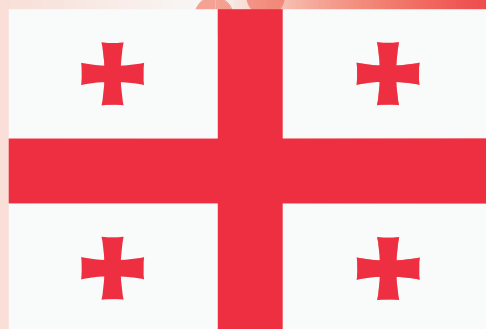
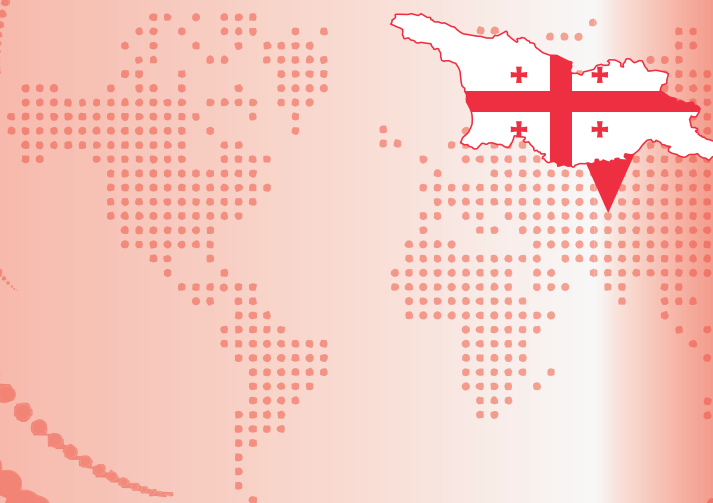


Regulatory and Procedural Barriers to Trade in Georgia

Needs Assessment



UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

Regulatory and Procedural Barriers to Trade in Georgia: Needs Assessment



United Nations
New York and Geneva, 2018

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Foreword

Georgia has consistently followed a liberal trade regime, which is geared towards achieving the twin objective of creating efficiency gains for the business community and integrating the economy into regional and global value chains.

In 2018, the Government was in the process of intensifying reforms, with a special emphasis on fulfilling its commitments under the Association Agreement with the European Union and the European Atomic Energy Community and their Member States. Aware of the complexities of these reforms and the steep learning curve they carry for enterprises, the Government has been pursuing a phased approach. Implementation of reforms is spread across several years, with those sectors requiring intensive support accorded priority treatment.

It is against this background that this study was conducted, using the ECE evaluation methodology, which captures the interplay between regulatory and procedural trade measures, enterprise development and export diversification. The aim is to support a coherent treatment of the regulatory and procedural trade measures.

The study shows Georgia as one of the top reformers in the ECE region. The Government has effectively consolidated a private sector led market-based economy with a business-friendly environment. Regulatory and procedural trade barriers are limited, and reflect the inherent complexities of reforms to date. The study highlights Georgia's experience and provides action-oriented recommendations for complementing the Government's development efforts.

We consider this study as an important step in deepening ECE's engagement with the Government of Georgia as it forges ahead in its economic reforms and regional integration efforts. The secretariat will be working closely with the Government, development partners and donor agencies to support the successful implementation of the agreed upon recommendations.



Ms. Olga Algayerova
Under-Secretary-General of the United Nations
Executive Secretary of the
United Nations Economic Commission for Europe

Preface

Since 2010, the ECE has been undertaking demand-driven national studies of regulatory and procedural barriers to trade, with a view to: helping countries achieve greater regional and global economic integration; informing donors as to where assistance might be required; and supporting policy discussions within the Steering Committee on Trade Capacity and Standards (previously, the Committee on Trade) and its subsidiary bodies on where additional work is required.

This study summarizes the key findings of the seventh study, which focuses on Georgia. It was prepared by the ECE secretariat in close consultation with public and private sector stakeholders. The study integrates the outcome of the stakeholder meeting, which was organized in Tbilisi, Georgia on 23 April 2018 by the Ministry of Economy and Sustainable Development to discuss the initial results and recommendations.

Acknowledgments

This study was prepared by Ms. Hana Daoudi (ECE) under the supervision of Mr. Mika Vepsäläinen (ECE). The ECE would like to acknowledge the contribution of the following consultants: Ms. Eka Akhobadze and Ms. Ekaterine Tsvariani from the Georgian Association for Quality for conducting personal interviews with traders in Georgia; Mr. Veaceslav Sterbet for conducting personal interviews with traders in Georgia and for carrying out the business process analysis of the fisheries sector; Ms. Irma Khvedeliani, who conducted personal interviews with representatives of agencies responsible for standardization, quality assurance, accreditation and metrology and prepared detailed transcripts that were used by the secretariat for drafting the study; Mr. Toni Männistö from the Cross-border Research Association, who visited two border crossings points (the sea port of Poti and its surroundings and the Tsiteli Khidi Border Crossing Point between Georgia and Republic of Azerbaijan), conducted personal interviews with State agencies responsible for trade facilitation and summarised the results of the interviews in a background report that was used along with the interview transcripts for drafting the study; and the Overseas Development Institute, particularly Mr. Maximilano Mendez-Para and Ms. Linda Calabresse, who prepared a background report on the country's regional trade dynamics.

The ECE would also like to acknowledge the contribution of the international polling institution SATISCAN Sàrl that designed the electronic database for compiling the results of the personal interviews with traders, provided on the job training to the national team of experts who conducted the interviews, and ensured the data validation and reconciliation of the results.

The ECE would like to thank the following agencies for providing the Georgian Association for Quality with background information on the business enterprise sector: the Georgian Export Development Association, the Ministry of Economy and Sustainable Development, Legal Entity of Public Law "Produce in Georgia", Georgian Farmers Association, and the United States Agency for International Development "Governing for Growth Programme".

The ECE is grateful to the national stakeholders for their engagement throughout the assessment process and for their valuable comments during the stakeholder meeting that was held on 23 April 2018 at the Ministry of Economy and Sustainable Development in Tbilisi. The ECE is also grateful to Mr. Giorgi Chitadze, Head of Unit, Foreign Policy Department, Ministry of Economy and Sustainable Development for his support and assistance in engaging relevant public stakeholders and in organizing the stakeholder meeting for validating the findings of the study.

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Abbreviations

AA	Association Agreement
AEO	Authorized Economic Operator
ASYCUDA	Automated System for Customs Data
BCP	Border Crossing Point
BIPM	International Bureau of Weights and Measures
BPA	Business Process Analysis
CAB	Conformity Assessment Body
CAREC	Central Asia Regional Economic Cooperation
CCP	Customs Crossing Point
CIS	Commonwealth of Independent States
CoO	Certificate of Origin
COOMET	Cooperation of National Metrological Institutions
CP	Customs Platform
DCFTA	Deep and Comprehensive Free Trade Agreement
ECE	Economic Commission for Europe
EDI	Electronic Data Interchange
EN	European Harmonised Standards
EU	European Union
FDI	Foreign Direct Investments
GAC	Georgian Accreditation Centre
GDP	Gross domestic product
GEL	Georgian Lari
GeoStat	National Statistics Office of Georgia
GEOSTM	Georgian National Agency for Standards and Metrology
GITA	Georgia's Innovative and Technology Agency
GSP	Generalised System of Preferences
HACCP	Hazard Analysis and Critical Control Point
ICT	Information and communication technology
IEC	International Electro-Technical Commission
ILAC	International Laboratory Accreditation Cooperation
ISO	International Organization for Standardization
JSC	Joint-Stock Company
LEPL	Legal Entity of Public Law
MFN	Most Favoured Nation

MIA	Ministry of Internal Affairs
MRA	Mutual Recognition Arrangement
OECD	Organisation for Economic Co-operation and Development
OIML	International Organization of Legal Metrology
RIA	Regulatory impact assessment
SAD	Single Administrative Document
SAFE	Standards to Secure and Facilitate Global Trade
SITC	Standard International Trade Classification
SMEs	Small- and medium-sized enterprises
SPS	Sanitary and Phytosanitary
SQAM	Standardization, quality assurance, accreditation and metrology
SW	Single Window
TBT	Technical Barriers to Trade
TCSA	Technical and Construction Supervision Agency
TIR	Transports Internationaux Routiers
TRACECA	Transport Corridor Europe Caucasus Asia
UML	Unified Modelling Language
UN/CEFACT	United Nations Centre for Trade Facilitation and Electronic Business
UNCTAD	United Nations Conference on Trade and Development
UNDOC	United Nations Office on Drugs and Crime
US	United States
USD	United States Dollar
VAT	Value Added Tax
WCO	World Customs Organisation
WTO	World Trade Organization

Chapter One

Introduction

1.1 Country background

Georgia is located on the eastern shore of the Black Sea and shares borders with Turkey and Armenia in the South; the Republic of Azerbaijan in the South and the West; and the Russian Federation in the North. The Government has consistently followed a liberal trade regime, which is geared towards achieving the twin objective of creating efficiency gains for the business community and integrating the economy into regional and global value chains.

Hence, an emphasis on anchoring trade reforms in the multilateral trading system,¹ an array of free trade agreements (Annex 1), a lean institutional set-up and a paperless environment; all of which enable Georgia to successfully implement around 93 per cent of the World Trade Organization (WTO) Agreement on Trade Facilitation before the agreement's entry into force.²

Another salient feature of Georgia's trade regime is its emphasis on generating investments in sectors with direct contribution to job creation and increased specialization in high value-added products. Recent measures have involved the introduction of value added tax (VAT) exemptions on imports of fixed assets, as a way for reducing the costs associated with acquiring new machinery and modern production facilities.³

Trade reforms are complemented by targeted initiatives to support start-ups and help existing enterprises develop their productive capacity. Most notable in this respect are the State programmes "Produce in Georgia" and "Start-Up Georgia". The first helps enterprises access funds for carrying out new investments,⁴ while the second supports high tech and innovative start-ups.⁵ Yet another initiative is the micro and small business grant programme, which provides financial support⁶ and capacity building services to enterprises. Enterprises, particularly micro and small enterprises, also benefit from targeted business development services offered by the Legal Entity of Public Law (LEPL) Enterprise Georgia (Box 1.1).

¹ Georgia became a member of the World Trade Organization on 14 June 2000.

² Georgia ratified the Agreement on Trade Facilitation on 4 January 2016. The agreement entered into force on 22 February 2017.

³ Ministry of Finance of Georgia (2017) Georgia-reforms to development, available at: http://mof.ge/images/File/BROSHURA/2017/Georgia-Reforms_to_Development.pdf.

⁴ The programme provides financial assistance in the form of subsidized interest rates (co-financing of the interest: up to 10 per cent) and partial collateral support of 50 per cent of the loan amount during the initial period (up to 48 months).

⁵ Start-Up Georgia supports high tech and innovative start-ups with funds equivalent to up to 50 per cent of the equity.

⁶ The micro and small business grant programme provides up to Georgian Lari (GEL) 15,000 for enterprises and GEL 5,000 for entrepreneurs. Beneficiaries contribute 20 percent of the loan.

Box 1.1 Enterprise Georgia.⁷ Business Development Services**Market access**

- Planning, organizing and co-financing participation in international relevant trade-shows & conferences
- Planning, organizing and co-financing international targeted trade missions
- Export Catalogue
- Enterprise Europe Network (EEN)
- Online trade platform (tradewithgeorgia.com)
- Connect foreign buyers with Georgian producers

Advice and matchmaking

- Export readiness test for ranking companies according to their needs
- One-on-one coaching sessions with companies interested in expanding export activities
- Training opportunities for managers of export-oriented enterprises operating in the country
- Advice to enterprises, especially small and medium-sized enterprises (SMEs), on export related issues, including tariff levels in target markets

Access to finance

- Co-financing and leasing programmes
- Hotel industry incentive scheme
- Film industry incentive scheme

Micro and Small Business Support

- Matching grants and advisory services

FDI attraction/promotion and after care

- Providing general and sector specific information to potential investors
- Connecting investors with Government bodies and potential local partners
- Organizing exploratory visits for potential investors
- Supporting reinvestment activities

Research

- Sector focused research to gain insights into the development challenges facing the enterprises; identify export potential; and, ascertain investment potential to attract foreign direct investment (FDI).

In 2018, the Government was in the process of consolidating its regional cooperation with neighbouring European countries pursuant to the provisions of its Association Agreement (AA) with the European Union (EU) and the European Energy Community and their Member States. The Government considers the AA, which entered into full force on 1 July 2016,⁸ as an important milestone in the country's development trajectory. To begin with, the EU is Georgia's main trading partner and the enterprises, which have been benefiting from the EU Generalised Scheme of Preference Plus (GSP+) since 2005, are slated for reaping further benefits with the elimination of residual tariffs under the AA Deep and Comprehensive Free Trade Area (DCFTA). Moreover, by virtue of approximating national laws to the EU *Acquis Communautaire*, the Government will be scaling up its legislative and institutional reforms across all policy areas.⁹

⁷ <http://enterprisegeorgia.gov.ge>.

⁸ The Association Agreement was provisionally implemented in September 2014.

⁹ See Georgia's Action Plan for the Implementation of the DCFTA (2014-2017); available at: http://www.economy.ge/uploads/dcfta/DCFTA_Action_Plan_ENG.pdf.

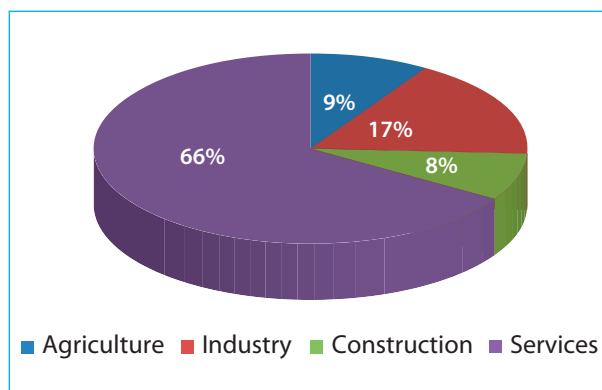
Aware of the complexities of these reforms and the steep learning curve they carry for business enterprises, the Government is pursuing a phased approach to legislative approximation. Implementation is spread across several years, with sectors requiring intensive support accorded the longest period (until 2027) for completing the approximation process.

It is against this background that this study was conducted, using the ECE extended evaluation methodology. The aim is to support a coherent treatment of the regulatory and procedural trade measures, as a pre-requisite for ensuring the successful implementation of the Government's commitments under the DCFTA. The study considers trade facilitation conditions in the country as well as existing quality control and quality assurance infrastructure on their own right and in terms of their implications for regional integration and export diversification. The remainder of this chapter provides an overview of the Georgian economy, the scope of the study and the evaluation methodology.

1.1.1 Economic structure

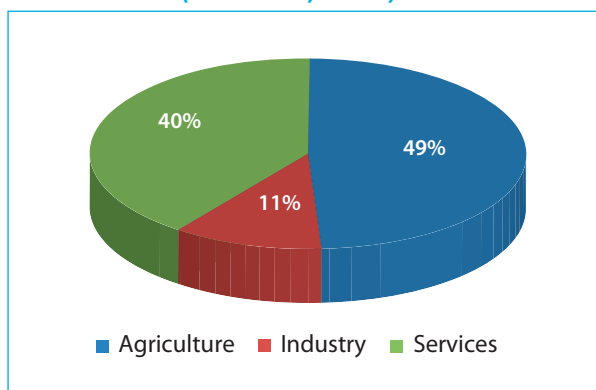
The Georgian economy has historically been service based. The services sector accounted for around 66 per cent of gross domestic product (GDP) in 2016 and absorbed 40 per cent of the labour force (Figures 1.1 and 1.2). The industrial sector (including mining and quarrying, manufacturing and construction) stood as the second source of income generation, with a 25 per cent share of GDP. However, its contribution to job creation was modest, with an 11 per cent share of total employment in 2016. In contrast, the agricultural sector, which generated only 9 per cent of GDP, accounted for the largest share of total employment (49 per cent), reflecting low productivity levels.

Figure 1.1 Georgia's GDP by sector
(% shares, 2016)



Source: National Statistics Office of Georgia (GeoStat)

Figure 1.2 Georgia's labour force by sector
(% shares, 2016)



Source: International Labour Organization Statistics

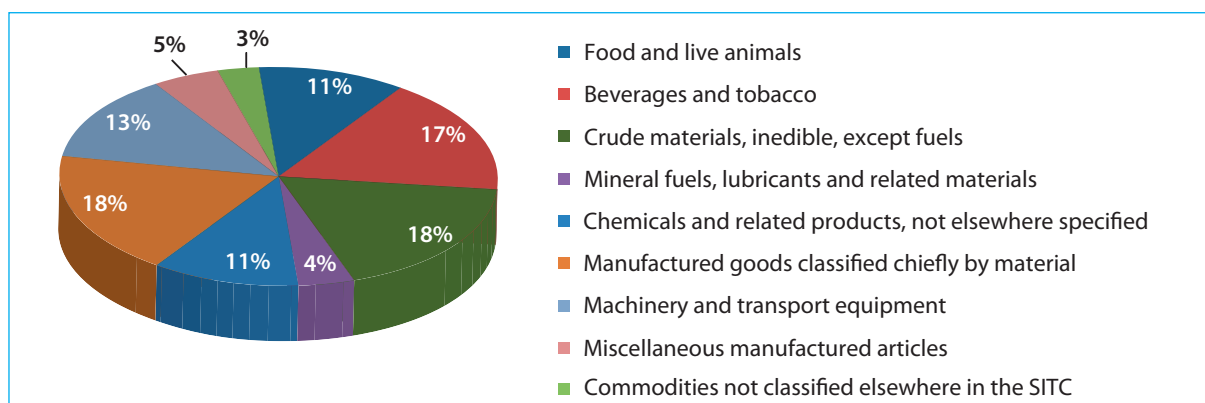
1.1.2 The trade sector

As previously mentioned, Georgia has a liberal trade regime. The Government does not apply quantitative restrictions on imports or exports and maintains a simplified tariff schedule for imports (0 per cent, 5 per cent and 12 per cent).¹⁰ Around 82 per cent of the tariff lines¹¹ (or 8214 out of 10,054 tariff lines) are set at zero per cent. The remaining are set at 5 per cent (235 tariff lines), 12 per cent (1394 tariff lines) or carry non-ad valorem tariffs (211 tariff lines).¹²

¹⁰ The Government abolished import duties on 90 per cent of goods in 2006.

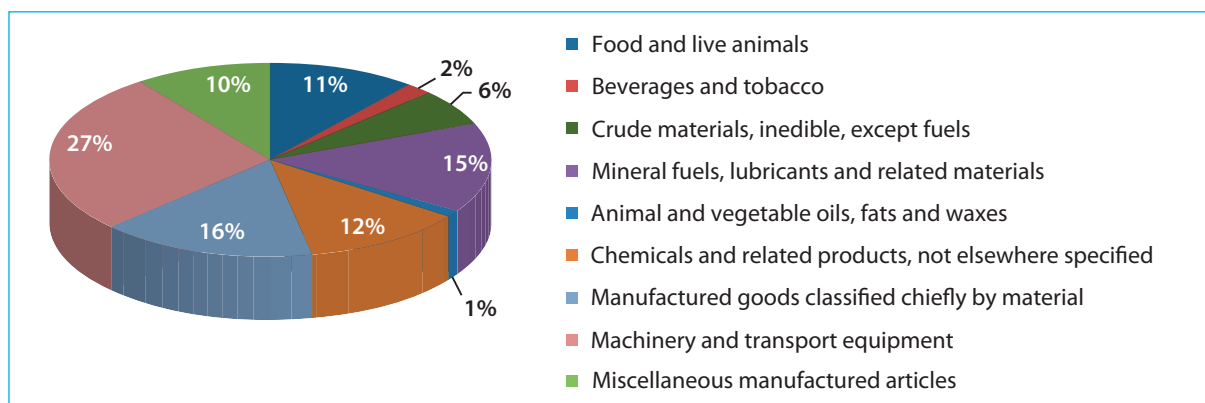
¹¹ Tariff lines are defined at Harmonized System (HS) 11-digits.

¹² Revenue Service, Ministry of Finance of Georgia.

Figure 1.3 Georgia's exports by sector, 2017 (% shares, SITC classification)

Source: GeoStat

Exports are mainly driven by beverages and tobacco, crude materials, manufacturing along with machinery and transport equipment (Figure 1.3). On the import side, Georgia is dependent on international markets for sourcing machinery and equipment, manufactured goods and mineral fuels (Figure 1.4).

Figure 1.4 Georgia's imports by sector, 2017 (% shares, SITC classification)

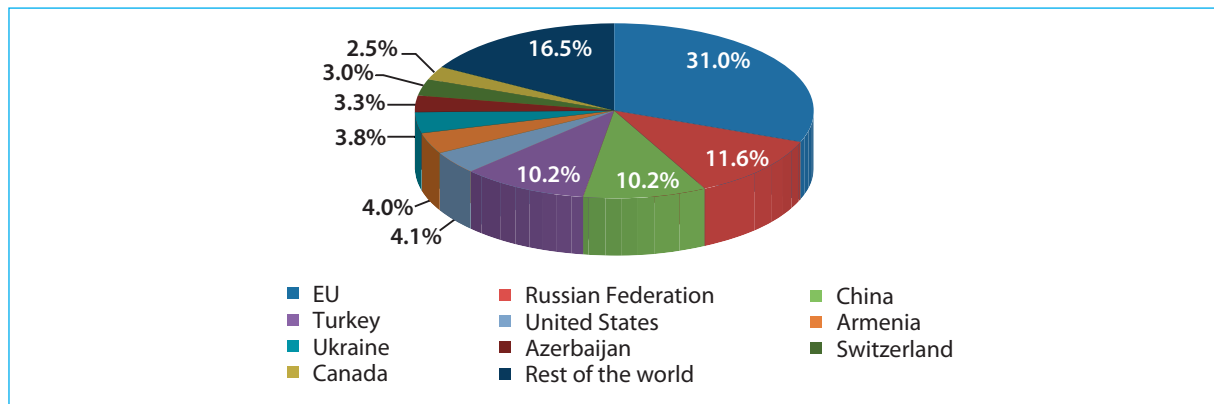
Source: GeoStat

The EU represents Georgia's main partner. As shown in figure 1.5, the EU has consistently stood as the main outlet for Georgian products, accounting for 31 per cent of the country's total exports (equivalent to USD 1.65 billion) in 2016. The Russian Federation ranked second with a significant gap (12 per cent share of Georgia's total exports), followed by Turkey and China (10 per cent share each).

The EU is also the main supply source for Georgian enterprises, and has historically accounted for the largest share of the country's total imports. This share fluctuated between 27.5 per cent and 32.6 per cent over the period 2009-2016, owing to the cyclical fluctuations in the relative prices of oil and gas that dominate Georgia's imports from the region (Figure 1.6).¹³

¹³ A detailed discussion of Georgia's import patterns is provided in chapter five.

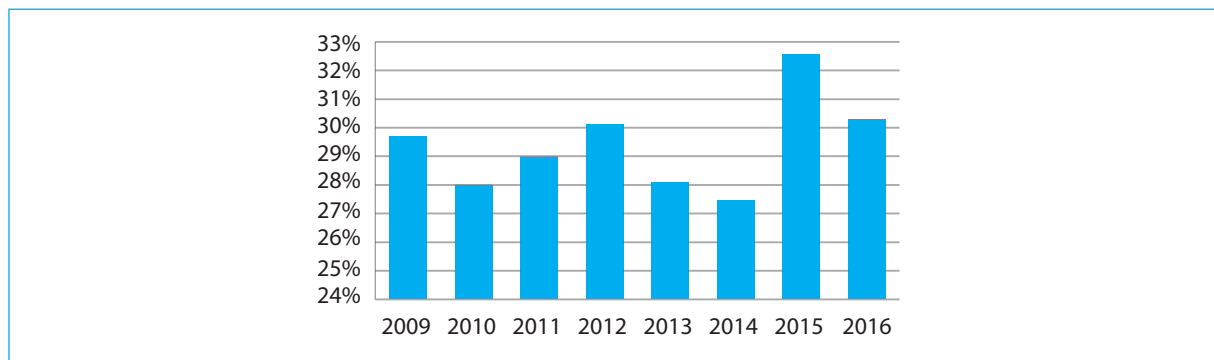
Figure 1.5 Georgia’s main export markets



Source: Calculations based on UN Comtrade data

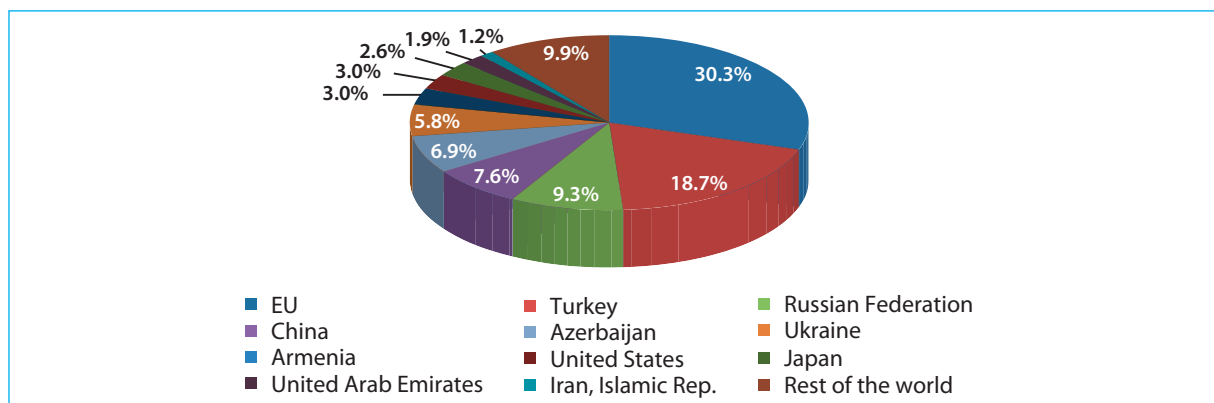
As shown in figure 1.7, the EU accounted for 30 per cent of the country’s total imports in 2016. Turkey ranked second (18.7 per cent), followed by the Russian Federation (9.3 per cent).

Figure 1.6 The EU’s share in Georgia’s imports



Source: Calculations based on UN Comtrade data

Figure 1.7 Georgia’s main supply sources (2016)

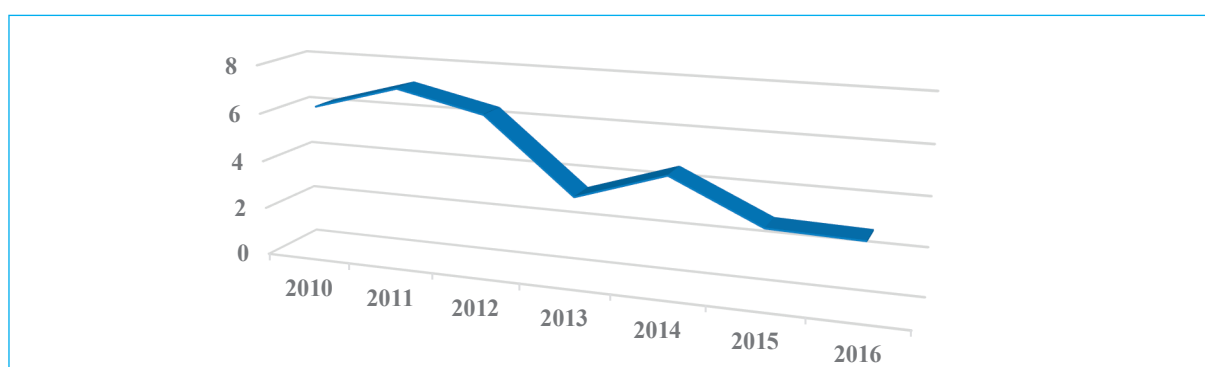


Source: Calculations based on UN Comtrade data

1.1.3 Challenges and emerging opportunities

The Georgian economy has consistently registered positive economic growth since 2010 benefiting from the comprehensive measures that were implemented by the Government to address the lingering impact of the global financial crisis. Combining legislative reforms with heavy investments in public utilities and a stimulus package centred on job creation, these measures pulled the economy out of recession, with GDP growing at 6.2 per cent and 7.2 per cent in real terms in 2010 and 2011, respectively. This growth was slowed down by the lack of political stability in subsequent years, with GDP growth rate regressing to 2.8 per cent in real terms by 2016 (Figure 1.8).

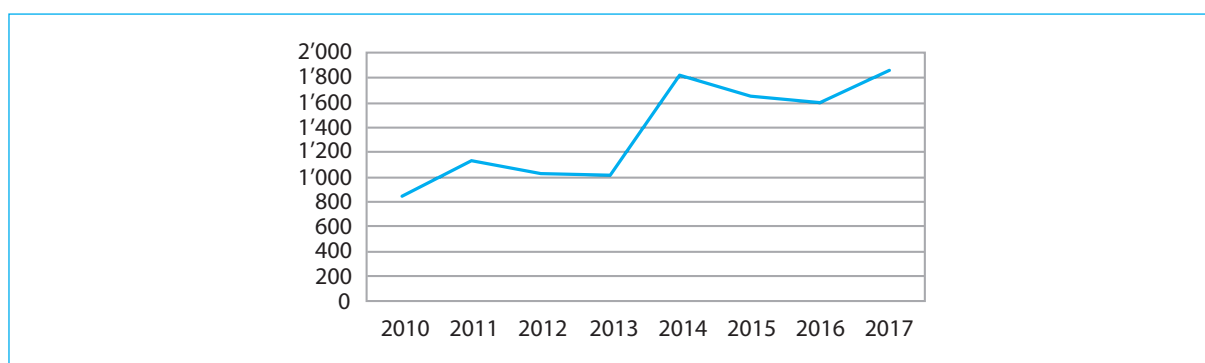
Figure 1.8 Georgia's real GDP growth (%)



Source: GeoStat

Recent estimates show the economy as picking up steam, with GDP growing by 5.3, 4.9 per cent and 4.4 per cent in real terms during the first three quarters of 2017 in relation to 2016. Similarly, FDI inflows registered a significant increase from USD 1.6 billion in 2016 to around USD 1.9 billion in 2017, thereby exceeding its post-recession peak registered in 2014 (Figure 1.9). Underpinning FDI inflows was a steady increase in gross fixed capital formation, with its share in GDP increasing from 22 per cent in 2010 to 33 per cent in 2016.¹⁴

Figure 1.9 FDI inflows to Georgia (USD million)



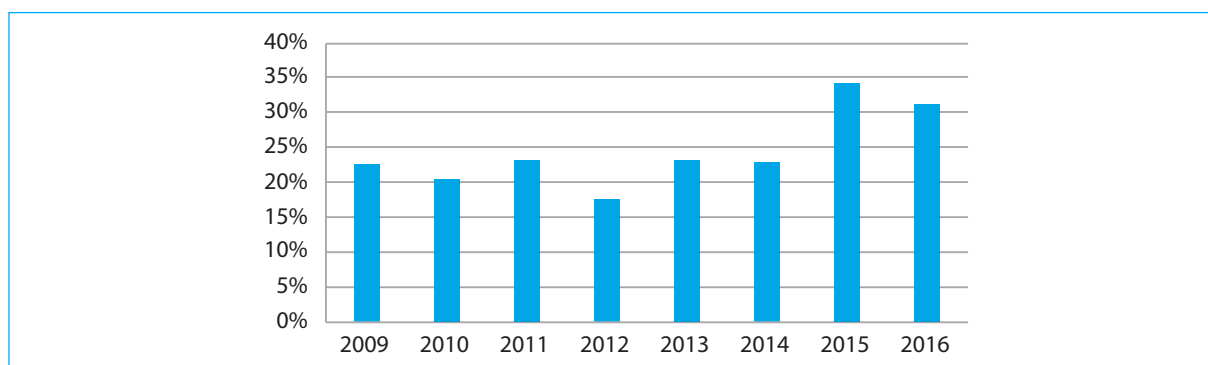
Source: GeoStat

¹⁴ World Bank Database.

These positive indicators translated into improved budgetary performance, with the share of the budget deficit in GDP decreasing from 5.7 per cent in 2010 to 3.6 per cent in 2017.¹⁵ However, the economy remains incapable of creating enough jobs evidenced by the double digits unemployment rates, which stood at 11.8 per cent in 2016. Moreover, poverty remains a major concern, with 21.3 per cent of the population living below the national absolute poverty line in 2016.¹⁶

Thus, the challenge facing the Government is how best to expand its export base in a manner that allows for reducing poverty and stimulating a structural transformation towards increased specialization in technology intensive products with high value-added. The DCFTA provides an important means for addressing this challenge, offering the enterprises with improved market access conditions. As shown in figure 1.10, enterprises were quick to capitalize on these conditions, with the EU's share in Georgia's total exports increasing from 23 per cent in 2014 to around 34 per cent in 2015, following the provisional implementation of the AA.¹⁷ However, exports to the EU registered a slight decline in 2016 in relation to the previous year. This suggests a wearing off of the positive stimuli that came with the improved market access conditions and the intensifying development efforts.

Figure 1.10 The EU's share in Georgia's exports



Source: UN Comtrade

1.2 Methodology

The ECE evaluation methodology features actor-oriented questionnaires, geared to ascertaining behind and at-the-border regulatory and procedural trade barriers. The questionnaires focus on: (i) trade facilitation measures; (ii) quality control systems embodied in standardization policies, technical regulations, quality assurance, accreditation and metrology (SQAM); and (iii) trade-related infrastructure, including transport and logistics.¹⁸ Below is a brief discussion of the concepts and analytical parameters underpinning the methodology.

1.2.1 Analytical parameters

The analysis of trade facilitation conditions is based on the ECE Buy-Ship-Pay (BSP) reference model, which provides a system-based conceptualization of international trade transactions. These transactions are treated as proceeding along **a single continuous process**, which spreads across the three main operations carried out by traders:

¹⁵ International Monetary Fund (2017), First Review under the Extended Fund Facility and Request for Modification of Performance Criteria, Country Report No. 17/361, December; available at: <https://www.imf.org/en/Publications/CR/Issues/2017/12/07/Georgia-First-Review-under-the-Extended-Fund-Facility-and-Request-for-Modification-of-45448>.

¹⁶ GeoStat.

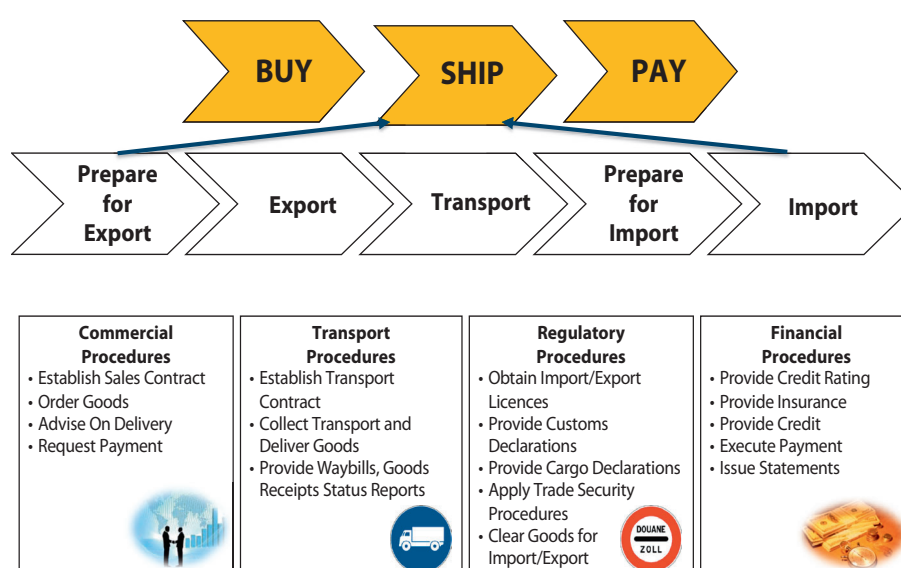
¹⁷ The DCFTA was among the essential elements of the AA that came into force in September 2014.

¹⁸ The ECE evaluation methodology is available online at: <https://www.ECE.org/tradewelcome/studies-on-regulatory-and-procedural-barriers-to-trade.html>.

- BUY – the conclusion of trade terms and the establishment of sales contract.
- SHIP – physical transfer of the goods, including regulatory procedures related to official controls;
- PAY – payment transactions (the claim for the payment in the case of exports, and the payment for the purchased goods in the case of imports).

As shown in Figure 1.11, the business processes are seen as a chain of logically sequenced activities to establish commercial contracts (commercial procedures); arrange for the inland and cross-border transportation of goods (transport procedures); complete export and import formalities (regulatory procedures); and secure payments (financial procedures).

Figure 1.11 ECE international supply chain Buy-Ship-Pay reference model



The questionnaires target supply chain actors, including traders, State officials, transport operators, logistical service providers¹⁹ and market support institutions, with a view to identifying capacity shortfalls undermining overall end-to-end value chain operations. Actors are assessed in terms of their contribution to increasing the efficiency, transparency and predictability of trade, as opposed to their functional performance.²⁰ Attention is also given to trade documents and procedures, which are measured against key trade facilitation principles, including transparency, communications, consultations and cooperation; simplification, practicability and efficiency; non-discrimination, consistency, predictability and due process; harmonization, standardization and recognition; and the use of modern information and communication technology (ICT) systems.²¹

The insights emerging from the actor-oriented questionnaires are complemented by a sector-focused assessment of regulatory and procedural barriers to trade, using the ECE/ESCAP Business Process Analysis (BPA) methodology.²² The methodology applies the Unified Modelling Language, which uses internationally

¹⁹ Only transport operators and logistical service providers with extensive services and broad geographic coverage were interviewed.

²⁰ For a detailed discussion of this Model, see ECE Recommendation 18 (ECE, 2001).

²¹ ECE (2006). Towards an Integrated Strategy for UN/CEFACT, Geneva, Switzerland.

²² The latest version of the joint ECE/ESCAP Business Process Analysis Model (2012) is available online at: www.unescap.org/unnext/tools/business_process.asp.

recognized standard graphical notations for mapping the day-to-day activities carried out under the BSP categories. The aim is to capture:

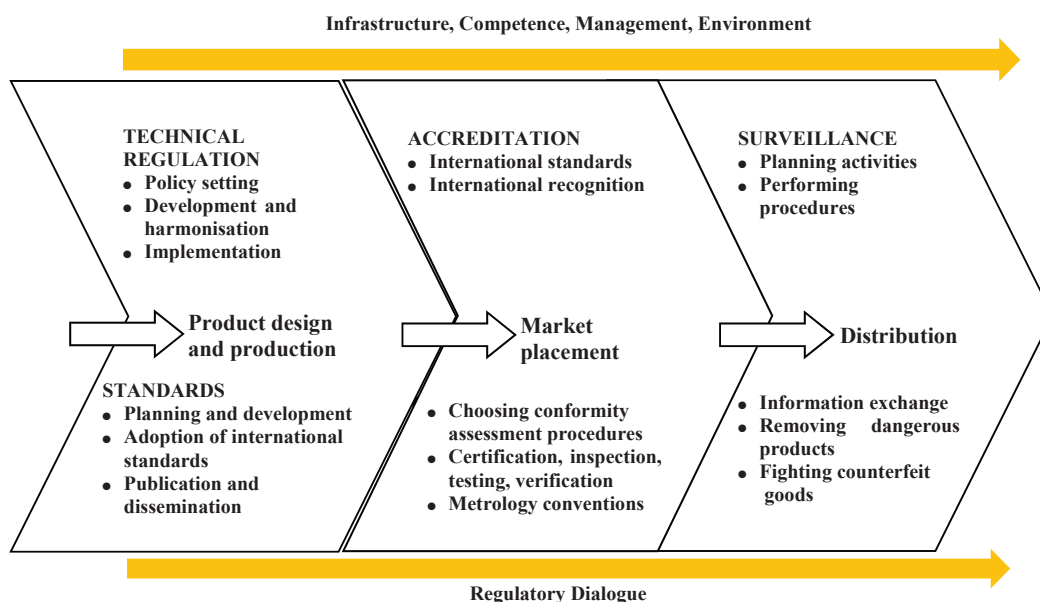
- Quantitative (time/money) and qualitative impacts of regulatory and procedural barriers;
- Shortfalls in transport and logistical services;
- Shortcomings in the country's SQAM system;
- Shortfalls in public-private sector consultative mechanisms;
- Key policy issues with direct bearing on the traders' performance;
- Alternative options for addressing the identified regulatory and procedural barriers;
- Capacity-building needs of State agencies, traders, the transport sector, and logistics service providers.

The results of the BPA could serve as a basis for the:

- Analysis of data requirements and data flow;
- Development of standardized data;
- Design of improved export processes;
- Design of a prototype single window entry form;
- Design of a prototype single window entry system;
- Decisions on infrastructure and logistics services development;
- Design of appropriate laws and market support institutions.

To take the analysis a step further, the study uses the product life cycle approach to ascertain capacity shortfalls within the SQAM system. As shown in Figure 1.12, regulations and institutions are assessed in terms of their impact on product design, its placement on the market and eventual distribution.

Figure 1.12 Product life cycle and regulatory system processes



1.2.2 Concepts and terminologies

The concept of “trade facilitation” and the terms covered under “SQAM” are to be understood as follows:

- **Trade facilitation** refers to the extent to which import/export procedures, information and documentation requirements are rationalized, harmonized, simplified, streamlined and automated to reduce transaction costs and increase overall efficiency and transparency.
- **Standardization policies** refer to policy documents and legislation concerned with the formulation, publication, and implementation of guidelines, rules, and specifications associated with the characteristics of products, such as its size, shape, design, functions and performance, or the way they are labelled or packaged before being placed on the market. A **Standard** refers to a technical specification approved by a recognized national, regional or international standardization body and made available to the public for repeated or continuous application. Conformity with standards, which are developed by public or private entities, is voluntary.²³ When a standard is referenced in legislation (as a basis for technical regulation), it becomes mandatory.
- **Technical regulations** are to be understood pursuant to the Agreement on Technical Barriers to Trade (TBT) as a “document which lays down product characteristics or their related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory. These may also include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method”. Technical regulations are mandatory.
- **Conformity assessment** is to be understood pursuant to the Agreement on TBT, as involving procedures used, directly or indirectly, to determine that relevant requirements under technical regulations are fulfilled. Conformity assessment can be set up as voluntary “self-regulation” or mandatory schemes.²⁴
- Related to conformity assessment is **accreditation**, which refers to independent evaluation of testing and calibration laboratories, management systems, inspection bodies and so on, to confirm compliance with internationally recognized standards and requirements for risk reduction purposes.
- **Metrology**, traditionally known as “weights and measures”, is the science of measurement. Together with standardisation, accreditation and conformity assessment, it is one of the essential pillars of national quality infrastructure. Scientific and industrial metrology is crucial for establishing and disseminating measurement units and providing the necessary tools to support the measurements needed by industry. Legal metrology ensures the credibility of measurements and measuring instruments in regulated areas of trade, health, safety and environment. It is vital, not only for consumer protection, but also for protecting export revenues and official measurements.

1.3 Scope of the study

This study focuses on strategic non-resource based sectors, which were selected in consultation with the Ministry of Economy and Sustainable Development, based on their contribution to exports and income growth in general. Listed using the Standard International Trade Classification (SITC) Revision 3 (top level), these sectors include:

- Food and live animals;
- Beverages and tobacco;
- Animal and vegetable oils, fats;
- Chemicals and related products;
- Manufactured goods classified chiefly by material;

²³ The study only focuses on public standards and the policies associated with their development.

²⁴ The study only focuses on mandatory conformity assessment schemes.

- Machinery and transport equipment;
- Miscellaneous manufactured articles.

The regulatory and procedural barriers to trade were identified using actor-oriented questionnaires targeting supply chain members including, traders, State officials, transport operators, logistics service providers and market support institutions.²⁵ These were approached in 2017 by ECE national and international consultants during personal interviews, and are listed below.

Traders

In-depth interviews were carried out with 65 traders from across the country during the period October 2017-January 2018. The traders were selected based on the level of their engagement in international trade. Thus, only traders with relatively significant export and import activities were approached.

As will be shown in the next chapter, the selected business enterprises share the salient features of this sector. Their views and concerns are, therefore, pertinent for gaining a better understanding of regulatory and procedural barriers to trade and the implication for export diversification and regional integration.

Ministries and State agencies

- Ministry of Economy and Sustainable Development
- Ministry of Environmental Protection and Agriculture
- Ministry of Labour, Health and Social Affairs
- National Food Agency under the Ministry of Environmental Protection and Agriculture
- Customs Department of the Revenue Service, Ministry of Finance
- Customs Clearance Zones (Tbilisi and Batumi)
- Legal Entity of Public Law (LEPL) Georgian National Agency for Standards and Metrology
- LEPL Georgian Accreditation Centre

Logistics service providers

- APM Terminals Poti

1.4 Outline of the study

The study is divided into seven chapters. The introduction in Chapter 1 is followed by the profile of the interviewed traders in Chapter 2. Chapter 3 provides an assessment of trade facilitation conditions in the country, and leads to an examination of the institutional bottlenecks facing State agencies involved in the areas of technical regulation, standardization and conformity assessment in Chapter 4. The two chapters also identify priority needs and propose practical, action-oriented recommendations for the Government's consideration. Chapter 5 highlights the implications of the identified barriers for regional integration, while Chapter 6 brings forward the interplay between the identified barriers and export diversification. Chapter 7 provides concluding remarks and recommendations.

A thorough analysis of regulatory and procedural barriers to increasing exports of frozen anchovies is provided in the appendix to this study. The analysis brings forward priority needs that should be addressed in tandem with the recommendations provided in chapter 7.

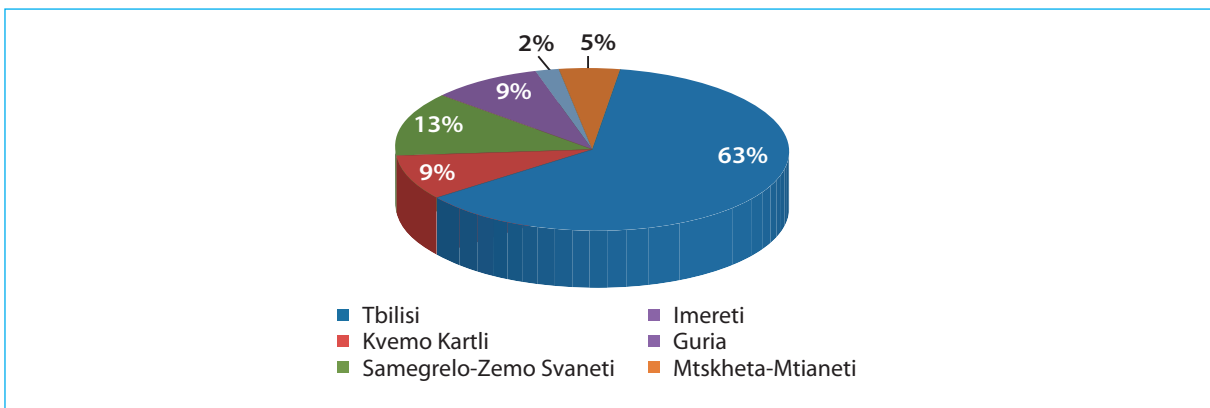
²⁵ Only transport operators and logistical service providers with extensive services and broad geographic coverage were interviewed.

Chapter Two

Traders' Profile

As previously mentioned, this study involved personal interviews with 65 traders using the ECE traders' questionnaire. The traders represented private enterprises (except for one enterprise that belonged to the public sector), and were engaged in priority sectors identified by the Government. This chapter provides the profile of these business enterprises to set the context for the analysis.

Figure 2.1 Distribution of the surveyed enterprises by region (% shares)



2.1 Location, size and activities

Around 63 per cent of the surveyed business enterprises are in the region of Tbilisi (Figure 2.1). The region of Samegrelo-Zemo Svaneti is home for the second largest segment followed by the regions of Kvemo Kartli and Imereti, mirroring the country wide spatial distribution of enterprises (Figure 2.2). The enterprises are concentrated in the country's major industrial hubs, including the capital city of Tbilisi, Rustavi, the port city Poti and Kutaisi (Figure 2.3), and operate from industrial estates (57 per cent of the enterprise) and commercial areas (53 per cent).

Figure 2.2 Distribution of Georgia's enterprises by region (% shares, as at March 2018)

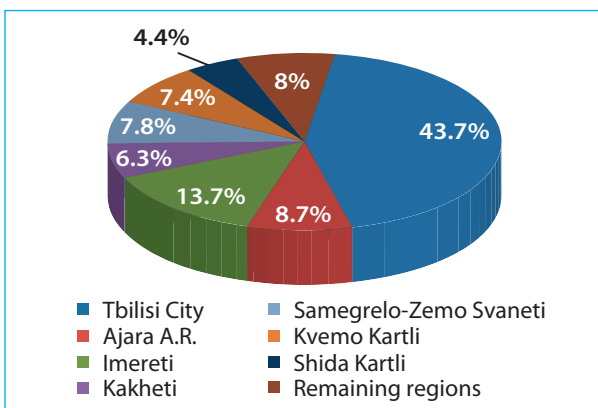
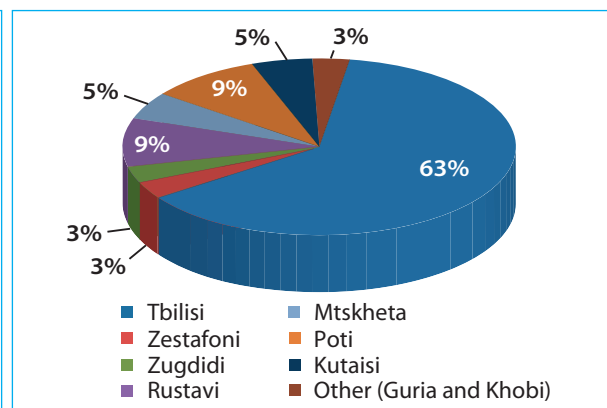
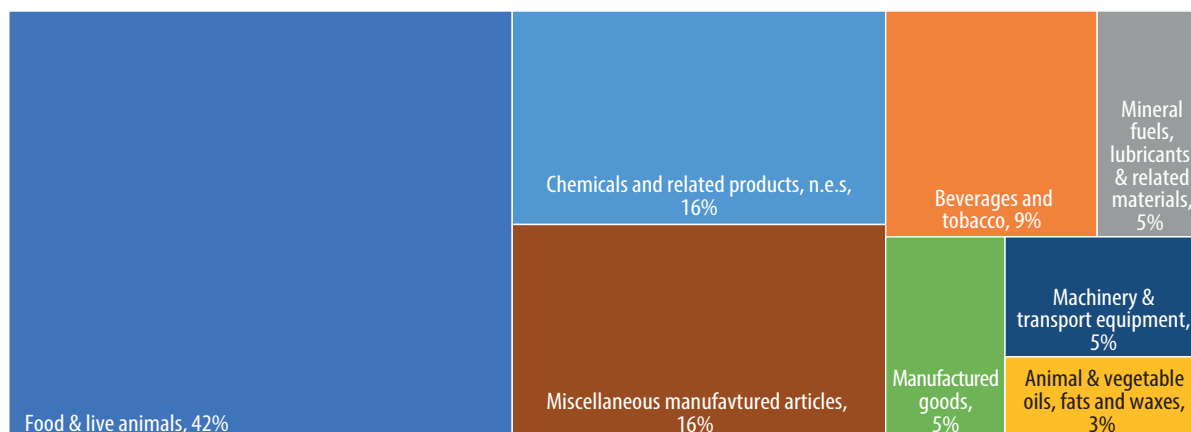


Figure 2.3 Distribution of the surveyed enterprises by city



The surveyed business enterprises are dominated by small enterprises, employing between 10 and 49 persons. These constituted the largest segment (45 per cent), followed by medium enterprises employing between 50 and 249 persons (25 per cent). Micro enterprises employing fewer than 10 persons represent the third largest segment (17 per cent), with large enterprises (employing 250 persons and above) accounting for the remaining 14 per cent.²⁶

Figure 2.4 Breakdown of the surveyed enterprises by sector



Most of the enterprises belong to agriculture. As shown in figure 2.4, agri-industry represents 42 per cent of the surveyed enterprises, followed by those engaged in the production of miscellaneous manufactured goods (10 per cent) and chemical products (10 per cent).

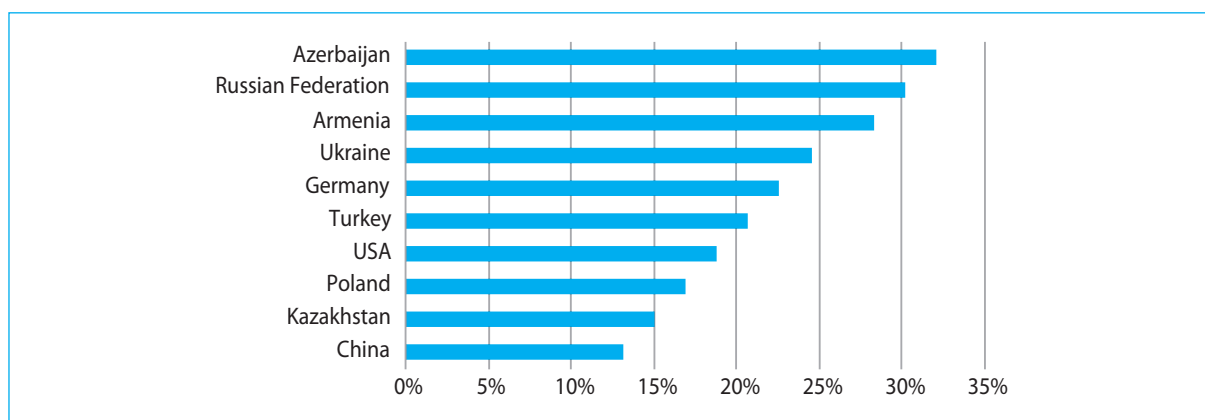
Moreover, around 92 per cent are engaged in production activities. As shown in Annex 2, the business enterprises manufacture 74 products, including 71 final and 3 semi-final products. These are produced using both domestic and sourced raw materials, with 58 per cent of the enterprises reporting heavy involvement in import activities. The enterprises sell these products (along with some of the imported goods) in domestic and global markets, with 82 per cent reporting a consistent involvement in export activities.

2.2 Export-import mix and trading partners

The surveyed business enterprises export 63 products, the bulk of which is sold in Republic of Azerbaijan (Figure 2.5). This overall pattern masks differences at the sectoral level, with exporters of beer, hazelnuts, lemonade, medicinal herbs, wine and water showing the most diversified export markets. Enterprises engaged in the production of sandwich panels, steel pipelines and organic fertilizers seem to be the least successful in establishing themselves abroad, with their products sold in one market only (Annex 3).

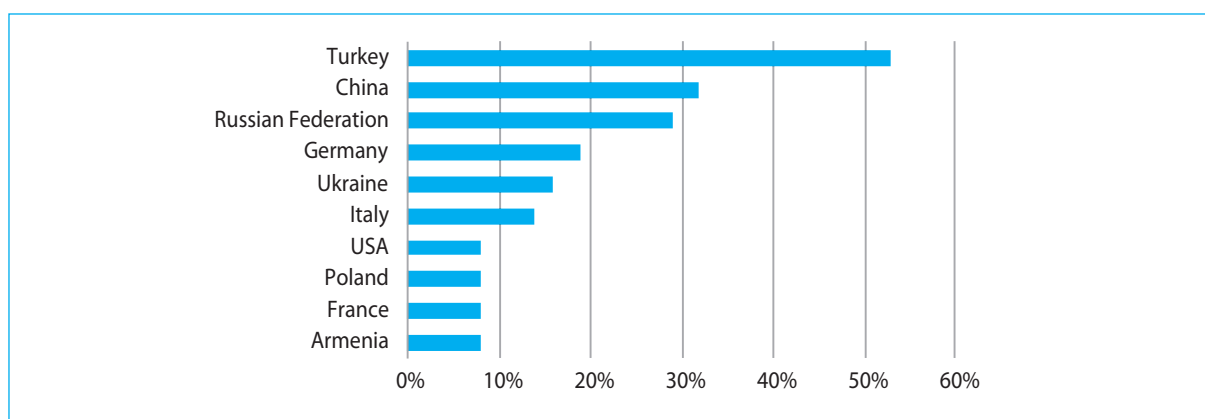
²⁶ The classification of SMEs follows the EU Commission Recommendation 2003/361/EC “Concerning the Definition of Micro, Small and Medium-sized Enterprises”.

Figure 2.5 The surveyed enterprises main export markets



On the import side, the business enterprises source 70 products. As shown in figure 2.6, Turkey supplies around 53 per cent of these products, followed by China (32 per cent) and the Russian Federation (29 per cent).

Figure 2.6 The surveyed enterprises supply sources



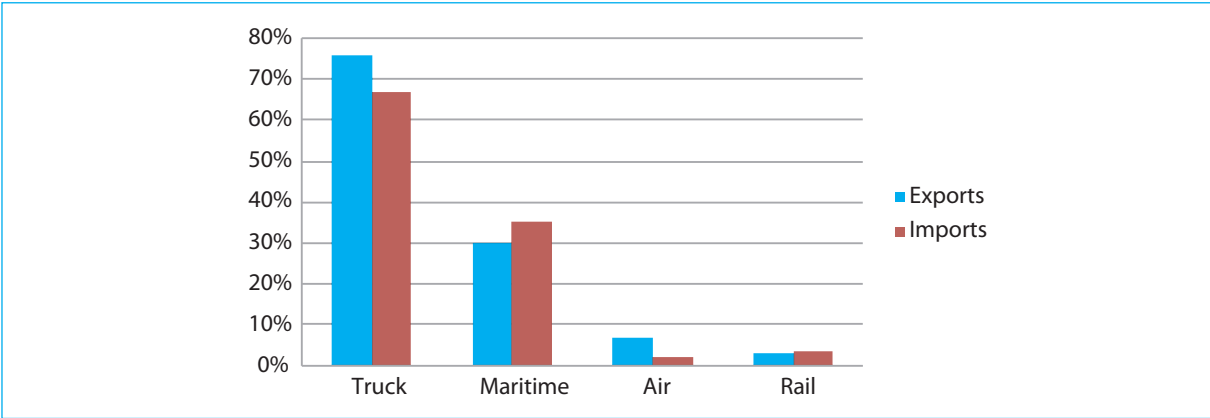
2.3 Transport modes of choice

Trucks stand out as the transport mode of choice for the surveyed business enterprises, which are sometimes used in combination with sea transport depending on the destination country (Figure 2.7). Maritime transport was singled out as the sole mode of transport for goods destined to Belgium, China, Japan, Ukraine and the United States (US) or for importing goods from India, Belgium, Jamaica, Netherlands and the US.

Rail does not figure among the traders' transport modes of choice. It is mainly used for shipping goods destined to/imported from/transiting through Armenia, the Republic of Azerbaijan as well as Central Asia, and is sometimes used for transporting goods destined to/imported from China.²⁷ Similarly, transport by air is used for shipping small packages (often for emergency shipments).

²⁷ Georgia's railway network serves as a transit to Armenia, Republic of Azerbaijan and Central Asia.

Figure 2.7 The surveyed enterprises transport modes of choice



Chapter Three

Trade Facilitation Conditions

3.1 Introduction

Trade facilitation is accorded priority treatment by the Government, which is a signatory to many ECE transport agreements and conventions (Table 3.1). As previously mentioned, Georgia has already implemented 93 per cent of the WTO Agreement on Trade Facilitation's provisions before the agreement's entry into force.²⁸ As shown below, this was made possible by the Government's persistent efforts to consolidate a paperless trading system.

Table 3.1 Georgia's participation in ECE Transport Agreements and Conventions

Area	Agreements and Conventions
Infrastructure networks	<ul style="list-style-type: none">● European Agreement on Main International Traffic Arteries (AGR), 1975● European Agreement on Important International Combined Transport Lines and Related Installations (AGTC), 1991
Road traffic and road safety	<ul style="list-style-type: none">● Convention on Road Traffic, 1949● Convention on Road Traffic, 1968● Convention on Road Signs and Signals, 1968● European Agreement supplementing the 1968 Convention on road signs and signals, 1971● Protocol on Road Markings, 1973
Vehicles	<ul style="list-style-type: none">● Agreement concerning the Adoption of Uniform Technical Prescriptions for Wheeled Vehicles, Equipment and Parts which can be fitted and/or be used on Wheeled Vehicles and the Conditions for Reciprocal Recognition of Approvals Granted on the Basis of these Prescriptions, 1958● Agreement concerning the Adoption of Uniform Conditions for Periodical Technical Inspections of Wheeled Vehicles and the Reciprocal Recognition of Such Inspections, 1997
Other Legal Instruments Related to Road Transport	<ul style="list-style-type: none">● European Agreement concerning the Work of Crews of Vehicles engaged in International Road Transport (AETR), 1970● Convention on the Contract for the International Carriage of Goods by Road (CMR), 1956● Protocol to the Convention on the Contract for the International Carriage of Goods by Road (CMR), 1978
Inland navigation	<ul style="list-style-type: none">● Convention relating to the Unification of Certain Rules concerning Collisions in Inland Navigation, 1960● Convention on the Registration of Inland Navigation Vessels, 1965● Convention on the Measurement of Inland Navigation Vessels, 1966

²⁸ The Agreement on Trade Facilitation entered into force on 22 February 2017 following its ratification by two-thirds of the WTO membership.

Area	Agreements and Conventions
Border crossing facilitation	<ul style="list-style-type: none"> ● Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), 1975 ● Customs Convention on Containers, 1972 ● International Convention on the Harmonization of Frontier Controls of Goods, 1982 ● Convention on Temporary Admission, 1990
Dangerous goods and special cargo	<ul style="list-style-type: none"> ● European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR), 1957 ● Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be Used for such Carriage (ATP), 1970

Reforms to date have involved the modernization of customs administration through the integration of tax procedures and border control functions into one state agency; namely, the Revenue Service, which is a Legal Entity of Public Law of the Ministry of Finance of Georgia. The Revenue Service is responsible for tax and customs administration, sanitary and phytosanitary (SPS) border control, and passport control (namely, truck drivers).²⁹

Customs modernization efforts have also involved the introduction of the United Nations Conference on Trade and Development (UNCTAD) Automated System for Customs Data (ASYCUDA), which supports the full automation of customs clearance procedures (including data entry and direct registration, risk analysis, calculation of duties and taxes, and payment and accounting) using international standards.

The automated system is operational throughout the country, with the most advanced web-based version (eCustoms ASYCUDA *World*),³⁰ fully integrated into the Revenue Service Customs information system, hereafter Customs Platform (CP), to enable online handling of customs declarations (from cargo manifests and transit documents to customs detail declarations) and support the implementation of risk-based control. User access to eCustoms is password controlled and is granted to traders upon request.³¹ The platform also supports online payment; consolidates the registered traders' tax information in a single taxpayer accounting card;³² and, since 2016, has featured a unified treasury code.³³

The CP is also used to disseminate internal alerts containing up-to-date information on applied rules and administrative procedures and is linked to the Georgian Governmental Network, which supports timely exchange of information using electronic data interchange (EDI). CP is also linked to the single permit system, known as the "Unified Electronic System of Licenses, Permits and Certifications", which was launched in 2014 for generating mandatory permits and licenses (Table 3.2).

²⁹ Revenue Service also conducts passport control of passengers on behalf of the Border Police upon the request of the Border Police. As shown in section 3.4, in 2018, border control functions fall under the responsibility of two agencies: Revenue Service (Tax and Customs Administration, SPS Border Control Agency, passport control of truck drivers) and the Patrol Police Department of the Ministry of Internal Affairs of Georgia (passport and immigration control).

³⁰ The Revenue Service uses the most recent version of the ASYCUDA *World* customs declaration system, called eCustoms, and data fields are aligned with the United Nations Layout Key. Thanks to the approximation of Georgian laws with the requirements of the European Union *Acquis Communautaire*, most of the certificates and trade documents have been largely harmonized. Detailed information on ASYCUDA *World* is available at <http://www.asycuda.org/asyworld/>.

³¹ Companies can request access to the eCustoms ASYCUDA *World* system by filling in a form online (www.rs.ge).

³² This includes information on declared and paid taxes; accrued or deducted, overpaid or refunded tax amounts; tax arrears; imposed tax sanctions; and paid or unpaid customs duties.

³³ The unified treasury code streamlined and standardized the tax payment system, as taxpayers use one treasury code for paying their taxes (instead of 125 codes, which were used to process tax payment before 2016). In addition, overpaid taxes are recorded at gross and not by each type of tax individually, therefore the excess amounts are automatically offset against tax liability by the end of the day. Traders no longer have to request to transfer overpayments from one type of tax to another, which cost the traders around 5100 transactions on an annual basis.

The single permit system enables companies to apply for permits and licenses online through a single interface.³⁴ Applicants submit requests and support documents (electronically) and are duly notified (by mail and short message service) when the relevant authority has made the decision. Traders do not need to resubmit their permits and licenses to the Georgian Revenue Service during the declaration process (the e-Customs ASYCUDA *World* declaration system is connected to the Single Permit System), and all permits and licenses are stored in an electronic database that is accessible to relevant government authorities.

Table 3.2 Georgia's Unified Electronic System of Licenses, Permits and Certifications (2018)

Agency	Type of information exchanged	Permits /licenses
Ministry of Environmental Protection and Agriculture	<ul style="list-style-type: none"> • Quotas • Permits and licenses 	<ul style="list-style-type: none"> • License to export, re-export and import sea derivatives of the species included in the Annexes of the CITES convention • Permit to import, export and transit radioactive materials, raw materials from which nuclear material can be obtained or manufactured, equipment containing radioactive substances, nuclear technology or know-how • Permit to the export of radioactive waste • Permit to import products of plant origin subject to phytosanitary control • Permit to import products subject to veterinary control • Permits to transit of products subject to veterinary control
Ministry of Labour, Health and Social Affairs	<ul style="list-style-type: none"> • Information on medicines/narcotic and psychotropic substances • Permits and licenses 	<ul style="list-style-type: none"> • Permit to import medicines subject to special control. • Permit to export medicines subject to special control
Ministry of Internal Affairs	<ul style="list-style-type: none"> • Information on passengers and vehicles border crossing • Permits 	<ul style="list-style-type: none"> • Permit to citizens of Georgia to import or export (except transit and re-export) firearms and/or gas ammunition by a citizen of Georgia • Permit to import or export hunting or sporting firearms and/or ammunition by foreign nationals • Permit to remove sport or hunting firearms temporarily from Georgia and import to Georgia by participating in sporting events abroad by the appropriate sport institution • Permit to extract civilian firearms and/or gas weapons purchased by a foreign citizen in Georgia

³⁴ Traders can make their online submissions at: www.eservices.rs.ge. The issuance of licenses and permits, including the criteria for determining service fees, are established under the Law on Licenses and Permits of 2005.

Agency	Type of information exchanged	Permits /licenses
Ministry of Defence	Permits	<ul style="list-style-type: none"> ● Permit to import, export, re-export or transit of civilian weapons, key elements of firearms, ammunition and key elements of ammunition ● Permit for import of military products ● Permit for export of military products ● Permit for transit of military products ● Permit to technical assistance on military products ● Permit to brokering service on military products ● Permit to collect and exhibit firearms
Ministry of Culture	Licenses	License to export goods of cultural value (in 2017, exchanged in paper format)
LELP Land Transport Agency, Ministry of Economy and Sustainable Development	<ul style="list-style-type: none"> ● Information on passengers and vehicles border crossing ● Permits 	<ul style="list-style-type: none"> ● Permit/authorization for international carriage of cargo and transportation of passengers under international agreements, conventions and legislative acts of Georgia ● Permit for international freight transportation from the territory of Georgia (above the quota established in international agreements between Georgia and its trade partners) ● Permits to import surveillance equipment ● License to export surveillance equipment

Thus, Georgian traders can obtain the customs declaration and all the necessary permits online. Traders could also approach customs officers at the Revenue Service Customs Clearance Zones (CCZs)³⁵ with all the necessary documentary requirements, and request their assistance in preparing and submitting e-declarations.³⁶ As shown in section 3.4, the CCZs, which cover several hectares, operate all day throughout the week and are equipped with modern infrastructure and a special parking area for hundreds of trucks. They offer the unique service of customs declaration submission and issuance following the one stop shop principle.

The above-mentioned trade facilitation measures encompass a full-fledged risk based approach to border controls, which limits physical inspection to high risk consignments. The Risk Management Division of the Revenue Service operates a multi-faceted system, which uses the ASYCUDA *World* risk module to compare customs declaration data against pre-determined risk indicators, profiles, random checks, rules and other datasets (compiled using information obtained from the Ministry of Internal Affairs Patrol Police Department, the Public Service Hall, National Agency of Public Registry, Civil Registry and Notary Chamber of Georgia).³⁷

³⁵ Established in 2010, the CCZs are geared to address the logistical, administrative, and procedural bottlenecks to the smooth flow of border control functions at border crossing points, including air, rails, road and ports.

³⁶ Introduced as part of its reform measures to address the recurrent misconduct by customs brokers, the Revenue Service took over the customs brokerage activities. The Revenue Service does not have any licensing schemes for customs brokers; the brokerage industry was non-existent in 2018.

³⁷ The customs risk management of the Revenue Service has access to the electronic databases of the Patrol Police Department (passport and vehicle data), Ministry of Justice (tax payers' registration data), Public Service Hall, National Agency of Public Registry, Civil Registry, and the Notary Chamber of Georgia.

Customs declaration data is also compared against complementary tactical and strategic intelligence information received from other Georgian law enforcement agencies, neighbouring countries and through the alerts of the World Customs Organization (WCO) and its Customs Enforcement Network.

Based on the analysis of available information, the system automatically assigns clearance/control channels (Green: clearance without examination; Yellow: documentary examination required; Red: documentary and physical examination required; and Blue: post clearance audit), and generates on-screen alerts and instructions for examining officers. The Revenue Service also conducts risk based checks at border crossing points, based on annual strategies which set control priorities and using in-house developed software (border risk management module). Officers at the Tsiteli Khidi border crossing, for example, reported controlling around 10 per cent of imports and 1-2 per cent of exports on a random basis. The frequency and stringency of inspection depend on the type of cargo. Cases in point are food and pharmaceutical imports, most of which are subject to product safety, sanitary and phytosanitary controls for consumer safety and environmental reasons and to protect agriculture from pests and plant diseases.

The Revenue Service also exchanges risk data and information with international agencies through:

- The joint United Nations Office on Drugs and Crime (UNDOC)-WCO Global Container Control Programme for fighting drug trafficking and other transnational crime activities.³⁸ As part of the Programme, Georgia created 3 inter-agency enforcement teams, which bring together representatives from the Revenue Service, the MIA Patrol Police Department and the Investigation Service of the Ministry of Finance. The teams exchange strategic intelligence information, analyse risks, and coordinate operations for detecting and seizing drugs and illicit goods at land border crossings, sea ports, and airports of Georgia.
- The WCO Cargo Targeting System, which is an effective risk assessment tool for processing advance information on containerized traffic provided by cargo ships following international best practices established under the WCO Standards to Secure and Facilitate Global Trade (SAFE) Framework of Standards and Revised Kyoto Convention.
- The Advance Passenger Information and the Passenger Name Record, which allow for the exchange of advance information provided by carriers on passengers traveling by air.
- The EU's Rapid Alert System for Food and Feed.

At the border control processes have been further streamlined in 2016 with the integration of the Trade Facilitation System (TFS) to CP. An advanced EDI solution, the TFS has significantly improved coordination between the Revenue Service, traders, shipping companies, Georgian Railway and freight forwarding companies, while further strengthening the risk management system. The system enables the timely exchange of data between carriers and the Revenue Service before the arrival of cargo at the designated border crossing point. For example, shipping companies transporting goods to the port of Poti send cargo manifests electronically to the Port Community System, which relays this information directly to the customs. Officials noted that the TFS reduced the time associated with generating the customs declaration and enabled customs to dispense with the internal transit declaration document.

This multifaceted paperless trading system, depicted in figure 3.1, was slated for further consolidation in 2018 within the context of the e-Government initiative, known as the Business House. The Business House, which is still in its inception phase, will bring together all Government agencies under one virtual roof following a whole of Government approach to facilitate the exchange of information between these agencies and enable enterprises, traders and individuals to submit and obtain official documents as well as make payments online.

³⁸ A detailed account of this programme is available at: <https://www.unodc.org/ropan/en/BorderControl/container-control/ccp.html>.

Figure 3.1 Revenue Service Customs Platform (2018)



In addition, the Revenue Service was planning to introduce a full-fledged Authorized Economic Operator (AEO) scheme drawing on the EU model. The scheme would build on experience gained from the Revenue Service Golden List Programme, which grants certain customs simplifications to trusted companies. The programme, which was extended to 187 companies by end of 2017,³⁹ granted members the following benefits: pre-arrival clearance, separate release from clearance, post clearance audit, expedited shipment, faster processing and customs clearance of perishable goods and the possibility to defer the payment of customs duties for 30 days without submitting a customs guarantee. As shown in table 3.3, the programme needs to be further elaborated to allow for certifying operators for customs simplifications; for security and safety; or, for both.

Table 3.3 Georgia's Golden List Programme and EU AEO scheme: Acceptance criteria

Salient features	Golden List	EU AEO
Acceptance criteria	Financial solvency as established from the applicant's tax and customs records and the business enterprises' own records (annual turnover)	<ul style="list-style-type: none"> - Financial solvency - Compliance - Appropriate record keeping - Competence and professional qualification - Security and safety
International recognition	Not recognized	Several Mutual Recognition Agreements with third countries

³⁹ As at October 2017.

The Revenue Service was also in the process of further streamlining transit trade procedures and was determined to complete these reforms, which are detailed in section 3.5, by the end of 2018 (along with the AEO schemes). Once completed, these reforms will enable Georgia to achieve full and complete implementation of its commitments under the WTO Agreement on Trade Facilitation.

On its part, the National Food Agency (NFA) of the Ministry of Environmental Protection and Agriculture was seeking to join the European Commission's Trade Control and Expert System (TRACES) online management facility for compiling trade documents (including sanitary, phytosanitary and veterinary certificates) accompanying animals, semen and embryo, food, feed and plants destined to/transiting the EU. Joining the system means that exporters will submit trade documents only once (through the online facility).

Drawing on the results of the personal interviews with traders, auxiliary service providers and Government officials, this chapter sheds light on trade facilitation conditions in Georgia and their impact on export and import activities. The analysis is organized under four clusters, which correspond to the activities undertaken by traders to fulfil the regulatory requirements and administrative procedures highlighted in the BSP Model. The first cluster (section 3.2) relates to the traders' effort to gain an understanding of applied rules and their implication on export/import activities. The second cluster (section 3.3) focuses on the steps taken by traders to obtain the necessary trade documents, while the third (section 3.4) delves into the activities associated with passing customs clearance. Each business process is examined on its own right and in terms of its impact on transaction costs (financial and wait time). The chapter also highlights how regional cooperation arrangements, transport and logistical services influence trade activities (sections 3.5-3.7).

The chapter shows that Georgia stands as an exemplary case of successful reforms and highlights the key elements contributing to such results. Reaping further benefits requires strengthening State agencies with technical skills and expertise knowledge of the EU *Acquis Communautaire*; consolidating the existing paperless trading systems; and improving the country's transport system. There is also an urgent need to address at-the-border capacity shortfalls in neighbouring countries through a scaling up of cooperation arrangements.

Equally important is the imperative for furnishing the enterprise sector with the required capacity to comply with the EU regulatory requirements, particularly those associated with sanitary and phytosanitary measures. Interviewed traders and State officials emphasized that these requirements pose significant barriers to trade, especially for SMEs that form the backbone of the economy.⁴⁰

3.2 Transparency

Decisions on trade facilitation reforms are developed by line Ministries in consultation with the private sector within the context of well-established institutional mechanisms. Supported by the Ministry of Environmental Protection and Agriculture; the Ministry of Economy and Sustainable Development; the Ministry of Labour, Health and Social Affairs; and the Ministry of Finance, these mechanisms take the form of formal public-private sector consultations to ensure the successful implementation of national development plans/government decisions as well as commitments under regional and international trade agreements.

As shown in table 3.4, the consultations are geared towards engaging the business community during the decision-making processes on reform measures and associated legislation, and ensuring continuous feedback on the business community's emerging needs. In line with the UN/CEFACT Recommendation 40 on Consultation Approaches, informal discussions are accorded much importance for gaining insights into key challenges reported during formal consultations.⁴¹

⁴⁰ These concerns are discussed in further detail in chapters 5 and 6.

⁴¹ https://www.ECE.org/fileadmin/DAM/cefact/recommendations/rec40/ECE_TRADE_423E_Rec40.pdf.

Table 3.4 Public-private consultative mechanisms on trade facilitation in Georgia

Institutional mechanisms	Policy area	Issues and information dissemination
Ministry of Environmental Protection and Agriculture	Supports the private sector, especially SMEs, in their efforts to comply with the EU's quality and safety regulatory requirements	<ul style="list-style-type: none"> - The business community's views on matters related to the approximation process. - Legislative drafts are available online for public review and comments. - The Ministry organizes regular meetings with the private sector to keep them up to date on legislative reforms and obtain feedback on their experiences in complying with EU requirements. - The Ministry disseminates regular updates to relevant association and market support institutions.
National Food Agency (NFA) under the Ministry of Environmental Protection and Agriculture	The business community's emerging needs	Regular consultative meetings with private sector representatives (including producers, importers, distributors, and exporters) are held in the form of town hall meetings. Known as the Civil Hall, the meetings are meant to encourage the business community to bring its concerns and daily problems to the Government's attention.
Trade Advisory Group (TAG)⁴² and the Private Sector Consultative Council with the Ministry of Economy and Sustainable Development	Reviews and advises on ongoing and planned reforms for supporting the implementation of the DCFTA	<ul style="list-style-type: none"> - The business community's views and concerns over the approximation process and its implications. - The Ministry circulates legislative drafts and minutes of the meetings to TAG members and publishes regular updates (in Georgian and English) on TAG's activities online.
DCFTA Advisory Group (DAG) with the Ministry of Economy and Sustainable Development	Consultations with the private sector on DCFTA reforms	<ul style="list-style-type: none"> - Private sector recommendations and views on implemented, ongoing and planned reforms associated with fulfilling DCFTA commitments. - A portal (www.dcfta.gov.ge) was created in 2017 to disseminate information on DCFTA related reforms, including draft and applied laws, national and donor funded enterprise development programmes/projects to help enterprises comply with EU requirements.
Ministry of Labour, Health and Social Affairs	Supports healthcare service providers and the pharmaceutical industry in its efforts to comply with the quality and safety regulatory requirements of the EU	<ul style="list-style-type: none"> - The implications of the EU regulatory requirements on the healthcare sector and the pharmaceutical industry.

⁴² TAG brings together representatives of the business community, key market support institutions and associations and their members: Business Association of Georgia; Georgian Trade Unions Confederation; Georgian Employers' Association; Georgian Small and Medium Enterprises Association; EU – Georgia Business Council; Georgian Chamber of Commerce and Industry; International Chamber of Commerce of Georgia; Eastern Partnership Civil Society Forum – Georgian National Platform.

Institutional mechanisms	Policy area	Issues and information dissemination
Revenue Service⁴³	National trade-related regulatory and procedural requirements and trade facilitation measures	<ul style="list-style-type: none"> - The business community's views on trade-related regulatory and procedural requirements pertaining to, for example, certificates of origin, clearance of pharmaceutical products, transit procedures. - New trade facilitation measures under consideration, such as Authorized Economic Operators (AEOs) schemes. - Regular meetings with representatives of the business community. - Draft laws are published online for public reviews and comments.⁴⁴ - Online advance rulings on HS codes, country of origin, customs valuation and other regulatory requirements (quotas and restrictions). The Revenue Service only charges fees if the requests are not submitted well in advance (30 business days → 0 GEL, 10 business days → 250 GEL and 5 business days → 500 GEL).⁴⁵ Decisions are communicated to traders no later than 90 days after receipt of the request. Rulings are valid for three years, though they do not apply to companies with similar cases. - Up-to-date information (published online) on applied clearance procedures, documentary requirements and associated service fees. - Help desk facilities at the Customs Clearance Zones (CCZ), which operate as "one-stop-shop" for customs clearance. - Service centres at Customs Crossing Points (CCP). - A comprehensive contact directory is published online to help traders approach relevant officials. - Online help desk and a hotline.
Investors Council under the Prime Minister's Office	Georgia's business and investment climate	The Council brings together representatives from line Ministries and market support institutions together with development partners and donor agencies to discuss legislative reforms. The minutes of the meetings are published online ⁴⁶

⁴³ <http://rs.ge>.

⁴⁴ These are published at www.matsne.gov.ge.

⁴⁵ www.investingorgia.org/en/ajax/downloadFile/567/Certificates_of_Origin.

⁴⁶ <http://ics.ge/en/home/>.

All the interviewed traders reported following the institutional websites of all the relevant agencies to keep abreast of changes in applied regulatory and procedural requirements.⁴⁷ Other information sources reported by traders include: Revenue Service regular monthly updates on applied rules and administrative procedures; the NFA (approached for case specific information); and the Ministry of Economy and Sustainable Development (case specific information). A few traders reported approaching the Georgian Association for Quality for information on safety and quality requirements in Georgia and in export markets; buyers (by phone and email) for information on regulatory and documentary requirements in target markets; and customs authorities in partner countries. However, the information received from these authorities tends to be insufficient.

In addition, around 51 per cent reported participating in public-private consultative meetings, which take place on a quarterly, bi-annual and/or annual basis depending on the organizing agency. The meetings cover a range of issues including not only regulatory and procedural trade requirements, but also enterprise development and reform efforts. Traders reported that they use these meetings to convey their concerns to the Government and obtain clarity over specific policy areas. The majority said that they find these meetings useful, and described the State agencies as eager to listen and find solutions to the problems raised by the business community.

On their part, State agencies noted that public-private sector consultations could benefit from greater participation of SMEs. Officials from Revenue Service added that advance rulings are often hindered by “insufficient evidence”, as traders do not always include all the necessary information in their requests.

3.3 Documentary requirements and the use of electronic documents

Since 2005, traders have been clearing imports based on two support documents only: the transport document (bill of lading or waybill, and, for goods in transit, the TIR Carnet) and the commercial invoice or sales contract. These are submitted along with the packing list, insurance policy, bank guarantee and the power of attorney (if goods are cleared by the trader’s representative). Moreover, goods with a declared value of up to GEL 15,000 can be cleared for the export based on an oral declaration (summary declaration) that traders prepare themselves.

Traders may be requested to submit additional documents to establish compliance with national regulatory requirements and those applied in the country of destination. These additional documents are presented in table 3.5, along with the issuing authorities and associated procedures. The current documentary requirements are a major departure from the old procedures, which required 54 documents for import and export clearance.⁴⁸

⁴⁷ These websites provide detailed information and feature help desks and hotline facilities.

⁴⁸ Central Asia Regional Economic Cooperation (CAREC) 2013. “At the Border and Behind the Border Integrated Trade Facilitation—Reforms and Implementation”, Workshop Proceedings, Tbilisi, Georgia; 10–13 April 2013.

Table 3.5 Additional documentary requirements for customs clearance in Georgia

Document	Issuing authority	Procedures
Additional documentary requirements for exports issued upon the request of authorities in destination countries		
Certificate of Origin (CoO)	<ul style="list-style-type: none"> Georgian Chamber of Commerce and Industry: <ul style="list-style-type: none"> - Non-preferential CoO - Preferential certificate (<i>CT-1</i>) for goods destined to the Commonwealth of Independent States - Preferential certificate (<i>Form A</i>) for goods destined to countries that extend GSP treatment to Georgia Revenue Service: <i>Preferential Movement Certificate (EUR 1)</i> for goods destined to the EU, EFTA and Turkey 	<p>EUR 1 certificate is issued in electronic format by the Revenue Service.</p> <p>The remaining certificates are issued in paper form. Requests are submitted online.⁴⁹</p>
Quality certificates (e.g., product quality certificates)	Accredited laboratories for product certification bodies ⁵⁰	<ul style="list-style-type: none"> - Certificates are issued in paper form. - Depending on the requirements of the country of destination, the certification procedure may include audits of manufacturing facilities, pre-shipment inspection, and product testing.
Phytosanitary, veterinary, and hygiene certificates	National Food Agency	<ul style="list-style-type: none"> - Certificates are issued in paper form. - Depending on the requirements of the country of destination, the certification procedure often involves product testing.
Export permits/licenses if required by the importing country	See table 3.2	<p>Applications are submitted online through the single permit system. If the trader does not receive reasonable rejection within a predetermined time limit, the license is granted (silence is consent).</p> <p>The Georgian law sets a 30-day time limit for issuing licenses and a 20-day time limit for issuing a permit (from the moment of submission).⁵¹</p>

⁴⁹ www.gcci.ge.

⁵⁰ As shown in chapter three, the Ministry of Environmental Protection and Agriculture has a countrywide network of accredited laboratories. There are also several private laboratories in Georgia. All accredited bodies can be found at www.gac.gov.ge.

⁵¹ The Law of Georgia on Licensing and Permission Fees.

Document	Issuing authority	Procedures
Additional documentary requirements for imports to fulfil national and partner country regulatory requirements		
CoO to benefit from preferential treatment	Relevant authorities in the partner country	
Phytosanitary, veterinary, and hygiene certificates	Relevant authorities in the partner country	
Common Entry Document for goods that are subject to SPS control. Importers can submit this document voluntarily to speed up border formalities	Revenue Service, Ministry of Finance	The document should be submitted online twelve hours before arrival of goods at the designated border crossing point.
Transit permits for products subject to veterinary control (T1)	NFA, Ministry of Environmental Protection and Agriculture; Revenue Service	The permit is issued online based on documentary checks: <ul style="list-style-type: none"> - Duly filled application form. - Veterinary certificates issued by the competent authority in the exporting country.
Import permits for products subject to veterinary and phytosanitary control	NFA, Ministry of Environmental Protection and Agriculture; Revenue Service, Ministry of Finance	The permit is issued online based on documentary checks: <ul style="list-style-type: none"> - Duly filled application form. - Sanitary and phytosanitary certificates issued by the competent authority. <p>Tests are carried out by NFA and the permit is issued by the Ministry of Environmental Protection and Agriculture within one to twenty days at a nominal fee (GEL 25 to 100, depending on product).⁵² When goods originate from unreliable sources, the NFA fields auditors to vet the production sites. The Revenue Service only charges fees if the requests are not submitted (electronically) well in advance (20 business days * 0 GEL, 10 business days * 10 GEL, 5 business days * 20 GEL, and 1 business day * 25 GEL for Phytosanitary permit; 20 business days * 0 GEL, 10 business days * 20 GEL, 5 business days * 40 GEL, and 1 business day * 50 GEL for veterinary permit).</p>

⁵² The Process is regulated by the Decree of the Government of Georgia N420 of 31 December 2010.

As previously mentioned, traders can obtain the customs declaration, permits and the EUR 1 certificate online via the eCustoms interface⁵³ and the Single Permit System. These facilitation measures were mentioned by interviewed traders, who expressed their appreciation of the efficient administrative procedures and minimal documentary requirements.

Around 43 per cent of the traders said that they obtain the customs declaration, permits and EUR 1 certificate online from their office with much ease. Some of the documents (CoO, phytosanitary, hygiene and veterinary certificates) are submitted in paper form during the clearance process (as these must be stamped by customs and submitted in paper form in the country of destination; a requirement which traders do not find as cumbersome).⁵⁴ Traders who do not use available electronic platforms said that they apply for and obtain all trade documents at the border crossing points (see section 3.4).

However, the assessment suggests that efficiency gains reaped by exporters are often undermined by weaknesses in the quality assurance system. Traders reported experiencing significant delays in obtaining conformity certificates owing to the time-consuming laboratory tests, which, in some cases, take up to 2.5 weeks. Similarly, obtaining phytosanitary, veterinary and hygiene certificates is slowed down by the time-consuming laboratory testing, with traders reporting delays of up to one week (Table 3.6).

The delays are in part caused by cumbersome administrative procedures. Traders reported that they should submit the requests at the NFA's local offices and collect the certificates from another office. These procedures, coupled with the lack of staff, create unnecessary delays. At issue is also the lack of testing laboratories. Cases in point are the producers of traditional sweets (Tatara) who noted the limited number of laboratories for issuing genetically modified organisms (GMOs) certificates that are required by authorities in some target markets (Israel). There is only one laboratory for issuing such certificates in the country, and traders find the services fees charged by the laboratory high (400 GEL per test).

Similarly, exporters of pharmaceutical products said that their access to the EU and the Russian Federation is impeded since the Ministry of Labour, Health and Social Affairs does not issue Good Manufacturing Practice (GMP) certificates. The Ministry of Labour, Health and Social Affairs have commenced preparations to introduce GMP programmes for controlling the authorization and licensing of the production and sales of pharmaceuticals. GMP certificates will be launched in July 2019, and will be mandatory as of 2022.

⁵³ www.rs.ge.

⁵⁴ The CoO is only presented in paper form for stamping if requested by the buyer.

Table 3.6 Trade documents for exports by level of difficulty and cost as reported by the surveyed traders⁵⁵

Trade document	Product	Time frame	Costs per document (GEL)	Support documents
Conformity certificate	Cosmetics	2.5 weeks, taking into account the wait time associated with obtaining the laboratory test results (CoA)	200 (product testing)	- Duly filled application form - Certificate of analysis (CoA) - Quality certificate
Conformity certificate	Sauces and spices	10 days, taking into account the wait time associated with obtaining the CoA	150 (product testing)	- Duly filled application form - vCoA - Quality certificate
Conformity certificate	Herbs	5 days, taking into account the wait time associated with obtaining the CoA	200 (product testing)	- Duly filled application form - CoA - Quality certificate
Conformity certificate	Beer and lemonade	3 days, taking into account the wait time associated with obtaining the CoA	75 (product testing)	- Duly filled application form - CoA - Quality certificate
Hygiene certificate	Grape seed oil (requested by buyer for packaging material; packaging is considered as a food contact material)	3 business days, taking into account the wait time associated with obtaining the CoA	- 50 (service fees, issuing the certificate) - Product testing fees not provided by the trader.	- Duly filled application form - CoA
Hygiene certificate	Food of non-animal origin	1 week, taking into account the wait time associated with obtaining the CoA	Service fees associated with issuing the certificate: - 75 (Wine, Chacha and whisky) - 300 (Cosmetics) - 100 (remaining products)	- Duly filled application form - CoA

⁵⁵ As previously mentioned, since 2005, traders have been clearing imports with two support documents only: transport document (bill of lading or waybill and, for goods in transit, the TIR Carnet).

Trade document	Product	Time frame	Costs per document (GEL)	Support documents
Veterinary certificate	Frozen fish, fish oil and fish meal	5-7 days, taking into account the wait time associated with obtaining the CoA ⁵⁶	Product testing: - 275 (fish oil and fish flour) - 330 (frozen fish) - Service fee (issuing the certificate): 50-200 - Truck disinfection carried out by a designated company: 80 per truck	- Dully filled application form - Sales contract - Commercial invoice - CoA - Disinfection Certificate (for frozen fish) - Payment receipt
Veterinary certificate	Bioactive substances for animal feed (requested by the buyer)	5 days, taking into account the wait time associated with obtaining the CoA		- Dully filled application form - Sales contract - Commercial invoice - CoA - Payment receipt
Phytosanitary certificate	Hazelnuts (kernels, in shell, chopped and oil) upon the request of the buyer	1-5 days, taking into account the wait time associated with obtaining the CoA	- 150 (product testing) - Service fees for issuing the certificate: 50 (working days); 100 (holidays and weekends)	- Duly filled application form - CoA - Payment receipt - Aflatoxin test (requested by buyers)
Aflatoxin test	Hazelnuts (kernels, chopped and oil) upon the request of the buyer	3 days	120 (product testing)	- Duly filled application form - Sample
Phytosanitary certificate (requested by buyers)	Tea (requested by buyers)	5 days	- Service fees for issuing the certificate: 50 (working days); 100 (holidays and weekends). - Product testing fees not provided by the trader	- Duly filled application form - CoA - Payment receipt
Phytosanitary certificate	Soybean meal and soybean oil	1 business day	- Service fees for issuing the certificate: 50 (working days); 100 (holidays and weekends).	- Duly filled application form - Payment receipt - Fumigation certificate (requested by buyer when wooden packaging material is used)

⁵⁶ According to Government Decree No. 59 of 31 January 2011, veterinary certificates should be issued within 1-5 working days.

Trade document	Product	Time frame	Costs per document (GEL)	Support documents
CoO (non-preferential)	Steel billets, re-bars, sauces, spices, fish oil, fish flour, rosehip juice, jam, preserved fruits, soybean meal, soybean oil, steel pipes, sandwich panels, footwear	Same day	0	<ul style="list-style-type: none"> - Duly filled application form - Declaration of origin - Sales contract - Commercial invoice
CoO (non-preferential)	Frozen anchovies	30 minutes	0	<ul style="list-style-type: none"> - Duly filled application form - Declaration of origin - Sales contract - Commercial invoice. - Fishing license or contract for the acquisition of the goods from license holders
CoO (non-preferential)	Wine, beer and mineral water	1 business day, excluding the wait time associated with obtaining the conformity certificate	0	<ul style="list-style-type: none"> - Duly filled application form - Declaration of origin - Sales contract - Commercial invoice - Laboratory test results (certificate of analysis) - Conformity certificate
CoO (non-preferential)	Kiwi	1 Business day	0	<ul style="list-style-type: none"> - Duly filled application form - Declaration of origin - Sales contract - Commercial invoice. - Certificate from City Hall on existing orchards (issued only once)
CoO (non-preferential)	Hazelnuts (kernels, chopped and oil)	Same day	0	<ul style="list-style-type: none"> - Duly filled application form - Declaration of origin - Sales contract - Commercial invoice. - Contract for the acquisition of hazelnuts from the producer

Trade document	Product	Time frame	Costs per document (GEL)	Support documents
Preferential CoO (CT-1)	Food products of plant origin	1 business day, excluding the wait time associated with obtaining the phytosanitary certificate	0	<ul style="list-style-type: none"> - Duly filled application form - Declaration of origin - Sales contract - Commercial invoice - Laboratory test results (certificate of analysis; requested by the buyer) - Phytosanitary certificate (requested by the buyer)
Preferential CoO (CT-1)	Food of animal origin	1 business day, excluding the wait time associated with obtaining the veterinary certificate	0	<ul style="list-style-type: none"> - Duly filled application form - Declaration of origin - Sales contract - Commercial invoice - Laboratory test results (certificate of analysis; requested by the buyer) - Veterinary certificate
EUR 1	All products (except frozen anchovies)	1 business day, excluding the wait time associated with obtaining the conformity certificate	0	<ul style="list-style-type: none"> - Certificate of enterprise registration - Invoices of raw material used - CoO of raw material used - Expertise act establishing consumption of raw material - Certificate of analysis (requested by the buyer) - Conformity certificate (only for the alcoholic drinks)
EUR 1	Frozen anchovies	Up to 30 minutes	0	<ul style="list-style-type: none"> - Duly filled application form - Declaration of origin - Sales contract - Commercial invoice - Fishing license or contract for the acquisition of the goods from license holders (issued only once)

On the import side, traders noted that all documents issued by the authorities in source countries are accepted by the Revenue Service, and expressed their appreciation of the streamlined procedures for obtaining the necessary permits and documentary requirements. Difficulties reported by traders related to obtaining visas for truck drivers with certain nationalities (Syria and Iraq).⁵⁷

At the sectoral level, importers of pharmaceutical products lamented the lengthy procedures associated with registering first time imports of brand name and generic products with the Departmental Registry at the Agency of State Regulation of Medical Activities of the Ministry of Labour, Health and Social Affairs. The procedure, known as registration through national recognition,⁵⁸ takes up to 210 days to complete, and involves a review of the submitted documents and laboratory tests to assess compliance with national quality and safety requirements.⁵⁹

Officials drew attention that Georgia has recognized pharmaceutical products from several countries with stringent regulatory requirements, including the EU countries, Switzerland, the US, Japan, Australia and New Zealand. Brand names or generic pharmaceutical products from these countries can be registered based on their corresponding acceptance by the national regulatory bodies. The Government also registers imported products based on their acceptance by a pre-approved intergovernmental pharmaceutical regulatory body such as the European Medicines Agency (EMA). The registration process of such products, known as registration based on prior recognition,⁶⁰ takes up to 7 days to complete.⁶¹ Moreover, importers can submit homology identification documents in Georgian, English and Russian.

3.4 At the border control

Control functions are carried out by the Revenue Service and Patrol Police Department of the Ministry of Internal Affairs (MIA). As shown in table 3.7, the Revenue Service carries out phytosanitary, sanitary, veterinary and customs control with the Patrol Police protecting cross border trade against criminal and illegal activities.

⁵⁷ In general, Georgia's visa policy is lenient: citizens of neighbouring countries and main trading partners may visit the country for a limited duration without a visa.

⁵⁸ Law on Drugs and Pharmaceutical Activities of 1997 and subsequent amendments; and Law on the Licensing of Medical and Pharmaceutical Activities of 2009 and subsequent amendments.

⁵⁹ Product registration costs GEL 500 for generic products and GEL 2,500 for brand name products.

⁶⁰ Law on Drugs and Pharmaceutical Activities of 1997 and subsequent amendments; and Law on the Licensing of Medical and Pharmaceutical Activities of 2009 and subsequent amendments.

⁶¹ The registration under either procedure is valid for five years.

Table 3.7 Border control agencies and their responsibilities

Agencies	Legislative basis	Responsibilities
Revenue Service Customs Department	<ul style="list-style-type: none"> ● Tax Code ● Joint order of the Ministry of Internal Affairs and Ministry of Finance ● Ministry of Finance Decree No. 994 on conducting ongoing control procedures. Inventory write-off, enforcement of tax debt payment, dated 31 December 2010. ● Ministry of Finance Decision on "Movement and clearance of goods in the Customs Territory of Georgia", dated 26 July 2012 ● Government Decree No.429 "Rule of Implementation of Phytosanitary Border-Quarantine and Veterinary Border-Quarantine Control", dated 31 December 2010 ● Code of Food/Feed Safety, Veterinary and Plant Protection ● Ministry of Finance Decree No. 22 on the Approval of the Rule of Customs Control of GMO Intended for Food/Feed and Genetically Modified Products Made Therefrom while Importing", dated 16 July 2015 ● Code of Ethics of the employees of the Customs Department of the Revenue Service ● Law on Electronic Signatures and Electronic Documents ● International treaties and conventions 	<ul style="list-style-type: none"> ⇒ Registration of goods and means of transport ⇒ Customs clearance ⇒ Veterinary border-quarantine, phytosanitary border-quarantine and sanitary-quarantine control ⇒ Recording the relevant data on individuals, means of transport in the electronic database according to the rules set ⇒ Clearance of goods imported by physical persons within the scope of competence ⇒ Trade handling for imports (exports are exempt from customs duties and value added tax, VAT): preparation of "tax claim" on the amount of tax accrued at customs checkpoint (signed by the head/deputy head of the customs checkpoint) to submit to taxpayer for further submission the Service/Tax Department; identification and elimination of tax and administrative offenses within the scope of competence, preparation of offense protocol; Recording of Tax/Administrative Offenses; and registration of the seized goods transferred to the state property as a tax sanction or for the enforcement of tax sanctions, or the storage of the abandoned goods found on the territory of the customs control zone ensuring temporary warehousing on the territory of the CCP; tax registration of non-taxpayer non-resident physical persons within the scope of competence ⇒ Intellectual property rights customs enforcement. This includes, among others, documentary check, physical examination, searching, interviewing, recording, inspection performed by the customs authority in order to ensure compliance with the customs legislation and other legislation governing the entry, exit, transit, movement, storage and end-use of goods moved between the customs territory of Georgia and countries or territories outside that territory, and the presence and movement within the customs territory of Georgia of non-Georgian goods and goods placed under the end-use procedure ⇒ Passport control of truck drivers. Revenue Service also conducts passport control of passengers if requested by the Border Police ⇒ The Revenue Service has a well-established quality control division, as well as customs and audit control department. Customs staff also receive advanced training courses throughout the year. The number of these courses reached 77 in 2016, covering topical issues in the areas of risk and time management and benefiting around 700 customs officials.

Agencies	Legislative basis	Responsibilities
Patrol Police	<ul style="list-style-type: none"> ● Law on Police ● Law on the State Border of Georgia ● Government Decree No. 386 of 30 December 2013 	<ul style="list-style-type: none"> ⇒ Passport control, including compliance with visa requirements ⇒ Issues entry visas at border checkpoints ⇒ Conducts operational-search activities to prevent and detect crimes and illegal activities ⇒ Inspects civilians at border checkpoints to ensure compliance with regulatory requirements, including those relating to migration ⇒ Investigates at the border criminal and illegal activities ⇒ Maintains administrative proceedings of detected violations at border checkpoints

Working alongside the Patrol Police and the Revenue Service is the Border Police of Georgia of MIA, which carries out control functions beyond the border crossing points through its Coast Guard Department, Border Police Department and Civil Aviation Main Office as follows:

- The Coast Guard Department which is responsible for maritime trade and intervenes with vessel traffic as needed;⁶²
- Border Police Department, which is responsible for overland commercial traffic;
- The Civil Aviation Main Office, which is responsible for screening commercial cargo before loading on planes.

Clearance functions are carried out at the traders' warehouse facilities, at designated storage facilities, place of destination, international railway stations, CCZs and at border crossing points (BCPs), including air, rail, road and ports, with BCPs equipped with electronic queuing systems for managing traffic.⁶³

In 2018, traders had a choice of six CCZ (Tbilisi, Tbilisi2, Tbilisi Airport, Adlia, Batumi port, and the Port of Poti),⁶⁴ four clearance divisions (Kutaisi, Akhaltsikhe, Telavi, Rustavi), and twenty CCPs (land, air and maritime) to clear their goods.⁶⁵ All the CCPs and CCZ operate twenty-four hours a day throughout the week and are equipped with modern control equipment, parking areas and rest facilities (Box 3.1). Construction work was underway to:

- Establish Border Inspection Post facilities for goods subject to SPS control at Tsiteli Khidi CCP (at the border between Georgia and Republic of Azerbaijan),
- Establish Border Inspection Post facilities for goods subject to SPS control at Sadakhlo CCP (at the border between Georgia and Armenia),
- Operate the newly established Border Inspection Post facilities for goods subject to SPS control at Adlia CCZ (close to the border between Georgia and Turkey).

⁶² All interviewed stakeholders noted that disruptions to port and shipping operations are rare and minor.

⁶³ The system was introduced by the Revenue Service in July 2017. Officials explained that prior to the said date, the wait time was long and companies owning parking areas charged high fees. Customs and the Patrol Police had no means for coordinating or controlling the service fees charged by these companies. The minimum requirements for the parking places and the threshold for the fee (30 GEL) are set in the joint order of Minister of Finance and Minister of Internal Affairs No. 206-N482.

⁶⁴ A more detailed list of Georgia's CCZ is available at: http://www.rs.ge/Default.aspx?sec_id=5107&lang=2#.

⁶⁵ A detailed list if the CCPs is available at: http://www.rs.ge/Default.aspx?sec_id=4954&lang=2#.

Box 3.1 Facilities at Georgia's CCPs and CCZs

- Separation of traffic on both sides of the border giving preference to vehicles under cover of valid international Customs transit documents (Georgia has a broad network of truck parking areas for transit cargo traveling under the cover of TIR Carnets; in 2018, the Government was in the process of expanding these networks and improving services of existing ones)
- Off-lane control areas for random cargo and vehicle checks
- Parking and terminal facilities
- Inspection equipment (scanners; inspection pits; and radiation detection portals)
- Testing laboratories (small laboratories for phytosanitary and veterinary tests)
- Warehouse facilities (temporary stations at BCPs and large facilities at CCZ)
- Fumigation

Border control formalities are organized in a logical and consistent sequence following simplified administrative procedures grounded in a sophisticated risk management system. The control of outbound cargo (exports) commences with the scanning of the goods/vehicles and is completed in fifteen minutes under the standard procedure and in 10 minutes under the advance and distant declaration procedures (under the advance and distant declaration procedures, cargo and passport control functions are carried out simultaneously). If goods are flagged by the system for physical inspection, clearance time is extended to up to one hour. Officials from the Revenue Service reported that only 1.5 per cent of outbound consignments were assigned to the Post clearance audit in 2016. Otherwise, over 94 per cent of outbound consignments are assigned to the green channel. This means that in most cases the driver proceeds without leaving the truck cabin.

The control of inbound cargo (imports) are also organized in a logical and consistent sequence (passport control → documentary checks → goods/vehicle examination → release upon submission of payment confirmation), with customs valuation proceeding in a manner that is consistent with the WTO rules.⁶⁶ Formalities at the CCZs and CCPs are further facilitated by a broader range of clearance options as follows:

1. **Clearance at the CCZ service counter with the presence of the importer.** Traders or their representatives⁶⁷ present the documentary requirements at the counter and the Revenue Service prepares and issues the customs declaration (in electronic form and hard copy) in ten to fifteen minutes. Traders can also apply for and obtain the EUR 1 Certificate as well as the veterinary, hygiene and phytosanitary certificates at CCZs (as well as at CCPs, BCPs) upon presenting the necessary support documents.
2. **Distant declaration**, whereby goods are cleared at the CCZ without the presence of the importer or his representative. This option is meant to enable traders to clear their goods at any of the CCZs regardless of their location, based on the customs declaration that is submitted online through the eCustoms interface.
3. **Advance declaration**, which is used for clearing goods at the CCP. The declarations are submitted online before the arrival/exit of goods at the CCP, and goods are released at CCP (upon assessment of the declaration in the case of green channel).
4. **Single consignee/recipient**, whereby goods are cleared at a designated location (usually the importer's premises/warehouse) based on the customs declaration that is submitted online. Trucks proceed immediately to the designated location without stopping at the CCZ.

⁶⁶ The transaction value registered in the customs declaration is used as the basis for customs valuation. In cases where the transaction value cannot be applied, the value of imported goods is calculated in a manner that is consistent with the WTO Customs Valuation Agreement (see Tax Code of Georgia).

⁶⁷ The representative, usually the truck driver, should have a power of attorney to act on behalf of the trader. The Revenue Service maintains a database of such authorizations, to avoid repetitive submissions.

As previously mentioned, clearance of inbound cargo commences with passport control and documentary checks at the CCP, and as is the case with outbound cargo, the drivers do not leave the trucks. If everything is in order, the trucks are sealed at the CCP border for shipment by a designated date⁶⁸ to CCZ (for clearance under the first two options) or to their destination (for clearance under the fourth option). Goods cleared under the advance declaration procedure benefit from further facilitation measures, since they are released at the CCP instead of the CCZ (at the CCP, goods assigned to the green channel and those cleared under advance declaration benefit from the possibility of deferring tax payment for a period of 15 days without submission of customs guarantee). Table 3.8 provides a summary of the four clearance options and service fees associated with issuing the customs declaration. The service fee is standardized at GEL 150, GEL 300, or GEL 400 per declaration. Fees for simplified procedures are linked with the value of goods and the possibility of deferring payments.

Table 3.8 Procedural options for clearing imports at CCZs

Clearance option	Process	Site of release	Service fees (per customs declaration in GEL) ⁶⁹	Possibility of deferring payments (days)
Clearance at the CCZ service counter	Goods have arrived to the CCZ → Declarant submits documentary requirements (in hard copies) at a CCZ service counter → Declarant obtains a queue ticket → Customs officer prepares declaration using e-Customs ASYCUDA World → Risk management system assigns risk status ⁷⁰ → Release or inspection of goods at CCZ	CCZ	150, 300, or 400	5
Distant declaration	Goods are <i>en route</i> to one of the CCZs → Importer submits documents electronically → risk management system assigns risk status → release or inspection of goods at CCZ	CCZ	150, 300, or 400	5
Advance declaration	Declarant prepares declaration before goods arrives at the CCP → Trader submits the customs declaration online or requests the customs assistance to handle the online submission. Amendments to the registered declaration can be requested online → Risk management system assigns risk status at the CCP → Release or inspection of goods at CCP.	CCP	150, 200 or 300	15
Clearance at agreed location – single consignee/recipient	Importer communicates the location to Customs → Goods are transported directly to the designated location after passing CCP → Importer submits documents at CCZ or electronically → Risk management system assigns risk status → Release or inspection of goods at the designated location. If the goods are designated for clearance in Tbilisi and the importer is in Batumi, the importer can clear the good in Tbilisi.	Designated location	150, 300, or 400	5

⁶⁸ Trucks that fail to arrive on time are subjected to an investigation by the Patrol Police.

⁶⁹ 1 GEL = 0.34 EUR (22 October 2017).

⁷⁰ Green = release, yellow = document check, red = scanning / physical inspection, blue = post-clearance inspection.

Most customs officials have portable pads that allow them to receive timely information on risk assessment decisions and targets (e.g., a registry plate number or a photo of a suspect) along with instructions on proper control methods. For example, if the risk assessment system flags a shipment for inspection (e.g., possible drug smuggling), the Revenue Service scans the shipment, use trained narcotics dogs⁷¹ or/and unload the cargo. Should customs have reasonable grounds to suspect serious tax fraud, officials unload the cargo and verify if the type and quantity of goods correspond to declared information. Sanitary and phytosanitary control is also risk based. Procedures involve passport checks, risk based physical examination and laboratory tests, which can be made at border crossings with basic laboratory tools and equipment.

Control functions at ports are gates at the main ports are manned by port operators, Customs and Patrol Police, with cooperation at the operational level supported by the Port-Customs Committee and Port-Border Police Committee. Customs, which is connected to the IT systems of all port operators, ensures the proper transfer of cargo from port premises upon the completion of (customs) control functions. Port operators ensure the smooth flow of logistical operations, while the Patrol Police is responsible for the control of passengers, monitoring port cameras and for managing radiation detectors.

Moreover, traders, who have a choice of dispute settlement mechanisms for appealing⁷² customs valuation decisions (Box 3.2), could demand the release of goods by providing a bank guarantee (equal to the difference between the amount of customs duties registered in the submitted declaration and one established under the amended declaration).⁷³

Box 3.2 Facilities at Georgia's CCPs and CCZs

- ⇒ Traders can appeal the Revenue Service customs valuation decisions within 30 days of the receipt of the notification by filing a complaint with the Revenue Service Dispute Resolution Council. The Council should deliver its decision within 20 working days, with the possibility of extension to a maximum of 65 days if additional information is needed.
- ⇒ Decisions of the Revenue Service Council can be appealed by filing a complaint with the Ministry of Finance Dispute Resolution Council within 20 days. The response time is also set to 20 days with the possibility of extension to a maximum of 65 days.
- ⇒ Decisions of the Ministry of Finance Dispute Resolution Council can be appealed with the Courts within 20 working days.
- ⇒ Traders also have the right to file their complaints directly with the courts, without resorting to the Ministry of Finance dispute settlement mechanism or at any stage during the dispute over the Revenue Service customs valuation decisions.

The assessment shows that clearance of inbound cargo at the CCZ takes 30 minutes on average to complete. However, if the customs risk management system flags cargo for further documentary (yellow channel) or physical (red channel) control, the clearance process is extended. The wait period may exceed three hours if the goods are subjected to physical control. The percentage of inbound consignments assigned to the red corridor was 6.7 per cent in 2016. As is the case with outbound cargo, over 80 per cent of inbound cargo is assigned to the green channel.

The surveyed traders, who were interviewed over the course of October 2017-January 2018, cleared their goods at the CCZ of Poti and Batumi and at the BCPs of Sapri (Georgia-Turkey), the Tsiteli Khidi (Georgia-Republic of Azerbaijan), Sadakhlo (Georgia-Armenia) and Kazbegi (Georgia-Russian Federation). All the traders interviewed during October and November 2017 described efficient clearance processes, which takes up to

⁷¹ Detection dogs are trained to find drugs and cigarettes, and the Revenue Service is planning to train dogs to detect cash and firearms.

⁷² The right to appeal formal charges or official decisions is enshrined in the Constitution of Georgia (Article 42.1) and the Tax Code (Article 41, i).

⁷³ Ministry of Finance Decree No. 994 on conducting ongoing control procedures, inventory write-off, enforcement of tax debt payment, dated 31 December 2010 (Article 78). The bank guarantee must be valid for 60 calendar days or more beyond the date of its submission to the Revenue Service.

30 minutes to complete if the trade documents are in order. Physical control is conducted if the goods are flagged by the system and is completed in 3 to 4 hours.

However, those interviewed during December 2017 and January 2018 reported significant delays at the land BCPs due to shortages of staff.⁷⁴ The delays were particularly pronounced on the import side. Exporters said that it took them up to one business day to clear their goods, while importers reported longer delays of up to three days.⁷⁵ Several importers reported assuming additional costs in the form of penalties that they had to pay to freight forwarders. Others reported making at least two journeys to the border crossing points to avoid the hike in the customs service fee (customs charges 800 GEL in service fees for clearing goods outside of the working hours).⁷⁶

The shortages of customs staff aside, the assessment suggests that efficiency gains are also undermined by non-synchronized controls at main border crossing points. Private sector stakeholders noted the activities of the Revenue Service, the Patrol Police and the Border Police sometimes result in bottlenecks for cross-border transport operations. Patrol Police officers control both the vehicles and the vessels (for stowaways) as well as the ship crew and truck drivers, so that their control functions take significantly more time to complete than the Revenue Service formalities.

Officials at the port of Poti noted that delays are caused by the slow processing of documentary checks, since the Border Police systems are not connected with the port operators' IT systems. Border Police officials require shipping lines to provide all documents for the vessel and crew in paper format and clearance is done manually. Port officials said that delays are more pronounced for inbound vessels, which takes between 1-2 hours to clear, while departure clearance is completed within 30-45 minutes. Clearance of ferries is particularly challenging, as it involves inspection (by the Patrol Police) of trucks, cargo and drivers, causing significant delays in roll-on/roll-off ferry operations.

In addition, Georgian rail operators, shipping lines and other logistics providers IT systems are not interoperable. For example, shipping lines send vessel manifests in excel files, which contain information on all container on board. Similarly, IT development is particularly challenging for the road transport sector due to the dominance of small-fleet trucking companies and owner-operator truckers.

Also undermining the synchronization of controls at main sea border crossing points during the assessment period was the shortages in customs staff. Port operators noted that the Revenue Service cannot keep up with the pace of logistics operators. For example, port operators often need to service all customs gates to dispatch containers as fast as possible, but customs may not have enough manpower to keep the gates open. The Georgian air freight sector reported similar capacity issues with the Revenue Service at Georgian international airports.

Officials from the Revenue Service explained that clearance at all ports follow streamlined procedures. Containers are unloaded from ships onto trucks that proceed to the customs warehouse. Customs officers check (electronically) the container number and seal, validate the container in the e-system at the port exit gate. The container then leaves the port, and the entire procedure is completed in two minutes. Air freight is also risk based with a very simplified customs control system.⁷⁷ Officials from the Patrol Police also noted that control procedures are streamlined as established by law (Box 3.3).

⁷⁴ In October 2017, the Revenue Service Customs Department staff comprised 1640, including 166 staff at the headquarters in Tbilisi (126 operational and 40 IT staff) and 1474 in the CCZ and 20 CCPs (1434 operational and 40 IT staff). Data provided by the Revenue Service.

⁷⁵ The Revenue Service allows importers to keep the goods in customs storage facilities for up to 30 calendar days free of charge.

⁷⁶ Officials from the Revenue Service noted that the situation has improved following the recruitment of additional staff at main border crossing points (Personal interviews with the Revenue Service officials, dated 23 April 2018). ECE had no means to conduct follow up interviews with traders.

⁷⁷ Written comments from Revenue Service, May 2018.

Box 3.3 Patrol Police at the border control procedures⁷⁸

According to Government Decree No. 386 of 30 December 2013 (Article 13, paragraph 2), the trader/transport operator shall inform authorities at the BCP on entry of vessels belonging to foreign or Georgian navigation into the ports 72 hours in advance and confirm it 48 and 24 hours in advance. 2 hours before, the trader/transport operator shall submit to the BCP official on duty the crew schedule and officially request entry as prescribed by the rule (in case a vessel is unable to present the crew schedule due to technical issues, it is possible to present it to the commission as an exception).

Patrol Police control formalities at BCP proceed as follows: Patrol-inspector (border controller) conducts passport checks using fully automated control system. Patrol-inspectors (border controllers) from the Border Migration Control Unit “Poti Port” carry out border control on vessels (ferries in particular) entering Poti Port, and control formalities cover crew members, passengers, trucks and trailers on the vessel. Once inspection formalities are completed,⁷⁹ date stamps indicating entry or exit are placed on the documents allowing the person to enter or leave the territory of Georgia. Since more passengers and trucks are boarded on the ferries entering the port than the ferries leaving the port, the entry commission takes more time compared to the exit commission.

Considering the above, the Border Migration Control Unit “Poti Port” provides the Georgian state border crossing related procedures in a timely manner. The time for registration of vehicles does not exceed the time established in their movement schedule.

3.5 Regional cooperation and transit trade

Goods in transit are transported under the cover of the TIR Carnets⁸⁰ and are exempted from duties and taxes. The bulk of Georgian outbound cargo to Europe is carried under TIR carnets with up to 10,000 TIR carnets each year. Foreign trucking companies also use TIR carnets to travel across Georgia with around 70,000 carnets every year.⁸¹ Georgia participates in an eTIR pilot project, which seeks to facilitate customs-to-customs exchange of advance TIR data with the Turkish customs. The Government also initiated, in 2017, the intermodal eTIR project with Republic of Azerbaijan, Kazakhstan and Ukraine, with the aim of creating a regional corridor for exchanging advance information on transit traffic.

Transit traffic flows in an unfettered process. Customs officers check the TIR carnet, verify that cargo seals are intact, and trucks the road fee is 200 GEL per truck. Physical inspection is only conducted if the Revenue Service receives a tip from its counterparts in other countries; if the goods originate from a high-risk country; if the seal is broken; or if the truck has signs of tampering. These efficient procedures have enabled the Government to capitalize on the country’s strategic location, and effectively transform Georgia into a regional transit hub.⁸²

Underpinning transit procedures is a multitude of formal and informal cooperation arrangements with main trade partners. The arrangements govern information exchange, including documents and intelligence on cross-border trade and criminal activities, as well as joint control activities. Below is a summary of the main cooperation arrangements between Georgian border control agencies and their counterparts in partner countries:

- The Revenue Service exchanges customs data on goods and vehicles with Turkey, Republic of Azerbaijan, and Ukraine using EDI solutions. The Georgian government is in the process of negotiating similar agreements with Armenia and the Republic of Moldova.
- Officers of the Revenue Service cooperate with their counterparts in other countries at the operational level. For example, regular meetings take place between Georgian and Republic of Azerbaijani border

⁷⁸ Written comments from Patrol Police, May 2018.

⁷⁹ Other authorities at the Poti Port carry out border control functions following their respective procedures and all control formalities are completed in 3-4 hours.

⁸⁰ A TIR carnet is a customs permit that allows a motor vehicle to be taken across an international border for a limited period.

⁸¹ www.iru.org/resources/newsroom/georgia-digital-logistics-and-impact-chinas-belt-and-road-ambitions.

⁸² Around 60 per cent of freight cargo was transit traffic in 2013. CAREC (2013) “At the Border and Behind the Border Integrated Trade Facilitation—Reforms and Implementation”, Workshop Proceedings, Tbilisi, Georgia; 10–13 April 2013.

control authorities at the Tsiteli Khidi border to discuss logistical issues and practical measures for speeding up cross border trade formalities at both sides of the border.

- As a member of WCO, the Revenue Service sends and receives customs intelligence through the WCO Customs Enforcement Network (CEN).
- The Central Criminal Police of Georgia shares and receives crime-related intelligence through INTERPOL (for example purple notices warning about new objects, devices and concealment methods used by criminals).
- Georgia signed an Agreement with EUROPOL on Operational and Strategic Cooperation to expand cooperation to combat serious and organized cross-border criminal activities. The agreement is expected to facilitate exchange of crime-related intelligence between police forces of Georgia and EU member countries.
- Experts of the Ministry of Environmental Protection and Agriculture and the Ministry of Health exchange information and give and receive technical consultations from their counterparts, especially from the EU.
- Georgia participates in a pilot programme along the Republic of Azerbaijan-Georgia-Kazakhstan transport corridor, which is coordinated by the Central Asia Regional Economic Cooperation -CAREC, to support transit trade. The programme seeks to address the non-harmonized document standards, lack of IT infrastructure and interoperability, uncoordinated transit guarantee systems, uncoordinated opening hours of customs offices, and delays due to customs formalities.⁸³
- Georgia is part of the European Conference of Ministers of Transport multilateral road haulage permits, which facilitate road freight transport between member countries.
- Georgia participates in the Transport Corridor Europe-Caucasus-Asia (TRACECA) initiative, which seeks to strengthen the trade and transport links across the Black Sea basin, South Caucasus and Central Asia.
- Georgia participates in the ECE Euro-Asian Transport Links (EATL) project, which seeks to support the participating countries' efforts to jointly develop main Euro-Asian road and rail routes.⁸⁴
- Georgia and Turkey have an agreement on Cooperation and Mutual Assistance in Customs Matters.
- Georgia and Turkey have an agreement on the Joint Use of Land Customs Crossing Points of "Sarpı-Sarp", "Kartsakhi-Çıldır/Aktaş" and "Akhalsikhe-Posof/Türkgözü".
- The Revenue Service of Georgia and the customs authorities of Ukraine have a protocol on exchange of information of goods and transport means crossing the borders of Georgia and Ukraine.
- Georgia and the Republic of Azerbaijan have an agreement on administrative assistance in customs matters.
- The Revenue Service of Georgia and the customs authorities of Armenia have a protocol on the exchange of information on goods and transport means crossing the borders of Georgia and Armenia.
- The customs administrations of GUAM Member States (Republic of Azerbaijan, Georgia, Republic of Moldova and Ukraine) have a protocol on mutual recognition of customs procedures results regarding goods and vehicles moved across the state borders.

In 2018, Georgia was preparing to accede to the EU Convention on a Common Transit Procedure⁸⁵ and integrate the CP with the EU New Computerized Transit System (NCTS), a pan-European customs system that supports advance exchange of information on transit traffic between customs authorities in the EU member

⁸³ www.padeco.jp/v2/project/facilitation-regional-transit-trade-carec.

⁸⁴ Participating countries include Afghanistan, Armenia, Republic of Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, China, Croatia, Cyprus, Finland, France, Georgia, Germany, Greece, Iran, Italy, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Malta, Mongolia, Pakistan, Poland, Portugal, Republic of Moldova, Romania, Russian Federation, Serbia, Spain, Tajikistan, the Former Yugoslav Republic of Macedonia, Turkey, Turkmenistan, Ukraine, and Uzbekistan. A detailed account of the ECE EATL project is available at: <http://www.ECE.org/trans/main/eatl.html>.

⁸⁵ As at May 2017, the Convention establishes a common transit procedure for governing the movement of goods between the twenty-eight EU Member States, the four EFTA countries (Iceland, Norway, Liechtenstein and Switzerland), Turkey, the Former Yugoslav Republic of Macedonia and Serbia.

countries and support the automation of customs administrative procedures throughout the EU. Once in place, documents and guarantees issued by the Georgia authorities will be valid in the EU and EFTA countries as well as in Turkey, Serbia and Macedonia.⁸⁶

Georgia was also in the process of fulfilling the requirements for acceding to the conventions on Simplification of Formalities in Trade and Goods (SAD) and the Common Transit Convention, which will bring about further improvements to the country's trade facilitation conditions.

The assessment shows that the flow of transit trade is impeded by the absence of a common simplified transit regime with Iraq and Saudi Arabia. The two countries are not signatories to the TIR convention, which slows transit traffic and complicates the functioning of regional transport corridors through Georgia. Trucks originating from these countries experience longer waiting time at the borders, as they must obtain Georgia's national internal transit document (T1). Moreover, as these trucks are without cargo seals, they are more likely to be flagged by the risk management system for documentary checks and physical inspection.

In addition, cross border trade is hampered by capacity shortfalls in neighbouring countries. Neighbour countries of Georgia generally lack the required infrastructure and logistical services, which impede the flow of freight through the BCPs. Officials noted that congestions and delays also occur because controls on the other side of the borders tend to be slower than on the Georgian side. Long queues build up at the Georgian side of the border for inbound traffic, making it less predictable for traders.

Cases cited by the officials related to the land border-crossing points with Turkey (Sarpi and Vale), where traffic is often delayed by slow formalities at the Turkish side of the border. Traffic is also delayed at the border crossing points with the Republic of Azerbaijan (Tsiteli khidi, Mtkvari and Tsodna), where crossing time may take up to a full day. On their part, traders noted that cargo traffic destined to/passing through Armenia and the Russian Federation is often subjected to frequent and intensive inspections (of both goods and vehicles), in view of the strict control formalities that are in place to combat illicit trade.

The Revenue Service of Georgia considers that the best way to alleviate such delays would be to achieve further digitalization and harmonization of procedures and documentary requirements with neighbouring countries and across transport corridors, in addition to developing digital intermodal logistical services.

3.6 Transport infrastructure and logistical services

Transport development (including rail, road, air and maritime) falls under the Ministry of Economy and Sustainable Development. The ministry is responsible for elaborating transport policy, coordinating infrastructure development initiatives and for guiding the development of transport-related technical regulations. The latter are developed by three distinct agencies under the ministry, including the Land Transport Agency, the Civil Aviation Agency and the Maritime Transport Agency. Working alongside the Ministry of Economy and Sustainable Development is the Ministry of Regional Development and Infrastructure, which is responsible for activities associated with planning, construction and maintenance of international and secondary roads.

The country has a well-developed maritime sector, with two major sea ports for handling bulk, general and container cargo in Batumi and Poti⁸⁷ which are owned and managed by international operators. In 2018, construction work was underway, under a build-operate-transfer contract, for establishing a new deep-sea

⁸⁶ Thus traders from these countries will no longer have to obtain transit guarantee and documentary requirements from Georgian authorities for transporting their goods through Georgia.

⁸⁷ For example the port of Poti (Georgia's main port) is equipped with storage facilities, weigh bridges and scanning equipment, including a mobile scanner and cameras, which are used by border control agencies. The Port also operates its own Border Inspection Post, which is equipped with food testing laboratories that are used by the Revenue Service. The management reported that it is investing in new facilities to address congestion during bad weather and support intermodal trade. The port was closed for 120 days in 2016 due to bad weather and rough seas.

port in Anaklia on the shores of the Black Sea for handling containers, bulk and mixed freight. The new port will be accommodating Panamax-size vessels and operate throughout the year to cater for the growing demand. Officials noted that the new port will contribute to reducing port fees, which are relatively high. Increasing the competition between the sea ports is one of the justifications for the new deep-sea port.

The railway network, which runs 2083.99 kilometres in total length,⁸⁸ is the subject of consistent development initiatives to bring it up to international standards; improve connectivity within the country as well as with neighbouring countries; and facilitate transit trade.⁸⁹ These initiatives are implemented by Georgian Railway,⁹⁰ which operates the network under the supervision of the Joint-Stock Company (JSC) partnership state-owned equity fund (Box 3.4).⁹¹ Most notable among the projects is the Georgian Section of the Baku-Tbilisi-Railway line, which is implemented by Marabda-Kartsakhi Railway (a State owned company under the umbrella of the Ministry of Economy and Sustainable Development).⁹²

Box 3.4 Main completed and ongoing projects for developing the railway sector

- **The Viking railway project** for transporting containers by rail from Europe through Latvia, Belarus and Ukraine across the Black Sea of Georgia and Central Asia.
- **Baku – Tbilisi – Kars new railway connection line project**, which involves the construction of a new corridor that will connect the railways of the Republic of Azerbaijan, Georgia and Turkey and provide a link to Europe. The project also involves the rehabilitation and reconstruction of the railway line (154 kilometres in total length) between stations from the Marabda to the Akhalkalaki section, and the construction of a new 25 km-long railway from Akhalkalaki to Kartsakhi – the Turkish border. Project implementation commenced in 2008, and will see the creation of a rail corridor from the Caspian Sea to Europe via Turkey and, as such, become an important carrier of incremental transport volumes, particularly of containerized cargo. During the initial stage of implementation, cargo turnover is expected to reach 5 million tonnes, and will increase up to 15 million tonnes in the future. Passenger traffic is slated to reach 1 million passenger per year.

As of April 2018, 72.5 per cent of the construction work has been completed on the Georgian territory, thus allowing and facilitating cargo traffic. The railway will be fully operational by the end of 2018.

- **Georgian Railway Modernization Project**, which was launched in September 2011 by JSC “Georgian Railway” to ensure compliance with the rules and regulations of The Yellow book of International Federation of Consulting Engineers (FIDIC Yellow Book). The construction work for the Design and Construction of Tbilisi-Makhinjauri modernization Project is being implemented under the contract signed on August 12, 2011 between Georgian Railway JSC and China Railway 23rd Bureau Group Co. Ltd. The project is geared towards:
 - Optimization of freight and passenger traffic duration,
 - Reduction of operational expenses,
 - Improvement of operational safety,
 - Maximization of freight through capacity.

The total cost of the project is USD 270 387 544 with a duration of 55 months. The project was scheduled to be completed in April 2016. However, taking into account the essential changes that were introduced, the approximate date for the completion is 2019. As of April 2018, 77.3 per cent of construction work has been completed.

⁸⁸ Georgian Railway has 1441.66 kilometres of mainline track length, including 294.84 kilometres of double track (Georgian Railway published statistics, available at: grc.railway.ge).

⁸⁹ Transit traffic accounts for over 50 per cent of rail freight. Statistics on rail freight is available at Georgian Railway website (grc.railway.ge).

⁹⁰ Georgian Railway is a public joint-stock company with the authority to raise capital in the open market. Georgian Railway is under the Partnership Fund of Georgia.

⁹¹ A compendium of completed and ongoing projects is published on Georgian Railway institutional website (grc.railway.ge).

⁹² Marabda-Kartsakhi Railway is limited state owned company under the umbrella of the Ministry of Economy and Sustainable development.

In 2018, the rail network's mainline was fully electrified along with 95 per cent of the branch lines. The network was also linked to the ports of Poti and Batumi as well as to the railway networks of Republic of Azerbaijan, Armenia and Turkey; had ferry connections to Bulgaria, the Russian Federation and Ukraine; and operated rail ferries connecting Republic of Azerbaijan with Central Asia. In addition, Georgian Railway was using third-party rolling stock⁹³ for transporting a large portion of its cargo as a way for addressing the problem of its obsolete locomotives and wagons. It was also investing in improving the services of its 114 freight stations. Officials highlighted the need for further improving the freight line capacity (e.g., more passing sidings) and for modernizing rail laws to achieve compliance with the requirements of the Association Agreement with the EU and European Atomic Energy Community and their Member States.

The road network, which, as shown in table 3.9, exceeds 20,000 kilometres in total length,⁹⁴ is also benefiting from major development initiatives as part of a broader effort to link the country with the regional TRACECA and the Central Asia Regional Economic Cooperation corridors. In 2018, two of Georgia's international roads, E60 and E70, were part of the TRACECA corridor and were the focus of major upgrading efforts. The two roads form the East-West Highway (EWH), which connects the eastern and western parts of the country.⁹⁵ Efforts were also underway to construct a logistical centre, Logistics City Tbilisi, 15 kilometres away from the city centre. Once completed, the centre will offer multimodal transport and modern logistical services.⁹⁶

Table 3.9 Lengths of road (kilometres) in Georgia by class and region (2014)

	Total	International	Secondary
Tbilisi	52.0**	52.0**	–
Adjara AR	1 565.9	54.3	152.9
Abkhazia AR	594.6	204	401.6
Guria	884.5	63.8	220.6
Racha-Lechkhumi, Kvemo Svaneti	1 276.7	–	388.3
Samegrelo-Zemo Svaneti	2 765.7	122.7	740.9
Imereti	2 648.7	143.6	785
Kakheti	2 645.3	125	716.2
Mtskheta-Mtianeti	1 456.6	178.7	426.5
Samtskhe-Javakheti	1 519.7	234.5	300.1
Kvemo Kartli	1 998.4	221.9	641.8
Shida Kartli	1 640.9	202.5	524.2
Georgia-total	19 049.0	1 603.0	5 298.1

Source: GeoStat⁹⁷

⁹³ A compendium of Georgian Railway rolling stock is available at: http://www.railway.ge/files/tarifs/dziritadi_eng.pdf.

⁹⁴ According to GeoStat, the total length of international roads is 1603 km. Secondary roads cover 52,981 km in total length, while local roads, which fall under the responsibility of municipalities, cover 2000 km.

⁹⁵ The EWH runs north from the Turkey border at Sarpi, serving the Black Sea ports of Batumi and Poti, then east past Kutaisi (Georgia's second-largest city) to Tbilisi, and then southeast to the border with Republic of Azerbaijan at Tsiteli Khidi. The remaining international roads, 3 in total, run south from Tbilisi to the Armenia border at Sadakhlo, Guguti, and near Ninotsminda.

⁹⁶ The centre is developed within the context of the TRACECA programme. Further details are available at: http://www.traceca-org.org/en/investments/investment-projects/detail/?tx_tracecainvprojectstable_pi3%5Buid%5D=30&cHash=2cdba963e82855bb065e63208d4d8623.

⁹⁷ As published in Ministry of Regional Development and Infrastructure (2016). Analysis of Regional Disparities in Georgia: available at: http://mrldi.gov.ge/sites/default/files/updated_analysis_of_regional_disparities.pdf (see Table 2, page 9).

The above projects will certainly improve transport services in terms of speed, reliability, connectivity, and cost-efficiency and strengthen Georgia's position as a regional logistical hub and transit corridor. Nonetheless, there remains room for improvement. Officials from the Ministry of Economy and Sustainable Development noted that air freight should be further developed. Freight services, available at the three international airports of Tbilisi, Batumi and Kutaisi, tend to be expensive. The Ministry was of the view that Kutaisi offers an excellent potential for air cargo expansion, given its central location and developed warehousing and logistical services.

On their part, traders lamented the poor conditions of secondary roads, which are ill suited for transporting cargo. This is particularly the case of secondary roads in mountainous terrain, which pose serious safety risks to drivers. As shown in chapter six, the poor conditions of these roads are posing great challenges for enterprise development.

Transport operators noted that more could be done to improve intermodal transport and develop the freight forwarding industry. While major companies, which are predominantly foreign, offer high quality services, they are mainly focused on trucking, shipping, port handling and brokerage. Packaging, warehousing and distribution services are not offered by most of these companies, and there is a shortage of warehousing facilities in rural areas.⁹⁸

⁹⁸ Officials drew attention that work is underway for developing modern logistics centres/clusters in Tbilisi and Kutaisi with the assistance of the World Bank.

Chapter Four

Regulatory and Standardization Policies

4.1 Introduction

The Government of Georgia sees the development of the national system of standardization, conformity assessment, metrology and accreditation as an important element in increasing the contribution of trade to economic development and improving the competitiveness of Georgian enterprises. Reform measures in this area entered a new phase in 2010, which marked the launching of negotiations with the EU over the terms of the Association Agreement, and are geared towards achieving the twin objective of approximating national legislation with the EU Directives and consolidating the required institutional capacity. Given the broad range of horizontal and sectoral areas involved, the Government opted for a gradual approach that sequences legislative approximation and associated reforms across several years until 2027.

Drawing on the results of the personal interviews with relevant State agencies, this chapter examines Georgia's system of technical regulations, standardization, conformity assessment and metrology. The introduction is followed by a brief overview of Georgia's quality control and quality assurance system, and leads to a discussion of capacity shortfalls that need to be accorded priority treatment.

4.2 Georgia's system of standardization, quality assurance and metrology

In 2018, Georgia's system of quality control and quality assurance consisted of the Legal Entity of Public Law (LEPL) Georgian National Agency for Standards and Metrology (GEOSTM), LEPL Georgian Accreditation Centre (GAC) and LEPL Technical and Construction Supervision Agency (TCSA).

GEOSTM⁹⁹ is responsible for supporting the development and implementation of national policies in the fields of standardization and metrology, operating from its headquarters in Tbilisi and its 4 regional service centres in Telavi, Gori, Poti and Kutaisi, while GAC is responsible for accrediting conformity assessment bodies (CABs).

TCSA, which was established in 2012, is the market surveillance body for the construction sector, including buildings and consumer and industrial products that are subject to the New Approach technical regulations (cableway installations, lifts, boiler plants, simple pressure vessel, and pressure equipment). In 2018, it was benefiting from targeted assistance from the EU to acquire the necessary capacity and expertise knowledge to meet the DCFTA requirements.¹⁰⁰

Both GEOSTM and GAC have their own income sources, which enable them to achieve a certain degree of self-sufficiency. In the case of GEOSTM,¹⁰¹ these sources accounted for 58 per cent of total income in 2018,¹⁰² and were generated from metrology services (about 95 per cent of income generated from services) and the sales of standards (a maximum of 5 per cent of income from services). In contrast, GAC relies on the public purse for financing only 25 per cent of its expenditures, with the remaining 75 per cent generated from accreditation services.

⁹⁹ GEOSTM comprises four departments: the Metrology Institute, the Standards Department, the Regional Service Centres Department and the Administrative Department.

¹⁰⁰ See the EU funded twinning project "Strengthening the Capacities of the Technical and Construction Supervision Agency (TCSA) in Development of the Market Surveillance System in Georgia" available at: https://www.bmwi.de/Redaktion/DE/Downloads/Twinning/Ausschreibungen-Archiv/20170623-georgien.pdf?__blob=publicationFile&v=8.

¹⁰¹ Fees charged by GEOSTM are guided by Government Decree No.992017. Standards are only provided free of charge, when requested for supporting court rulings.

¹⁰² The remaining 42 per cent are financed from the public purse.

The three agencies work under the Ministry of Economy and Sustainable Development, which is responsible for overall horizontal coordination and for ensuring the coherence of legislative reforms and capacity building efforts at the planning and implementation levels.¹⁰³ Working alongside these agencies are the line Ministries responsible for the development of technical regulations.

Since 2010, reforms have been geared towards bringing the national system of standardization, technical regulation, metrology, conformity assessment and accreditation up to the EU *Acquis* requirements. This is pursuant to the “Government Strategy on Standardisation, Accreditation, Conformity Assessment, Technical Regulation and Metrology”¹⁰⁴ and “Programme on Legislative Reforms in Standardization, Accreditation, Conformity Assessment, Technical Regulations and Metrology and Adoption of Technical Regulations”.¹⁰⁵

The two documents set out the strategic orientations that should form the focus of reforms undertaken by GEOSTM, GAC and TASCA as well as by the line ministries. Each of the three agencies has its own charter and action plan, with the latter prepared in consultation with the Ministry of Economy and Sustainable Development to ensure timely fulfilment of the country’s commitments under the DCFTA. The Ministry of Economy and Sustainable Development approves these plans and reports to the European Integration Commission under the Prime Minister’s Office.¹⁰⁶ As such, in drafting these plans, the agencies are also guided by the Government’s multi-year action plan for the implementation of the DCFTA. The agencies also take into account the outcome of their consultations with the private sector.¹⁰⁷

4.3 Technical regulations

Georgia’s system of technical regulations is marshalled around the strategic objective of achieving the highest degree of harmonization with regional and international trading partners. Technical regulations applied in the EU, the Organisation for Economic Co-operation and Development (OECD) member countries and major trading partners, once registered with the Ministry of Justice, can be accepted for establishing conformity with regulatory requirements.¹⁰⁸ National regulations are only developed for certain domestic products, particularly those destined for exports such as wine and mineral water. These are drafted according to the EU New Approach Directive. Only the essential requirements are elaborated in the text, with standards for voluntary application listed in attachments for establishing conformity with the regulatory requirements.¹⁰⁹

¹⁰³ In 2014, the Ministry of Economy and Sustainable Development was also tasked with the responsibility of monitoring and coordinating the approximation of national laws to the *EU Acquis* as established under the terms the DCFTA. The Ministry acts as main counterpart for the implementation of the DCFTA. See Government Decision No. 186 of 2 February 2014. Each of the specialized bodies has its own charter, which is approved by the Ministry.

¹⁰⁴ The strategy was adopted in 2010 pursuant to Government Decree No. 965 of 16 July.

¹⁰⁵ The Programme was adopted in 2010 pursuant to Government Decree No. 1140 of 25 August.

¹⁰⁶ The Commission reports to the EU-Georgia Association Council, which coordinates and oversees the implementation of the Association Agreement.

¹⁰⁷ According to Georgian legislation the policy of the Quality Infrastructure is defined by Ministry of Economy and Sustainable Development.

¹⁰⁸ Government Decree No. 50 of 7 March 2013 “Recognition of technical regulations and conformity assessment documents of foreign countries, access of products bearing the relevant marking without additional conformity assessment procedures and free placement of products on the market which are relevant to the regulated areas and at the same time are produced in the relevant country”.

¹⁰⁹ As stipulated in Code on Safety and Free Movement of Products, standards are voluntary and are only referenced into technical regulations if deemed necessary for fulfilling regulatory objectives (Code of Safety and Free Movement of Products, Chapter VI-Standardization). This approach is in line with the EU New Approach Directive’s principle of presumption of conformity. A recurrent practice communicated by interviewed officials is that standards are referenced using the indirect method (standards are recognized and registered in official sources external to the regulatory text) and not the direct method (including the number, title and date of the international/regional or national standard in the text of the technical regulations).

As shown in table 4.1, technical regulations are developed by the Ministry of Economy and Sustainable Development; the Ministry of Environmental Protection and Agriculture; and the Ministry of Labour, Health and Social Affairs in consultation with the private sector, following detailed annual action plans. Once adopted, through Government Decrees, the technical regulations are widely disseminated in an efficient and timely manner.

Table 4.1 The dynamics of technical regulations development in Georgia

Agency	Area and legal basis	Public-private sector consultative mechanisms	Information dissemination
Ministry of Economy and Sustainable Development	<i>Technical Barriers to Trade (TBT) and quality infrastructure</i> Legal basis: Code on Safety and Free Movement of Products of 2012 and subsequent amendments; Charter of the Ministry of Economy and Sustainable Development	In addition to the previously mentioned mechanisms (Table 3.4), the Ministry convenes <i>ad-hoc</i> consultative meetings with the private sector to discuss specific issues as needed.	The Ministry's institutional website, the DCFTA website; ¹¹⁰ social media; and the official Herald of Georgia. ¹¹¹ <ul style="list-style-type: none"> - The Ministry also organizes awareness raising seminars and workshops to brief the enterprise sector, especially SMEs, on reforms and legislative approximation processes associated with the DCFTA (including changes in regulatory requirement and standards) and solicit their feedback as to the challenges that the reforms generate for business development. The RIA was used before adopting technical regulations based on new approach directives. The RIA will be also applied in the future as part of the legislative approximation process.
Ministry of Environmental Protection and Agriculture	<i>Sanitary and phytosanitary (SPS) measures</i> Legal basis: Law on Food/ Feed Safety, Veterinary and Plant Protection; Law on vines and Wine; Code on Safety and Free Movement of Products; Charter of the Ministry of Environmental Protection and Agriculture; and other secondary legislation	In addition to the previously mentioned mechanisms (Table 3.4), the Ministry convenes <i>ad-hoc</i> consultative meetings with the private sector to discuss specific issues as needed.	<ul style="list-style-type: none"> - The Ministry's institutional website;¹¹² Civil Hall; emails to target audience; the official Herald of Georgia; social media. - Roundtable discussions and awareness raising workshops. - Disseminating printed materials.

¹¹⁰ DCFTA.gov.ge.

¹¹¹ Macne.ge.

¹¹² <http://www.moa.gov.ge>.

Agency	Area and legal basis	Public-private sector consultative mechanisms	Information dissemination
Ministry of Labour, Health and Social Affairs	<i>Health</i> Legal basis: Law on Health Care; Law on Medical Activities; Law on Patient Rights; Law on Medications and Pharmaceutical Activities; Law on Licences and Permissions; the Technical Regulations of the Government, the Decrees of the Ministry of Labour, Health and Social Affairs	In addition to the previously mentioned mechanisms (Table 3.4), the Ministry convenes <i>ad-hoc</i> consultative meetings with the private sector to discuss specific issues as needed.	<ul style="list-style-type: none"> - The Ministry's institutional website.¹¹³ - Traditional media (TV and print) and social media. - Workshops and meetings.

Since 2014, efforts have been mainly focused on approximating six EU horizontal Directives¹¹⁴ along with 20 New Approach sectoral directives¹¹⁵ as established under the provisions of the DCFTA. The DCFTA comprise around 300 technical regulations, covering SPS (272 regulations) and TBT measures (27, including 21 New Approach Directives and 6 horizontal legislation), which should be transposed into national law by 2027.

To ensure timely fulfilment of the Government's commitments under the DCFTA, multiannual and annual action plans integrating legislative approximation were adopted. The plans are revised as needed to take into account the enterprises' emerging needs based on bi-annual and (if needed) quarterly progress reports, listing achievements made and proposing changes for the consideration of the Ministry of Economy and Sustainable Development.

Thus far, the revisions have mainly involved shifting the sequence of legislative approximation by according priority to technical regulations deemed as carrying significant importance for export and import activities. Implementation has been proceeding according to plans, and without challenges, so that by the end of 2017, the ministries had successfully approximated 80 technical regulations, including 74 SPS and 6 TBT regulations (Annex 4).

As explained by officials, the approximation involved transposing the main principles of the EU directives into national law along with the harmonized standards referenced in the associated EU technical regulations.¹¹⁶ This does not mean that the EU regulations were transposed "as is". Officials emphasized that these were adapted to the national context¹¹⁷ based on ex-ante assessments that were carried out by the line ministries.

In the case of the Ministry of Economy and Sustainable Development, the ex-ante assessments took the form of regulatory impact assessments (RIAs), with technical support from specialized agencies within the context of donor funded projects. In 2010–2011, the ministry, which has a dedicated division for carrying out RIAs, conducted RIAs for all New Approach sectoral directives. However, RIAs are not mandatory. They are conducted according to the government's priorities for sectors that are deemed of strategic importance and/or are perceived as posing significant challenges for the enterprises.

¹¹³ <http://www.moh.gov.ge>.

¹¹⁴ See Annex III-B of the AA.

¹¹⁵ The number of New Approach Directives has been reduced from 21 Directives (listed in Annex AIII-A of the AA) to 20 Directives following the combination of EU Directives on medical devices (93/42/EEC concerning medical devices, and 90/385/EEC concerning active implantable medical devices) into one directive.

¹¹⁶ Harmonized Standards adopted as national standards are referenced following similar methods applied in the EU technical regulations.

¹¹⁷ For example, articles that are not relevant to Georgia are excluded.

Officials noted that more can be done to further develop the Ministry's knowledge and expertise skills in RIAs, and establish similar capacities within line ministries. This will enable the Government to move towards mandatory RIAs, and consolidate such assessments into a systemic approach to technical regulations development and legislative reforms.

For the Ministry of Economy and Sustainable Development, its acquired first-hand knowledge in RIA meant that it did not face any challenges in relation to legislative approximation. This was not the case for the Ministry of Environmental Protection and Agriculture. The Ministry does not have any experience in undertaking RIAs. As such ex-ante assessments takes the form of analytical work for identifying the potential impact of legislative reforms, with a special emphasis on the associated costs that are likely to be assumed by the business enterprises.

The assessments are usually undertaken by NFA with inputs from the different divisions; a rather challenging task because the Ministry lacks the required expertise skills and financial resources. The Ministry also lacks the required testing laboratories, so that the assessments are not rigorous. It also lacks detailed guidelines of the approximated technical regulations for ensuring due diligence at the implementation level.

Similar concerns were raised by the Ministry of Labour, Health and Social Affairs, which has to approximate, in addition to the New Approach sectoral directives,¹¹⁸ a number of EU health related directives under the AA. Officials said that ex-ante assessments take the form of analytical work, as the Ministry does not have any experience in the area of RIA. The Ministry also suffers from a shortage of qualified staff and the required financial resources for translating technical regulations into Georgian. In January 2018, the Ministry was in the process of approximating the EU health related directives, which were scheduled to enter into force in 2019. The approximation of these directives, listed below, was proving to be rather challenging:

- 2002/98 – Blood safety
- 2004/33 – Technical requirements for blood and blood components
- 2005/62 – Community standards and specifications
- 2005/61 – Requirements and notifications
- 2004/23 – Standards of quality and safety for the donation, requirement of tissues
- 2006/17 – Technical regulations for donation for human tissues and cells
- 2006/86 – Notification for adverse reaction and invest
- 2010/53 – Quality of safety of human organs intended for transplantation

Officials from the Ministry also reported lacking a dedicated unit for dealing with medical devices, which will make it all the more difficult to ensure the successful implementation of the associated EU New Approach Directive.

4.4 Standardization

Standardization, which falls under GEOSTM Standards Department, is guided by the Code on Safety and Free Movement of Products; the agency's Statue as approved by the Ministry of Economy and Sustainable Development¹¹⁹; and the Charter of the Standards Department. The Department, which, as shown in table 4.2, actively participates in regional and international standard setting organizations, is mandated with: maintaining the national registry of standards;¹²⁰ keeping the enterprises abreast of changes in the national registry of standards (via GEOSTM website¹²¹ and social media); and supporting the sectoral technical committees responsible for standard development work.

¹¹⁸ EU Directives on medical devices (93/42/EEC concerning medical devices, and 90/385/EEC concerning active implantable medical devices) have been combined into one directive.

¹¹⁹ Order of the Ministry of Economy and Sustainable Development No. 1-1/1570 of 26 July 2012 on "adopting the Statue of Georgian National Agency for Standards and Metrology".

¹²⁰ Order of the Director General of LEPL-GOESTM No. 2 of 10 January 2013 in the "adoption of rules of Georgian Standards Registry".

¹²¹ See GEOSTM standardization catalogue in English at: <http://geostm.ge/index3.php> (under construction in April 2018). The catalogue in the Georgian language is available at: <http://geostm.ge/cms-images/katalogi.pdf>.

Table 4.2 Georgia's participation in regional and international standard-setting organizations¹²²

International/ regional standard setting organizations	Type of membership	Participation in technical groups/committees
ISO	Correspondent member	Participation in following TCs with Voting-rights: ISO TC 34 – Food products; ISO TC 228 – Tourism and related Services; ISO TC 147 – Water quality; ISO TC 242 – Energy management; ISOTC 176 – Quality management and quality assurance.
IEC	Associate Member	Participation in following TCs with Voting-right: IEC TC 17 – High-voltage switchgear and control gear; IEC TC 42 – High-voltage and high-current test techniques; IEC TC 44 – Safety of machinery – Electrotechnical aspects; IEC TC 77 – Electromagnetic compatibility.
CEN – European Committee for Standardization	Companion Standards Body	Participates in activities according to the membership status.
CENELEC – European Committee for Electrotechnical Standardization	Companion Standards Body	Participates in activities according to the membership status.

The Department manages the establishment of the technical committees, which bring together private sector representatives from the relevant industries along with representatives from the Government, enterprise support institutions and the academia.¹²³ It does this by bringing on board experts against specific criteria (e.g., working experience and level of education) through calls for candidacy.¹²⁴ Only applicants who meet the candidacy requirements are selected for membership in the committees. Once established, the committees elect a chair (from amongst members) and the Department assumes the role of the secretariat.

In 2018, GOESTM Standards Department was supporting 6 committees (Box 4.1). The committees were created over the period 2012–2017¹²⁵ to deliver on national standard-setting priorities, as defined under the national standardization action plans. Prepared by the Standards Department, these plans are developed on a bi-annual basis taking into account the enterprises' needs and international best practices.¹²⁶

The line ministries provide the Standards Department with the list of mandatory requirements established under recently adopted technical regulations and participate, alongside the Department, in selecting the voluntary standards to be adopted as Georgian standards. The Department then publishes the draft Georgian

¹²² As at January 2018.

¹²³ The legislative basis for the technical committees is established under the Charter for the Creation of Technical Committees, as approved by the Ministry of Economy and Sustainable Development.

¹²⁴ The calls of candidacy are published on GOESTM website and are complemented by targeted invitations (by email) to relevant private sector representatives.

¹²⁵ The technical committees were established in 2012, which marked the Code of Safety and Free Movement of Products entry into force.

¹²⁶ Code of Safety and Free Movement of Products (Chapter VI-Standardization), which follows international best practices as established under the TBT Agreement (Annex III).

Box 4.1 Georgia's Technical Committees (as at January 2018)

- TC 1 - Electrotechnical Committee
- TC 2 - Management and Conformity Assessment TC 3 – Food products
- TC 4 - Tourism and related services
- TC 5 - Construction and increasing hazardous products
- TC 6-Natural Gas

standards programme, developed according to Annex III of the TBT Agreement for public comments¹²⁷, and invites suggestions from the technical committees. The final version of the Georgian standards programme, adopted by decree of the general director of Georgian National Agency for Standards and Metrology, also take into account requests from the business community and the public at large. These requests are solicited following an elaborate procedure to ensure policy responsiveness (Box 4.2).

Box 4.2 Procedure for considering public requests for standard

1. Official letter to the agency (GEOSTM) for the elaboration and/or registry of Georgian standards.
2. Check information on availability of international/regional standards in the relevant field. If same standards already exist or it is in the process of elaboration, Georgian standard will not develop and/or will not registry as well.
3. Reviewing of the original Georgian standard by technical committee will start after the approval of Ministry of Economy and Sustainable Development.
4. The technical committee takes a decision on adoption of the standard by consensus.
5. The Georgian government should approve the use of the original Georgian standards.
6. Registration of the elaborated standard as a Georgian standard in the national standards registry.

Source: GOESTM (geostm.ge)

Following international best practices, national standards are only developed where no European and/or international standards exist and this is reflected in the country's national registry of standards (Table 4.3). Officials noted that regional and international standards are adopted as national standards without modifications, following, in most cases, the cover sheet method (only the cover page of the standard is translated into Georgian).

Table 4.3 Composition of Georgia's national registry of standards (as of December 2017)

Standards	Share in total registry	Sectors
International (ISO, IEC)	50%	Food; agricultural products; conformity assessment; tourism
European (CEN/CENELEC)	47%	Electrotechnical products; gas; construction; hazardous products
National (GES)	3%	Food, mineral water; agriculture products

Source: GOESTM Standards Department

The Standards Department adopts around 2000 standards per year and, since 2014, standard-setting has been proceeding with an eye to fulfilling the country's commitments under the DCFTA. As shown in table 4.4, by 2018 Georgia has transposed all the European harmonized standards (ENs) in the fields of pressure equipment, simple pressure equipment, hot-water boilers, cableway installations, lifts and recreational crafts.

¹²⁷ The plans are published on GEOSTM website (www.geostm.ge).

Table 4.4 Approximation of national laws and adoption of EU harmonized standards (as of December 2017)

Field	New Approach Directive	Subject of regulation	No. of ENs	No. of Georgian harmonized Standards	% of transposed ENs
Chemicals	93/15/EEC	Explosives for civil uses	57	57	100
	2007/23/EC	Pyrotechnic articles	24	14	58
	(EC) 1907/2006	Chemical substances	3	0	0
Conformity assessment and management systems	765/2008/EC 768/2008/EC (EC) 1221/2009	New legislative framework; Eco-management and audit scheme	33	10	30
Construction	89/106/EEC	Construction products	442	288	51
Consumers and workers protection	89/686/EEC	Personal protective equipment	280	235	83
	2009/48/EC, 88/378/EEC	Toys safety	11	10	90
	2001/95/EC	General product safety	65	11	16
	(EC) 1223/2009	Cosmetics	1	1	100
Electric and electronic engineering	94/9/EC	Equipment for explosive atmospheres	93	85	91
	2006/95/EC	Low voltage equipment	737	307	41
	2004/108/EC	Electromagnetic compatibility	136	81	
	1999/5/EC	Radio and telecommunications terminal equipment	26	40	28
	2011/65/EU	Restriction of the use of certain hazardous substances	1	0	0
Healthcare engineering	90/385/EEC	Active implantable medical devices	45	18	40
	93/42/EEC	Medical Devices	242	155	64
	98/79/EC	In vitro diagnostic medical devices	39	12	30
Measuring technology	2004/22/EC	Measuring instruments	19	16	84
	2009/23/EC	Non-automatic weighing instruments	1	1	100

Field	New Approach Directive	Subject of regulation	No. of ENs	No. of Georgian harmonized Standards	% of transposed ENs
Mechanical engineering and means of transportation	2009/142/EC	Gas appliances	92	72	78
	97/23/EC	Pressure equipment	187	187	100
	2000/9/EC	Cableway installations	23	23	100
	95/16/EC	Lifts	16	16	100
	2006/42/EC	Machinery	768	95	12
	2008/57/EC	Interoperability of the rail system	145	24	16
	94/25/EC	Recreational craft	56	56	100
Services	97/67/EC	Postal services	8	6	75
Sustainability	94/62/EC	Packaging and packaging waste	6	0	0

Source: GOESTM Standards Department

Officials noted that there is room for improving standard setting activities, since the technical committees were only established in 2012. Members of existing committees have received training on standard setting and the role of technical committees therein as well as on quality management systems. The experience gained, while valuable, remains insufficient for addressing the highly technical issues in their fields. Existing technical committees could also benefit from increased exposure to international best practices in standard development and advanced training on the basic tenets underpinning the functioning of internal systems proper to each harmonized standard as well as on topical issues of direct relevance to implementation of these standards.

Officials also reported that the Department lacks the required capacity to meet the business community's increasing demand for translated EU and international standards. Translating these standards into Georgian is a demanding task, requiring advanced technical knowledge of the different aspects of each individual standard. This has meant that as of January 2018, only 25 ENs have been fully translated, and the selection was made based on the recommendations of the technical committees. There is also the need to increase the involvement of the business community, particularly SME representatives, in the work of technical committees as well as experts and stakeholders from market support institutions (i.e., non-governmental organisations supporting enterprise development such as trade promotion agencies, business support institutions).

4.5 Conformity assessment

As previously mentioned, Georgia has unilaterally recognized the technical regulations and conformity assessment procedures of EU and OECD member countries. These were recognized "as is", and the system is aligned with the EU New Legislative Framework (NLF) principles of presumption of conformity and the separation of accreditation from other quality control and quality assurance functions.

Central to this system is GAC, which is guided by the Code on Safety and Free Movement of Products and its own Statute and operates in accordance with ISO/IEC 17011 on "conformity assessment- requirements for accreditation bodies accrediting conformity assessment bodies". GAC is a signatory to the European Cooperation for Accreditation (EA) Multilateral Recognition Arrangement (MLA),¹²⁸ and will be joining the International Laboratory Accreditation Cooperation (ILAC) mutual recognition agreement (MRA) soon.

¹²⁸ The agreement, which was signed on 23 May 2017, is available at: http://gac.gov.ge/files/bla_1_1.png.

GAC is also a member of the Interregional Association for Standardization, and has established cooperation agreements with its counterparts in Belarus, Germany, Latvia, Turkey, Ukraine and the USA. The agreements involve: the exchange of information on accreditation systems and conformity assessment procedures; cooperation in establishing experts' qualification; joint assessments; and, facilitating the acceptance of the results of conformity assessment procedures.

In 2018, GAC had established competence in 7 areas, drawing on a pool of 130 experts, who are kept abreast of international best practices through training and email notifications,¹²⁹ and 130 external technical assessors (Table 4.5). Accreditation is granted in accordance with ISO/IEC 17011, with designated general procedures and specific procedures for each accreditation scheme. Assessment results are reviewed by GAC's lead assessors (not involved in assessment procedures) and their findings form the basis of the management's decision to grant accreditation, extend its scope, suspend the accreditation or withdraw it altogether. The entire accreditation process takes 3 to 6 months to complete, and fees are determined pursuant to Government Decree No.301 of 2011.

Table 4.5 GAC's areas of competence

Area	International standard	Staff	External assessors
Testing laboratories	ISO/IEC 17025 (recognized by the EA)	65	LA (lead assessor): 8 TA (Technical assessor): 38 Expert: 19
Calibration laboratories	ISO/IEC 17025 (recognized by the EA)	17	LA: 6 TA: 9 Expert: 2
Medical laboratories	ISO 15189	17	LA: 2 TA: 14 Expert: 1
Inspection bodies	ISO/IEC 17020 (recognized by the EA)	45	LA: 6 TA: 33 Expert: 6
Product certification bodies	ISO/IEC 17065 (recognized by the EA)	15	LA: 3 TA: 10 Expert: 1
Management system certification bodies	ISO/IEC 17021	3	LA: 1 TA: 2
Personnel certification bodies	ISO/IEC 17024 (recognized by the EA)	8	LA: 2 TA: 4 Expert: 2

Source: GAC

Informing the management decisions on accreditation and technical issues are two technical advisory committees, including the Laboratory Committee and the Certification Committee. The committees bring together independent experts from different sectors, representatives of conformity assessment bodies, research institutions and GEOSTM. Members join the committees on a voluntary basis, with those representing public or private sector agencies elected by their respective governing bodies. Each committee comprises 8 to 12 permanent members, and additional experts are invited to participate as needed on a short-term basis.¹³⁰

¹²⁹ Staff receives notifications on new decisions by EA, ILAC and the International Accreditation Forum.

¹³⁰ For further details see Rules and Procedures for GAC Technical Advisory Committees, available at: http://gac.gov.ge/files/RU-02_Rules_of_Procedure_for_the_Technical_Advisory_Committees.pdf.

The list of accredited conformity assessment bodies is published on GAC's website, with inspection bodies (including vehicle testing centres and verification bodies) and testing laboratories constituting the largest segment. These accounted for over 80 per cent of accredited CABs, with medical laboratories, product certification and personal certification bodies representing the remaining balance. Georgia has 6 accredited product certification bodies, 6 personal certification bodies, only 3 medical laboratories and lacks accredited bodies for performing audit and certification of management systems.¹³¹ In 2018, GAC was in the process of accrediting 70 CABs, including the first management system audit and certification body (Table 4.6).

Table 4.6 Breakdown of CAB's undergoing accreditation in Georgia (2018)

Field	No. of CABs	Location	Ownership
Inspection Body	67	Tbilisi, Batumi, Kutaisi, Sagarejo, Akhaltsikhe, Gori, Rustavi, Zestafoni, Marneuli, Chokhatauri	Privately-owned
Management system Audit and Certification body	0	Tbilisi	Privately-owned
Personnel Certification Body	6	Tbilisi	State-owned – 1 Privately-owned
Product Certification Body	6	Tbilisi, Poti, Batumi	Privately-owned
Testing Laboratory	104	Tbilisi, Borjomi, Kutaisi, Gori, Batumi	State Owned – 1 Privately-owned – 19
Calibration Laboratory	9	Tbilisi, Kutaisi	Privately-owned
Medical Laboratory	3	Tbilisi	Privately-owned

Source: GAC

In 2018, GAC was in the process of elaborating corrective and preventive actions for improving its accreditation services, amidst preparations to implement the updated ISO/IEC 17025 "General requirements for the competence of testing and calibration laboratories". The centre was also planning to apply for obtaining EA's recognition of medical laboratories accreditation results.

The need to further develop the existing CABs has been also stressed by interviewed officials from the Ministry of Environmental Protection and Agriculture. These noted that Ministry's laboratory, which implements new testing methods based on the approximated legislation, is unable to meet national demand. There is a need for establishing additional laboratories, and the private sector should contribute to addressing this shortage.

GAC is also seeking to bolster the transparency of conformity assessment processes. Hence, an emphasis on publishing up-to-date information on its activities online and on engaging in consultations with the private, particularly on legislative harmonisation and their implication for enterprise development. GAC is, therefore, keen on increasing the number of technical committees, and was in the process of establishing a technical advisory committee for supporting its activities in the area of proficiency testing.

4.6 Metrology

Georgia's metrology system is managed by GEOSTM Metrology Institute guided by the Code on Safety and Free Movement of Products; and the agency's Statute and the Charter of the Metrology Institute. The Institute, which participates in a number of regional and international bodies (Table 4.7), is responsible for both applied and legal metrology with an established quality management system in accordance with ISO/IEC 17025.

¹³¹ The list of accredited laboratories is available at: http://gac.gov.ge/index.php?lang_id=ENG&sec_id=10.

Table 4.7 GEOSTM's participation in regional and international metrology organizations

International/regional bodies	Type of membership	Activities, programmes and schemes	Future plans
BIPM <i>International Bureau for weights and Measures</i>	Associate member	GEOSTM is signatory of CIPM MRA (Mutual Recognition Arrangement of National Measurements Standards and Calibration Certifications issued by National Metrology Institutes -NMIs)	May be in long-term plans (5-10 years) to consider full membership in Meter Convention.
OIML <i>International Organization for Legal Metrology</i>	Correspondent member	Availability of OIML recommendations and documents, participation in GAs and CEEMS (Countries and Economies with Emerging Metrology Systems)	To participate in Technical Committees and/or working group activities.
COOMET <i>Euro-Asian Cooperation of National Metrological Institutions</i>	Member	<ul style="list-style-type: none"> • Technical Committees works in different fields of measurements; • Key and supplementary comparisons of measurements standards • Peer reviews of quality management systems of member NMIs 	In mid-term plan to extend the participation in COOMET decision making bodies

Source: GEOSTM

The institute carries out the full range of activities in the field of applied metrology, namely: developing national measurement standards; maintaining the registry of national measurement standards; and ensuring uniformity of measurement through calibration. The institute also carries out activities in the field of legal metrology, including: type approval of legal measurement instruments using international standards and OIML documents;¹³² recognition of type approval; registry and maintenance of type approvals; verification of measurement instruments in use; and recognition of initial verifications results.

The institute develops national measurement standards in the fields of length, mass, temperature (primary standards), electricity, humidity, small volumes, physical chemistry (primary standards), ionizing radiation and radio-physics. It is involved in both key and supplementary inter-laboratory comparisons (mostly organised by COOMET), and was a pilot laboratory for comparisons in the field of electrical and mass measurements. The institute is also engaged in bilateral comparisons with Germany's national metrology institute Physikalisch-Technische Bundesanstalt (in the fields of mass, electrical measurement) and with the Czech Metrology Institute (in the fields of pressure, small volume, length and humidity).

GEOSTM achieved international recognition in the Quality Management System (QMS) according to ISO 17025 in mass, electrical and temperature measurement laboratories, and has succeeded in publishing 30 Calibration and Measurement Capabilities (CMC) entries in the fields of temperature, electricity and mass in the International Bureau for Weights and Measures (BIPM) database. Moreover, a number of GEOSTM standard-holding laboratories (mass, temperature and electricity) issue internationally recognised calibration certificates with CIPM MRA logo.

¹³² GEOSTM recognizes measuring instruments (MID) and non-automatic weighing instruments directive (NAWI) certificates issued by notified bodies, including EC-type examination certificates, EC-design examination certificates and quality systems approvals. The legal basis for issuing these certificates is established in EU Directives 2014/32 (MID certificates) and 2014/31 (NAWID certificates).

In 2018, the institute was in the process of developing the remaining standard-holding laboratories, with plans to start preparation for the approximation of the respective EU Directives (MID and NAWI). Officials also noted that the existing laboratories were upgraded in 2016 and are, therefore, in need of additional equipment (Table 4.8). The Institute could also benefit from expanding its pool of experts. The challenge is to attract young experts to ensure the transfer of knowledge from the older generation, who have undergone intensive training, including study tours and advance training courses, over the years. There is also the need to raise public awareness (including among the business community, SMEs, CABs, governmental and non-governmental organizations and the academia) on the importance of metrology for improving measurement infrastructure and capacities, export competitiveness and structural transformation.

Table 4.8 GEOSTM Metrology Institute Standard-holding laboratories (as at March 2017)

Division	Services	Accreditation
Dimensional Measurements Reference Division	Calibrations Verifications Inter-laboratory comparisons	Preparations are underway for international recognition of the laboratory against ISO/IEC 17025 through COOMET peer review, which is planned for 2018
Electrical Measurements Reference Division	Calibrations Verifications Type approvals (Certification) Inter-laboratory comparisons	The laboratory obtained international recognition against the standard ISO/IEC 17025 in 2013 through COOMET peer review. The laboratory has 16 CMCs published in BIPM data base.
Mass and Related Quantities Reference Division	Calibrations Verifications Type approvals (Certification) Inter-laboratory comparisons	The laboratory obtained international recognition against ISO/IEC 17025 in 2013 through COOMET peer review. Laboratory has 5 CMCs published in the field of mass measurements and intends to extend the scope of recognition to small volumes (pipets) in 2018.
Mechanical Measurements Reference Division	Calibrations Verifications Type approvals (Certification) Inter-laboratory comparisons	The laboratory for temperature obtained international recognition against ISO/IEC 17025 in 2013 through COOMET peer review. Laboratory has 9 CMCs published in the field of temperature and intends to extend the scope of recognition to include humidity in 2018.
Ionizing Radiation Reference Division	Calibrations Verifications Inter-laboratory comparisons	The division maintains secondary standards dosimetry laboratories SSDLs, which were created with the support of the International Atomic Energy Agency (IAEA).
Radio-physics, Optics and Acoustics Reference Division	Calibrations Verifications Type approvals (Certification) Testing of cash registers	Preparations are underway for obtaining international recognition in the near future.
Phys-Chemical Measurements Reference Division	Calibrations Verifications Type approvals Inter-laboratory comparisons	Preparations are underway for obtaining international recognition soon.
Service for Register of Types of legal Measuring Instruments and Legislation (Responsible for maintaining the National Registry)	Type approval/ Recognition of type approvals (Certification)	Not Applicable

Source: GEOSTM

Chapter Five

Regional integration dynamics

5.1 Introduction

As shown in the previous chapters, Georgia has achieved a significant degree of export diversification, benefiting from the favourable market access conditions, which entered a new phase with the implementation of the DCFTA. These achievements were made possible by the Government's consistent efforts to improve trade facilitation conditions in the country and support enterprise development.

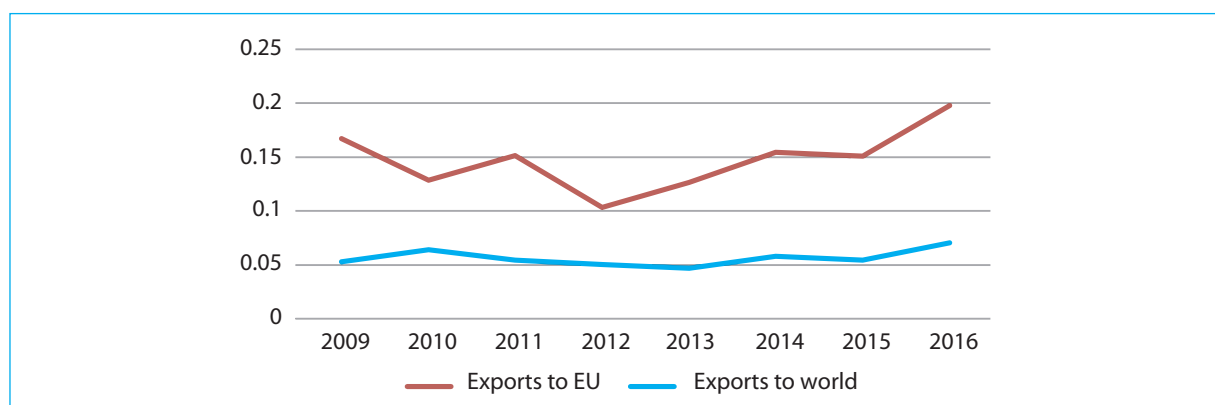
The enterprises seem to have capitalized on the growth opportunities generated by this favourable environment, exhibiting consistent improvements in their competitive positions in both regional and global markets. Nonetheless, there remains room for improvement, evidenced by the narrow range of products that dominate the country's exports. If anything, the concerns raised by traders and Government officials suggest that further increases in exports, particularly to Europe (Georgia's main trading partner), are effectively a function of the business enterprises' ability to comply with the EU regulatory and safety requirements.

This chapter takes the analysis a step further by shedding light on market access conditions facing the enterprise sector. To do this, it starts with a brief overview of Georgia's trade patterns. An analysis of the welfare effects of trade creation and trade diversion resulting from the existing and alternative regional cooperation arrangements comes next, leading to a discussion of implications for trade reforms and development efforts.

5.2 Exports

As shown in figure 5.1, Georgia's exports exhibit a significant degree of diversification, with the export concentration index carrying a value of 0.2.¹³³ However, Georgia's exports to the world are more diversified than its exports to the EU and the latter have been showing a tendency towards increased export concentration since 2015.

Figure 5.1 Georgia's export concentration index



Source: Calculation based on UN Comtrade data

¹³³ The value of the export concentration index ranges between zero and one. A closer to one index value indicates a concentration in a limited number of sectors, with one indicating that only a single product is exported.

These trends are further highlighted from a cursory comparison of Georgia's main exports to the world with those destined to the EU. As shown in table 5.1, Georgia's top 20 exports to the world accounted for 70 per cent of total exports in 2016. In contrast, the country's top 20 exports to the EU accounted for 90 per cent of total exports to the region and most of these products enjoyed duty-free access since September 2014 following the provisional implementation of the DCFTA (Table 5.2).

Table 5.1 Georgia's top 20 exports to the world (2016)

Harmonized System (HS) 6-digits	Product	Export value (USD)	Share in total exports
260300	Copper ores and concentrates.	311 703 266	14.7%
080222	Hazelnuts or filberts, shelled	172 976 228	8.2%
720230	Ferro-silico-manganese	168 200 349	8.0%
220421	Grape must with fermentation prevented or arrested by the addition of alcohol, in containers holding 2 l or less	109 030 551	5.2%
870323	Motor vehicles, with spark-ignition internal combustion reciprocating piston engine, of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc	88 139 428	4.2%
300490	Medicaments for therapeutic or prophylactic uses, put up in measured doses or in forms or packings for retail sale, other	86 081 607	4.1%
710813	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, other semi-manufactured forms	81 082 835	3.8%
220110	Mineral waters and aerated waters	79 434 304	3.8%
220820	Spirits obtained by distilling grape wine or grape marc	72 681 073	3.4%
310230	Ammonium nitrate, whether or not in aqueous solution	65 644 114	3.1%
870324	Motor vehicles, with spark-ignition internal combustion reciprocating piston engine, of a cylinder capacity exceeding 3,000 cc	38 794 811	1.8%
10229	Live bovine animals, cattle	36 569 952	1.7%
870333	Motor vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), of a cylinder capacity exceeding 2,500 cc	34 378 843	1.6%
270900	Petroleum oils and oils obtained from bituminous minerals, crude.	31 640 965	1.5%
610990	T-shirts, singlets and other vests, knitted or crocheted, of other textile materials	31 216 535	1.5%
999999	Commodities not specified according to kind	22 329 994	1.1%
271600	Electrical energy	22 329 330	1.1%
260200	Manganese ores and concentrates, including ferruginous manganese ores and concentrates with a manganese content of 20 % or more	19 853 406	0.9%

Harmonized System (HS) 6-digits	Product	Export value (USD)	Share in total exports
721420	Other bars and rods of iron or non-alloy steel containing indentations, ribs, grooves or other deformations	18 158 623	0.9%
230120	Flours, meals and pellets, of fish or of crustaceans, molluscs or other aquatic invertebrates	15 180 414	0.7%
Total			71.2%

Source: Calculation based on UN Comtrade

In terms of sectoral performance, business enterprises engaged in processing copper ores and hazelnuts appear to have been particularly successful in establishing niches in global and regional markets. This also applies to processors of wine, ferro-silico manganese, pharmaceutical products, albeit with varying degrees of success (Tables 5.1 and 5.2).

Table 5.2 Georgia's top 20 exports to the EU and applied tariff rates (2016)

HS 6-digits	Product	Export value (USD)	Share of total exports to EU	MFN tariffs applied by EU (simple average), %	Preferential tariffs for imports from Georgia, %
260300	Copper ores and concentrates	173 135 074	34.1%	0.00	–
80222	Fresh or dried hazelnuts or filberts, shelled	140 977 811	27.7%	3.20	0.00
270900	Petroleum oils and oils obtained from bituminous minerals, crude	26 799 753	5.3%	0.00	–
310230	Ammonium nitrate, whether or not in aqueous solution	24 109 280	4.7%	6.50	0.00
720230	Ferro-silico-manganese	17 821 618	3.5%	3.70	–
220421	Wine of fresh grapes, incl. fortified wines, and grape must, in containers of <= 2 l (excl. sparkling wine)	12 940 417	2.5%	non A.V.	0.00
220110	Mineral waters and aerated waters, not containing added sugar	12 204 076	2.4%	0.00	–
200819	Nuts and other seeds, incl. mixtures, prepared or preserved	8 666 277	1.7%	10.03	0.00
442190	Other articles of wood	8 076 433	1.6%	1.33	–
110630	Flour, meal and powder of produce of edible fruit and nuts; peel of citrus fruits or melons	6 814 442	1.3%	9.60	0.00
620219	Women's or girls' overcoats, raincoats, car coats, capes, cloaks and similar articles, of textile materials	5 675 063	1.1%	12.00	–

HS 6-digits	Product	Export value (USD)	Share of total exports to EU	MFN tariffs applied by EU (simple average), %	Preferential tariffs for imports from Georgia, %
282090	Manganese oxides	4 415 587	0.9%	2.75	0.00
760120	Unwrought aluminum alloys	4 000 413	0.8%	6.00	–
80221	Fresh or dried hazelnuts or filberts in shell	3 498 378	0.7%	3.20	0.00
701090	Carboys, bottles, flasks, jars, pots, phials and other containers, of glass, of a kind used for the commercial conveyance	3 454 844	0.7%	5.00	–
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, n.e.s. ¹³⁴	3 429 502	0.7%	1.97	0.00
711590	Articles of precious metal or of metal clad with precious metal, n.e.s.	2 493 771	0.5%	3.00	–
841182	Gas turbines of a power > 5.000 kW	2 193 940	0.4%	4.10	–
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up in measured doses	2 127 400	0.4%	0.00	–
711299	Waste and scrap of silver, incl. metal clad with silver	1 972 581	0.4%	0.00	–
Total			90%		

Source: Trade data from UN Comtrade; tariff data from WTO

The extent to which the enterprises' success was influenced by the duty-free access into the EU markets is captured in figure 5.2, which maps the degree of similarity between Georgia's export mix to the EU with that destined to the rest of the world over time using Finger-Kreinin product similarity index. The figure shows Georgia's exports to the EU as becoming increasingly similar to exports to the rest of the world, with the Finger-Kreinin index assuming an increasing trend from 0.18 in 2005 to 0.32 in 2016.¹³⁵

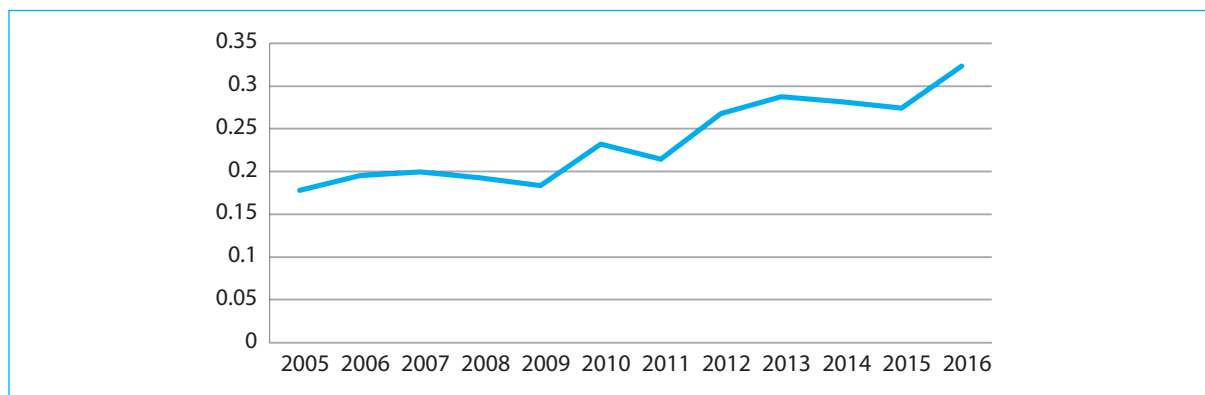
This suggests that Georgia's existing exports to the EU are becoming more and more based on comparative advantage and not on preferential tariff rates.¹³⁶ The challenge is to further diversify these exports. As shown in section 5.4, this requires intensifying efforts to develop the economy's productive capacity at the enterprise level, as a pre-requisite for enabling enterprises to comply with the EU quality and safety regulatory requirements.

¹³⁴ Not elsewhere specified.

¹³⁵ The Finger-Kreinin index sheds light on the degree of similarity between the product structures of two export destinations. The index value ranges between 0 and 1, with 1 indicating perfect similarity and 0 structurally different product portfolios.

¹³⁶ A more detailed discussion of Georgia's export competitiveness is provided in section 5.4.

Figure 5.2 Finger-Kreinin index of export similarity for Georgia's export to the EU and to the rest of the world

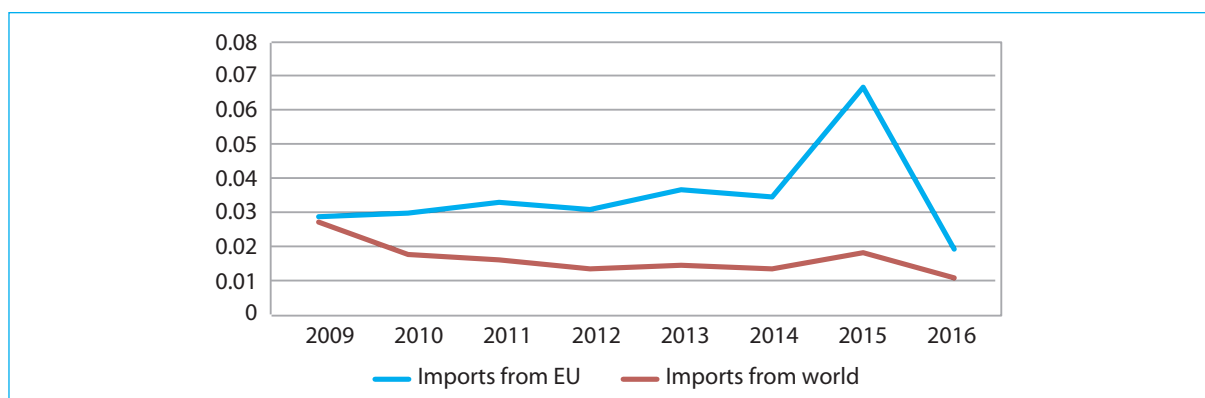


Source: Calculations based on UN Comtrade data

5.3 Imports

Just as the case of exports, Georgia's imports exhibit a low degree of product concentration. As shown in figure 5.3, the country's import concentration index from the EU and the world has been consistently below 1. This trend was briefly ruptured in 2015, under the weight of price fluctuations in commodity prices particularly fuel (Georgia's top import from the EU).¹³⁷

Figure 5.3 Import concentration index for Georgia's import from the EU and from the world



Source: Calculations based on UN Comtrade data

This high degree of import diversification is further highlighted from a cursory examination of the country's main imports from the world and the EU. As shown in table 5.3, Georgia's top 20 imports from the world accounted for only 35 per cent of total imports in 2016. The country's top 20 imports from the EU, which accounted for 10.9 per cent of Georgia's total imports, represented 41.4 per cent of total imports from the region (Table 5.4).

¹³⁷ The import product concentration index is vulnerable to cyclical fluctuations in relative prices. A rise in commodity prices makes the product pattern of the importing country look more concentrated. Statistics on fuel prices in Europe are available at: <https://www.eea.europa.eu/data-and-maps/data/external/oil-bulletin>

Table 5.3 Georgia's top 20 imports from the world (2016)

Harmonized System (HS) 6-digits	Product	Import value (USD)	Share of total imports
271019	Petroleum oils and oils obtained from bituminous minerals (other than crude) and preparations, containing by weight 70 % or more of petroleum oils	341 753 604	4.7%
271121	Natural gas	313 692 255	4.3%
271012	Light oils and preparations	276 993 672	3.8%
260300	Copper ores and concentrates	248 535 282	3.4%
300490	Medicaments for therapeutic or prophylactic uses, put up in measured doses or in forms or packings for retail sale	229 013 661	3.2%
870323	Motor vehicles, with spark-ignition internal combustion reciprocating piston engine, of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc	209 232 510	2.9%
851712	Telephones for cellular networks or for other wireless networks	120 042 200	1.7%
240220	Cigarettes containing tobacco	101 403 983	1.4%
870324	Motor vehicles, with spark-ignition internal combustion reciprocating piston engine, of a cylinder capacity exceeding 3,000 cc	101 150 132	1.4%
100199	Wheat and muslin	82 647 148	1.1%
870333	Motor vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), of a cylinder capacity exceeding 2,500 cc	72 104 793	1.0%
730890	Structures and parts of structures of iron or steel	67 218 739	0.9%
870322	Motor vehicles, with spark-ignition internal combustion reciprocating piston engine, of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc	61 127 792	0.8%
848180	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves.	60 396 206	0.8%
721420	Bars and rods of iron or non-alloy steel, containing indentations, ribs, grooves or other deformations	51 030 683	0.7%
961900	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar articles, of any material.	45 971 685	0.6%
20714	Cuts and offal, frozen	45 115 493	0.6%
854449	Insulated (including enameled or anodized) wire, cable (including co-axial cable) and other insulated electric conductors, for a voltage not exceeding 1,000 V	42 304 141	0.6%
690890	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like	41 511 906	0.6%
170199	Cane or beet sugar and chemically pure sucrose, in solid form	40 502 702	0.6%
Total			35.3%

Source : Calculation on UN Comtrade data

Main imports from the world include pharmaceutical products, vehicles and cigarettes, while main imports from the EU included beauty products and other manufactured goods. Only a handful of products figure in Georgia's top imports from the world and the EU, including oil, gas, copper ores along with motor vehicles and pharmaceutical products (albeit with modest shares).

Table 5.4 Georgia's top 20 imports from the EU and applied tariffs rates (2016)

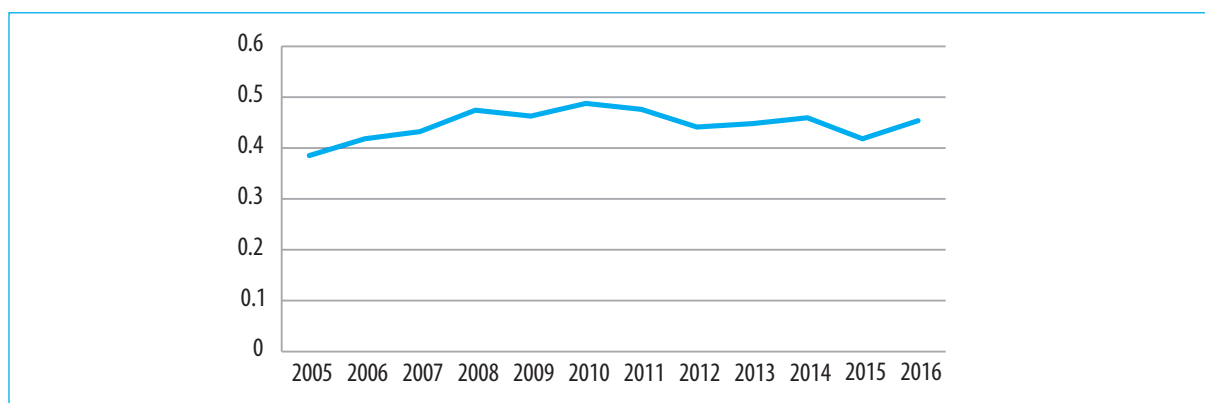
Harmonized System (HS) 6-digits	Product	Value (USD)	Share in total imports from EU	MFN tariffs applied by Georgia (%)	Preferential tariffs for imports from the EU (%)
271012	Light oils and preparations, of petroleum or bituminous minerals	221 966 623	10.2%	0	–
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up in measured doses	136 732 035	6.3%	0	–
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, n.e.s.	88 935 351	4.1%	0	–
870323	Motor cars and other motor vehicles for the transport of persons, with spark-ignition internal combustion reciprocating piston engine of a cylinder capacity > 1.500 cm ³ but ≤ 3.000 cm ³	65 462 451	3.0%	0	0
848180	Appliances for pipes, boiler shells, tanks, vats or the like	43 647 602	2.0%	0	–
870333	Motor cars and other motor vehicles for the transport of persons with compression-ignition internal combustion piston engine "diesel or semi-diesel engine" of a cylinder capacity > 2.500 cm ³	30 118 809	1.4%	0	0
841490	Parts of: air or vacuum pumps, air or other gas compressors, fans and ventilating or recycling hoods incorporating a fan, n.e.s.	24 868 635	1.1%	0	–
840590	Parts of producer gas or water gas generators and acetylene gas generators or similar water process gas generators, n.e.s.	24 710 053	1.1%	0	–
870421	Motor vehicles for the transport of goods, with compression-ignition internal combustion piston engine "diesel or semi-diesel engine" of a gross vehicle weight ≤ 5 tones	23 944 528	1.1%	0	–
842230	Machinery for filling, closing, sealing or labelling bottles, cans, boxes, bags or other containers	23 013 506	1.1%	0	–

Harmonized System (HS) 6-digits	Product	Value (USD)	Share in total imports from EU	MFN tariffs applied by Georgia (%)	Preferential tariffs for imports from the EU (%)
842860	Teleferics, chairlifts, ski-draglines; traction mechanisms for funiculars	20 530 480	0.9%	0	–
841480	Air pumps, air or other gas compressors and ventilating or recycling hoods incorporating a fan, whether or not fitted with filters, having a maximum horizontal side > 120 cm	19 007 195	0.9%	0	–
853710	Boards, cabinets and similar combinations of apparatus for electric control or the distribution of electricity, for a voltage ≤ 1.000 V	18 670 878	0.9%	0	–
870332	Motor cars and other motor vehicles for the transport of persons, incl. station wagons and racing cars, with compression-ignition internal combustion piston engine “diesel or semi-diesel engine” of a cylinder capacity > 1.500 cm ³ but ≤ 2.500 cm ³	18 170 215	0.8%	0	0
851762	Machines for the reception, conversion and transmission or regeneration of voice, images or other data, incl. switching and routing apparatus	18 081 489	0.8%	0	–
732690	Articles of iron or steel, n.e.s.	14 727 343	0.7%	0	–
330210	Mixtures of odoriferous substances and mixtures, incl. alcoholic solutions, with a basis of one or more of these substances, of a kind used in the food and drink industries	14 465 468	0.7%	0	–
950430	Games with screens, flipper and other games, operated by coins, banknotes, bank cards, tokens or by other means of payment	13 987 376	0.6%	0	–
690890	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, whether or not on a backing	13 642 663	0.6%	0	–
20714	Frozen cuts and edible offal of fowls of the species Gallus domesticus	13 198 053	0.6%	12	0
Total					

Source : UN Comtrade, TRAINS and EU Market Access Database.

As Georgia has a liberal tariff regime, the argument could be made that Georgian business enterprises are importing from the most efficient sources and differences in suppliers are mostly explained by trade costs (e.g. transport). This means that further reductions in duties applied to the rest of the world are unlikely to cause considerable changes in the country's import structure. Georgia's product Finger-Kreinin product similarity index for imports points to a similar conclusion. As shown in figure 5.4, imports from the EU and the rest of the world have remained relatively dissimilar over the last decade, with the Finger-Kreinin index below 0.50.

Figure 5.4 Finger-Kreinin index of import similarity for Georgia's imports from the EU and from the rest of the world



Source: Calculations based on UN Comtrade data

5.4 Welfare effects: Trade creation and trade diversion

Market access conditions accorded to Georgia under different trade agreements will be affected by changes in the tariff structures of third countries (i.e., countries outside these agreements). Should these countries lower tariff rates applied to imports from Georgia, Georgian enterprises would face improved market access conditions. The extent to which the enterprises would reap the expected benefits (in the form of increased market shares) depends on not only the starting tariff rates but also on the enterprises' productive capacity.

Should the tariff reductions be significant and target sectors where Georgian enterprises are efficient suppliers, then the overall impact would be positive in that it generates opportunities for trade creation. In other words, if the reductions apply to sectors where the enterprises are efficient suppliers but yet to achieve economies of scale and scope, then trade creation effects are unlikely to result in structural transformation. In contrast, if the reduction involved sectors where Georgian enterprises are less efficient, the overall impact would be negative in that it causes a trade diversion in importing countries towards more efficient producers.

To allow for a better understanding of Georgia's export competitiveness, table 5.5 provides the Revealed Comparative Advantage (RCA)¹³⁸ for Georgia's top 20 exports that were subject to a non-zero tariff rate under the EU GSP+ scheme, along with the three main markets for these products.¹³⁹ These exports are dominated by agricultural products destined to non-EU countries, and involve limited overlap with Georgia's top 20 exports to EU and to the world (Tables 5.1 and 5.2). The table shows that Georgia enjoys a strong comparative advantage for 50 per cent of these products, particularly meat and wine, where the RCA index is well above the threshold level of 1.

¹³⁸ The RCA is an empirical application of the definition of comparative advantage. It is based on the idea that if a country exports more than the global average exports of a specific product, then the country has a comparative advantage in that product. If the RCA is higher than 1, then the producer is said to have an RCA in producing a certain good.

¹³⁹ The comparison with top 20 exports that were subject to a non-zero tariff rate under the EU GSP+ scheme is meant to allow for assessing the impact of the DCFTA. This is especially since these are dominated by agricultural products destined to non-EU countries, and involve limited overlap with Georgia's top 20 exports to EU and to the world.

This means that should the EU reduce or eliminate tariffs on non-preferential suppliers or introduce a downward revision to its most-favoured nation (MFN) rates, Georgian exporters of these products may experience preference erosion. However, the effect of preference erosion is likely to be limited, since these products are exported in modest quantities to the EU. In the long run, the erosion of preferences might prompt enterprises to improve their productive capacity.

The results of the assessment suggest that the second scenario is more likely to occur if enterprises comply with the EU's non-tariff measures (NTMs). Efforts should feature on a special emphasis on supporting the agricultural sector, since these measures are heavily concentrated in Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) measures. TBT measures, covering labelling, quality standards and associated regulatory requirements constitute the largest segment of the EU's applied NTMs, accounting for 55 per cent of total measures, while SPS measures constituting the second largest segment, with a 41 per cent share (Annex 5).

The most affected product categories are listed in table 5.6.¹⁴⁰ These include 30 categories, with each affected by over 1000 NTMs. Georgia's top 20 exports, which are dominated by agricultural products, belong to seven of these categories (highlighted in bold). Products belonging to the remaining categories are also affected, as a failure to comply with a single measure effectively creates a trade barrier of greater significance than tariffs. It would be difficult for Georgian enterprises to venture into exporting any of these products; some of which are affected by over 5000 NTMs. If anything, the product categories listed in table 5.6 represent new growth opportunities for developing the country's agricultural and industrial sectors.

On the import side, the recent wave of tariff reductions that came with the provisional implementation of the DCFTA has rendered the EU a cheaper supply source for Georgian enterprises. The extent to which these reductions have set in motion a trade diversion effect depends on whether the EU is a more efficient producer of the specific goods supplied to Georgia.

Table 5.7 shows Georgia's 20 top imports subject to non-zero MFN tariff under the EU GSP+ scheme. Most of these imports (19 out of 20 imports) are acquired from non-EU countries. This means that the next few years may witness a shift in Georgia's imports towards the EU. The EU is an efficient producer of motor vehicles, construction materials, meat and dairy, which carry RCA index well above the threshold level of 1. However, the EU is an inefficient producer of agricultural products.

Thus, while around 70 per cent of Georgia's imports from the EU were already enjoying duty free access long before the DCFTA's entry into force, the EU is not an efficient supplier of some products. The overall welfare effects depend on the magnitude of trade creation and trade diversion. This means that DCFTA may result in trade diversion; the extent of which will depend on the reaction of the displaced non-EU partners. Since Georgia has a liberal trade regime, non-EU partners might reduce their prices to maintain their shares in the Georgian markets, so that trade diversion effects are replaced by trade creation.

¹⁴⁰ EU applied NTMs published on UNCTAD's TRAINS included 112,609 measures in 2015 (the date during which the NTMs were recorded). Of these, 109,899 measures applied to third countries, with the remaining 2,710 measures applied to selected third countries (these do not include Georgia). The NTMs are applied on an MFN basis. TRAINS do not provide data on the severity and breadth of the measure.

Table 5.5 Top 20 Georgia's exports facing a non-zero GSP tariff (2016)

Product Code	Product	Trade Value (US\$)	GSP+ rate	1st Importer	Export value (USD)	%	2nd Importer	Export value (USD)	%	3rd Importer	Export value (USD)	%	Georgia RCA
220421	Grape must with fermentation prevented or arrested by the addition of alcohol, in containers holding 2 l or less	109 030 551	-	Russian Federation	55 297 864	50.7%	China	13 873 748	12.7%	Ukraine	10 804 298	9.9%	32.69
999999	Commodities not specified according to kind	22 329 994	-			0.0%			0.0%			0.0%	#N/A
80520	Mandarins (including tangerines and satsumas); clementine, wilking and similar citrus hybrids	10 872 207	-	Russian Federation	6 506 561	59.8%	Ukraine	3 179 937	29.2%	Armenia	931 566	8.6%	16.44
760120	Aluminum alloys	8 281 633	6%	Turkey	2 378 018	28.7%	Slovakia	1 938 337	23.4%	Japan	1 588 703	19.2%	2.81
170114	Other cane sugar	3 542 000	-	Republic of Azerbaijan	3 542 000	100.0%			0.0%			0.0%	2.38
220410	Wine of fresh grapes, including fortified wines; sparkling wine	3 441 706	-	Ukraine	1 255 886	36.5%	Netherlands	509 585	14.8%	United Kingdom	486 253	14.1%	2.02
110100	Wheat or muslin flour	2 458 865	-	Angola	2 076 141	84.4%	Iran	206 268	8.4%	Armenia	134 111	5.5%	3.82
70200	Tomatoes, fresh or chilled	2 254 801	-	Russian Federation	1 946 788	86.3%	Kazakhstan	114 612	5.1%	Armenia	96 106	4.3%	2.25
20422	Meat of sheep, fresh or chilled, with bone in	2 056 860	-	Iran	2 010 829	97.8%	United Arab Emirates	26 002	1.3%	Kuwait	20 028	1.0%	13.51
20421	Meat of sheep, fresh or chilled, carcasses and half-carcasses	1 617 893	-	United Arab Emirates	766 263	47.4%	Iran	744 241	46.0%	Kuwait	104 050	6.4%	39.26

Product Code	Product	Trade Value (US\$)	GSP+ rate	1st Importer	Export value (USD)	%	2nd Importer	Export value (USD)	%	3rd Importer	Export value (USD)	%	Georgia RCA
180690	Chocolate and other food preparations containing cocoa, other	1 279 128	-	Iran	649 121	50.7%	Iraq	324 811	25.4%	Republic of Azerbaijan	185 402	14.5%	0.60
220429	Grape must with fermentation prevented or arrested by the addition of alcohol, other	1 024 676	-	Ukraine	344 959	33.7%	Belarus	296 818	29.0%	Russian Federation	175 728	17.1%	2.16
190110	Malt extract; food preparations of flour, groats, meal, starch or malt extract, preparations for infant use	885 273	-	Republic of Azerbaijan	701 176	79.2%	Uzbekistan	162 906	18.4%	Armenia	21 168	2.4%	0.40
100199	Wheat and muslin, other	807 601	-	Armenia	807 600	100.0%	Austria	1	0.0%			0.0%	0.11
40510	Butter	606 431	-	Armenia	471 505	77.8%	Republic of Azerbaijan	97 422	16.1%	Tajikistan	37 500	6.2%	0.72
70700	Cucumbers and gherkins, fresh or chilled.	494 801	12.8%	Russian Federation	484 688	98.0%	Ukraine	10 112	2.0%			0.0%	1.82
80810	Apples	421 297	-	Armenia	205 648	48.8%	Ukraine	141 326	33.5%	Russian Federation	41 689	9.9%	0.21
80510	Oranges	366 510	16%	Armenia	301 751	82.3%	Republic of Azerbaijan	24 467	6.7%	Ukraine	22 048	6.0%	0.11
170410	Chewing gum, whether or not sugar-coated	353 600	-	Russian Federation	184 455	52.2%	Belarus	151 074	42.7%	Kazakhstan	18 019	5.1%	0.15
70320	Garlic	318 800	-	Republic of Azerbaijan	183 521	57.6%	Russian Federation	73 125	22.9%	Armenia	48 700	15.3%	0.30

Source: Trade data from UN Comtrade, tariff data from WTO tariff database

Table 5.6 Products that are most affected by the EU NTMs (2015)

HS 2-digits	Product category	Number of NTMs
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	12 232
03	Fish and crustaceans, molluscs and other aquatic invertebrates	11 259
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers; parts and accessories	7 433
20	Preparations of vegetables, fruit, nuts or other parts of plants	5 916
02	Meat and edible meat offal	5 726
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	5 137
29	Organic chemicals	4 133
22	Beverages, spirits and vinegar	3 757
15	Animal or vegetable fats and oils and their cleavage products; prepared animal fats; animal or vegetable waxes	3 489
08	Fruit and nuts, edible; peel of citrus fruit or melons	3 192
90	Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories	3 044
07	Vegetables and certain roots and tubers; edible	2 606
16	Meat, fish or crustaceans, molluscs or other aquatic invertebrates; preparations thereof	2 518
11	Products of the milling industry; malt; starches, inulin, wheat gluten	2 416
62	Apparel and clothing accessories; not knitted or crocheted	1 846
28	Inorganic chemicals; organic and inorganic compounds of precious metals; of rare earth metals; of radio-active elements and of isotopes	1 821
73	Iron or steel articles	1 751
10	Cereals	1 696
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit, industrial or medicinal plants; straw and fodder	1 672
39	Plastics and articles thereof	1 510
72	Iron and steel	1 452
61	Apparel and clothing accessories; knitted or crocheted	1 347
52	Cotton	1 308
17	Sugars and sugar confectionery	1 288
38	Chemical products n.e.s.	1 193
09	Coffee, tea, mate and spices	1 162
19	Preparations of cereals, flour, starch or milk; pastry products	1 098
35	Albuminoidal substances; modified starches; glues; enzymes	1 053
44	Wood and articles of wood; wood charcoal	1 047
21	Miscellaneous edible preparations	1 015

Source: TRAINS database

Product Code	Product	Trade Value (US)	MFN tariff	1st exporter	Import value (USD)	%	2nd exporter	Import value (USD)	%	3rd exporter	Import value (USD)	%	EU RCA (2015)
730890	Structures and parts of structures (for example, bridges and bridge-sections, lock-gates, towers, lattice masts, of iron or steel;	67 218 739	12	Turkey	49 904 554	74.2%	UK	3 092 923	4.6%	Spain	2 107 679	3.1%	1.11
870322	Motor vehicles, with spark-ignition internal combustion reciprocating piston engine, of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc	61 127 792	Non AV	Japan	41 912 943	68.6%	USA	10 612 011	17.4%	Germany	2 237 072	3.7%	1.06
20714	Meat and edible offal, of fowls of the species Gallus domesticus, frozen	45 115 493	12	USA	14 289 179	31.7%	China	6 205 818	13.8%	Ukraine	5 991 574	13.3%	0.56
170199	Cane or beet sugar and chemically pure sucrose, in solid form	40 502 702	12	Ukraine	22 965 140	56.7%	Poland	8 915 438	22.0%	Republic of Azerbaijan	2 863 677	7.1%	0.40
151219	Sunflower-seed or safflower oil and fractions thereof	38 998 368	6	Russian Federation	27 298 549	70.0%	Ukraine	8 763 815	22.5%	Republic of Azerbaijan	2 320 244	5.9%	0.54
340220	Organic surface-active agents (other than soap); surface-active preparations, washing preparations for retail sale	35 908 891	12	Turkey	24 246 243	67.5%	Russian Federation	5 527 609	15.4%	Bulgaria	1 606 813	4.5%	0.84
180690	Chocolate and other food preparations containing cocoa.	31 066 639	5	Russian Federation	8 481 369	27.3%	Ukraine	8 153 701	26.2%	Turkey	3 548 673	11.4%	1.44

Product Code	Product	Trade Value (US)	MFN tariff	1st exporter	Import value (USD)	%	2nd exporter	Import value (USD)	%	3rd exporter	Import value (USD)	%	EU RCA (2015)
870332	Motor vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc	27 960 123		Germany	11 609 748	41.5%	Japan	4 021 814	14.4%	Netherlands	1 846 088	6.6%	1.13
210690	Miscellaneous edible preparations, other	27 158 119	12	Russian Federation	5 249 375	19.3%	Turkey	4 660 888	17.2%	Ukraine	2 892 231	10.6%	1.34
392690	Plastics and articles thereof, other	21 603 907	12	Turkey	7 376 449	34.1%	China	2 468 553	11.4%	Germany	2 043 127	9.5%	0.92
391620	Monofilament of polymers of vinyl chloride	20 392 702	5	Turkey	16 033 980	78.6%	China	1 219 791	6.0%	Bulgaria	883 200	4.3%	1.01
20329	Meat of swine, frozen	20 003 766	5	Brazil	11 372 224	56.9%	Spain	2 346 152	11.7%	Ukraine	1 492 779	7.5%	2.90
252329	Portland cement,	18 659 164	12	Turkey	17 978 470	96.4%	Republic of Azerbaijan	614 732	3.3%	Iran	40 774	0.2%	0.88
170490	Sugar confectionery (including white chocolate), not containing cocoa	17 706 013	12	Ukraine	5 585 440	31.5%	Russian Federation	3 423 601	19.3%	Turkey	2 827 996	16.0%	1.01
40210	Milk and cream, concentrated or containing added sugar in powder, granules or other solid forms,	14 905 215	6	Turkey	5 454 739	36.6%	Ukraine	2 844 103	19.1%	France	1 479 834	9.9%	1.93
80390	Bananas, including plantains, fresh or dried	14 290 344	12	Ecuador	13 595 118	95.1%	Turkey	457 643	3.2%	Republic of Azerbaijan	77 312	0.5%	0.01

Source: Trade data from UN Comtrade, tariff data from WTO tariff database

Chapter Six

Implications for Export Diversification

6.1 Introduction

The analysis suggests that trade facilitation reforms could benefit from further efforts to ensure complete and full synchronization of border control processes, address staffing shortage and improve the country's transport system. Public stakeholders are aware of these capacity shortfalls, evidenced by the range of development initiatives, which the Government has successfully grounded in regional cooperation arrangements. These offer a multi-faceted framework for addressing at the border capacity shortfalls in neighbouring countries and for developing mutually agreed terms for coordinating cross-border trade control procedures.

The analysis also suggests that efficiency gains from trade and transport facilitation is undermined by weaknesses in the national system of quality control and quality assurance. The lack of accredited conformity assessment bodies leaves the enterprises in a disadvantageous position, since they are unable to prove compliance with the regulatory requirements in target markets.

At the same time, most of the business enterprises face difficulties in achieving compliance with the regulatory requirements in target countries, particularly the EU. Aware of these challenges, the Government has sequenced the implementation of commitments under the DCFTA over several years, and is actively seeking to help the enterprises develop their productive capacity.

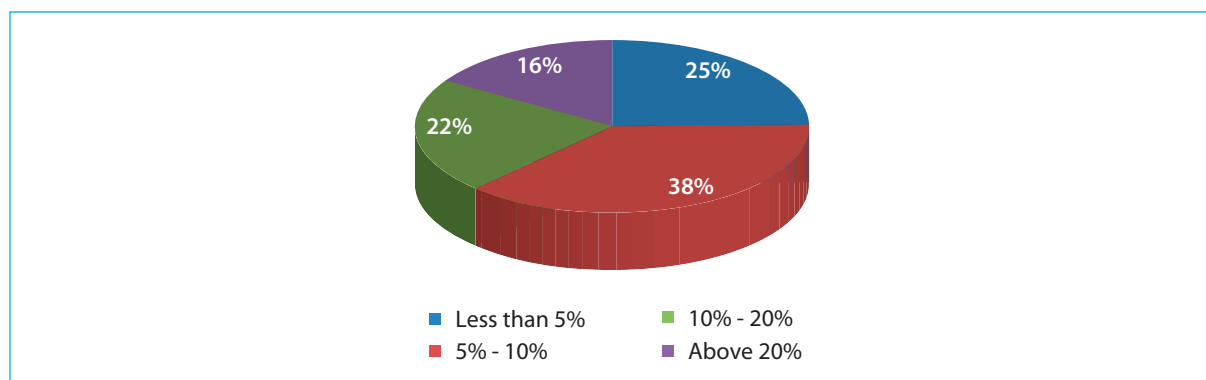
Drawing on the results of the traders' survey, this chapter takes the analysis a step further by tracing the interplay between the identified barriers and the surveyed enterprises' growth dynamics. The aim is to discern the manner in which these barriers combine with the enterprises' growth dynamics to set the limits to structural transformation.

6.2 The interplay between regulatory and procedural barriers and export diversification

The interplay between the identified barriers and export diversification finds its best expression in the transaction costs assumed by traders, as measured by the additional expenses incurred when obtaining documentary requirements and passing customs. These expenses include customs fees, trade taxes, transport fees as well as those paid for obtaining the necessary trade documents. To these should be added the wait time for obtaining the trade documents and completing customs clearance formalities.

As shown in figure 6.1, 38 per cent of the interviewed traders reported that transactions costs constitute between 5 to 10 per cent of their total monthly expenses on average. Another 25 per cent reported that these costs constitute less than 5 per cent of monthly expenditures. The remaining said that these costs tend to be particularly high, exceeding 10 per cent of monthly expenditures. All the traders emphasized that the level of fees charged for obtaining trade documents and passing customs are acceptable, and several noted that these fees are well below those charged in other countries.

Figure 6.1 Trade related transaction costs share in the enterprises' total monthly expenditures



At issue, insisted the traders, is the value added tax (VAT), which, at 18 per cent, seems to increase the traders' financial burden. In particular, since the amount should be paid in full within 5 days from the clearance of goods. Extending the payment period to one month to all traders will go a long way in mitigating this burden.

Transport costs, particularly for shipments by sea and air, were also singled out as another contributor to inflating transaction costs. Several traders said that shipping by air is prohibitively expensive, so that they avoid this transport mode altogether. This means foregoing all export opportunities requiring fast delivery. In contrast, trucks were singled out as the least expensive transport mode, and around 33 per cent said that they organize the transport using own or rented trucks.¹⁴¹

Several exporters, especially those who dedicate over 20 per cent of their monthly expenditures for covering trade-related transaction costs, reported assuming additional costs in the form of re-testing fees. Exporters of hazelnuts (kernels, roasted and chopped) said that their products are re-tested at the EU borders for aflatoxin traces even though the consignments are always accompanied by aflatoxin test certificates from Georgian laboratories. The traders assume additional costs in the form of penalty payments for freight forwarders and testing fees in the range of EUR 200-600, depending on the point of entry into the EU. Moreover, as the retesting procedure is usually time consuming and takes up to one week to complete, buyers insist on renegotiating the sales price or demand a delay in the payment to hedge against hazelnut price fluctuations in international markets, which results in significant cash shortages. It is often the case that buyers cancel their orders altogether, which not only generates immediate losses but also undermine relations of trust.

Similarly, exporters of dried and frozen fruits, tea and herbs said that their export potential is undermined by the lack of internationally recognized laboratories for conducting microbiological testing against the full range of criteria required by the authorities in target markets, particularly the EU. Several said that they arrange for testing their products abroad (in an EU country), which inflates transaction costs. Foreign laboratories charge high service fees (EUR 700 per test in a German laboratory, for example), and traders assume all the costs associated with arranging for the shipment of samples. These challenges were also reported by exporters of lemonade, who noted the lack of internationally recognized laboratories for conducting chemical testing against the full range of criteria required by their buyers.

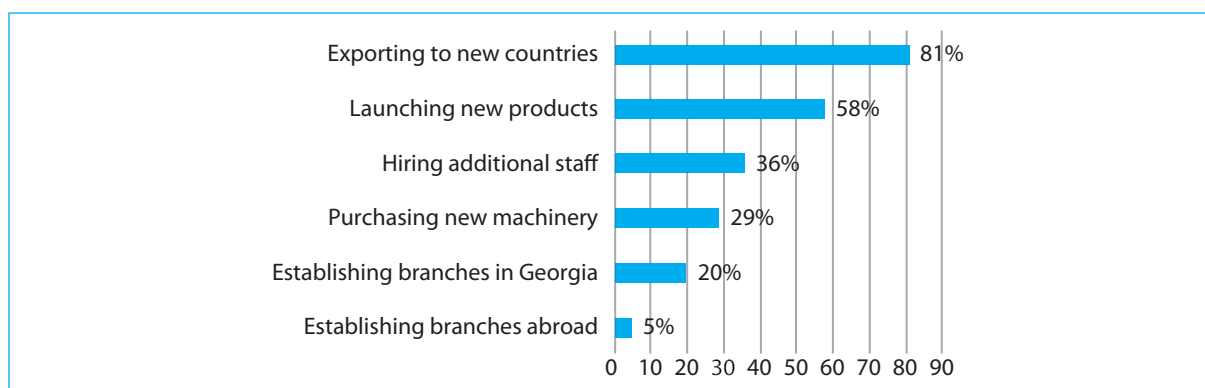
¹⁴¹ The remaining use the services of freight forwarders. A handful of the surveyed exporters reported that transport is arranged by the buyers. The majority (79 per cent) arrange for the transport of their goods from the BCPs to destination countries using rented trucks. Another 50 per cent use rented trucks for transporting their goods from the warehouse facilities to the BCPs. Enterprises with truck fleets arrange for only part of the transport process, either from the warehouse facilities to the BCPs or from the BCPs to the destination country.

The long wait time for obtaining sanitary, phytosanitary and veterinary certificates was another factor contributing to inflating transaction costs. Traders lamented that the delays undermine relations of trust with their buyers and impede production activities, and come in addition to the time consuming task of finding niche markets for their products. Agricultural industries, along with the majority of the remaining interviewed traders, said that they spend months surfing the internet and tapping their network of friends and business associates in search for potential buyers. Moreover, negotiating sales contracts is rendered difficult by the perceptions of international buyers, who consider Georgian enterprises as not fully capable of competing in global markets.

As for traders venturing into the Chinese markets, the lack of information on export opportunities is compounded by the lack of clarity over applied administrative procedures and regulatory requirements. Each province has its own regulations and procedures, and these are constantly shifting. Traders who have been exporting the same product to these markets said that every shipment proves to be a new experience, with authorities implementing new clearance procedures and requiring additional documents or imposing new formats. For traders exporting to Armenia and Egypt, trade is complicated by a lack of clarity regarding the formal levels of fees for documents and clearance procedures at border crossing points.

Traders emphasized that the above-mentioned costs, while eating into their profits, do not pose a major disincentive to investment. Indeed, around 98 per cent of the traders had clear expansion plans for 2018-2019. As shown in figure 6.2, around 81 per cent had plans to venture into new markets, particularly the EU, while another 58 per cent reported plans to launch new products. These plans involved hiring additional staff (36 per cent of the respondents); purchasing new machinery (29 per cent); and establishing branches in Georgia (20 per cent) and, to a limited extent (5 per cent), abroad.

Figure 6.2 Breakdown of the enterprises' expansion plans by area
(% of total respondents)



Thus, the interplay between the identified regulatory and procedural trade barriers and export diversification is not erosive, in that it does not set the enterprises on an adverse development path. For, even though these barriers create additional transaction costs that eat into the enterprises' profits, they do not blunt development plans. Enterprises are eager to reap benefits from improved market access conditions. This is evidenced by the enterprises' ambitious plans to expand their production activities and establish themselves in new markets. It is worth noting that only 14 per cent of the surveyed traders were members of the Golden List. The remaining companies had low export volumes and turnover rates and, as such, did not qualify for the programme. These companies noted that they will join the Golden List Programme in the future, once they fulfil the turnover criteria.¹⁴²

¹⁴² At least 5 million GEL of customs value of imported/exported goods must be paid within a period of one year; at least GEL 900,000 of paid customs duties and/or at least 100 declarations must be presented for import or export (<https://www.bdo.ge/getattachment/Publications/Georgia-Tax-Facts/GeorgiaTaxFacts2016.pdf.aspx?lang=en-GB>) to be able to participate in the programme.

6.3 Enterprises' growth dynamics

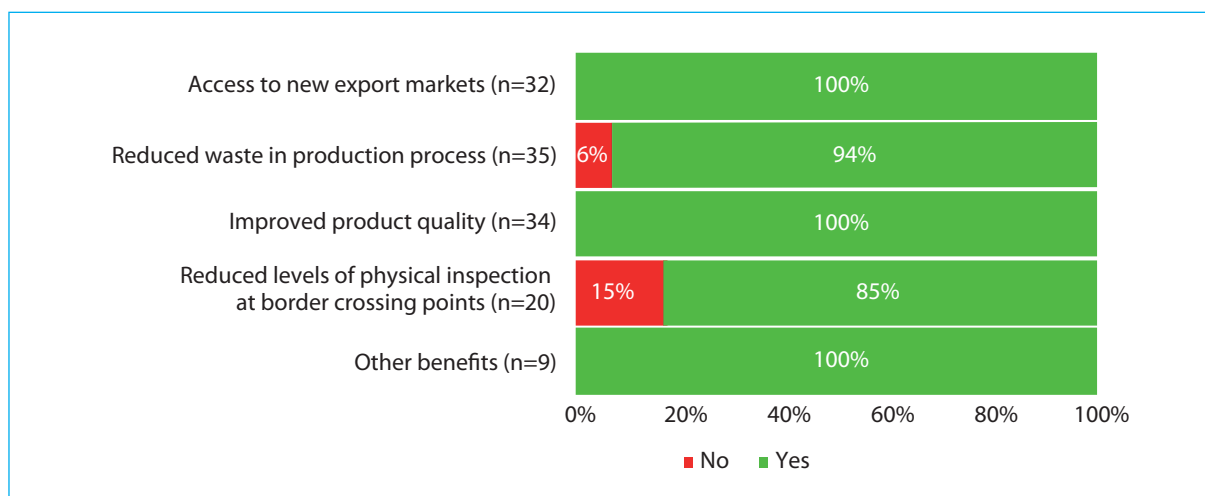
Drawing on the results of the traders' survey, this section identifies the enterprises' growth dynamics, to be understood as the factors that set the limits to their ability to improve their productive capacity. These growth dynamics should form the focus of enterprise development efforts, as they determine the extent and pace of structural transformation.

Standards

Central to the enterprises' ability to improve their production processes are standards, as these effectively determine the salient features of the product; production methods; and the enterprises' organizational and management systems. Around 55 per cent of the interviewed traders reported having successfully consolidated their production facilities through the implementation of international standards, and this partly explains the enterprises' expansion plans.

As shown in annex 6, the business enterprises' success crowned lengthy processes that involved investing in new facilities, equipment and production systems (Annex 6). These investments, which came in addition to annual maintenance and upgrading expenditures, generated tangible benefits including: access to new export markets, reduced waste, improved product quality and reduced levels of physical inspection at border crossing points (Figure 6.3).

Figure 6.3 Benefits of standards reported by the surveyed enterprises



For the remaining enterprises, implementing standards, while deemed necessary, is undermined by the lack of financial resources.¹⁴³ Moreover, several noted that they find it difficult to make informed decisions as to the appropriate standards to implement, since most of the international standards referenced in national legislations are not available in Georgian. All the interviewed officials were aware of the challenges associated with implementing international standards, particularly ENs and emphasized the urgency of assisting the enterprises in their efforts, particularly SMEs and agricultural industries.

The surveyed traders' eagerness to implement standards is not shared by the broader business enterprise community. In fact, the surveyed enterprises seem to constitute a minority. As explained by the survey respondents, the dominant view among the business enterprises is that standards are of limited value, especially since they are voluntary. This puts certified enterprises in a disadvantaged position in that they

¹⁴³ A more detailed account of the factors impeding the enterprises access to external sources of funds is provided in the next section.

compete with cheap, low-quality and counterfeit products. The fact that the market is flooded with cheaper imports creates additional pressures, fuelling an erosive price-based competition that effectively constitutes a disincentive for investments in product quality.

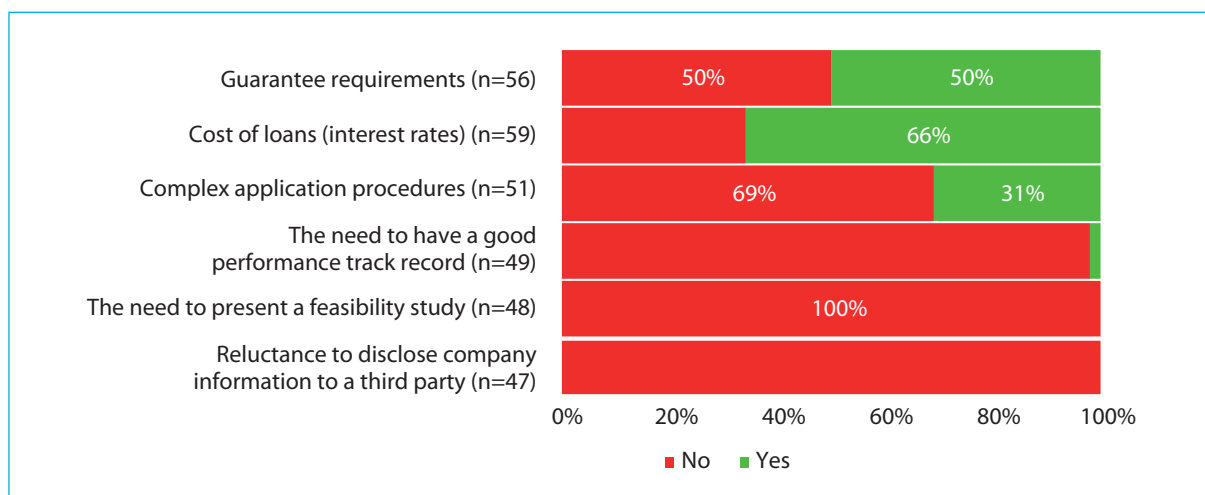
For food processing industries, the impact of these pressures is compounded by a lack of knowledge on fertilizers and their application among farmers. Interviewed traders lamented that most of the farmers lack a reference frame for selecting appropriate fertilizers. They tend to use chemical fertilizers, which not only harm the environment and human health, but also carry negative consequences for the quality of their produce.

Access to finance

For enterprises seeking to implement standards or expand their activities, their plans are often defeated by the lack of finance. Interviewed traders reported experiencing difficulties in obtaining business loans due to the high interest rates charged by banks, which range between 8 and 14 per cent. Traders requiring large loans said that they were charged with exorbitant rates (up to 28 per cent) and significant loan issuing fees (2.5 per cent). For small start-ups, the interest rates are prohibitive. While some reported benefiting from the Government's programme for start-ups, "Produce in Georgia", others have been less successful because they do not belong to the programme's strategic sectors.

The high interest rates come in addition to the demanding guarantee requirements. These mainly take the form of collateral requirements, particularly in the form of production facilities, which banks tend to undervalue. Obtaining bank loans is also rendered cumbersome by the complex application procedures (Figure 6.4). Such difficult access to bank loans has been impeding the surveyed enterprises from pursuing advanced training in their respective fields and from investing in research and development. Indeed, only nine of the surveyed enterprises reported allocating annual budgets for research and development, and in most cases, this mainly involved outsourcing market analysis. Only two enterprises reported allocating significant budgets (USD 831,600 and USD 1.3 million), and these were in the process of implementing international standards.

Figure 6.4 Factors hindering the enterprises' access to bank loans



Location

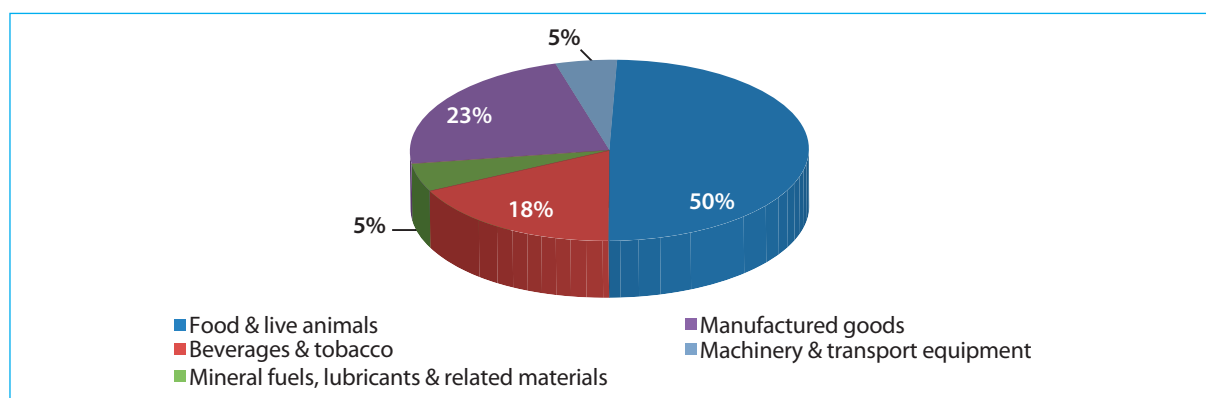
Mirroring the overall national trend, the surveyed enterprises are clustered in and around Tbilisi, Poti and Rustavi, which allow them to enjoy significant advantages in terms of travel-time by shortening geographic distances to major highway intersections, ports and container terminals. However, these cities are not suitable for all manufacturing activities, and this is particularly the case of cheese processing.

Georgia is renowned for its cheese, which comprise 246 distinct types, earning the country a place among the top ten cheese producers in the World Cheese Map.¹⁴⁴ Producers are concentrated in the mountainous regions, where the climatic conditions are conducive for cheese processing, and these regions are lagging in terms of transport infrastructure and logistical services. As explained by one of the interviewed processors in the mountainous region of Tusheti,¹⁴⁵ the poor quality of roads increases travel time and poses serious safety risks. This delays delivery, making it difficult for the producers to remain competitive.

Proximity to raw materials was also highlighted as a main factor influencing the location choices of the surveyed enterprises. This is particularly the case of those engaged in the production of food, beverages and clothes, which constitute 34 per cent of the surveyed enterprises. Some of these enterprises have established branches in the main cities to facilitate the distribution of their goods in local and international markets (Figure 6.5).

Several traders reported having several branches in the country to avoid delays in the delivery. While such branches are necessary, they pose additional costs for the enterprises. These branches also constitute opportunity costs for the enterprises, in that they could use the resources to establish a presence abroad. Only two enterprises have established presence abroad. The first is involved in the production of wine, Chacha (brandy) and whisky, and has one branch in the Russian Federation, while the second is specialized in hazelnuts processing (kernels, chopped and oil) and has branches in Germany, Greece and Italy.

Figure 6.5 Breakdown of enterprises with branches by activity



Skilled labour

Around 69 per cent of the interviewed traders reported difficulties in finding suitably skilled workers. These difficulties are mainly related to skill gaps and deficiencies, which, according to the traders, can be explained by the low demand for skilled labour that permeated the economy over extended periods in the past following the closure of major factories. While the economy has long entered a new phase, the labour market is lagging. This sets the limits to the enterprises' ability to improve existing production systems and invest in technology-intensive activities with high value-added.

Cooperation and networking

Successful experiences show that enterprise development is only possible if the enterprises show willingness to pool efforts and collaborate on a continuous basis. This was the case of nine of the surveyed traders, who reported cooperation with national, regional and multinational enterprises through sub-contracting arrangements.

¹⁴⁴ <http://world-cheese-map.com>.

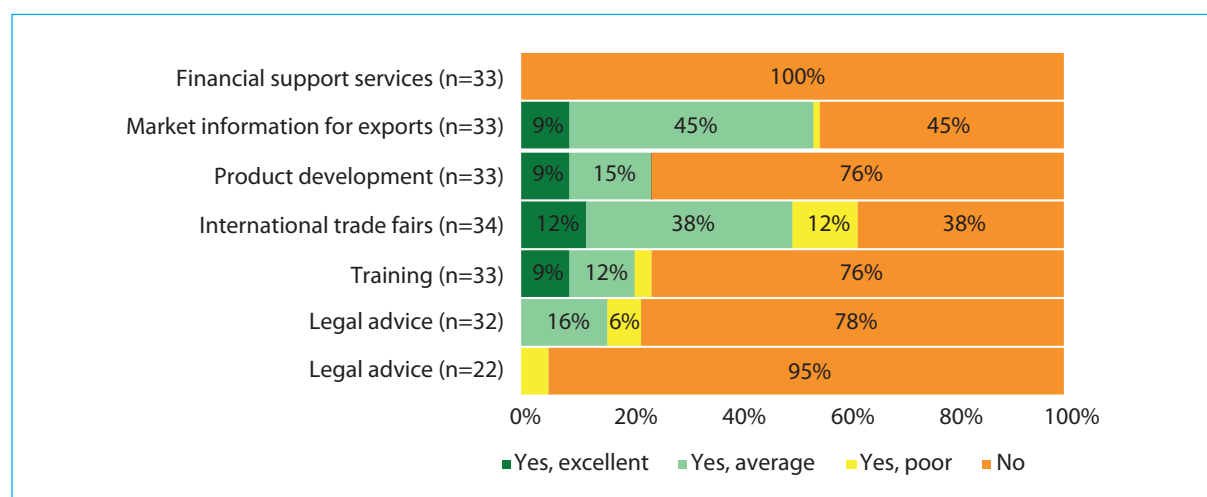
¹⁴⁵ The region of Tusheti is located in the north-eastern part of the country.

These arrangements were initiated by the surveyed enterprises, acting as the contracting parties for two reasons. The first pertains to addressing capacity shortfalls. This was the case of eight enterprises that are engaged in the production of essential oils, metals, clothes, footwear, animal feed, plastic doors, plastic windows and prefabricated buildings. The contracted enterprises are assigned certain parts of the production processes, with the surveyed enterprises often providing raw material and credit. The second reason relates to reducing the costs of raw materials. This is the case of one enterprise that is involved in the production of sunflower oil, which contracts Russian companies to produce the oil in bulk using the much cheaper sunflower seeds.

Enterprise support services

The assessment suggests that enterprises are not receiving adequate market support services. Only 53 per cent of the surveyed traders are members of market support institutions. However, as shown in figure 6.6, the services received are narrowly focused on facilitating participation in international trade fairs. Only 34 per cent of the traders reported benefiting from training on trade facilitation, customs procedures and the implications of the DCFTA, and these were organized by line ministries, the Revenue Service and international organizations within the context of donor funded initiatives. All the traders emphasized that they found the training useful. However, several noted that in most cases, the training did not go beyond the basic concepts.

Figure 6.6 Enterprise support services received by the enterprises



E-commerce

The surveyed enterprises seem to attach significant importance to setting up their own websites as a way for extending their outreach. Around 83 per cent reported having websites, which they mainly use for advertising. Only 11 per cent use these websites for advertising and trade transactions. The remaining enterprises cited the lack of skilled staff (cited by 64 per cent of the enterprises) and funds (36 per cent) as impeding them from engaging in e-commerce.

Electricity

Around 15 per cent of the surveyed enterprises identified the access to electricity power and the quality of electricity supply¹⁴⁶ as a major impediment to growth. Enterprises operating in mountainous and rural areas reported electricity outages, which create additional costs in the form of waste and higher repair and maintenance costs. Moreover, all the interviewed traders lamented the high costs of electricity in the

¹⁴⁶ For an overview of Georgia's electricity sector, see Business Association of Georgia (2016) Electricity Sector Overview, available at: <https://bag.ge/file.helix?i=427e322d-a7ea-48fc-a283-d27ee04ac0a2&r=P>.

country. These costs were particularly taxing for SMEs to the point of discouraging them from expanding their production activities.

Other factors

Traders reported that currency fluctuations are undermining their export competitiveness, and several were of the view that at 15 per cent, corporate taxes are eating into their retained earnings. Non-food manufactures cited the lack of high quality raw material in domestic markets as another debilitating factor. Imported products tend to be expensive, which inflates production costs and reduce price competitiveness. On their part, food processors reported experiencing difficulties in collecting payments from national and international supermarket chains, and noted that they have no means to address this problem.

Chapter Seven

Conclusion and Recommendations

This study identified regulatory and procedural barriers to trade in Georgia and highlighted their implication for regional integration and export diversification. It showed that these barriers are limited, and reflect the inherent complexities of ensuring the full and complete standardization and synchronisation of administrative formalities. The barriers also reflect capacity shortfalls in neighbouring countries that share borders with Georgia, which are at different stages in their trade facilitation reforms. Most importantly, these barriers do not impede export diversification, in that they do not create a disincentive to investment.

Georgia can, therefore, be regarded as a top reformer that has effectively consolidated a market based, private-sector led economy with a business-friendly environment, and should no longer be considered as an economy in transition. Georgia also stands as an exemplary case study on the implementation of international best practices and the EU *Acquis* requirements. In each area, the Government sought to adapt international best practices to the national context and, thereafter, took some of these to a new level.

A case in point is Georgia's approach to implementing the Agreement on Trade Facilitation provision on National Trade Facilitation Councils. Georgia's experience shows that consultations with the private sector should be continuous, far reaching and sector specific. The country's experience invites a comprehensive approach, which involves a network of formal and informal consultative mechanisms tuned to the specific realities of each sector to ensure proper understanding of the different factors at play. Indeed, a key message running through interviews with public stakeholders is that trade facilitation should be discussed in their own right and in terms of their interplay with behind the border legislative and administrative reforms with an eye to supporting structural transformation and export competitiveness. Another key message relates to the imperative of promoting standards as a means for improving competitiveness.

Georgia's experience lends further evidence to the necessity of complementing trade reforms with targeted efforts to improve the enterprises' productive capacity. It shows that such efforts could attain successful results if they are sector focused and based on a development driven approach, where trade reforms are pursued as a means for achieving structural transformation. Table 7.1 provides a number of recommendations for complementing the Government's trade reforms and development efforts.

Table 7.1 Outstanding needs and recommendations

Outstanding needs	Recommendations
Transparency	
Further develop the advance rulings system	<ul style="list-style-type: none">• The Revenue Service could consider maintaining an online compendium of advance ruling decisions, which traders could consult.• Educate traders on the information requirements that need to be included in the requests for advance rulings. This could be done through guidance documents and awareness raising workshops.
Publish information on trade-related procedures in English, to attract foreign companies	<ul style="list-style-type: none">• While the Revenue Service provides an overview of applied rules and procedures (including fees and forms) in English, the information is not comprehensive and does not cover those associated with obtaining veterinary, sanitary and phytosanitary certificates.• The same applies to the remaining State agencies, with their websites providing basic information in English.

Outstanding needs	Recommendations
Explore new ways for engaging SMEs in decision-making processes	<ul style="list-style-type: none"> Market support institutions should play a lead role in engaging the SMEs in public-private sector consultations. This could be done by holding sector-focused workshops, based on issue-focused information notes and guidelines on the basic tenants and concepts underpinning the EU <i>Acquis</i>, associated procedures and implications for business development.
Documentary requirements and the use of electronic documents	
Adopt a comprehensive approach for developing authorized economic operator (AEO) schemes based on the EU model	<ul style="list-style-type: none"> Establish the legal basis for launching AEO schemes, including primary and secondary legislation. In this context, ensuring complete and full harmonization of the Tax Code with the Union Customs Code (UCC) of the EU gains much importance. Elaborate the general criteria of the EU model (Customs Simplifications; Security and Safety; and Customs Simplifications/Security and Safety) for assessing applicants.¹⁴⁷ Design a system for monitoring AEOs. Create a core team of auditors capable of managing the AEO schemes. In this regard officials emphasized advanced training programmes and on the job training through study tours to neighbouring EU countries. Arrange for mutual recognition of Georgia's AEO scheme. Develop support services to assist enterprises, especially SMEs, in ensuring complete and full compliance with the AEO criteria. Most notable in this respect are: (i) training programmes (and guidelines) for enabling enterprises to conduct self-assessment and self-policing; and (ii) financial assistance to encourage them to invest in security.
Consolidate the Single Window	<ul style="list-style-type: none"> Georgia's paperless trading system corresponds to the WCO definition of a Single Window. The next step would be to consider consolidating the existing system into a more comprehensive platform following UN/CEFACT Recommendation 33. This could support further synchronization of control activities at main border crossing points, and introduce further improvements in data harmonization and standardization as per UN/CEFACT Recommendation 34.¹⁴⁸
At the border control	
Improve synchronization of controls at main border crossing points	<ul style="list-style-type: none"> Consider developing the brokerage industry as a way for reducing the Customs Department's work burden. This would require establishing a proper system for testing, training, licensing, accrediting, and monitoring customs brokers. Successful experiences suggest that this system could be established in cooperation with market support institutions. These could deliver the training following formal modules that are approved by customs and accredited by the relevant ministry (usually the Ministry of Education), with customs issuing broker licenses to applicants following their successful completion of the training programme. Develop the capacity of hygiene, sanitary and phytosanitary (SPS) testing facilities by investing in additional accredited laboratories. This would accelerate on-site hygiene and SPS controls at major border crossings. Establish additional measures for synchronizing immigration and visa formalities with goods and vehicle inspections

¹⁴⁷ The criteria is established under the EC Directorate-General Taxation and Customs Union Guidelines (TAXUD/B2/047/2011 – Rev.6).

¹⁴⁸ UN/CEFACT recommendations are available at: https://www.ECE.org/cefact/recommendations/rec_index.html.

Outstanding needs	Recommendations
	<ul style="list-style-type: none"> Promote wider adoption of the Trade Facilitation System (TFS) as a way for supporting electronic exchange of information and documents between traders, logistics service providers, and border control authorities. The TFS could be further consolidated with integrated information and communications technology (ICT) infrastructure, which support modern logistics services like track and trace, synchronized intermodal logistics and automation of business processes like booking, scheduling, stock management, and billing. A first step in this direction would be to conduct a comprehensive assessment of the ICT systems of the agencies involved, including hardware and software, to identify capacity gaps and establish an agreed upon action plan for achieving the desired level of ICT integration. Consider establishing a notification facility to support information sharing between the Border Police and port operators. Organize training visits to countries known for business-friendly border management, for example Singapore, the Netherlands and Germany.¹⁴⁹ Georgia's border management is rather advanced, but still Georgian authorities could learn from international best practices.
Regional cooperation and transit trade	
Consolidate regional cooperation with additional initiatives and joint actions to facilitate cross-border control processes and transit trade	<ul style="list-style-type: none"> Using existing cooperation mechanisms, explore common initiatives to: (i) further harmonize and digitalize the exchange of information and documentary requirements with border control authorities in Republic of Azerbaijan and Turkey; and (ii) arriving at a common framework for strengthening collaborative border management with Armenia and the Russian Federation. The focus should be on establishing common regulatory objectives and detailed guidelines for informing interagency cooperation.
Transport infrastructure and logistical services	
Improve road safety	<ul style="list-style-type: none"> Consider joining the ECE Agreement concerning the Establishing of Global Technical Regulations for Wheeled Vehicles, Equipment and Parts which can be fitted and/or be used on Wheeled Vehicles. The agreement provides the basis for the harmonisation of vehicle technical safety and emissions standards, including for heavy vehicles.
Consolidate the legal framework for governing multi-modal transport operations, and for establishing the liability of freight forwarders and the different actors involved	<ul style="list-style-type: none"> The ECE transport agreements and protocols provide useful elements for establishing such a framework. Another useful source is the UN Convention on International Multimodal Transport of Goods (MTC 1980).¹⁵⁰ Although the Convention has been ratified by a limited number of States, it remains significant as it details model rules which could be incorporated voluntarily into the operator's services and standard conditions.
Further develop rail transport	<ul style="list-style-type: none"> Further improve the freight line capacity (e.g., more passing sidings). Modernise rail laws and harmonizing it with the requirements of the Association Agreement (AA) with the EU and European Atomic Energy Community and their Member States.

¹⁴⁹ Top three performers of the "customs" indicator in the 2016 World Bank Logistics Performance Index (LPI). Source: <https://lpi.worldbank.org/international/global/2016>.

¹⁵⁰ The convention is available at: http://unctad.org/en/PublicationsLibrary/tdmtconf17_en.pdf.

Outstanding needs	Recommendations
Technical regulations	
Strengthen regulatory impact assessment (RIA) processes	<ul style="list-style-type: none"> ● Provide advanced training courses on RIA to staff in the Ministry of Economic Development and Sustainable Development. ● Assist the Ministry of Labour, Health and Social Affairs and the Ministry of Environmental Protection and Agriculture in establishing RIA capacities. ● In parallel, and since the preparation of technical regulations is a complex undertaking that requires multidisciplinary skills that cannot be made available within competent authorities, consider establishing collaborative mechanisms with private research centres and universities abroad to undertake RIAs associated key EU Directives that are slated for approximation (e.g., EU Health related directives listed in chapter four, section 4.3). These mechanisms could feature informal working relations, or formal agreements in the form of, for example, memorandums of understanding (MOUs), to obtain such benefits as: fielding experts to Georgia to assist the line Ministries in undertaking RIAs; promoting joint research on specific areas for assisting enterprises in complying with new regulations; and apprenticeship programmes. ● Establish similar collaborative arrangements with national universities and key research institutions for promoting their engagement in collaborative research and RIAs. This will put the universities and research intuitions in a better place to contribute to translating the EU Directives and technical regulations into Georgian.
Standardization	
Strengthen GEOSTM Standards Department and the technical committees	<ul style="list-style-type: none"> ● Provide members of the technical committees with advanced training on topical issues of direct relevance to their sectors, the basic tenets of the different ENs applicable to their sectors, the interrelation between these standards and their implication for the enterprise sector. ● In parallel, establish collaborative arrangements with regional and international research centres to further consolidate the capacity of GEOSTM Department and the technical committees and involve national universities and research centres in these mechanisms (as explained above).
Conformity assessment	
Further develop the national system of conformity assessment bodies (CABs)	<ul style="list-style-type: none"> ● There is a need for additional accredited CABs in product certification (particularly for food products), medical laboratories and for certification bodies for management systems. Officials emphasized the important role that the private sector could play in addressing this supply shortage. It would be useful to consider public private partnerships and set the specific needs for competent testing and certification. These could be established through in-depth assessments of constraints faced by exporters belonging to agriculture and other strategic sectors in relation to proof of conformity. The assessment highlighted many challenges, including GMO and aflatoxin testing.
Consolidate market surveillance	<ul style="list-style-type: none"> ● Assist the line Ministries responsible for the authorization and licensing of the manufacture and sale of food and beverages, cosmetics, pharmaceutical products, dietary supplement and medical devices to establish the required guidelines, systems and expertise knowledge for issuing GMP certificates.

Outstanding needs	Recommendations
Metrology	
Upgrade the national standard-holding laboratories and raise public awareness on the importance of metrology	<ul style="list-style-type: none"> ● Provide the standard-holding laboratories with additional equipment. ● Prepare promotional material for raising public awareness, particularly among the business community, SMEs, the national laboratory network as well as governmental and non-governmental organizations, academia on the importance of metrology for improving measurement infrastructure and capacities for the consolidation of export competitiveness and the achievement of structural transformation. This could be done in cooperation with market support institutions, as these have a direct and continuous interaction with the enterprises.
Enterprise development: promote the diversification of services provided by market support institutions	
<p>Provide market intelligence services</p> <p>Promote inter-enterprise collaboration, joint action and networking with regional and international companies as a pre-requisite for achieving economies of scale and scope</p>	<ul style="list-style-type: none"> ● These services should be sector specific, highlighting the export potentials and sources of efficient supply sources with recommendations that could help enterprises establish their business development strategies. ● Consider establishing networking programmes to promote inter-enterprise collaboration, as it is often the case that enterprises are hesitant to join efforts when the benefits will be reaped only in the future, or are simply unaware of the potential benefits of joint action. These programmes should be hosted in market support institutions, which could assume the role of the network broker. This role involves identifying potential networks; overcoming the scepticism among enterprises; coordinating inter-firm relations; providing specialist support for creating commitment to the network among participating enterprises; and linking them with regional and international companies. This includes helping the national enterprises form two-way strategic relationships that are focused on joint production and knowledge sharing. Common measures for enabling technology mastery include internalized technology transfer (embodied in imported machines and equipment); licensing and arm's length purchase of know-how, patents, licenses and blueprints (i.e. royalty and license fees); and engaging foreign enterprises, particularly TNCs, in local capacity development through training and apprenticeship programmes. Such measures require arriving at common understanding of the legal issues that arise from technology transfer. Here bilateral and regional agreements on common standards become necessary. ● Consider establishing clustering programmes in the food industry and other key sectors for generating industry wide gains. The focus should be on developing two sets of dynamics. The first relates to increasing inter-firm coordination through "flexible specialization", whereby the production process is decentralized through subcontracting arrangements to allow member enterprises to specialize on specific phases of the production chain.¹⁵¹ The second set of dynamics relates to fostering inter-firm collaboration by facilitating enterprises' joint action. The focus should be on generating "collective efficiency" through purposeful joint actions.¹⁵²

¹⁵¹ This will put enterprises in a better position to take advantage of different economies of scale at different stages of production, focus on product characteristics (instead of price), and achieve economies of scope through adaptive machinery and broader participation by multi-skilled employees so that the relationships between firms become organic and conducive to innovation.

¹⁵² Collective action can take the form of horizontal cooperation between companies operating at the same level of the production chain, or vertical cooperation between final producers and their input suppliers (backward cooperation). Vertical cooperation can also entail the exchange of market information between buyers and producers (forward cooperation). For a brief overview on clustering, see, for example, Humphery, J. and H. Schmitz (1996). "The Triple C Approach to Local Industrial Policy", *World Development*, 24(12): 1859-77; Schmitz, H. (1997). "Collective Efficiency and Increasing Returns", Working Paper 50. Brighton: Institute of Development Studies; and Piore, M. and C. Sabel (1984). "The Second Industrial Divide: Possibilities for Prosperity". New York: Basic Books. These authors set the main concepts and approaches for guiding industrial clusters.

Outstanding needs	Recommendations
Improve the enterprises' access to finance	<ul style="list-style-type: none"> ● Consider establishing credit guarantee schemes that would allow micro-finance institutions and non-banking financial institutions to tap the banking system's deposit base for financing credit lines to help business enterprises implement business development plans and cover advance VAT payments. These schemes could be designed in a manner that assigns such institutions the role of intermediaries between potential borrowers and the banks. The institutions would screen borrowers, monitor their performance and assume responsibility vis-à-vis the banks in case of default. ● Another mechanism for facilitating the enterprises' access to finance would be the establishment of loan insurance schemes. Such schemes safeguard the borrowers' loan against default risks through imposing an insurance premium that is co-shared between the borrowing enterprise and the government.
Improve access to electricity and transport infrastructure	<ul style="list-style-type: none"> ● Priority should be given to bringing electricity power to rural and remote areas. ● Priority should be given to rehabilitating and repairing secondary roads to ensure geographic continuity.
Address the skills mismatch	<ul style="list-style-type: none"> ● Training activities and programmes (including those provided by vocational centres) should be aligned around critical skill shortages identified by business enterprises, with a view to enhance the technological capabilities of business enterprises.
Improve the enterprises' bargaining power vis-à-vis freight forwarders and international shipping companies	<ul style="list-style-type: none"> ● Explore in consultation with relevant associations (e.g., Georgian Expeditors Association, Georgian Road Carriers Association, Georgian Logistics Association) options for: (i) obtaining favourable terms from international shipping companies and transport operators for Georgian exporters and importers (including manufacturers, retailers and wholesalers); and (ii) strengthening cooperation with the European Shippers' Council and Global Shippers Alliance.

Annexes

Annex 1. Georgia's Trade Agreements

Free Trade Agreement	Coverage	Entry into force
CIS Agreement on the Establishment of a Free Trade Area (Republic of Republic of Azerbaijan, Armenia, Belarus, Georgia, Moldova, Kazakhstan, the Russian Federation, Ukraine, Uzbekistan, Tajikistan, Turkmenistan and the Kyrgyz Republic)	Goods	6 Dec 2002
Agreement between GUAM Countries on Establishment of Free Trade Area (Republic of Republic of Azerbaijan, Georgia, Republic of Moldova, and Ukraine)	Goods	10 Dec 2003
Free Trade Agreement between Government of Georgia and the Government of Russian Federation	Goods	10 May 1994
Free Trade Agreement between the Government of Georgia and the Government of Ukraine	Goods	4 Jun 1996
Free Trade Agreement between the Government of Georgia and Government of Republic of Azerbaijan	Goods	10 Jul 1996
Free Trade Agreement between the Government of Georgia and Government of Republic of Kazakhstan	Goods	16 Jul 1999
Free Trade Agreement between the Government of Georgia and Government of Turkmenistan	Goods	1 Jan 2000
Free Trade Agreement between the Government of Georgia and Government of Republic of Moldova	Goods	19 May 2007
Free Trade Agreement between the Government of Georgia and the Government of Republic of Armenia	Goods	11 Nov 1998
Free Trade Agreement between the Government of Georgia and the Government of Republic of Uzbekistan	Goods	15 Oct 2010
Free Trade Agreement between Georgia and Turkey	Goods	1 Nov 2008
Deep and Comprehensive Free Trade Area Agreement (DCFTA) between Georgia and the European Union¹⁵³	Goods and Services	1 Sep 2014
Free Trade Agreement between the Government of Georgia and EFTA States (Iceland, Liechtenstein, Norway and Switzerland)	Goods and Services	1 Sep 2017
Free Trade Agreement between the Government of Georgia and the Government of People's Republic of China	Goods and Services	Signed: 13 May 2017
Free Trade Agreement between the Government of Georgia and Hong Kong, China	Goods and Services	Signed: 28 November 2017

Source: Ministry of Economy and Sustainable Development of Georgia

¹⁵³ DCFTA (Title IV – Trade and Trade Related Matters) is part of Association Agreement between the EU and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part.

Annex 2. List of products manufactured by the surveyed enterprises

Product	Final	Semi-Final
Ammonium nitrate	√	
Ammonium sulphate	√	
Anchovies (fresh and frozen)	√	
Animal feed	√	
Beer	√	
Biologically active substances for animal food		√
Brandy (Chacha)	√	
Bread	√	
Broadcast equipment	√	
Buckwheat	√	
Canned fruits	√	
Cheese	√	
Chemical reagents	√	
Chopped hazelnuts	√	
Coffee, Cream, Chocolate	√	√
Confectionery (Cake, cup cakes, cookies)	√	
Corrugated pipes	√	
Cosmetics	√	
Disinfectant Liquid	√	
Dried herbs	√	
Dry Fruits	√	
Electric current	√	
Electricity Generation	√	
Electro energy	√	
Energy drinks	√	
Ferrous alloys	√	
Fertilizers	√	
Fish flour	√	
Fish oil	√	
Footwear	√	
Fresh Fruits Kiwi	√	
Frozen fruits	√	
Fruit and berry spreads and jellies (Jam)	√	
Fruit juice (nectar)	√	
Gas and water pipes	√	
Georgian traditional Sweet (Churchkhela, tatara)	√	
Grape seed oil	√	
Gypsum boards	√	

Product	Final	Semi-Final
Hazelnuts kernels	√	
Hazelnuts oil	√	
Health drinks (fruit and vegetable juice)	√	
Jewellery (earrings)	√	
Laboratory equipment	√	
Leather bags	√	
Lemonade	√	
Liquid organic fertilizer, plant protection liquid	√	
Low and high voltage cables	√	
Medicinal herbs	√	
Mineral water	√	
Plastic tanks	√	
Polyethylene pipes	√	
Preforms, polymer closures		√
Production of electricity	√	
Rice	√	
Sandwich panels	√	
Sauces	√	
Sewage pipes	√	
Silicon manganese	√	
Sodium cyanide	√	
Soups (ready meal)	√	
Soybean meal	√	
Soybean oil	√	
Sparkling drinks	√	
Sparkling water	√	
Spices	√	
Steel billets	√	
Steel pipes	√	
Steel structures, steel bridges, roads	√	
Sunflower oil	√	
Tea	√	
TV and video boxes	√	
Water meters	√	
Windows and doors, roof, jalousie from metal and wood, plastic	√	
Wine	√	
Whisky	√	

Annex 3. The surveyed enterprises' exports by product and destination

Products	Destination
Clothes	Germany, Italy
Bags, scarfs, hats, phone holders, sun glass bags, bag packs	Russian Federation
Bags, notes, wallets, belts, purses, bag packs, cups, earrings, shoes	Germany
Beer	Armenia, Austria, Republic of Azerbaijan, Belarus, Bulgaria, China, Estonia, Germany, Israel, Kazakhstan, Latvia, Lithuania, Republic of Moldova, Russian Federation, Tajikistan, Ukraine, United States of America
Broadcast equipment	Finland, Somalia
Chemical reagents	Republic of Azerbaijan
Chopped hazelnuts	Canada, China, Cyprus, Germany, Greece, Italy, Portugal, Spain, Switzerland
Cosmetics (cream)	Ukraine, United States of America
Corrugated pipes; drainage and sewage pipes	Republic of Azerbaijan
Dried bay leaves	Russian Federation, Ukraine
Dried herbs	Poland
Dry fruit	Netherlands, Russian Federation
Electric cables	Armenia
Animal feed	Armenia, Republic of Azerbaijan
Ferro alloy	Armenia, Republic of Azerbaijan, Russian Federation, Turkey, United States of America
Fish flour	Turkey
Fish oil	Turkey
Fresh fish	Turkey
Frozen anchovies	Armenia, Republic of Azerbaijan, Turkey, Ukraine
Fruit and berry spreads and jellies	Australia, Germany, Greece, Hungary, Italy, Poland, United States of America
Grape seed oil	China, Germany, Kazakhstan, Poland, Russian Federation
Gouda cheese	United States of America
Hazelnut kernels	Germany, Italy, Poland, Russian Federation
Hazelnut oil	France, Italy
Hazelnuts kernels	Canada, China, Cyprus, France, Germany, Greece, Italy, Portugal, Spain, Switzerland
Kiwifruit	Germany, Japan
Leather bags	Republic of Azerbaijan
Leather bags	France, Kazakhstan, Russian Federation, Sweden, Ukraine, United States of America
Leather footwear	Kazakhstan

Products	Destination
Lemonade	Armenia, Austria, Republic of Azerbaijan, Belarus, Bulgaria, Cyprus, Estonia, Germany, Greece, Israel, Kazakhstan, Kyrgyzstan, Kuwait, Latvia, Lithuania, Poland, Qatar, Republic of Moldova, Russian Federation, Spain, United Arab Emirates United States of America Uzbekistan
Beer	Armenia, Republic of Azerbaijan, Cyprus, Estonia, Germany, Kazakhstan, Kyrgyzstan, Latvia, Poland, Russian Federation, Turkmenistan, United States of America
Lemonade, sparkling water, mineral water	Republic of Azerbaijan, Bahrain, Belarus, China, Israel, Kazakhstan, Qatar, Russian Federation, Turkey, Ukraine
Locking pump installation elements	Armenia, Republic of Azerbaijan
Medical herbs	Bulgaria, Egypt, France, Germany, Morocco, Poland, Romania, United Kingdom, United States of America
Metal roof, gypsum boards	Armenia, Republic of Azerbaijan
Mineral water	China, Russian Federation
Frozen fruits	Poland
Health juice (mixture of fruit and vegetable juice)	Australia, Germany, Greece, Hungary, Italy, Poland, United States of America
Organic fertilizers	Republic of Azerbaijan
Plastic water tanks	Armenia, Republic of Azerbaijan
Preforms, polymer closures	Armenia, Republic of Azerbaijan, Turkey
Preserved fruits	Australia, Germany, Greece, Hungary, Italy, Poland, United States of America
Re-bar	Armenia, Republic of Azerbaijan
Roasted hazelnuts	Canada, China, Cyprus, France, Germany, Greece, Italy, Portugal, Spain, Switzerland
Rosehip juice	Hong Kong, Japan, United States of America
Sandwich panels	Armenia
Sauces and spices	Australia, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Russian Federation, United States of America
Sliding roof	Armenia
Soybean meal	Armenia, Republic of Azerbaijan
Soybean oil	Armenia, Republic of Azerbaijan
Steel pipes	Armenia
Tatara	Israel, Russian Federation
Tea	Armenia, Czech Republic, Russian Federation, Ukraine
TV, LEDs, TV box	Republic of Azerbaijan
Wine, whisky, chacha	Republic of Azerbaijan, Canada, China, Kazakhstan, Russian Federation, Ukraine, United States of America
Wine	Belarus, China, France, Germany, Japan, Kazakhstan, Latvia, Lithuania, Poland, Russian Federation, Sweden, Turkey, Ukraine, United Kingdom

Annex 4. Status of legislative approximation (as at January 2018)

A. New Approach Sectoral Directives (TBT)

1. Cableway Installations Designed to Carry Persons (Decree №320, 15.8.2011)
2. Lifts (Decree №289, 20.7.2011)
3. Pressure Equipment (Decree №151, 19.6.2013);
4. Efficiency Requirements for New Hot-water Boilers Fired with Liquid or Gaseous Fuels (Decree №149, 17.6.2013);
5. Simple Pressure Vessels (Decree №150, 19.6.2013)
6. Recreational Crafts (Decree №452, 31.12.2013)

B. New Approach Sectoral Directives (SPS)

Food safety

1. Regulation (EC) No 178/2002 of the European Parliament and of the Council of 28 January 2002 laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety.
 2. Commission Regulation (EU) No 16/2011 of 10 January 2011 laying down implementing measures for the Rapid alert system for food and feed.
 3. Commission Decision 2004/478/EC of 29 April 2004 concerning the adoption of a general plan for food/feed crisis management.
 4. Regulation (EC) No 852/2004 of the European Parliament and of the Council of 29 April 2004 on the hygiene of foodstuffs.
 5. Regulation (EC) No 853/2004 of the European Parliament and of the Council of 29 April 2004 laying down specific hygiene rules for food of animal origin.
 6. Commission Regulation (EC) No 2073/2005 of 15 November 2005 on microbiological criteria for foodstuffs.
 7. Commission Regulation (EC) No 2074/2005 of 5 December 2005 laying down implementing measures for certain products under Regulation (EC) No 853/2004 of the European Parliament and of the Council and for the organisation of official controls under Regulation (EC) No 854/2004 of Parliament and of the Council, derogating from Regulation (EC) No 852/2004 of the European Parliament and of the Council and Regulation (EC) No 882/2004 of the European Parliament and of the Council and amending Regulations (EC) No 853/2004 and (EC) No 854/2004.
 8. Regulation (EC) No 882/2004 of the European Parliament and of the Council of 29 April 2004 on official controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rule.
 9. Regulation (EC) No 854/2004 of the European Parliament and of the Council of 29 April 2004 laying down specific rules for the organisation of official controls on products of animal origin intended for human consumption.
 10. Commission Implementing Regulation (EU) No 931/2011 of 19 September 2011 on the traceability requirements set by Regulation (EC) No 178/2002 of the European Parliament and of the Council.
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11. Council Directive 96/23/EC of 29 April 1996 on measures to monitor certain substances and residues thereof in live animals and animal products and repealing Directives 85/358/EEC and 86/469/EEC and Decisions 89/187/EEC and 91/664/EEC.
 12. Commission Decision 97/747/EC of 27 October 1997 fixing the levels and frequencies of sampling provided for Council Directive 96/23/EC for the monitoring of certain substances and residues thereof in certain animal products.
 13. Council Directive 96/22/EC of 29 April 1996 concerning the prohibition on the use in stock farming of certain substances having a hormonal or thyrostatic action and of β -agonists, and repealing Directives 81/602/EEC, 88/146/EEC and 88/299/EEC.
 14. Council Regulation (EEC) No 315/93 of 8 February 1993 laying down Community procedures for contaminants in food.
 15. Regulation (EC) No 1760/2000 of the European Parliament and of the council of 17 July 2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products and repealing Council Regulation (EC) No 820/97.
 16. Commission Regulation (EC) No 1881/2006 of 19 December 2006 setting maximum levels for certain contaminants in foodstuffs.
 17. Commission Decision 2002/657/EC of 12 August 2002 implementing Council Directive 96/23/EC concerning the performance of analytical methods and the interpretation of results.
 18. Commission Decision 2006/677/EC of 29 September 2006 setting out the guidelines laying down criteria for the conduct of audits under Regulation (EC) No 882/2004 of the European Parliament and of the Council on official controls to verify compliance with feed and food law, animal health and animal welfare rules.
 19. Regulation (EC) No 396/2005 of the European Parliament and of the Council of 23 February 2005 on maximum residue levels of pesticides in or on food and feed of plant and animal origin and amending Council Directive 91/414/EEC.
 20. Regulation (EU) No 1169/2011 of the European Parliament and of the Council of 25 October 2011 on the provision of food information to consumers, amending Regulations (EC) No 1924/2006 and (EC) No 1925/2006 of the European Parliament and of the Council, and repealing Commission Directive 87/250/EEC, Council Directive 90/496/EEC, Commission Directive 1999/10/EC, Directive 2000/13/EC of the European Parliament and of the Council, Commission Directives 2002/67/EC and 2008/5/EC and Commission Regulation (EC) No 608/2004 Text with EEA relevance.
 21. Regulation (EC) No 1924/2006 of the European Parliament and of the Council of 20 December 2006 on nutrition and health claims made on foods.
 22. Commission Regulation (EU) No 1047/2012 of 8 November 2012 amending Regulation (EC) No 1924/2006 with regard to the list of nutrition claims.
 23. Commission implementing decision 2013/63 of 24 January 2013 adopting guidelines for the implementation of specific conditions for health claims laid down in Article 10 of Regulation (EC) No 1924/2006 of the European Parliament and of the Council.
 24. Regulation (EC) No 1333/2008 of the European Parliament and of the Council of 16 December 2008 on food additives.
 25. Regulation (EC) No 1925/2006 of the European Parliament and of the Council of 20 December 2006 on the addition of vitamins and minerals and of certain other substances to foods.
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26. Commission Regulation (EC) No 1170/2009 of 30 November 2009 amending Directive 2002/46/EC of the European Parliament and of Council and Regulation (EC) No 1925/2006 of the European Parliament and of the Council as regards the lists of vitamin and minerals and their forms that can be added to foods, including food supplements.
 27. Commission Regulation (EU) No 37/2010 of 22 December 2009 on pharmacologically active substances and their classification regarding maximum residue limits in foodstuffs of animal origin.
 28. Commission Regulation (EC) No 401/2006 of 23 February 2006 laying down the methods of sampling and analysis for the official control of the levels of mycotoxins in foodstuffs.
 29. Commission Regulation (EC) No 333/2007 of 28 March 2007 laying down the methods of sampling and analysis for the official control of the levels of lead, cadmium, mercury, inorganic tin, 3-MCPD and benzo(a)pyrene in foodstuffs.
 30. Commission Decision 94/360/EC of 20 May 1994 on the reduced frequency of physical checks of consignments of certain products to be implemented from third countries, under Council Directive 90/675/EEC.
 31. Directive 2011/91/EU of the European Parliament and of the Council of 13 December 2011 on indications or marks identifying the lot to which a foodstuff belongs.
 32. Council Decision 92/608/EEC of 14 November 1992 laying down methods for the analysis and testing of heat-treated milk for direct human consumption.
 33. Commission Regulation (EC) No 669/2009 of 24 July 2009 implementing Regulation (EC) No 882/2004 of the European Parliament and of the Council as regards the increased level of official controls on imports of certain feed and food of non-animal origin and amending Decision 2006/504/EC.
 34. Commission Regulation (EC) No 645/2000 of 28 March 2000 setting out detailed implementing rules necessary for the proper functioning of certain provisions of Article 7 of Council Directive 86/362/EEC and of Article 4 of Council Directive 90/642/EEC concerning the arrangements for monitoring the maximum levels of pesticide residues in and on cereals and products of plant origin, including fruit and vegetables, respectively.
 35. Commission Implementing Regulation (EU) No 489/2012 of 8 June 2012 establishing implementing rules for the application of Article 16 of Regulation (EC) No 1925/2006 of the European Parliament and of the Council on the addition of vitamins and minerals and of certain other substances to foods.
 36. Regulation (EU) No 307/2012 of 11 April 2012 establishing implementing rules for the application of Article 8 of Regulation (EC) No 1925/2006 of the European Parliament and of the Council on the addition of vitamins and minerals and of certain other substances to foods.
 37. Regulation (EU) No 609/2013 of the European Parliament and of the Council of 12 June 2013 on food intended for infants and young children, food for special medical purposes, and total diet replacement for weight control and repealing Council Directive 92/52/EEC, Commission Directives 96/8/EC, 1999/21/EC, 2006/125/EC and 2006/141/EC, Directive 2009/39/EC of the European Parliament and of the Council and Commission Regulations (EC) No 41/2009 and (EC) No 953/2009.
 38. Regulation (EC) No 1331/2008 of the European Parliament and of the Council of 16 December 2008 establishing a common authorisation procedure for food additives, food enzymes and food flavourings.
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Plant protection

39. Commission Directive 2008/61/EC of 17 June 2008 establishing the conditions under which certain harmful organisms, plants, plant products and other objects listed in Annexes I to V to Council Directive 2000/29/EC may be introduced into or moved within the Community or certain protected zones thereof, for trial or scientific purposes and for work on varietal selections.
40. Commission Recommendation 2014/63/EU of 6 February 2014 on measures to control *Diabrotica virgifera virgifera* Le Conte in Union areas where its presence is confirmed.
41. Commission Directive 2004/105/EC of 15 October 2004 determining the models of official phytosanitary certificates or phytosanitary certificates for re-export accompanying plants, plant products or other objects from third countries and listed in Council Directive 2000/29/EC.
42. Commission Directive 94/3/EC of 21 January 1994 establishing a procedure for the notification of interception of a consignment or a harmful organism from third countries and presenting an imminent phytosanitary danger.
43. Council Directive 2000/29/EC of 8 May 2000 on protective measures against the introduction into the Community of organisms harmful to plants or plant products and against their spread within the Community.
44. Commission Directive 92/90/EEC of 3 November 1992 establishing obligations to which producers and importers of plants, plant products or other objects are subject and establishing details for their registration.
45. Council Directive 2007/33/EC of 11 June 2007 on the control of potato cyst nematodes and repealing Directive.
46. Council Directive 98/57/EC of 20 July 1998 on the control of *Ralstonia solanacearum* (Smith) Yabuuchi et al.
47. Commission Directive 2004/103/EC of 7 October 2004 on identity and plant health checks of plants, plant products or other objects, listed in Part B of Annex V to Council Directive 2000/29/EC, which may be carried out at a place other than the point of entry into the Community or at a place close by and specifying the conditions related to these checks.
48. Council Directive 93/85/EC of 4 October 1993 on control of Potato Ring Rot.

Veterinary

49. Council Regulation (EC) No 21/2004 of 17 December 2003 establishing a system for the identification and registration of ovine and caprine animals and amending Regulation (EC) No 1782/2003 and Directives 92/102/EEC and 64/432/EEC.
 50. Commission Regulation (EC) No 1505/2006 of 11 October 2006 implementing Council Regulation (EC) No 21/2004 as regards the minimum level of checks to be carried out in relation to the identification and registration of ovine and caprine animals.
 51. Council Directive 2003/85/EC of 29 September 2003 on Community measures for the control of foot-and-mouth disease repealing Directive 85/511/EEC and Decisions 89/531/EEC and 91/665/EEC and amending Directive 92/46/EEC.
 52. Regulation (EC) No 1760/2000 of the European Parliament and of the Council of 17 July 2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products and repealing Council Regulation (EC) No 820/97.
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53. Commission Regulation (EC) No 1082/2003 of 23 June 2003 laying down detailed rules for the implementation of Regulation (EC) No 1760/2000 of the European Parliament and of the Council as regards the minimum level of controls to be carried out in the framework of the system for the identification and registration of bovine animals.
 54. Commission Regulation (EC) No 911/2004 of 29 April 2004 implementing Regulation (EC) No 1760/2000 of the European Parliament and of the Council as regards ear tags, passports and holding registers.
 55. Commission Regulation (EC) No 494/98 of 27 February 1998 laying down detailed rules for the implementation of Council Regulation (EC) No 820/97 as regards the application of minimum administrative sanctions in the framework of the system for the identification and registration of bovine animals.
 56. Council Directive 2002/60/EC of 27 June 2002 laying down specific provisions for the control of African swine fever and amending Directive 92/119/EEC as regards Teschen disease and African swine fever.
 57. Council Directive 92/66/EEC of 14 July 1992 introducing Community measures for the control of Newcastle disease.
 58. Council Directive 2001/89/EC of 23 October 2001 on Community measures for the control of classical swine fever.
 59. Council Directive 2008/71/EC of 15 July 2008 on the identification and registration of pigs.
 60. Council Directive 2005/94/EC of 20 December 2005 on Community measures for the control of avian influenza and repealing Directive 92/40/EEC.
 61. Commission Regulation (EC) No 616/2009 of 13 July 2009 implementing Council Directive 2005/94/EC as regards the approval of poultry compartments and other captive birds compartments with respect to avian influenza and additional preventive biosecurity measures in such compartments.
 62. Commission Decision 2010/367/EU of 25 June 2010 on the implementation by Member States of surveillance programmes for avian influenza in poultry and wild birds.
 63. Commission Decision 2002/106/EC of 1 February 2002 approving a Diagnostic Manual establishing diagnostic procedures, sampling methods and criteria for evaluation of the laboratory tests for the confirmation of classical swine fever.
 64. Commission Decision 2003/422/EC of 26 May 2003 approving an African swine fever diagnostic manual.
 65. Commission Decision 2006/437/EC of 4 August 2006 approving a Diagnostic Manual for avian influenza as provided for in Council Directive 2005/94/EC.
 66. Regulation (EC) No 999/2001 of the European Parliament and of the Council of 22 May 2001 laying down rules for the prevention, control and eradication of certain transmissible spongiform encephalopathies.
 67. Commission Decision 2001/183/EC of 22 February 2001 laying down the sampling plans and diagnostic methods for the detection and confirmation of certain fish diseases and repealing Decision 92/532/EEC.
 68. Council Directive 2006/88/EC of 24 October 2006 on animal health requirements for aquaculture animals and products thereof, and on the prevention and control of certain diseases in aquatic animals.
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69. Regulation (EC) No 1069/2009 of the European Parliament and of the Council of 21 October 2009 laying down health rules as regards animal by-products and derived products not intended for human consumption and repealing Regulation (EC) No 1774/2002.
 70. Commission Regulation (EU) No 142/2011 of 25 February 2011 implementing Regulation (EC) No 1069/2009 of the European Parliament and of the Council laying down health rules as regards animal by-products and derived products not intended for human consumption and implementing Council Directive 97/78/EC as regards certain samples and items exempt from veterinary checks at the border under that Directive.
 71. Commission Regulation (EC) No 1251/2008 of 12 December 2008 implementing Council Directive 2006/88/EC as regards conditions and certification requirements for the placing on the market and the import into the Community of aquaculture animals and products thereof and laying down a list of vector species.
 72. Council Directive 92/118/EEC of 17 December 1992 laying down animal health and public health requirements governing trade in and imports into the Community of products not subject to the said requirements laid down in specific Community rules referred to in Annex A (I) to Directive 89/662/EEC and, as regards pathogens, to Directive 90/425/EEC.
 73. Directive 2003/99/EC of the European Parliament and of the Council of 17 November 2003 on the monitoring of zoonosis and zoonotic agents, amending Council Decision 90/424/EEC and repealing Council Directive 92/117/EEC.
 74. Council Directive 64/432/EEC of 26 June 1964 on animal health problems affecting intra-Community trade in bovine animals and swine.
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Annex 5. Non-tariff measures applied in the EU, 2015

Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
01 Animals; live	555	130		13	13			711
02 Meat and edible meat offal	4 578	1 116		16	16			5 726
03 Fish and crustaceans, molluscs and other aquatic invertebrates	7 951	3 272	36					11 259
04 Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	4 005	858		137	137			5 137
05 Animal originated products; not elsewhere specified or included	151	37						188
06 Trees and other plants, live; bulbs, roots and the like; cut flowers and ornamental foliage	179	106						285
07 Vegetables and certain roots and tubers; edible	2 039	543		12	12			2 606
08 Fruit and nuts, edible; peel of citrus fruit or melons	2 533	657		1	1			3 192
09 Coffee, tea, mate and spices	941	221						1 162
10 Cereals	1 365	269		31	31			1 696
11 Products of the milling industry; malt, starches, inulin, wheat gluten	2 048	366		1	1			2 416
12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	1 261	405		6				1 672
13 Lac; gums, resins and other vegetable saps and extracts	213	213						426

Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
14 Vegetable plaiting materials; vegetable products not elsewhere specified or included	22	1						23
15 Animal or vegetable fats and oils and their cleavage products; prepared animal fats; animal or vegetable waxes	2 361	1 128						3 489
16 Meat, fish or crustaceans, molluscs or other aquatic invertebrates; preparations thereof	1 831	663	14	5	5			2 518
17 Sugars and sugar confectionery	878	384		13	13			1 288
18 Cocoa and cocoa preparations	354	105						459
19 Preparations of cereals, flour, starch or milk; pastry cooks' products	885	213						1 098
20 Preparations of vegetables, fruit, nuts or other parts of plants	4 674	1 224		9	9			5 916
21 Miscellaneous edible preparations	719	292		2	2			1 015
22 Beverages, spirits and vinegar	2 932	817		4	4			3 757
23 Food industries, residues and wastes thereof; prepared animal fodder	660	235		17	17			929
24 Tobacco and manufactured tobacco substitutes		88						88
25 Salt; Sulphur; earths, stone; plastering materials, lime and cement	45	351						396
26 Ores, slag and ash		26				4		30

Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	4	651						655
28 Inorganic chemicals; organic and inorganic compounds of precious metals; of rare earth metals, of radio-active elements and of isotopes	32	1 735	2	3		25	24	1 821
29 Organic chemicals	226	3 432		23			452	4 133
30 Pharmaceutical products	90	366	14				30	500
31 Fertilizers	11	343						354
32 Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints, varnishes; putty, other mastics; inks	5	405					10	420
33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations		362						362
34 Soap, organic surface-active agents; washing, lubricating, polishing or scouring preparations; artificial or prepared waxes, candles and similar articles, modelling pastes, dental waxes and dental preparations with a basis of plaster	2	269	1				4	276

Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
35 Albuminoidal substances; modified starches; glues; enzymes	756	295					2	1 053
36 Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations		110						110
37 Photographic or cinematographic goods		28	1					29
38 Chemical products not elsewhere specified (n.e.s)	32	1 108		3			50	1 193
39 Plastics and articles thereof	106	1 363	2			1	38	1 510
40 Rubber and articles thereof	34	374	2			2		412
41 Raw hides and skins (other than furskins) and leather	210	93		8				311
42 Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	27	116		16				159
43 Furskins and artificial fur; manufactures thereof	35	30		6				71
44 Wood and articles of wood; wood charcoal	262	624		161				1 047
45 Cork and articles of cork	14	46						60

Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
46 Manufactures of straw, esparto or other plaiting materials; basket ware and wickerwork	5	15						20
47 Pulp of wood or other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard		32		16				48
48 Paper and paperboard; articles of paper pulp, of paper or paperboard	104	582	1	149				836
50 Silk		97						97
51 Wool, fine or coarse animal hair; horsehair yarn and woven fabric	154	254						408
52 Cotton	12	736	140	280			140	1 308
53 Vegetable textile fibers; paper yarn and woven fabrics of paper yarn		152	14	29			14	209
54 Man-made filaments; strip and the like of man-made textile materials	5	355						360
55 Man-made staple fibers		656	84	168			84	992
56 Wadding, felt and nonwovens, special yarns; twine, cordage, ropes and cables and articles thereof	12	284	1	2			1	300
57 Carpets and other textile floor coverings		156						156

Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
58 Fabrics; special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery		197	2	4			2	205
59 Textile fabrics; impregnated, coated, covered or laminated; textile articles of a kind suitable for industrial use		160	2	4			2	168
60 Fabrics; knitted or crocheted		228						228
61 Apparel and clothing accessories; knitted or crocheted		1 125	55	110		2	55	1 347
62 Apparel and clothing accessories; not knitted or crocheted		1 567	68	136		7	68	1 846
63 Textiles, made up articles; sets; worn clothing and worn textile articles; rags	10	409	32	64			31	546
64 Footwear; gaiters and the like; parts of such articles		586						586
65 Headgear and parts thereof		60						60
66 Umbrellas, sun umbrellas, walking-sticks, seat sticks, whips, riding crops; and parts thereof		39						39
67 Feathers and down, prepared; and articles made of feather or of down; artificial flowers; articles of human hair		16						16
68 Stone, plaster, cement, asbestos, mica or similar materials; articles thereof	39	153						192

	Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
69	Ceramic products	54	98						152
70	Glass and glassware	116	307						423
71	Natural, cultured pearls; precious, semi-precious stones; precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	12	77						89
72	Iron and steel	45	1 217		190				1 452
73	Iron or steel articles	112	1 638		1				1 751
74	Copper and articles thereof	15	206						221
75	Nickel and articles thereof	1	86						87
76	Aluminum and articles thereof	29	328						357
78	Lead and articles thereof	2	47				2		51
79	Zinc and articles thereof	1	60						61
80	Tin; articles thereof	1	34						35
81	Metals; n.e.s., cermet and articles thereof	17	310						327
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof, of base metal	84	158						242
83	Metal; miscellaneous products of base metal	3	81						84
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	304	11 910	1			17		12 232

Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles	56	7 374				3		7 433
86 Railway, tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds		145				3		148
87 Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof		611	2			11		624
88 Aircraft, spacecraft and parts thereof		32						32
89 Ships, boats and floating structures		81						81
90 Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories		2 973	59			12		3 044
91 Clocks and watches and parts thereof		344						344
92 Musical instruments; parts and accessories of such articles		112						112

Products	Sanitary and phytosanitary measures	Technical barriers to trade	Pre-shipment inspection and other formalities	Non-automatic licensing, quotas, prohibitions and quantity control measures	Finance measures	Measures affecting competition	Export-related measures	Grand Total
93 Arms and ammunition; parts and accessories thereof		32						32
94 Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, n.e.s.; illuminated signs, illuminated name-plates and the like; prefabricated buildings	4	567	2	12				585
95 Toys, games and sports requisites; parts and accessories thereof	12	567						579
96 Miscellaneous manufactured articles	8	89						97
97 Works of art; collectors' pieces and antiques	7	2						9
Total	46 250	62 815	535	1 652	261	89	1 007	112 609

Source: TRAINS Database

Annex 6. The surveyed enterprises and standards: costs and export expansion plans

Manufactured products	Implemented Standards	Costs	Export expansion plans
Natural cream, cosmetics	Local standard, Neopharma	Not provided by the trader	
Frozen and dried fruits	<ul style="list-style-type: none"> - GLOBALG.A.P for kiwi - United States Department of Agriculture (USDA) labelling approval 	<p>Certification costs USD 22 000 (funded through USAID REAP program). One-time investments in production facilities: sewerage system infrastructure (no other in the area), waste water accumulation basin, water treatment, facilities for staff (e.g., vestiers, shower cabins) at a total cost of EUR 300 000 (company resources)</p> <p>USD 1000</p>	EU, USA, UAE
Frozen anchovies	<ul style="list-style-type: none"> - HACCP - ISO 9001:2008 (Quality Management Systems) 	<ul style="list-style-type: none"> - One-time investments in production facilities at a total cost of EUR 50 000: EUR 23 000 (company resources) and EUR 27 000 (EU grant) - Annual support costs EUR 21 000 	EU
Fish flour	<ul style="list-style-type: none"> - HACCP - ISO 22000 (Food Safety Management) 	<p>Certification costs - GEL 34 000 Annual payment – GEL 15 600</p>	EU
Sauces and soup	<ul style="list-style-type: none"> - HACCP - ISO 9001 	One-time investments: plant reorganization, staff facilities and new equipment at a total cost of USD 250 000 (company resources and credit)	Russian Federation, Kazakhstan, Belarus, EU (vegan dishes)
Low and high voltage cables	<ul style="list-style-type: none"> - Q-mark - Georgian Association of Quality - ISO 9001:2008 	<p>ISO implementation costs: EUR 30 000 audit and certification; EUR 2 000 000 - investment costs, mostly acquisition of the laboratory equipment and training of the personnel. The laboratory can issue also certificates to third persons.</p> <p>Sources of financing: company's funds, banks loans and "Produce in Georgia" program (1 million USD)</p> <p>However, this is not enough to export to EU as there is a need for CE mark and also a certificate for high temperature resistance. Such tests can be performed only outside Georgia and the price is around EUR 2000 per product/certificate, which is quite costly for the company</p>	Eastern Europe

Manufactured products	Implemented Standards	Costs	Export expansion plans
Steel billets and re-bar	<ul style="list-style-type: none"> - ISO 9001 - ISO 14001 (Environmental Management) - ISO 18001 (Occupational Health and Safety Assessment Series) 	<p>GeoSteel is a greenfield investment project implemented by the SW Steel (Netherlands) B.V., which is part of one of the largest producers of steel in India</p> <p>The total project cost is around 60 million USD, which also includes implementation of the International standards. Part of the investment (50%) was covered through EBRD Loan</p> <p>The company has its own testing laboratory, implemented an ICT management system and new production equipment. Company also follows all rules referred to environmental regulation and have established an Environmental Management System</p> <p>Annual running cost is around 4000 USD</p>	Caucasus and surrounding regions
Hazelnuts kernels, hazelnuts oil, chopped hazelnuts	<ul style="list-style-type: none"> - Halal Standard - Kosher Certificate - ISO 22000 	<p>Halal - no costs</p> <p>Kosher - 2500 EUR/year</p> <p>ISO 22000 - implementation cost EUR 6500 (50% paid through the state grant)</p> <p>Annual tax - EUR 3500 (own resources)</p> <p>Other costs - acquisition of new equipment, ICT, staff training</p> <p>Total Investment costs were around EUR 50 000 (own resources)</p>	
Rosehip juice	USDA Label	USDA – EUR 800	EU, UK being the most important one
Health juice; preserved fruits; fruit and berry spreads and jellies; sauces and spices	<ul style="list-style-type: none"> - ISO 22000 - ISO 9001 	<p>Total cost: 50 000 EUR Laboratory equipment; rearranged production facilities; staff training</p> <p>Implementation period: 1 year</p> <p>All costs were covered by the company sources and EBRD Business Advisory Services grant facility</p>	Japan, China, Hong Kong, Middle East, EU
Dried fruits	ISO 22 000	EUR 18 000	Germany, Hong Kong, UK
Frozen fish	ISO 22000	<p>EUR 16 000 in consulting and certification fees</p> <p>EUR 50 000 labs</p>	Israel and UAE
Biologically active substances for animal food	ISO 22000 -	Cost of standards including implementation and certification EUR 19 000	Africa, UAE, Gulf States
Tea	<ul style="list-style-type: none"> - Georgian Quality Mark - ISO 22000 	<p>“Georgian Quality Mark”: 4000 GEL</p> <p>ISO 22000 - EUR 12 000 in implementation and certification of ISO standard</p>	

Manufactured products	Implemented Standards	Costs	Export expansion plans
Corrugated pipes, polyethylene pipes, gas and water pipes, sewage pipes	ISO 9001:2015	ISO 9001:2015 - EUR 7000 Company received/bought the land from the Government for symbolic price (GEL 1) and obtained a loan from "Produce in Georgia" GEL 1 000 000 for building a new factory. The company is also planning to build an accredited testing laboratory	EU
Coffee, Cream, Hot Chocolate	- HACCP - ISO 22 000	Cost of Standard: EUR 16 000. Financed using lean funds obtained from "Produce in Georgia"	EU, Republic of Azerbaijan and Armenia
Cakes, cup cakes, cookies, bread	Q-Mark valid 3 years	Annual audit (GEL 1500)	Israel, in a process of receive ISO 9001:2015
Fish flour, fish oil, fresh fish	- HACCP - ISO 22 000	Certification - EUR 50 000 Investment costs - EUR 3 000 000 in the technology, production facilities, and infrastructure Annual costs (audits) - EUR 7000	EU
Steel pipes	ISO 9001:2015	Certification EUR 20000. 50% covered by company, 50% through the grant Annual cost (audit) EUR 5000 Investment costs: quality control equipment, new production equipment, rearranging production facilities, etc. Total investment costs GEL 2 000 000. Funds were received through "Produce in Georgia" programme	Republic of Azerbaijan and Caucasus
Kiwi	Global GAP	Total certification costs EUR 6000. No other costs were incurred as the orchards and refrigeration facilities were built according to the Global GAP requirements. The owners worked in an international company, so that he was familiar with the certification process	EU

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Abbreviations

BPA	Business Process Analysis
CoO	Certificate of Origin
ECE	Economic Commission for Europe
EU	European Union
MENR	Ministry of Environment and Natural Resources Protection
NFA	National Food Agency
RS	Revenue Service
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific

A1. Introduction

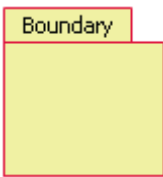



This appendix provides a detailed assessment of the administrative processes associated with exporting frozen anchovies from Georgia using the ECE/UNESCAP business process analysis (BPA) methodology described in chapter one.¹ The product was selected in consultation with the government based on its export potential and the results of the interviews with the leading enterprises that participated in the BPA.

Anchovy was singled out as a top product for export to the European markets following the establishment of the DCFTA between Georgia and the EU, and Georgian enterprises were added to the list of third country establishments allowed to export fish and fish products to the European Union in 2017.² As shown in the next section, the bulk of the anchovy catch is processed into fishmeal and fish oil, with Turkey standing as the main export market. The interviewed enterprises were of the view that the improved market access conditions to the EU also offer significant market opportunities for frozen anchovies; a sub-set of the processing industry that is yet to be exploited to its full potential.

The analysis covers all the business processes typically undertaken by the exporters of frozen anchovies. These processes are mapped along the Buy-Ship-Pay reference model using:




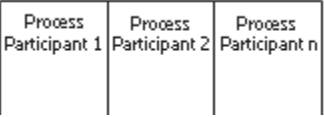






- Use-case diagrams (Table A1.1)
- Business process flowcharts (Buy-Ship-Pay operations)
- Time procedure charts

Table A1.1 Use case and activity diagram notations

Notation	Description and Instruction for Use
Use Case Notations	
	Subject Boundary <ul style="list-style-type: none"> • Represents a process area • Includes the name of a subject boundary on top
	Actor <ul style="list-style-type: none"> • Is a person who participates in a particular business process • Is labelled with a role • Is placed outside the subject boundary which represents a process area
	Use Case <ul style="list-style-type: none"> • Represents a business process • Is labelled with a descriptive verb-noun phrase • Is placed inside the subject boundary which represents a process area
	Association Relationship <ul style="list-style-type: none"> • Link actors with business processes that they participate in

¹ The joint ECE/ESCAP Business Process Analysis Model (2012) is available online at: www.unescap.org/unnext/tools/business_process.asp.

² Georgia was added to the list of Third Countries allowed to export fish and fish products to the EU on 31 August 2017 (https://webgate.ec.europa.eu/sanco/traces/output/non_eu_listsPerCountry_en.htm#).

Notation	Description and Instruction for Use
Activity Diagram Notations	
	<p>Initial State</p> <ul style="list-style-type: none"> Represents the beginning of a set of actions There is only one initial state for each activity diagram
	<p>Final Flow State</p> <ul style="list-style-type: none"> Is used to stop the flow of actions in an activity diagram Indicates that further actions cannot be pursued
	<p>Final Activity State</p> <ul style="list-style-type: none"> Is used to indicate the completion of activity i.e. no further action is needed after this point
	<p>Swim lane</p> <ul style="list-style-type: none"> Is used to break up individual actions to individuals/ agencies that are responsible for executing their actions Is labelled with the name of the responsible individual or agency
	<p>Action</p> <ul style="list-style-type: none"> Represents a non-decomposable piece of behaviour Is labelled with a name that 1) begins with a verb and ends with a noun; and 2) is short yet contain enough information for readers to comprehend.
	<p>Object</p> <ul style="list-style-type: none"> Represents a document or information that flows from one action to another action Is labelled with a name of a document
	<p>Decision</p> <ul style="list-style-type: none"> Represents the point where a decision, depending on the outcome of a specific prior action, has to be made Has multiple transition lines coming out of a decision point and connecting to different actions Attach label with the condition on each transition line that comes out of an action and connects to a decision point
	<p>Transition line</p> <ul style="list-style-type: none"> Indicates a sequence flow of actions and information in an activity diagram
	<p>Fork (Splitting of Control)</p> <ul style="list-style-type: none"> Is used to visualize a set of parallel or concurrent flow of actions
	<p>Join (Synchronization of Control)</p> <ul style="list-style-type: none"> Is used to indicate the termination of a set of parallel or concurrent flow of actions

This BPA was carried out in October 2017 by a ECE consultant, who visited the premises of the selected companies and conducted extensive interviews with senior and middle level management, based on a review of published information on the industry. Five companies were selected to serve as case studies based on the size of their exports. The companies, which were based in the Black Sea port city of Poti (Georgia's fishing centre, where 80 per cent of the fishing fleet operates), held fishing licenses and were major exporters of processed anchovies. The companies were also involved in processing anchovies in the form of fishmeal and fish oil (four companies) and frozen anchovies (one company), and implemented the Hazard Analysis and Critical Control Points (HACCP) system.

This annex consists of seven sections. The introduction is followed in section A2 by a brief overview of Georgia's fish industry and the scope of the BPA. Section A3 provides the analysis of the business processes associated with the export of fruits and vegetables from the country. An overview of the export documents and time process charts comes next (A4), leading to recommendations for the Government's consideration (A7). The recommendations also address non-trade concerns raised by traders, which are discussed in section A6.

A2. Domain of interest

A2.1 Product selection

With its strategic location at the borders of the black sea and its numerous rivers, reservoirs and lakes, Georgia has a rich endowment of hydro biological resources, rendering marine and inland capture fisheries along with aquaculture activities a defining feature of its economic life.³ This is all the more so given the abundance of pelagic species, such as anchovy and sprats, in the country's Black Sea Exclusive Economic Zone (EEZ), which provides significant opportunities for developing the fishing industry.⁴

Georgia has a large reserve of high quality, protein rich European anchovies (*Engraulis encrasicolus*),⁵ which account for 90 per cent of the country's total fish catch.⁶ However, anchovy faces low demand in local markets, as Georgians prefer larger and more palatable fish species, such as mackerel, hake (*Merluccius merluccius*), salmon and sturgeon; the bulk of which is imported from abroad (mainly Turkey).⁷

Thus, for anchovy catchers and processors, participation in export activities is essential for its growth; an imperative that the Government accords priority treatment with an eye on addressing the environmental impact of the industry as a whole. This approach finds its best expression in the Georgia's membership in major international biodiversity-related and environmental conventions (Table A2.2) and National Biodiversity Strategy and Action Plan for the period 2014-2020.⁸

³ According to official statistics by the National Statistics Office of Georgia (GeoStat), the country is crossed by 26,060 rivers with a total length of 60,000 kilometres and is endowed with 860 lakes and 44 water reservoirs. See GeoStat (2016) "Natural Resources and Environment Protection in Georgia", available at: http://geostat.ge/cms/site_images/_files/english/agriculture/Environment_2016.pdf.

⁴ The EEZ, which is prescribed by the United Nations Convention on the Law of the Sea, defines the rights and responsibilities of nations with respect to the use of oceans and establishes guidelines for businesses, the environment, and the management of marine natural resources (http://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf). The Black Sea is bounded by six countries (Bulgaria, Georgia, Romania, the Russian Federation, Ukraine and Turkey), and is classified under the Mediterranean and Black Sea fishing areas as per FAO classification of geographical fishing areas (<http://www.fao.org/fishery/area/search/en>). For a detailed overview of the EEZ Zones in the Black Sea, see published information by the Commission on the Protection of the Black Sea Against Pollution (http://www.blacksea-commission.org/_socio-economy-eez.asp). According to FAO, the narrow continental shelf off the Black Sea coast of Georgia and the quantity of hydrosulphide in coastal waters are the main reasons for the abundance of pelagic fish species (anchovy and sprats) and the scarcity of bottom (turbot) and demersal (whiting, red mullet, shad and others) fish species (<http://www.fao.org/fi/oldsite/FCP/en/GEO/profile.htm>).

⁵ See Gencbay, G. and S. Turhan (2016) Proximate Composition and Nutritional Profile of the Black Sea Anchovy (*Engraulis encrasicolus*) Whole Fish, Fillets, and By-Products, Journal of Aquatic Food Product Technology, Volume 25, Issue 6.

⁶ Horse mackerel constitutes the second largest segment of fish caught in Georgia, followed by red, whiting and grey mullets (all of which are caught in small quantities). According to GeoStat, there are 160 known species in Georgian waters. See GeoStat (2016) "Natural Resources and Environment Protection in Georgia", available at: http://geostat.ge/cms/site_images/_files/english/agriculture/Environment_2016.pdf.

⁷ According to most recent statistics (2014) by MENR, only 4 per cent of the total fish catch is sold in local markets.

⁸ The plan is contained in Government Decree No. 343 of 8 May 2014. The main legal documents for ensuring sustainable fishing include: Law on Environmental Protection (1996); Law on Wild Life (1996); Law on Water (1999); Law on the Red List and Red Data Book of Georgia (2003); Law on Fees for the Use of Natural Resource (2004); Law on Licenses and Permits (2005); Government Decree 136 on rules and conditions for giving out licences; and the Law on Maritime Areas (1998).

Table A2.2 Georgia's participation in biodiversity and environmental conventions

Convention	Ratification
Convention on Biodiversity (CBD)	1994
Agreement to Promote Compliance with International Conservation and Management Measures by Fishing Vessels on the High Seas (Compliance Agreement)	1994
Bucharest Convention on Protection of the Black Sea against Pollution	1994
Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES)	1996
United Nations Convention on the Law of the Sea (UNCLOS)	1996
Convention on Wetlands of International Importance especially as Waterfowl Habitat (Ramsar Convention on Wetlands)	1996
Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention)	2000
Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (Aarhus Convention)	2000
Convention on the Conservation of Cetaceans of the Black Sea, Mediterranean Sea and Contiguous Atlantic Area (ACCOBAMS)	2001

The plan brings into focus Government's commitment to the ensuring sustainable fishery, with implementation spearheaded by the Ministry of Environment and Natural Resources Protection (MENR). MENR acts as the lead agency and main regulatory body, working in close cooperation with: the Ministry of Agriculture (food safety measures), Ministry of Economy and Sustainable Development (trade issues and horizontal coordination), Ministry of Finance (taxation), Ministry of Regional Development and Infrastructure along with a number of Governmental and semi-independent institutions, such as the National Environmental Agency (under MENR), the Marine Ecology and Fisheries Research Institute, the Marine Authority of Georgia, the Institute of Zoology, the Maritime Transport Administration and the Bucharest Convention.

Fishing activities are regulated by a licensing system,⁹ which was put in place in 2006 to address unsuitable fishing practices, particularly poaching.¹⁰ The licenses are issued through public auctions,¹¹ whereby the winning bidders acquire the right to exploit and transfer (for the duration of 10 years) a share of the annual Total Allowable Catch (TAC) that vary by season depending on the availability of fish (the annual TAC varied between 60,000 and 90,000 tonnes since the 2010/2011 season).¹²

⁹ Fishing activities in Georgia's marine territorial waters and inland waters comprise commercial, sport, and amateur fishing. Licences are required for fishing more than one mile from the Black Sea coastline as well as in State owned lakes and artificial reservoirs.

¹⁰ The main legal documents regulating fishing licenses are: Law of Georgia on Wild Fauna (1996); Law on State Licenses and Permits (2005); Regulations on the procedures for issuing and conditions of fishing license (No. 138 of 11 August 2005); Decree No. 1-1/480 of 4th April 2008 which stipulates the methodology to be used for calculating minimum prices for licence auctions; and the list of fauna species permitted for use and rules for their taking, terms and permitted methods (No. 512 of December 2005).

¹¹ The bidders submit blind offers that exceed the minimum price set by the government.

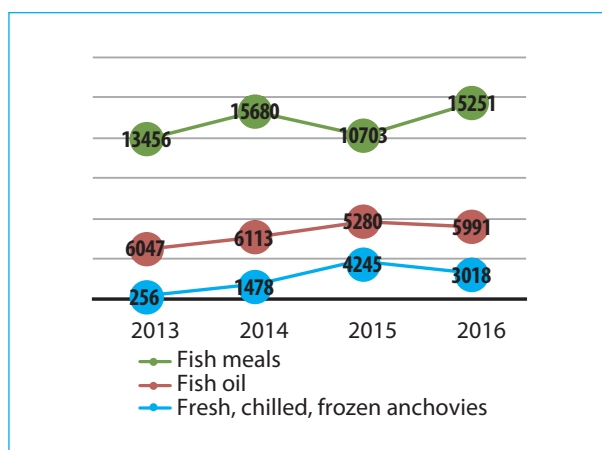
¹² TAC quotas are set by MENR guided by the Law "On the Red List and the Red Book" of 2003 and subsequent amendments. The quotas are based on the scientific advice of the Black Sea Institute. License holders should obtain the NFA's approval of their fish catch at the beginning of the fishing season. Fishing is strictly prohibited in Kakheti National Park's marine section, the marine area near the river mouths (populated by sturgeon/salmon) and the Supsa oil terminal's operating zone and port water areas.

In 2017, fishing and fish farming activities were the domain of 122 registered enterprises,¹³ which operated alongside artisanal fishers. The latter were stationed along the Georgian Black Sea coast; operated in small groups (3-6 persons per group); and used traditional fishing gears (trammel nets, gill nets, long lines, beach seines, casts nets, fish traps) and small (7-meter-long) boats. Several enterprises engaged in fishing and processing activities have their own vessels (seiners that use a combination of purse seine and bottom trawls for capturing anchovy), and do not intend to purchase additional vessels. The anchovy-fishing season is rather short (5 months from mid-November until mid-April), so that investing in vessel fleets is unnecessary. Rather Georgian enterprises opt for renting vessels of higher capacity, particularly Turkish vessels.

Driving the industry are the anchovy-processing enterprises, 43 predominantly small enterprises in 2016,¹⁴ with around 85 per cent of the total fish catch processed into fishmeal and fish oil for non-human consumption.¹⁵ Available statistics show that Georgia is yet to fully exploit the existing opportunities for developing the fishing industry. Only 11 per cent of the fish catch is sold abroad, mainly in the form of fishmeal, with frozen fish lagging behind (figure A2.1). The industry's contribution to exports is modest, ranging between USD 20 and USD 21 million since 2013 (Figures A2.2). The target markets are also limited, with Turkey constituting the main outlet followed by Armenia and Ukraine.¹⁶

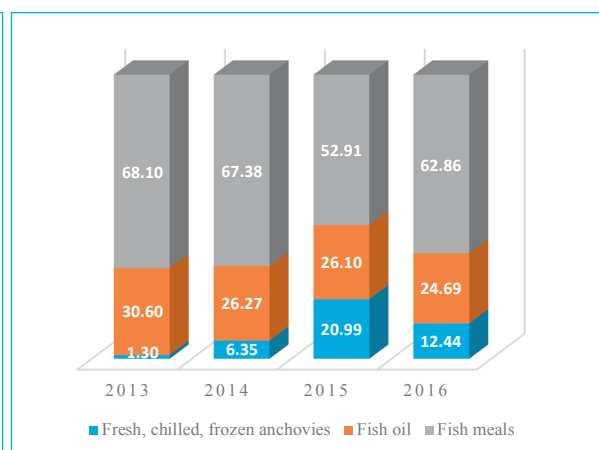
The industry's export performance record can be explained by the market access conditions facing enterprises. Until recently, Georgian enterprises were not accredited to export fish to the EU, leaving only non-EU countries as potential outlets. The interviewed enterprises explained that they were dependent on a few buyers, with whom they have established relations of trust over several years. This dependency meant that they have limited room for negotiating better prices.

Figure A2.1 Georgia's fish exports (2013-2016, in USD thousands)



Source: Geostat

Figure A2.2 Georgia's fish exports by product (% of total fish exports)



Source: Geostat

¹³ According to GeoStat, there were 384 registered enterprises involved in fishing and fish farming activities in December 2017, of which only 122 were active. Updated statistics are available at: http://www.geostat.ge/index.php?action=page&p_id=233&lang=eng.

¹⁴ The number of small sized enterprises was 36. The number of medium and large enterprises was 3 and 4, respectively. Ministry of Agriculture Annual Report (2016).

¹⁵ According to the MENR most recent statistics (2014).

¹⁶ The Russian Federation constituted the main export market for the industry until 2008, which saw the establishment of a Free Trade Agreement with Turkey.

This situation was reversed in 2017, following the inclusion of Georgia in the list of third countries allowed to export fish and fish products to the EU market.¹⁷ The improved market access conditions fuelled much optimism in the industry. The selected companies reviewed in this BPA were no exception. They were all determined to establish themselves in the EU market, particularly frozen anchovies.

The path towards establishing such a presence is fraught with challenges, however. Georgia has to compete with the major anchovy catchers in the black sea; all of which were listed for exporting fish and fish products to the EU during 2017. The Turkish fishing industry, which takes 77 per cent of the Black Sea region's catch (measured in terms of volume) and constitutes the fourth largest fishing country for anchovies in the world, was granted access to the EU in November 2017. Ukraine, which ranks second after Turkey (with an 11 per cent share of the region's total catch) was granted access to the EU in October 2017, while the Russian Federation, which ranks fourth (5 per cent of the region's catch) was granted access in December 2017.¹⁸

It is against this background that the BPA was conducted, with a view to ascertain the impact of the applied regulatory and procedural measures on the export potential of frozen anchovies.

A2.2 Scope of the business process analysis

The analysis maps the day-to-day activities typically undertaken by exporters of frozen anchovies against the core buy-ship-pay business processes, taking into account existing legislation and based on the following assumptions:

- Frozen anchovies are exported to Ukraine and the EU. The selected companies are listed for exporting fish and fish products to the EU.
- Exporter sells to established buyers, who are familiar with his products.
- Frozen anchovies are transported by truck (the only transport mode used for exporting to Ukraine and the EU markets).
- Frozen anchovies are delivered under "Carriage Paid To" (CPT) terms.¹⁹
- The payment is made through wire transfer (trade financial instruments, such as letter of credits, bank guarantees are not used).
- The organisation of transport is undertaken by a freight forwarder company.
- Exporter handles customs clearance.

¹⁷ Georgia was added to the list of Third Countries allowed to export fish and fish products to the EU on 31 August 2017 (https://webgate.ec.europa.eu/sanco/traces/output/non_eu_listsPerCountry_en.htm#).

¹⁸ Georgia ranks third with a 6 per cent share of the region's total catch. The remaining countries, Bulgaria and Romania, have modest shares and are not listed for exporting fish and fish products to the EU. Statistics on fish catch is for 2010. See FAO GFCM Capture Production database at: (<http://www.fao.org/fishery/statistics/gfcm-captureproduction/en>).

¹⁹ Under CPT terms, the seller delivers the goods to a carrier or to another person nominated by the seller, at an agreed upon place, and that the seller pays the freight charges to transport the goods to the specified destination. This means that the risk of damage or loss to the goods being transported is assumed by buyer once the goods are delivered to the carrier.

A3. Core business processes

As shown in table A3.1, exporting frozen anchovies from Georgia involves 7 core business processes and 10 participants.

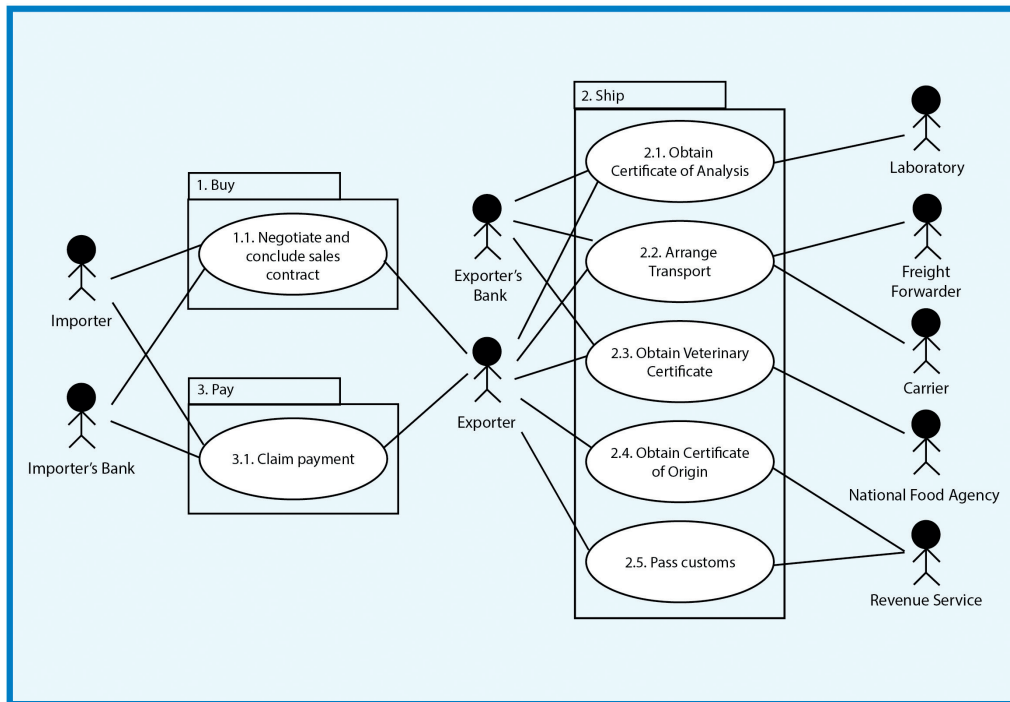
Table A3.1 Core business processes and stakeholders involved in exporting frozen anchovies

Core business process	Party									
	Exporter	Exporter's Bank	Importer	Importer's Bank	Laboratory	National Food Agency	Freight Forwarder	Carrier	Revenue Service	CCI ²⁰
1. Buy										
1.1. Negotiate and Conclude Sales Contract	x		x	x						
2. Ship										
2.1. Obtain Certificate of Analysis	x	x			x					
2.2. Arrange Transport	x						x	x		
2.3. Obtain Veterinary Certificate	x	x				x				
2.4. Obtain Certificate of Origin	x								x	x
2.5. Pass Customs	x								x	
3. Pay										
3.1. Claim payment	x		x	x						

The core business processes are mapped in a use case diagram in figure A3.1, followed by a detailed analysis of each process.

²⁰ Chamber of Commerce and Industry.

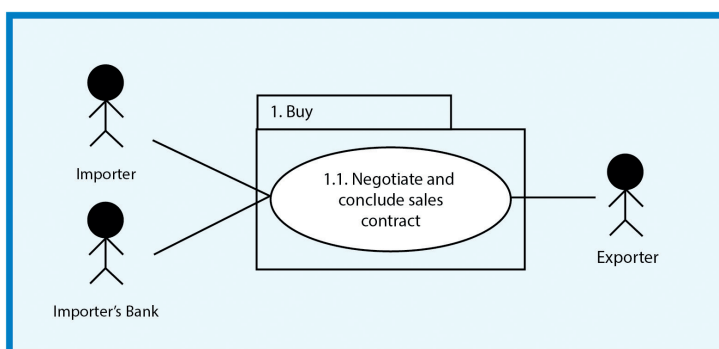
Figure A3.1 Exporting frozen anchovies from Georgia: Use case diagram



A3.1 BUY

Core business process area 1.1: Negotiate and conclude the sales contract

Figure A3.2 Negotiate and conclude sales contract: Use case diagram

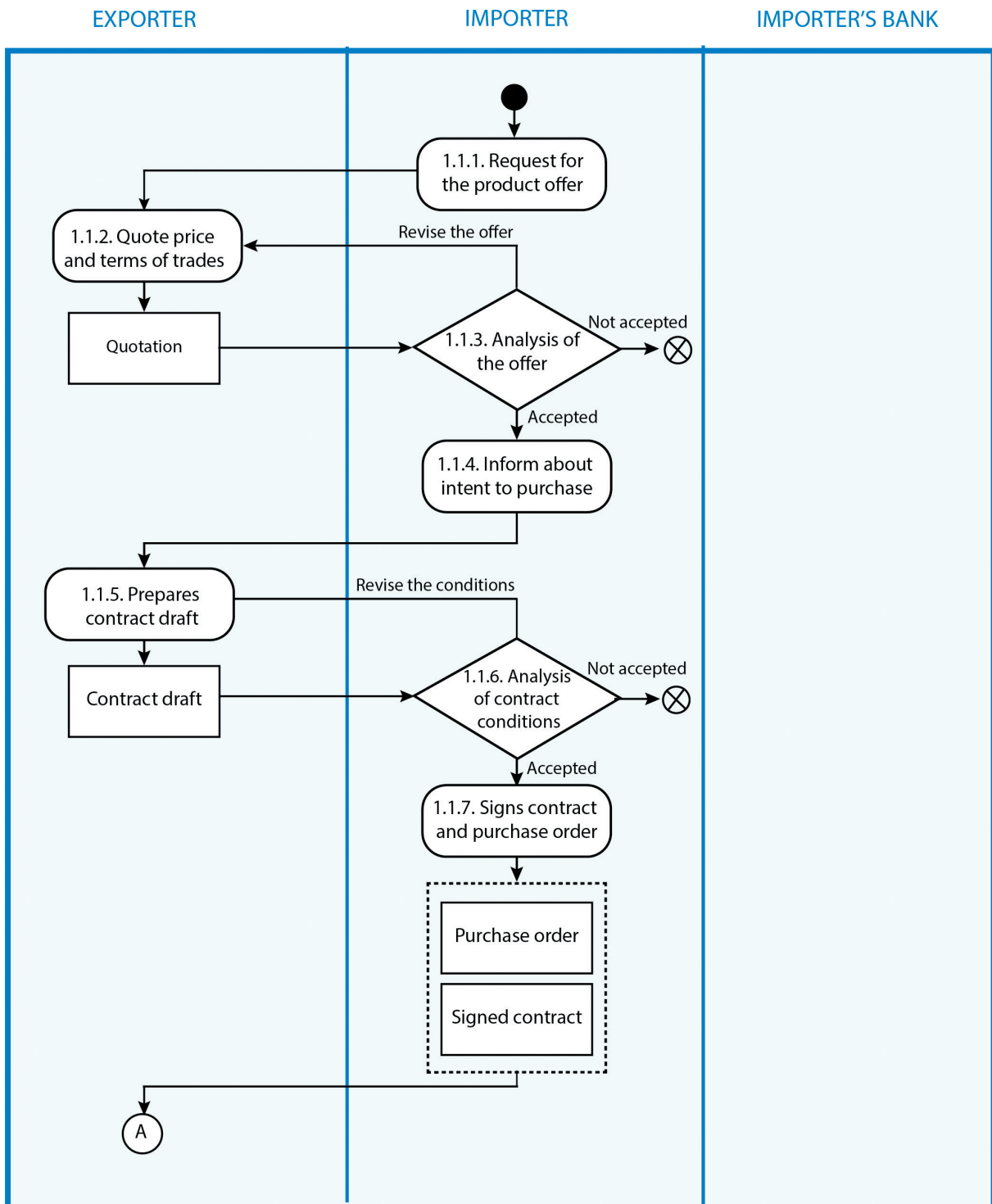


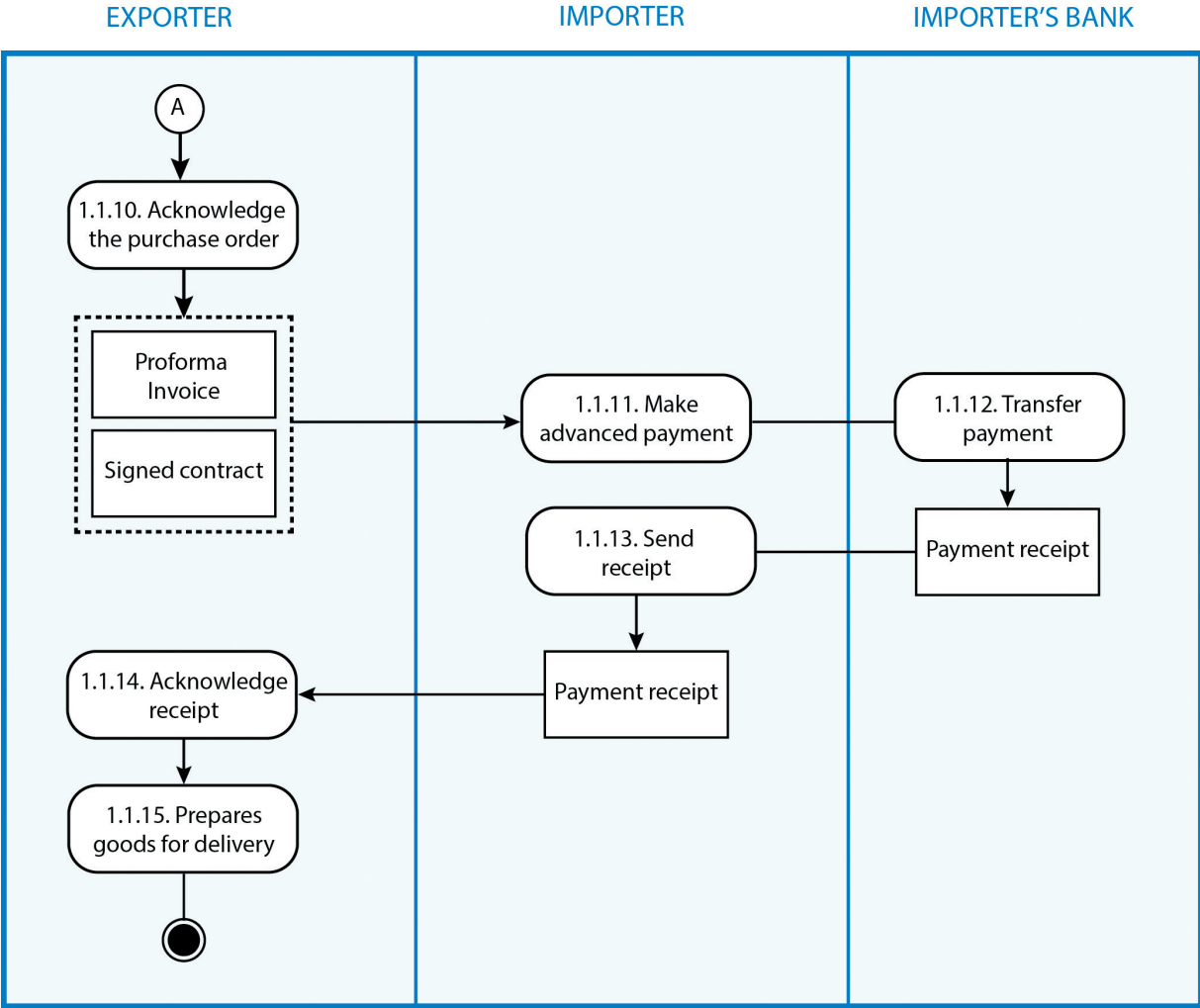
As shown in figure A3.2, the negotiations over the sales contract involve:

- Importer
- Exporter
- Importer's bank

The procedures involve providing a detailed quotation at the request of the importer, which is followed by negotiations (over the phone and via email) over the price and the terms of the sale. Once the contract is signed the importer makes an advance payment, and the entire process takes between 3 and 5 working days to complete owing to the well-established relations of trust between the seller and his buyer. Finding new buyers is a lengthy, time-consuming process, with the selected enterprises noting that selling to new customers is the exception rather than the rule. Figure A3.3 maps the activities associated with negotiating and concluding the sales contract.

Figure A3.3 Negotiate and conclude the sales contract: Activity diagram

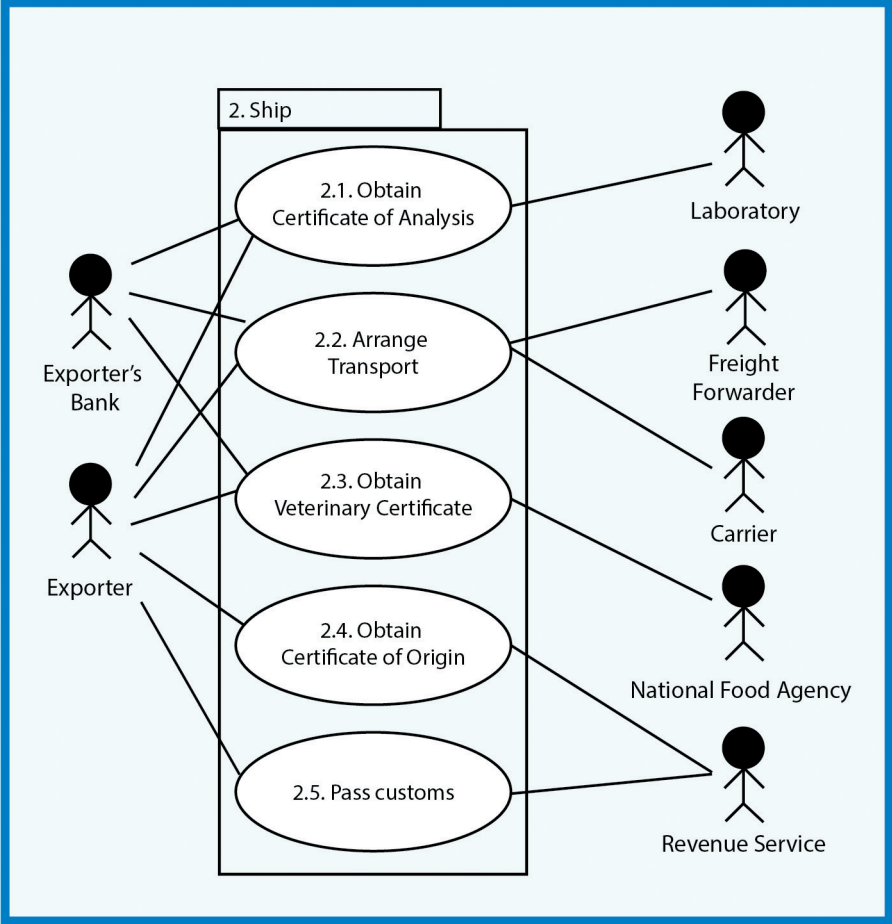




Name of process area	1. Buy
Name of Business process	1.1. Negotiating and concluding sales contract and buying terms
Process participants	<ul style="list-style-type: none"> ● Exporter ● Importer ● Importer's bank
Related laws, rules, and regulations	<ul style="list-style-type: none"> ● Incoterms 2010 ● Civil Code of Georgia ● Code of Food/Feed Safety, Veterinary and Plant Protection of Georgia
Input and criteria to enter/begin the business process	<ul style="list-style-type: none"> ● Exporter has a valid license to process fish ● Exporter is included in the list of authorised establishments for exporting fish and fish products to the EU. ● Exporter meets the eligibility criteria of the importer.
Activities and associated documentary requirements	<p>1.1.1. The importer contacts the exporter to inquire about fish products.</p> <p>1.1.2. The Exporter prepares a quotation detailing the terms of sale and price and submits to the importer by email.</p> <p>1.1.3. The Importer reviews the quotation and either accepts, rejects or revises its terms.</p> <p>1.1.4. If quotation is accepted, the importer confirms intent to purchase.</p> <p>1.1.5. The Exporter acknowledges the intent to purchase and prepares a draft Sales Contract.</p> <p>1.1.6. The Importer reviews the Sales Contract and either accepts, rejects or revise its terms.</p> <p>1.1.7. If draft Sales Contract is accepted, the Importer signs it and issues a purchase order for a single or multiple shipments.</p> <p>1.1.8. The Exporter acknowledges the purchase order and issues the Performa Invoice. The Exporter also co-signs the contract and submits to the Importer.</p> <p>1.1.9. The Importer receives the Performa Invoice and makes the advanced payment for the total value of the agreed upon price (or for only a percentage of that price as a security deposit).</p> <p>1.1.10. The Importer's Bank issues the payment receipt.</p> <p>1.1.11. The Importer sends the payment receipt</p> <p>1.1.12. The Exporter acknowledges the advanced payment.</p> <p>1.1.13. The Exporter starts preparing the goods for delivery.</p>
Output criteria to exit the business process	<ul style="list-style-type: none"> ● Importer and exporter have concluded the sales contract. ● Importer received the payment or security deposit.
Costs and resources	None
Average time required to complete the business process	3-5 days

A3.2 SHIP

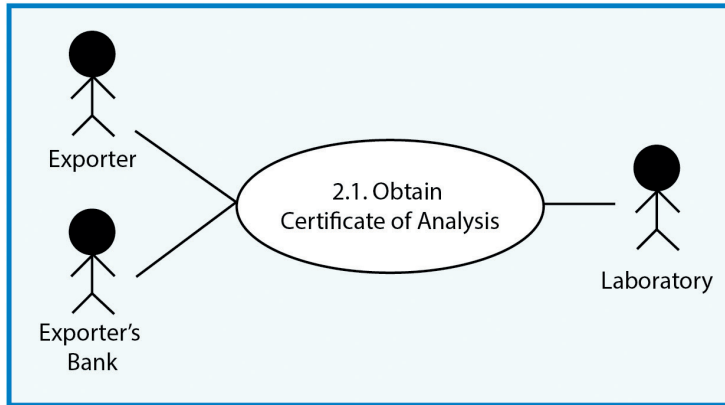
Figure A3.4 Ship: Use case diagram



As shown in figure A3.4, the ship process area involves five activities, which are associated with organising for the transport of the goods and fulfilling the regulatory requirements for exporting the frozen anchovies from Georgia.

Core business process area 2.1: Obtain Certificate of Analysis

Figure A3.5 Obtain certificate of analysis: Use case diagram



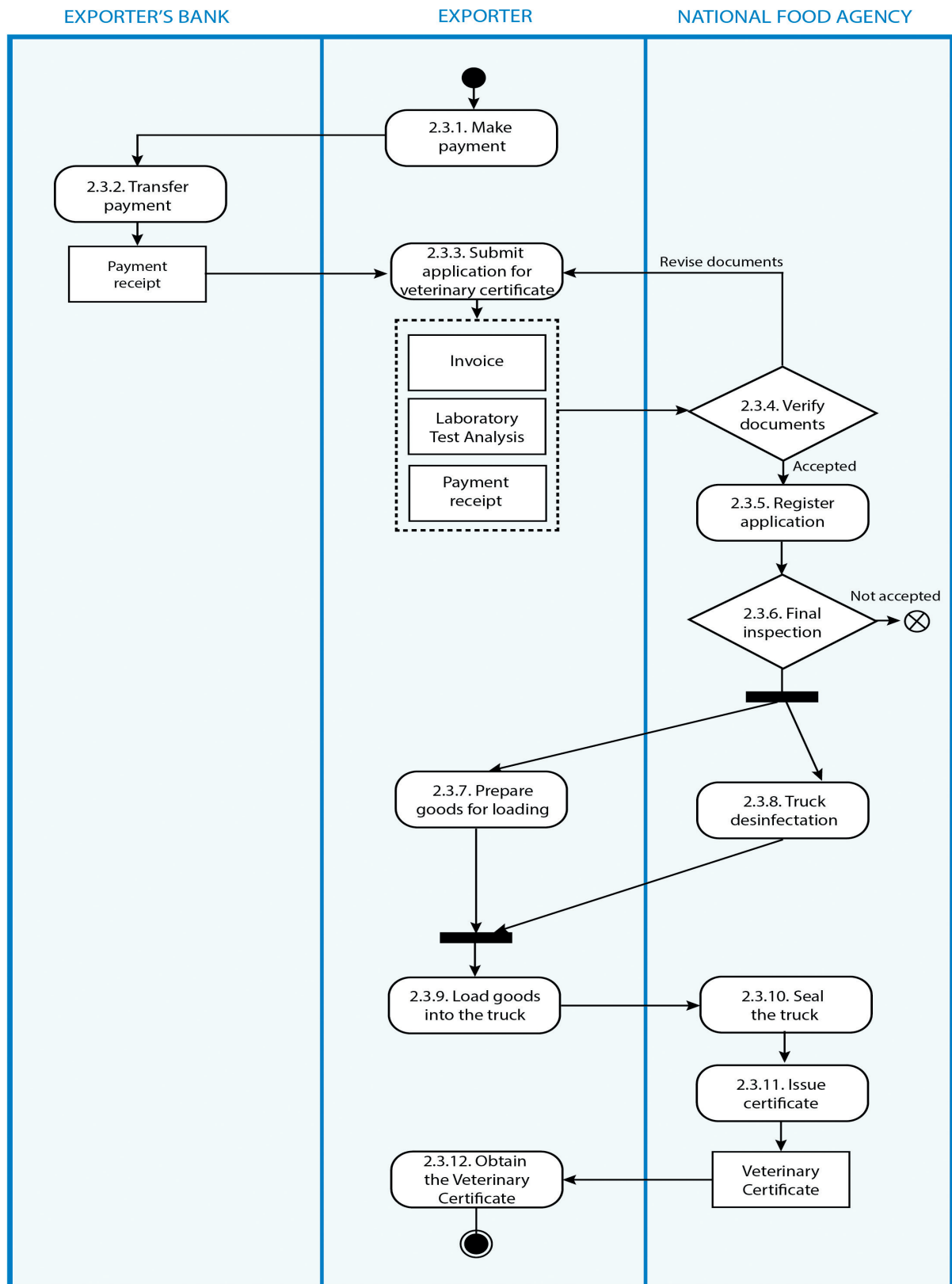
As shown in figure A3.5, obtaining the laboratory test results involves:

- Exporter
- Exporter's Bank
- Testing Laboratory

Once the products are ready for shipment, the exporter applies for obtaining a certificate of analysis (laboratory test results), which is needed for getting the veterinary certificate. As shown in figure A3.6, the exporter contacts the testing laboratory with a request and pays the associated fees. An inspector from the NFA visits the exporter's processing facility and collects samples from the lots destined for export, fills the sampling form and dispatches the samples to the laboratory in a fridge box that is sealed in the presence of the exporter.²¹ The laboratory test results are released within 5 to 7 working days, which the exporters find as too long a waiting time. This waiting time, argued the enterprises, could be reduced if the Government establishes a testing laboratory for chemical and microbiological analysis in Poti. In 2017, the samples were dispatched to Tbilisi, which is 236 kilometers away from Poti.

²¹ The processing companies are inspected once a year by the NFA. The companies are given an entire year (i.e., until the following annual inspection) to address areas of non-compliance.

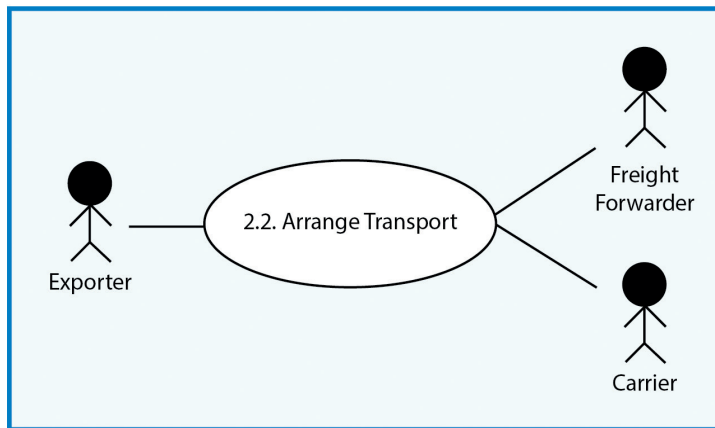
Figure A3.6 Obtain certificate of analysis: Activity diagram



Name of process area	2. Ship
Name of Business process	2.1. Obtain Certificate of Analysis
Process participants	<ul style="list-style-type: none"> ● Exporter ● Exporter's Bank ● Testing Laboratory
Related laws, rules, and regulations	<ul style="list-style-type: none"> ● Code of Food/Feed Safety, Veterinary and Plant Protection of Georgia ● Government Decree No 55 of 12 February 2015 "Special Rule for the Implementation of Official Control on Food of Animal Origin" ● Order No 301 of 16 August 2001 "On the Safety and Quality of Food and Food Raw Material". ● Decree No 90 of 7 March 2012 "On Specific Hygiene Rules for Food of Animal Origin". ● Government Decree No 567 of 9 November 2015 on "Technical Regulations on Maximum Permissible Levels of Some Contaminants in the Food". ● Government Decree No 581 of 10 November 2015 on the "Approval of technical regulations for the Food Microbiological Criteria". ● Government Decree No 499 of November 8, 2016, "On approval of the rule concerning the performance of analytical methods and the interpretation of results for investigating certain substances and residues thereof in live animals and in food of animal origin" ● Government of Georgia's Decree o 547 of December 13, 2016 "On Approval of Technical Regulation about Sample-taking and Analysis Methods for Control of Quantity of Micro-elements and Contaminants in Food Products".
Input and criteria to enter/begin the business process	<ul style="list-style-type: none"> ● The Sales Contract has been signed ● The Exporter has already prepared the batches of frozen anchovies for export. ● The products are properly packed.
Activities and associated documentary requirements	<p>2.1.1. The Exporter contacts the Testing Laboratory and submits request for sampling and laboratory test analysis.</p> <p>2.1.2. The Laboratory confirms receipt of the request, determines the fees (calculated depending on the product and types of analysis to be carried out) and provides the Exporter with pro forma invoice and services contract.</p> <p>2.1.3. The Exporter makes the payment by bank transfer.</p> <p>2.1.4. The Exporter's bank issues the payment receipt.</p> <p>2.1.5. The Exporter sends the payment receipt to the Laboratory.</p> <p>2.1.6. The Inspector visits the Exporter's processing facility, collects samples from batches destined for export and stores them in a frozen box that is sealed in the presence of the exporter.</p> <p>2.1.7. The Laboratory carries out the analysis.</p> <p>2.1.8. The Laboratory provides the Exporting with the test results.</p> <p>2.1.9. The Exporter receives Laboratory Test Report</p>
Output criteria to exit the business process	<ul style="list-style-type: none"> ● Exporter receives the Laboratory Test Results.
Costs and resources	285-330 Georgian Lari (GEL)
Average time required to complete the business process	5-7 days

Core business process area 2.2: Arrange Transport

Figure A3.7 Arrange transport: Use case diagram



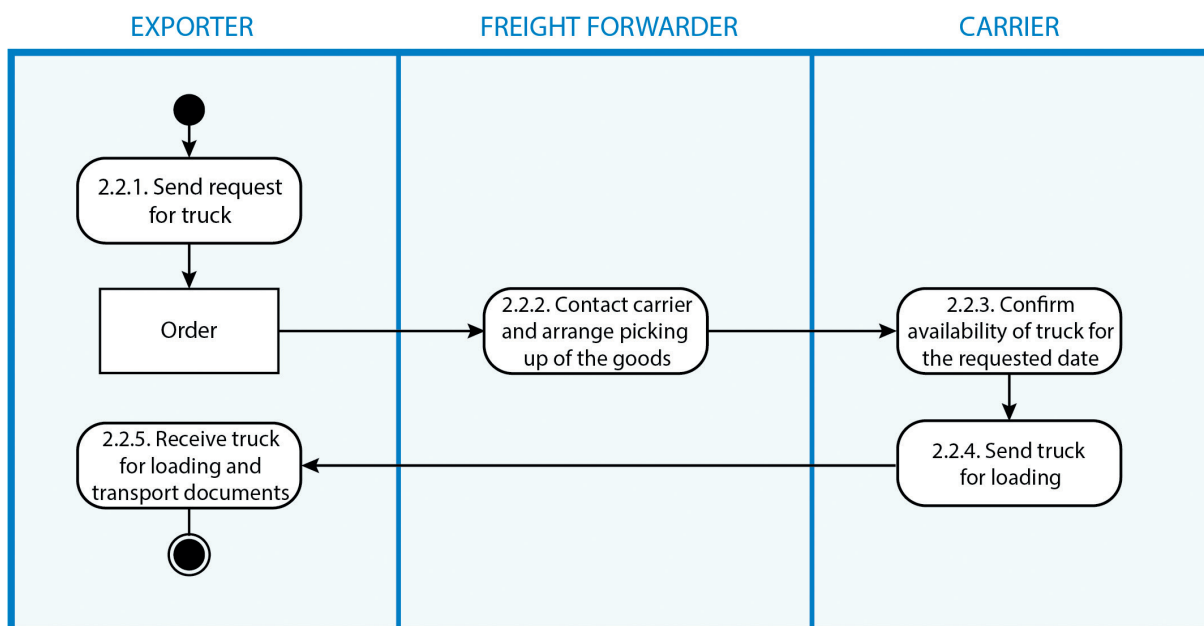
As shown in figure A3.7, arranging transport involves:

- Exporter
- Freight Forwarder
- Carrier

The Exporter uses the services of a freight forwarding company, which organizes contracts with the carrier and arranges the insurance of the transported goods. The selected companies have establishing working relations with freight forwarders, and contacts them during the early stages of the business process for obtaining the certificate of analysis. Once the certificate is obtained, the exporter provides the freight forwarder with detailed information on the product description, quantities, designated export market and transport requirements. The traders do request the forwarders to provide them with an offer. The prices are well known for the traders, who have been working with the same forwarders for decades. This has meant well established relations of trust that speeds up this business process. The forwarders have to only confirm the availability of the transport modes at the given dates specified by the traders, and receive the payment upon delivery of the services.

Frozen anchovies are transported by refrigerated trucks. Once the truck has been secured, the forwarder loads the goods in a process that takes a maximum of 2 working days to complete when there is a shortage of refrigerated trucks (specifically empty trucks heading back to Turkey or Ukraine). Refrigerated trucks are also used for exporting to Ukraine. The trucks are transported by ferry boats from the ports of Poti or Batumi to the Ukrainian port of Chornomorsk. Figure A3.8 maps the activities associated with arranging transport.

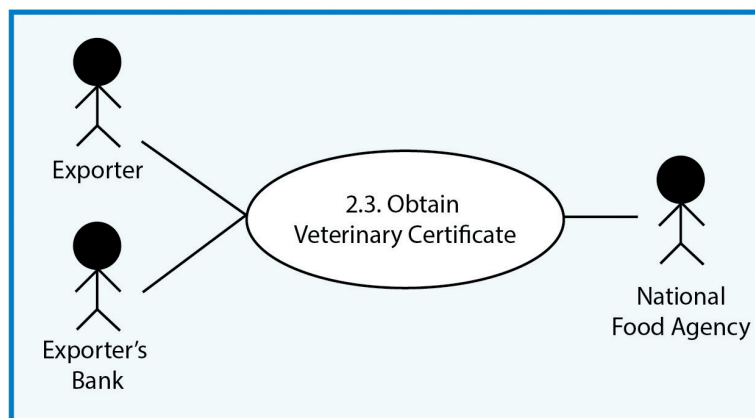
Figure A3.8 Arrange transport: Activity diagram



Name of process area	2. Ship
Name of Business process	2.2. Arrange transport
Process participants	<ul style="list-style-type: none"> • Exporter • Freight forwarder • Carrier
Related laws, rules, and regulations	<ul style="list-style-type: none"> • Law on Traffic • CMR Convention
Input and criteria to enter/begin the business process	<ul style="list-style-type: none"> • The contract with freight forwarder is in place • Certificate of Analysis has been obtained
Activities and associated documentary requirements	<p>2.1.1. Exporter requests the freight forwarder to organize the transport of the goods to final destination, and provides detailed information on the goods, delivery dates and the Buyer’s company information.</p> <p>2.2.2. Freight Forwarder contacts carriers and organize for loading the goods at Exporter’s facilities.</p> <p>2.2.3. Carrier confirms availability of the trucks for the designated date.</p> <p>2.2.4. Carrier sends the trucks to the Exporter’s warehouse for loading.</p> <p>2.2.5. During the loading of goods, the freight forwarder completes the necessary transport documents, including the bill of lading, CMR and the packing list.</p>
Output criteria to exit the business process	<ul style="list-style-type: none"> • The truck is dispatched to the exporter’s facilities • Transport documents have been obtained and are in order.
Costs and resources	1800-2000 USD
Average time required to complete the business process	2 days

Core business process area 2.3: Obtain Veterinary Certificate

Figure A3.9 Obtain veterinary certificate: Use case diagram



As shown in figure A3.9, obtaining the veterinary certificate involves:

- Exporter
- Exporter's Bank
- National Food Agency

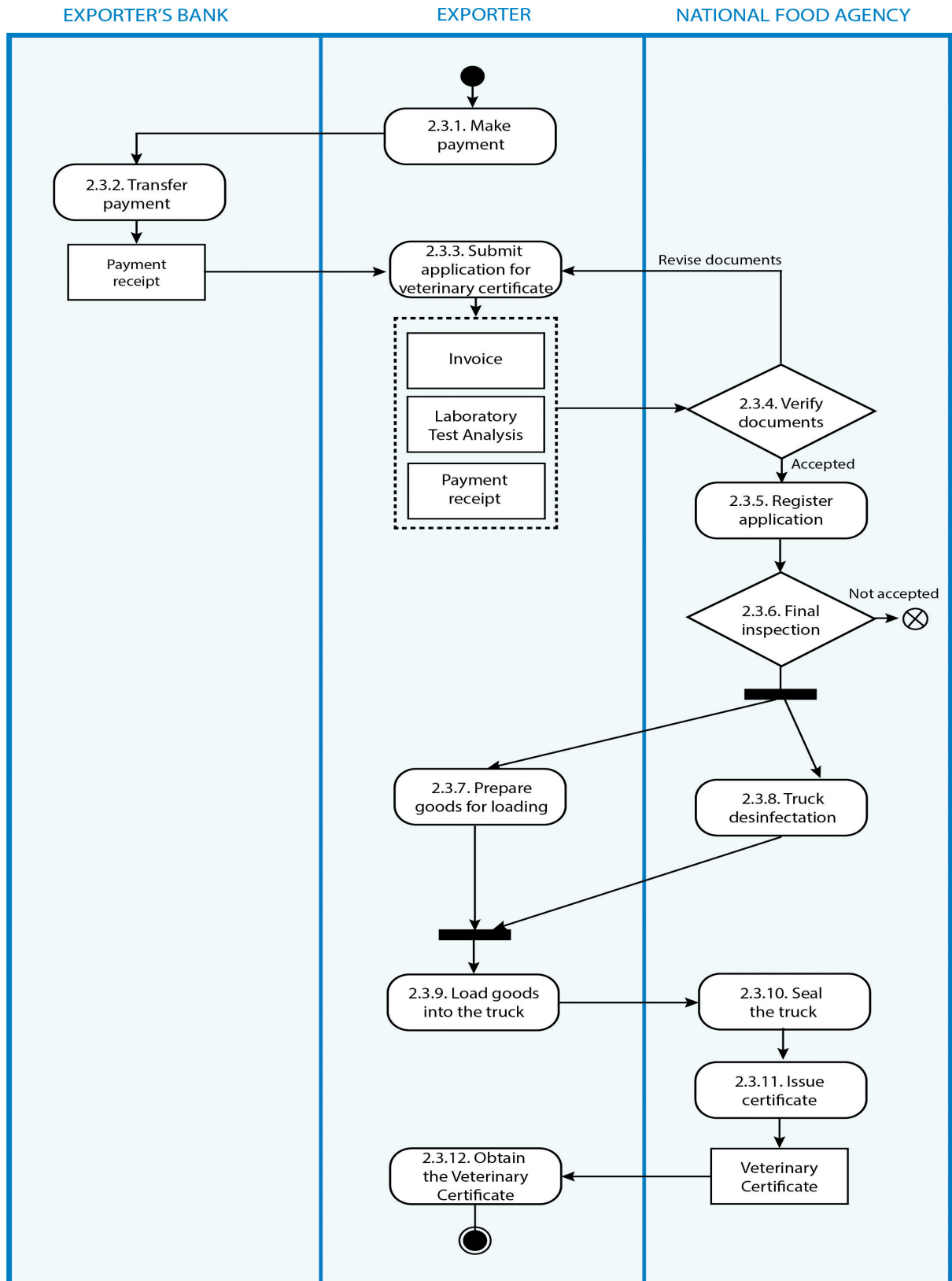
The exporter submits a request for obtaining a veterinary certificate from the National Food Agency (NFA) under the Ministry of Environment Protection and Agriculture,²² and attaches copies of the commercial invoice, certificate of analysis and the payment receipt. The traders pay total amount of fees and attaches the payment receipt to the request as part of the documentary requirements, since the fees are standardized and are well known to traders. The fees are doubled if the trader submits the request during weekend. In this case, the trader usually alerts the NFA in advance by phone (traders are not obliged to alert the NFA by phone; they do that on their own initiative).

NFA inspector visits the exporter's facilities to control the fish lots and supervises the loading process. Once loaded, the trucks are sealed.²³ If discrepancies are found between the products and the documents, the exporter is requested to address them. Once the process is completed, the Exporter receives the veterinary certificate. The entire process takes half a day.

²² NFA is responsible for issuing the veterinary certificate. In addition, according to the Government decree No 430 this certificate may also be issued in customs control zone by Revenue Service.

²³ Trucks should be disinfected. Disinfection is done by private bodies. NFA requests disinfection document prior to loading and issuing certificate.

Figure A3.10 Obtain Veterinary Certificate activity diagram

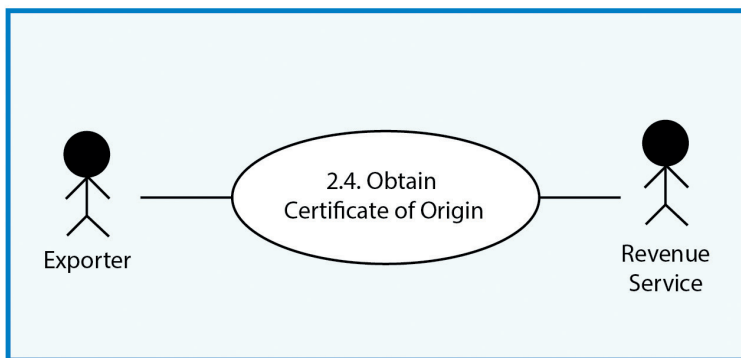


Name of process area	2. Ship
Name of Business process	2.3. Obtain Veterinary Certificate
Process participants	<ul style="list-style-type: none"> • Exporter • Exporter's Bank • NFA
Related laws, rules, and regulations	<ul style="list-style-type: none"> • Decree No 430 of 31 December 2010 on "Issuance of Veterinary Certificates for Export of Animals, Animal Materials and Products". • Government Decree No 55 of 12 February 2015 "Special Rule for the Implementation of Official Control on Food of Animal Origin" • Code of Food/Feed Safety, Veterinary and Plant Protection of Georgia • Decree No 173 of 25 June 2010 "On General Hygiene Rules for Food/Feed Producers/Distributors" and subsequent amendments • Government Decree No 577 of 10 November 2015 on "General Principles and Requirements of Traceability in Food/Feed Safety, Veterinary and Plant Protection" • Order No 301 of 16 August 2001 "On the Safety and Quality of Food and Food Raw Material". • Decree No 90 of 7 March 2012 "On Specific Hygiene Rules for Food of Animal Origin".
Input and criteria to enter/begin the business process	<ul style="list-style-type: none"> • The Exporter has received the Certificate of Analysis.
Activities and associated documentary requirements	<p>2.3.1. The Exporter pays the veterinary certification by bank transfer.</p> <p>2.3.2. The Exporter's bank issues the payment receipt.</p> <p>2.3.3. The Exporter submits the application form to the local office of the National Food Agency with the support documents.</p> <ul style="list-style-type: none"> • Commercial Invoice. • Certificate of analysis. • Payment receipt (fees associated with obtaining the veterinary certificate). <p>2.3.4. The NFA local office registers and reviews the submitted application and documentary requirements determines if the documents are in order. The exporter is requested to resubmit documents that do not fulfil the regulatory and procedural requirements and/or provide missing support documents.</p> <p>2.3.5. If documents are in order, the NFA inspector visits the Exporter's premises and inspects the batches destined for export, so as to ensure that the batch corresponds with the information provided in the support documents. He also inspects the facilities and the refrigerated trucks.</p> <p>2.3.7. If all is in order, the exporter starts preparing the goods for loading.</p> <p>2.3.8. The goods are loaded onto the truck.</p> <p>2.3.9. Once the goods are loaded, the Inspector seals the truck.</p> <p>2.3.10. The Inspector fills in the required information, sign and stamp the veterinary certificate that accompanies the products.</p> <p>2.3.11. Exporter Receives the Veterinary Certificate. The exporter is provided with one original certificate and one copy.</p>

Name of process area	2. Ship
Output criteria to exit the business process	<ul style="list-style-type: none"> • Exporter receives the Veterinary Certificate. • The trucks are ready for shipment to Customs Clearance Zones.
Costs and resources	<ul style="list-style-type: none"> • Veterinary certificate – GEL 50 - 100 - 200 • Truck disinfection – GEL 80 (if disinfection is carried out by a designated company)
Average time required to complete the business process	0.5 days (4 hours)

Core business process area 2.3: Obtain movement certificate EUR 1

Figure A3.11 Obtain Certificate of Origin use case diagram

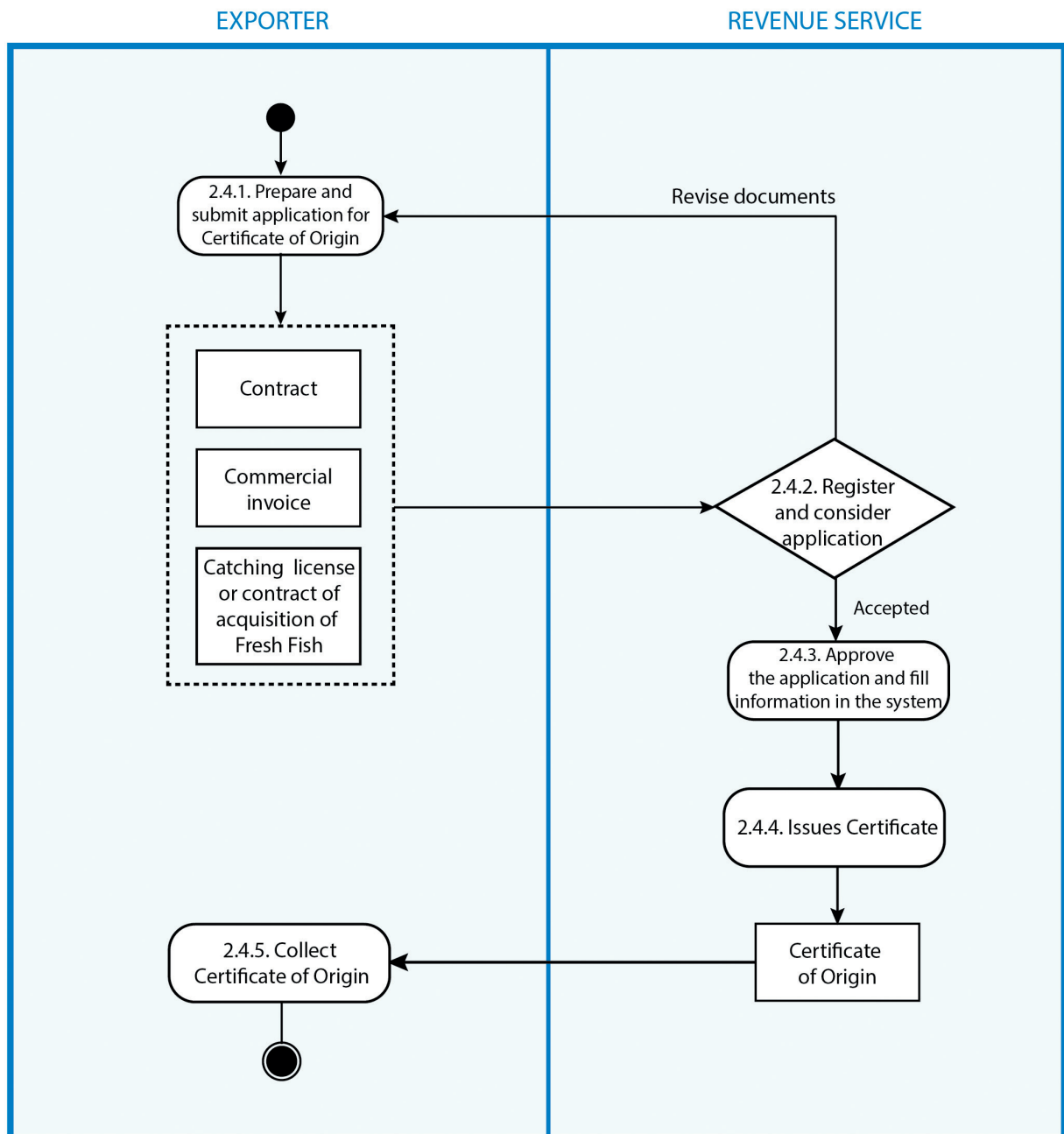


As shown in figure A3.11, obtaining the certificate of origin (CoO) involves:

- Exporter
- Revenue Service

To obtain certificate of origin, the Exporter visits the customs clearing zone, or tax service centre or customs department of Revenue Service, Ministry of Finance in person or the application may be submitted electronically, and submits the application form along with the support documents. A Customs officer checks the documents and issues the CoO in paper form. The process takes around 15 minutes.

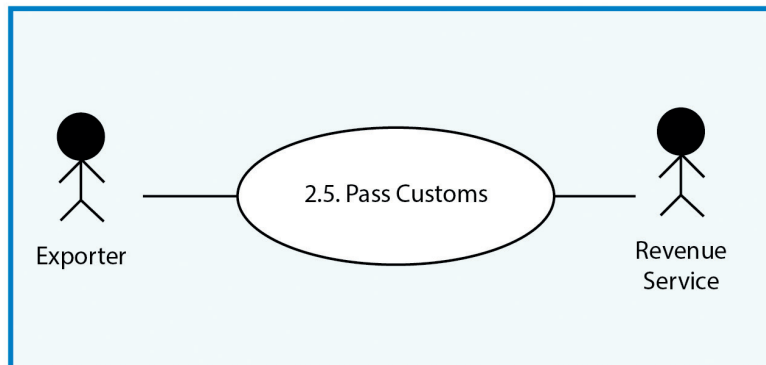
Figure A3.12 Obtain Certificate of Origin activity diagram



Name of process area	2. Ship
Name of Business process	2.4. Obtain Certificate of Origin
Process participants	<ul style="list-style-type: none"> • Exporter • Revenue Service
Related laws, rules, and regulations	Decree No 420, 29 December 2010 on criteria for determining countries of origin, forms of certificates of origin, and ways to filling and issuing them. Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part Protocol I Concerning the definition of the concept of 'Originating products' and methods of administrative cooperation.
Input and criteria to enter/ begin the business process	The goods have arrived at the Customs Clearance Zone (Poti)
Activities and associated documentary requirements	<p>2.4.1. The Exporter prepares and submits (electronically via website) the application for certificate of origin to the customs clearing zone, or tax service centre or customs department of the Revenue Service with all relevant documents.</p> <ul style="list-style-type: none"> • Declaration of origin • Commercial Invoice. • Contract <p>Fishing license or contract for the acquisition of fresh fish from holders of such a license</p> <p>2.4.2. The Revenues Service office reviews submitted application and support documents.</p> <p>2.4.3. If the documents are in order, the Revenue Service approves the application and lodges information into the system.</p> <p>2.4.4. The Revenue Services Issues Certificate of Origin.</p> <p>2.4.5. The Exporter collects Certificate of Origin from Revenue service.</p>
Output criteria to exit the business process	<ul style="list-style-type: none"> • Exporter receives the Certificate of Origin.
Costs and resources	Zero
Average time required to complete the business process	0.1 days (15 minutes)

Core business process area 2.4: Pass Customs

Figure A3.13 Customs Clearance use case diagram



As shown in figure A3.13, customs clearance involves:

- Exporter
- Revenue Service

The clearance process begins with the truck movement to the Customs²⁴ clearance zone and the trader obtains the customs declaration as part of the clearance process. The customs declaration form can be filled out online by the exporter, the representative or Revenue Service officer.²⁵ The Exporter provides the required documents (contract, commercial invoice, veterinary certificate, CMR) to the Customs Department officer. The officer generates the customs clearance in electronic and in hard copy.

²⁴ It is not mandatory to move the truck to the customs clearance zone

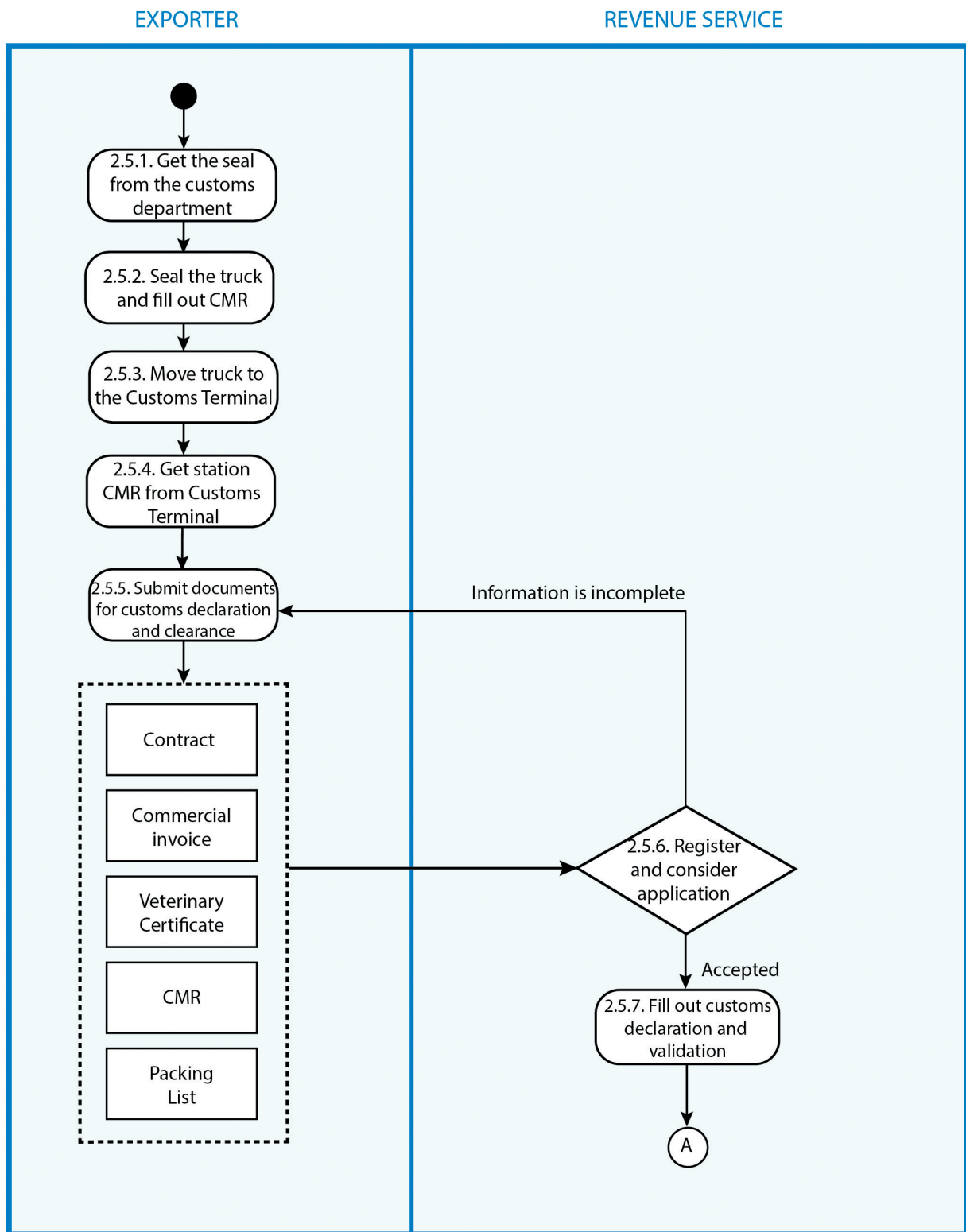
²⁵ According to article 22, Order No 290 of the Minister of Finance of Georgia Customs declaration can be filled by:

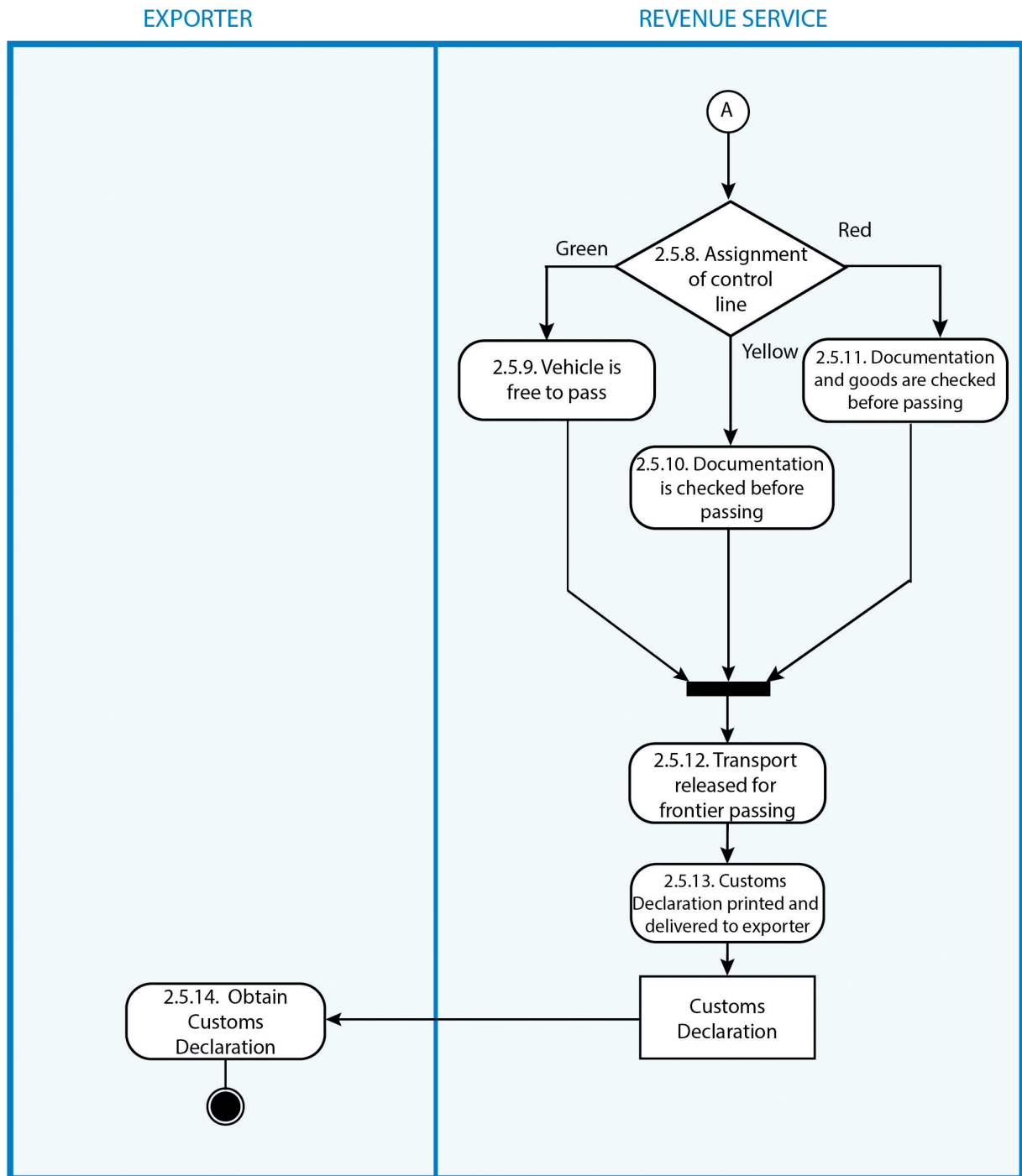
1. Customs officer of the Revenue Service;
2. Importer/exporter or representative if having access to ASYCUDA and/or "ORACLE"

Owner of customs warehouse permit, as the representative of goods located at the same warehouse.

As explained by the Revenue Service, the declaration is filled in customs clearance zone (74 per cent of total submitted customs declarations on an annual basis) on the basis of documents submitted by declarant official; the fee is GEL 400. Thus there is no need to hire Customs Broker and pay additional fees. Declarations filled by customs warehouse representative is only 9 per cent, additional 17 per cent is distance declaration, filled by company employer from workplace (export is free of charge while customs import declaration administrative fee is GEL 300). Thus, even if declarations filled by customs warehouse representatives (i.e. 9%) will be considered as "broker" service it is less than 20% and according to DB methodology should not be considered as usual practice. Otherwise there is no practice and evidence of broker service.

Figure A3.14 Pass Customs activity diagram



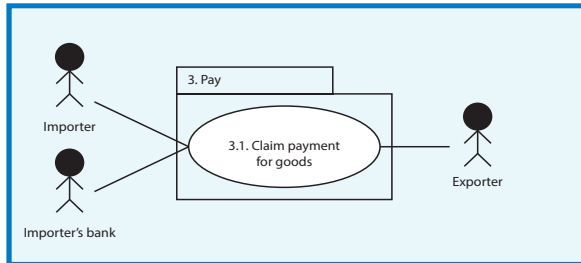


Name of process area	2. Ship
Name of Business process	2.5. Customs clearance
Process participants	<ul style="list-style-type: none"> ● Exporter ● Customs office
Related laws, rules, and regulations	<ul style="list-style-type: none"> ● Ministry of Finance Decree No. 290 dated 26 July 2012 ● Ministry of Finance Decree No. 994 on conducting ongoing control procedures. inventory write-off, enforcement of tax debt payment, dated 31 December 2010 ● Ministry of Finance Decision on “Movement and clearance of goods in the Customs Territory of Georgia”, dated 26 July 2012 ● Government Decree No.429“Rule of Implementation of Phytosanitary Border-Quarantine and Veterinary Border-Quarantine Control”, dated 31 December 2010 ● Code of Ethics of the employees of the Customs Department of the Revenue Service
Input and criteria to enter/begin the business process	Goods have arrived at the customs terminal
Activities and associated documentary requirements	<p>2.5.1. Goods have arrived to the CCZ.</p> <p>2.5.2. Declarant submits documentary requirements (in hard copies) at a CCZ service counter:</p> <ul style="list-style-type: none"> ● Commercial Invoice. ● Contract. ● Veterinary Certificate. ● Transport document (CMR and TIR carnet if needed) ● Certificate of Origin (if required by buyer) <p>2.5.3. Declarant obtains a queue ticket.</p> <p>2.5.4. Customs officer prepares declaration using e-Customs ASYCUDA World.</p> <p>2.5.5. Risk management system assigns risk status.</p> <p>Depending on the results, the cargo is flagged as:</p> <ul style="list-style-type: none"> ● Green line, no control is required (about 94% during export clearance) ● Yellow line documentary check ● Red line documentary and physical examination <p>The Exporter informs the truck driver to move the goods to the designated area for physical inspection. The customs officer performs the physical inspection.</p> <p>2.5.6. The custom declaration is printed and delivered to the exporter.</p> <p>2.5.6. Release of goods at CCZ.</p> <p>2.5.7. If the documents are in order, the customs officer lodges the information into the system, which generates a registration number.</p> <p>2.5.8. The officer initiates the automated risk analysis. Depending on the results, the cargo is flagged as:</p> <p>Low risk: green line, no control is required Medium risk: yellow line High risk: red line</p> <p>2.5.9.1. Low risk cargo proceeds to clearance (2.5.10).</p> <p>2.5.9.2. Medium risk cargo: documentary control.</p> <p>2.5.9.3. High risk cargoes are subject to physical control. The Exporter informs the truck driver to move the goods to the designated area for physical inspection. The customs officer performs the physical inspection.</p> <p>2.5.10. The goods are released from customs.</p> <p>2.5.11. The custom declaration is printed and delivered to the exporter. This is the final stage of the clearing process, and the truck leaves the territory of Georgia at Customs Crossing Point. In the case of advance declaration, the control is conducted at Customs Control Point</p>
Output criteria to exit the business process	<ul style="list-style-type: none"> ● Exporter receives the customs declaration. ● The goods area released from customs
Costs and resources	Zero
Average time required to complete the business process	0.1 days (up to 1 hour)

A3.3 PAY

Core business process area 3.1: Claim payment

Figure A3.15 Claim Payment use case diagram

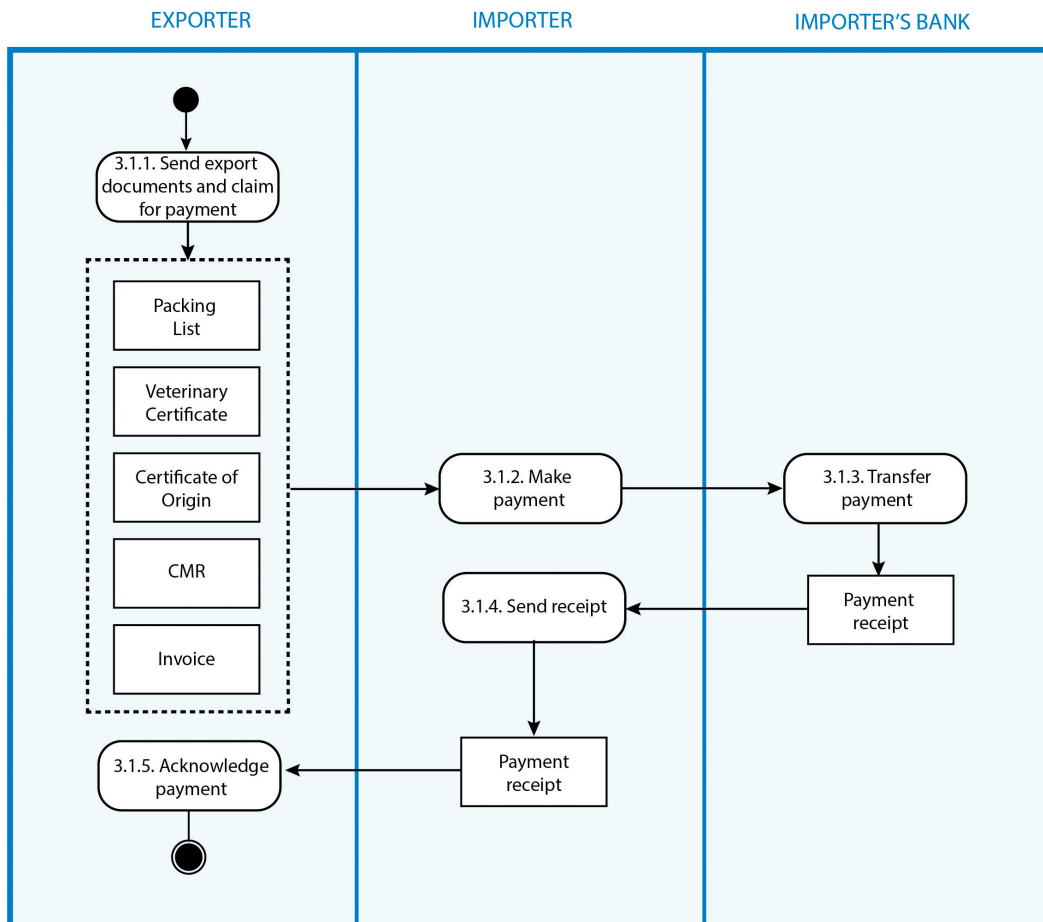


As shown in figure A3.15, claiming payment involves:

- Exporter
- Importer
- Importer's bank

Depending on the terms of the sales contract, claiming payment is a part of two business processes: "Negotiating and concluding the sales contract" and "Claim payment for goods". The selected enterprises claim the payments in two instalments. The first instalment is claimed upon signing the contract, and the second once the goods are released. The Exporter notifies the Importer once the goods are shipped to their destination and submits copies of the support documents. The Importer pays the second part by bank transfer. The entire process takes less than one day, but funds are received by the Exporters' bank within 5 days.

Figure A3.16 Claim Payment activity diagram



Name of process area	3. Pay
Name of Business process	3.1. Claim payment
Process participants	<ul style="list-style-type: none"> ● Exporter ● Importer ● Importer's Bank
Related laws, rules, and regulations	<ul style="list-style-type: none"> ● Incoterms ● Sales contract
Input and criteria to enter/ begin the business process	<ul style="list-style-type: none"> ● Customs clearance performed ● Supporting documents collected ● Goods are shipped to their final destination
Activities and associated documentary requirements	<p>3.1.1. Exporter informs the Importer once the goods pass customs clearance and requests the Importer to advance the final payment. He also submits (by email) the following support documents to the Importer:</p> <ul style="list-style-type: none"> ● Commercial Invoice. ● Packing List. ● Veterinary Certificate. ● Certificate of Origin. ● CMR. ● Customs declaration <p>3.1.2. The Importer receives the documents and makes the final payment by bank transfer.</p> <p>3.1.3. The Importer's bank accepts the payment and issues the payment receipt.</p> <p>3.1.4. The Importer sends the confirmation of the payment to the Exporter.</p> <p>3.1.5. The Exporter acknowledges the payment receipt.</p>
Output criteria to exit the business process	<ul style="list-style-type: none"> ● Exporter received the payment for goods.
Costs and resources	None
Average time required to complete the business process	0.5 day (4 hours) for completing the payment procedure 5 days for receiving the funds (into the Exporter's bank account)

A.4. Export documents

As shown in table A.4.1, the number of documents required for exporting frozen anchovies from Georgia is limited to 6 documents. Traders have to also present two support documents (certificate of analysis and the fishing license) to fulfil the regulatory and procedural requirements, and a third document upon the request of the importer (CoO). Thus, the number of documents is reduced to the minimum and exporters are not burdened with repetitive submission. The only documents that are submitted more than once are the commercial invoice and sales contract, which traders have to submit three times for obtaining the CoO and the veterinary certificate, and for passing customs.

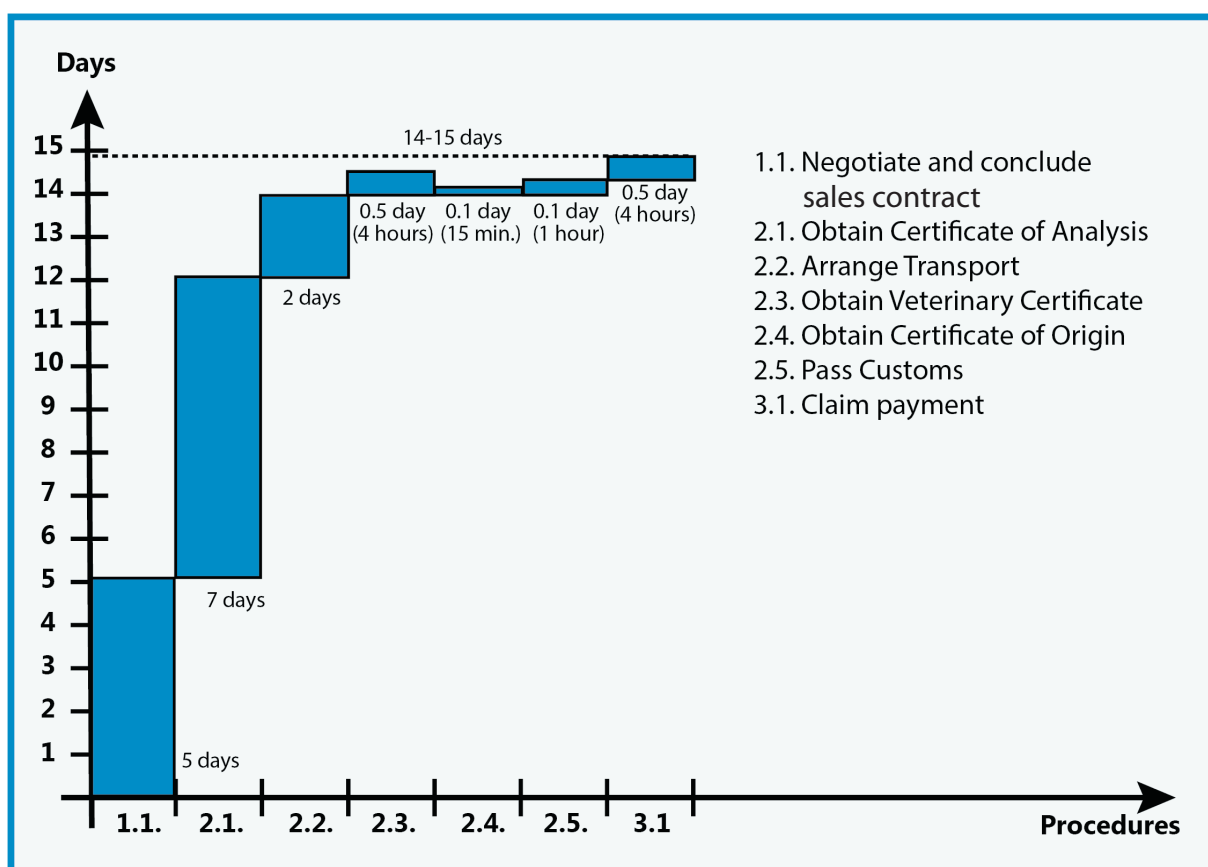
Table A.4.1 Documentary requirements for exporting frozen anchovies from Georgia

Document	Required by	Issued/filled by	Input in process	Comments
1. Documents for goods (mandatory)				
Export Customs Declaration	Revenue Service	Revenue Service	SHIP	Needed for customs clearance
Commercial Invoice	Revenue Service	Exporter	BUY and SHIP	Needed for customs clearance
Packing List	Revenue Service	Exporter	SHIP	Submitted voluntarily , upon the initiative of the exporter
Sales Contract	Revenue Service	Exporter	SHIP	Submitted upon the initiative of the exporter
Certificate of Origin	Importer	Revenue Service	SHIP	Buyer
Veterinary Certificate	Revenue Service Importer	National Food Agency	SHIP	Needed for customs clearance
2. Arrange Transport				
CMR	Customs Transit	Carrier/Exporter	SHIP	Needed for customs clearance and transit trade
TIR Carnet	Customs Transit	Carrier/Exporter	SHIP	Submitted upon the initiative of the exporter
3. Obtain the Veterinary Certificate				
Application form filled out	National Food Agency	Exporter	SHIP	Request for providing Veterinary Certificate
Commercial Invoice	National Food Agency	Exporter	SHIP	Defines name and quantity of goods and country of destination
Sales Contract	National Food Agency	Exporter	SHIP	Define country of destination, which NFA needs for checking importing country requirements.
Certificate of Analysis	National Food Agency	Laboratory	SHIP	For ensuring compliance with food safety regulatory requirements
4. Obtain the Certificate of Origin				
Application	Revenue service	Exporter	SHIP	Request for confirmation of the goods origin
Declaration of Origin	Revenue service	Exporter	SHIP	Confirms the origin of goods
Fishing licence	Revenue service	Exporter	SHIP	Supports request for confirmation of goods origin
Sales Contract	Revenue service	Exporter	SHIP	Supports defining type of certificate to be issued (preferential or non-preferential)
Commercial Invoice	Revenue service	Exporter	SHIP	Supports defining type of certificate to be issued (preferential or non-preferential)

A.5. Time process chart

As shown in figure A5.1, completing the business processes associated with exporting frozen anchovies from Georgia takes 14-15 days. Obtaining the certificate of analysis is the most consuming, taking 5 to 7 days to complete. Negotiating and concluding the sales contract ranks second, taking up to 5 days to complete, even as the selected enterprises only export to buyers with whom they have well established working relations. The time frame for concluding the contract cannot be possibly reduced, as traders noted that the negotiations are straight forward and follow a standardized process cemented over the years.

Figure A5.1 Time-procedure chart for frozen fish export from Georgia



Arranging transport takes two days to complete, and the exporters commence this process upon obtaining the certificate of analysis to avoid unnecessary risks. The enterprises optimize their business processes by obtaining the Veterinary Certificate, Certificate of Origin and Customs Declaration during the same day. The Pay process is usually completed in less than one by bank transfer, though it takes 3-5 days for the funds to be credited to the exporters' accounts. The exporters request a payment confirmation of the second instalment before giving the green light for the loaded trucks to proceed towards their final destination. To avoid delays, the exporters accept the SWIFT banking document as a proof of payment. Table A5.2 maps the business processes by sequence and duration.

Table A5.2 Duration and dependencies among frozen fish export business processes

Core business process	Duration (days)	Previous process	Simultaneous processes
1. Buy			
1.1. Negotiate and conclude sales contract	5	None	None
2. Ship			
2.1. Obtain certificate of Analysis	7	1.1	None
2.2. Arrange transport	2	2.1	None
2.3. Obtain veterinary certificate	0.5	1.1 & 2.1	None
2.4. Obtain certificate of origin	0.1	2.3	2.5
2.5. Pass customs	0.1	2.3 & 3.1	None
3. Pay			
3.1. Claim payment	0.5	2.3 & 2.4	2.5

Compared with the frozen anchovies, exporting fresh anchovies from Georgia involves a more simplified process. Exports, which are mostly destined to Turkey, are conducted based on the commercial invoice, the bill of lading and the cargo manifest. The documents are presented by the exporters to Customs at the CCZ of Poti, and are advised beforehand as to the permissible export quota. Customs prepares the declaration, free of charge, with physical inspections carried out as needed. The selected enterprises reported that the entire process is completed in 30 minutes maximum (including physical control).

A.6. Non-trade growth bottlenecks

The selected companies raised several non-trade-related concerns, which undermine the industry's export potential. The first relates to the new licensing requirements, which were adopted April 2016.²⁶ Prior to that date, license holders abided by the following requirements:

- To transfer the 10 per cent of their share to the Georgian fleet.
- To present a fish stock assessment each season to the government for setting the TAC.
- To process not less than 2/3 of the fish in Georgia.
- To introduce not more than 20 vessels.

The new requirements, which extend fishing licenses to include 300 meters from the Black Sea coastline,²⁷ stipulate the following requirements:

- As of January 2018, not less than 70 per cent of the fish should be processed in Georgia, including at least 10 per cent in the form of compound feed and at least 5 per cent in the form of canned fish.
- As of 1 January 2018 till 1 January 2019, at least 30 per cent of the processing industry's workforce should be Georgian citizens with a diploma/certificate from an accredited vocational training institution. The number of such diploma/certificate holders should increase to 50 per cent of the industry's workforce by 2023, and to at least 80 per cent by the end of the license period (September 2026).
- Companies must pay GEL 25 (EUR 10.5) per ton in annual natural resources consumption tax and GEL 15 (EUR 6.3) in regulating fees, and the total amount (GEL 40 or EUR 6.8 per ton) should be paid in advance (i.e., at the beginning of the fishing season) in accordance with the companies' shares of TACs.

²⁶ Government Decree No 696 of 22 April 2016.

²⁷ Under the previous terms, licenses were required for fishing more than one mile from the Black Sea coastline as well as in State owned lakes and artificial reservoirs.

- As of October 1, 2017, license holders are obliged to install an electronic monitoring system in the ship, including video cameras and GSM-WiFi router, and maintain an electronic ledger for fishing. The system is meant to enable the authorities to ensure adherence to the established TAC.

Representatives of the companies interviewed as part of this BPA, some of which were among the holders of the new licenses,²⁸ were of the view that the reformed licensing conditions harm the industry. To begin with, it would be difficult to process at least 5 per cent of the annual total catch into canned food. Measuring at around 10 centimetres in length, Georgian anchovies are too small,²⁹ and are, therefore, not ideal for processing into canned food. Moreover, processing anchovies into compound feed involves additional costs, as the companies have to import the necessary raw material and additives (e.g., grains and premixes) at an additional cost at a time when they lack the necessary equipment.

The enterprises explained that they have heavily invested in developing their processing facilities, and find in the EU markets the much-needed opportunities for reaping the benefits from these investments. Embarking on new processing activities will only distract them from ensuring compliance with the EU requirements; a process that requires additional investments without which they will remain unable to consolidate their existing competitive advantage. Several enterprises were planning to obtain the ISO 22000:2005 food safety management systems certificate in the near future, while others were in the process of ascertaining as to whether further investments are needed to bring their facilities up to the EU requirements.

The enterprises emphasized that expanding the industry's productive capacity to meet increased demand from EU would be the natural path to follow and should be accorded priority treatment by the Government. Indeed, in 2017, fish meal and fish oil factories produced around 700-1000 tons per day at full capacity. In contrast, frozen fish processors produced 20 tons per day at full capacity, with Turkey standing as the only outlet for this product.³⁰

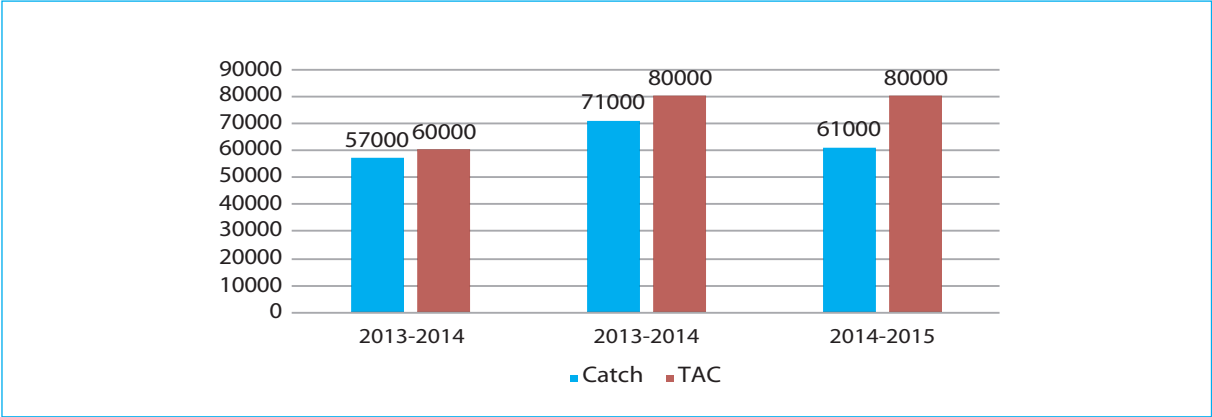
The enterprises also lamented that the natural resources consumption tax and regulation fees increase their financial burden. The amount (GEL 25 per tonne as tax and another GEL 15 per tonne in regulation fees) is levied on the allotted TAC tonnage, independent of the actual catch amount, even as the industry does meet the annual catch limit due to, among others, pollutions and adverse weather conditions (Figure A6.6.1). The point was made that license holders paid GEL 1,240,000 (EUR 521,000) over the period 2012-2015 in the form of taxes and regulation fees for uncaught fish, with negative consequences for the industry's development prospects. The enterprises reported that they were unable to invest in modernizing their facilities. This financial burden also means that vessel owners are awkwardly placed to invest in modernizing their fleets, let alone comply with the online self-monitoring and reporting system.

²⁸ The licenses new extended under these conditions, which were auctioned in 2016 for GEL 20 million in total, were won by five companies, with each paying according to its share in TAC. The five companies were all based in the city of Poti and operated fish processing plants.

²⁹ European anchovy is 13 to 20 centimetres long. FAO, Species Fact Sheets at: <http://www.fao.org/fishery/species/search/en>.

³⁰ MENR and the selected companies' information. The largest enterprise, which specialises in processing fishmeal, produces 1400 tons per day (at full capacity).

Figure A6.6.1 Anchovy catches in the Black Sea coast of Georgia (tons)



Source: MENR and company information

Yet another concern raised by the enterprises is the lack the required facilities for landing, sorting and storing caught fish at the port of Poti. Fish catchers must make do with only one pier for landing and sorting the fish, which is provided by the port owners on a temporary basis for the duration of the fishing season. Fish catchers, represented by the Licensed Fish Catchers Association, should negotiate an agreement with the port owners before each season, and arrange for an efficient loading of the caught fish so that it could be duly transported to their processing facilities. With the port slated to witness major development projects in the near future, the enterprises reported that they may no longer be able to establish these annual agreements with the port owners. This jeopardizes the future of the entire industry.

A.7. Recommendations

This BPA showed that exporting frozen anchovies are delayed by capacity shortfalls in the country’s testing laboratories, which undermine the efficiency gains obtained from the impressive reforms in customs modernization and other trader facilitation reforms. At the same time, the enterprises are not well placed to reap the benefits from the improved market access conditions to the EU, lacking the experience and information on potential buyers. The new licensing requirements described above, coupled with the natural resources consumption tax and associated fees and the lack of adequate facilities at the port of Poti, generate additional constraints, which act as a disincentive for investments in improved production facilities.

This section provides a number of recommendations for the Government’s consideration. Mirroring the analysis in the previous sections, the recommendations are divided into two sub-sections. The first focuses on improving the efficiency of the business processes associated with exporting frozen fish, while the second addresses the broader none-trade concerns raised by the selected enterprises.

A.7.1 Improving the efficiency of business processes associated with the export of frozen anchovies

Table A.7.1 Recommendations by core business process

Core business process	Observations	Recommendations
1.1. Negotiating and concluding sales contract and buying terms	<p>This is a standardized and straight forward process, only because it has been cemented over the years with established buyers (mainly from Turkey).</p> <p>The selected enterprises were keen on establishing themselves in the EU markets. However, they lamented the lack of information on potential buyers and on applied regulations.</p> <p>As such, none of them has approached new EU buyers, fearing the lengthy negotiations that they will have to go through. The lack of experience in dealing with the EU regulations, means that their chances for landing new orders are limited. Even if they land new buyers, the enterprises reported that they might not be able to obtain favourable prepayment arrangements.</p> <p>New buyers might insist on payment upon delivery terms, since they are not familiar with the Georgian exporters. Such terms are impossible to accommodate because they strain the enterprises' cash flow.</p> <p>Given the above, and tight schedules bearing on the industry's operations (fishing season), the enterprises consider seeking new buyers as a risky undertaking.</p>	<ul style="list-style-type: none"> • Identify export opportunities for in the EU, through preliminary research and market assessments. Such assessments could be carried out by market support institutions, with the assistance of regional and international partners. • Organize exploratory missions and study tours to selected EU markets (identified by the market assessments). The missions and study tours could be organized by market support institutions with the support of the Government and international partners. • Organize training workshops on EU regulatory requirements and their implications for the fishing and food processing enterprises.
2.1. Obtain Laboratory Test Analysis	<p>Samples are shipped to Tbilisi for laboratory tests, which extends the duration of this business process.</p>	<p>Consider establishing a testing laboratory for chemical and microbiological analysis in the city of Poti.</p>
2.2. Arrange Transportation	<p>The process is simple and straight forward.</p>	
2.3. Obtain the Veterinary Certificate	<p>Although this process is simplified and straight forward, it could benefit from further improvements.</p>	<p>Consider transferring truck disinfection to the enterprises, as per HACCP procedures. The NFA should only assume a verification role to ensure that the enterprise fulfils food safety and hygiene requirements.</p>

Core business process	Observations	Recommendations
2.4. Obtain the Certificate of Origin	<p>The application form can be filled out online or submitted in paper form (to the Revenue Service office at the CCZ). The documentary requirements and procedures are published and are well known to the exporters. However, none of the exporters who participated in the PBA used the online submission option.</p> <p>The exporters mentioned that the certificate is issued within three days if the application is submitted online, and within 15 minutes if submitted in person at the CCZ.</p>	<ul style="list-style-type: none"> Further streamline the processes associated with the online issuance of the CoO.
2.5 Pass Customs	<p>Exporters can submit the declarations online or use the services of representative. Exporters can also request Customs to fill out the declaration.</p> <p>The exporters who participated in the BPA mentioned that they request Custom to fill out the declaration, even as this requires visiting the customs office in person. The exporters explained that it takes more than an hour to obtain feedback when the declaration is submitted online. The waiting time is extended if mistakes are detected, rendering it more efficient to request the customs to handle the submission.</p> <p>The traders reported that it takes only 15 minutes to obtain the declaration; the time needed for the customs officer to check the documents, register the information in the system and issue the declaration (electronic and hard copies).</p>	<p>Further streamline the processes associated with the online issuance of the CoO.</p> <p>The experience of the selected exporters further highlights the necessity of speeding up the implementation of the Authorized Economic Operator scheme.</p>
3.1. Claim Payment	<p>It takes up to 5 days for the payment to be credited to the exporters' bank accounts. Nevertheless, the selected enterprises proceed to ship the goods immediately upon passing customs (in the absence of the payment confirmation), thereby assuming unnecessary risks.</p>	<p>Consider establishing export credit agencies, commonly referred to as export-import banks or EXIM banks, to cater to the industry's needs (and those of the entire trading community). Banks seem to consider traders as risky clients. Only 12 percent of the bank loans were extended to the trading community during the first quarter of 2017, continuing a historic trend.³¹</p>

³¹ See, for example, KPMG end of 2017 first quarter report on Georgia's banking sector, available at: https://home.kpmg.com/content/dam/kpmg/ge/pdf/2017/Georgian%20Banking%20Sector%20Overview_%20Q1%202017.pdf.

A.7.2 Addressing growth bottlenecks

Table A.7.2 Recommendations for addressing none trade growth bottlenecks

Area	Observations	Recommendations
<p>Licensing terms</p>	<p>Representatives of the selected enterprises noted that processing canned food is difficult and is unlikely to be profitable, given the small size of the anchovies found at the Black Sea coast of Georgia. They also reported that they lack the financial resources to purchase in the required production equipment, especially as this will come on the heels of their heavy investments in the fish meals and fish oil processing facilities. Development experiences show that promoting increased consumption of anchovy in fresh, canned and frozen state is difficult. The Peruvian Government's experience is a case in point. Despite the Government's efforts, household consumption of anchovy remains low. The distinct, strong flavour of anchovy makes them relatively unpalatable; therefore, despite their promotion, they tend to be eaten in small quantities.³²</p> <p>Venturing into processing canned anchovies also involves a steep learning curve, as the enterprises should meet the EU requirements pertaining to sustainable production and consumption. These requirements, which come as part of the EU's effort to protect the environment, aim at reducing waste as established under, among others, the EU Directive 2008/1/EC on Integrated Prevention and Pollution Control (IPPC), the EU Integrated Product Policy (IPP) and the EU Strategy on the Sustainable Use of Natural Resources.</p> <p>It should be noted that by virtue of focusing on processing activities for none human consumption, the Georgian fish processing industry is effectively producing at zero waste.</p> <p>Vessel owners reported that they lack the funds and expertise skills for complying with online self-monitoring and reporting system.</p>	<p>Review the new licencing requirements to ensure proper consolidation investment incentives for the fishing industry. Such an approach is consistent with successful development experiences and the EU new Common Fisheries Policy. The Government is depicted as setting the limits within which the industry must operate, such as a maximum catch or maximum by-catch of young fish, and then leave it to the industry to develop the best economic and technical solutions. This would facilitate a result-based management system, whereby both the Government and the industry sharing the burden of ensuring the achievement of policy objectives.³³</p> <p>Develop training programmes for vessel crews in cooperation with regional and international development partners. Such programmes should be hosted within existing market support institutions to ensure prompt catering for the industry's future needs.</p>

³² For an overview of Peru's experience, see the IFFO (International Fishmeal and Fish Oil Organization) "Case study: Peruvian Anchovy - Why feed, not food?"; available at: <http://www.iffonet.net/case-study-peruvian-anchovy-why-feed-not-food>.

³³ Detailed information on the EU's new Common Fisheries Policy is available at: https://ec.europa.eu/fisheries/cfp/fishing_rules.

Area	Observations	Recommendations
Taxes and fees	The existing tax regime, whereby the natural resources consumption tax and regulation fees are levied on the annual TAC limit, is straining the enterprises' cash flow. This is particularly the case during seasons when the actual volume of caught fish is below TAC limit.	Consider reducing the financial burden assumed by the fishing industry by, for example, levying the taxes and regulation fees on the actual catch amount and exempting export oriented processing activities from import tax (particularly, imports used for production such as machinery, spare parts, raw material).
Port infrastructure	Traders are concerned that they may have to operate in the absence of terminals for landing, washing and sorting the fish at the port of Poti. The port development plans may render it difficult to ensure such terminals, as they are only provided on a temporary basis. The terminals made available to fisheries also lack storage facilities.	Port Poti needs to consider developing proper landing, sorting and storage facilities
Overall competitiveness of the fishing industry	There remains a room for further developing fish meal and fish oil processing activities, including through broadening the variety of used species and culture techniques (such as ponds, cages and tanks). Processing anchovy for human consumption seems to be too demanding for the enterprises, which lack the capacity to embark on such activities. The enterprises have also cast doubt as to whether they could compete against established food producers. The experience of other countries show that it is difficult to increase household demand for anchovy.	<ul style="list-style-type: none"> ● The Georgian Clusters National Platform (GCNP), a member of the European Cluster Collaboration Platform (ECCP) since 2017, could play a lead role in supporting the development of this industry. The ECCP features a special focus on supporting the developing of the fishing industry, and members of this cluster could assist the Georgian enterprises in expanding their activities (e.g., through sub-contracting arrangements). ● Consider establishing credit guarantee schemes for financing the fishing industry's long term investments.³⁴

³⁴ See, for example, OECD (2017), Financing SMEs and Entrepreneurs. An OECD Scoreboard 2017, OECD Publishing, Paris.

Regulatory and Procedural Barriers to Trade in Georgia

Needs Assessment

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