



EU GEORGIA TRADE INSIGHT

Issue 2 FEBRUARY 2013

CONTENTS

DCFTA Highlights

- The fifth round of DCFTA negotiations took place in Tbilisi on 29-31 January 2
- The EU-Georgia Business Council (EUGBC) has created a business trade Working Group to support the DCFTA process 2

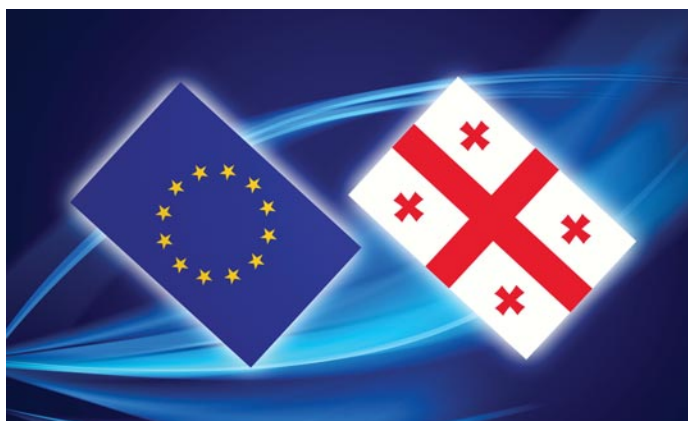
Topic At A Glance

- Competition policy in the spotlight 3

Did You Know That...

- The EU assistance to Georgia represents €180 million between 2011-2013 6
- The EU has reformed the Generalised System of Preferences (GSP) regime 7
- Two new publications released on the EU trade issues 8

Upcoming Trade Events 8



Dear Reader,

It is with great pleasure that we present you the second issue of the EU Delegation newsletter on EU-Georgia trade relations.

As you may know, the Deep and Comprehensive Free Trade Area (DCFTA) negotiations, which form an integral part of the Association Agreement, started in February 2012. Good progress is being made and both sides have been working extensively to try to conclude the talks as soon as possible this year.

2012 was a significant year for Georgia, which further advanced towards political association and economic integration with the EU. The EU wants to develop this integration process further, as long as Georgia continues to show that it is our willing partner, accepting EU values and standards. In this regard, we appreciate the readiness of the new government to maintain continuity in these efforts.

The Newsletter aims to provide you with the latest developments in the trade area. It will be solely distributed via electronic mail. Do not hesitate to forward it to interested persons or suggest new recipients by sending an email to Ms Virginie Cossoul, Trade Attaché at the EU Delegation (virginie.cossoul@eeas.europa.eu)

The EU Delegation to Georgia



DCFTA Highlights

The fifth round of DCFTA negotiations took place in Tbilisi on 29-31 January

The Brussels delegation was led by Mr Philippe Cuisson for the EU side and by Mr Mikheil Janelidze, Deputy-Minister of Economy, who now leads the Georgian side following the 1 October parliamentary elections. This time, 8 chapters were discussed in 'Working Groups', with the relevant experts from both sides: trade in goods; trade-related energy; intellectual property rights; sanitary and phytosanitary measures; rules of origin; customs and trade facilitation; trade and sustainable development, and services.



Both sides continue the negotiation process with full commitment and engagement. In addition to face-to-face rounds, EU and Georgia teams meet frequently via video-conference to advance discussions on more technical elements of the chapters. In all areas under negotiation, progress has been very good; for many chapters the talks are close to completion. Parties also draw closer to their respective positions in more complex areas, where views have been more divergent; this is a typical dynamic of negotiations. The discussions on tariff offer for goods are close to completion. The EU and Georgia will soon focus on discussing the market access offer in services area, with the aim to improve access to both markets for service providers (cross-border and establishment, as well as temporary presence of natural persons for business purposes).

In all areas under negotiation, progress has been very good; for many chapters the talks are close to completion.

The sixth round of negotiation will take place in Brussels on 18-22 March 2013.

The EU-Georgia Business Council (EUGBC) has created a business trade Working Group to support the DCFTA process

The EUGBC has recently established a business-driven Working Group to support the ongoing trade negotiations process the EU and Georgia are engaged in. The Working Group is composed of various business associations of Georgia and companies. The activities of the DCFTA Working Group mainly focus on discussing and analyzing specific aspects of EU-Georgia trade relations and policy, particularly with respect to sector specific reforms implemented in the framework of the DCFTA process.

This is an important platform for business community to engage in the dialogue with the Georgian and EU authorities. Several meetings took place with both Parties.

For more information, please contact Mrs Tamar Khuntsaria (tamar.khuntsaria@eugbc.net)



Topic At A Glance

Competition policy in the spotlight

- Competition is among the topics discussed at the DCFTA negotiations
- Competition is a priority of the new Government, which is now revising the competition law

A robust competition policy is an essential part of free trade, which ensures that the benefits of liberalisation and of the related regulatory reform are not undermined by anti-competitive conduct of private and public parties. In view of its importance, competition is usually tackled in free trade agreements, in order to ensure that a certain discipline is put in place.

A robust competition policy is an essential part of free trade

In the preparation of the negotiations for a Deep and Comprehensive Free Trade Area (DCFTA), Georgia has started to put in place a modern competition policy in line with international standards. The reform implies adopting a comprehensive competition law and establishing an independent competition agency able to enforce competition rules. In this context, Georgia has drafted a Comprehensive Strategy in Competition Policy, outlining the various steps it intends to take in this area.

The EU is supporting Georgia in this process and the Georgian competition agency receives the support of the Swedish Competition Authority, through a project financed by the Swedish International Development Cooperation Agency (SIDA).

Interview with Christian Blume, Senior Case Officer at the Swedish Competition Authority

Christian Blume, Senior Case Officer and Project Manager at the Swedish Competition Authority (Konkurrensverket) is involved in this project. He helps us to better understand the importance of competition.

Q: In your view, why is competition policy important and what are the main challenges for a transition country?

A: I am convinced that a strong and effective competition policy, materialized into an efficient legislation and an independent competition authority, is vitally important in order to safeguard a sound competition environment among the incumbent actors on the market, but also – which is of importance not least from a transition country perspective – to attract foreign investment. It is very important in order to implement economic reforms such as liberalization and deregulation of markets.



Christian Blume, Senior case Officer at Konkurrensverket

Competition policy is a key attribute of any well-functioning market economy and most countries have

acknowledged the crucial role it has to play. It is a toolbox to tackle distortive practices by market players, irrespective of whether they are private or state owned. Concretely, competition policy protects society/consumer against anti-competitive behaviours, for instance when companies 'agree' on prices, thus leading to consumers ending up paying more for less quality. Therefore, it is in the economic interest of the consumers to have adequate competition legislation and an effective competition law enforcement authority as a guarantee against cartels and abuse of dominant positions.

It is also important to stress that competition policy is not here to impede companies from competing. On the contrary, it is here to ensure that the competitive process on a market functions optimally and allow competition between companies on the merits. Only anti-competitive behaviour is targeted and punished.



Q: Can you describe the SIDA project which aims to assist the Georgian Competition Authority and the steps which have been undertaken so far?

A: In order for Georgia to negotiate and conclude a Deep and Comprehensive Free Trade Area (DCFTA) with the European Union, a competition policy has to be in place which entails the adoption of antitrust legislation and the establishment of an independent competition authority.

Since 2009, the Swedish Competition Authority (SCA) has been in contact with its Georgian counterpart (the Competition and State Procurement Agency - CSPA) and has been asked to comment on the draft competition law during the legislative process as well as participating in competition advocacy conferences. In July 2010, these contacts were formalized into a cooperation agreement between SCA, CSPA and the Swedish International Development Cooperation Agency (SIDA) aiming at assisting the CSPA to enhance its administrative capacities and investigative and decision-making powers.

The agreement runs until the end of 2013 and contains a wide range of project goals and planned activities, including:

- Capacity building for the development of the CSPA, including training seminars and study visits for the staff;
- Enhancing the skills of the CSPA's competition law enforcement staff through professional training in competition law;
- Increasing the skills of Georgian judges dealing with competition infringement cases,
- Raising the awareness and skills related to competition law of Sector Regulators, such as the Georgian national Communications Commission and the Georgian National Energy and Water Supply Regulatory Commission;
- Raising the awareness of private and public sector and civil society through round-table discussions on competition.

Many steps and measures have been taken to achieve these ambitious goals, and we have concluded some of the activities, but there is still much to be done in this field.

Q: The new Georgian Government is advocating for a strong competition policy, which is listed among its top priorities. However, some of the businesses fear that a new competition policy might mean a return to burdensome regulations and set excessive powers of the Agency, what are your views on this?



A: This is a rather delicate question to answer. Every country has its own history as well as legal traditions, Georgia included, and the public views and opinions on legal matters will of course be influenced by these factors. However, I am fully convinced that if Georgia manages to create an effective competition law enforcement structure based on clear, accurate and well-adapted competition legislation, the administrative burden on the business involved will be decreased to a necessary minimum. In my opinion there is no such thing – and perhaps never should be such a thing – as “free competition” in the meaning “free and unregulated competition”. We talk about safeguarding competition, which implies setting a legislative level playing field for the companies on the market. This cannot be done without some kind of regulation and enforcement system. The main task of the competition policy is to protect the process of competition rather than individual competitors, and thereby in the end safeguard the economic interest of the consumers. The way I understand your question, possible “excessive powers” would relate to the law enforcement capacities with which the authority would be equipped, and these would, as I see it, possibly be excessive if they are disproportionate in relation to the before mentioned tasks and goals which have been set up for the authority.

A competitive "home" market also creates stronger national players who will become more attractive partners for investors since they may also have stronger growth potential.

Q: Do you think that a sound competition policy can play a role in attracting investments, and if so, in which way?

A: Competition has a lot to do with economic governance. We know that the general environment of a country is crucial for an investor, who will be reluctant to invest in a place where the rules are not predictable. Legal certainty and predictability are the two key notions for investors and they will only invest where there is a level playing field for all companies operating on the market, irrespective of their 'nationality'. Only in those circumstances we can expect investors to make long term commitments in a given market.

A competitive "home" market also creates stronger national players who will become more attractive partners for investors since they may also have stronger growth potential.

I therefore believe that, by creating a transparent and non-discriminatory legal framework, we are in the process of creating good conditions for attracting foreign investors.



Did You Know That...



The EU assistance to Georgia represents €180 million between 2011-2013

The general EU assistance to Georgia is provided by the European Neighbourhood Policy Instrument (ENPI), which aims to assist the countries neighbouring the EU (both in the East and South) in their reform process. Georgia has received a significant envelope which represents 180 million for the period 2011-2013. On top of this envelope, additional 22 million was mobilised in 2012 in recognition of Georgia's reform efforts, in line with the "more for more" policy introduced by the Eastern Partnership initiative. In terms of financial assistance, and in view of the increasing importance of the sector, support for trade-related areas accounts for more than 30% of the global envelope and aims at supporting the DCFTA reform process. In particular, assistance contributes to putting in place a functioning Quality Infrastructure, strengthening the quality of food safety and assisting institutional, economic and legal reforms. Furthermore, the EU is dedicated to help Georgia to enhance its economic performance and make it more sustainable by strengthening its export competitiveness.

This assistance consists of various instruments, such as Twinning (long-term cooperation between administrations), TAIEX (Technical Assistance and Information Exchanges), SIGMA (Support for Improvement in Governance and Management) or Budget Support. They put forward public expertise, most often provided by experts from the EU Member States to facilitate approximation to EU legislation and best practices. In addition, a special emphasis is set on improving operational capacities of key institutions thanks to a specific programme called Comprehensive Institution Building (CIB) Programme. It targets the National Agency for Standards and Metrology, the National Accreditation Centre as well as the Food Safety Agency.



The EU has reformed the Generalised System of Preferences (GSP) regime

The EU adopted a new [GSP regulation](#) on 31 October 2012. The new regulation will apply as of 1 January 2014. The EU customarily reviews the application of the system to apply the "lessons learned". The review also serves to adapt the regulation to the changing circumstance in the world economy, to take account of economic growth or of increased vulnerability of some countries' economies. What did the EU change in the GSP rules?

1. Narrowed the geographical scope of regulation - to better focus on countries most in need (current scheme covers many dynamically growing countries or those with strong resource base, such as Russia or China)
2. Increased its focus on domestic framework in beneficiary countries - to further promote core principles of sustainable development and good governance (and provide an incentive to those countries who reform domestic policies in this direction)
3. Strengthened the monitoring of implementation of applicable rules – to ensure better compliance and clearer review procedures in case of non-compliance

Since 1971, the EU has implemented its GSP (Generalised System of Preferences) to promote export from developing countries and economies in transition, allowing them to export to the EU at reduced tariff duties. Georgia benefits from this system since 1993.

The needs of developing countries might vary, therefore three types of preferences are possible under the GSP:

- (1) General **duty reductions** for most of the tariff lines (66%) for qualified **beneficiaries**.
- (2) **Zero duties** for essentially the same 66% tariff lines for countries which suffer from low diversification of exports and/or are vulnerable, land-locked, but which implement core human rights, labour rights and other sustainable development conventions ("**GSP+**"). There are 16 beneficiaries – among them Georgia - which exported in 2011 € 4 billion worth of goods to the EU thanks to these preferences. This is 5% of all GSP preferences
- (3) **Full duty free, quota free** access for all products except arms (Everything But Arms, or "EBA") for Least Developed Countries (**LDCs**).

The new scheme will be focused on fewer beneficiaries (89 countries instead of 171) to ensure more impact on countries most in need. At the same time, more support will be provided to countries which are clearly committed to implementing international human rights, labour rights and environment and good governance conventions.

Georgia has benefited from the GSP+ since 2006. Georgia's preferential access to the EU market is based on the second type of conditionality and depends on Georgia's effective implementation and compliance with core international Conventions related to sustainable development: labour, environment and human rights Conventions. For the EU, relevant reports of competent international organisations, such as ILO, form the benchmark of the compliance assessment. The new GSP Regulation also enables to take account of reports from the civil society organisations, social partners and other



EU institutions. The new legislation requires all current beneficiaries to re-apply for the scheme, among them Georgia, in the course of 2013. In this context, progress with regard to implementing several ILO recommendations will be crucial for Georgia's eligibility.

More information on the GSP can be found on European Commission website: <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/>.

Comparative advantages offered by the GSP+:

Hazelnuts:
MFN duty: 3,2 %
GSP+: 0 %



Natural honey
MFN duty: 17,3 %
GSP+: 0 %



Two new publications released on the EU trade issues

EUGBC is highly involved in awareness-raising activities in the trade field and has recently released two publications, with the funding of the EU Delegation. The two brochures aim to provide information on EU requirements in order to export products to the EU. The two brochures will help business sector to better understand the European trade practices and rules in the following sectors:

["How to export food products of non-animal origin from Georgia to the EU market";](#)

["How to export alcoholic and non-alcoholic beverages and water products from Georgia to the EU market".](#)

The brochures were presented during a seminar on "EU-Georgia trade relations: How to export to the European Union", organized last December by the EU Delegation in cooperation with EUGBC. It gave the audience the opportunity to better understand the requirements in order to export food products of non-animal origin as well as alcoholic and non-alcoholic beverages and water products from Georgia to the EU market.

Upcoming trade events 2013

- **18-22 March** - The 6th round of DCFTA negotiations will take place in Brussels
- **16-18 April** - An Investment Conference, in the framework of the East-Invest EU project will be held in Tbilisi, with the support of the Georgian Chamber of Commerce and Eurochambres (<http://www.east-invest.eu/en/activities/for-smes/investors-fora>)
- **April** (exact date tbc) - The Ministry of Economy, the EU Delegation and GIZ will hold a roundtable to present the new competition law and discuss competition policy

For more details regarding these events, contact Ms Virginie Cossoul (virginie.cossoul@eeas.europa.eu)

