained there, provided they have undergone sufficient working or processing in the Party. Sufficient working or processing must satisfy product-specific rules of origin listed in Appendix II of the Association Agreement. Specific rules are defined for textile and textile articles and "basic textile materials". Direct transport is required. Cumulation of origin is allowed. No outward-processing authorized (except for a tolerance rule of up to 10% of the ex-work price. Does not apply to textiles and clothing). Drawback prohibited.
Turkey	Products are generally considered as originating in a Party: if they are wholly obtained in a Party; or if they are obtained in a Party, incorporating materials which have not been wholly obtained there, provided they have undergone sufficient working or processing in the Party. Sufficient working or processing must satisfy product-specific rules of origin listed in Annex II of the Free Trade Agreement. Specific rules are defined for textile, textile articles, and "basic textile materials". Direct transport is required. Cumulation of origin is allowed. No outward-processing authorized (except for a tolerance rule of up to 10% of the ex-work price. Does not apply to textiles and clothing). Duty drawback permitted under specific conditions.
Non-preferential rules of origin	
For a product to be considered originating it must be: • wholly obtained and/or produced in the country; • change of tariff classification (on 4-digit level); • value added (*ad valorem*) rule; • special working and processing list rules. Certificates of origin are not required for goods of non-preferential origin. Certificate of origin is only mandatory to extend the preferences.	

a Rules of origin are the same for all CIS countries except for the Russian Federation (regulated in accordance with the Diplomatic Note exchanged between the Government of Georgia and the Government of the Russian Federation in March 2010).

Source: WTO documents, WT/REG82/5, 31 March 2003, Factual Presentation – Free Trade Agreement between Georgia and Ukraine (Goods); WT/REG121/6, 30 June 2009, Factual Presentation – Free Trade Agreement between Turkey and Georgia (Goods); and WT/REG261/1/Rev.1, 23 March 2010. EU Official Journal L 261, Volume 57, 30 August 2014. And information provided by the authorities.

3.2.2 Tariffs

3.2.2.1 MFN tariffs

3.25. In 2010, the Customs Code was combined with the existing Tax Code to create a unified Tax Code, which came into effect on 1 January 2011,[5] of which the tariff became a part. The authorities stated that the change, such as the simplification of the tax/tariff legislation, makes it easier for traders to understand the current legal framework. Import tariffs accounted for 1.4% of total tax revenue in 2014 (section 3.4.2).

3.26. Georgia has bound its tariffs on all products, and the simple average of the final bound tariffs is 7.6%: 12.4% for agricultural products (WTO definition), and 6.4% for non-agricultural products (Table 3.4).

[5] FAO, *Eastern Europe and Central Asia Agro-Industry Development Country Brief – Georgia*, viewed online at: http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/AI_briefs/AI_breiefs2012/fao_georgia.pdf.

Table 3.4 Georgia's tariff structure, 2009 and 2015

(%, unless otherwise indicated)

	MFN applied rate		Final bound[a]
	2009	2015	
Bound tariff lines (% of all tariff lines)	100.0	100.0	100.0
Simple average rate	1.6	2.0	7.6
WTO agricultural products	7.2	6.7	12.4
WTO non-agricultural products	0.2	0.8	6.4
Duty-free tariff lines (% of all tariff lines)	85.8	79.6	23.6
Tariff quotas (% of all tariff lines)	0.0	0.0	0.0
Non-*ad valorem* tariffs (% of all tariff lines)	1.7	4.5	1.8
Domestic tariff "peaks" (% of all tariff lines)[b]	14.0	14.7	1.5
International tariff "peaks" (% of all tariff lines)[c]	0.1	0.1	3.2
Overall standard deviation of tariff rates	4.2	4.3	5.8
Nuisance applied rates (% of all tariff lines)[d]	0.0	2.7	0.0
Total number of tariff lines	**10,895**	**10,255**	**10,255**
Ad valorem rates	1,366	1,630	7,645
Duty-free	9,346	8,161	2,424
Specific rates[e]	183	185	186
Special duties on motor vehicles[f]	0	279	0

a Final bound rates are based on the 2015 tariff schedule in HS 2012 nomenclature.
b Domestic tariff peaks are defined as those exceeding three times the overall average applied rate.
c International tariff peaks are defined as those exceeding 15%.
d Nuisance rates are those greater than zero, but less than or equal to 2%.
e 181 lines related to alcoholic beverages and 4 lines to vinegar products.
f Special duties apply to motor vehicles under HS 8703. Imported cars are taxed at GEL 0.05 multiplied by the capacity of the engine, plus 5% of import tax on each additional year for used cars.

Note: 2009 tariff is based on HS02 nomenclature, 2015 tariff is based on HS 12 nomenclature. Calculations for averages are based on national tariff line level (11-digit), including AVEs provided by the authorities for non-*ad valorem* rates, as available.

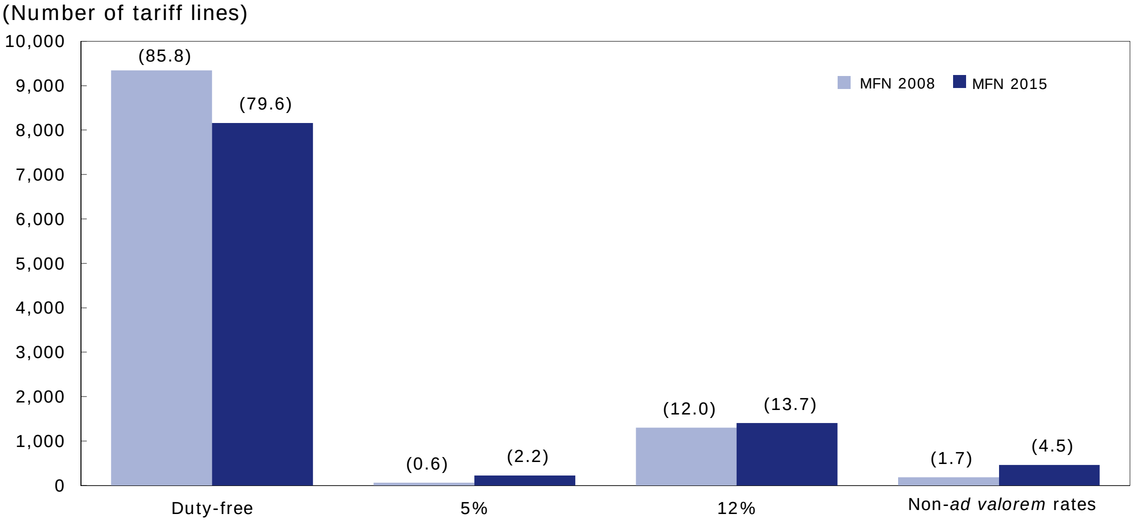
Source: WTO Secretariat calculations, based on data provided by the authorities.

3.27. Based on data provided by the authorities, Georgia's 2015 applied MFN tariff consisted of 10,255 lines at the HS 11-digit level (HS 2012). Almost 80% of the tariff lines (8,161 lines) are duty free. Applied MFN tariffs fall into three bands: 0%, 5%, and 12% (Chart 3.1). The simple average applied MFN tariff rate increased slightly from 1.6% in 2009 to 2% in 2010, and has remained the same since then. In 2010, tariff rates were increased in mainly three categories of products: rates for HS chapter 39 on plastic and articles thereof were increased from 0% to 5% or 12%, those for HS chapter 44 on worked wood were increased from 0% to 12%, and those for HS chapter 73 on articles of iron and steel were increased from 0% to 5% or 12%. The simple average MFN tariff rate for agricultural products (WTO definition) fell from 7.2% in 2009 to 6.7% in 2015, and the simple average for non-agricultural products (WTO definition) increased from 0.2% in 2009 to 0.8% in 2015.

3.28. The dispersion in applied MFN rates, indicated by the standard deviation, was up slightly from 4.2% in 2009 to 4.3% in 2015, reflecting the increase in the number of tariff lines falling under the 12% tariff rate. The 12% tariff rate applies to: agricultural products, prepared food products, mineral products, plastic and rubber, wood and articles, articles of stone, precious stones, base metals and products (Chart 3.2 and Table A3. 1).

3.29. The calculation of the simple average applied tariff rate includes the *ad valorem* equivalents (AVEs) for non-*ad valorem* duties. Specific rates (185 lines) apply to alcoholic beverages and vinegar products, and special duties (279 lines) apply to motor vehicles under HS 8703. Among the 185 tariff lines with specific rates, 178 AVEs were provided by the authorities. These AVEs vary between 2.1% (on spirits obtained by distilling grape wine or grape marc) and 70.3% (on undenatured ethyl alcohol of an alcoholic strength by volume of 80% or higher; ethyl alcohol and other spirits, denatured, of any strength), with an average of 9.6%. AVEs for the 279 lines for motor vehicles are all 1.7%. Thus, the average of all AVEs is 4.8%.

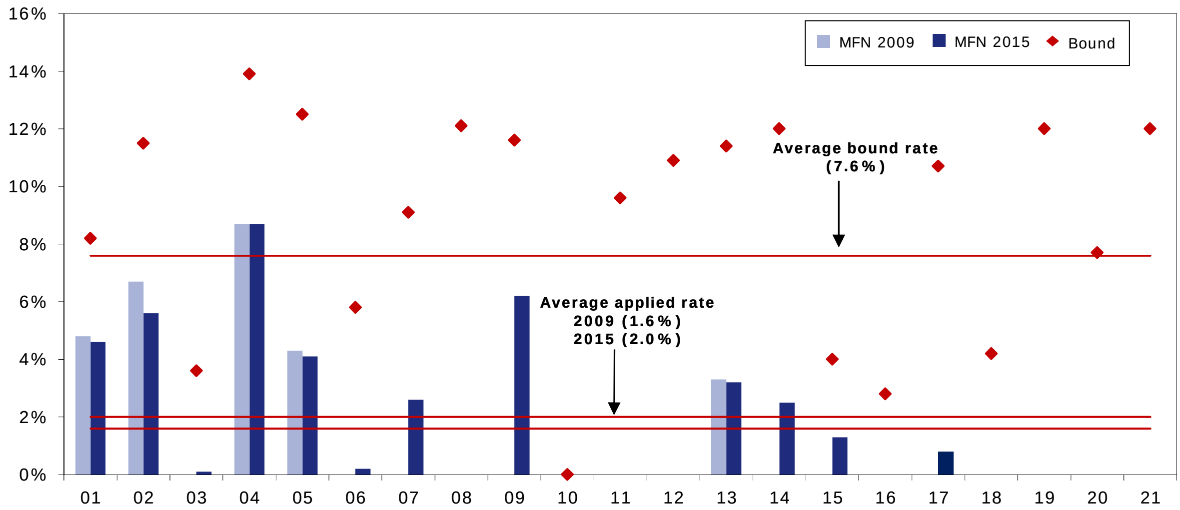
Chart 3.1 Distribution of MFN applied tariff rates, 2009 and 2015



Note: Figures in parentheses denote the share of total lines. Non-*ad valorem* rates consist of 183 specific tariff lines in 2009, and 185 specific and 279 "other" tariff lines in 2015 (Table 3.4).

Source: WTO Secretariat calculations, based on data provided by the authorities.

Chart 3.2 Average applied MFN and bound tariff rates, by HS section, 2009 and 2015



01	Live animals & products	07	Plastic & rubber	13	Articles of stone	19	Arms & ammunition
02	Vegetable products	08	Hides & skins	14	Precious stones, etc.	20	Miscellaneous manuf.
03	Fats & oils	09	Wood & articles	15	Base metals and products	21	Works of art, etc.
04	Prepared food, etc.	10	Pulp, paper, etc.	16	Machinery		
05	Mineral products	11	Textiles & articles	17	Transport equipment		
06	Chemicals & products	12	Footwear, headgear	18	Precision instruments		

Note: Calculations include AVEs for non-*ad valorem* rates, as available.

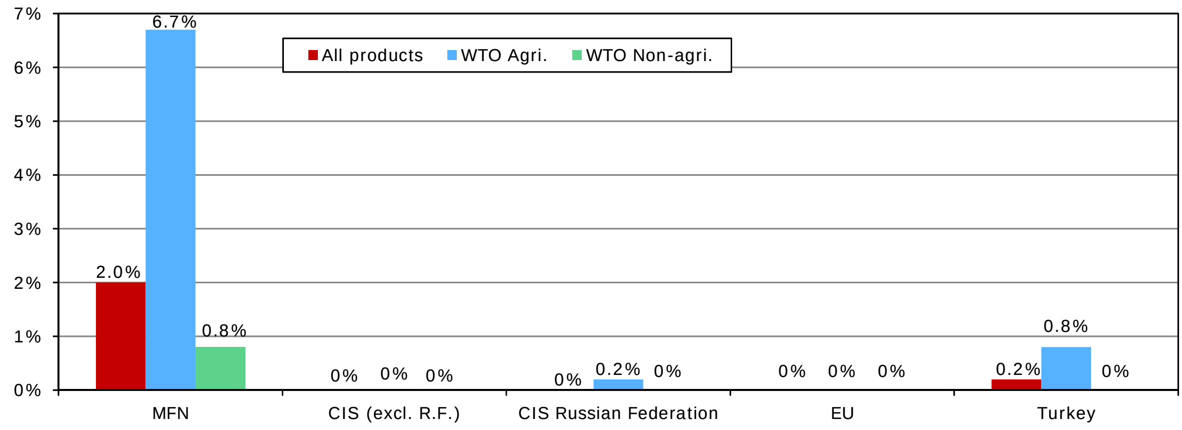
Source: WTO Secretariat calculations, based on data provided by the authorities.

3.30. The authorities stated that Georgia does not have tariff quotas.

3.2.2.2 Tariff preferences

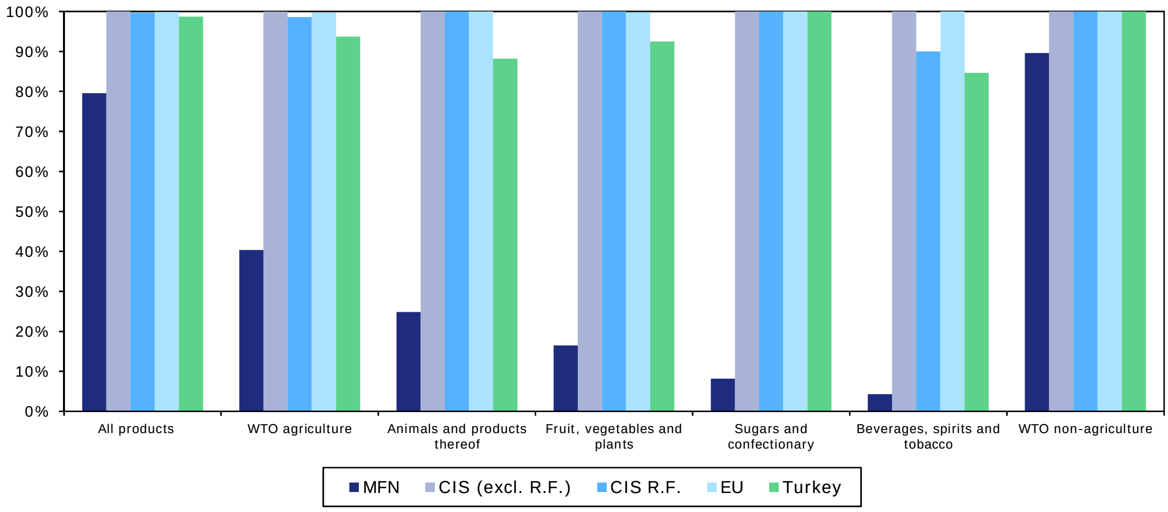
3.31. Georgia has several preferential trade agreements, with much wider duty-free coverage (Chart 3.3 and Chart 3.4).

Chart 3.3 Simple average tariffs for applied MFN and FTAs, 2015



Source: WTO Secretariat calculations based on data provided by the authorities.

Chart 3.4 Share of duty-free lines, 2015



Source: WTO Secretariat calculations based on tariff information provided by authorities.

3.2.2.3 Tariff exemptions and reductions

3.32. Customs tariff is exempted on, *inter alia*:

- exports, re-exports, goods in transit;
- imports of goods for response to natural disaster and for humanitarian assistance;
- imports of goods defined by grant agreements;
- imports of goods funded under grants or a preferential credit provided by a foreign country government body and/or international organization, at least 25% of which is a grant;
- imports of goods by an individual for non-economic purposes, where the value or weight does not exceed certain specific limits;
- imports of baby food and diabetic food products;
- imports of goods intended for the supply on board for international flights and shipment;

- imports of appliances and equipment, means of transport, spare parts and materials designated for oil and gas transactions under the Law of Georgia on Oil and Gas;
- imports of tobacco raw materials and products up to 1 January 2016;[6]
- import and temporary admission of goods in accordance with the provisions of Article 168, paragraph 1, Sub-paragraph (o) and Article 168, paragraph 3, sub-paragraphs (c), (d), (i), and (j) of this Code;[7]
- imports of goods produced in a free industrial zone.

3.33. Through the temporary import regime for inward processing, exporters who use imported inputs for export production can obtain tariff exemptions on imported inputs.

3.2.3 Other charges affecting imports

3.34. VAT and excise taxes are collected at the border on imports (section 3.4.2). They apply equally to domestically-produced and imported goods.

3.35. In accordance with Government Resolution No. 96 on "approving fees and rates of the services rendered by the Legal Entity of Public Law – Revenue Service", a fee of GEL 100 is charged per customs declaration for goods valued below GEL 3,000, a fee of GEL 300 is charged for goods valued between GEL 3,000 and GEL 15,000, and a fee of GEL 400 for goods valued above GEL 15,000, with the following exceptions:

- a fee of GEL 20 is charged per customs declaration for goods valued below GEL 3,000 when a simplified customs declaration is submitted;
- a fee of GEL 50 is charged per customs declaration for goods valued below GEL 3,000, if the goods are brought by natural persons by air transport with a simplified customs declaration;
- a fee of GEL 150 is charged per customs declaration for the customs clearance of vehicles (except goods under the HS heading 8429);
- in case of advance import declaration, a fee of GEL 100 is charged per customs declaration for goods valued below GEL 3,000, a fee of GEL 200 is charged for goods valued between GEL 3,000 and GEL 15,000, and a fee of GEL 300 is charged for goods valued above GEL 15,000;
- a fee of GEL 50 is charged for customs clearance of goods subject to re-export customs procedure;
- a fee of GEL 300 is charged for customs clearance of goods valued above GEL 10,000 brought into Georgia by post.

3.36. In 2014, a total of GEL 76 million (US$32 million) in customs fees were collected, compared with the GEL 96 million customs duty values.

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[6] The authorities stated that the necessity of this exemption is currently under consideration of the Government.

[7] Tax Code, Article 168, paragraph 1, sub-paragraph (o): the import or temporary admission of personal consumption and household items intended for personal consumption of foreign citizens (including family members residing thereof) employed in the oil and gas exploration and extraction works. Article 168, paragraph 3, sub-paragraph (c): temporary admission of goods to Georgia to facilitate the fulfilment of obligations stipulated under international agreements of Georgia, namely, the construction of the Baku-Tbilisi-Jeyhan and Baku-Tbilisi-Erzurum pipelines; d) temporary admission of fully exempted goods envisaged under this Code; i) the import or temporary admission of the goods intended for the official use of foreign diplomatic and equalized representations thereof, for personal consumption of diplomatic and administrative-technical staff of such agencies (including the family members residing thereof), in the form whereby such exemption is stipulated under relevant international agreements to which Georgia is a party; and j) import of the property of Georgia's diplomatic missions abroad.

3.2.4 Import prohibitions, restrictions, and licensing

3.37. Georgia notified to the WTO in 2014 the list of products subject to import prohibitions from 2014 to 2016 (Table 3.5).

Table 3.5 Import prohibitions

Products prohibited from importation	National legal basis	Agency
Dangerous (including toxic) and radioactive industrial and other waste	Law on Transit and Import of Wastes in the Territory of Georgia (8.2.1995)	Ministry of Environment and Natural Resources Protection
Certain hazardous pesticides and chemical substances	Law on Licences and Permits (9.7.2005)	Ministry of Agriculture; Ministry of Environment and Natural Resources Protection
Some nuclear and radioactive substances	Law on Licences and Permits (9.7.2005); Law on Nuclear and Radioactive Security (20.3.2012)	Ministry of Environment and Natural Resources Protection
Prohibited except under defined conditions		
Pesticides	Government Decree No. 184 (28.9.2006) on approval of the List of Materials of Limited Circulation and Charter on the Issuance of Permission for Production, Transportation, Import, Export, Re-export or Transit of Materials of Limited Circulation Government Decree No. 427 (31.12.2013) on approval of the rule on labelling of pesticides and agrochemicals; Government Decree No. 447 (31.12.2013) on approval of the rule on the control and sampling of pesticides and agrochemicals placed on the market; Government Decree No. 451 (31.12.2013) on approval of the rule on pesticides and agrochemicals storage, transportation, sale and use; Government Decree No. 437 (31.12.2013) on approval of the rule on organizing small packaging of pesticides	Ministry of Agriculture
Narcotic drugs extremely dangerous for human health (List 1), except for application for education, research, expertise and criminalistics purposes	Law on Narcotic Drugs, Psychotropic Substances, Precursors and Drug Assistance (2002)	Ministry of Labour, Health and Social Affairs

Source: WTO document, G/MA/QR/N/GEO/1, 4 April 2014 and information provided by the authorities.

3.38. In accordance with Georgia's notification to the WTO, import permits are required to protect public health, national security and the environment (Table 3.6).

Table 3.6 Import permits

Products	Agency	Rationale	Fees	Validity
Products of floral origin subject to phytosanitary control	National Food Agency of the Ministry of Agriculture	Food safety	GEL 50	6 months
Products subject to veterinary control[a]	National Food Agency of the Ministry of Agriculture	Food safety	GEL 100	1 month
Endangered wild flora or fauna specimens	Ministry of Environment and Natural Resources Protection	Environment protection	GEL 30	12 months

Products	Agency	Rationale	Fees	Validity
Nuclear, radioactive objects, nuclear materials, radioactive substances, radioactive wastes, minerals (subsoil) from which it is practically possible to extract nuclear materials, also nuclear technologies, all that is made of nuclear materials or radioactive substances or contains them as a component	Ministry of Energy and Natural Resources	Environment protection	GEL 40	12 months
Military equipment and technique	Ministry of Defence	Ensure the interests of national and international security	0.5% for an import value between GEL 500 and GEL 10 million; 0.1% for an import value above GEL 10 million; Maximum fee level GEL 120,000	No period of validity
Pharmaceutical products under special control[b]	Ministry of Labour, Health and Social Affairs	Public health	GEL 100	Predetermined period
Product of dual purposes	Ministry of Economy and Sustainable Development, and Revenue Service (RS) (before 2014); RS (after 2014)	Ensure the interests of national and international security	GEL 30	12 months
Non-ionic salt	Ministry of Agriculture	Public health	Free	Unlimited duration
Surveillance equipment	Ministry of Internal Affairs	Ensure the interests of national and international security	1% of the transaction value	Not defined
Materials of limited circulation	Ministry of Environment	Environment and safety protection	GEL 200	Up to two years

a May be restricted if the place of origin of the product was identified as an infected zone with respect to animal disease.
b Law on New Psychoactive Substances, entered into force on 1 May 2014, applies to new psychoactive substances that are not defined in the Convention on Narcotic Drugs (1961) and the UN Convention on Psychoactive Substances (1971).

Source: WTO documents, G/LIC/N/3/GEO/4, 20 March 2012; G/LIC/N/3/GEO/5, 9 December 2013; and information provided by the authorities.

3.39. Import permits are governed by the Law on Licences and Permits of 2005, the Law on Licensing and Permission Fees of 2003, as well as relevant legislation on, *inter alia*, arms, pesticides, and endangered species. Import permits apply to any products imported from any country, and products originating in any country. They do not contain any quantitative or value restrictions.

3.40. In accordance with the Law on Licences and Permits, a licence grants the right to exercise a certain activity such as conducting a business. The right is granted to a person by an administrative authority, based on an administrative act if the conditions prescribed by this Law are fulfilled. A permit grants the right to exercise a certain action under this Law, such as conducting importation, for a definite or indefinite term and certifies compliance with the conditions prescribed by the Law. A permit may be transferred to another person unless prohibited by the Law, or unless the permit is essentially related to its holder.[8] A licence is not transferable by right of succession.

3.41. In September 2014, a joint electronic system for licences, permits and certificates became operational. The e-system ensures that relevant agencies in charge of issuing certain licences/permits/certificates upload such documents in this e-platform by which licence/permit/certificate is considered to be presented to the customs crossing point where importation or exportation of goods takes place. Furthermore, the issuing agency receives notifications in real-time on the status of issued licences/permits/certificates through such an e-platform.

3.42. It takes a maximum of 20 days (for pharmaceutical products under special control) to obtain a permit, after submission of completed documents. If no reasonable rejection is given within a predetermined time-limit, the permit is considered as issued by the licensing authority. Reasons for rejecting a permit may be:

- the application does not fulfil the requirements prescribed by the relevant law;
- the application does not fulfil the terms adopted by the local governmental bodies according to the relevant law.

3.43. Reasons for refusal must be given to the applicant in written form. The applicant has the right to appeal in the upper administrative organ or court. There have not been any refusal cases since 2009.

3.44. Permits are grouped into restrictive ones, and non-restrictive ones. To obtain a restrictive import permit (such as those on narcotic and psychoactive substances), the importer must be either a legal entity possessing the licence on this activity, or a medical research institution. To obtain a non-restrictive import permit, no registration is required. A list of licence holders is published by the agencies responsible for specific types of permits.

3.45. Fees charged for obtaining import permits aim to cover the administrative expenses. The fees are determined in accordance with the Law on Licensing and Permission Fees, and vary for different imports.

3.46. Permits may be issued for different periods of time, depending on the products. The validity of a permit may be extended upon justified request to the administrative organs responsible for issuing the permit. In cases where the terms for obtaining the permit were not amended according to relevant legislation, and the applicant presents the application along with the receipt showing payment of the permit fee, the permit may be automatically extended. There is no penalty for the non-use of a permit.

3.47. Georgia notified that imports of ozone depleting substances are subject to global quota allocated by country: according to the Montreal Protocol on Substances that Deplete the Ozone Layer, import quotas are defined individually for each country.[9] Quotas are regulated in accordance with Order No. 176 of the Minister of Environment and Natural Resources "Protection of Georgia on the Approval of Yearly Quota on Ozone Layer Depleting Substances 2015" (6 February 2015).

3.2.5 Contingency measures

3.48. Georgia has no legislation on contingency measures regarding anti-dumping, countervailing or safeguard measures. Georgia has not taken any contingency measures to date.

[8] Law of Georgia on Licences and Permits, viewed online at: http://www.economy.ge/uploads/kanonmdebloba/sagareo_vachroba/Licenses_and_Permits_Legislation_ENG.pdf.

[9] WTO document, G/MA/QR/N/GEO/1, 4 April 2014.

3.2.6 Government procurement

3.2.6.1 Overview

3.49. Government procurement, with a market value of around GEL 3 billion, accounted for 9.7% of GDP in 2014 (Table 3.7). Georgia is an observer to the WTO plurilateral Agreement on Government Procurement. According to the EBRD's 2014 report, Georgia's public procurement reform is "close to achieving compliance with the 2012 WTO GPA standards for public procurement."[10]

Table 3.7 Government procurement value and foreign participation, 2011-14

	2011	2012	2013	2014
Total value (US$ million)[a]	**1,888**	**1,779**	**1,699**	**1,642**
Percentage of GDP (%)	10.9%	10.6%	10.4%	9.7%
Share				
Domestic	97%	95%	87%	94%
Foreign	3%	5%	13%	6%
Number of contracts awarded (e-Tenders)	16,669	18,484	19,790	21,822
Share				
Domestic	99.80%	99.82%	99.86%	99.74%
Foreign	0.2%	0.18%	0.14%	0.26%

a Exchange rates used for the calculation: US$1 equals GEL 1.69 in 2011; GEL 1.65 in 2012; GEL 1.66 in 2013; and GEL 1.77 in 2014.

Source: Information provided by the authorities.

3.50. Georgia has reformed its public procurement regime a number of times, and its current government procurement legislation entered into force in 2010.[11] The Law on State Procurement (LSP) applies to the procurement of all goods, works, and services funded from state and local budgets. It also applies to those enterprises with more than 50% of state share. This Law, however, does not apply to the purchase of, *inter alia*, state secrets; electricity, natural gas and water supply or purchase by the National Bank of Georgia related to the implementation of fiscal policy.[12]

3.51. Foreign companies can bid in any tender, and all tenders are announced internationally regardless of the value of procurement. Both the price preference to local firms, and the 70% preference on local labour force were abolished. The contracting authority may issue the tender notification in English as well.[13] The Law requires a tender announcement to be issued in English as well as Georgian for contracts exceeding GEL 2 million for products and services, and GEL 4 million for public work projects. According to the authorities, the European Common Procurement Vocabulary (CPV) system was adopted, which enabled consistency in defining homogeneity of goods and services and the possibility to identify the tenders of interest by suppliers from abroad. The relatively low participation of foreign suppliers in Georgia's public procurement market (6% in 2014) was due to two reasons: the tender value is often small, as 80% of tender values are less than GEL 50,000; and there is a lack of awareness of Georgia's public procurement market abroad, which may be improved by Georgia's accession to the GPA.

[10] EBRD (2013a), p. 11.

[11] The first post-Soviet Law on State Procurement (LSP) was adopted in 1999. In 2006 a new LSP entered into force, and was later assessed by both the World Bank and the EBRD to be a "high-risk" procurement system. The Government of Georgia embarked on a public procurement reform in 2009, and promulgated a new LSP in 2010. (EBRD (2013a), p. 11.)

[12] It does not apply to the purchases made with: reserve funds of the President, Government and Mayor or visits of and meetings, sending and hosting of delegations by the President, speaker of parliament, Government, Tbilisi Mayor, Ministry of Foreign Affairs; services of temporary employees; expenditures incurred during business trips; expert services prescribed by the Criminal Procedure Code; real estate or rights in real estate; financing and use of educational, healthcare, and social protection vouchers; TV/radio airtime; public broadcasting on procurement of TV/radio and via-satellite broadcasting services from non-residents. The Government is working on minimizing exemptions from the public procurement legislation and tendering procedures.

[13] Order of the Chairman of SPA on Approving the Rules for Conducting Simplified Procurement, Simplified Electronic Tender and Electronic Tender.

3.52. The main agency responsible for public procurement is the State Procurement Agency (SPA), an independent Legal Entity of Public Law. Between 2012 and 2014, the SPA was merged with the Free Trade and Competition Agency, and was renamed the Competition and State Procurement Agency. This agency was split into a Competition Agency, and a State Procurement Agency on 21 March 2014, following amendments to the Law on Free Trade and Competition. The SPA develops and adopts implementing legislation and documents on public procurement; develops and monitors the procurement process and maintains the unified electronic procurement system: http://tenders.procurement.gov.ge; provides advisory services and training courses to procuring entities and suppliers; maintains a black list of entities that are banned from participating in government procurement, and a white list of qualified suppliers; monitors the electronic tendering process and simplifies procurement to detect violations; and houses a Dispute Resolution Board that reviews complaints filed by stakeholders. The authorities stated that the e-Procurement portal is available in five languages, with the intention of increasing transparency. In 2011, the function of the SPA to ensure transparency of the procurement system became the joint responsibility of both the SPA and the tender committees. Tender committees are in charge of conducting electronic tenders. They are formed by the head of a contracting authority and consist of at least three members, usually the deputy-head of the entity and/or heads of sub-units.

3.53. One of the main strategic goals of the SPA is to facilitate greater access of SMEs to Georgia's public procurement market. In October 2014, the SPA set up a Training Centre to improve knowledge and capacity on procurement procedures among suppliers and contracting authorities, and to provide guidance and training to contracting authorities on how to better include SMEs in their tendering process. The State Procurement Agency issued several recommendations/guidelines aimed at increasing knowledge and awareness of procuring entities. These recommendations refer to international best practices regarding identifying procuring entities' needs, procurement planning, developing specifications, and writing appropriate qualification and technical requirements.

3.2.6.2 Major changes

3.54. The SPA has been making efforts to bring Georgia's public procurement legislation and policy into compliance with the relevant EU directives. Since the previous review in 2009, a number of reforms have been carried out, including mainly the introduction of e-Procurement, and the establishment of a dispute review procedure. Other reforms include:

- introduction of a "standstill period": the period between when the decision on a contract award is made and the conclusion of the contract. According to the authorities, this has strengthened the rights of suppliers and other interested parties to request a debrief of challenged decisions;

- introduction of a legal mechanism preventing excessively low bids: bids with a price 20% lower than the estimated price of procurement are deemed bids with an abnormally low price. In this case the contacting authority can require the bidder to explain the bid price proposed (in line with the EU Directive 2014/24/EU); and/or require the supplier to provide a higher guarantee (from 2% to 10 % of the estimated value of procurement) than in usual cases (from 2% to 5%). The contracting authority may reject the bid where the evidence submitted does not satisfactorily account for the low level of the proposed bid price;

- introduction of procurement method with assessment of the tenders on the basis of the best-quality ratio (procurement of design and engineering related projects); and

- abolishing the obligation for procuring entities with an annual procurement value off less than GEL 50,000 to report every quarter, and replaced that with an annual reporting requirement.

3.55. The authorities stated that the transition of Georgia's public procurement system was accompanied by comprehensive amendments to the LSP and a number of implementing acts. The target was to fully re-engineer the procurement process for planning procurements (all annual plans are uploaded into the e-PLAN module and are available to the public); conducting simplified procurement tenders (the applicable procurement procedure is defined based on the value of procurement); evaluation of proposals (the evaluation procedure and grounds of disqualification were fully revised); execution of contracts; as well as meeting the reporting obligations of procuring entities.

3.2.6.2.1 E-Procurement

3.56. A significant change to the public procurement regime in Georgia was the introduction of the e-Procurement system in 2010. The authorities consider the e-Procurement system to be broadly consistent with the best international practices, and it has increased competition among suppliers and ensured greater transparency and simplicity of the procurement process. Many international organizations highly praised Georgia's e-Procurement regime. For example, the United Nations awarded the Georgian e-Procurement system the second place among 471 candidates from 71 countries in the UN Public Service Award in 2012. The EBRD considered Georgia to be the number one among its 26 countries in the region with regard to the implementation of e-Procurement.

3.57. Currently, procurement in Georgia is conducted according to the procedures listed in Table 3.8.

Table 3.8 Government procurement procedures

Procedures	Circumstances	Electronic procurement required	Share in procurement contracts, 2014
Simplified procurement	• Procurement under GEL 5,000; • with special governmental authorization/act; • in case of urgent necessity; and • procurement related to business expenses	No	32%
Electronic tender: open tender			68%
Simplified electronic tenders	Procurement of homogeneous objects between GEL 5,000 and GEL 200,000	Yes	70.9% (of open tenders)
Electronic tenders	Procurement of homogenous objects of GEL 200,000 and higher	Yes	17.5% (of open tenders)
Design contest	Procurement of design related projects and services, such as architecture and engineering projects, plans or designs based on the decision of a procuring entity	E-Contest was fully automated on 1 July 2015	0.6% (of open tenders)
Consolidated tender for framework agreements	Procurement of certain goods: fuel, computer hardware, A4 format paper, communication (mobile) services	Yes	11% (of open tenders)
Two-stage procurement	Still in progress	n.a.	n.a.

n.a. Not applicable.

Source: Information provided by the authorities.

3.58. The electronic procurement platform (maintained by the SPA) (https://tenders.procurement.gov.ge/) allows the public to search, explore and monitor public procurement. Interested persons may access the following information: annual procurement plans; tender notices; estimated cost of procurement; tender documentation and any amendments to the documentation; price bids; proposals; tender commission's meeting minutes and correspondence exchanged with the supplier; contracts and any amendments to them; and information on actual payments. Contracting authorities must upload information on the contracts awarded through simplified procurement, any changes to contracts, their fulfilment and actual payments, and related documents in a CMR (Contract Management Reports) module of the e-Procurement system.[14] In August 2014 the CMR module was upgraded and linked to an e-PLAN module. No public contracts can be concluded if the respective procurement was not planned and properly reflected in e-PLAN.[15] According to the authorities, this restriction could help to prevent possible law infringements. Civil society organizations may monitor public procurement, such as the tender monitoring website (http://tendermonitor.ge/en) launched by Transparency International Georgia.

[14] Online information viewed at: https://tenders.procurement.gov.ge/public/?lang=en.
[15] E-Plan refers to the mandatory planning of all public procurements and annual plans to be published in the e-Procurement system.

By 25 September 2015, 4,449 procuring entities and 23,865 suppliers were registered in the Georgian e-Procurement system.

3.59. The authorities stated that the share of simplified procurements (with special governmental authorization or act, or in case of urgency) have been decreasing: from 49% in 2012, to 39% in 2013 and then 32% in 2014, indicating the increasing share of open tenders in e-Procurement.

3.60. Procurement by some state-owned enterprises, due to the specific character of their operations and to avoid any impediment to their activities, is not covered by the Law on State Procurement and is subject to the special procurement rules adopted by the Government of Georgia. The Government significantly reduced the number of exemptions from the LSP in 2014.[16] The number of state enterprises applying special procurement rules was reduced by 51%; the scope of procurements (list of procurement objects) that may be conducted according to these special procurement rules was narrowed by 50%. Moreover, the state enterprises still applying the special procurement rules are obliged to conduct procurements through the e-Procurement system, which provides the same level of transparency as the electronic tenders.

3.61. The authorities estimated that, because of greater transparency and competition, the e-Procurement system has generated savings of GEL 1,086 million from 2010 to September 2015, which resulted from the difference between the estimated price of procurements and the award price. The electronic system also reduced business cost for regional companies to participate in public procurement: before the introduction of the e-procurement system, regional companies had to visit Tbilisi at least four times to submit documents and bid.[17]

3.62. For procurement of design related projects and services, the new electronic module was launched enabling authorities to rank suppliers by using automatic evaluation methods and assess the tenders based on the best price-quality ratio.

3.2.6.2.2 Dispute review procedure

3.63. In December 2010, the SPA established a Dispute Resolution Board (DRB). Complaints on the procurement system may be addressed directly to the contracting authority, the DRB, or a court. The DRB comprises six members: three appointed by the SPA, and three elected by civil society organizations including non-governmental organizations. Their term is one year; this, however, may result in the problem of lacking institutional memory.[18] The authorities pointed out that a numbers of surveys had found the DRB to be an efficient and independent review mechanism: the EBRD ranked Georgia the 4th highest among the 29 EBRD countries in the quality of public procurement remedies system, and considered that only Georgia has a fully independent remedies body.[19]

3.64. The lodging and hearing of a complaint are not subject to a fee. Complaints are submitted electronically by filling out a form on the tender page. When the legitimacy of a complaint is confirmed, the DRB may, within a maximum of 10 days:

- inform the contracting authority of the error and require a correction to comply with the Law;
- require a total revision or cancellation of the decision of the tender committee;
- report the case to law enforcement and other relevant bodies in case of a serious violation.

[16] For example, the Partnership Fund, the Georgian Railways, the Georgian Oil and Gas Corporation, the Georgia Lotteries, the Government's and the President's Reserve Funds, and the Ministry of Defence (when it procures state secrets) may sign contracts without using the electronic procurement platform. In 2014, of the US$1,608 billion government procurement market, contracts worth US$517 million were procured through simplified procedures.

[17] Transparency International Georgia (2013).

[18] Transparency International Georgia (2013).

[19] EBRD (2011).

3.65. If the complainant is still not satisfied with the decision, he or she may appeal the DRB decision to the courts. All registered users may appeal to the DRB, including other economic operators who have no direct relation to the tender.

3.66. From 2010 to 2014, 1,149 complaints were submitted to the DRB. Among these, 440 were successful, 490 unsuccessful, 183 rejected as they did not meet the legal requirements, and the remaining 36 were withdrawn or cancelled. During the same period, 44 DRB decisions were appealed to the courts, but none were quashed.

3.2.6.2.3 Administration of banned or qualified suppliers

3.67. The SPA may put a company on its "black list" and ban it from participating in public procurement for one year. Companies are black listed if they are subject to a complaint by a contracting authority for: (a) failing to fulfil partially or completely the contract; (b) being detected engaging in fraudulent practices in order to gain the contract; (c) refusing to conclude a contract after being identified as bid winners.

3.68. The SPA has discretion to register the company in the black list depending on, *inter alia*: competitiveness, proportionality of public and private interests, and damages caused due to its infringement behaviour. Statutory time limits for review procedures against a debarred company were introduced in September 2014, by amendments to the respective legislation. Black listed companies are either removed after expiration of one year, or by a court order.

3.69. The SPA also maintains and publishes on its official website a list of qualified suppliers – a "white list". These suppliers must meet the following technical, financial, and qualification requirements:

- no registration in the black list during the one year prior to the date of requesting white list registration;
- no insolvency proceedings;
- at least one positive reference from a procuring organization on the supplier's performance of contractual obligations over the past three years. The value of such contract has to be at least GEL 50,000;
- no criminal proceedings: all individuals having the authority to represent or manage the supplier have no criminal record, or have had the criminal record lifted or cleared;
- at least GEL 1 million total turnover for the 3 years prior to the date of requesting white list registration;
- no debt to the State Budget as of the time of requesting white list registration, and an updated extract from the Registry of Entrepreneurs and Non-Commercial Legal Entities.

3.70. Suppliers must also submit: their CV (a corporate one for a legal entity); information about the supplier from Joint Stock Company (JSC) Credit Info Georgia; information about the qualifications of its employees, and about the technical equipment of the supplier (only in the case of a supplier providing construction works). From 2012 to September 2015, 125 suppliers were registered in the white list.

3.71. According to an EBRD report, Georgia achieved the best result in the region, indicating a high level of compliance with international standards. The LSP is compliant with the general principles of competition, transparency, and non-discrimination in public procurement. The e-Procurement system supports planning, procurement, monitoring and management of public contracts and provides reliable market data for all sector stakeholders and audit. The basic principles and general framework of the public procurement process are contained in the LSP and secondary legislation, and the accessible online information on public procurement informs all stakeholders of their roles, rights and obligations in the public procurement process. The LSP regulates most of the public procurement process, and requires mandatory scrutiny of all contract variations.[20]

3.2.6.3 Further reform plans

3.72. The SPA recognizes the importance of continued reform, and intends to:

- extend the e-Procurement system and interconnect it into eTreasury, e-Budget and electronic revenue system of the Ministry of Finance of Georgia;
- develop new electronic services for different internal business processes and procedures;
- amend legislation to tighten up rules allowing exemptions from the e-tendering procedures;
- continue providing training to contracting authorities and suppliers to minimize mistakes and possible infringements.[21]

3.2.7 Trade-related investment measures (TRIMs)

3.73. The authorities stated that Georgia does not maintain any trade-related investment measures (TRIMs).

3.3 Measures Directly Affecting Exports

3.3.1 Export procedures and requirements

3.74. According to the World Bank's Ease of Doing Business Report, in 2015 it took on average US$1,355 and about 9 days to export a container, which was much lower than the average for the economies of Europe and Central Asia (US$2,154 and 23.6 days), and compares favourably with OECD countries (US$1,080 and 10.5 days).

3.75. The authorities stated that, since 2009, the export procedures have been simplified:

- exporters are allowed to present their goods directly at the border crossing points, and the goods are checked using the risk management system;
- export declaration at the border crossing points is also allowed:
    - when exporters present a waybill;
    - when goods have a value not exceeding GEL 15,000;
    - for simplified declaration; and
    - for natural person's declaration;
- applications for permits and certificates required for exportation may be lodged electronically through the Revenue Service webpage based on a single window principle;
- exporters are allowed to obtain the customs seals and affix them to the means of transport. A special registry programme was put in place to track and monitor the information concerning the seals issued to the exporters;
- exporters are no longer required to present a registration certificate for rail cargo, as each consignment has a separate export declaration; and

[20] EBRD (2013a), p. 18.
[21] The SPA Training Centre provided training sessions to 419 representatives from contracting authorities, as well as to 38 businessmen from October 2014 till September 2015.

- exporters are now allowed to present their goods to the customs authority at a pre-agreed location.

3.76. Export procedures and requirements are listed in Table 3.2. Among the documents required, certificates of origin are issued in accordance with the provisions of Government Decree No. 420 (29 December 2010). For goods exported from Georgia, the certificates of origin are issued by: Ministry of Economy and Sustainable Development; Revenue Service of the Ministry of Finance; Georgian Chamber of Commerce and Industry; and the Ministry of Finance and Economy of the Autonomous Republic of Ajara. Enterprises are allowed to obtain the certificates of origin from any of the above mentioned agencies, except for the EUR-1 certificate which is issued by the Revenue Service exclusively.

3.77. When exporting winery products, certificates of origin are issued by the National Wine Agency under the Ministry of Agriculture, in accordance with the regulation determined by the Ministry of Agriculture.[22]

3.3.2 Export fees

3.78. According to the authorities, export and re-export from Georgia are free from any customs duties. Georgia applies services fees for processing the exports of waste or scrap of ferrous/precious metals. According to the authorities, fees are collected at the border to facilitate the development of steel production by local industry:

- GEL 160 per tonne for waste or scrap of ferrous/precious metals;
- GEL 40 per tonne for ferrous metal production waste; and
- GEL 50 per tonne for raw alloy of precious metals.

3.79. Exports are VAT free.

3.3.3 Export prohibitions, restrictions, and licensing

3.80. In accordance with the Law on Licences and Permits, non-tariff limitations in international trade apply only for healthcare, security and environment protection purposes (Table 3.9).

Table 3.9 Export prohibitions, restrictions, and licensing

Product description	National legal basis	Agency
Products prohibited from exportation (P – X)		
Ozone depleting substances: halogenated derivatives of hydrocarbons	Government Decree No. 184 (2006) on Approval of the List of Materials of Limited Circulation and Charter on the Issuance of Permission for Production, Transportation, Import, Export, Re-export or Transit of Materials of Limited Circulation	Ministry of Environment and Natural Resources Protection
Prohibited except under defined conditions (CP - X)		
Cultural heritage goods: works of art, collectors' pieces and antiques	Law on Export and Import of Cultural Values from and to Georgia (2001)	Ministry of Culture and Monument Protection
Drugs, narcotics, and related chemicals	Law on Narcotic Drugs, Psychotropic Substances, Precursors and Drug Assistance (2002)	Ministry of Labour, Health and Social Affairs, State Regulation Agency for Medical Activities
Products subject to non-automatic export licensing (NAL – X)		
Some nuclear and radioactive substances	Law on Licences and Permits (2005); Law on Nuclear and Radioactive Security (2012)	Ministry of Environment and Natural Resources Protection
Endangered animal and plant species	Law on Licences and Permits (2005); Government Decree No. 18 of 6 Feb 2007 on Approving Provision on Regulations and Conditions of Issuing	Ministry of Environment and Natural Resources Protection

[22] Ministry of Economy and Sustainable Development online information, viewed at: http://www.economy.ge/en/economic-review/trade.

Product description	National legal basis	Agency
	Permits on Export, Import, Re-export and Introduction from the Seas of Species, their Parts and Derivatives Included in the Annexes of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	
Drugs, narcotics, and related chemicals	Law on Narcotic Drugs, Psychotropic Substances, Precursors and Drug Assistance (2012)	Ministry of Labour, Health and Social Affairs, State Regulation Agency for Medical Activities
Weapons and military equipment	Resolution of the President No. 304 (2000) on List of Military Goods under Export and Import Control; Order No. 394 (2014) on the Approval of List of Military and Dual Use Goods	Ministry of Defence
Goods of dual purposes	Order No. 394 (2014) On the Approval of List of Military and Dual Use Goods	Ministry of Economy and Sustainable Development/ Revenue Service (since 1 October 2014, only the RS)

Source: WTO document, G/MA/QR/N/GEO/1, 4 April 2014, and information provided by the authorities.

3.81. In addition, the following products are subject to export permit requirements (Table 3.10).

Table 3.10 Export permits

Products	Agency
Means of electronic surveillance	Ministry of Internal Affairs
Materials of limited circulation	Ministry of Environment and Natural Resources Protection
Non-iodized salt	Ministry of Agriculture
Narcotic drugs and related chemicals	Ministry of Labour, Health and Social Affairs

Source: Ministry of Economy and Sustainable Development online information, viewed at: http://www.economy.ge/en/economic-review/trade; and information provided by the authorities.

3.3.4 Export support, financing, and promotion

3.82. Georgia notified that it provided no export subsidies to agricultural products in 2007-2012.[23] The authorities stated that Georgia does not provide any export subsidies.

3.83. Georgia does not have export financing instruments.

3.84. Export promotion and development activities are mainly carried out through the Entrepreneurship Development Agency (EDA, also called Enterprise Georgia), established in March 2014 under the Ministry of Economy and Sustainable Development. Within the framework of EDA, export development and promotion activities include: creating exporters' profiles, developing the online export portal, participating in and conducting international trade fairs, planning inward/outward buyer missions and various campaigns/publications, submitting products to international awards and competitions, and promoting Georgian exports domestically. EDA is also performing the following activities related to export promotion: identifying sectors with high export potential (such as wine and beverages, nuts, pharmaceuticals, apparel, and construction materials), elaborating sectoral development strategies, monitoring and analysing export dynamics and building the capacity of exporters (such as providing market entry briefs, market entry advice through a helpdesk and training for export managers). A Business Service Centre was set up as a place for lectures, trainings and different events for SMEs.

3.85. The Government implements two export promotion programmes: "Production of Georgian Agricultural Products", and "Promotional Measures to Popularize Georgian Wine Products" (Chapter 4). The main export promotion activities are organizing exhibitions, tastings and displays of Georgian agricultural products, including wine products.

[23] WTO document, G/AG/N/GEO/12, 5 November 2013.

3.3.5 Free Industrial Zones

3.86. Developing transit trade has been one of the Government's main strategic initiatives. Georgia's location provides an alternative transit route into central Asia, other than the routes via China and the Russian Federation. The Government thus has been establishing free industrial zones (FIZs), where investors may conduct processing activities in Georgia in connection with the transit of goods without being subject to Georgian taxes. Incentives, in the form of a special tax regime, have been provided to companies operating in FIZs (Table 3.12).

3.87. FIZs are regulated under the Law on Free Industrial Zones, adopted in 2007. FIZs may be established either by the initiative of the Government, or upon requests of natural or legal persons. FIZs are created to promote the inflow of capital, technology and know-how. Financial operations in FIZs can be carried out in any currency. Currently Georgia has four free industrial zones (FIZs): Poti (established in 2009), Kutaisi (established in 2009), Kulevi (in 2012), and Kutaisi’s Hualing (established in 2015).

3.88. Goods produced or assembled in FIZs are allowed to be sold in the domestic market. When enterprises from FIZs sell goods to Georgian entities other than those in FIZs, they must pay 4% of their gross income from the sale to the Government. The following activities are prohibited in the FIZs:

- production of and/or trade in arms and munitions;
- production of and/or trade in nuclear and radioactive substances;
- import, storage, production and/or sale of narcotic and psychotropic substances; and
- import, storage, production and/or sale of tobacco and/or raw materials for tobacco production except for cases of use only (which is not considered as an export of goods).

3.89. The authorities consider that the FIZs, through their more liberal tax regime and simplified administrative procedures, help to attract FDI and thus new/modern technologies, increase employment and investment in human resources. They also consider that by promoting exports, these FIZs contribute to export diversification and to reducing Georgia's external vulnerabilities. They also contribute to regional development, and the development of cargo transportation and related services.

3.4 Measures Affecting Production and Trade

3.4.1 Legal framework and support for businesses

3.90. The Government made great efforts in reducing obstacles to doing business in Georgia. In 2015, the World Bank ranks Georgia 15th among 189 countries in the world in the Ease of Doing Business Index.[24] *Georgia 2020* placed strong emphasis on enhancing the private sector's competitiveness. Significant progress was made in aligning Georgia's policies on small and medium-sized enterprises (SMEs) with that of the EU and international best practices. The Government and the OECD are working closely to prepare a SME Development Strategy and related Action Plan, which are expected to be adopted by the end of 2015.

3.91. The Government also launched the "Produce in Georgia" programme in 2014 to support local agri-processing and industrial production through financial support (co-financing of interest on loans and collateral requested by commercial banks), infrastructural support (real estate provided at a symbolic price to companies investing in Georgia) and the provision of consulting services, which is being implemented in close cooperation with financial institutions.[25] So far, the Government has allocated through its budget GEL 46 million to the "Produce in Georgia" programme, of which GEL 16 million has been allocated to industrial manufacturing, and GEL 30 million to agriculture.

[24] World Bank (2014c).
[25] European Commission (2015).

3.92. In March 2015, the Entrepreneurship Development Agency (EDA) launched a programme under "Produce in Georgia": "Support to Micro and Small Enterprises in Georgian regions". This programme enables an entrepreneur to present a business plan and have an opportunity to receive financial support of GEL 5,000 with a matching investment of at least 20%. In addition, technical assistance (training, professional business consulting, individual consultations) is provided to beneficiaries. The Government allocated a budget of GEL 20 million to co-finance more than 3,000 people (25-30% women) under this programme.

3.93. On 6 July 2015, the EDA opened its Business Service Centre for SMEs to provide information and basic consulting services. Moreover, the EDA is conducting a technical assessment for the beneficiaries and planning appropriate training according to their identified needs. For instance, MiniMBA training for up to 20 Georgian company representatives was provided in May 2015 by an initiative of the EDA and organized by E&Y Company.

3.94. After the Government eliminated 84% of licensing requirements in 2005, licences are only required for activities affecting public health, national security and the financial sector, such as: weapons and explosives production, narcotics, poisonous and pharmaceutical substances, exploration and exploitation of renewable or non-renewable substances, exploitation of natural resource deposits, establishment of casinos and gambling houses and the organization of games and lotteries, banking, insurance, securities trading, wireless communication services, and the establishment of radio and television channels.[26] The Government must decide if it is going to issue a licence within 30 days; if the licensing authority does not state a reason for rejection within that time limit, the licence or permit is deemed to be issued.

3.95. The Government recognized the need to support new business creation and development of existing ones, and established Georgia's Innovation and Technology Agency (GITA). GITA has been assigned the task of providing the legal framework for innovation; coordinating among various public and private stakeholders on innovation policies and reforms; fostering innovative entrepreneurship; enhancing the innovation ecosystem; supporting R&D commercialization and facilitating the technology absorption process. *Innovation Strategy 2020* is being developed, with the help of the World Bank.

3.96. A Research and Innovation Council was created, and is chaired by the prime minister. It consists of all line ministers, scientists and private sector representatives. The GITA functions as the secretary of the Council. Currently the Council is drafting a law on innovation and is amending the existing laws related to, *inter alia*, innovation, creation of businesses, and supporting SMEs.

3.4.2 Tax and incentives

3.4.2.1 Tax

3.97. Tax revenue is equivalent to about one quarter of GDP in Georgia. According to the Government's vision (Social Economic Development Strategy - *Georgia 2020*), the goal of the Government is to create a more stable tax system, which will facilitate sustainable economic development and reduce the risk of economic shocks. *Georgia 2020* states that, in order for Georgia to remain an attractive place for doing business, the current low tax policy is to be preserved.[27] Within the framework of the EU Twinning Project, a comparative analysis of Georgian and EU legislation on VAT and excise tax is being carried out, with a view to harmonizing Georgian legislation with that of the EU in indirect taxes based on the Association Agreement.

3.98. According to the World Bank, Georgia ranks 38th out of 189 economies for paying taxes in 2015, down from 22nd in 2014. According to the authorities, this drop was because: the methodology to calculate these rankings changed, and the Revenue Service introduced a comprehensive and detailed corporate income tax return system for tax risk management

[26] Provision of electronic communication networks and services are subject to general authorization. Broadcasting activities requiring usage of broadcasting transmitters, radio frequency ranges or the terrestrial and orbital stations of satellite systems fall under the licensing regime. Activities in the field of electronic communications requiring frequency resources are subject to the licensing regime as well. Also provision of broadcasting services requires Georgian citizenship or residency, with no equity requirement.

[27] Government of Georgia (2014).

purposes. On average, firms pay total taxes amounting to 16.4% on profits, most of which come from corporate income tax and property tax.[28]

3.99. Major taxes include the VAT, excise tax, customs duties, and taxes on income and profits (Table 3.11). VAT accounted for nearly half of total tax revenue during the review period. At a standard rate of 18%, VAT is applied equally to imported goods and domestically produced goods and services. Article 168 of the Tax Code contains an exhaustive list of goods and services exempted from the VAT. Examples include: exports; supply of assets within the state privatization process; imports of machinery, means of transport, spare parts and materials needed for the oil and gas industry, and supply of goods and services necessary to implement oil and gas operations by investors and operating companies; imports of natural gas for the production of electricity (thermal electric stations); supply of goods or services between enterprises in a FIZ; financial services; and medical services.

Table 3.11 Tax revenue, 2009-14

(GEL million)

	2009	2010	2011	2012	2013	2014[a]
Total taxes	**4,388.9**	**4,866.9**	**6,134.8**	**6,671.1**	**6,659.3**	**7,153.5**
Of which (% share)						
VAT	46.7	45.3	42.3	45.7	42.9	45.7
VAT collected at the border[b]	27.9	23.5	14.4	11.2	8.8	16.3
Excise tax	10.1	12.2	10.6	10.4	11.5	11.8
Excise collected at the border	7.5	8.1	6.9	6.7	7.7	8.3
Customs duties	0.8	1.4	1.5	1.3	1.3	1.3
Direct and others taxes[c]	41.5	40.8	42.5	42.8	44.4	41.5

a Provisional.
b VAT at the border varies significantly. The authorities indicated that this was caused by a legislative amendment in July 2010, according to which taxpayers with declared/paid VAT exceeding GEL 200,000 did not need to pay VAT at the border when they imported. VAT collected at the border thus reduced significantly. This amendment was abolished in April 2014, consequently VAT collected at the border increased.
c Personal income tax, profit tax and other taxes.

Source: Information provided by the authorities.

3.100. Georgia levies excise tax on: alcohol, tobacco products, cars and various petroleum products. From January 2010, excise tax also applies to mobile communication services. Normally, excise tax is levied to discourage the consumption of certain products, for health or environment protection purposes. The excise on mobile communication services is to raise revenue, so it remains to be seen if this tax could discourage the consumption of mobile communication services. Exports of excisable products, and the supply of Georgian excisable products for sale in duty-free zones, are exempted from excise tax.

3.101. Excise tax rates are in general fixed per physical unit of excisable good (litre, cm^3, kilogram, ton, etc.). On 1 July 2015 the excise tax on tobacco products changed to an *ad valorem* tax: excise tax is calculated on the basis of the retail selling price of the product. A retail selling price of an excisable product must be determined no later than 1 December of each year, and based on the information provided by the producers/importers.[29]

3.102. Customs duties accounted for 1.3% of total tax revenue, up from 0.8% in 2009, reflecting an increase in import values.

3.103. The standard corporate income tax rate is 15%, and the standard individual income tax rate is 20%. There were plans to lower income tax rates further; however, such plans have not been carried out because of concerns on ensuring adequate government revenue.

[28] World Bank (2014c).
[29] The changes were reflected in sub-paragraph one of the Tax Code, as well as the Finance Minister's Decree No. 996, and an act issued by the Director General of the Revenue Service.

3.104. Property tax is the only tax levied by local governments in Georgia. The listing of property subject to tax is prescribed in Article 201 of the Tax Code. Enterprises and individual entrepreneurs (domestic and foreign) are subject to property tax on fixed assets, non-assembled equipment, unfinished capital investments, intangible assets, and assets that they have leased to other persons. Individuals are also subject to property tax on immovable property. The property tax rates are determined by local authorities, within the limits established by the Tax Code. The annual property tax rate is up to 1% of the average annual balance sheet value of the taxable assets (excluding land and its varieties depending on the location of the taxable property).

3.4.2.1.1 Recent developments

3.105. In 2010, the Georgian parliament passed the new Tax Code aimed at increasing transparency.[30] The Revenue Service began implementing the Code in early 2011. The new Code introduced tax benefits to micro and small businesses:

- registered micro businesses, whose annual turnover is below GEL 30,000 with no employees, are entitled to a complete tax exemption;

- registered small businesses, whose annual turnover is below GEL 100,000, pay a 5% turnover tax and are exempted from all other taxes. This tax rate will be reduced to 3% if the business has documented business expenses (excluding salary costs) exceeding 60% of its turnover.[31]

3.106. An Office of the Tax Ombudsman (often referred to as the "Business Ombudsman") was established under the Tax Code, and Decree No. 92 of 2011. A new Law on the Business Ombudsman came into effect on 5 June 2015, according to which, the Business Ombudsman protects the rights and interests of business people, reveals any alleged breaches of their rights and interests by government agencies, and contributes to the restoration of the rights affected in accordance with the Law (Article 6.1). Its website www.businessombudsman.ge was launched in November 2011, to publish information on business registration, amendments to tax legislation, rules of litigation, etc. The Ombudsman Office performs two main types of activity: dealing with individual applications/claims of taxpayers; and addressing systemic irregularity by substantiated opinion, or by legislative proposal. The Ombudsman Office was nominated by the prime minister in consultation with the chairman of the parliament, and reports to the Finance and Budgetary Committee of the parliament.

3.107. From 2013 to 2014, there were 530 written applications to the Business Ombudsman, which held meetings with up to 1,500 taxpayers. The Ombudsman's Office issued about 150 opinions/recommendations/motions, 80% of which were fully or partially accepted by government agencies. At the beginning of 2015, a draft law on the Business Ombudsman was submitted to the parliament, which reiterates clauses from the Tax Code and Decree No. 92 of 2011, and added the following functions to the Office: presenting draft laws, acting as an *amicus curiae* in the Constitutional Court, or to having the right to ask a public agency to perform an action (such as expediting a case or expulsion of persons from illegally occupied property). In accordance with the draft law, the Business Ombudsman is to be accountable both before the Government, and respective committees of the parliament. Public agencies are to be held explicitly accountable before the Business Ombudsman in terms of responding to the latter.

3.108. In July 2011 the parliament passed the Act of Economic Liberty, which imposes fiscal constraints on the Government to reinforce the confidence of local and foreign businesses in the stability of Georgia's economy. The Liberty Act bans the introduction of new state taxes or the increase in existing taxes (except excise tax) by means other than a nationwide referendum.

3.109. The Government endorsed the amendments to the Tax Code in August 2014, and implemented these amendments with a view to improving the business environment and streamlining tax administration. The main changes include: the introduction of VAT exemption for local businesses that serve foreign companies operating in the goods processing industry; the

[30] Tax Code of Georgia online information viewed at: http://www.rec-caucasus.org/cp/wp-content/uploads/2014/07/Tax-Code-Of-Georgia.pdf.
[31] PWC (2011).

writing off of certain long overdue tax arrears and fines; and allowing small businesses to postpone tax obligations.[32]

3.4.2.2 Incentives

3.110. The Government continues to provide incentives, through special taxation regimes, to international financial companies, international companies operating in free industrial zones, and to free warehouse companies (Table 3.12). These companies may be exempted from VAT, property tax, customs duties, or corporate income tax.

Table 3.12 Special taxation regimes, 2015

Type of tax	Standard tax rates	International financial company (IFC)	International company operating in a FIZ	Free warehouse company
Corporate income tax	15%	0%	0%	0%
Value added tax	18%	0%	0%	0%
Customs duties	0%, 5% or 12%	0%, 5% or 12%	0%	0%
Property tax	up to 1%	up to 1%	0%	up to 1%

Source: Information provided by the authorities.

3.111. An international financial company is a financial institution that conducts most of its business with parties outside Georgia, and is located outside a FIZ. If an IFC's income from Georgian sources exceeds 10% of its gross income, it will be subject to a 100% penalty on the excess amount.

3.112. The Government has also been providing state aid, which is one-time aid conferred by the Government for a definite period. In accordance with Government Regulation No. 529 of 2014 on Approving Small Amounts of Individual State Aid and General Procedure for Granting State Aid, effective 1 September 2014, state aid may be provided for the purposes of the economic development of certain regions, or to facilitate the conservation of culture and cultural heritage. State aid may take, *inter alia*, the following forms: tax exemptions/reductions/deferrals; writing off debt and debt restructuring; issuing preferential loans; transferring operating assets; providing financial aid; and tax privileges (tax reduction or writing off by the State). Applications are made to the Competition Agency. According to the authorities, since 1 September 2014, there have not been any applications for state aid.

3.4.3 Standards and other technical requirements

3.4.3.1 Standardization

3.113. Georgia has continued to develop its national quality infrastructure according to international and EU practices. It formulated its TBT Strategy (Strategy in *Standardization, Accreditation, Conformity Assessment, Technical Regulation and Metrology*, adopted by Government Decree No. 965 on 16 July 2010), and the TBT Programme (*Programme on Legislative Reform and Adoption of Technical Regulations*, adopted by Government Decree No. 1140 on 25 August 2010). The TBT Strategy follows the principles that, *inter alia*: all obligatory requirements related to the protection of health and safety are set by mandatory technical regulations, which are adopted through government resolutions; standards are voluntary and are developed by the State and any interested party; and Georgia refrains from adopting any national standards in the areas where relevant international standards are in place.[33]

3.114. In May 2012, the Code of Product Safety and Free Movement of Goods (the Code) was adopted, and replaced: the Law on Standardization, the Law on Certification of Products and Services, the Law on Ensuring Uniformity of Measurements, and the Law on Control of Technical Hazard. The Code incorporates all relevant legislation in the field of quality infrastructure, and

[32] World Bank (2014e), p.14.

[33] Other principles include: the market surveillance body does not perform any conformity assessments, which are performed only by technically competent conformity assessment bodies; manufacturers may apply all internationally accepted forms of conformity assessment including self-declaration on conformity to regulations and/or standards, or as defined by a relevant technical regulation.

reflected requirements of two EU directives: the General Product Safety Directive, and the Liability for Defective Products.

3.115. In accordance with the Code, the Georgian National Agency for Standards, Technical Regulations and Metrology changed its name to the Georgian National Agency for Standards and Metrology (GEOSTM).[34] The main activities of the GEOSTM include: organizing the activity of national standardization and metrology through participation in the elaboration of legislative and normative documents in these fields; developing national measurement standards; and participating in the elaboration of mandatory technical regulations. It is responsible for the registration of standards including foreign ones. Other major institutions involved in quality infrastructure include the Unified National Body of Accreditation (the Accreditation Centre – GAC), and the Technical and Construction Supervision Agency (TCSA). Standards are administered by the GEOSTM.

3.116. In the framework of the Comprehensive Institutional Programme (CIB), the physical infrastructure of the GEOSTM was renovated, ensuring the proper functioning of the metrological reference laboratories. The GEOSTM implemented Georgia's Quality Management System according to international standard ISO/IEC 17025. In 2013, the regional metrology organization (COOMET) conducted peer assessment of three GEOSTM laboratories (electrical, mass, and temperature measurement labs). By June 2015, Georgia had 30 CMC (calibration and measurement capabilities) entries published in the BIPM (International Bureau of Weights and Measures) data-base. The BIPM authorized the GEMSTM Metrology Institute to use the CIPM MRA logo on calibration certificates: Georgia is the first country in the region to achieve international recognition in the metrology field.

3.117. GEOSTM is the WTO TBT enquiry point, and is a member of a number of international/European standards and metrology organizations (Table 3.13).

Table 3.13 Georgia's membership in international/European standards organizations

Organization	Year of participation	Type of membership
ISO (International Organization for Standardization)	2006	Corresponding member
CEN (European Committee for Standardization)	2008	Affiliated member
CENELEC (European Committee for Electrotechnical Standardization)	2010	Affiliated member
IEC (International Electro technical Committee)	2010	Associate member
OIML (International Organization of Legal Metrology)	2011	Corresponding member
BIPM (International Bureau of Weights and Measures)	2008	Associate member
COOMET (Euro-Asian Cooperation of National Metrological Institutions)	2006	Full member
IRSA (Inter-regional Standardization Association)	1991	Full member
Euro-Asia Interstate Council for Standardization, Metrology and Certification	1995	Full member

Source: Information provided by the authorities.

3.118. According to the Code, all standards are voluntary. The following types of standards may be used in Georgia:

- international and regional standards;
- standards of any EU or OECD member state;
- Georgian standards;
- Georgian company standards; and
- GOST standards, used in Georgia when they trade with CIS countries, according to the Agreement signed in 1998 on the implementation of agreed policies in the fields of standardization, certification and metrology. GOST standards are voluntary, and are not

[34] ISO online information, viewed at: http://www.iso.org/iso/home/about/iso_members/iso_member_body.htm?member_id=1950.

adopted as Georgian standards. Georgian companies interested in exporting to CIS countries may use the GOST standards.

3.119. The Government allows importers, producers or exporters to choose which of these standards to make their products conform. Products imported into Georgia, from the EU and OECD and CIS countries and other countries where respective bilateral agreements exist, may be placed on the Georgian market without additional conformity assessment procedures. Technical regulations of other countries may be acknowledged and accepted for use in Georgia, provided that the mentioned regulation adequately fulfils the objectives of national regulation. Georgia acknowledges the standards and technical regulations of EU and OECD countries and of those countries with which Georgia has bilateral or multilateral trade agreements; the share of these countries in Georgia's total imports amounted to around 30% in 2014.[35]

3.120. In accordance with the Code, Georgia does not develop or adopt national standards in fields where international or European standards are being developed or adopted.[36] Currently about 98% of all standards adopted in Georgia are international or European standards; 2% are Georgian standards developed for specific Georgian products. By December 2014, Georgia had adopted more than 5,500 international and European standards (Table 3.14).

Table 3.14 Georgian standards, 2009-14

Standards	2009	2010	2011	2012	2013	2014
Georgian national standards	2	22	2	3	0	0
International/European standards adopted as Georgian standards	872	977	48	247	234	936
Standards of foreign countries adopted as Georgian standards, that are developed on the basis of international standards	0	0	0	0	0	47
Standards of foreign countries adopted as Georgian standards	0	21	3	4	8	21
Total	**874**	**1,020**	**53**	**254**	**242**	**1,004**

Source: Information provided by the GEOSTM.

3.121. In 2014, standards applied mainly to: general requirements for the competence of testing and calibration laboratories; inspection bodies; medical laboratories; for conformity assessment purposes; security techniques; and fibre-reinforced polymer (FRP) reinforcement of concrete.

3.122. The Government has adopted a system of voluntary standards and certification. When there are no relevant international standards, new national standards may be developed. Georgia applies the Code of Good Practice for the Preparation, Adoption, Application and Notification of Standards and Technical Regulations in accordance with the TBT Agreement. Respective technical committees (TCs) are established to adopt and approve new standards. Any group or individual may propose drafts of standards, and all interested parties (including foreign ones) may participate in the work of TCs on a voluntary basis. The public may comment on the draft standards for a period of at least one month. Companies may develop and use their own company standards without registering them, but assume full responsibility for being compliant with the relevant technical regulations.[37]

3.123. Currently there are five standardization technical committees, on: electrotechnical standards, conformity assessment and management standards, food products, tourism, and construction. According to the authorities, depending on the needs of the country, technical committees in other standardization areas are to be established.

[35] These countries are: Australia; Austria; Belgium; Canada; Chile; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; United Kingdom; Greece; Hungary; Ireland; Iceland; Israel; Italy; Japan; Republic of Korea; Latvia; Lithuania; Luxemburg; Malta; Mexico; Netherlands; New Zealand; Norway; Poland; Portugal; Slovakia; Slovenia; Spain; Sweden; Switzerland; and the United States.

[36] FAO, *Eastern Europe and Central Asia Agro-Industry Development Country Brief – Georgia*, viewed online at: http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/AI_briefs/AI_breiefs2012/fao_georgia.pdf.

[37] EU-Georgia Business Council, *Report on Technical Barriers to Trade*. Online information viewed at: http://eugbc.net/wp-content/uploads/2014/11/Technical%20Barriers.pdf.

3.4.3.2 TBT notifications

3.124. To facilitate the notification process under the WTO TBT (Technical Barriers to Trade) agreement, the Government adopted its decree "on the procedure of notification to the WTO regarding standards, technical regulations, conformity assessment procedures and drafts thereof" on 18 September 2009.

3.125. Between 1 January 2009 and 4 August 2015, Georgia made 84 notifications on standards and technical regulations to the WTO. Among these, 30 were notified under Article 2.9 of the TBT Agreement. All were submitted by the GEOSTM, and the products concerned include different types of vehicles, electronic communications, oil products, construction rules, labelling rules, tobacco products, environmental protection, and rules on air transport, road transport, and maritime transport. Some of the notified draft technical regulations approximate to relevant international or EU legislation. All technical regulations notified were developed on the basis of EU directives or according to international conventions. Georgia, as a developing country, also submitted notifications using Article 2.10 of the TBT agreement, which allows members to adopt technical regulations urgently.

3.126. Georgia also submitted five notifications under both Article 2.9.2 and Article 5.6.2 of the TBT Agreement on, *inter alia*, the approval of the rules and procedures of the accreditation system; the unilateral recognition of technical regulations of EU and OECD member countries; the rules of conformity assessment procedures for imported objects requiring conformity assessment; the rules defining conformity assessment modules, sub-modules and related procedures; and certification on bio-farming procedures.

3.127. Between January 2009 and August 2015, no concerns were raised by WTO Members in the TBT Committee over Georgia's technical regulations.[38]

3.4.3.3 Conformity assessment, accreditation

3.128. The main piece of legislation on conformity assessment is the Code on Safety and Free Movement of Products, which replaced the Law on Certification of Products and Services, and incorporated the Law on Conformity Assessment. The Code provides for the basic principles on conformity assessment of products and services. Further, according to Government Decree No. 50 issued on 7 March 2013, Georgia unilaterally recognized technical regulations of EU and OECD member countries. Thus imports from these countries do not need to go through additional conformity assessment procedures in Georgia.[39] For imported products from other countries, conformity assessment procedures are carried out according to the Code.

3.129. Conformity Assessment is performed by accredited bodies (primarily private bodies). The Georgia Accreditation Centre (GAC) conducts accreditation and surveillance in testing, calibration, verification and certification, and inspection. The GAC has accredited 125 conformity assessment bodies: 77 testing laboratories, 7 calibration laboratories, 30 inspection bodies, 2 medical laboratories, 6 product certification bodies, and 3 personnel certification bodies. Testing laboratories are mainly in the following fields: electrical products; products from chemical, perfume and pharmaceutical industries; food, drinking water and mineral water, alcoholic and non-alcoholic beverages; composition of soil and mineral resources; oil and mineral products; glass products; paints and dyes; building materials; and radio engineering products.

3.130. Market supervision is conducted by the National Food Agency under the Ministry of Agriculture on agricultural products, and by the Technical and Construction Supervision Agency (TCSA) on construction and hazardous materials, and industrial products. The Government elaborated a *Market Surveillance Strategy for Industrial Products*.

3.131. Georgia signed a number of regional/bilateral agreements covering TBT-related issues, with the CIS, Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Russian Federation, Turkmenistan, Ukraine, and Uzbekistan. The DCFTA also covers TBT-related issues, including standardization,

[38] WTO TBT website: http://tbtims.wto.org/web/pages/search/stc/Search.aspx.

[39] WTO document, G/TBT/N/GEO/72, 17 April 2013. The Government Decree No. 45 on Recognition of Technical Regulations of other Countries and Rules of their Application was repealed.

technical regulations, metrology, accreditation, conformity assessment, market access, and market surveillance.

3.4.3.4 Labelling and packaging requirements

3.132. General requirements on labelling are provided in:

- the Code on Food/Feed Safety, Veterinary and Plant Protection (Article 18), which lays down the general requirements for labeling of food and food products;
- the Code on Safety and Free Movement of Products (Article 12), which provides information to be presented to consumers regarding the product;
- Government Resolution No. 441 (31 December 2013) on the Approval of the Rule of the Additional Labelling of Food Products;
- Government Resolution No. 173 on General Hygienic Rules of Food/Feed Producing Enterprises/Distributers and Rules of Implementation of Supervision, Monitoring and Official Control in the Areas of Food Safety, Veterinary and Plant Protection; and
- the Government Resolution on Sanitary-hygiene Rules of Food Trade and Government Decree No. 90 (7 March 2012) on Specific Hygiene Rules for Food of Animal Origin.

3.133. All cosmetics, pharmaceutical, chemical, and food products must have Georgian language labelling at the sales point.

3.134. The introduction of living modified organisms (LMOs) into Georgia is prohibited, according to the Law on Living Modified Organisms. A living modified organism may be placed on the Georgian market if it belongs to the species of LMOs approved by the Minister of Environment and National Resources Protection (Ministerial Order No. 198 of 24 April 2015). Genetically modified organisms for food/feed use and genetically modified products must be labelled if the genetically modified components contained therein exceed 0.9% of the total mass as prescribed by the Law on the Labelling of Genetically Modified Organisms for Food/Animal Feed Use and of Genetically Modified Products Derived Therefrom.

3.4.4 Sanitary and phytosanitary requirements

3.135. The main factors hampering food exports from Georgia are weak food safety regulations and supervision capacity, and the lack of best international practices among food producers. Thus, improved food safety management would benefit both public health and trade.[40] The authorities stated that Georgia has gradually developed its national regulatory system in line with the EU and international standards. The legislative approximation process has been moving faster since the DCFTA with the EU was signed. The Government also facilitates the establishment of good agricultural practices in different fields.[41]

3.136. Main legislation on SPS is the Code of Food/Feed Safety, Veterinary and Plant Protection (2012) (Table 3.15). All other secondary legislative documents are adopted according to this Code and have to be in compliance with this Code. This Code was most recently amended in 2014, with the main change relating to the protection of consumer rights and interests. Symmetry to cover all three areas (animals and animal products, plants and plant products, and food and food products) was improved.

[40] IFC online information, viewed at: http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/europe+middle+east+and+north+africa/ifc+in+europe+and+central+asia/countries/improving+food+safety+in+georgia.

[41] International Standards For Phytosanitary Measures (ISPM) are implemented in Georgia: ISPM 1, ISPM 5, ISPM 7, ISPM 12, ISPM 13, ISPM 15 (partially), ISPM 23, and ISPM 32.

Table 3.15 SPS regime

SPS	Description
Legislation	Code of Food/Feed Safety, Veterinary and Plant Protection (2012, most recently amended on 17 April 2014) Georgian Tax Code (2011) Code of Food Safety and Free Movement of Goods (2012)
Government resolutions	No. 170 General Hygienic Rules of Food/Feed Producing Enterprises/Distributers and Rules of Implementation of Supervision, Monitoring and Official Control in the Areas of Food Safety, Veterinary and Plant Protection (2010) No. 90 Special Hygiene Rules of Animal Origin Food (2012) No. 426 - Permits; No. 427 - Phytosanitary Certificates for Export; No. 428 – Sanitary-quarantine Control Rules; No. 429 – Phytosanitary and Veterinary Border Control Rules; No. 430 – Veterinary Certificates for Export.
Membership in SPS-related international organizations	Codex Alimentarius Commission; Food and Agriculture Organization (FAO); World Health Organization (WHO); World Organisation for Animal Health (OIE); International Plant Protection Convention (IPPC); European Commission for the Control of Foot-and-Mouth Disease (EuFMD)
International conventions	WTO Agreement on Sanitary and Phytosanitary Measures; International Convention on the Harmonization of Frontier Controls of Goods; International standards of phytosanitary measures
Import/transit permits for goods subject to phytosanitary and veterinary control issued by	National Food Agency (NFA) Revenue Service (RS)
Types of permits	Transit permit for goods subject to veterinary control; Import permit for goods subject to veterinary control; Import permit for goods subject to phytosanitary control; and In case of transit, providing permit is not mandatory

Source: Information provided by the authorities.

3.137. The National Service of Food Safety, Veterinary and Plant Protection (established in 2006) was transformed into the National Food Agency (NFA) in 2010. The NFA provides food and feed safety and quality assurance, carries out state control over hygiene, veterinary-sanitary and phytosanitary rules and requirements, and conducts risk management and communication tasks.[42] To measure the risk of processing establishments, the NFA and the Ministry of Agriculture (MOA) prepared risk ranking tools, and the FBOs (food/feed business operators) are prioritised according to the level of risk identified.[43]

3.138. Some research found that the incidence of food-borne diseases continued to increase after 2009, which may be attributed to a lack of food safety control.[44] The NFA elaborated an Annual Control Plan of Food/Feed Business Operators (FBOs), who are responsible for food safety and quality. The NFA is the only authority that can inspect FBOs. The authorities stated that the number of NFA staff increased between 2013 and 2014 when capacity-building programmes were strengthened. As a result, the number of FBOs inspected by the NFA increased threefold from 2013 to 2014, and the number of both follow-up inspections and sanctions imposed increased significantly.

3.139. The Ministry of Agriculture sets food-safety policy and standards, and the Ministry of Health and Social Affairs contributes by defining parameters of food safety for human health. In 2010, the Government adopted a comprehensive SPS strategy (Decree No. 1756), which was later amended by Decree No. 783 in May 2014. According to the amendment, nearly 90 SPS regulations in food safety, veterinary and plant protection are to be implemented in 2015, and the main framework for the development of Georgian legislation is the list adopted according to the DCFTA requirements.

[42] Risk assessment is conducted by the Scientific Research Centre of the MOA.
[43] FAO, *Eastern Europe and Central Asia Agro-Industry Development Country Brief – Georgia*, online information viewed at: http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/AI_briefs/AI_breiefs2012/fao_georgia.pdf.
[44] Food safety paper: *Food Safety in Georgia*, viewed online at: http://www.eastagri.org/meetings/docs/meeting93/Booklet_eng_web.pdf.

3.140. Imports of animals and animal products must be accompanied by a veterinary certificate issued in the country of origin. Imports of plants and plant products must be accompanied by a phytosanitary certificate. For food of animal origin, the veterinary/health certificate is required. The NFA is responsible for issuing import/transit permits for goods subject to phytosanitary and veterinary controls.

3.141. Border inspection is conducted by the Revenue Service, and is free of charge. The standard processing time is not defined, while the normal time for documentary, identity and physical checks ranges from 20 minutes to five days in the case of laboratory analysis. If a consignment is found to be not in conformity with Georgian SPS requirements, the goods are: prohibited from being imported into Georgia; subject to treatment, sorting, packing replacement if such actions preclude the identified risk; subject to destruction; or subject to suspension.

3.142. Live animals and animal products intended for import into Georgia must be subject to inspection at the border for: documentary check; identity verification; physical examination (in case of suspicion, or in accordance with the monitoring plan); and a clinical test for live animals. Veterinary control does not extend to: personal belongings of diplomats, diplomatic mail and consular pouch; goods imported by mail or by passengers in baggage or hand luggage within certain limits; goods imported as a sample, and/or imported in small quantities for exhibition purposes and not intended for human consumption; or in cases of movement of goods in order to eliminate the consequences of force majeure.

3.143. Plants and plant products intended for import into Georgia must be subject to: documentary check; identity check; plant health control; and sampling for local inspection or laboratory analysis. Plants and plant products subject to phytosanitary control must be accompanied by a phytosanitary certificate issued by the quarantine authority of the exporting country, and in cases required by Georgian legislation, the consignment intended for import must be accompanied by an import permit issued by the National Food Agency and the Revenue Service. Infested or infected shipments that cannot be disinfected are returned to the country of origin or destroyed with the owner's consent.

3.144. In March 2015, Georgia notified its Law on Live GMOs, which was adopted in September 2014.[45] The notification makes reference to the Constitution of Georgia, and to the Cartagena Protocol on LMOs. The Law was prepared according to EU practices. The authorities indicated that Georgia is in the process of notifying its SPS enquiry point to the WTO.

3.145. Georgia does not have mutual recognition agreements (MRA) with other countries with respect to quarantine requirements on plants and plant products, animals and animal products, or import requirements for food products.

3.146. Pesticide management is governed by the Food/Feed, Veterinary and Plant Protection Code, and the Law on Pesticides and Agrochemicals, in accordance with the Rotterdam Convention, the Stockholm Convention, the Basel Convention, and the Montreal Convention, as well as the FAO International Code of Conduct on the distribution and use of pesticides.[46] Institutions involved include: the Ministry of Environment Protection and Natural Resources, the Ministry of Labour, Health and Social Affairs, and research institutions. According to the authorities, the registration process is harmonized with Annex I of the 91/414 EEC Directive.

3.147. Before 13 September 2014, it was not mandatory for exporters to provide phytosanitary or veterinary certificates, unless requested by the importing country. In accordance with the amendments to Government Resolutions No. 426 and No. 430, from 13 September 2014, exporters must submit the phytosanitary and/or veterinary certificates of their exports if the goods are subject to phytosanitary/veterinary control.

3.148. Exports of Georgian agricultural products were banned from entering the Russian market as of 2006. The export bans were lifted on a number of agricultural products in 2013, including on wine and mineral waters.

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[45] WTO document, G/SPS/N/GEO/23, 9 March 2015.

[46] Pesticide Registration in Georgia, online information viewed at: http://www.ceureg.com/17/docs/presentations/V_3_Asmat%20Buachidze%20-%20Eka%20Tsankashvili.pdf.

3.149. The inspection procedure for domestically-produced food products is regulated under the Code on Food/Feed Safety, Veterinary and Plant Protection and relevant secondary legislation. The NFA has the right to verify documents and enter and inspect premises to check their hygiene conditions. The NFA issues recommendations, and imposes fines in case of non-compliance or if corrections are not made. The NFA may stop production or recall products from the market. The NFA implements inspection of domestic products intended for human consumption and feed. All premises handling food of animal origin are currently inspected once per year, and slaughterhouses and dairy productions are inspected twice a year. Follow-up non-planned inspections may be carried out. The NFA and the MOA rank the risks according to the CODEX guidelines, and the type of production, processing capacities, and inspection history. Companies with International Organization for Standardization and Hazard Analysis and Critical Control Points (HACCP) certificates are inspected less frequently.[47]

3.150. During the review period (up to 4 August 2015), no trade concern was raised in the SPS Committee with regard to Georgia.[48]

3.151. Georgia signed several RTAs covering SPS-related issues. In accordance with Chapter 4 of the DCFTA, both the EU and Georgia are committed to: ensuring full transparency of SPS measures; approximating the Georgian regulatory system to that of the EU; further implementing the principles of the Agreement on the Application of Sanitary and Phytosanitary Measures of the WTO; and conducting other actions related to trade and to the protection of public, animal and plant health. In accordance with the FTA with Turkey, both parties agree: not to apply their SPS regulations as an arbitrary or unjustifiable discrimination or a disguised restriction on trade between them; apply their SPS measures within the rules and procedures of the GATT 1994 and the other relevant WTO agreements.

3.4.5 Competition policy and price controls

3.4.5.1 Competition policy

3.152. Both the legislative and the institutional framework on competition policy have been changed significantly during the review period.

3.153. Reform of competition policy was considered one of the priority areas for the successful completion of the negotiations between Georgia and the EU on the DCFTA. In accordance with these requirements, the Government approved the Comprehensive Strategy on Competition Policy in 2010. Also in the framework of the DCFTA, the Law on Free Trade and Competition was adopted on 8 May 2012. It was renamed as the Law on Competition following amendments passed by the Parliament on 21 March 2014. Major differences between the Law on Competition, and the Law on Free Trade and Competition are listed in Table 3.16.

Table 3.16 Major differences between the Law on Free Trade and Competition, and the Law on Competition

Law on Free Trade and Competition	Law on Competition
Did not apply to the markets where commodity turnover did not exceed 0.25% of GDP (Article 1(4)(f)). There was a risk that competition legislation did not apply to markets such as salt and matches.	Applies to all sectors of the economy, except those with sectoral regulators, and those with *de minimis* agreements.
Did not apply to:	**Does not apply to:**
- horizontal agreements if the aggregate market share of the parties did not exceed 25%;	- horizontal agreements if the aggregate market share of parties does not exceed 10%;
- vertical agreements if the aggregate market share of the parties did not exceed 40%.	- vertical agreements if the market share of each party does not exceed 15%;
- if the contract involves both horizontal and vertical agreements (it was difficult to identify if the agreement was a horizontal or a vertical one), and	- the agreement made among economic agents containing characteristics of horizontal and vertical agreements, whereby it is difficult to classify it as a

[47] FAO, *Eastern Europe and Central Asia Agro-Industry Development Country Brief – Georgia*, online information viewed at: http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/AI_briefs/AI_breiefs2012/fao_georgia.pdf.

[48] WTO SPS online information: http://spsims.wto.org/web/pages/search/stc/Search.aspx.

Law on Free Trade and Competition	Law on Competition
the parties' aggregate market share did not exceed 40% (Article 8);	horizontal or a vertical agreement, and market share on the relevant market of each party to the agreement does not exceed 10%. (Article 8 (c)).
Allowed the competent agency to deal with anti-competitive activities only in some pre-determined sectors.	Allows the competent agency to conduct investigations either on the basis of submitted applications/complaints or at its own initiatives.
Did not cover unfair competition	Chapter II(1) covers unfair competition
Fines were linked to profits of the past year; if there was no profit in the past year, fines were linked to the turnover	Fines linked to turnover, as per the EU's practice.

Source: Information provided by the authorities.

3.154. The Law on Competition regulates anti-competitive agreements, abuse of dominant position and mergers (Table 3.17). The Law applies to all production, commerce and service activities in Georgia except those sectors where the Sector Regulators are operating. The Law applies to all enterprises including SOEs.

Table 3.17 Key characteristics of the Law on Competition

Subject	Exceptions
Anti-competitive agreements:	
The Law bans any explicit or implicit agreements that would restrict competition	*De Minimis* agreements are exempted from this ban, provided that they do not fix prices, share markets, or set agreed terms of tender. Agreements of minor importance are those where: (a) aggregate market share of the parties to a horizontal agreement does not exceed 10%; (b) market share of each party to a vertical agreement does not exceed 15%; (c) the agreement among economic agents contains characteristics of both horizontal and vertical agreements whereby it is difficult to classify it as a horizontal or a vertical agreement, and the market share of each party does not exceed 10%.
Abuse of dominant position:	
The Law prevents enterprises with a dominant position in the domestic market from abusing their dominance to limit competition	Dominant position is defined as the status in which the economic agents may substantially influence the general market conditions and restrict competition. If no other evidence exists, the economic agent/agents is not regarded as having dominant position if his/their market share does not exceed 40%. Each of the two or more agents is regarded as having dominant position if he is not subject to any significant competition from the other economic agent, regarding sources of their raw materials and limited availability of their products market, market entry barriers and other factors and in addition: (a) aggregate market share of no more than 3 economic agents is more than 50% and market share of each of them is no less than 15%; (b) aggregate market share of no more than 5 most significant economic agents is more than 80% and market share of each of them is no less than 15%.
Abuse of dominant position includes: • imposing unfair purchase or selling prices; • limiting production, markets or technical development to the prejudice of consumers; • applying dissimilar conditions to equivalent transactions with other trading parties and thus placing them at a competitive disadvantage; • making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which have no connection with the subject of such contracts, etc.	The Law does not establish cases of exemption from abuse of dominant position; however, it should be noted that in general, an economic agent having the dominant position on the market is not violating the Law, but only abuse of dominant position can be punished.
Mergers and acquisitions are subject to monitoring	
Concentration is subject to preliminary written notification to the agency if the involved economic agents meet one of the following conditions:	Exceptions are: (a) merger of the economic agents with the market power less than the limit established by Section 1 of

Subject	Exceptions
(a) joint annual turnover in Georgia exceeds GEL 20 million, and annual turnover of at least two members of concentration from each economic agent exceeds GEL 5 million; (b) joint value of operating assets in Georgia exceeds GEL 10 million and value of operating assets in Georgia of at least two members of concentration from each economic agent exceeds GEL 4 million.	Article 111 of this Law takes place; (b) concentration results from insolvency and is provided in accordance with the procedures specified by the Law on Insolvency Proceedings, and in the process of liquidation, with the exception of cases where the competing enterprise or group, to which the competitors of the insolvent enterprise belong, gains control; (c) control is gained temporarily to secure the loan, provided that the rights gained through ownership of the assets are not exercised, with the exception of the right of disposal; (d) concentration applies to the participants of the interdependent persons; (e) financial institution purchases, with its own or client's funds, the participation interests or shares in the other enterprise and gains control over it temporarily or purchases assets for their further disposal, in the ordinary course of its business, provided that this transaction is made within one calendar year, from the date of their purchase/gaining control over them; in addition: such institution has no rights with respect to ownership of the shares or participation interests, with the exception of rights on dividends; such institution uses the rights for preparing the establishment of the enterprise, its assets or shares and participation interests for preparing for sale, in full or in part.
Unfair competition practices are prohibited	
For the purposes of this Article, any action of an economic agent that contradicts the norms of business ethics and infringes the interests of competitors and consumers is regarded as unfair competition, in particular: (a) transfer of information by any means of communication (including through improper, unfair, unreliable or apparently false advertising), misleading consumers and stimulating him/her to perform certain economic actions; (b) concealing the actual purpose of the deal for the purpose of misleading a party and thus gaining advantages in competition; (c) undermining the competitor's business reputation (formation of improper impression on the enterprise, products, entrepreneurial or trade activities); (d) misappropriation of the competitor's or third person's form of goods, their packaging or appearance; (e) gaining, using or disseminating scientific-technological, production or trade information or commercial secrets without consent of their owner; (f) subordination of the buyer, supplier, employee or person with decision-making authorities to act against the interests of their employee or neglecting consumers' interests; (g) call for boycott.	Exceptions not prescribed by the Law.

Source: Information provided by the authorities.

3.155. Two by-laws of the Law on Competition were adopted before 1 September 2014: the Small Amounts of Individual State Aid and General Procedure for Granting State Aid, which, *inter alia*, ensures non-discrimination and transparency of the procedures for granting state aid; and the Exceptions from Prohibition of Competition Restrictive Agreements, which defines exemptions from the agreements that restrict competition in the relevant markets.

3.156. Another five by-laws were passed by the order of the Chairman of the Competition Agency before 1 October 2014:

- Procedure for extending the leniency programme and benefiting from exemption from liability;
- Methodological instructions of market analysis;

- Rules for submission and consideration of concentration notification;
- Rules and procedures for case investigation;
- Forms of applications and complaints, rules for their submission and procedures and deadlines related to the admissibility of the application and complaint.

3.157. The Free Trade and Competition Agency had been merged with the State Procurement Agency between 2012 and 2014, when it was renamed as the Competition and State Procurement Agency. From March 2014, according to the Law on Competition, the Competition and State Procurement Agency was split into the Competition Agency, and the State Procurement Agency. In accordance with the Comprehensive Strategy, the Competition Agency is the single authority responsible for competition enforcement in all sectors of the economy, except those sectors possessing sector regulators such as the National Communications Commission (on telecommunications), the National Bank of Georgia (on financial services), and the National Energy and Water Supply Regulatory Commission (on electricity, natural gas, water, etc.). The cooperation between the Competition Agency and the sectoral regulators is regulated under the Law on Competition.

3.158. The Competition Agency has become a member of the International Competition Network (ICN) since 29 October 2014. According to the authorities, Georgia has become a member of the Sofia Competition Forum (SCF), whose members are: Albania; Bosnia-Herzegovina; Bulgaria; Croatia; Kosovo; Montenegro; the Former Yugoslav Republic of Macedonia; Serbia; and the UNCTAD.

3.159. The Competition Agency completed investigations of the following five cases:

a. on the possible violation of Article 10 of the Competition Law, on the inadmissibility of competition distortion by the State authorities, authorities of the autonomous republic and local self-government authorities – violation was confirmed, and recommendations given;

b. on the alleged abuse of dominant position of the JSC "Balneoservice" on thermal mineral water markets in Tskaltudo – violation not confirmed, and recommendations issued to improve the competitive environment on the relevant market;

c. the Georgian Trans Expedition Ltd. - violation of Article 10 confirmed, and relevant recommendations issued to the Revenue Service;

d. merger applications by Limited Liability Company (LLC) “Heidelbergcement Georgia” of the LLC “Tbilcement Group” – merger was found to fall into the allowed limits of concentration, and was in compliance with anticompetitive legislation;

e. due to high public interest, the Competition Agency conducted investigations of the fuel market on its own initiative. The Agency found: violation of Article 7 on diesel and fuel markets from 2008 to 2014. Infringement constituted intended price fixing and market quantitative sharing practices by five major market players in cooperation with three economic agents, as well as creating artificial entry barriers by the five major players between 2010 and 2012. Two major players were also found to set price margins through their franchising licences given to 23 small economic agents. The Competition Agency imposed fines up to a total of GEL 55 million on eight major economic agents, and a symbolic fine of GEL 200 for each of the franchise agents.

3.160. The Competition Agency commenced investigations on its own initiative into the following anti-competitive cases: oil terminals' activities in the Black Sea ports, and the possible abuse of dominant position of the "Batumi Oil Terminal"; and the wheat and grain products producer association "Globalagro". The Agency also commenced investigation of anti-competitive cases based on complaints or applications on: the "Consumers Rights Protection Society", the "Georgian Trans Expedition Ltd.", the "Globalagro" (the wheat and grain products producer association), the "Intertechnics" Ltd, the "Tbilservice Group", , and the merger application submitted by the JSC "Medical Corporation Evex" .

3.161. In addition, the Competition Agency conducted a survey in accordance with problems raised by economic agents, in the areas of audit services, accounting and financial services, and state procurement of cars.

3.4.5.2 Price controls

3.162. According to the authorities, prices are determined by the market in Georgia, except for the prices of communications, water and energy supply, and of municipal services such as the subway and other public transport.

3.163. The Georgian National Communications Commission, based on analysis of relevant markets (subject to ex ante regulations), identifies significant market power operators. The GNCC may define specific obligations including price controls for such operators.

3.164. In accordance with the Law on Electricity and Natural Gas, the Georgian Energy and Water Supply Regulatory Commission (GNERC) is authorized to set and regulate tariffs for electricity (since 1997), natural gas (since 1999), and water (since 2007) (Table 3.18).

Table 3.18 Prices set by the GNERC

	The Commission sets and regulates the following prices:	Deregulated prices:
Electricity	Tariffs for electricity generation, transmission, dispatch, distribution and pass-through, import and consumption, market operator (Electricity System Commercial Operator (ESCO)) services, and for guaranteed capacity.	Small hydropower plants (HPP) (up to 13 mw) and power plants constructed after 2008 are deregulated.
Natural gas	Tariffs for natural gas transportation, supply (only the household category), distribution, pass-through and consumption (only the household category).	Supply and consumption tariffs for non-household consumers are deregulated.
Water	Drinking water supply and waste-water treatment tariffs.	

Source: Information provided by the authorities.

3.165. According to the Law on Electricity and Natural Gas, subsidies are not allowed in the electricity and natural gas sectors. Subsidies are allowed in the water supply sector, thus water supply tariffs set by the GNERC for household consumers are subsidized at the expense of non-household tariffs.

3.4.6 State-owned enterprises, privatization, and state trading arrangements

3.4.6.1 State-owned enterprises

3.166. State-owned enterprises are regulated under the Civil Code of Georgia, the Law on State Property, the Law on Entrepreneurs, the Law on State Procurement, and various government decrees. The State Property Agency (SPA) is responsible for the privatization of SOEs, the selling of non-agricultural land and property, and the renting of agricultural land belonging to the state. The SPA estimates that land/property sales have generated annual revenues of GEL 100 million in the past decade. Regarding SOEs, 256 are owned by the SPA, of which only 69 are functioning. By 1 January 2014, these SOEs contributed to about 1% of GDP, and employed about 0.8% of the workforce. A selection of large SOEs owned by the SPA is listed in Table 3.19.

Table 3.19 Selection of large SOEs owned by the State Property Agency

(US$ million)

Name/ operation	Total asset value	Activity	Operating revenue	Operating profit
Marabda-Kartsakhi Railway	1,017	Railway construction	..	12
Georgian Union of Airports	184	All airports in Georgia	15	3
Tbilaviamsheni	179	Metallurgy plant	22.9	3.5
Georgian Post	88	Postal services	53	0.9
Sakaeronavigatsia	115	Air transition	55	7.5
Georgian Tele-Radio Centre	26.6	Radio and television services	4.7	0.15

Name/ operation	Total asset value	Activity	Operating revenue	Operating profit
National High Technology Centre of Georgia	5	Isotope separation, isotopes of compounds and clean materials manufacturing	2	0.13

.. Not available.

Source: Information provided by the authorities.

3.167. The state retains a controlling interest in air traffic control, shipping traffic control, railroad control systems, defence and weapons industries, and nuclear energy. Only the state may issue currency, banknotes, and certificates for goods made from precious metals, import narcotics for medical purposes, and produce control systems for the energy sector.[49]

3.168. In 2011, a Partnership Fund (a sovereign fund) was created on the basis of consolidating the ownership of the largest SOEs operating in transportation, energy and infrastructure sectors.[50] With a total asset of more than GEL 5 billion and capital of GEL 2.4 billion, the Partnership Fund has 100% of shares of the Georgian Railways, Georgian Oil and Gas Corporation (GOGC), Georgian State Electrosystem, and Electricity System Commercial Operator (ESCO). It also has 24.5% of the shares of JSC Telasi. The Fund is chaired by the Prime Minister, and was established to facilitate foreign investment in new projects by providing co-financing. The participation of the Fund in each project is limited to minority share (up to 50%). Energy, agriculture, manufacturing, real estate, tourism and logistics, and infrastructure sectors are on the priority list of the Fund, as these sectors are largely untapped and have the great potential for further development.

3.4.6.2 Privatization

3.169. The Government has privatized the majority of the largest formerly state-owned enterprises in the country. Successful privatization projects include major deals in energy generation and distribution, telecommunications, water utilities, port facilities, and real estate assets. A list of entities available to be privatized can be found on the website www.nasp.gov.ge, or www.privatization.ge.

3.170. Privatization was conducted mainly in three forms: auction; direct sale (including direct sale on a competitive basis); and free transfer of title of the property. Privatization through direct sale is an exceptional form used only in cases where investors are making significant investment. According to the authorities, property's initial selling price generally equal to market price and is determined by an independent expert.

3.171. According to the authorities, during the privatization process, foreign companies have equal treatment as domestic companies in purchasing the shares of SOEs, except as regards the purchase of agricultural lands.

3.172. Regarding gains from the privatization process, 7% (which includes the 18% VAT) goes to the State Property Agency in charge of the privatization process, while 93% is exempt from VAT and is transferred to the budget.

3.4.6.3 State trading arrangement

3.173. Georgia notified that from 2003 to 2013, it did not maintain any state trading enterprises in accordance with Article XVII:4(a) of the GATT 1994.[51] According to the authorities, Georgia does not maintain any state trading enterprises.

[49] U.S. Department of State (2013).
[50] Partnership Fund online information, viewed at: http://www.fund.ge/eng/home/.
[51] Latest notification by Georgia contained in WTO document, G/STR/N/15/GEO, 3 February 2014.

3.4.7 Protection of intellectual property rights

3.4.7.1 Overview

3.174. Georgia ratified a number of international conventions related to IP rights, and made amendments to its IP legislation during the review period. Its IP legislation is still being amended; in 2014, new amendments to IPR laws on trademarks, patents, designs, copyrights and neighbouring rights were drafted in accordance with the DCFTA and are under interagency procedures (Table 3.20). The authorities stated that Georgia's IPR legislation is fully aligned with the TRIPs Agreement.

Table 3.20 IPR legislative framework, and international conventions ratified by Georgia

Date of accession	Multilateral agreements joined by Georgia
25 December 1991	Convention establishing the WIPO
25 December 1991	Paris Convention for the Protection of Industrial Property
25 December 1991	Patent Cooperation Treaty
16 May 1995	Berne Convention for the Protection of Literacy and Artistic Works
20 August 1998	Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks
4 June 1999	Agreement on Measures for Prevention and Repression of use of False Trademarks and Geographical Indications (CIS)
4 June 1999	Agreement on Mutual Ensuring of Interstate Secrets Safety in the Field of Legal Protection of Inventions (CIS)
14 June 2000	Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement)
6 March 2002	WIPO Copyright Treaty
20 May 2002	WIPO Performances and Phonograms Treaty
28 Feb 2003	Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks
1 August 2003	Hague Agreement Concerning the International Registration of Industrial Designs
23 December 2003	Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs
23 September 2004	Lisbon Agreement for the Protection of Appellations of Origin and their International Registration
14 August 2004	Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations
30 September 2005	Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure
29 October 2008	International Convention for the Protection of New Varieties of Plants (UPOV Convention)
Year of adoption or amendments	**IPR related legislation**
1999	Law on Topographies of Integrated Circuits
Most recently amended in 2010	Patent Law
Most recently amended in 2010	Trademark Law
2010	Law on Design
2010	Law on Protection of Animal Breeds and Plant Varieties
Most recently amended in 2011	Law on Appellations of Origin and Geographical Indications of Goods
Most recently amended in 2013	Law on Copyright and Neighbouring Rights
2013	Law on Border Measures Related to Intellectual Property
Year of adoption or last amendment	**IPR enforcement related legislation also includes:**
1997	Civil Procedural Code
2005	Criminal Code
2010	Code of Administrative Offences
Institutions	**Institutional framework**
Sakpatenti	Determines the policy in the field of intellectual property. Registering IP rights.
Revenue Service	Registering IPR at the border, enforcing IPR protection at the border.
Ministry of Internal Affairs, Financial Police	Enforcing IPR protection within the country.

Source: WIPO online information. Viewed at: http://www.wipo.int. EU online information on the "Protection of Intellectual Property Rights (IPR) in Georgia", viewed at: http://www.gca.ge/uploads/files/leaflet_on_IRP_protection_-_FINAL-EN.pdf. UNDP Georgia (2010), *Study on Counterfeiting and Piracy in Georgia*, June, Georgia. Viewed at: http://www.undp.org.ge/files/24_1046_187891_counterfeiting-piracy-eng.pdf.

3.175. Georgia has bilateral agreements concerning IPR-related issues with: Armenia, Azerbaijan, the EU, Kazakhstan, Russian Federation, Turkmenistan, Ukraine, and Uzbekistan. Sakpatenti also signed Memoranda of Understanding concerning IP-related issues with more than 40 organizations and national IP offices.

3.176. Georgia has brought its IPR legislation into line with international standards, but enforcement and raising public awareness are challenging issues, which the Government is making efforts to improve (section 3.4.7.7). The Georgian National Intellectual Property Centre (Sakpatenti) remains the agency formulating and implementing IPR-related policies. It deals with all IP rights, including patents, copyrights and neighbouring rights, trademarks, and new plant and animal varieties. The Revenue Service is responsible for enforcing IPR at the border, while the Ministry of Internal Affairs and the Financial Police are responsible for enforcing IPR within the country.

3.177. In order to obtain IPRs in Georgia, applicants must register their IP objects (except copyrights) at Sakpatenti. For enforcement of IP rights at the border, IPR owners must register their objects at the register of the Revenue Service. Therefore a right-holder (except for copyright) needs to provide the Revenue Service information about his protected IP objects from Sakpatenti's register.

3.178. The Revenue Service has a one-month period in which to decide to register or refuse the registration of an IP object. Decisions of the Revenue Service may be appealed to the superior authorities: the Ministry of Finance, or the Administrative Panel of Tbilisi Civil Court.

3.179. The information provided by the right-holder will define the risk profile of the object. According to a UNDP study, the number of registrations was growing at a rather slow pace and right-holders did not seem to be aware of the importance of their cooperation with the Revenue Service to determine the risk profile of their products. The authorities stated that in recent years the situation has improved significantly: there are 450 IP objects registered with the Revenue Service and this number is continuing to grow. The Revenue Service is dedicated to raising the awareness of right-holders to increase the number of registrations for customs action.

3.180. The Law on Border Measures Relating to Intellectual Property allows parallel imports, except for objects protected by copyrights and related rights.

3.4.7.2 Patents

3.181. According to the authorities, fundamental changes were introduced to the Patent Law through its amendments in 2010. The amendments include mainly:

- Criteria of patentability: substantive examination includes the assessment of an inventive step (in addition to novelty). Sakpatenti, after considering the examiner's proposal, decides on examination of an inventive step, on the basis of which Sakpatenti decides on granting a patent;[52]

- Rules and terms of conducting patent examination: examination of inventions, and re-examination of the patent were introduced. Re-examination may be performed upon the request of the interested party within the term of patent validity, on the grounds that an invention does not meet the patentability criteria;

- Functions and competences of the Chamber of Appeals of Sakpatenti: the Chamber of Appeals considers disputes arising in connection with examination of industrial property objects and the Sakpatenti; and

- Introduction of the concept of supplementary protection certificate, which allows a maximum five-year extension of the protection of patents for medical products, with the purpose of harmonizing with EU Regulation 1768/92 of 1992.

[52] Before 2010, substantive examination was only conducted on novelty, not the inventive steps.

3.182. Protection of rights related to patents (inventions and utility models) can be acquired by: filling an international application under the Patent Cooperation Treaty (international procedure), or filling an application directly at Sakpatenti (national procedure) (Table 3.21). The number of patent applications, and the number of patents granted, both dropped significantly during the review period. The authorities considered two reasons for this: the increased fees for patent applications between 2010 and 2014, and the global financial crisis which reduced the number of patent applications. To encourage patent applications, in December 2014 Sakpatenti issued a decree to reduce the patent application fee by 70% for higher education institutions and scientific and research entities, and is trying to organize international innovation fairs in Georgia. The average time for a patent to be granted is about 2-3 years. The Patent Law protects inventions for 20 years, and utility models for 10 years. Patentability requirements for utility models and inventions are the same. However, utility models are characterized by lesser inventive steps compared to inventions.

3.183. According to the authorities, the process of the adoption of Paragraph 6 of the Doha Declaration is to be considered under the upcoming amendments to the Georgian IP legislation. The current version of the Patent Law does not provide compulsory licensing. Accordingly there are no applications for granting of compulsory licences.

3.184. The Patent Law contains limitations on the exclusive rights of a patent holder to ensure the fair use of patents: according to Article 52, the use of invention in the case of natural disaster, catastrophe, epidemic or other emergency situations is not considered as a violation of exclusive rights. The authorities stated that upcoming amendments of the Patent Law foresee the re-introduction of compulsory licensing.

3.185. In August 2009, the Law on Drugs and Pharmaceutical Activities was amended. The Law protects the confidentiality of market authorization for pharmaceuticals and applications from a non-reliance perspective. It is prohibited to spread the scientific-technical information on pharmaceutical products which was presented by the supplier to the administrative authority during the registration process, or use such information for the registration of another product.

Table 3.21 Patent applications and patents granted, 2009-14

	2009	2010	2011	2012	2013	2014
Inventions	474	362	398	372	333	297
Domestic	256	183	138	137	114	110
Foreign	32	17	15	16	20	8
International	186	162	245	219	199	179
Utility models	107	60	78	49	65	51
Domestic	106	59	70	48	63	50
Foreign	1	1	6	1	1	1
International	0	0	2	0	1	0
Industrial designs	271	233	n.a.	n.a.	n.a.	n.a.
Domestic	49	39	n.a.	n.a.	n.a.	n.a.
Foreign	18	8	n.a.	n.a.	n.a.	n.a.
International	204	186	n.a.	n.a.	n.a.	n.a.
Granted	651	497	290	405	329	254

n.a. Not applicable.

Note Up until 2010, issues connected with the protection of industrial designs had been regulated by the Patent law of Georgia. Since 2010, designs are taken out from patent protection and are subject to the Georgian Design Law of 2010.

Source: Information provided by the authorities.

3.4.7.3 Designs

3.186. In 2010 the Parliament passed the Design Law. The protection of industrial designs was then shifted from the Patent Law to the Design Law. A design is protected if it is new and has an individual character. Right-holders are granted five years of protection, which can be renewed for one or more periods of five years, up to a total of 25 years from the date of filling the application.

3.187. In accordance with the DCFTA, the Design Law is to be amended, and provisions for effective enforcement of design owners' rights are to be introduced. In 2014 Georgia proposed amendments to the Design Law to bring it into conformity with the DCFTA, focusing on general procedural issues and clarification of enforcement measures.

3.188. Designs must be registered to be protected (Table 3.22), either through a national procedure – with the Sakpatenti - or an international procedure, as Georgia joined the Hague Agreement in 2003.

Table 3.22 Design applications and designs granted, 2009-14

	2009	2010	2011	2012	2013	2014
Designs	n.a.	n.a.	236	244	310	305
Domestic	n.a.	n.a.	39	44	39	43
Foreign	n.a.	n.a.	7	12	10	5
International	n.a.	n.a.	190	188	261	257
Granted	n.a.	n.a.	225	223	247	281

n.a. Not applicable.

Source: Information provided by the authorities.

3.4.7.4 Copyrights and neighbouring rights

3.189. The Law on Copyrights and Neighbouring Rights was most recently amended in 2010.[53] The amendments were made to bring Georgian copyright legislation in line with the requirements specified in the DCFTA, and cover mainly the granting of additional terms of protection to right-holders, the determination and specification of new adequate provisional measures for protection and perfection of authors rights, related right-owners and database producer rights. Georgia is planning new amendments to its copyright legislation to be aligned with the DCFTA.

3.190. Copyright protection is valid from the creation of a work, for the duration of the author's life, plus 70 years after his/her death. Copyright on a work, which was published or made available to the public as an anonymous or pseudonymous work, is protected for 70 years after the work is lawfully disclosed. Copyright on a work of joint authorship is protected for the life of each co-author and for 70 years from the death of the last surviving author. Where a work is published in volumes, parts, issues or episodes, the term of protection is for each such item separately. Copyright of a composite work and a derivative work, is protected for 70 years from the time when the works were lawfully published or made available to the public for the first time, and from the date of its creation (if a work has not been published or made available to the public). Copyright on an audiovisual work expires 70 years after the death of the last surviving author (co-authors). Economic right of the person who lawfully published or made available to the public a work which was not published or made available to the public previously, is protected for 25 years from the time when the work was first lawfully published or lawfully made available to the public.

3.191. Copyright does not need to be registered. Sakpatenti has a system for the voluntary deposition for protected subject matters of copyright. Table 3.23 contains data regarding the deposition of copyright and related right works at Sakpatenti.

Table 3.23 Copyrights and related rights, 2009-14

	2009	2010	2011	2012	2013	2014
Copyrights	487	538	496	459	393	499

Source: Information provided by the authorities.

3.192. There are no special units to tackle internet piracy in Georgia. Only a collective management society, "Georgian Authors Society", takes care of authors' rights on the internet. In case of discovering piracy, right-holders may appeal to courts.

[53] Law on Copyrights and Neighbouring Rights, online information viewed at: http://www.sakpatenti.org.ge/index.php?lang_id=ENG&sec_id=15.

3.4.7.5 Trademarks

3.193. On 28 June 2010, amendments were made to the Trademark Law. The amendments provided for an accelerated procedure for the registration of trademarks. Trademarks must be registered on the basis of formal and substantive examination carried out by Sakpatenti. Sakpatenti conducts substantive examination of trademarks on absolute and relative grounds for refusal. Before registration, Sakpatenti publishes relevant data in the Official Bulletin of Industrial Property. After three months from publication, if no appeal concerning this trademark is filed with the Chamber of Appeal of Sakpatenti, the trademark is registered. The exclusive right of a trademark-holder comes into force on the day of the registration of the trademark. It takes approximately 10 months to register a trademark under the common procedure, and 10 business days under an accelerated procedure. Registered trademarks are protected for 10 years, and the 10-year term can be renewed indefinitely for additional periods of ten years.

3.194. In addition to filing a trademark application directly with Sakpatenti, the applicant may also register it through an international procedure following the Protocol Relating to the Agreement Concerning the International Registration of Marks - the Madrid Protocol (Table 3.24).

Table 3.24 Trademark applications and trademarks granted, 2009-14

	2009	2010	2011	2012	2013	2014
Trademarks	4,432	4,321	4,863	4,564	5,104	4,825
Domestic	623	675	838	754	805	913
Foreign	597	706	752	659	842	782
International	3,212	2,940	3,273	3,151	3,457	3,130
Granted	5,253	4,280	4,054	3,518	4,154	4,097

Source: Information provided by the authorities.

3.195. Well-known trademarks are protected without registration under Article 6*bis* of the Paris Convention.

3.196. In accordance with the DCFTA, the Trademark Law is to be amended further, to contain provisions on the determination and specification of new adequate provisional measures for effective enforcement of trademark right-holders. New amendments intend to further harmonize Georgian legislation with that of the EU. In case of infringement, the right-holder will be able to request seizure and destruction of infringing goods, destruction of all associated images and published materials on the internet, and all technical devices used for producing infringing objects. The law will also stipulate the legal mechanisms for defining the amount of damages and reimbursement of monetary compensation.

3.4.7.6 Some other IP rights

3.197. New varieties of plants and breeds of animals are protected under the Law on Protection of Animal Breeds and Plant Varieties. Difficulties for Georgia in registering and protecting new varieties of plants and animals derive from the absence of competent laboratories. The UPOV allows member countries to use laboratories from other members of the Convention.

3.198. The Law on Appellations of Origin and Geographical Indications of Goods came into effect in 2005. According to the authorities, this legislation protects all products equally, as subordinate legislation is available for all products since 2014.

3.199. The Law on Topographies of Integrated Circuits was enacted in 1999. Since then, no amendment has been made.

3.4.7.7 Enforcement

3.200. In addition to legislation on various IP rights, enforcement of IPRs is also under the Civil Procedural Code, the Criminal Code, the Administrative Offences Code, and the Law on Border Measures Relating to Intellectual Property. The Civil Procedural Code stipulates that courts may order a party to desist from an infringement. The Criminal Code and the Administrative Offences Code provide for liability in case of infringement of intellectual property rights. Penalties range from a fine, to detention or imprisonment.

3.201. The Law on Border Measures Relating to Intellectual Property establishes the rules for enforcement at the border of the rights of trademarks, copyrights and neighbouring rights, rights of database producers, design rights, and rights on appellation of origin and geographical indications of goods. It does not include patents.

3.202. The Law on Border Measures Relating to Intellectual Property provides no ex officio power to any agency. Under the Law, a special register is established at the Revenue Service, where the interested right-holder may register trademark, subject-matter of copyright and neighbouring rights, database, design, appellation of origin or geographical indication and declare the information necessary for identification of goods. Once the registration process is completed, the Revenue Service is obliged to seize unauthorized importation/exportation of objects, only if an application for action has been lodged by the right holder or his/her legal representative. Goods may be detained or suspended from release for no more than 10 business days, which may be prolonged for another 10 days. Perishable goods may be seized for no more than six business days, which cannot be prolonged. After the suspension, the right-holder may file a law suit against the importer on the condition that he submits a bank guarantee or deposit for protection. The counterfeited goods are then destructed by the Revenue Service.

3.203. Sakpatenti, along with other government institutions, organizes various activities for raising awareness among IP right-holders, business representatives, lawyers and other target groups in Georgia. In December 2014 Sakpatenti, in cooperation with relevant governmental bodies, created an IPR Enforcement Interagency Coordination Body, which deals with IPR enforcement issues, including implementation of border measures. It also created an IP Training Centre, and has been improving IPR enforcement through publications, training sessions for judges, various materials distributed free of charge, and databases available online to external users.

3.204. The Sakpatenti Action Plan for 2015-18 identified a number of areas for future work to improve the awareness of IP rights, including the plan to establish an IP education centre, train IP examiners, continue amending IP-related legislation, promote innovative activities such as offering assistance to R&D projects, and promote a geographical indication system in Georgia for its agricultural products. Another area for future work identified by the Plan is the preparation of an IP strategy to assess the current IP protection situation, identify areas for improvement, and define short- and long-term activities to improve the IP system.

3.205. The Revenue Service uses risk analysis to determine which goods, including means of transport, must be examined, and the extent of the examination. The selection module compares each electronic declaration to the examination criteria and selects those that match the criteria for one of the following customs controls: red, yellow, blue, and green channels. When importers indicate their commodity code in the declaration, which is identical to some IP object code registered in Georgia, and if the importer/exporter does not mention the name of the trade mark, the Revenue Service will automatically detect the commodity and subject it to physical control. The risk modules are being updated and improved periodically. After finding the suspicious goods, the Revenue Service may suspend these goods, immediately notify the right-holder or his representative and hand over the specimen for inspection. Where the right-holder confirms that the suspended goods are counterfeit, he may apply to the court and request reimbursement of damages, and destruction of the goods.

3.206. The number of cases handled by the Revenue Service has generally been increasing during the review period, from 14 in 2011 to 50 in 2013, falling to 44 in 2014 (30 cases for the first half of 2015). Among the 44 cases in 2014, more than half (25 cases) were destructed, about one quarter (12 cases) released, and the remaining ones initiated to courts (7 cases). Main products concerned include household appliances, and mobile phones and accessories. The value of destroyed goods dropped from GEL 62,633 in 2013 to GEL 40,343 in 2014, then increased to GEL 63,977 in the first half of 2015.

4 TRADE POLICIES BY SECTOR

4.1 Agriculture, forestry and fisheries

4.1. In the agricultural sector, government intervention is limited and prices are liberalized with low tariffs across commodities and agricultural inputs. Productivity levels in primary agriculture remain well below potential. The privatization of agro-processing has made some progress but owners need to improve efficiency and upgrade hygiene and quality standards in order to become internationally competitive. Georgia's economic development strategy (*Georgia 2020*) notes that in order to increase the export potential of the country's agricultural products, food safety and the veterinary and phytosanitary systems will be developed in accordance with international and European norms through gradual implementation of obligations under the DCFTA.

4.1.1 Agriculture

4.1.1.1 Overview

4.2. Georgia has favourable natural conditions (such as fertile soil and good climate) for production of a wide variety of agricultural products. Despite this, the share of agriculture in GDP has been declining, as have sown areas. The country has had a trade deficit in agricultural products for many years (Table 4.1, Chart 4.1 and Table A4. 1). The agricultural sector employs about half of the labour force; although this shows that it provides an important safety net for the rural population, it also demonstrates the low labour productivity of the sector and the subsistence nature of Georgian farming. The share of agriculture in GDP began to rise in 2013, reflecting the Government's renewed interest in and increased support provided to this sector.

Table 4.1 Sown area, share of agriculture in GDP, and trade performance

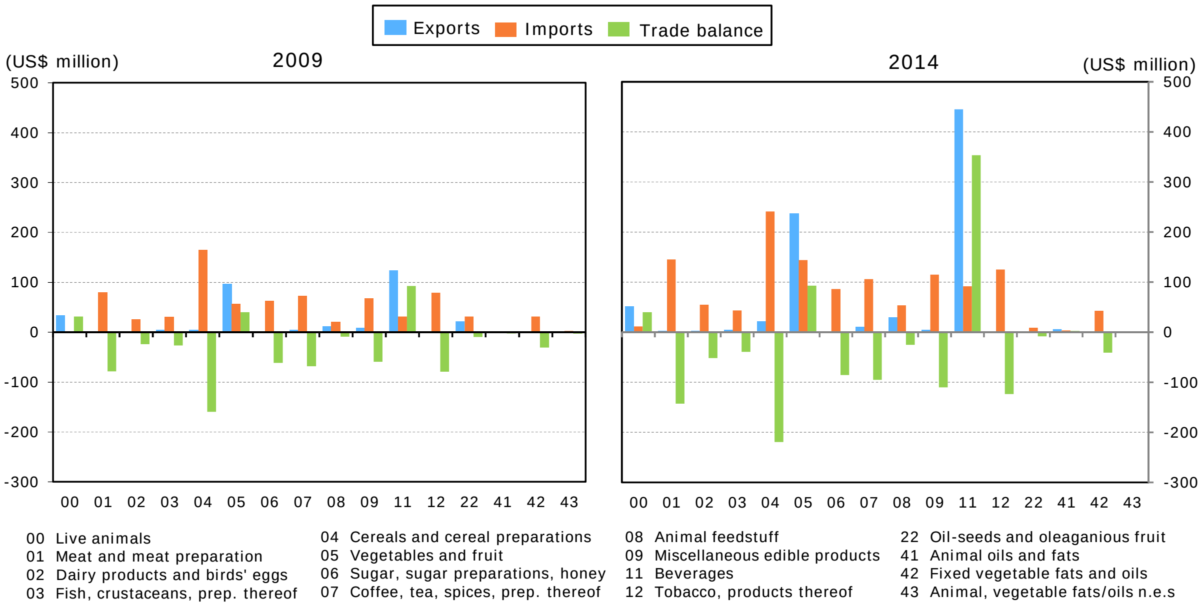
Year	Sown areas as a percentage of the 1990 level (%)	Share of agriculture in GDP (%)	Exports (US$ million)	Imports (US$ million)	Trade balance (US$ million)
1990	100.0	31.6	n.a.	n.a.	n.a.
1996	64.5	34.1	61.9	246.4	-184.5
2000	87.0	21.9	85.8	122.2	-36.4
2005	76.9	16.7	294.6	316.4	-21.8
2009	41.3	9.4	313.7	778.6	-464.9
2010	36.6	8.4	344.1	938.8	-594.7
2011	37.4	8.8	434.2	1,160.5	-726.3
2012	37.0	8.6	510.7	1,239.3	-728.6
2013	44.3	9.4	772.1	1,255.3	-483.2
2014	45.4	9.2	822.4	1,272.9	-450.5

n.a. Not applicable. Trade data is available only from 1995.

Note: 1990: 100% = 701,900 ha. The first TPR of Georgia contains information on the deteriorating agriculture sector prior to 2007 (WTO document, WT/TPR/S/224, 3 November 2009).

Source: GeoStat, WTO Secretariat calculations, and information provided by the authorities.

Chart 4.1 Trade in food, by Sitc rev.3 classification, 2009 and 2014



Source: UNSD, Comtrade database.

4.3. More than 40% of Georgia's territory is designated as agricultural land (including pastures and meadows). Main crops in Georgia include cereals, leguminous crops, vegetables, melons and gourds, potato, grapes, subtropical crops, and fruits. The value of total agricultural output in 2014 was GEL 3.4 billion (US$1.9 billion). Plant growing, animal husbandry, and agricultural services accounted for 44%, 51%, and 5%, respectively (Table 4.2).

Table 4.2 Agricultural output, 2009-14

(%, and GEL million)

	2009	2010	2011	2012	2013	2014[a]
Plant growing	42	42	46	39	44	44
Grains and other crops, which are not included in the other categories	18	13	18	15	15	15
Crops needed for the production of fruit, walnut, drinks and spices	14	15	18	14	19	18
Vegetable, specialized horticulture, and breeding	10	14	11	10	10	11
Animal husbandry	55	55	50	57	52	51
Agricultural services	3	3	4	4	4	5
Total output	**2,072.2**	**2,241.8**	**2,674.0**	**2,807.2**	**3,210.0**	**3,378.1**

a Data for 2014 is preliminary.

Source: Information provided by the authorities.

4.4. Georgia has a trade deficit in agricultural products (WTO definition). Imports of agricultural products represented about 14.8% of total merchandise imports in 2014, the major products being: wheat and meslin (12%), cigarettes (9%), chicken meat (6.7%), and sugar (5%). Main sources of imports are CIS countries (excluding the Russian Federation) (27.5%), followed by the Russian Federation (21.5%), EU-28 (18.9%), Turkey (12.1%), and Brazil (8.4%).

4.5. Exports of agricultural products comprised about 28.7% of total merchandise exports in 2014 led by hazelnuts (22.3%), wine (22%), mineral water (16.7%), and spirits (11.6%). Main export markets are CIS countries (excluding the Russian Federation) (37.7%), the Russian Federation (27%), and EU-28 (26.3%). The Russian Federation traditionally received most of Georgia's exports. Georgia's agricultural exports were banned from entering the Russian market from 2006; the ban was lifted in 2013 on a number of products including wine and mineral water. New

European markets are developing, into which Georgia is exploring expansion of its agricultural exports. The Government implements two programmes: "Production of Georgian Agricultural Products", and "Promotional Measures to Popularize Georgian Wine Products", with an intention to increase the exports of Georgia's agricultural products through participating in local and international exhibitions, developing marketing programmes, and informing representatives and missions abroad of Georgia's agriculture sector.

4.1.1.2 Main structural features

4.6. Development of the agricultural sector faces constraints due to the small size of land plots and thus the lack of economies of scale; shortage of capital and thus lack of machinery; and the underdeveloped agricultural infrastructure. The decline in the agriculture sector consequently resulted in an enlarging rural-urban income gap and the continuation of rural poverty.

4.7. Agriculture is characterized by small landholdings. Small farmers (farmers with less than 5 hectares of land) accounted for 98% of all farmers in 2004 (the latest year for which data are available), typically cultivating around 1 hectare of land with low output. The average farm size was 1.22 hectares in 2004.

4.8. Land reforms began in 1992, and up to 2004, 25% of agricultural land was privatized. During the privatization process, land was distributed to rural households. However, farmers cannot use their land as collateral to expand or improve their holdings, and fragmented holdings increase production costs and hinder achieving economies of scale.

4.9. According to the Law on Privatization of State-owned Agricultural Land, foreign natural persons may not buy land. However, legal entities owned by a foreign citizen and registered in Georgia may purchase land. Georgian legislation does not differentiate between Georgian nationals and foreign citizens on regulations regarding the leasing of agricultural land.

4.10. Banks have been traditionally reluctant to grant loans to farmers, and insurance companies did not wish to insure crops. Lack of capital and resources have prevented farmers from purchasing agricultural machinery to raise productivity. For the same reason, Georgia's agricultural infrastructure, particularly its irrigation and drainage systems, is underdeveloped.[1] A shortage of processing, storage, and logistics facilities for agricultural products affects the performance of the agricultural sector.

4.11. The difficulties in agriculture affect poverty indicators in rural areas: the average annual salary of a farmworker was the equivalent of 64% of the national average in 2013, although this has improved significantly from its 47% level in 2009. The income gap between urban and rural residents remains wide.

4.1.1.3 Agricultural policies and practices

4.12. The Ministry of Agriculture (MOA) is responsible for the administration of agriculture, and other affairs concerning foodstuffs. The Government considers that full utilization of its agricultural potential is vitally important to the economy. Main legislation on agriculture includes: the Law on Agricultural Cooperatives (2013); Code of Food/Feed Safety, Veterinary and Plant Protection (2012); Code of Food Safety and Free Movement of Goods (2012); General Hygienic Rules of Food/Feed Producing Enterprises/Distributers (2010); Rules of Implementation of Supervision, Monitoring and Official Control in the Areas of Food Safety, Veterinary and Plant Protection (2010); and the Special Rules on Hygiene of Food of Animal Origin (2012). Legislation has been issued in 2014 and 2015 concerning SPS and IPR related issues, with an intention to approximate the legislation with the respective EU legislation.

4.13. The MOA elaborated an Agriculture Development Strategy 2015-2020, with a view to creating an environment that capable of increasing competitiveness of the agro-food sector, promoting stable growth of high-quality agricultural production, ensuring food safety and security,

[1] Government of Georgia (2014), p. 32.

and eliminating rural poverty through sustainable development of agriculture and rural areas.[2] The Strategy includes seven major targets:

- improving the competitiveness of the agricultural sector, such as promoting national food products via marketing and other supporting measures[3];
- improving institutional arrangements;
- ameliorating soil fertility;
- supporting regional and sectoral development, by creating a complete cycle for agriculture production and increasing its value added;
- ensuring food security;
- improving food safety, veterinary and plant protection; and
- dealing with climate change, protecting the environment, and maintaining biodiversity.

4.14. Agricultural policy was changed significantly in 2012. Beforehand, agriculture was not viewed as a priority, and government spending on agriculture accounted for only 0.4% and 0.8% of total government spending in 2010 and 2011, respectively (Table 4.3). This share jumped to about 3% in 2012.

Table 4.3 Budget allocations for agriculture, 2009-14

(GEL million)

	2009	2010	2011	2012	2013	2014
Total budgetary allocations	6,754	6,972	7,459	7,807	8,104	9,080
Allocations to the MOA	75	31	58	228	227	264
Share in total budgetary allocations	1.1%	0.4%	0.8%	2.9%	2.8%	3.1%

Source: Ministry of Finance.

4.15. In 2012, the Government declared that agriculture was a top priority and significantly increased financing to the MOA, concentrating on improving infrastructure, purchasing and applying agricultural technologies, implementing assistance projects to small farmers, and diversifying international markets. As an estimated 98% of farmworkers are considered self-employed, the agricultural policy has also been aimed at creating off-farm jobs, and promoting family farming and agri-tourism. Tax incentives are given to the agriculture sector: primary supplies of agricultural products are subject to a zero rate of VAT, and imports of agricultural and other equipment are subject to a zero-rate import tariff.

4.16. In 2012, an Agriculture Development Fund was set up to support the agriculture sector by providing easier access for farmers and producers to low-cost finance. The Fund was renamed in 2013 as the Agricultural Projects Management Agency (APMA). The APMA co-finances the interest payments for loans to the primary agriculture sector: 8% per annum for loans for working capital, and 11% for loans for fixed assets. The APMA also secures 50% of the loan principal for beneficiaries with a letter of guarantee. Between 2013 and 2014, a total of GEL 33 million of subsidized interest payments was provided to farmers. As a result, loans to primary agriculture from commercial banks totalled GEL 861 million as at 27 May 2015.

4.17. The Agro-insurance pilot programme commenced on 1 September 2014, and is subsidized and supported by the Government. This programme has highly increased the insurance penetration percentage and has insured more than 21,000 beneficiaries. The Government is studying how to develop agro-insurance to be more stable and effective for potential beneficiaries.

[2] MOA (2015).

[3] Raising competitiveness of the agricultural sector also includes: expanding knowledge among farmers and extending effective agricultural services; improving the quality of higher education and professional teaching; developing agricultural land markets and implementing modern methods in land use; creating and developing agricultural credit loan and leasing systems; developing agricultural insurance market; improving cooperation in the agriculture sector; and raising the awareness of investment possibilities in agriculture.

4.18. The Law on Agricultural Cooperatives was adopted in 2013, pursuant to which an Agricultural Cooperatives Development Agency was created in October 2014. The Agency conducts information and awareness campaigns on market-oriented cooperatives among small farmers.[4] In 2014, a Scientific Research Centre of the MOA was created to contribute to the development of agriculture and food production. It intends to promote the preservation of animal and plant agro biodiversity; reconstruct the breed selection stations; support animal breeding activities and develop seed/planting material standardization and certification systems; introduce new technologies; provide extension services to farmworkers; conduct risk assessment in food safety, veterinary and plant protection; and support the development of biologically clean agriculture.

4.1.1.3.1 Border measures

4.19. Imports of agricultural products are subject only to tariffs and SPS measures. Georgia bound its tariffs on all products including agricultural products; the simple average of the final bound tariff is 12.4% for agricultural products (WTO definition). The simple average applied MFN tariff rate for agricultural products (WTO definition) fell from 6.9% in 2009 to 6.7% in 2015 (Table 4.4). Specific rates apply to 185 tariff lines at the HS 11-digit level: 4 lines are for vinegar products and the other 181 lines for alcoholic beverages.

Table 4.4 Tariffs by agricultural product group, 2015

(%)

	2015 MFN applied rate			Bound rates		
	Average rate	Maximum rate	Duty free lines	Average rate	Maximum rate	Duty free lines
WTO agricultural products	**6.7**	**70.3**	**40.4**	**12.4**	**70.3**	**6.7**
Animals and products thereof	8.5	12.0	24.8	11.6	12.0	3.4
Dairy products	5.3	12.0	39.5	12.8	25.0	0.0
Fruit, vegetables, and plants	10.0	12.0	16.5	15.3	30.0	0.0
Coffee and tea	5.0	12.0	44.9	11.5	20.0	0.0
Cereals and preparations	6.3	22.6	49.2	13.8	25.0	0.8
Oil seeds, fats, oil and their products	0.1	12.0	99.4	3.2	12.0	71.7
Sugars and confectionary	11.0	12.0	8.2	11.4	12.0	0.0
Beverages, spirits and tobacco	9.7	70.3	4.3	14.2	70.3	0.0
Cotton	0.0	0.0	100.0	8.2	12.0	0.0
Other agricultural products, n.e.s.	0.3	12.0	97.2	10.6	15.0	0.7

Note: Including AVEs, as available, provided by the authorities.

Source: WTO Secretariat calculations, based on data provided by the Georgian authorities.

4.20. Georgia does not apply tariff quotas on any agricultural products.

4.21. According to the authorities, Georgia does not maintain any state-trading arrangement, including on agricultural products.

4.22. Georgia notified that it provided no export subsidies to agricultural products in 2007-2012.[5] The authorities stated that Georgia provided no export subsidies for 2013 and 2014.

4.23. Agricultural products and food items are subject to SPS controls (section 3.4.4). Lack of food safety regulation and supervision capacity makes it difficult for Georgia to export its agricultural products. The authorities stated that the Government is implementing programmes to approximate its legislation with that of the EU over the next 10-15 years.

4.1.1.3.2 Domestic support measures

4.24. According to Georgia's notification, all its domestic support for agriculture falls within the definition of Green Box, i.e. measures exempt from reduction commitments. In 2013, total domestic support reached GEL 427.2 million, equivalent to 1.6% of GDP, 6.4% of total tax

[4] European Commission (2015).
[5] WTO document, G/AG/N/GEO/12, 5 November 2013.

revenue, and 6.4% of total government expenditure (Table 4.5). According to the authorities, this support includes private investment and financing, so it goes beyond the budget allocation to the Ministry of Agriculture (GEL 227 million).

Table 4.5 Domestic support to agriculture, 2009-13

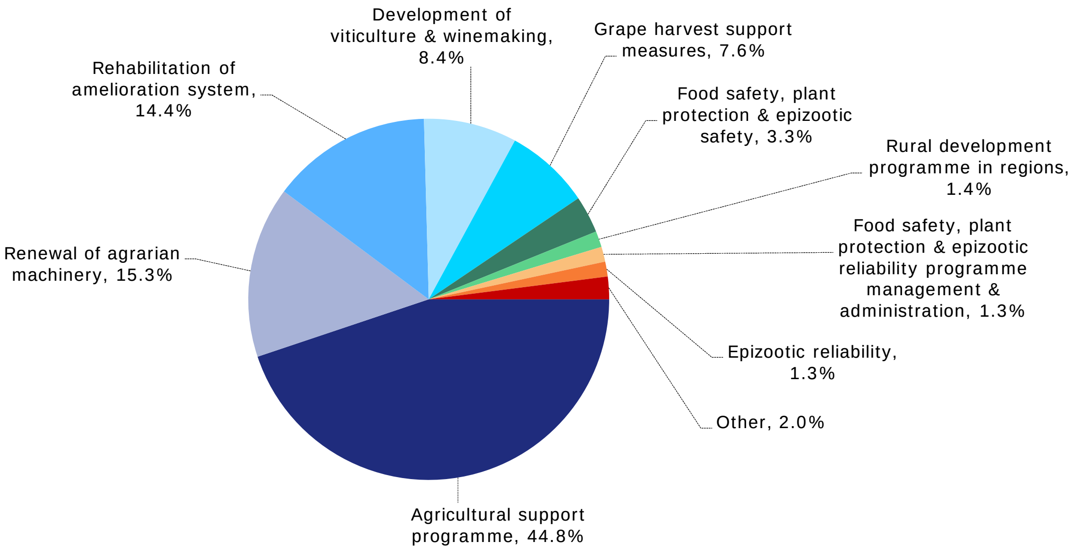
(GEL million and %)

	2009	2010	2011	2012	2013
Total domestic support	**50.9**	**18.1**	**62.9**	**216.3**	**427.2**
Equivalent to GDP (%)	0.3	0.1	0.3	0.8	1.6
Equivalent to total tax revenue (%)	1.2	0.4	1.0	3.2	6.4
Equivalent to total government expenditure (%)	0.9	0.3	1.1	3.3	6.4

Source: WTO Secretariat calculations, based on WTO documents G/AG/N/GEO/13, 8 October 2014; G/AG/N/GEO/11, 5 November 2013; and G/AG/N/GEO/10, 14 February 2013.

4.25. Both the components of the support measures, and their values, have changed significantly since 2012 (Table A4. 2). In 2013, support continued to increase as more emphasis was given to agriculture, in particular in the areas of the agricultural support programme,[6] renewal of agricultural machinery, rehabilitation of amelioration system, development of viticulture and wine making, and protection of food safety (Chart 4.2).

Chart 4.2 Domestic support to agriculture, 2013



Source: WTO document G/AG/N/GEO/13, 8 October 2014.

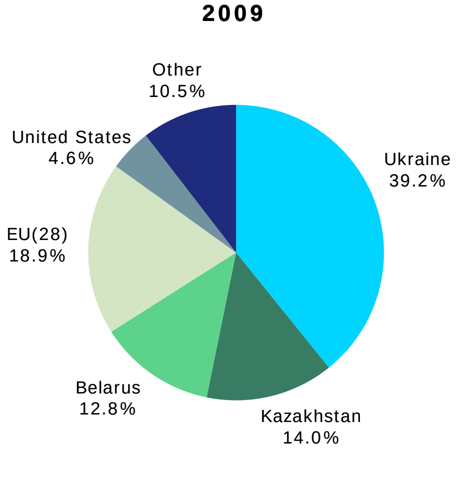
4.1.1.4 Key sub-sectors

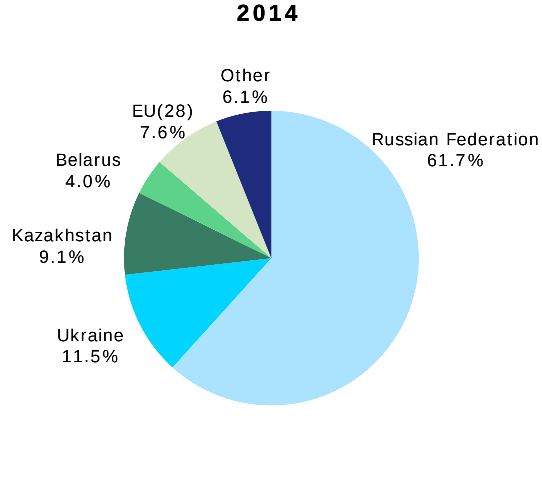
4.1.1.4.1 Wine

4.26. Georgia used to have a strong wine sector with its traditional export market being the Russian Federation. During the period 1995-2005, about 75% of Georgian wine exports were to the Russian Federation. The ban by the Russian Federation between 2006 and 2013 on Georgian wine had a profound impact on Georgian wine exports. The share of wine exports in total wine production dropped from 75% in 2005 to 29% in 2006, and recovered only in 2013 to 36%. The share of wine exports in total merchandise exports fell from 9.4% in 2005 to 4.4% in 2006, and recovered to 6.3% in 2014 after the ban was lifted in 2013. The major export markets, changed during the review period (Chart 4.3).

[6] The agriculture support programme includes, *inter alia*, rural leasing support, full rehabilitation of Lami-Misaktsieli, and irrigation channel systems.

Chart 4.3 Wine exports by destination, 2009 and 2014





Source: UNSD Comtrade dataset, and information provided by the authorities.

4.27. Like other agriculture subsectors, wine is also characterised by small-scale production. Most farmers have a vineyard and produce wine for self-consumption. 92% of grapes produced are used for wine. Some small- and medium-sized farm enterprises sell grapes to commercial wineries. Between 91% and 96% of grapes are grown on family holdings, and they account for around 40% of the volume of all fruits produced in Georgia.[7]

4.28. According to a 2009 Transparency International report on Georgia, the development of the wine sector is hampered by: poor technology and vineyard management, lack of skilled labour, lack of innovation; small investments in R&D and human capital; inefficiencies of grape suppliers; lack of scientific and research institutions and educational facilities; low public awareness of Georgian brands in EU and global markets; low marketing skills and capabilities; small local market; and falsification of known brands in CIS markets.[8] The authorities stated that, during the past two years, the Government had implemented important reforms in the wine sector to increase public awareness of Georgian wine in the global market. Measures adopted include: creating a national cadaster system; operating a Georgian Appellations of Origin registration system in several CIS countries; harmonizing Georgian wine legislation with international regulations; and intensifying marketing activities based on international wine consumption research data and the Georgian Wine Marketing Strategy. The Wine Marketing Strategy was adopted in 2014, with two major goals: achieving a stable growth of the wine sector, and diversifying Georgian wine exports. The authorities promote Georgian wine exports through seminars, exhibitions, and organized wine tastings, the main message of which is that Georgia is the oldest wine country with an 8,000-year history of wine culture and the origin of hundreds of different varieties of grapes and wine, as well as a unique wine-making tradition.

4.29. Wine imports accounted for a tiny share of total merchandise imports (0.03% in 2014) and a small share of domestic consumption (0.3% in 2013). The tariff schedule of wine contains 110 tariff lines (HS 11-digit), all have specific duties:

- sparkling wine: 1.5 euro/litre;
- wine in containers holding 2 litres or less: 0.5 euro/litre; and
- wine in containers holding more than 2 litres: 0.2 euro/litre.

[7] World Bank (2013).
[8] Transparency International Georgia (2009).

4.30. *Ad valorem* equivalents of some non-*ad valorem* tariffs are provided: the AVEs are 11.03% (HS 2204.10), 5.11% (HS 2204.21), and 11.87% (HS 2204.29), with a simple average of 8%. There is no tariff quota on wine imports.

4.31. In accordance with the Georgian Law on Vine and Wine (entered into force in 1998), wines with protected designation of origin are allowed to be exported or imported, but only in bottles. Wine products must receive Appellations of Origin Certification, and therefore are subject to IPR protection. The National Wine Agency, a subordinate body of the Ministry of Agriculture, launched a programme in 2009 to renew vineyards. The Agency provides compensation to volunteers who replace hybrid varieties by new varieties of vineyards.

4.32. In 2013 and 2014, the Government initiated the revision of the Law on Vine and Wine including normative acts in order to harmonize them with OIV (International Organization of Vine and Wine) and other international norms. At the same time, the Ministry of Agriculture launched an "ambitious" project to create a National Vine Cadastre System which will be based on modern software and GPS system. The Government also increased budget allocations for Georgian wine marketing activities in the international market.

4.1.1.4.2 Vegetables, fruits, and nuts (HS Chapters 07, 08)

4.33. As exports of wine declined, hazelnuts and tangerines became the most important agricultural exports. Georgia used to have a strong vegetables, fruits and nuts (VFN) sector, but its situation has deteriorated over the last two decades.[9] Currently, Georgia is a net importer of vegetables and fruits. In 2014, the share of the VFN sector in total agricultural output was 28.7%; in total agriculture added value the share was 29.2%, and in GDP, 2.7%.

4.34. Productivity in the sector is low, mainly due to high labour intensity, low mechanization and commercialization, and limited land use. The development of this subsector faces constraints such as lack of access to agricultural insurance and to affordable long-term financing, and an underdeveloped infrastructure.

4.35. Producers of vegetables, fruits and nuts are predominantly small- and medium-sized farmers cultivating from 3 to 30 hectares of land and selling products in the domestic market. There are fewer than 100 farmers cultivating plots larger than 500 hectares. Production of fruits and vegetables is mainly seasonal as greenhouse production is very small in Georgia, and there is no infrastructure to store products until off-season periods. The lack of cold storage infrastructure leads to seasonal price variability ,rising in peak seasons when local farmers sell their products, and falling in low seasons when Georgia relies on imports.

4.36. The authorities stated that Georgia has clean soil and little reliance on agricultural chemicals. Lack of labelling and certification capacities hinder the development of Georgia's agricultural exports.

4.37. Total exports of vegetables, fruits and nuts in 2014 reached US$215.5 million, or 7.5% of total merchandise exports,. Hazelnuts are by far the most important export product, accounting for 85% of total exports of the VFN sector. Mandarins account for 6%, followed by some other fruits and vegetables including peaches and nectarines, persimmons, oranges and potatoes. Georgia has a trade surplus in nuts, but has a trade deficit in most other agricultural products. Major export markets are: the EU-28 (67.2%), the Russian Federation (8%), and Kazakhstan (7.3%).

4.38. Imports of the VFN sector accounted for 1.3% of total merchandise imports in 2014. Major sources of imports are Turkey (50.9%), Ecuador (18.1%), EU-28 (5.4%), Armenia (5.3%), and Uzbekistan (3.7%).

4.39. The tariff schedule of the VFN sector (HS Chapters 07 and 08) contains 245 tariff lines (HS 11-digit). The simple average tariff rate is 10.8%: 90.2% of the tariff lines are subject to a rate of 12%, and the remaining 9.8% of tariff lines are duty free. Duty-free products include: lettuce,

[9] ECORYS (2012).

some vegetables, coconuts, Brazil nuts, cashew nuts, dates, figs, pineapples, avocados, Guavas, and mangoes. There are no non-*ad valorem* duties, and no tariff quotas.

4.40. VFN products are subject to SPS regulation. Vegetables, fruits and nuts must be accompanied by a phytosanitary certificate issued by the exporting country, and in the case of imports, by an import permit for products of plant origin. According to the authorities, there are no import and/or export prohibitions and restrictions.

4.1.2 Forestry

4.41. Forestry policy is contained in the National Forest Concept for Georgia, adopted by Parliament in December 2013. The Concept applies to all forests in Georgia, irrespective of their ownership and form of management. In accordance with the Concept, the legislative and institutional framework is being revised. The three key institutions under the Ministry of Environment and Natural Resource Protection are:

- the Forest Policy Service, which is responsible for forestry policy-making, including main strategies;
- the National Forestry Agency, which is responsible for the management of forests; and
- the Environmental Supervision Department, which is in charge of supervising activities related to forestry.

4.42. The Government is preparing a new Forestry Code to ensure the protection and sustainable use of forests. The draft law sets out principles for sustainable management of forests,[10] states different forest property schemes, and provides a new approach to forest utilization. The drafting process was facilitated by the World Bank. The authorities stated that the first draft of the Law would be ready by August 2015.

4.43. Occupying about 40% of the territory of Georgia, forests constitute the most valuable natural resource of the country. The forestry sector provides timber for industrial and household use, non-timber resources including medicinal plants, and adds to the potential value of tourism.

4.44. Trade in forestry products must be accompanied by the phytosanitary certificate issued by the exporting country, and in case of import by an import permit for products of plant origin. SPS restrictions apply to:

- isolated bark of *Castanea* Mill, except from European countries;
- isolated bark of *Populus* L., from American countries;
- isolated bark of *Acer saccharum* and *Quercus* L. (other than *Quercus suber*), from Canada, Mexico and the United States;
- *Pinus* spp, *picea abies*, *tsuga*, *Pseudotsuga* (conifers), round wood, wooden material, cut branches and planting material, from Canada, Mexico and the United States; and
- *Populus* spp., *Juglans* planting material, round wood, wooden products, from Canada and the United States.

4.45. The tariff schedule of HS Chapter 44 for wood and articles of wood and wood charcoal contains 167 tariff lines at the HS 11-digit level. The simple average tariff rate is 7.5%: 105 tariff lines are subject to a rate of 12%, and the remaining 62 tariff lines are duty free.

[10] Sustainable management of forests is the guiding principle of the Concept, meaning "the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfill now and in the future, relevant ecological, economic and social functions at local, national, and global levels, and that does not cause damage to other ecosystems".

4.46. Georgia exported US$21.8 million of wood and wood articles and wood charcoal in 2014, accounting for 0.3% of total merchandise exports. Major export destinations are Armenia (45%), EU-28 (21%), Iran (18.6%), and Turkey (10.6%). Georgia has a trade deficit in forestry products, importing US$107 million of wood and wood articles and wood charcoal in 2014. Major sources of imports are: Turkey (41.5%), China (27.4%), the EU-28 (16.2%), Ukraine (9.4%), and the Russian Federation (2.9%).

4.47. According to the authorities, in 2013, the share of forestry exports in total production was 6.6%, while the share of imports in domestic consumption was 2.6%.

4.48. The authorities stated that several programmes are being conducted, on sustainable management of biodiversity and forestry, as well as on controlling illegal activities in the forestry sector. Financial support comes from the Georgian Government, and partner and donor organizations from Austria, Finland, Germany, the EU, and international organizations such as GEF (Global Environment Facility)/UNEP (United Nations Environment Programme), and the UNECE/FAO. Besides, two Memoranda of Understanding (MOU) were signed, between the Ministry of Environment and Natural Resources Protection of Georgia, National Forest Agency, and their counterparts in Austria and Germany on the forest sector reform and development programmes.

4.1.3 Fisheries

4.49. There is no legislation on fishing; fishery regulatory issues are included in different bylaws. Both Georgian fishing vessels, and Turkish vessels hired by Georgian companies, conduct fishing in Georgian waters.

4.50. Fishing and marketing are under the responsibility of the Ministry of Agriculture. In particular, the National Food Agency (NFA) is in charge of food safety, veterinary health, hygiene, fishing industry and aquaculture. The Department of Agriculture and Food is in charge of the development of fish-breeding issues.

4.51. The Ministry of Environment and Natural Resources Protection is also in charge of various fishery issues. The Service of Biodiversity Protection, the Department of Environmental Permits, the Environmental Supervision Department, and the National Environment Agency are all in charge of elaborating management plans, approving fishing quotas, approving and issuing fishing permits, and controlling the implementation of laws, rules and regulations.

4.52. Fishing licences are awarded via an auction system. Fishermen with licences must pay taxes according to the annual approved quotas (before 2010, they paid taxes according to the number of fish caught). The licensees were required to finance the researches for setting quotas.

4.53. In accordance with the conditions listed in the licences, Georgian companies are allowed to hire foreign fishing vessels to cover the annual quotas. During the first five years, the licensees were allowed to process two-thirds of fish caught in Georgia and to export the rest without processing. The licensees are required to deliver 10% of annual quotas to the local small fishing companies. The authorities stated that small local fishing companies comprise the 23 small fishing vessels belonging to small local fishing companies, and 20 Turkish vessels hired by small local companies.

4.54. According to the authorities, the fishing sector is not subsidized by the Government.

4.55. Fishing accounted for about 0.05% of GDP in 2014. The share of exports in total production was 7.1% in 2013. Georgia exported US$26.3 million of fishery products in 2014, accounting for 0.9% of total merchandise exports, with the top export markets being Turkey (85%), Azerbaijan (7%), Armenia (6%), and Turkmenistan (0.8%).

4.56. Georgia also has a trade deficit in fishery products, with an import value of US$44 million. The share of imports in domestic consumption reached 53% in 2013. Major sources of imports are: EU-28 (31.7%), Norway (18.8%), the United States (14.8%), and Viet Nam (4.3%). There are 336 tariff lines on fishery products (HS 11-digit level), all duty free. According to the authorities, there are no SPS/TBT restrictions or prohibitions: the consignment must be accompanied by the veterinary certificate issued by the exporting country and, in case of import, by the import permit for goods subject to veterinary control.

4.57. Sustainable use of fishing resources is the main policy objective of the fishing sector. To reach this objective, proper policy tools including stock assessment, establishing quotas, seasonal bans, fishing gear and area restrictions were applied. The authorities stated that, in accordance with the 2014-2020 National Biodiversity Strategies and Action Plans, the Government is to implement the following activities in the next five years: assessing the ecological consequences of commercial fisheries, monitoring of catches; and further refining of fishing methods.

4.58. The authorities stated that overfishing has not been detected in Georgian waters. Regarding illegal, unreported, unregulated (IUU) fishing, the DCFTA refers to Georgia's responsibility to address IUU fishing-related problems. Relevant measures are being developed.

4.2 Energy

4.59. The energy sector plays a critical role in the Georgian economy. Affordable and reliable energy supply is key for building a competitive and productive economy. Georgia is seeking to develop its energy generation and transmission system to increase electricity trade with neighbouring countries by taking advantage of its abundant and low-cost hydropower resources, of which only an estimated 20% is utilised at present.[11] The Government is focused on securing private investments for the construction of new hydropower stations and diversifying fossil fuel supply sources and routes.

4.60. Natural gas is the main fuel in Georgia's energy mix, accounting for 45% of total primary energy supply. Oil, also a significant fuel in Georgia, represents 27% of the energy supply and coal has had a resurgence with its share in the energy mix increasing from 0.5% in 2002 to 3% in 2012. Georgia has plentiful hydropower resources, which generate more than three-quarters of its electricity requirements. Hydropower represents 17% of total energy supply, having increased by 7% comparing 2012 to 2002 data. The electricity sector in Georgia is partially deregulated and legally unbundled into generation, transmission and distribution companies. Most generation and distribution assets are fully privatized. Hydropower plants provide up to 100% of generation in the summer months, while gas-fired power stations and imports meet peak consumption during the winter months.

4.61. Over the last decade, the Government has transformed the energy sector, ensuring fast growth with improved efficiency. The Government is pursuing two strategic objectives: to ensure continued reliable domestic energy supply for firms and homes; and to facilitate and bolster electricity production from hydropower plants (HPPs) to expand regional electricity trade. Important institutional and regulatory reforms have been initiated to support private investment in energy. Moving towards more energy independence is critical given that energy imports, mainly oil and gas, accounted for around 17% of the total import bill during the review period, a significant contributory factor to the country's large trade deficit.

4.62. The priorities now are to work on: (a) adopting market rules to facilitate trade through compliance with the EU energy regulations applicable to Georgia under the Association Agreement and the Community Treaty; (b) implementing international standards for environmental and social impact assessments and mitigation; (c) strengthening the transmission network capacity to improve reliability and support electricity trade; and (d) creating the conditions for efficient private investment in hydropower and other renewables. Given its geographic location, Georgia remains an important regional transit route for oil and natural gas and can leverage this advantage for electricity trade.

4.2.1 Energy policy

4.63. According to the Asian Development Bank,[12] significant progress has been achieved in energy sector reforms over the past 15 years, which have resulted in increased energy supply

[11] World Bank (2015a), p.9.
[12] ADB (2013).

reliability and lower losses.[13] Regulatory and market reforms - focused on deregulation and privatization, unbundling and tariff adjustments to cost-recovery level - have helped improve service quality and the financial viability of the sector. The energy sector has gone from almost total operational and financial collapse and import dependency to making Georgia a net electricity exporter that provides an affordable, reliable energy service to the Georgian population.

4.64. In 2013, the Government launched a process of developing medium- to long-term energy policy with a strategy to 2020. The policy will be submitted to parliament for approval and the strategy document is under elaboration. Issues under discussion cover*:* longer-term hydropower development dedicated to attracting FDI in the hydropower sector in order to phase out thermal generation and imports; meeting domestic demand in full; expanding electricity exports to neighbouring markets; and assessment of the economic potential of renewable energy development (biomass, solar, wind, geothermal) and elaboration of an appropriate legal and regulatory framework with targeted measures and incentive schemes.

4.65. Until the adoption of the new energy policy, the energy sector in Georgia continues to be guided by the 2006 *Main Directions of State Policy in the Power Sector.* Key policy directions have not changed significantly since 2006. The Georgian Government continues to attribute strategic importance to improving self-sufficiency, reducing import dependency, expanding its electricity export capacity and utilizing its energy transit potential. As such, construction of new large hydropower plants and new transmission lines remain its top priority. It is also continuing co-operation with neighbouring countries to develop regional energy markets, and cooperation in international projects aimed at transportation of Caspian energy resources to EU markets.

4.66. In 2014, the Georgian Government approved the country's Socio-Economic Development Strategy to 2020, (known as *Georgia 2020*). The strategy sets out the main directions of the country's energy sector, among other priorities. *Georgia 2020* notes that expanding Georgia's export market requires integrating the country into the European energy union and implementing the new electricity market model which is expected to create regional trade opportunities and facilitate increased competition.[14] Key energy sector directions include market liberalization, strengthening private sector participation and competition, developing indigenous energy sources (mainly hydro) and increasing energy efficiency. As noted, the strategy stresses the importance of moving to the new 2015 market model and a new electricity trading mechanism (or ETM)[15] both internally and in neighbouring markets.

4.2.2 Energy trade

4.67. Georgia is a net importer of fuels and energy products.[16] The country relies on imports of natural gas, oil products and some hard coal to meet most of its energy needs. Net imports represent 77% of total energy supply, up from 47% in 2002 as Georgia has had to increase its reliance on imports to meet robust demand. Azerbaijan is Georgia's largest trading partner in energy, and is the main source of imports of natural gas and oil. Since 2009, Georgia has imported around 90% of its natural gas and more than 45% of its oil products from Azerbaijan, diversifying its import sources from the Russian Federation. Gas imports are highest during winter months, for heating, and when hydropower capacity for electricity generation falls.

4.68. Georgia exports excess electricity from hydropower and is interconnected with the Russian Federation, Azerbaijan, Armenia and Turkey. The volumes of electricity exports are relatively limited at present (860 MW to Turkey, 860 MW to the Russian Federation, 1200 MW to Azerbaijan, and 150 MW to Armenia) although over the past decade electricity exports have increased by more than fourfold while imports have remained relatively constant. Georgia launched a programme for promoting hydropower generation and expects to increase electricity trade with Turkey in the

[13] According to the ADB, collection rates increased from 20%-40% in 1999 to 95% in 2011 and transmission system losses decreased from 16% in 2002 to 2% in 2012.

[14] Government of Georgia (2014), p.37.

[15] The ETM is a basic trading platform for making competitively priced sales across international borders.

[16] OECD (2015).

coming years.[17] It is also in discussions with Armenia and Azerbaijan to trade electricity with Turkey via Georgia.

4.69. In 2014, the Georgian Government started working on a new *Georgian Electricity Market Model* aimed at boosting hydropower generation to allow increased electricity exports to Turkey and eventually other European markets. The Georgian electricity market model and electricity trade mechanism will be implemented progressively from 2018 to encourage private sector investment in hydropower generation, allowing the country to boost its exports. The model is based on EU electricity markets. Key features include: cross-border transmission capacity rights for Georgian exports to Turkey; regional competitive electricity markets; and electricity transit from neighbouring countries to Turkey and on to South-Eastern Europe. The model includes spot power trading and rules for non-discriminatory market access. The eventual goal is for Georgian hydropower producers to have access to European buyers that have varying obligations to purchase electricity from renewable sources.

4.70. Regarding gas, Georgia privatized its gas distribution companies as well as some large licensed importers which consume gas for industrial purposes. While the gas sector is liberalized, competition in the sector is limited as the state-owned Georgian Oil and Gas Corporation (GOCGC) maintains control over the import of gas. The oil products distribution sector is open to competition and a number of regional players participate in the market.

4.2.3 Transit

4.71. Due to its geographic location, Georgia acts as a transit country for the import-export and transit operations of energy carriers in the Caucasus region. Georgia is connected by gas pipelines to Armenia, Azerbaijan, the Russian Federation and Turkey. It is also connected by an oil pipeline to Azerbaijan and Turkey. Georgia imports natural gas from Azerbaijan and the Russian Federation and it transits gas to Armenia and Turkey. Georgia imports oil for transit to European countries.

4.72. The Baku-Tbilisi-Ceyhan (BTC) pipeline transports crude oil from Azerbaijan via Georgia to Turkey's Mediterranean port of Ceyhan. From there the oil is shipped to world markets via tankers. The Western Route Export Pipeline (WREP) transports crude oil from offshore oil fields in the Caspian Sea (belonging to Azerbaijan) to Supsa (Georgia) on the Black Sea, where it continues to European markets via tankers. Gas imports from Azerbaijan are via the South Caucasus Pipeline (SCP), which transports gas from the Shah Deniz field paralleling the route of the BTC crude oil pipeline from Azerbaijan through Georgia to Turkey.

4.2.4 Regulatory framework

4.73. The Ministry of Energy[18] carries out state policy in the energy sector and is in charge of national energy policy development and implementation. The Government of Georgia also manages national energy companies and the privatization of energy assets. One of its main tasks is to create a competitive energy market. Other responsibilities include energy efficiency policy developments and energy research, development and deployment policies. The Ministry has completed work on the new energy policy document, which is due to be presented to the parliament for approval.

4.74. The Ministry of Environment and Natural Resources Protection governs sustainable resource development and environmental protection, and develops national policies and strategies on environmental and natural resource protection.

4.75. The Georgian National Energy and Water Supply Regulatory Commission (GNERC) is an independent energy and water supply regulator, established in 1997. The Commission's main source of finance is the regulatory payment made by the licensees, importers, service providers

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[17] The newly built Akhaltsikhe-Borchkha (A-B) transmission line started to operate in 2013 and currently its transmission capacity is 700 MW. According to the 10-Year Network Development Plan prepared by the Georgian State ElectroSystem, the A-B transmission line will increase capacity up to 1400 MW by 2025. Currently, this line is used for export from Georgia and transit from Armenia and Azerbaijan.

[18] According to the Law on Amendments to the Law of Georgia on the Structure, Powers and Order of Activity of the Government of Georgia (2013), the Ministry of Energy and Natural Resources of Georgia underwent reorganization and became the Ministry of Energy.

and electricity market operator (ESCO). GNERC's responsibilities include: licensing for electricity generation, transmission, distribution and dispatch; licensing for natural gas transportation and distribution; regulation of electricity generation, transmission, distribution and end-user tariffs; dispute resolution; billing, reporting and fee-paying service development; and the promotion of local resources. GNERC also sets caps on wholesale prices for existing plants based on their costs. Changes to the Electricity and Natural Gas Law in 2007 transferred some of the key functions of the regulator (i.e. approval of market rules) to the Ministry of Energy, which limits the ability of this independent body to exercise its rights and obligations as it is practised in European markets, thus weakening its position as an independent regulator.[19]

4.76. The electricity sector is mostly privately owned and nearly fully liberalized. Only transmission, dispatch and the largest hydropower plant Enguri are owned by the State, whereas all the other generation and distribution assets are privately owned. Newly constructed small hydro plants with installed capacity of less than 13 MW are deregulated. Bundled ownership of generation and distribution assets is allowed. The Georgian authorities expect that the electricity sector will be opened by 2017-2020.

4.77. There has been a substantial reduction in network losses since 2006, the authorities stating that total electricity system losses in 2014 amounted to 7.3% of output. According to the Law on Electricity and Natural Gas, subsidies are not permitted for any licensee, importer, market operator, supplier or consumer in the electricity and natural gas sectors. The law also defines the scope and authority of the Ministry of Energy and GNERC. The Ministry is responsible for approving the following: electricity (capacity) balance; natural gas balance; electricity (capacity) market rules; natural gas market rules; rules of operation, arrangement and use of energy facilities and other technical equipment in the power sector; and the 10-year transmission network development plan of Georgia. The GNERC approves: the Charter of the Commission; rules and procedures of administrative proceedings; procedural rules for consideration of disputes; the amount of the regulatory fee and its calculation methodology; licensing rules; supply and consumption rules; the tariff methodology; tariffs (including marginal tariffs); the volume of normative losses and rule for their calculation; and the Grid Code.

4.78. The Law on Electricity and Natural Gas of 1997 (with 2005 and 2007 amendments) is the principal piece of energy legislation in Georgia. Amendments include the establishment of the responsibilities of an independent energy regulatory authority, wholesale electricity market rules, third-party access for electricity and gas networks, unbundling of generation, transmission, distribution and retail activities. Secondary legislation comprises different statutory acts such as government resolutions, ministers' orders and GNERC's resolutions and includes the Electricity Supply and Consumption Rules and the Electricity (Capacity) Market Rules (2006, amended in 2010), and the Transmission Grid Code for the electricity sector which outline electricity and natural gas tariff methodology, and retail market and power supply market conditions. The latest amendments to the Law on Electricity and Natural Gas are the market rules for the new Energy Market Model, providing a legal framework for the electricity sector's new structure.

4.3 Manufacturing

4.79. In 2014, the manufacturing sector accounted for around 10.6% of GDP and 14.8% of employment. The largest industries are food and beverages and metal products. Exports have grown from US$1.1 billion in 2009 to US$2.9 billion in 2014, mostly due to mining, agrochemicals (fertilizers), metal products, food processing (such as wine, mineral water and nuts), construction materials and equipment and refurbished passenger vehicles.

4.80. The sector is liberalized and open to international trade. Significant progress has been made in the large-scale privatization of state-owned enterprises, the combatting of corruption, simplification of the tax code and improvement in administrative procedures for starting and licensing a business. As a result the sector attracted a large amount of FDI, before the crisis in 2008, which has resulted in improved productivity.

4.81. The free industrial zone (FIZ) regime was introduced in 2008, incorporating new incentives and opportunities to process, produce and export goods as preferential tax treatment applies to

[19] EBRD (2013b), p.34.

companies operating in the zones, including exemption from corporate profit tax, property taxes, import taxes and VAT (Box 4.1 and section 3.3.5).

4.82. According to the Law on Free Industrial Zones, FIZs may be established by government initiative or upon request by a physical person or legal entity (organizer). There are currently four FIZs in Georgia:

- Kutaisi FIZ (established in 2009 and dedicated to trading and services, heavy industries, warehousing and storage, and manufacturing activities);
- Poti FIZ, also established in 2009 and currently developing state-of-the-art business centres, industries and logistics parks;
- Kulevi, established in 2012;
- Kutaisi's Hualing established in 2015.

Box 4.1 Free Industrial Zones

In general, creation of free industrial zones is focused on the development and acceleration of the country's economic growth. Liberal tax regimes and simplified administrative procedures are applied to FIZs, thereby increasing the country's investment potential, which is important for rapid economic development. The growth of FDI stimulates the economy and leads to increased economic activities, which, in turn, have a positive impact on overall economic development of the country. FDI growth is accompanied by a rising inflow of new/modern technologies, which in turn, increases employment opportunities, as well as the demand for a qualified workforce. This stimulates people's willingness to receive modern education and qualifications. Development of export-oriented production is important for export growth and diversification and for diminishing the country's external vulnerabilities. Development of free industrial zones is important for regional development and growth of well-being for the local population (as zones are created in regions). Development of enterprises in the FIZ will have a positive influence on the cargo transportation volume and intensity growth, which with in turn have a positive impact on the country's economic development (as in the transport and other service sectors).

Source: Georgian authorities.

4.83. In connection with the introduction of FIZs, the Georgian Tax Code was amended to provide for three new types of entity: the FIZ international enterprise; the free warehouse enterprise; and the international finance company. In 2011, the tax legislation was amended to abolish free warehouse enterprises and to introduce special trading companies (STC), which are enterprises conducting their activities in warehouses that have been granted STC status for corporate income tax exemption purposes.

4.84. International enterprises (IE) were, up to 2012, companies operating in one of the free industrial zones (FIZ). In 2012, a decision was made to abolish the status of international enterprise and replace it with the free industrial zone enterprise (FIZE). The reason for the change was that, according to the Georgian tax legislation, IE status holders faced several restrictions while running a business on the territory of free industrial zones, such as limitations on importing or exporting a great number of goods or rendering several types of services. Free industrial zone enterprises on the other hand are allowed to import and export any type of good. Enterprises operating on the territory of a FIZ are exempt from: corporate income tax; VAT; import tax; property tax and the obligation to withhold personal income tax on salaries paid to employees.

4.85. Special trading companies (STCs) are entities that carry out operations in a warehouse that holds a permit to conduct warehouse activities and are entitled to: re-export foreign goods; supply foreign goods to STCs and other entities; and re-export and/or supply foreign goods purchased from companies without STC status, so long as the re-export is made at a price that is not less than the invoice value. STCs must comply with the restrictions set out in the Georgian Tax Code related to allowed activities. In particular, they are not allowed to carry out the following activities:

- importing goods to the territory of Georgia, other than imports of the fixed assets of this company;
- purchasing goods from within Georgia for the purpose of re-supplying them; and

- delivering services to Georgian enterprises, sole proprietors or foreign enterprises permanently established in Georgia.

4.86. STCs are exempt from corporate income tax. Therefore, they are a good choice for companies wishing to use Georgia as their distribution hub from which to supply the region. According to the authorities, the success of the STC scheme can be measured by the number of STC status holders; currently, around 65 companies have STC status.

4.87. According to several studies, Georgia offers a friendly business environment, competitive labour costs, attractive trade and tax regimes, low electricity costs and convenient trade logistics and transportation routes. As a result, apparel production and exports have picked up in recent years from low levels (Box 4.2), due in considerable part to Turkish firms that are using Georgia as a low-cost production location.[20]

Box 4.2 Export potential of the textile sector

While Georgia was well known for its high quality silk and wool blend fabrics under the Soviet Union, the textile industry faced a major crisis after 1991 and re-emerged in 2004. Attracted by its skilled and low-cost labour, cheap land, low energy costs and preferential access to the EU market, several European brands outsourced their production to Georgia and some Turkish companies established plants in the Adjara region, at the border with Turkey.

The apparel/textile industry is one of the fastest growing sectors of the Georgian economy. In 2014, annual turnover increased 12-fold. In the period 2003-2014, the number of employed people in the apparel and textile sector increased by 65%. Georgia has a high potential for apparel export. Apparel exports increased 7.6-fold from 2006 to 2014, from US$11.8 million to US$89.8 million. The main export markets are: Turkey, CIS (including the Russian Federation) and the EU.

The transition from GSP + status to DCFTA status with the EU is expected to further stimulate the development of the industry. In order to fully unleash the potential of the textile industry in terms of value creation, Georgia aims to develop the manufacturing of inputs as well as higher value products. To facilitate textile production and export, the government offers the following investment incentives:

- Under the Government programme "Produce in Georgia", apparel factories are eligible to participate in a loan subsidy programme for expansion or creation purposes. Beneficiaries can use a technical assistance component of the programme, to meet company needs.
- Enterprise Georgia is supporting apparel companies by: organizing incoming trade missions, twice a year, in the context of Tbilisi Fashion Week; and organizing (starting from 2016) participation of Georgian apparel factories in international trade fairs.

Source: Information provided by Georgian authorities.

4.88. In the medium term, export competitiveness needs to improve. The share of merchandise exports in GDP was only about 24% on average during the review period. While there has been growth in exports in absolute terms, an analysis of the composition and dynamics of the export basket reveals significant weaknesses: (i) loss of market share in key markets and products; (ii) stagnant and low product sophistication and quality for the country's level of development; and (iii) lack of product diversification with scrap metal, re-export of used cars, wine and processed food, water and tourism dominating exports.

4.89. However, underlying problems have persisted during the review period. As the authorities point out, Georgia's exports are less diverse and sophisticated than the country's level of development suggests.[21] Goods produced in Georgia score low on added value, with currently only the processing industry being relatively developed, which is linked to local agricultural production. Raw materials dominate the country's exports, and the rate of market diversification and that of new market penetration by manufactured products remain low. For the authorities, problems concerning technological sophistication and innovation are the main reason for low diversification and limited access to new markets. As was the case at the time of the previous review, Georgia requires improvements to regulatory policies to support innovation in key tradeable activities to increase exports in existing products and diversify private sector production and exports.

[20] World Bank (2013).

[21] Government of Georgia (2014), p.24. This seems to be the main document serving as a policy framework for private sector/SME development. Viewed at: http://www.adb.org/sites/default/files/linked-documents/cps-geo-2014-2018-sd-01.pdf.

4.90. To support the private sector, two new agencies - the Entrepreneurship Development Agency (EDA) and the Innovation and Technology Agency - were established under the Ministry of Economy and Sustainable Development in 2014. They aim to promote entrepreneurship by improving access to finance, entrepreneurial learning, consultancy services and export promotion and innovation and by supporting adaptation to DCFTA requirements. The EDA will, *inter alia*, inform entrepreneurs about potential export markets and requirements existing in those markets, and supply international markets with information on products and services offered by Georgia. Georgia has listed the establishment of the EDA as a priority need in the process of implementing the DCFTA Action Plan 2014-2017.

4.4 Trade in Services

4.91. As noted in the previous review, Georgia took GATS commitments in 119 out of 160 services sectors. It scheduled commitments in a large number of sectors, making full commitments in most of them, though mode 4 remains largely "unbound". Under the GATS, Georgia has scheduled horizontal market access exemptions in relation to privatization and mode 4 for persons responsible for establishment of a commercial presence, salespersons and intra-corporate transferees. Under national treatment, Georgia has horizontal reservations on subsidies (modes 1, 2 and 3), and real estate (mode 3). The other horizontal reservation listed by Georgia under the GATS refers to movement of natural persons (mode 4).

4.92. Georgia's MFN exemptions under the DCFTA are in connection with subsidies, privatization and real estate. Georgia's commitments under the DCFTA are similar to those under the GATS, though the horizontal limitations on the purchase of real estate remain.

4.93. Table 4.6, identifies some of the main differences by sector between Georgia's GATS schedule and its sector commitments under the DCFTA:

- Telecommunication services Georgia's commitments are improved, as compared to its GATS commitments, through full commitments, including for establishment. Similarly, as audio-visual services are excluded under the DCFTA, Georgia undertakes no commitments in this subsector, in contrast to its commitments under the GATS.

- Construction services: full commitments are made under the DCFTA as in the GATS, with the exception of a reservation (mode 3) that not less than 50% of the entire staff must be Georgian citizens.

- Financial services: Georgia gives a full mode 3 commitment (broader than GATS), with the sole exception of "other financial services".

- Health services sector: full commitments are made, with only a reservation for the Georgian language for doctors working in Georgia. Under the GATS and DCFTA, there are no commitments for "other health related and social services".

- Recreational and cultural services: except for obligations with respect to other recreational, cultural and sporting services, both under the DCFTA and under GATS, full commitments are made in most of the rest of the sector.

- Transport services: under the GATS Georgia has partial commitments which are improved under the DCFTA. In relation to air transport services (as compared to the GATS commitments), Georgia's coverage is expanded under the DCFTA through the inclusion of ground handling services and airport operation services, for which commitments are made without restriction.

Table 4.6 Georgia: comparison between the GATS and the AA/DCFTA specific commitments in trade in services

Sectors (CPC Classification)	GATS	FTA sectoral commitments, except as indicated in Annex XIV (horizontal reservations)			
		Cross-border supply in services (modes 1 and 2) (Annex XIV-F) (Annex XIV-F) Positive list		Establishment (Annex XIV-E) (mode 3) Negative list	
		compared to GATS commitments	Commitments (from reservations)	compared to GATS commitments	Commitments (based on sectoral coverage and limitations)
1. Business services					
A. Professional services	Partial	Same	Partial	Same	Partial
B. Computer and related services	Full	Same	Full	Same	Full
C. Research and development services	Full	Same	Full	Same	Full
D. Real estate services	Full	Same	Full	Same	Full
E. Rental/leasing services without operators	Partial	Similar	Partial	Partial	Partial
F. Other business services	Partial	Similar	Partial	Similar	Partial
2. Communication services					
A. Postal services	----	Similar	Partial	----	Partial
B. Courier services	Full	Full	Full	Full	Full
C. Telecommunication services	Full	Improved	Full	Similar	Full
D. Audiovisual services	Partial	----	----	----	----
3. Construction and related engineering services					
A. General construction work for buildings	Partial	Improved	Full	Same	Full
B. General construction work for civil engineering	Partial	Improved	Full	Same	Full
C. Installation and assembly work	Partial	Improved	Full	Same	Full
D. Building completion and finishing work	Partial	Improved	Full	Same	Full
E. Other	Partial	Improved	Full	Same	Full
4. Distribution services					
A. Commission agents' services	Full	Same	Full	Similar	Full
B. Wholesale trade services	Full	Same	Full	Similar	Full
C. Retailing services	Full	Same	Full	Similar	Full
D. Franchising	Full	Same	Full	Similar	Full
E. Other	----	----	----	----	----
5. Education services					
A. Primary education services	Full	Same	Full	Same	Full
B. Secondary education services	Full	Same	Full	Same	Full
C. Higher education services	Full	Same	Full	Same	Full
D. Adult education	Full	Same	Full	Same	Full
E. Other education services	----	Same	----	----	----
6. Environmental services					
A. Sewage services	Partial	Same	Partial	Same	Full
B. Refuse disposal services	Partial	Same	Partial	Same	Full
C. Sanitation and similar services	Partial	Same	Partial	Same	Full
D. Other	Partial	Same	Partial	Same	Full
7. Financial services					
A. All insurance and insurance-related services	Partial	Similar	Full	Same	Full
B. Banking and other financial services	Full	Same	Full	Same	Full
8. Health related and social services					
A. Hospital services	Full	Similar	Full	Similar	Full
B. Other human health services	Full	Similar	Full	Similar	Full
C. Social services	Full	----	----	Same	Full
D. Other	---	----	----	----	---
9. Tourism and travel related services					
A. Hotels and restaurants (including catering)	Full	Same	Full	Same	Full
B. Travel agencies and tour operators services	Full	Same	Full	Same	Full
C. Tourist guides services	Full	Same	Full	Same	Full
10. Recreational and cultural and sporting services					
A. Entertainment services	Full	Same	Full	Same	Full
B. News agency services	Full	Same	Full	Same	Full
C. Libraries, archives, museums and other cultural services	Full	Same	Full	Same	Full
D. Sporting and other recreational services	Full	Same	Full	Same	Full
11. Transport services					
A. Maritime transport services	Partial	Improved	Partial	Same	Partial
B. Internal waterways transport	----	Improved	Full	Improved	Full
C. Air transport services	Partial	Improved	Full	Improved	Full
D. Space transport	----	----	----	Improved	Full
E. Rail transport services	Partial	Same	Partial	Same	Partial
F. Road transport services	Partial	Improved	Partial	Improved	Partial
G. Pipeline transport	----	----	----	----	----
H. Services auxiliary to all modes of transport	Partial	Same	Partial	Improved	Full
I. Other transport services	----	----	----	----	----

General Note: MFN and Horizontal limitations, as well as mode 4 commitments/limitations excluded.

Partial: GATS commitments subject to some limitation(s) under market access or national treatment, under any of the three modes.

Full: GATS commitments not subject to limitation(s) under market access or national treatment, under any of the three modes.

---: No commitments.

New: New commitments under the Agreement (full or partial, with or without limitations). "New" can, in most but not all cases, be seen as "improved".

Improved: Overall improved commitments made under the Agreement.

Similar: Similar commitments (Agreement vs GATS); though possibly, in specific cases, with limited improvements and/or limited additional reservations.

* Excluded from the Agreement.

Limited: Some additional limitations.

Source: Georgia's Schedule of Specific Commitments (GATS/SC/129), and Annexes XIV-E and XIV-F to the Agreement and WTO document WT/REG354/1, 13 April 2015.

4.94. In terms of implementing the AA/DCFTA, MESD was assigned a coordinating role in early 2014 and in July of that year the Government approved a multi-annual action plan for the implementation of all commitments linked to the DCFTA during the period 2014-17.[22]

4.4.1 Financial services

4.95. Georgia's financial sector is dominated by the banking sector with a small non-bank financial services market and an inactive private securities market. Currently, there are 19 commercial banks (with branch offices), 16 of which are foreign-controlled. As of the end of 2012, the commercial banks accounted for more than 93% of financial system assets. Commercial banks play a leading role in financing the economy. Concentration in the banking system is relatively high with the five largest banks controlling more than 80% of total sector assets, while the top two banks—the Bank of Georgia and TBC Bank—control more than 60% of assets (Table 4.7).

4.96. As of the end of 2014, other institutions operating in the financial market include 17 licensed credit unions, 70 registered microfinance organizations, 51 registered money remittance units, 1,116 registered currency exchange bureaus, 14 insurance companies, 5 pension funds, the Georgia Stock Exchange, and the Georgia Central Securities Depository. There are eight brokerage companies. There are four listed companies and 128 non-listed companies admitted to the Georgia Stock Exchange.

Table 4.7 Financial institutions, 2005-14

	Unit value	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of commercial banks	unit	19	17	20	20	19	19	19	19	21	21
Of which foreign controlled	unit	12[a]	12[a]	14[a]	17[a]	15[a]	16[a]	18[a]	17[a]	20[a]	19[a]
	per 100,000 inhabitants	0.4	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.5	0.4
Branches	unit	159	122	124	124	120	119	144	142	164	168
Services centres	unit	187	298	416	559	513	522	564	691	739	796
Authorized capital of commercial banks	million GEL	296.4	344.8	524.6	625.6	673.4	805.1	915.6	909.2	1,054.0	1,157.7
Equity capital of commercial banks	million GEL	479.5	898.4	1,471.0	1,517.3	1,517.0	1,787.6	2,104.4	2,390.1	2,916.2	3,586.8
Exchange bureaus	unit	556	655	806	1,030	1,352	1,624	1,500	1,029	1,089	1,116
	per 100,000 inhabitants	12.2	14.9	18.3	23.5	30.8	36.6	33.6	22.9	24.3	24.9
Credit unions	unit	40	38	24	18	18	18	18	18	17	17
Microfinance organizations	unit	2	3	15	27	38	49	62	62	67	70

[22] 2015 National Action Plan for the Implementation of the Association Agreement between Georgia and the EU and Member States. Approved by Decree No. 59 of the Government of Georgia, 26 January 2015.

	Unit value	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Stock exchanges	unit	1	1	1	1	1	1	1	1	1	1
Insurance companies[b]	unit	16	14	15	13	14	16	15	15	14	14
Pension schemes[b]	unit	3	3	4	7	6	6	7	6	5	5

a Including Branches of Non-Resident Banks.
b Insurance supervision was separated from NBG in 2013.

Source: National Bank of Georgia.

4.97. Regarding the foreign presence of banks, no distinctions are made between domestic and non-local banking entities within NBG's supervisory framework, NBG cooperates with the supervisory authorities of those countries where the parent banks of locally-licensed foreign banks are incorporated. NBG has established memoranda of understanding with a number of foreign supervisory authorities.

4.98. The authority to supervise commercial banks[23], as well as non-bank financial institutions - securities market, credit unions, microfinance organizations, money remittance units, currency exchange bureaus, and qualified credit institutions, is vested with the National Bank of Georgia (NBG). NBG is the central bank of Georgia and an independent public body. The legal framework for the operation and supervision of financial institutions is primarily defined by the Constitution of Georgia (Articles 95 and 96); Organic Law on Georgia on the National Bank of Georgia; Law on the Activities of Commercial Banks; Law of Georgia on the Securities Market; Law of Georgia on Microfinance Organizations; Law of Georgia on Non-Bank Depository Institutions - Credit Unions and relevant by-laws.

4.4.1.1 Banking

4.99. According to the NBG, the financial system retains comfortable levels of capital and liquidity (Table 4.8). As of end-2014, the system's capital adequacy ratio was 17% and the liquidity ratio 39%, both well above the minimum requirements of 12% and 30%, respectively. Non-performing loans (NPLs), which increased by the end of 2012, have decreased in 2013 and 2014. Dollarization, at about two-thirds of loans and deposits, continues to be the main risk to the financial sector. The Georgian authorities continue to promote the use of the lari in the financial system with a view to reducing the share of dollar deposits held by residents. The authorities are also conducting a study on the introduction of deposit insurance in Georgia in line with commitments made to the EU under the DCFTA.

Table 4.8 Selected financial soundness indicators, 2009-14

	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec.	2013 Dec.	2014 Dec.
Deposit dollarization (residents and non-residents in % total of deposits)	71.8	68.6	63.3	66.0	59.9	60.1
Deposit dollarization (residents, in %)	68.8	65.0	58.6	60.4	54.1	54
Loan-to-deposit ratio (in %)	124.2	107.6	105.3	106.7	102.9	105.3
Credit-to-GDP ratio (in %)	29.0	29.9	31.7	33.3	40.4	50
Capital adequacy ratio (in %)[a]	19.1	17.4	17.1	17.0	17.2	17.4
Capital adequacy ratio (in %)[b]	25.6	23.6	25.6	25.3	25.2	25.5
Liquidity ratio (in %)[c]	39.1	38.7	37.3	39.8	41.8	38.7
Non-performing loans (in % of total loans)[d]	17.9	12.5	8.6	9.3	7.5	7.6
Non-performing loans (in % of total loans)[e]	6.3	5.4	4.6	3.7	3.1	3.1

a National definition. Risk weight to forex loans was reduced from 200% to 175% in September 2008, and 150% in August 2009, and raised to 175% in January 2011.
b Basel I definition.
c Ratio of liquid assets to all deposits plus other liabilities with 6-month and shorter maturity.
d National definition: NPLs are defined as loans in substandard, doubtful, and loss loan categories.
e Standard 90-day overdue definition.

Source: National Bank of Georgia; and IMF staff estimates, IMF (2013), *Georgia: 2013 Article IV Consultation*, IMF Country Report No. 13/264 viewed at: http://www.imf.org/external/pubs/ft/scr/2013/cr13264.pdf.

[23] As of August 2015, a bill detaching banking supervision from the NBG has passed parliament and is awaiting the president's signature.

4.100. Banking in Georgia is regulated under the National Bank of Georgia (NBG) Act. The NGB is responsible for the supervision of commercial banks. Among the post-crisis measures which contributed to Georgia's recovery as of 2010 is the strengthening of the risk-based supervision and regulation of financial institutions by the NBG. The IMF-World Bank Financial Sector Stability Assessment Program (FSAP) conducted in 2014 concluded that the NBG's regulatory and supervisory framework is robust.[24] Banking regulation and supervision in Georgia is broadly in line with international standards. The authorities note that NBG's supervisory powers and legal framework are updated in accordance with international developments and international practice.

4.101. In 2014, important changes were introduced to the legislative and institutional framework concerning the banking sector.[25] Moreover, an updated regulation on capital adequacy in accordance with Basel III is being gradually introduced as of 2014. Currently, banks are in the transition process and are required to comply with both the old and new regulations; however, starting in 2015, the old regulation will be gradually phased out.

4.102. Regarding the prudential requirements. The NBG sets capital, liquidity and concentration limits, including: the minimum equity capital required for establishing a bank is GEL 12 million, which must be fully paid-up cash.

4.4.1.2 Other financial services

4.103. The insurance market remains relatively small with a premiums-to-GDP ratio of under 2%, nearly all of which is in the non-life segment. Few complex products and very few life products are offered in the market. The Georgian insurance market has become more concentrated with the top three companies accounting for an estimated 55% of the market.

4.104. In 2009, according to the Law of Georgia on Insurance, insurance supervisory functions were transferred to the National Bank of Georgia. In 2013, according to further amendments of the law, and the Georgian Government Decree of 2 May 2013, the Insurance State Supervision Service of Georgia was established as an independent LEPL (Legal Entity of Public Law). The Service has assumed the former duties and responsibilities of the National Bank of Georgia concerning insurance activity and non-state pension scheme supervision issues. The Service is authorized to carry out the supervisory functions in terms of on-site and off-site regimes. It also supervises the prevention of illicit income legalization in the insurance system. The Service is authorized to develop by-laws on insurance and to control performance. It also issues licenses for insurance activities and registers the insurance brokers.

4.105. In terms of developing the insurance market in the country, compulsory insurance schemes are under development, in particular for motor third-party liability and an agricultural insurance pilot programme, under which insurance companies perform agricultural risk insurance.

4.106. The NBG regulates the securities market, which includes the following licensed participants: a stock exchange, a central securities depository, eight brokerage companies and six registrars. Market participants submit their reports in line with international standards. All listed companies must make public filings, which are then uploaded on the NBG website, allowing users to evaluate the company's standing. The Georgian Stock Exchange (GSE) is the only organized securities market in Georgia and operates under a legal framework that complies with good international practices in securities trading. There are no regulations authorizing private firms to restrict foreign partners' investment activity or limit foreign partners' ability to gain control of domestic enterprises.

4.107. The securities market is at an early stage of development, and has a narrow investor base and shallow market liquidity. Savings mobilization is poor, because private pension funds are voluntary and underdeveloped. Non-contributory pensions constitute the largest social spending

[24] IMF (2015), p.42.

[25] For example, the regulation regarding the operational risks of commercial banks was adopted, which primarily addresses the questions of business continuity management, outsourcing, and independent IT audit requirements. In addition, the NBG has issued a simplified regulation on trading books and new guidelines for country risk management at commercial banks, further pursuing well-established international standards, among them the Basel Core Principles (BCP). Also, a banking bill has been under discussion to transfer the NBG's supervisory functions to a new agency.

item in the state budget, accounting for 18% of public expenditure in 2013 and 4% of gross domestic product (GDP) a cost that is likely to increase as the population ages.

4.108. In order to further develop the Georgian capital market according to international best practices as well as to increase access to long-term and affordable investment resources, the Government is working on capital market reform.

4.4.2 Telecommunication services

4.109. Fuelled by the launch of important e-government projects in cooperation with the private sector, Georgia is envisaging becoming an ICT hub for the Caucasus-Caspian region. Georgia's Innovation and Technology Agency (GITA) is the main facilitator in this process. There are some important components for developing ICT in Georgia, including skills and capacity building development. GITA is holding different types of training programmes on the most in demand IT program, conducting practice-oriented training for trainers in the high-tech field to enhance capacity building of private companies and science skills development for promoting commercialization of innovation. The goal of GITA, as laid down in *Georgia 2020,* is to have 40,000 IT specialists in the high-tech field by 2020. Georgia is developing an innovation infrastructure, featuring technology parks with business incubators, accelerators and innovation and fabrication laboratories. Currently three I-Labs (university-based) focus on: programming for mobile platforms; computer games development and computer graphics/visual effects; there are also two Fab-Labs working on engineering and creative science.

4.110. The telecommunication segment dominates the ICT market in Georgia. It is well penetrated by service providers, most of them international companies and investment is capital intensive. Telecommunications are regulated by the independent and self-financed Georgian National Communications Commission (GNCC), which is subject to comprehensive rules on independence and transparency. The Commission sets up regulation fees for authorized holders, and initial prices for auctions, regulates the radio frequency spectrum and the interconnection of the telecommunication networks and provides certification, standardization and metrology services. The regulatory framework is relatively well developed and largely aligned with EU requirements although there are still challenges, such as ensuring that the regulator has sufficient powers to enforce market access requirements or in the area of universal service regulation.

4.111. During the review period, amendments were made to the laws on Electronic Communications and Broadcasting as well as to relevant normative acts. These cover, *inter alia*: completion of deployment of a new numbering system, implementation of number portability in mobile networks, as well as for fixed networks, and implementation of 4G broadband services allowing customers access to high-speed internet. The process of digital switchover started on 1 July 2015. The process is executed region by region and was planned to be completed by 25 August 2015.

4.112. Regarding market structure, the State does not have any outstanding ownership stakes in the telecom operators. The capital-intensive telecom industry is well penetrated by international service providers. By 2013, mobile penetration had reached 111% (compared to 69% in 2009) and despite signs of a faltering economy, the mobile market continues to grow although the annual rate of growth has moderated and become more predictable. All mobile operators have started provision of 4G broadband services. Despite a rather erratic growth pattern, the fixed-line network in Georgia reached a teledensity of 27% in 2013 (up from 19% in 2009) but this appears to be declining. Although the interest in internet in Georgia is high, subscription numbers remain modest at 579,000 in 2013, representing a density of 13%.

4.113. Mobile subscriptions have grown strongly in recent years, driven primarily by increased competition and pressure on prices as well as limited access to fixed-line services in rural areas. The mobile segment is led by four international operators:

- Geocell (owned by Finnish-Swedish company TeliaSonera) with 34% of the market (as of December, 2013);
- MagtiCom (owned by Telcell Wireless LLC/ITC LLC, USA) with 43% market share (as of December, 2013);

- Mobitel/Beeline (owned by Russia's VimpelCom) with 22% of the market (as of December, 2013);

- Silknet (CDMA) (owned by Rhinestream Holdings Limited) with 0.6% market share.

4.114. Not all mobile operators use the GSM system (Silknet uses WCDMA). There were close to 5 million mobile phone subscribers (defined by the number of active SIM cards) by the end of 2013, compared to 800,000 in 2005. Mobile network coverage is provided to virtually the whole of Georgia and mobile communication systems have increased in importance as the fixed-line networks are outdated in many places, including in mountainous areas. Since the regulator awarded three 3G mobile licences in 2006, there has been a significant uptake of new generation subscriptions, the 3G subscriber base accounting for an estimated half of all mobile subscribers to date. Also, the introduction of mobile number portability contributed to mobile subscriber growth, as well as tariff reduction.

4.115. In the fixed-line segment, the incumbent Silknet (formerly United Telecom of Georgia, sold by the Government to a Kazakh-Georgian consortium BST Holding in 2006, and now owned by Rhinestream Holdings Ltd) still has a large market share, estimated at 63% in 2013. There are two other players-Akhtel (11.4%) and Akhali Kselebi (19.6%), both privately-owned domestic companies which together have about 31% of the market share. More than 50% of Georgia's fixed-line services are concentrated in the capital Tbilisi.

4.116. The total number of companies authorized to provide internet services was 186 (as of end-2013), amongst them 152 active, out of which 112 were wi-fi operators. The two largest ISPs are: Silknet (involved in IP TV) with 43% market share and Caucasus Online (also involved in IP TV) with 29% market share, at end-2013. In the face of internet connections with insufficient bandwidth to meet the needs of their customers, the demand for better quality is expected to grow. ISPs are expected to drive TV digitalization.

4.117. The Georgian market offers internet services through: all fixed networks (DSL, and fibre optic cables); wireless fixed network (CDMA, Wimax, WIFI, LTE) and mobile communication networks. Fibre optics is the most common technology for internet access, which is significantly higher in the capital and other big cities than in the regions where it remains limited. The number of mobile internet users is growing, led by MagtiCom. As of 2015 LTE services are available and 3G services have widespread coverage.

4.4.3 Transport

4.4.3.1 Regulatory framework

4.118. The Ministry of Economy and Sustainable Development (MoESD) is charged with coordinating and regulating four modes of transport (road, rail, sea, and air) and formulating a national transport policy (Table 4.9). Regarding implementing units, the Transport Policy Department oversees road and maritime transport, railways, and civil aviation. The Land Transport Agency, the Maritime Transport Agency, and the Civil Aviation Agency are the technical regulators. Georgian Railways is a state-owned and vertically-integrated company, and controls core railway business (infrastructure, passenger, freight, etc.). All seaports and two major airports (Tbilisi and Batumi) are either owned or operated by private companies. A state-owned enterprise, United Airports of Georgia, operates the international airport in Kutaisi and all smaller airports. Pipeline transport regulation rests with the Georgian Oil and Gas Corporation, a joint stock company of the Government.

4.119. The Ministry of Regional Development and Infrastructure (MRDI) is responsible for developing and maintaining the road network, except local roads, which fall under the jurisdiction of local authorities. The Roads Department implements and manages the infrastructure. Construction and maintenance works are outsourced and the environment is competitive. Road user charges are enough to cover maintenance and rehabilitation costs.

4.120. The Ministry of Energy is in charge of pipeline transport.

Table 4.9 Transport regulatory framework

	Roads	Services		Maritime Transport	Aviation
		Road	Rail		
Strategic planning	Ministry of Regional Development and Infrastructure	Ministry of Economy and Sustainable Development			
Regulator[a]	Roads Department	Commercial: Land Transport Agency Motor traffic: Ministry of Internal Affairs[b]	Georgian Railway	Maritime Transport Agency	Georgian Civil Aviation Agency
Infrastructure supply and management	Construction and maintenance by private sector	Bus terminals: Municipalities and the private sector Freight logistics centres: Private sector	Construction and maintenance by private sector	Ports: Poti-APM Terminals Batumi-Batumi Industrial Holdings Supsa-British Petroleum Kulevi-State Oil Company of Azerbaijan Republic	Airports: Kutaisi International and Mestia domestic airports-United Airports of Georgia Tbilisi International and Batumi International-TAV Airport Holdings
Services	Not applicable	Freight: Private sector Intercity and international passenger: Private sector	Georgian Railway	Shipping: Private sector Freight forwarding Private sector	Airlines: Private sector

a The scope of regulation provided by these agencies is mainly technical. Economic regulation is limited and undefined.
b The Patrol Police Department of the Ministry of Internal Affairs handles motor vehicle administration.

Source: ADB (2014), *Georgia Transport Sector Assessment, Strategy, and Road Map*, p. 5. Viewed at: http://www.adb.org/sites/default/files/institutional-document/34108/files/georgia-transport-assessment-strategy-road-map.pdf.

4.121. Over the past decade, successive governments in Georgia have revised rules and updated regulations on the supply of transport infrastructure and services. They have restructured institutions and delegated to line agencies the authority for modernizing the transport system. This has helped draw private investment into aviation (airports and airlines), maritime services (ports and shipping), road transport (all freight and intercity passenger), and pipelines (oil and gas from Azerbaijan and Kazakhstan). The railway is now a state-owned enterprise with the authority to raise capital in the open market, leaving the road network as the only physical asset owned and operated in a traditional, public-sector manner.

4.122. In its development strategy to 2020, the Government undertakes to further streamline transport infrastructure and develop logistical centres. In particular, the completion of the East-West Highway and the Baku-Tbilisi-Kars railway line as well as the development of an international airport in Kutaisi and the construction of a deep water port (in Anaklia) are currently the country's biggest priorities.[26]

4.123. In the transport field, Georgia has continued to align its legislation with that of the EU. Georgian Railways has developed a strategy for bringing its railways closer to EU standards. The implementation of the EU-Georgia Common Aviation Area Agreement continues to be monitored by the European Aviation Safety Agency. In the maritime sector, Georgia brought itself into line with international standards on training and certification of seafarers allowing the EU to resume recognition of seafarers' certificates issued by Georgia. Moreover, significant progress was made in terms of flag state performance. Pursuant to legislative changes, a new registration procedure was introduced which is in line with EU standards. Hence, in 2013 the detention ratio of ships flying the Georgian flag was reduced in comparison with previous years and in July 2014 the Georgian flag was moved from the black to the grey list under the Paris MOU.

[26] Government of Georgia (2014), p. 34.

4.4.3.2 Transport modes

Road

4.124. Both domestic and international passenger transport is heavily road-based with 99% of passengers transported by road during the review period. Regarding transportation of cargo, which amounted to 46.4 million tons in 2014, roughly 62% goes by road and 38% by rail. The 20,250 km road network (of which 1,528 km is international and managed by the Roads Department) is the most significant component of the transport system. The 400-km East–West Highway (EWH) is the main road link, providing the fastest surface access from the east to the west. It plays a strategic role and nearly 60% of international trade crossing Georgia moves on the EWH. Traffic on this road is increasing at around 10% a year, in part due to road improvements, streamlined border-crossing procedures, and harmonized standards and documents.

4.125. One of the main projects for the Government is the East-West Highway construction and rehabilitation project, which is of great importance for Georgia and its neighbouring countries and for the EU as a strategic transit route between Europe and Central Asia. Better transport links are crucial to improving Georgia's economic cooperation with neighbouring countries and its other trading partners, strengthening the competitiveness of the region and increasing transport safety and capacity. As a member of the EU-backed Transport Corridor Europe-Caucasus-Asia (TRACECA) scheme, Georgia is working to streamline transport tariffs on all major types of cargo; TRACECA corridor development remains a transport policy priority for Georgia.

4.126. Currently, according to the authorities, approximately 112 km of high-speed highway has been constructed, which has been financed by the central budget of Georgia, the World Bank, ADB and JICA. In 2015 construction works are planned for an additional 129 km of central highway. After the finalization of the works, the highway will have four lanes with the capacity to serve 50,000 vehicles per day.

Rail

4.127. Rail cargo volumes are constrained in western Georgia because of technical issues such as limited track capacity and lack of access to Russian markets because of the conflict in Abkhazia. Georgian Railways depends heavily on the transport of petroleum products to the Black Sea ports from Azerbaijan. Construction on new railway (the Baku-Tbilisi-Kars Railway) from Akhalkalaki (Georgia) to Kars (Turkey) began in 2008 and main works are scheduled to be finished in 2015. The project will effectively open a new rail corridor from the Caspian Sea to Europe via Turkey.

Maritime

4.128. The Maritime Transport Agency was established in April 2011 as an independent authority within MOESD. MTA is the technical regulator of the maritime field. The main functions of the MTA include: seafarers education and certification, flag state performance, port state control, maritime search and rescue, maritime safety, security and environmental protection. MTA was created with a specific mandate to establish a sustainable system of capacity building by employing experienced seafarers and consultants, and intensify cooperation with the maritime authorities of other countries. Shipping services are provided by a few foreign companies that have dedicated services in the Black Sea. The largest operator in the container market is the Mediterranean Shipping Company (45.1%), which provides global trans-shipment and relay services mainly through Istanbul. Important container volumes are transported by Maersk (18.5%), Evergreen (9.9%), CMA-CGM (8.9%), Zim (6.6%), Norasia (3.5%), Arkas (3.5%), UASC (0.9%), Hapag Lloyd (0.8%), and others (2.2%). Scheduled passenger services operate, several of them directly, from Batumi and Poti to Bulgaria, Romania, Turkey, and Ukraine.

4.129. The Deep and Comprehensive Free Trade Area (DCFTA) envisages progressive reciprocal liberalization of establishment and trade in services in various fields, including in transport. The DCFTA will further facilitate effective application of the principle of unrestricted access to cargoes on a commercial basis, the freedom to provide international transport services, as well as national treatment in the framework of the provision of such services. The DCFTA envisages the obligation for Georgia to implement 23 maritime-related directives and regulations, maritime safety, security and environmental protection.

4.130. Since independence Georgia has signed bilateral intergovernmental agreements in maritime transport with 14 states. In 2013-2014 Georgia signed bilateral maritime transport agreements with Poland; Korea, Republic of; and Cyprus. These Agreements will serve as the legal basis for merchant shipping between ports of Georgia and respective states.

4.131. Georgia actively cooperates with the International Maritime Organization, the Black Sea Memorandum of Understanding on Port State Control and the International Hydrographic Organization. In 2014 Georgia became an Observer in the Danube Commission.

Ports

4.132. The two major Black Sea ports are located in Poti and Batumi, with a depth of 11 and 12 metres and capacity of handling 10 million and 17 million tons of cargo, respectively. Georgia has rail ferry links with Ukraine, Romania, the Russian Federation and Bulgaria.

4.133. Poti handles most container shipments and some bulk and is owned and operated by APM Terminals, a subsidiary of Maersk Shipping of Denmark, which secured 80% of shares from RAK Investment Authority (RAKIA) of the United Arab Emirates. RAKIA purchased the port from the Government in 2009 and invested in port infrastructure and the adjacent Poti Industrial Free Zone.

4.134. Container cargo constitutes 44.1% of the volume handled while general cargo, liquid cargo and break bulk make up 20.7%, 8.5%, and 26.7% respectively. Around 40% of the cargo is import traffic while transit and exports make up 39% and 21% respectively. Since 2009 the number of containers handled increased by 123% from 172,000 TEUs to 384,992 TEUs in 2014. Its current capacity for containers is estimated at 550,000 TEUs. In 2014, the port handled 8.6 million tons of cargo. APM Terminals have plans to invest US$100 million over a five-year period in expanding and modernizing the port.

4.135. The port of Batumi handles dry bulk, containers and oil; it is operated by Batumi Industrial Holdings (BIH) Ltd., a subsidiary company of KazTransOil of Kazakhstan under an agreement signed with the Government in 2008 for a period of 49 years. It has eleven berths for oil, containers, rail ferry, dry cargo, and passengers. The agreement requires the port to handle 6 million tons of cargo per year.

4.136. Two other ports are at Supsa (operated by BP) and Kulevi (owned by Azeri Socar Company) exclusively to handle oil products.

4.137. Port dues and tariffs are set by private operators. The Government strives to enhance competition by improving port infrastructure. For this purpose, particular importance is attached to the construction of a new deep sea port in Anaklia, which should have certain competitive advantages: strategic location; capacity to receive Panamax type vessels; one stop shop solutions; simple and fast procedures and all-year-round safe navigation. Construction of the new port is strategically important and is planned to result in a significant increase in cargo turnover through Georgia. Currently, the Government is working to select the investor for the implementation of the project.

Aviation

4.138. In recent years, Georgia has gone through a comprehensive review of the air transport sector, including a reorganization of the institutional framework to separate the functions of policy making, technical regulation, and operation of infrastructure. Along with the reform, the country has been experiencing an increase in demand for aviation services, which has generated an increase of interest from foreign carriers to access the Georgian international market.

4.139. The Transport Policy Department in MoESD is responsible for all policy matters including the definition of access to markets, and conducting negotiations of air service agreements, which cover the designation of airlines, points of entry at each country, services beyond, traffic rights, air fare control, etc. In addition, the Department is responsible for defining policies and assuring their implementation.

4.140. Responsibility for assuring safety and security resides with the Georgian Civil Aviation Agency (GCAA). The body is empowered to oversee all technical aspects of the civil aviation sector according to the norms and recommendations of the Chicago Convention of 1944 and its Annexes. As such, the responsibilities of the GCAA include all technical aspects related to oversight and enforcement of compliance with local and international norms, such as ICAO Standards and Recommended Practices (SARPs). This involves, *inter alia,* certification of aircraft airworthiness, maintenance facilities, licensing of all aviation personnel (flight and cabin crews), certification of airports, air navigation services, air cargo terminals and of all service providers related to air transportation. The GCAA is a "legal entity of public law" and is financially independent via the collection of certification and licensing fees.

4.141. Georgia has bilateral air service agreements, and is part of the Common Aviation Area Agreement with the European Union. Georgia is a member of the European Organisation for the Safety of Air Navigation.

4.142. To liberalize air transport, Georgia has pursued an open sky policy on the basis of bilateral agreements with its partners. Georgia abolished restrictions that limit the number of passengers, destinations and flight frequency. Georgia has adopted a complete liberalized environment in the aviation sector (Order of President No. 211 adopted 23 March 2005). Not only is the Government willing to grant access to foreign carriers with no restriction on capacity (measured in terms of frequencies and type of aircraft), number of airlines, points of entry or air fares, it is also willing to grant traffic rights to foreign carriers between points within Georgia. According to the GCAA, there are currently 26 foreign and one national airline companies offering regular flights to and from Georgia.

4.143. Georgia's four airports are state-owned by United Airports of Georgia, which has outsourced the operations of the Batumi and Tbilisi airports to TAV Airports Holding Co. of Turkey. The airports have attracted new airlines such as Pegasus, Qatar Airlines, Ukraine International Airlines and Alitalia. The third International airport of Kutaisi and the domestic airport in Mestia are being refurbished and operated by the Government, through the 100% state-owned enterprise United Airports of Georgia LLC.

Pipelines

4.144. Four main pipelines go through the territory of the country, which make it the region's energy hub. The pipelines transit gas from Azerbaijan to Turkey and from the Russian Federation to Armenia and oil from Azerbaijan to Turkey. Georgia continues to support the initiatives related to the transportation of hydrocarbon resources in the framework of the Southern Gas Corridor. The pipelines ensure the availability of gas for the country and play a role in strengthening energy security. Investments made during the construction and operation period supported employment growth and fundraising for the state budget by means of fees.

4.145. Georgia hosts two international oil pipelines: the Baku–Supsa line connected to the Supsa terminal, with a capacity of about 7 million tons of oil per year, and the Baku–Tbilisi–Ceyhan line, connected to Kulevi. The transport cost of using these two lines, which form the western route for moving Azerbaijan's oil to world markets, is reportedly half that of the northern route via the Russian Federation. This competitive edge, through transit fees and in-kind payments in gas, has been a source of non-tax revenue for the country.

4.4.4 Logistics

4.146. The most active logistical operation is used vehicle trading. Georgia serves as a marketplace for used vehicles, imported mainly from Germany, for buyers in Azerbaijan and Armenia. This has created informal jobs and helped keep export figures high. Other logistical operations are limited to trucking, shipping, and port handling, provided mainly by foreign companies.

4.5 Tourism

4.147. Natural beauty, varied topography, a pleasant climate and rich culture is said to help Georgia to attract millions of tourists and visitors. The authorities emphasize that Georgia is renowned for the Caucasus Mountains, the Black Sea coastline, curative climate, healing mineral waters, national parks and UNESCO Heritage Sites. Georgia has significant resources for further development, with more than 103 resorts and 182 resort areas, 10 national parks (e.g. the Borjomi-Kharagauli National Park, the biggest in Europe), 2,400 mineral water springs and 12,000 historic and cultural monuments, meaning the country can offer a variety of experiences for all types of visitors.

4.148. Regarding administration, the Georgian National Tourism Administration (GNTA) is the legal entity of public law under the Ministry of Economy and Sustainable Development responsible for devising and implementing tourism development policy, promoting sustainable tourism, attracting foreign visitors and supporting domestic tourism by positioning the country as a unique travel destination. Key legislation in the sector comprises: the 1997 Law on Tourism and Health Resorts (amended in 2013); the 1998 Law on Sanitary Zones of Resorts (as amended in 2015); and the 1998 Law on Regulating Accounting of Incoming and Outgoing Tourists. The 2010 Law on Facilitation of Development of Free Tourist Zones (FTZs), as amended in 2012, offers concessionary terms to potential investors. The Georgian National Tourism Administration is planning to revise and develop a new Law on Tourism.

4.149. During the review period, Georgia has experienced growth in the number of visitors, with the number of international arrivals exceeding the five million mark in 2014 and with 5.8 million expected in 2015. This has generated a considerable increase in tourism receipts, rising from US$954 million in 2011 to US$1.8 billion in 2014. The great bulk of visitors to Georgia are from neighbouring countries (Azerbaijan, Armenia, Turkey and the Russian Federation), which suggests that there is potential for improvement in diversifying into higher spending tourist markets from OECD and other countries across the world.

4.150. To further facilitate tourism, MoESD, Georgia National Tourism Administration (GNTA) and the World Bank are currently finalizing the new National Tourism Development Strategy 2025, reflecting the importance of the tourism sector in the country's socio-economic development. In accordance with the document, within the next few years, the Georgian National Tourism Administration will progressively work to diversify markets, raise awareness about the country throughout the world, assist the private sector in creating higher quality and niche tourist products, further stimulate the domestic tourism market, and conduct training and capacity building exercises to improve the service quality. The National Tourism Strategy is therefore an instrument designed to take full advantage of Georgia's potential and position it globally as a rich, diversified and high-quality destination.[27]

4.151. Today, the country has undertaken significant steps to further develop wine, adventure, cultural, leisure, gaming (gaming is partially or completely banned in many countries within and in adjacent regions), MICE (meetings, incentives, conferences and events) and other forms of tourism.

4.152. Furthermore, in order to address tourism infrastructure needs and support development of the sector, the Government, with the support of the World Bank, started implementing in 2012 regional investment activities, specifically regional development programmes that support rehabilitation and expansion of tourism infrastructure region by region, helping each to become a new quality destination based on its own unique endowment and tourism offerings. Two projects (focusing on the Kakheti and the Imereti regions) are under implementation. A third project, focusing on two more regions (Samtskhe-Javakheti and Mtskheta-Mtianeti) is due to be carried out in 2015. The projects focus on benefitting the local residents of each region, including restoration of historical houses with traditional architecture, urban regeneration, improved municipal services and infrastructure, support car tourism SMEs and job creation, and development of attractive, varied and safe tourism circuits. Each project is expected to boost the volume of private sector investment in the region; and increase points of sales (tourism-related enterprises) in renovated culture heritage sites and historic cities.

[27] See press release of 3 December 2014: The Government of Georgia and the World Bank discuss the National Tourism Development Strategy 2025, online information viewed at: http://www.worldbank.org/en/news/press-release/2014/12/03/the-government-of-georgia-and-the-world-bank-discuss-the-national-tourism-development-strategy-2025.

4.153. To further stimulate investment in the tourism sector the country has initiated an incentive scheme – “Free Tourism Zones” which are special zones located on the sea side resorts of Kobuleti, Anaklya and Ganmukhuri. These zones attract investors by offering incentives, including: land for a nominal price (GEL 1), free hotel master plan, no profit and property taxes for several years, fully provided engineering utility network and corresponding outdoor infrastructure such as electricity, gas, water and new roads. For hotels with more than 100 rooms a casino licence is provided free of charge for 10 years.

4.154. The Government upholds a favourable visa regime, maintaining a visa-free policy with 94 nations and with resident permit holders of 50 states. An electronic visa portal, which requests the applicant to only submit their passport and an application to receive a visa was launched in February 2015.

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5 APPENDIX TABLES

Table A1. 1 Balance of payments, 2009-14

(US$ million)

	2009	2010	2011	2012	2013	2014
Current account	**-1,139.3**	**-1,196.0**	**-1,840.2**	**-1,850.9**	**-927.0**	**-1,605.9**
Goods and services balance	-2,065.1	-2,079.8	-2,745.9	-3,111.5	-2,084.3	-2,879.0
Goods balance	-2,416.7	-2,628.1	-3,499.6	-4,226.1	-3,506.2	-4,240.1
Exports	1,853.7	2,393.3	3,223.0	3,459.1	4,190.8	3,995.2
Imports	4,270.4	5,021.3	6,722.6	7,685.2	7,697.0	8,235.3
Services balance	351.7	548.3	753.7	1,114.6	1,421.9	1,361.1
Receipts	1,329.3	1,640.8	2,018.9	2,562.0	2,983.8	3,043.5
Payments	977.6	1,092.5	1,265.2	1,447.4	1,561.9	1,682.4
Income balance	-41.7	-214.7	-422.9	-147.0	-308.3	-158.5
Credit	489.3	556.6	758.0	1,077.5	922.1	980.6
Debit	531.0	771.3	1,181.0	1,224.5	1,230.4	1,139.0
Current transfers	967.5	1,098.5	1,328.7	1,407.6	1,465.6	1,431.6
Credit	1,038.5	1,183.4	1,458.5	1,515.9	1,584.6	1,567.0
Worker remittances	317.4	416.6	617.7	712.4	786.0	761.1
Debit	71.0	85.0	129.9	108.3	119.0	135.5
Worker remittances	1.5	1.3	0.8	0.6	0.5	0.5
Capital and financial account	**1,104.4**	**1,228.9**	**1,825.2**	**1,873.7**	**954.6**	**1,655.5**
Capital account	177.6	198.3	145.8	131.6	132.5	112.8
Financial account	926.8	1,030.6	1,679.3	1,742.1	822.1	1,542.7
Direct investment	677.4	678.7	901.6	614.3	829.0	1,077.4
Foreign direct investment in Georgia	652.9	869.1	1,084.3	831.3	956.3	1,273.7
Georgia's direct investment abroad	-24.5	190.4	182.7	216.9	127.3	196.3
Portfolio investment	10.5	250.5	133.4	848.4	-36.6	209.9
Assets	1.1	0.6	0.0	33.1	-6.0	36.9
Liabilities	11.7	251.1	133.4	881.5	-42.5	246.8
Financial derivatives	0.6	0.8	5.1	5.4	-2.4	8.2
Assets	-1.1	-1.8	-12.1	-10.7	-5.1	-11.6
Liabilities	-0.5	-1.0	-7.0	-5.2	-7.5	-3.4
Other investment	854.7	308.6	1,211.6	312.2	-13.1	213.8
Assets	-117.2	411.0	-205.2	349.2	173.5	133.1
Liabilities	737.5	719.6	1,006.4	661.4	160.3	346.9
Reserve assets	-616.4	-208.0	-572.4	-38.2	45.2	33.4
Net errors and omissions	34.9	-33.0	15.0	-22.8	-27.6	-49.6

Source: National Bank of Georgia online information.

Table A1. 2 Merchandise exports by product group, 2009-14

	2009	2010	2011	2012	2013	2014
Total exports (US$ million)	**1,133.6**	**1677.5**	**2,189.1**	**2375.4**	**2908.5**	**2,861.2**
	(% of total)					
Total primary products	47.6	41.0	34.9	31.2	37.7	42.9
Agriculture	29.4	20.3	18.2	21.9	27.1	29.4
Food	27.7	19.5	17.5	21.3	26.5	28.7
0577 Edible nuts fresh, dried	6.2	4.0	5.9	3.5	5.7	6.4
1121 Wine of fresh grapes (including fortified wine)	3.0	2.6	2.6	2.8	4.5	6.4
1110 Non-alcoholic beverages, n.e.s.	3.1	2.8	2.9	3.4	4.3	5.8
1124 Spirits	4.8	3.4	3.1	3.4	3.4	3.3
0011 Bovine animals, live	1.5	1.0	0.0	1.7	1.6	1.1
0012 Sheep and goats, live	1.5	0.5	0.7	0.8	0.5	0.7
Agricultural raw material	1.7	0.9	0.7	0.6	0.6	0.7
Mining	18.2	20.6	16.8	9.2	10.6	13.5
Ores and other minerals	14.0	15.9	13.1	6.9	7.9	10.5
2831 Copper ores and concentrates	5.5	4.5	3.9	2.3	5.6	8.7
2882 Other non-ferrous base metal waste and scrap, n.e.s.	2.3	3.6	3.1	2.4	1.6	1.3
Non-ferrous metals	0.3	0.4	0.3	0.2	0.3	0.3
Fuels	3.9	4.4	3.3	2.1	2.4	2.7
3330 Crude oils of petroleum and bituminous minerals	1.9	1.9	1.7	1.1	1.4	1.3
3510 Electric energy	1.8	2.3	1.5	0.7	0.5	1.0
Manufactures	41.7	53.4	57.7	63.6	59.6	55.5
Iron and steel	12.0	19.5	14.9	14.1	13.2	14.6
6715 Other ferro-alloys (excl. radio-active ferro-alloys)	11.3	16.6	11.6	11.0	7.9	9.8
6762 Bars/rods (not 676.1) iron/steel, hot-rolled, etc.	0.1	2.2	2.8	2.1	2.1	2.2
6726 Semi-finished iron/steel products <0.25% carbon	0.0	0.2	0.0	0.5	2.0	1.6
Chemicals	9.3	8.0	10.6	11.3	9.1	10.4
5621 Mineral or chemical fertilizers, nitrogenous	5.3	4.6	6.6	5.8	4.5	4.8
5429 Medicaments, n.e.s.	1.7	1.8	1.7	2.0	1.6	2.8
Other semi-manufactures	3.7	1.7	2.6	3.7	3.2	2.8
Machinery and transport equipment	13.4	21.1	27.2	31.1	30.4	23.1
Power generating machines	0.1	0.3	0.0	0.1	0.1	0.4
Other non-electrical machinery	1.6	1.0	1.1	1.5	1.2	0.6
Agricultural machinery and tractors	0.0	0.1	0.0	0.0	0.0	0.0
Office machines and telecommunication equipment	0.4	0.3	0.3	0.5	0.7	0.6
Other electrical machines	0.4	0.4	0.5	0.7	0.6	0.8
Automotive products	7.5	15.4	22.3	26.8	26.4	19.6
7812 Motor vehicles for the transport of persons, n.e.s.	6.9	14.4	20.6	24.7	24.2	18.1
7821 Goods vehicles	0.1	0.9	1.3	1.8	1.7	1.0
Other transport equipment	3.4	3.7	2.9	1.4	1.4	1.0
7911 Rail locomotives, external powered	1.2	1.1	0.3	0.7	1.0	0.8
Textiles	0.1	0.1	0.0	0.1	0.1	0.0
Clothing	2.1	1.8	1.2	1.9	2.1	3.2
8454 T-shirts, singlets and other vests, knitted or crocheted	0.1	0.3	0.3	0.5	0.7	1.3
Other consumer goods	1.2	1.2	1.2	1.4	1.4	1.3
Other	10.7	5.6	7.4	5.2	2.7	1.7
9710 Gold, non-monetary (excl. gold ores and concentrates)	10.2	5.4	5.0	3.7	2.5	1.4

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1. 3 Merchandise imports by product group, 2009-14

	2009	2010	2011	2012	2013	2014
Total imports (US$ million)	**4,500.2**	**5,257.1**	**7,065.3**	**8,049.5**	**8,025.7**	**8,596.3**
	(% of total)					
Total primary products	36.7	39.4	27.1	35.6	37.3	35.7
Agriculture	18.1	18.9	13.2	16.8	16.7	15.6
Food	17.5	18.2	12.4	16.0	16.1	14.8
0412 Other wheat (including spelt) and meslin, unmilled	2.3	3.4	0.0	3.0	2.3	1.7
1222 Cigarettes containing tobacco	1.3	1.5	1.2	1.2	1.2	1.3
0123 Poultry, meat and offal	0.9	0.9	0.9	0.9	0.9	0.8
0989 Food preparations, n.e.s.	0.8	0.8	0.7	0.6	0.7	0.7
1124 Spirits	0.3	0.2	0.5	0.4	0.5	0.6
Agricultural raw material	0.7	0.7	0.8	0.8	0.7	0.7
Mining	18.6	20.5	13.9	18.8	20.6	20.1
Ores and other minerals	0.6	1.8	1.1	1.2	2.7	3.1
2831 Copper ores and concentrates	0.0	0.0	0.0	0.0	1.4	1.9
Non-ferrous metals	0.3	0.4	0.6	0.5	0.4	0.4
Fuels	17.6	18.2	12.2	17.1	17.5	16.7
3432 Natural gas, in the gaseous state	3.4	2.4	3.1	3.0	3.7	4.1
Manufactures	56.3	60.2	61.9	63.9	61.9	63.8
Iron and steel	2.6	3.7	3.5	3.9	3.4	3.3
6762 Bars/rods (not 676.1) iron/steel, hot-rolled, etc.	0.7	1.0	0.7	0.6	0.7	0.7
Chemicals	10.7	10.4	9.2	9.5	10.5	10.6
5429 Medicaments, n.e.s.	3.4	3.1	2.5	2.7	3.2	3.4
Other semi-manufactures	9.2	10.3	9.9	10.6	10.3	10.5
6911 Iron or steel structures, for use in structures	0.4	1.0	1.4	1.2	0.8	1.1
6429 Articles of paper pulp, paper, etc., n.e.s.	0.7	0.7	0.1	0.6	0.7	0.7
6624 Non-refractory brick, tiles, pipes, etc.	0.6	0.7	0.7	0.6	0.6	0.6
Machinery and transport equipment	23.7	24.2	28.3	30.3	28.6	28.4
Power generating machines	0.5	0.4	0.5	0.7	0.5	1.4
7148 Gas turbines, n.e.s.	0.0	0.0	0.0	0.0	0.0	0.7
Other non-electrical machinery	6.2	5.3	6.2	7.1	6.2	5.7
Agricultural machinery and tractors	0.3	0.4	0.4	1.4	0.7	0.4
Office machines and telecommunication equipment	4.8	5.4	5.0	5.0	5.1	5.5
7643 Radio or television transmission apparatus	0.9	1.2	1.0	1.0	1.6	1.9
7611 Colour television receivers	0.5	0.6	0.6	0.6	0.8	0.9
7522 Data processing machines	0.3	0.4	0.6	0.8	0.7	0.8
Other electrical machines	3.8	4.1	5.3	5.3	4.0	4.8
7731 Insulated wire, cable etc.; optical fibre cables	0.5	0.6	1.1	0.9	0.6	0.7
Automotive products	7.6	8.2	9.7	10.9	11.1	10.3
7812 Motor vehicles for the transport of persons, n.e.s.	5.8	6.1	7.2	8.4	9.0	8.3
7821 Goods vehicles	0.8	0.9	0.9	0.9	1.0	0.8
Other transport equipment	0.9	0.9	1.5	1.4	1.7	0.7
Textiles	1.4	1.4	1.4	1.2	1.2	1.5
Clothing	1.9	2.5	2.3	1.4	1.5	2.2
Other consumer goods	7.0	7.7	7.3	7.0	6.4	7.3
Other	7.0	0.4	11.0	0.4	0.8	0.5

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1. 4 Merchandise exports by destination, 2009-14

	2009	2010	2011	2012	2013	2014
Total exports (US$ million)	**1,133.6**	**1,677.5**	**2,189.1**	**2,375.4**	**2,908.5**	**2,861.2**
	(% of total)					
America	13.7	19.0	14.4	16.1	8.5	10.0
United States	3.3	11.2	6.6	9.5	4.7	7.3
Other America	10.4	7.8	7.8	6.6	3.8	2.7
Canada	10.3	7.1	5.2	4.4	2.8	1.7
Europe	41.4	31.5	29.9	21.4	27.3	30.6
EU(28)	21.0	18.5	19.4	14.9	20.9	21.7
Bulgaria	7.3	4.0	4.3	2.9	5.2	5.7
Italy	2.1	1.6	3.4	2.2	2.8	3.0
Spain	1.4	1.9	1.1	0.7	2.3	2.5
Germany	2.0	2.1	2.2	1.6	2.5	2.4
Belgium	1.2	1.3	1.5	2.5	2.1	1.5
Lithuania	0.9	0.7	0.8	0.8	0.7	1.1
The Netherlands	0.8	1.1	0.8	0.5	0.8	1.1
France	0.5	0.7	1.3	0.7	1.2	0.9
United Kingdom	0.7	1.1	0.6	0.9	1.0	0.9
EFTA	0.3	0.0	0.1	0.5	0.1	0.5
Turkey	19.9	12.9	10.4	6.0	6.3	8.4
Commonwealth of Independent States (CIS)	36.7	40.3	48.1	52.4	55.7	51.2
Azerbaijan	14.6	15.3	19.5	26.4	24.4	19.0
Armenia	7.8	9.9	10.2	10.9	10.8	10.1
Russian Federation	1.9	2.1	1.7	2.0	6.6	9.6
Ukraine	7.4	6.6	6.5	7.0	6.6	4.9
Kazakhstan	1.8	3.0	7.2	2.6	3.6	3.1
Uzbekistan	0.5	0.5	0.6	0.7	0.8	1.9
Belarus	1.2	1.4	1.3	1.4	1.4	1.2
Africa	0.8	1.3	0.4	1.7	1.4	0.9
Middle East	4.7	3.9	3.8	4.6	4.5	2.8
Iran Islamic Rep.	0.6	0.9	0.7	0.8	1.6	1.0
United Arab Emirates	1.5	1.7	1.8	1.6	2.4	1.0
Asia	2.4	4.0	3.4	3.6	2.4	4.4
China	0.5	1.6	1.3	1.1	1.2	3.2
Japan	0.4	0.5	0.1	0.2	0.1	0.1
East Asian	0.9	0.8	0.8	0.5	0.2	0.5
Other Asia	0.6	1.1	1.2	1.8	0.9	0.6
Other	0.0	0.1	0.1	0.0	0.0	0.0

Source: UNSD, Comtrade database.

Table A1. 5 Merchandise imports by origin, 2009-14

	2009	2010	2011	2012	2013	2014
Total imports (US$ million)	**4,500.2**	**5,257.1**	**7,065.3**	**8,049.5**	**8,025.7**	**8,596.3**
	(% of total)					
America	7.5	5.9	5.7	4.9	5.2	5.2
United States	5.1	3.4	3.5	2.6	3.2	3.3
Other America	2.3	2.4	2.2	2.3	2.0	1.9
Brazil	1.7	1.5	1.6	1.5	1.2	1.3
Europe	48.2	45.5	48.0	49.4	46.7	48.4
EU(28)	29.8	28.0	29.1	30.2	28.3	27.6
Germany	6.7	6.3	6.8	6.7	5.6	5.4
Romania	2.6	2.7	2.7	3.2	4.0	3.6
Italy	2.9	2.6	2.6	3.4	2.8	2.6
Bulgaria	3.4	2.5	3.6	3.4	2.5	2.4
The Netherlands	2.3	2.0	1.9	1.8	1.5	1.7
France	1.5	1.4	1.4	1.3	2.0	1.5
Greece	1.4	1.4	0.9	0.6	0.7	1.4
United Kingdom	1.3	1.3	1.3	1.4	1.1	1.1
Poland	1.0	1.1	0.9	1.1	1.1	1.1
Spain	0.5	0.6	1.2	1.1	1.1	1.1
Austria	1.2	1.0	1.1	1.0	0.8	0.8
EFTA	1.0	0.8	0.8	1.0	0.9	0.8
Turkey	17.5	16.9	18.1	18.3	17.6	20.1
Commonwealth of Independent States (CIS)	28.9	30.2	27.5	25.6	27.2	24.7
Azerbaijan	9.1	9.2	8.6	8.6	8.1	7.4
Russian Federation	6.5	5.5	5.5	5.9	7.3	6.7
Ukraine	9.4	10.7	10.0	7.4	7.5	6.4
Armenia	0.9	0.9	0.8	0.9	2.3	2.4
Africa	0.8	0.7	0.7	0.7	0.4	0.7
Middle East	4.8	4.5	4.7	4.0	4.7	4.3
United Arab Emirates	2.5	3.0	3.2	2.3	2.6	2.3
Iran Islamic Rep.	0.7	1.0	0.9	1.2	1.6	1.4
Asia	9.5	13.0	13.0	15.1	15.5	16.3
China	3.9	6.4	7.4	7.6	7.6	8.5
Japan	2.4	3.2	2.5	3.9	4.0	4.3
East Asian	2.1	1.7	1.8	2.0	2.5	2.3
Hong Kong, China	0.7	0.5	0.5	0.5	0.7	0.9
Other Asia	1.2	1.7	1.5	1.6	1.5	1.2
Other	0.3	0.7	0.3	0.3	0.4	0.1

Source: UNSD, Comtrade database.

Table A3. 1 Georgia's tariff summary, 2015

	Number of lines	Average (%)	Range (%)	Standard deviation	Duty free (%)
Total	**10,255 (7)**	**2.0**	**0-70.3**	**4.3**	**79.6**
HS 01-24	2,279 (7)	6.1	0-70.3	6.1	45.4
HS 25-97	7,976	0.8	0-12	2.8	89.3
By WTO category					
WTO agricultural products	2,086 (7)	6.7	0-70.3	6.0	40.4
Animals and products thereof	322	8.5	0-12	5.2	24.8
Dairy products	157	5.3	0-12	5.0	39.5
Fruit, vegetables, and plants	521	10.0	0-12	4.5	16.5
Coffee and tea	49	5.0	0-12	5.2	44.9
Cereals and preparations	242	6.3	0-22.6	6.3	49.2
Oils seeds, fats, oil and their products	173	0.1	0-12	0.9	99.4
Sugars and confectionary	49	11.0	0-12	3.3	8.2
Beverages, spirits and tobacco	280 (7)	9.7	0-70.3	5.9	4.3
Cotton	6	0.0	0-0	0.0	100.0
Other agricultural products, n.e.s.	287	0.3	0-12	2.0	97.2
WTO non-agricultural products	8,169	0.7	0-12	2.8	89.6
Fish and fishery products	336	0.0	0-0	0.0	100.0
Minerals and metals	1,564	2.0	0-12	4.5	83.1
Chemicals and photographic supplies	1,367	0.8	0-12	2.5	87.6
Wood, pulp, paper and furniture	447	2.8	0-12	5.1	76.5
Textiles	867	0.1	0-5	0.6	98.6
Clothing	333	0.0	0-0	0.0	100.0
Leather, rubber, footwear and travel goods	347	0.0	0-0	0.0	100.0
Non-electric machinery	1,035	0.1	0-12	1.2	99.0
Electric machinery	559	0.1	0-5	0.5	98.9
Transport equipment	561	0.9	0-1.7	0.9	50.3
Non-agricultural products, n.e.s.	706	0.1	0-12	0.8	99.6
Petroleum	47	0.0	0-0	0.0	100.0
By ISIC sector					
ISIC 1 - Agriculture, hunting and fishing	644	3.4	0-12	5.4	72.0
ISIC 2 - Mining	124	7.3	0-12	5.9	39.5
ISIC 3 - Manufacturing	9,486 (7)	1.8	0-70.3	4.2	80.6
Manufacturing excluding food processing	7,767	0.7	0-12	2.6	90.0
ISIC 4 - Electrical energy	1	0.0	0-0	0.0	100.0
By stage of processing					
First stage of processing	1,142	3.1	0-12	5.3	73.8
Semi-processed products	2,949	1.0	0-12	3.1	89.7
Fully processed products	6,164 (7)	2.2	0-70.3	4.6	75.8
By HS section					
01 Live animals and products	740	4.6	0-12	5.5	56.8
02 Vegetable products	570	5.6	0-12	6.0	53.5
03 Fats and oils	127	0.1	0-12	1.1	99.2
04 Prepared food, beverages and tobacco	842 (7)	8.7	0-70.3	5.8	21.9
05 Mineral products	255	4.1	0-12	5.7	65.9
06 Chemicals and products thereof	1,237	0.2	0-12	1.2	97.4
07 Plastics, rubber, and articles thereof	376	2.6	0-12	3.7	60.1
08 Raw hides and skins, leather, and its products	219	0.0	0-0	0.0	100.0
09 Wood and articles of wood	204	6.2	0-12	6.0	48.5
10 Pulp of wood, paper and paperboard	216	0.0	0-0	0.0	100.0
11 Textiles and textile articles	1,168	0.0	0-0	0.0	100.0
12 Footwear, headgear, etc.	112	0.0	0-0	0.0	100.0
13 Articles of stone, plaster, cement	267	3.2	0-12	5.3	73.4
14 Precious stones and metals, pearls	63	2.5	0-12	4.9	79.4
15 Base metals and articles thereof	1,013	1.3	0-12	3.7	89.4
16 Machinery, electrical equipment, etc.	1,635	0.0	0-5	0.3	99.6
17 Transport equipment	580	0.8	0-1.7	0.9	51.9
18 Precision equipment	371	0.0	0-0	0.0	100.0
19 Arms and ammunition	28	0.0	0-0	0.0	100.0
20 Miscellaneous manufactured articles	225	0.0	0-0	0.0	100.0
21 Works of art, etc.	7	0.0	0-0	0.0	100.0

Note: Figures in brackets refer to the number of specific rates, where no AVEs were provided and are hence excluded from the calculations.

Source: WTO Secretariat calculations, based on data provided by the authorities of Georgia. Including AVEs, as available.

Table A4. 1 Trade balance of agriculture products, 2009 and 2014

(US$ '000)

Commodity Description	2009			2014		
	Export	Imports	Balance	Exports	Imports	Balance
Total	**1,133,622**	**4,365,699**	**-3,232,077**	**2,861,189**	**8,596,279**	**-5,735,090**
Agriculture	333,122	791,478	-458,356	840,145	1,338,947	-498,802
Food	314,408	762,924	-448,517	820,912	1,274,932	-454,020
00 - Live animals	33,985	2,135	31,850	51,390	11,345	40,046
01 - Meat and meat preparations	311	79,063	-78,752	2,619	145,315	-142,696
02 - Dairy products and birds' eggs	1,310	25,512	-24,201	3,350	54,913	-51,563
03 - Fish, crustaceans, molluscs, prep. thereof	4,526	31,219	-26,693	4,549	43,683	-39,133
04 - Cereals and cereal preparations	4,923	164,641	-159,718	21,475	240,673	-219,198
05 - Vegetables and fruit	97,029	57,249	39,780	236,590	143,675	92,915
06 - Sugars, sugar prep. and honey	1,107	62,758	-61,651	804	86,396	-85,592
07 - Coffee, tea, cocoa, spices, manuf. thereof	5,154	73,576	-68,422	10,955	105,817	-94,862
08 - Animal feedstuff	11,727	20,889	-9,161	28,662	53,855	-25,192
09 - Misc. edible products	8,379	67,638	-59,260	5,004	115,061	-110,056
11 - Beverages	123,776	31,310	92,466	445,015	91,757	353,258
12 - Tobacco and manuf. thereof	10	79,311	-79,301	1,641	125,306	-123,665
22 - Oil-seeds and oleaginous fruit	21,773	31,379	-9,606	788	8,923	-8,135
41 - Animal oils and fats	1	2,171	-2,171	6,113	3,728	2,385
42 - Fixed vegetable fats and oils	397	31,354	-30,957	1,898	42,562	-40,664
43 - Animal, vegetable fats/oils n.e.s.	0	2,719	-2,719	59	1,926	-1,867

Source: UNSD Comtrade database, SITC Rev.3.

Table A4. 2 Domestic support measures: measures exempt from the reduction commitment – "Green Box", 2009-13

(GEL thousand)

Measure Type	Description	2009	2010	2011	2012	2013
General services						
Para 2 (b)	Epizootic reliability	8	250	221.6	3,217.9	5,685.8
	Food safety, plant protection and epizootic safety					14,238
	Diagnosis of food production, animal and plant diseases					1,402.7
	Food safety, plant protection and epizootic reliability programme management and administration					5,716.5
	Plant protection and phytosanitary reliability	2,190	765	600.8	1,513.4	1,070
Para 2 (c)	Support measures for agricultural cooperatives					329.1
Para 2 (d)	Intensification of agricultural production		100		46,957	3,862
	Promotion of modern technology				2,685	
	Development of viticulture				1,504.2	
Para 2 (e)	State control of food safety				74.7	300
	Food stuff laboratory testing programme	455.5	200	117.1		
	Laboratory testing of Wine		100			50
Para 2 (f)	Agriculture exhibition measures programme	556.7	150			
	Measures for promotion of Georgian wine products	332.4	500	651.8	1,746.7	1,298
	Measures for promotion of Georgian agriculture products, wine and kitchen				576.2	300
Para 2 (g)	Agricultural support programme				3,432.7	191,588
	Rural development programme in regions		13,600	49,546		6,133.8
	Development of viticulture and winemaking					35,673
	Rehabilitation of amelioration system	12,840	1,970		13,850	61,477
	Renewal of agrarian machinery	5.2		2,999.6	74,750	65,523
	Amelioration system operation support measures	1,565	50			
Domestic food aid (para 4)	Seed provision for the victims of Russian aggression	455.2				
Decoupled income support (para 6)	Substitution measures for hybrid plants	93.7	400			
	Wine making development	3,000				
	Mineral fertilizer (ammonium saltpetre) provision to residents of municipality Settlements	23,808				
	Grape harvest support measures	5,609.6		8,828.3	42,960	32,553
Support of agriculture land utilization in regions					23,000	
Total		**50,919**	**18,085**	**62,965**	**216,267**	**427,201**

Source: WTO documents G/AG/N/GEO/13, 8 October 2014; G/AG/N/GEO/11, 5 November 2013; and G/AG/N/GEO/10, 14 February 2013.

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