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# DCFTA: BENEFITS AND SUCCESS IN GEORGIA

**USAID GOVERNING FOR GROWTH (G4G) IN GEORGIA**

13 November 2015

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# DCFTA: BENEFITS AND SUCCESS IN GEORGIA

USAID GOVERNING FOR GROWTH (G4G) IN GEORGIA

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DELOITTE CONSULTING LLP

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USAID CONTRACTING OFFICER'S REPRESENTATIVE: REVAZ ORMOTSADZE

AUTHOR(S): BONDO BOLKVADZE, NINO CHOKHELI, ZAZA CHELIDZE

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# DATA

**Reviewed by:** Milo Stevanovich, G4G Chief of Party

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# ACRONYMS

AA	Association Agreement
ACAA	Agreements on Conformity Assessment and Acceptance of Industrial Products
CIB	Comprehensive Institutional Building
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Agreement
EBRD	European Bank for Reconstruction and Development
ENPARD	European Neighborhood Program for Agriculture and Rural Development
EU	European Union
DCFTA	Deep and Comprehensive Free Trade Agreement
FDI	Foreign Direct Investments
GIZ	German Corporation for International Cooperation
GSP	Generalized System of Preferences
G4G	Governing for Growth in Georgia
MoA	Ministry of Agriculture
MoESD	Ministry of Economy and Sustainable Development
NGO	Non-Governmental Organization
SME	Small and Medium-sized Enterprise
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
KfW	German Development Bank
UNDP	United Nations Development Program
USAID	United States Agency for International Development

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## EXECUTIVE SUMMARY

The Deep and Comprehensive Free Trade Area (DCFTA) between Georgia and EU became effective in September 2014, removing EU customs duties on all Georgian originated products. However, more than 90 percent of Georgia's trade turnover with the EU was at zero-tariff even before DCFTA under EU Generalized System of Preferences (GSP) program since 1999 and the GSP+ regime since 2005. Therefore, any expectations that the DCFTA would bring any significant additional results in a one-year period are not realistic.

This paper brings together all direct and potential benefits granted by the DCFTA, presents the trade and foreign direct investments (FDI) dynamics and several success stories of Georgia's export to EU during the first year of DCFTA implementation. However, despite the positive trends in exports (increase in hazelnuts export by 20%, wine by 5% and mineral and still water by 13%), as well as a FDI increase by 4.8%, there is no data evidencing that these increases are attributable to DCFTA.

DCFTA is expected to realize benefits over time (5-10 years) through the elimination of non-tariff barriers which are considered as more restrictive than tariff barriers in modern international trade. It is a long-term process which requires significant reforms on Georgia's side aimed at regulatory convergence with the EU. According to a DCFTA impact study,<sup>1</sup> elimination of non-tariff barriers will boost trade between the EU and Georgia. Exports are estimated to increase by 9% and 12% in the short and long term, respectively; the GDP of Georgia - by 4.3% (EUR 292 million in national income) and average wages in Georgia are projected to increase by 3.6% over the long run.

Therefore, most of the post-DCFTA enactment facts and figures are inconclusive. An impact assessment in 2017 would produce a more relevant review of DCFTA's impact in Georgia.

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<sup>1</sup> Trade sustainability impact assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova, ECORYS and CASE, October, 2012. [http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc\\_150105.pdf](http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150105.pdf)

# 1. BACKGROUND

The Deep and Comprehensive Free Trade Area (DCFTA) represents a significant part of the Association Agreement (AA) between Georgia and the EU. The DCFTA initiates Georgia's gradual economic convergence with the EU and introducing Georgian products to EU markets.

Unlike other free trade agreements, assuming elimination of tariffs and quantitative restrictions in bilateral trade, DCFTA assumes various degrees of changes in domestic policy and the business environment affecting trade and investment. DCFTA provides for gradual approximation of Georgian legislation and institutions to that of the EU in various trade related areas over the course of 10-12 years. Furthering the level of integration via DCFTA involves a thorough elimination of non-tariff and technical barriers to trade, which are often more restrictive than tariff barriers.<sup>2</sup>

DCFTA became effective in September 2014. This paper covers direct and potential benefits granted by DCFTA as well as positive developments in export and investments since DCFTA enactment. Even though there was evidence of some increases in exports to the EU (wine, hazelnuts and mineral waters) as well as in foreign direct investments (FDI), with only one year since establishment, it is difficult to credit DCFTA with these positive developments. It should be noted that Georgia has previously benefited from EU preferential tariff treatment under the Generalized System of Preferences (GSP) program since 1999 and the GSP+ regime since 2005. Though, with a relatively limited scope (7200 commodities under GSP+ vs around 11 000 commodities under DCFTA), GSP+ trade regime opened the door to Georgian exports prior to the DCFTA. According to the evaluation of the utilization of the EU's trade preferences, conducted in 2010, Georgia already had a very high level of preference utilization (92.52%); this means that more than 90 percent of trade turnover with the EU was at zero-tariff rate.<sup>3</sup> Therefore, any expectations that the agreement brings yields in such a short term are not realistic.

Additionally, tariff liberalization (the only immediate benefit Georgia receives from the first day of DCFTA enactment) is considered to be a minor benefit of the agreement. DCFTA is expected to bring its major benefits including elimination of non-tariff barriers over time (5-10 years) once the regulatory convergence of Georgia with the EU takes place. Therefore, most of the post-DCFTA enactment facts and figures are inconclusive. An impact assessment in 2017 would produce a more relevant review of DCFTA's impact in Georgia.

## 2. DIRECT BENEFITS

### 2.1. ELIMINATION OF TARIFFS

Georgia achieved success during the DCFTA negotiations with regard to tariff liberalization. All products originated in Georgia enter the EU market free of customs duties (except for garlic, which is subject to quota). Compared to the GSP+ regime which covered around 66% of products in the EU customs tariff code (7,200 types of products), DCFTA covers nearly 100% of commodities. What is more important, DCFTA covers agricultural products, while under GSP+ the products that were suspended entirely of customs duty were mostly non-agricultural products.<sup>4</sup>

Tariff quota (elimination of customs duty within fixed volume) is set only on garlic in the volume of 220 tons.

Twenty-eight categories of agricultural products (0,3% of all commodities) are subject to "Entry Price," meaning that the minimum threshold price on the import of those products are set. These products

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<sup>2</sup> Study on the economic feasibility, general economic impact and implications of Free Trade Agreements between the European Union and respectively Armenia and Georgia according to the European Neighborhood Policy Action Plans, CASE, 2008. [http://www.case-research.eu/sites/default/files/publications/21136629\\_rc79\\_0.pdf](http://www.case-research.eu/sites/default/files/publications/21136629_rc79_0.pdf)

<sup>3</sup> Mid-term Evaluation of the EU's Generalized System of Preferences. 2010. [http://trade.ec.europa.eu/doclib/docs/2010/may/tradoc\\_146195.pdf](http://trade.ec.europa.eu/doclib/docs/2010/may/tradoc_146195.pdf)

<sup>4</sup> European Union's Deep and Comprehensive Free Trade Area and Georgia, EPRC, 2014.

are duty free with the precondition that they are imported to the EU with a price above the threshold price. If the price of the imported products will be below the threshold, the entry price duty will be collected. It includes tomatoes, cucumbers, sweet oranges, apples, pears, grape must, etc. None of these listed products (except for grape must) are currently exported to the EU market.

## 2.2. ELIMINATION OF NON-TARIFF BARRIERS

The DCFTA drives reform through regulatory approximation requirements. This will induce changes in regulations as well as institutional arrangements in various trade-related areas, but most importantly in the areas of sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT).

Once Georgia achieves the appropriate level of regulatory compliance, the agreement opens the possibility of recognition of Georgian SPS and TBT systems equivalent to EU standards. Recognition may take place gradually by sectors, sub-sectors, commodities or groups of commodities. Initially, this will mean that relevant categories of Georgian products will be allowed on the EU market. For the moment, due to a lack of relevant regulations and state control, exporting Georgian animal products to the EU market are banned. This also includes honey and fishery products which are considered to have export potential. Secondly, Georgian products will enter EU market without additional laboratory testing and certification as well as benefit from less physical checks at the border.<sup>5</sup>

With regard to industrial standards, the reforms will enable conclusion of Agreements on Conformity Assessment and Acceptance of Industrial Products (ACAA) between Georgia and the EU on conformity and acceptance of industrial standards, which will demonstrate competitiveness of the Georgian industrial sectors on par with the EU and facilitate procedures to grant the quality CE mark to Georgian products.<sup>6</sup>

By complying with new regulations, Georgian companies will gradually implement European standards and improve their products' quality. This will not only have benefits in terms of increased market access to the EU and other countries, but can also bring other positive changes for Georgia, such as improved SPS will contribute to better food safety, better protection of intellectual property rights can induce innovation or FDI from multi-national corporations, and improved competition policy and implementation will prevent abuse of market power and may therefore decrease prices.<sup>7</sup>

## 2.3. RULES OF ORIGIN

DCFTA rules of origin provide the possibility of diagonal accumulation of origin with Turkey. Georgian manufacturers can use materials with Turkish origin to produce goods for export to the EU, and the goods will maintain Georgian origination even if Turkish materials used in processing exceed standard norms established for origination criteria. This regulation can encourage Turkish companies to invest in Georgia in sectors where Georgia has competitive advantages (cheap workforce, low taxes, and cheap energy). Turkey can be a constant supplier of base materials and supplementary services taking into account that there are no trade barriers between Georgia and Turkey.

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<sup>5</sup> EU-Georgia Deep and Comprehensive Free Trade Area, joint publication of Ministry of Economy and Sustainable Development (MoESD) and USAID/G4G, 2015.

<sup>6</sup> Advantages of Deep and Comprehensive Free Trade Area EU-Georgia versus Customs Union (Russia- Kazakhstan-Belarus).

[http://eeas.europa.eu/delegations/georgia/documents/news/2014/dcfta\\_advantages\\_vscustomsunion\\_2014\\_01\\_en.pdf](http://eeas.europa.eu/delegations/georgia/documents/news/2014/dcfta_advantages_vscustomsunion_2014_01_en.pdf)

<sup>7</sup> *Ibid.*



## **3. POTENTIAL BENEFITS**

### **3.1. ACCESS TO THE WORLD'S LARGEST MARKET**

Operating as a single market with 28 countries, the EU is the world's largest market. With just 7% of the world's population (505.67 million), the EU's trade with the rest of the world accounts for approximately 20% of global exports and imports. The European Single Market is the biggest global exporter and importer of food and feed, with exports of food and beverage products amounting to EUR 65.3 billion and imports to EUR 55.5 billion in 2010.<sup>8</sup>

The EU is also Georgia's major trading partner. Its share in Georgia's total export equals to 29% and shares in Georgia's total import amounts to 33% according to January – September, 2015 data<sup>9</sup>.

### **3.2. STABILITY OF EU MARKET**

The European market is developed with profound, transparent and predictable rules. Moreover, efficient law enforcement, overall economic and political stability exhibits the EU as a reliable trade partner. This is especially critical in the light of apparent volatility of the Russian market for Georgian agricultural products. Since 2005, Russia has more than once imposed politically motivated trade sanctions on Georgia. The recent Russian market volatility and the Ukrainian conflict left Georgian wine, fruit and vegetable producers seeking stability. Duty-free access to the EU market can guarantee greater stability for Georgian exporters allowing the companies to make long-term strategic decisions.

### **3.3. COMPETITIVENESS**

DCFTA will open up new opportunities not only in EU-Georgia trade, but in Georgia's trade with the rest of the world, given the worldwide recognition of EU norms and standards. The application of EU standards will bring significantly more choice and higher quality products.<sup>10</sup> There is a strong assumption that Georgian companies already exporting to the CIS market can become even more competitive if they increase standards and quality of their products which will be welcomed by the buyers outside the EU as well.

### **3.4. IMPROVED INVESTMENT CLIMATE**

DCFTAs are a new generation of agreements, reflecting EU's privileged relations with Georgia, Moldova and Ukraine. Through DCFTA, Georgia becomes more attractive for investments not only because of tariff liberalization, but it also gives a clear signal to foreign investors regarding the political and economic orientation of the country and contributes to Georgia's image as a favorable and safe place to invest. As a result, Georgia would achieve a notable reduction in the perceived risk premium on investment, reflecting a sustained re-branding of Georgia as a favorable place to invest.<sup>11</sup>

Georgia's FDI source countries are quite diversified. Companies from more than 70 countries are investing in Georgia, including EU member states, neighboring countries and countries from Central and Eastern Asia. DCFTA may stimulate Georgia to become a bridge to the EU market for investors from countries currently lacking a favorable trade regime with the EU, e.g. Azerbaijan, Russia, Saudi Arabia, China, Iran, and United Arab Emirates.

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<sup>8</sup> Interesting Facts, Official Website of the European Commission.  
[http://ec.europa.eu/internal\\_market/20years/singlemarket20/facts-figures/interesting-facts\\_en.htm](http://ec.europa.eu/internal_market/20years/singlemarket20/facts-figures/interesting-facts_en.htm)

<sup>9</sup> Source: Geostat (Georgian National Statistics Service); [http://geostat.ge/?action=page&p\\_id=136&lang=geo](http://geostat.ge/?action=page&p_id=136&lang=geo)

<sup>10</sup> Myths about the EU-Georgia Association Agreement (AA) and Deep and Comprehensive Free Trade Area (DCFTA).  
[http://eeas.europa.eu/delegations/georgia/documents/eap\\_aa/mythbuster\\_2\\_2014\\_en.pdf](http://eeas.europa.eu/delegations/georgia/documents/eap_aa/mythbuster_2_2014_en.pdf)

<sup>11</sup> Study on the economic feasibility, general economic impact and implications of Free Trade Agreements between the European Union and respectively Armenia and Georgia according to the European Neighborhood Policy Action Plans, CASE, 2008. [http://www.case-research.eu/sites/default/files/publications/21136629\\_rc79\\_0.pdf](http://www.case-research.eu/sites/default/files/publications/21136629_rc79_0.pdf)

It can be assumed that as FDI creates new business opportunities, transfers new technologies, improves business functions, creates jobs, and investment will develop in the short term, the free trade regime will significantly contribute to economic growth in the mid-term.

## 4. ESTIMATED ECONOMIC IMPACT

According to a study<sup>12</sup> on DCFTA impact commissioned by the EU in 2012, DCFTA will boost trade between the EU and Georgia. Exports are estimated to increase by 9% and 12% in the short and long term respectively, with imports going up by 4.4% and 7.5% respectively.

The DCFTA as a whole is expected to boost the GDP of Georgia by 4.3% (EUR 292 million in national income), provided that the reforms are completed. In the short run, the DCFTA is expected to lead to an increase in national income of EUR 114 million and a GDP increase of 1,7.

These increases result from the lowering of non-tariff measures (EUR 88 million). Liberalization of services should result in gains amounting to EUR 31 million. In the long run, the reduction of non-tariff measures is also the single most important measure for reaping the benefits of liberalizing trade, amounting to EUR 257 million.

Average wages in Georgia are projected to increase 3.6% over the long run, while the overall consumer price index is expected to decrease by about 0.6%. This implies that – on average – purchasing power of Georgian citizens increases because of the DCFTA, especially in the long run.

## 5. DCFTA RELATED FACTS

### 5.1. EXPORTS SINCE DCFTA ENACTMENT

During the first year of DCFTA implementation (September 2014-August 2015), an increase of export to the EU of leading export commodities has been observed. Compared to the same period of the previous year, the export of hazelnuts increased by 20%, wine by 5% and mineral and still water by 13%. There was a slight increase in export of ferro-alloys as well.

However, the total export to EU for the same period has decreased by 9.68%, which might be explained by the global economic decline. The decline was observed in the exports of fertilizers by 15%, ethyl alcohol and spirit beverages by 33% and cars<sup>13</sup> by 68%.<sup>14</sup>

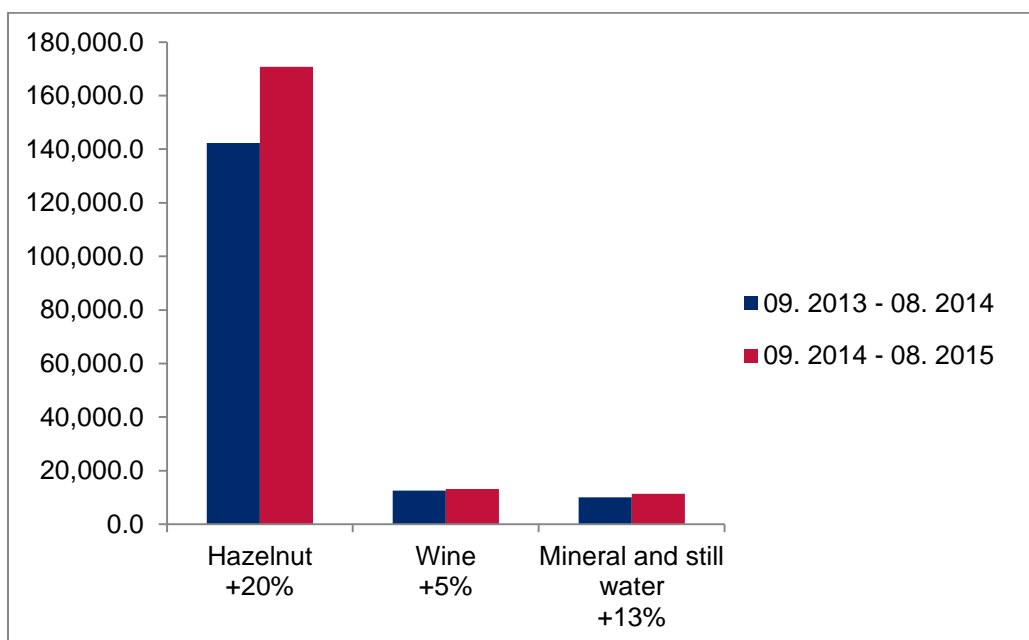
*Table 1: Export to EU of several leading export commodities to EU in thousands USD (before and after DCFTA enactment)*

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<sup>12</sup> Trade sustainability impact assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova, ECORYS and CASE, October, 2012. [http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc\\_150105.pdf](http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150105.pdf)

<sup>13</sup> Cars are not produced in Georgia but imported mostly from Japan for further re-export to the EU. Therefore, classification of cars export commodity is rather questionable.

<sup>14</sup> Source: Geostat (Georgian National Statistics Service); <http://geostat.ge/index.php?action=0&lang=eng>



Source: Geostat, external trade statistics

However, it should be mentioned that Georgia was already exporting all the above mentioned commodities to the EU before DCFTA as well. Under GSP+ program, both hazelnut and mineral water were already granted duty free access to EU market, while wine export became fully liberalized under DCFTA. Therefore, it is hard to say what portion of the export rise is attributable to DCFTA.

While the DCFTA may not change Georgia's hazelnuts export to the EU significantly (there were no tariffs under GSP+ regime, and hazelnuts easily satisfy sanitary and phytosanitary standards), there may be other niche products in this category, like berries and other nuts, which may, as an example, benefit from the DCFTA through adjustments of Georgian regulations regarding product packaging.<sup>15</sup>

**Note:** Due to inaccurate external trade statistics in Georgia, G4G found that certain public data incorrectly reports significant increase of exports as a result of DCFTA. According to research conducted by Europa Institute<sup>16</sup> there was 12% increase of Georgian exports for the first six month of DCFTA implementation, and furthermore even double or triple increase in the exports of hazelnuts, copper and wine. However, our own independent research suggest that there is some increase in hazelnuts and wine export (see above) but not twofold or threefold increase. Moreover, the reported increase in copper export is complete misconception resulting from incorrect classification of Armenian copper concentrate transit through Georgia (Poti and Batumi sea ports) as Georgian export.

## 5.2. INVESTMENTS SINCE DCFTA ENACTMENT

Increase in FDI is a leading expected benefit of DCFTA. There was approximately a 5% increase in FDI in the first and second quarters of 2015, compared to the same period of 2014.<sup>17</sup> Similar to export increase, there is no data evidencing that FDI increase is attributable to DCFTA. According to a study on the economic impact of EU-Georgia DCFTA,<sup>18</sup> the substantial five-fold increase of FDI stock to Georgia following the free trade agreement is projected in the longer term.

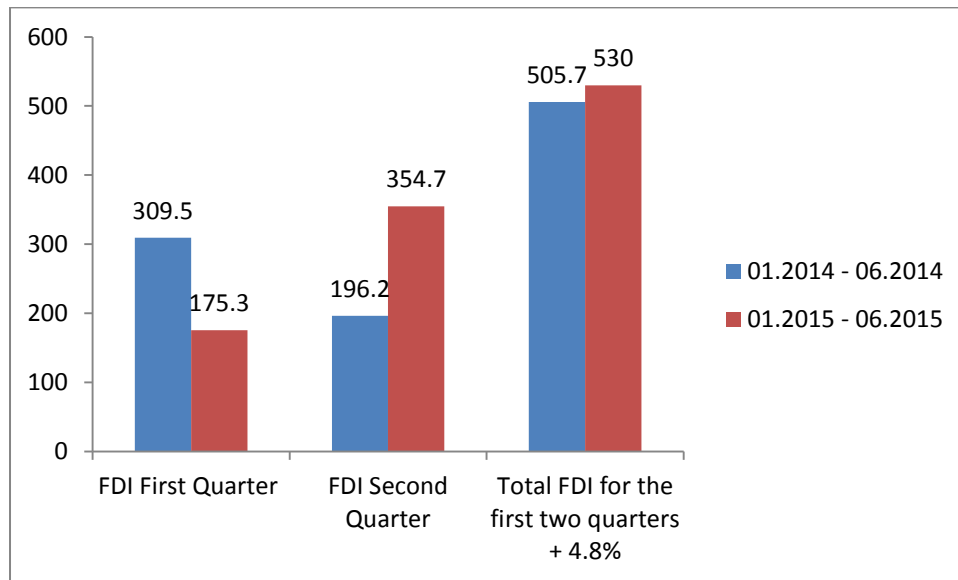
<sup>15</sup> Agriculture and Rural Development in Georgia - Challenges of EU Accession, PMCG, 2015.

<sup>16</sup> "European Union's Agreement On Deep And Comprehensive Free Trade Area and Georgia" – Antoine Schnegg, Europa Institute, 14 October, 2015.

<sup>17</sup> Source: Geostat (Georgian National Statistics Service); <http://geostat.ge/index.php?action=0&lang=eng>

<sup>18</sup> Study on the economic feasibility, general economic impact and implications of Free Trade Agreements between the European Union and respectively Armenia and Georgia according to the European Neighborhood Policy Action Plans, CASE, 2008. [http://www.case-research.eu/sites/default/files/publications/21136629\\_rc79\\_0.pdf](http://www.case-research.eu/sites/default/files/publications/21136629_rc79_0.pdf)

Table 2: FDI statistics in millions USD (Q1-Q2 of 2014 and 2015)



Source: Geostat, FDI statistics (2015 data is preliminary)

### 5.3. SUCCESS STORIES

Europe for Georgia (<http://eugeorgia.info>) is the web portal which has been launched soon after DCFTA enactment to explain the content and details of DCFTA provisions; DCFTA associated changes in legislation that may affect business activities as well as articles about the opportunities offered by opening European markets to local entrepreneurs, and assessment of how likely their products are to reach customers in the EU member states. Below we summarize the stories from the portal that demonstrate the real successes that have been achieved during the first year of the DCFTA implementation. There are additional cases of potential success (Qvevri wine, fishery, honey, armor and helmets production, herbs, Saqkabeli, etc.) that are yet to be realized, which are premature and not included.

#### VANRIK AGRO GROUP BLUEBERRY EXPORT TO UK<sup>19</sup>

Vanrik Agro Group started cultivating blueberries in the village of Laituri, in the municipality of Ozurgeti, at the end of 2012. In total, USD 5 million was invested in the project. The Group's blueberry plantation covers 50 ha but the company's management is set to expand the farm to 400 ha. In 2014, the first harvest in amount of 12 tons of blueberries was delivered for sale to the British market for the first time. In addition, they are also being exported to Russia. 1kg blueberry is sold for EUR 3,5 in Russia; while EU market's price is from EUR 4 to EUR 10.

According to Vanrik Agro Group financial manager Archil Paichadze, worldwide demand for blueberries is increasing every year and, accordingly, production is also on the rise. Next year, Vanrik Agro Group is expecting approximately 50 tons from its harvest, most of which will be exported to the EU. Indeed, a memorandum with a Polish company has already been signed, making provisions for the export of blueberries grown in Georgia to the EU.

With the support of the UNDP, blueberries are cultivated in three demonstration plots in Adjara region, on the sites of Shuakhevi, Keda and Khulo. Blueberry is a type of agricultural product, which would provide small land farmers with a significant economic effect, unlike the traditional, but at the same time low income, agricultural products. Typically, the farmers in Adjara have land which cannot be worked on by heavy machinery. However, now the Adjarian farmer can produce blueberries that value at least GEL 7000 on 2000-2200 square meters of land, which previously brought in 200 GEL worth of corn.

#### NERGETA KIWI FRUIT EXPORT TO GERMANY<sup>20</sup>

In 2011, company Nergeta cultivated 24 hectares plantation of the green Hayward Kiwifruit in Samegrelo. From the very beginning the main goal of Nergeta was to enter the EU market. For this purpose, the company implemented GlobalGAP standard and obtained relevant certificate.

In 2014, the first export of the Georgian kiwifruit to EU market happened. Georgian Kiwifruit is now available in one of the largest European supermarket chains – Lidl, Germany, which has 10 000 supermarkets all over Europe. The Lidl purchases 1kg kiwifruit for EUR 1.20 from Georgian producer and sells it for EUR 0.29 each in its chain. Nowadays, Georgian kiwifruit is sold in Stuttgart and its surrounding cities, such as Neckarsulm, Heilbronn and Sindelfingen.

According to Konstantine Vekua, the Director of Nergeta, starting from next year, Nergeta will significantly increase the quantity of its supply to German supermarket chain. "I am confident that in the next few years the Georgian kiwifruit will become one of the successful export products. My expectation is based on the laboratory tests carried out on our fruit in Germany. Test results have indicated that Georgian kiwifruit has significantly higher sugar concentration compared to European product. The quality of the fruit is comparable to those originated from New Zealand. Most importantly, sweetness and a distinctive taste are achieved through natural climate conditions and not artificial interference. This means that the product enables us to promote it on the European market as a distinct product" – says Konstantine Vekua.

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<sup>19</sup> Europe for Georgia portal: "Georgian Blueberries on sale in the UK". <http://eugeorgia.info/en/article/110/georgian-blueberries-on-sale-in-the-uk/>

<sup>20</sup> Europe for Georgia portal: "Georgian kiwifruits available in one of the largest European supermarket chains – Lidl, Germany" <http://eugeorgia.info/en/article/200/georgian-kiwifruits-available-in-one-of-the-largest-european-supermarket-chains--lidl-germany/>

## APPAREL SECTOR<sup>21</sup>

Under the mechanism known as diagonal accumulation, the DCFTA agreement enables Georgia to provide the EU market with goods produced with materials from Turkey and to export them tariff-free. Negotiations regarding application of diagonal accumulation between Georgia and Turkey are underway and it is expected to be completed by the end of 2015.

Today six textile companies established with Turkish investments operate in Georgia. They use raw materials imported from Turkey to produce goods in Georgia and then transport them back to Turkey in order to have them exported to EU markets. Adjara Textile, Batumi Tex, and BTM Textile are the largest textile companies established in Georgia with Turkish investments, and all three operate in Adjara. Adjara Textile exports USD 10 million worth of products every year, while Batumi Tex and BTM Textile export USD 3,900 million and USD 15 million, respectively. Adjara Textile produces Puma, Adidas, and other branded kits for different soccer teams, such as Borussia Dortmund, Arsenal, Galatasaray and others. Negotiations are also currently underway with Victoria's Secret.

Once the mechanism of diagonal accumulation becomes effective Turkish textile companies established in Georgia will be able to export the products directly from Georgia and enjoy the same tariff preferences.

According to Osman Mzhavandze, Director of the International Investors Association: "Import quotas no longer apply to Georgian goods exported to Europe, which is very good. In addition, shipped goods will be labeled "Made in Georgia." We have received numerous calls from Turkish companies. Today Turkish companies operating in Georgia export their products via Turkey, but after the finalization of the agreement, they will export directly from Georgia, consequently increasing investments."

## ANCHOVY PRODUCTION<sup>22</sup>

Anchovy harvested from the waters off the Georgian Black Sea shore will be one of the first products to be exported from Georgia to EU markets under DCFTA. To see how effectively the National Food Agency of Georgia controls local production, the Directorate General for Health and Consumer Affairs (DG SANCO) under the European Commission visited Georgia for the second time in November 2014. Exports of anchovy to Europe will be decided based on the conclusions of this mission.

According to Kakha Sokhadze, the Head of the Food Safety Department at the National Food Agency, anchovy was selected as the top product to be exported following a joint decision by Georgia and the European Union: "The Deep and Comprehensive Free Trade Area agreement between Georgia and the European Union brought about a question about possible goods to be exported from Georgia. Based on risk analysis, two products, honey and Black Sea anchovy were named. From the very start, goods with potential to succeed in the EU market were singled out."

At this point, five Georgian companies hold fishing licenses: Paliastomi 2004 LLC, Geofish Company LLC, MBM LLC, Iceberg 2 LLC and Black Sea Products LLC. These companies operate processing factories in the Black Sea port of Poti. They generally produce three types of goods with fishmeal dominating production, followed by fish oil and live fish.

MBM LLC and its partner company Madai LLC currently export fish oil to Turkey. In the spring of 2014, the company discovered the possibility of exporting fish to the EU market. According to the director of the factory, Murman Kharabadze, access to the EU market will bring considerable financial rewards for the company and will increase the motivation of its employees: "We invest as much effort in fish production as some of the world's leading players, such as Peru and Morocco, but we sell our products USD 300 cheaper per ton, which is a significant financial loss. It makes us extremely upset and hurts the employees' motivation to lose 300-400 thousand USD because of the absence of access to the world's open markets. This is why entering the EU market will benefit us tremendously."

Iceberg 2 LLC has been in fishery since 2005, producing 1,200 tons per day and employing 200

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<sup>21</sup> Europe for Georgia portal: "Negotiations with Turkey in the Final Stage". <http://eugeorgia.info/en/article/213/-negotiations-with-turkey-in-the-final-stage/>

<sup>22</sup> Europe for Georgia portal: "Fish Factories Getting Ready to Export to the European Union". <http://eugeorgia.info/en/article/215/fish-factories-getting-ready-to-export-to-the-european-union/>

people (with average salary is 1,500 GEL). According to the manager of this company, they have invested almost 3,000,000 GEL in European-standard equipment and aligning its infrastructure to relevant standards. The company plans to adopt ISO 22000:2005 and HACCP before the end of 2015. Currently the company exports to Turkey, Azerbaijan, Armenia and Israel.

Tengiz Sarishvili, the founder of Iceberg 2, characterizes past negotiations with European companies as fruitless. According to him, the Association Agreement makes export a real possibility for the first time: “Europeans are aware of our products. Serbs and Bulgarians visited us in the past and took samples to test in the lab. However, they needed guarantees, expecting us to provide comprehensive, authentic, and reliable documentation, without which it is impossible to export goods to Europe. Otherwise, there is no chance in the world, which is why both they and we are waiting. After the Association Agreement, the Serbs started to visit us more frequently. Our products are scarce and therefore in high demand in Europe. Black Sea anchovy is famed for its quality. Our products contain 74 percent protein, while others contain only 64 or 65 percent. Peru and Morocco also produce anchovy, but the quality is not as good. We process fresh fish directly and produce fishmeal, and the best pieces are used to produce canned and other types of seafood. Fish bones are used to make lower quality fishmeal.”

## **5.4. EU AND OTHER DONOR SUPPORT TO GEORGIA**

The European Commission has been present in Georgia since 1995 providing substantial budgetary support and technical assistance to help Georgia’s transformation and implementation of the economic, social and political reforms. After signing the AA in June 2014 the EU has intensified its support to Georgia. Below is a non-executive list of several key EU projects and instruments aimed at helping Georgia in implementation of AA and DCFTA reforms.

### **COMPREHENSIVE INSTITUTIONAL BUILDING (CIB)**

The National Food Agency (NFA) is implementing EU funded Comprehensive Institutional Building (CIB) program. It is a five-year program (2012-2017) with a budget of EUR 5.6 million. The program is focused on equipping NFA, raising efficiency and qualifications of the agency employees through targeted trainings, and technical assistance to Revenue Service SPS control department and Agricultural Laboratory of Ministry of Agriculture (MoA).

### **ENPARD<sup>23</sup>**

ENPARD is an EU funded five-year (2013-2018) program with a total budget of EUR 52 million. The program scope includes implementation of the development strategy of agriculture, establishment of consulting services for farmers in at least 30 districts, support of at least 350 cooperatives, the creation of a policy department in MoA, and technical support to agricultural institutes and research.

### **FACILITY FOR THE IMPLEMENTATION OF THE ASSOCIATION AGREEMENT IN GEORGIA**

Another EU funded technical assistance program (2015-2017 with a total budget of EUR 2.2 million) provides targeted support to the Georgian Government in coordinating the implementation of the Association Agreement (including DCFTA, Visa Liberalization and Readmission Agreement and related Action Plan) agenda, including strengthening its capacity to monitor and assess this process and to strengthen the institutional capacities of the relevant line ministries and other public institutions to carry out the reforms that will take place in the framework of the implementation of the Association Agreement. The process involves primarily, at the Government level, the Administration of Government (at Prime Minister’s Office), the Office of the State Minister for European and Euro-Atlantic integration (OSMEEAI), the Ministry of Foreign Affairs and the Ministry of Economy and Sustainable Development.

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<sup>23</sup> European Neighborhood Program for Agriculture and Rural Development; <http://enpard.ge/en/>

## SME FACILITY

EU allocated EUR 37.5 million to a project beginning in 2016 focused on agricultural development. The key component of the program is to issue loans to farmers to support production according to EU standards.

## OTHER EUROPEAN DONOR SUPPORT

EBRD is refinancing (first step) financial institutions in Ukraine, Moldova and Georgia for issuing loans to SMEs with total amount of EUR 60 million.

From 2015-2017, EBRD is boosting loan volume to EUR 200 million for SMEs. Additionally, EBRD will provide business advice in DCFTA-related areas for SMEs through local consultants and international experts<sup>24</sup>.

In addition, there are individual donor organizations of EU member states (Austrian Development Agency, Swedish International Development Cooperation, KfW, GiZ, Norwegian Government, etc.) helping Georgia in different areas.

## USAID SUPPORT TO GEORGIA

USAID supports the Government of Georgia in implementation of DCFTA through several technical assistance projects. Governing for Growth (G4G) is a 5-year USD 19,3 million project which helps the Government in complying with DCFTA obligations in policy areas such as tax, customs, energy trading as well as works with Ministry of Economy and Sustainable Development (MoESD) on overall DCFTA coordination and awareness rising.

Advancing CSO Capacities and Engaging Society for Sustainability (ACCESS) is another 5-year USAID project with a total budget of USD 5.5 million. Among other activities the project supports overall institutionalized framework for public consultation and collaboration under DCFTA awareness campaign.

Restoring Efficiency to Agricultural Production (REAP) is a 5-year project with USD 19,5 million budget working on improvement of agro-production and crop insurance. REAP is raising awareness on DCFTA benefits and requirements for the agricultural sector.

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<sup>24</sup> "European Union's Agreement On Deep And Comprehensive Free Trade Area and Georgia" – Antoine Schnegg, Europa Institute, 14 October, 2015.



**USAID Governing for Growth (G4G) in Georgia**

**Deloitte Consulting Overseas Projects LLP**

**Address: 85 Z. Paliashvili Street, Tbilisi**

**Phone: +995 322 240115 / 16**

**E-mail: [info@g4g.ge](mailto:info@g4g.ge)**