-Georgia-

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GENERAL FEATURES OF TRADE POLICY

Georgia is member party to the WTO since June 2000 and it is still completing the process of adopting all required legislation. In acceeding to the WTO, Georgia agreed to adopt all WTO rules on customs valuation, technical barriers to trade, sanitary measures, trade-related investment and property protection, without transitional period.
According to the State Department of Statistics, foreign trade turnover from January to November 2000 amounted to some 1 billion euro, which represents an increase of around 25% year on year. Exports rose by around 40% and imports increased by about 20%. The main trading partners of Georgia are Turkey, and from EU Member States, Germany, the UK and Italy.
Georgia's main export products are: non-ferrous scrap metal, wine, noble metals and concentrate, fresh and dry walnuts, fertilisers. Main imports are: oil and oil products, natural gas, medicines, cigarettes, flour, wheat.
Although illicit trafficking has largely contributed to develop the national economy (it is estimated to amount to at least 35% of the GDP), the Government is under pressure of the IMF and the World Bank to adopt different measures and strategies to address corruption, reform the judiciary, improve tax and customs collection, accelerate the privatisation process and look forward to their implementation and concrete results.
Relations between EU and Georgia are based on the Partnership and Cooperation Agreement (PCA) which was signed in 1996 and entered into force on July 1, 1999. It replaced the Interim Agreement covering the trade aspects of the PCA which entered into force on 1.9.1997. TACIS is the main instrument supporting the implementation of the PCA and providing grant assistance for projects in priority areas that are defined on a biannual basis.
In July 1998, Georgia settled the remaining amount of its arrears towards the Community (€ 131 million). The exceptional financial assistance to Georgia will continue in 2002-2004.
As trade levels between the EU and Georgia are still very low, a main aspect of EC-Georgian relations has been assistance.
In addition, Georgia has benefited from the EC regional assistance programmes such as Traceca, Inogate and RARP (for agricultural reform).
The focus of EC assistance has shifted from humanitarian assistance to promoting trade and investment. A new platform of € 2.5 million has been proposed by the Commission for rehabilitation projects, subject to a number of conditions, in particular the establishment of a joint Georgian/South Ossetian customs post at the border with the Russian Federation.
Commission's assistance to Georgia was gradually reduced in order to responsabilize the state for taking care of the basic needs of the population.

The PCA covers cooperation in all non-military areas and its main elements are:
- Elimination of trade quotas and provision of most favoured nation treatment
- On investment: provision of MFN or national treatment to companies and freedom of capital movement

- Protection of intellectual, industrial and commercial property rights
- Yearly political dialogue at ministerial, parliamentary and/or senior official levels .

Trade in textiles is covered by a separate textile agreement which has been extended until 31/12/2003. It contains no quantitative restrictions.

Although slightly decreasing since 1998, unemployment rate remains very high and more than half of those seeking work are from a high level of education. About 60% of the population is below the poverty line and in view of fighting poverty, Georgia has begun the process for the preparation and elaboration of a Poverty Reduction and Economic Growth Programme (the PREGP). The main strategy of this programme is:

- To improve the conditions in the social sector. Health and education are the most fragile sectors
- To raise revenues and reduce the budget deficit to 1.2% of GDP by 2003, and to improve financial management and control over budgetary expenditures. The Government will maintain price stability and a floating exchange rate as a precondition for growth. This has ensured a stable exchange rate at around 2 Georgian Lari to € 1 in 2000 and it should result in 4% annual inflation rate by 2003.
- To strengthen the agricultural sector, mainly through the development of rural infrastructure and agro-processing enterprises, but also by adopting effective measures to preserve soil fertility, to establish a rural credit policy. Agriculture is the mainstay of the Georgian economy, accounting for about 30% of GDP and about 60% of the labour force.
- Governance, public administration reform and the fight against corruption. The draft national anti-corruption programme was adopted by Presidential Decree in July 2000 and an ad hoc commission has been established in April 2001. A number of specific measures are indicated for each of the six targeted areas, which are: liberalisation of the business environment; strengthening the financial management of state resources; increasing the effectiveness of the state management system; improving law enforcement bodies and the judiciary; developing representative democracy; raising the next generation's legal conscience and sense of civic responsibility.

About 16,500 small enterprises have been privatised. Of the 1,300 medium and large enterprises, about 80% had been privatised by the end of 2000. Privatised and private companies produce more than 74% of Georgia's GDP. The main sectors targeted by the current wave of privatisation are: transport (Poti port), telecommunications and energy. However, privatisation is not proceeding at the expected speed, which raises concerns with regard to budget implementation.
IMF support, to which the EU exceptional financial assistance and food security programme are also linked, is related directly to budget implementation.

The following table is an overview of the tradeflow between the European Union and Georgia

Section	Year	Import(Euro)	Export(Euro)
Animals & animal products	1996	18,440	3,066,710
	1997	6,010	3,258,470
	1998	4,520	4,293,030
	1999	36,190	3,945,490
	2000	71,030	3,881,480
	2001	13,230	3,791,110
	2002	5,100	3,102,440
	2003	11,260	5,339,930
Vegetable products	1996	787,050	44,217,230
	1997	1,976,900	22,119,280
	1998	6,805,080	17,782,860
	1999	12,396,250	2,680,960
	2000	17,680,360	7,283,880
	2001	9,032,940	7,921,340
	2002	6,292,970	1,499,990
	2003	9,556,830	3,209,310
	1996	0	1,571,650
	1997	0	1,366,200

Animal or vegetable fats	1998	0	375,800
	1999	0	2,123,870
	2000	0	3,384,690
	2001	0	3,270,600
	2002	0	6,806,410
	2003	0	9,662,290
Prepared foodstuffs	1996	270,620	28,295,720
	1997	914,370	48,710,930
	1998	1,030,760	38,878,880
	1999	1,447,570	22,779,440
	2000	4,891,190	13,621,050
	2001	5,502,500	26,658,510
	2002	4,270,660	16,771,880
	2003	14,443,040	22,962,510
Mineral products	1996	16,720,490	15,814,380
	1997	24,732,540	16,246,260
	1998	27,353,480	12,334,780
	1999	65,192,670	3,453,680
	2000	140,999,220	1,960,460
	2001	150,068,330	3,617,960
	2002	93,797,200	3,196,280
	2003	176,258,110	5,144,130
Chemical products	1996	433,020	4,634,370
	1997	2,236,710	9,574,840
	1998	2,756,680	16,870,830
	1999	5,121,260	16,481,320
	2000	7,304,420	27,961,600
	2001	4,210,990	35,784,780
	2002	10,144,810	44,612,230
	2003	14,133,260	40,550,980
Plastics & rubber	1996	32,750	3,000,130
	1997	41,410	4,452,000
	1998	17,720	6,540,260
	1999	8,290	4,478,760
	2000	30,870	6,330,760
	2001	11,430	7,600,700
	2002	253,650	7,579,600
	2003	82,570	9,924,220
Hides & skins	1996	1,440	268,650
	1997	67,940	367,710
	1998	285,490	996,660
	1999	233,060	970,000
	2000	1,513,680	1,152,840
	2001	1,968,160	1,143,110
	2002	758,390	746,640
	2003	243,040	1,020,840
Wood & wood products	1996	36,150	251,310
	1997	101,970	751,100
	1998	542,910	861,020
	1999	719,140	1,171,660
	2000	1,940,970	1,553,080
	2001	3,564,360	2,508,550
	2002	2,830,600	2,245,540
	2003	4,083,350	2,007,240
Wood pulp products	1996	61,000	2,074,910
	1997	330	2,410,050
	1998	3,720	2,318,630
	1999	68,910	2,964,550
	2000	124,210	4,526,160
	2001	2,830,630	7,179,130
	2002	392,810	8,914,010

	2003	126,060	8,544,870
Textiles & textile articles	1996	848,710	3,693,760
	1997	478,640	4,746,720
	1998	1,630,940	5,760,110
	1999	846,210	4,562,620
	2000	2,755,170	5,655,910
	2001	843,920	9,426,560
	2002	944,700	9,195,730
	2003	494,380	11,595,980
Footwear, headgear	1996	0	2,320,880
	1997	22,080	3,219,870
	1998	0	3,623,520
	1999	3,270	3,764,200
	2000	0	3,169,850
	2001	37,600	2,790,000
	2002	37,800	2,611,510
	2003	17,620	2,671,330
Articles of stone, plaster, cement, asbestos	1996	63,120	896,380
	1997	89,490	1,917,250
	1998	19,330	4,916,320
	1999	49,330	2,534,970
	2000	268,690	4,929,020
	2001	309,670	7,711,480
	2002	96,380	8,908,150
	2003	46,070	8,325,030
Pearls, (semi-)precious stones, metals	1996	3,540,670	1,823,510
	1997	3,576,580	2,200,930
	1998	7,227,030	166,750
	1999	11,634,020	1,049,990
	2000	20,205,830	3,261,000
	2001	15,436,690	3,685,200
	2002	22,112,490	408,800
	2003	18,139,160	1,870,840
Base metals & articles thereof	1996	7,448,240	3,218,660
	1997	6,374,180	10,960,960
	1998	6,099,810	25,478,190
	1999	12,181,550	9,550,550
	2000	22,517,920	9,733,130
	2001	27,445,520	16,464,890
	2002	16,602,630	7,920,980
	2003	26,054,110	14,854,250
Machinery & mechanical applicances	1996	1,414,320	18,108,310
	1997	3,407,840	44,880,210
	1998	3,306,010	71,616,770
	1999	2,657,700	40,375,120
	2000	2,968,770	60,577,200
	2001	3,871,730	72,063,690
	2002	44,918,610	72,642,600
	2003	1,969,830	85,965,010
Transportation equipment	1996	659,930	8,204,720
	1997	345,410	10,577,850
	1998	445,110	15,409,320
	1999	255,850	10,445,690
	2000	45,300	53,447,580
	2001	362,070	21,039,710
	2002	1,079,150	22,114,950
	2003	292,700	28,103,700
Instruments - measuring,	1996	33,070	4,244,740
	1997	597,270	3,445,870
	1998	2,092,880	6,389,330
	1999	41,750	8,329,020

musical	2000	545,950	4,627,550
	2001	442,520	7,406,340
	2002	74,430	6,698,720
	2003	262,880	11,557,740
Arms & ammunition	1996	0	165,000
	1997	100	365,730
	1998	9,320	342,620
	1999	174,180	228,100
	2000	0	269,680
	2001	330,940	161,940
	2002	132,430	143,600
	2003	182,070	91,290
Miscellaneous	1996	12,360	3,430,380
	1997	50,010	7,820,620
	1998	21,760	11,086,470
	1999	74,490	7,187,290
	2000	298,030	6,763,020
	2001	155,820	8,466,060
	2002	191,610	10,847,400
	2003	56,450	9,822,150
Works of art	1996	5,099,890	1,060
	1997	27,830	0
	1998	93,590	155,530
	1999	129,980	7,440
	2000	131,830	68,530
	2001	182,540	186,780
	2002	54,010	125,000
	2003	27,380	147,390
Other	1996	248,440	3,816,730
	1997	2,522,330	4,581,170
	1998	1,484,770	1,949,490
	1999	1,636,540	1,731,970
	2000	609,530	1,925,810
	2001	1,240,610	2,796,170
	2002	425,880	6,905,280
	2003	840,920	2,513,790

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Most of the privatised land consists of small agricultural holdings, averaging about 1.5 hectare. An estimated 250.000 hectares of agricultural land remain in state ownership and investors may acquire lease rights to this land. Agricultural enterprises based on former state farms as well as newer, large-scale agricultural investors such as wine producers lease large agricultural holdings from the state. Presently, no law allows the government to sell ownership of large agricultural parcels, by tender or otherwise. Rather this land may be leased under presidential ordinance. The Law on Management and Disposition of non-Agricultural State Land provides that usufruct tenure may only be granted to state enterprises and agencies. In effect, the right of usufruct is dififcult to distinguish from the Soviet-era right of use, and the Soviet-era concept is a direct descendent. It may also be difficult to distinguish usufruct from lease in many cases.

Physical and legal persons who are owners or users of land plots, including land used for agricultural purposes are subject to tax on the use of land. The base rates are set for agricultural land on a per hectare basis and vary depending on location and use. This tax is due on or before November 1st of the reporting year.

The inability to privatize large agricultural holdings is perceived as a problem by eventual investors, as consolidation of the smaller agricultural holdings is expected to be a long process with uncertain outcome. There is presently a movement to introduce into Parliament a law which would provide a procedure for government alienation of agricultural land in larger parcels suitable for commercial farming operations.

Chemicals

Before the break up of the Soviet Union, Georgia had a well-developed industrial sector

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and among the main economic activities, was the production of chemicals.

Georgia still lacks Foreign Direct Investments (FDI) to develop the economy of the country. Existing political and economical instability in the whole Caucasus region, and more particularly in Georgia, is one of the main reason for low FDI in the country.

Despite the above, Georgia nevertheless benefits from a favourable geopolitical position between the oil and gas rich Caspian Sea and Europe and the main sectors for foreign direct investments have included oil and gas exploration, electricity power distribution and activities connected with the TRACECA development programme (Transport Corridor Europe Caucasus Asia - Programme) initiated by the European Commission. The EU TRACECA project foresees the establishment of a transportation network through Europe, the Caucasus, and Asia; the convergence of national transportation networks of member states; and the development of common economic links.

During the Soviet period, fertilisers and agrochemicals were intensively used in the Caucasus region, since the region's economy was largely agriculture-based.

A joint study has been established by the Government, the industry and a delegation from EU Member States on how to improve tax collection and avoid smuggling in the chemicals sector. The high level of smuggling has created an uneven playing field for legal traders because profits can be multiplied by 3 for smugglers if they can sell at the same price as legal traders.

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TARIFFS AND DUTIES

Under the PCA Agreement, import charges are exempted for temporary admission of goods.

The foreign business community proposed several amendments to clarify the Tax Code because most articles can be interpreted in several ways due to lack of details.

Industry complains that occasionally new regulations are issued by the tax authorities putting business in difficult situation vis-à-vis the law.

According to IMF estimates, Georgia collects around half of potential revenue from the existing tax system. The most difficult area for collection continues to be excise tax (oil, alcohol, tobacco), while profit taxes, VAT, customs tax and social contributions have increased in real terms. The practice of advance tax collection, affecting in particular foreign businesses, remains a means to achieve budget fulfilment. The EU urges Georgia to eliminate the practice of advance tax collection as well as the practice of applying a fee on the invoice value of a given shipment on the shippers of imported goods, which is contrary to WTO rules which foresee that user fee be related to the cost of services rendered, which implies that they cannot be expressed "ad valorem".

All companies operating in Georgia are subject to federal and local taxes. Profit tax and VAT are charged at 20%, while personal income tax is charged at rates ranging from 12 to 20% plus a set amount. Enterprise property tax is applicable to foreign companies operating in Georgia by means of permanent establishments at a rate of 1% of the value of the property.

Quantitative restrictions and measures having an equivalent effect:

Export restrictions and licensing requirements have been relaxed and no duties are collected for import of manufacturing of goods intended for export.

One of Georgia's obligation, being a member of the WTO, is to improve its customs system. Georgia is being helped by the British company Intertrek Testing Service (ITS) which undertakes pre-shipment inspection and calculates import duties on shipments over € 2.500. ITS also trains customs officers.

Georgia was granted with General System of Preferences (GSP) beneficiary status by the countries of the European Union, Switzerland, Czech Republic, Slovakia, Canada and Japan. GSP considers the reduction of import customs taxes on goods produced in Georgia in the above mentioned countries.

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INVESTMENT RELATED BARRIERS

In principle, Georgia has a liberal foreign investment policy, with unlimited, tax free repatriation of capital and profits, and no limitations on foreign currency bank accounts. There are some limitations on foreign ownership in infrastructure and foreigners are not permitted to own agricultural land. Recent legislation allows non-Georgians to own non-agricultural land through a legal entity registered under Georgian law.

Foreign investments in Georgia are protected by the Constitution, the Law on Promotion and Guarantees of Investment Activities and Bilateral Agreements on Promotion and Mutual Protection of Investments. This agreement has been signed with 23 countries.
The Law on Promotion and Guarantees of Investment Activities conforms to internationally accepted norms and principles, it defines the legal principles governing foreign and domestic investments and provides investment protection guarantees, it aims to establish favourable conditions for foreigners, but not preferential treatment, foreign and local investors are granted equal rights.

Although constant lack of control on oil trade has been reported by foreign investors in Georgia since 1999, the more important sectors for investment have been oil and gas exploration, electrical power distribution, mobile phones and food processing.
Due to its geographical location, Georgia is an attractive place for foreign investment but the business environment climate is rather unsatisfactory and many of the investors already left the country and new investors are reluctant to come to a country where, besides a prolific black economy, investments, goods and persons are subject to considerable insecurity.
Even if the EU noted with satisfaction the measures and strategies adopted by the Government to establish a business climate conducive to foreign and domestic investment, and to remove all barriers, it was reported that almost all companies in Georgia face problems and most hesitate to complain officially as they are afraid to get in even bigger trouble and to loose the entirety of their investment in the Country.
The authorities are aware that foreign businesses are imposed frequent changes in the legislative framework and that they are faced with the unclear bureaucracy, the weak fiscal situation in the country, wide-spread corruption and unfair competition from local businesses. The Government has introduced measures to answer the concerns of foreign investors.
The licensing of foreign investments has been abolished and the Government has expressed its readiness to act on a case-by-case basis to correct any abuses by tax authorities which are brought to its attention. This approach has not proven to be very efficient up to now.

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IPR

New laws on the protection of copyright and patents in accordance with international standards have been adopted, but the Government still needs to ensure effective implementation and enforcement of these laws and also there is a lack of commitment to combat the violations of IPR by the competent authorities. This can be due to insufficient implementation into the domestic legal system of the TRIPs requirements, deficient enforcement of the domestic IPR regulations, lack of trained officials, lack of resources. As corruption is widely spread in Georgia right holders usually keep silent as it is useless to file complaints of mass IPR violations. It should be underlined however that there is no difference of treatment between national and foreign right holders.
In the contrary, the authorities justify music piracy by stating that the cheap prices of pirated products give consumers access to cultural values …
There is very low awareness about counterfeits. As a result, counterfeiting is viewed by the public as a problem, but an acceptable one.
The main areas in terms of violation of IPRs are copyright and trademarks including high level of music and video and software piracy, sale of counterfeit products like pharmaceuticals, coffee/tea, shampoos, detergents, tobacco, soft drinks, mineral water, tooth paste, bleach, etc. These violations are destined both for the domestic market and for export. There is no information available as to EU being a main destination of these exports.
Implementation of the TRIPs Agreement is mandatory for applying the obligations that Georgia undertook

upon the terms of its accession to the WTO.
Georgia is part of the Madrid Protocol and co-operates with the EU in the framework of the TACIS Intellectual Property Project.

The European project GEPLAC is also assisting Georgia in this area.

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OTHERS

As of 1 January 2003, for medical and pharmaceutical products and 1 March 2003, for products such as food, cosmetics, household cleansers and appliances, an amendment to the Law on Protection of Consumer Rights requiring the labelling in Georgian goes into effect. Label information required in Georgian includes the product designation and name, producer, country of origin, terms of use, weight/volume, contents and major features, terms of maintenance and rules for proper use. The law requires information be made available to a consumer regarding anticipated reverse reaction (illness) if a product is consumed in case of any particular disease. Not all food products have this indication even in English or other language. It implies that producers or importers have to, not only translate the label, but also make medical enquiries for possible reactions or allergies.
This new law was introduced by the Anti-Monopoly Service after accidents having occured due to the improper use of products only labeled in Persian.
The law also provides that the requirements stipulated by the law shall not apply to unprocessed agricultural products including products of animal origin, poultry products and fish. However, the law does not clarify what is meant by unprocessed agricultural products. According to the Tax Code of Georgia, processing is defined by "changing of commodity nomenclature code". This means that p.e. the farmer who slaughters a cow and sells it is obliged to provide the consumer with the required information.

According to the Law products can either be labelled by producers in their country of origin, or labels can be attached to imported products in Georgia.
The Anti-Monopoly Service will begin monitoring both the market and implementation of the Law as from 1 March 2003. The Anti-Monopoly Service warns entrepreneurs and importers that Parliament granted the right to administer the law to this Service only and the involvement of other controlling bodies will be considered a violation of the law and both, importers and sellers can be punished.