



**EURASIA
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EPF Newsletter

Under the “EU-Georgia Free Trade Agreement: Support for stakeholders’ dialogue” project Eurasia Partnership Foundation (EPF) organized its second public policy forum about the future free trade agreement (FTA) with the European Union. The goal of the forum was to assess Georgian producers’ comparative advantage and interests in the EU market in the short and long term and to promote dialogue among the stakeholders. The process engaged key stakeholders in evaluating the costs and benefits of the agreement and influencing the formulation of a clear position for the Georgian government during negotiations on a deep and comprehensive FTA with the EU. Roundtable participants discussed the following key issues: 1) the major characteristics of EU-Georgia trade flows; 2) the effectiveness of Georgian producers’ use of the General System Preferences Plus (GSP+) in 2005-2008; and 3) the EU markets of interest to Georgian producers in the short and long run.

Revaz Sakevarishvili from NGO - Economic Policy Research Centre stressed that trade with the EU currently constitutes 26.5% of Georgia’s total foreign trade, down 2% from last year. He also pointed out that imports into Georgia greatly exceed exports to foreign markets. There are several reasons for that, including the low quality of Georgian products, the poor credit environment for small and medium business, and the lack of knowledge about the ways to reach out to the EU market among Georgian businesspeople. Among the top ten destinations for Georgian exports, only three are EU member states: Germany (4th place), Bulgaria (9th) and Italy (10th). He highlighted that the Georgian government initially was reluctant to apply for an extension of GSP+. Only in October 2008 did the Georgian Parliament ratify the Cartagena Protocol on Biosafety and the UN Convention against Corruption, two preconditions for receipt of the extension, and then apply for an extension of GSP+.

Marika Gabunia, Head of the Department for Foreign Trade and International Economic Relations at the Ministry of Economic Development of Georgia, pointed out that from the CIS countries, only Georgia and the Republic of Moldova benefit from the GSP+ scheme. The system allows beneficiaries to export 7,200 items duty free to the EU market. In 2007 the total value of Georgian products exported to the EU market under GSP+ was 127.5 million USD (constituting 47.5% of Georgia’s total exports to the EU). Georgia’s main exports to the EU market under GSP+ are: hazelnuts, ammonium fertilizers, non-alcoholic drinks, isotopes and ferroalloy.

Herbs and honey were first exported to the EU market under the GSP+ scheme in 2007. She regretted that wine and citrus, two of Georgia's major products, are not among the 7,200 items. The certificate to benefit from GSP+ system is issued by the Ministry of Economic Development. In 2007 it issued 1,019 licenses. All entrepreneurs interested in getting that license should apply through the ministry, which will issue the document within three working days free of charge.

The main challenges Georgian products face on the EU market are non-tariff barriers and the current lack of domestic control management infrastructure (food safety legislation was suspended until 2010). Donor organizations like GTZ are helping Georgia to address domestic issues.

Ambassador Extraordinary and Plenipotentiary of Romania to Georgia H. E. Dan Mihai Barliba stressed that the EU-Georgia negotiations on establishing a free trade area should not remain at the diplomatic level, but it is necessary that all stakeholders are engaged in the process. It should become a bottom up process.

Giorgi Samanishvili, a representative of "Samtresti," stated that closing the Russian market was a heavy blow for Georgian wine exporters but they have tried to shift to the EU market. Currently only 50% of Georgia's total wine exports are directed at the EU market (25% goes to the Baltic States and Poland). The main problem for exporting to the EU market is twofold: firstly EU citizens do not consider Georgia to be a wine producing country (except for the Baltic States and Poland) and secondly the style of Georgian wine does not meet the consumers' expectation.

Georgian wine producers are facing fierce competition on the EU market from local producers, who receive subsidies through the EU's Common Agricultural Policy (CAP). Although Georgian wine is not included in the GSP+ scheme, the taxes and duties for exporting it to the EU market are not high.

Vice President of Georgian Glass and Mineral Water Company Levan Bagdavadze stressed that the closure of the Russian market cost his company 60% of its export market. Now exports mainly go to Ukraine, Kazakhstan and the Baltic States. GG&MWC has also expanded to Bulgaria. People in the Baltic countries mainly buy Borjomi mineral water because they remember the brand from Soviet times and they are expressing their solidarity with the Georgian people and its economy.

The company quickly overcame the challenges related to the closure of the Russian market because it had already introduced EU standards (recognized by Poland, the Baltic States and the UK) and was ready to diversify export markets. Borjomi experienced sales growth of 100 and 70% respectively in the Baltic States and Cyprus in 2007.

Vakhtang Gvakharia, president of the scientific research firm GAMMA, argued that introducing the EU standards is necessary for the following reasons: creating a technical requirement basis for Georgian mineral waters that corresponds with EC directives; supporting small and medium size producers in producing high quality products and improving management and marketing; creating a normative

document that prevents the production and distribution of falsified products; and establishing EC technical norms in Georgian legislation.

Gulkhana Khikhadze, representative of the company “Georgian Fresh Herbs” operating in Tskaltubo region, stressed that there is demand for Georgian fresh herbs in the Baltic States, Germany and Poland; however the company faces transportation problems. The company exports to Moldova and Ukraine only in the period from November until February when, due to climate conditions, these countries cannot produce their own products. Around 60 tons of fresh herbs (purchased from 800 local farmers) are transported by vehicles each month. The company’s main problem is that there are no regular cargo flights from Georgia to Europe and transportation by civil flights is too expensive.

Mamuka Todua, head of the Georgian Hazelnut Exporter’s Association, stated that the Russia-Georgia conflict has badly affected the capacity of hazelnut producing companies. They either stopped operating or decreased their production volume. Eighty percent of Georgian hazelnut exports go to the EU. Hazelnut exporters are not required to get a certificate. There have been cases when low quality hazelnuts were exported, which is the reason the international food and beverage company KRAFT refused to purchase hazelnuts from Georgia. There are some illegally operating hazelnut export companies in Georgia and they are damaging Georgian hazelnut production.

RECOMMENDATIONS FOR THE GEORGIAN GOVERNMENT:

- Include the changes made to the EC Directives in 2006-2008 (CD 87/77EC, CD 96/70/EC, CD 2003/40/EC, Codex Stan 108-1991, rev-1) in Georgian legislation;
- Incorporate the forthcoming changes to the EC directives into Georgian legislation;
- Establish a standard for new mineral waters that are less mineralized and not covered by current standards;
- Support the Association of Georgian Bottled Water Producers in joining the IBWA, EBWA and other international organizations;
- Support the introduction/implementation of quality management systems, such as ISO9001 or ISO22000;
- Prepare Georgian-language versions of ISO standards (chemical and microbiological standards);
- Establish high quality analytical centers capable of providing product quality monitoring up to EU standards;
- Develop independent consulting structures to ensure high quality services in the water bottling sector;
- Launch a public awareness campaign for small and medium business on the EU market and challenges related to exporting to the market;
- Include in the EU-Georgia FTA a provision to allow Georgia to subsidize its agricultural sector as is done in EU member states;

- Expedite the process of signing the EU-Georgia agreement on protection of geographical indicators of agricultural products and foodstuffs;
- Support the creation of analytical centers for EU market research and provide relevant information to SMEs on different EU markets;
- Promote a public awareness campaign through public TV channels and other means of mass media about the EU-Georgia FTA and its possible costs and benefits and about doing business in the EU;
- Support the creation of a supply chain for SMEs and provide necessary information and training about that;
- Supporting incentives of establishing cargo flights for SMEs to transport perishable goods to the EU.

RECOMMENDATIONS FOR CIVIL SOCIETY BUSINESS COMPANIES AND SMEs:

- Advocate for the negotiations on the EU-Georgia FTA to be more inclusive and not only a diplomatic exercise;
- Producers: Formulate a united position in order to influence the FTA negotiation process and provide feedback to the government;
- Georgian SMEs: Acquire information about and begin complying with European standards and regulations;
- Consider creating business associations (in common business fields) to strengthen their efforts and launch an advocacy campaign during the EU-Georgia negotiations on a deep and comprehensive FTA;
- Seek opportunities to establish cargo flights for transportation of perishable goods.

RECOMMENDATIONS TO THE EU AND ITS MEMBER STATES:

- Provide information to the Georgian public about the progress on negotiations on the EU-Georgia Free Trade Agreement;
- Help establish institutionalized dialogue among civil society organizations, the EC delegation, business circles and the government of Georgia;
- Strengthen efforts to provide easily accessible information about EU markets for Georgian small and medium business representatives;
- Provide technical assistance (particularly to SMEs) in establishing supply chains and training on FTA opportunities.

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