

# WORLD TRADE ORGANIZATION

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**Working Party on the  
Accession of Georgia**

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## **ACCESSION OF GEORGIA**

### Communication from Georgia

The following communication, concerning developments in Georgia since the first Working Party meeting, has been received from the Permanent Mission of Georgia with the request that it be circulated to members of the Working Party.

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### **Progress Report on Developments in Georgia since the first Working Party (3 March 1998)**

#### **I. BACKGROUND**

Georgia submitted its application for accession to the World Trade Organization in July 1996. Observer status was granted and a Memorandum on the Foreign Trade Regime was submitted on 7 April 1997. Responses to a large number of questions submitted by Members were submitted on 13 October 1997 and market access offers were submitted 2 February 1998 (services) and 19 February 1998 (goods). The first Working Party meeting was held on 3 March 1998, together with bilateral negotiations on market access with a number of interested Members.

Following the first Working Party meeting, Members submitted additional questions, and a large number of specific actions have been taken to bring Georgia closer to meeting the requirements for accession. Additional bilateral market access negotiations were held 20-24 July 1998, resulting in substantial further progress towards accession. On the eve of the second Working Party and accompanying bilateral meetings, scheduled to be held in Geneva 7-13 October 1998, this report summarizes developments since the conclusion of the first Working Party meeting.

#### **II. KEY SOCIO-ECONOMIC PARAMETERS**

1. In 1997, real growth of GDP was 11.3% against 10.6% in 1996. In the first quarter of 1998, the real growth of GDP was 11.2% in comparison with the same period of last year. In the first quarter of 1998 GDP amounted to 1.132 billion Lari (US\$870.7 million).

2. The annual inflation rate was fixed at the level of 7.3% in 1997. In the first quarter of 1998 the monthly average inflation rate constituted 1.0%.

3. The deficit of State budget was reduced to 3.7% of GDP in 1997 against 4.5% of GDP in 1996, and it is planned to decline further to 3.1 % of GDP in 1998.

4. In 1996, Georgia had trade relations with 82 countries; last year this number increased to 93. Foreign trade turnover increased by 30% in 1997, rising to a total of US\$1.108 billion. Exports amounted to US\$250 million (in 1996 – US\$198.8 million). There was a growth of exports, but imports also increased to the level US\$858.6 million against – US\$628.1 million in 1996, especially due to the need to import energy and grains. Therefore, it was the worsening of trade balance from: - US\$429,3 million in 1996 to – US\$608,4 million in 1997.

In the first quarter of 1998 foreign trade turnover increased by 20% in comparison with the same period of last year and amounted US\$249 million. Exports amounted to US\$38.9 million and imports – US\$210.1 million against the appropriate figures in the first quarter of 1997 – US\$37,3 and US\$171,3 million. So, in the mentioned period it was further worsening of trade balance: from - US\$134.4 million to – US\$171.2 million. 75% of deficit of foreign trade balance falls on CIS countries.

The total trade turnover (including electric energy and natural gas and except non-organized trade) in January-May 1998 amounted to US\$ 441.7 million, that is 1.2 times more than for the same period in 1997. From this figure the export amounted to US\$89.7 million while the import constituted US\$352.0 million against US\$77.7 million and US\$292.2 million accordingly for the same period in 1997.

Here we attach three tables: Georgia's ten biggest trade partners in 1996, 1997 and for January-May of 1998.

Table 1 Georgia's 10 biggest trade partners in 1996:

	Thousand US\$	Percentage share to the total sum
Total foreign trade turnover	826 870	100.0
Among them:		
Russia	179 425	21.7
Azerbaijan	95 641	11.6
Turkey	95 084	11.5
Bulgaria	51 128	6.2
Ukraine	40 369	4.9
United Kingdom	39 244	4.7
Romania	38 621	4.7
Armenia	37 532	4.5
Italy	30 880	3.7
USA	28 163	3.4

Table 2 Georgia's 10 biggest trade partners in 1997

	Thousand US\$	Percentage share to the total sum
Total foreign trade turnover	110 8697	100.0
Among them:		
Russia	198 967	17.9
Turkey	152 673	13.8
Azerbaijan	130 981	11.8
USA	67 418	6.1
Ukraine	58 365	5.3
Bulgaria	50 287	4.5
Virginia Is.(UK)	47 988	4.3
Italy	42 243	3.8
United Kingdom	41 938	3.8
Germany	41 803	3.8

Table 3 Georgia's 10 biggest trade partners in the January-May of 1998

	Thousand US\$	Percentage share to the total sum
Total foreign trade turnover	441 706.4	100.0
Among them:		
Russia	74 757.2	16.9
Turkey	50 841.1	11.5
Azerbaijan	38 385.4	8.7
USA	32 242.6	7.3
United Kingdom	30 415.6	6.9
Germany	22 910.8	5.2
Ukraine	17 019.2	3.9
Romania	16 040.8	3.6
Netherlands	15 244.1	3.5
Italy	15 113.3	3.4

Table A Ten major foreign investor countries for Georgia

No.	Investor country	The number of the enterprises, where directed foreign investments	Volume of registered investment (thousand US \$)	Share in per cent
1	Israel	6	18 079.511	13.41
2	Ireland	7	17 617.53	13.07
3	Russia	23	14 405.738	10.69
4	United Kingdom	22	13 808. 144	10.25
5	Turkey	12	11 968.420	8.88
6	USA	19	10 220.426	7.58
7	South Korea	2	9 120.500	6.77
8	Germany	26	8 748.206	6.49

9	The Netherlands	9	6 516.770	4.84
10	Is. of Bermuda	2	4 120.190	3.06

### Privatization

Following the privatization of small enterprises that was practically accomplished covering approximately 12 thousand enterprises, the process of privatization of medium- and large-scale enterprises continues successfully. The Common Privatization Plan in certain areas of national economy for 1998-2000 has been approved by Decree (No 776 of 29 December 1997) of the President of Georgia, which envisages the conclusion of the mass privatization process within 3 years. On 5 July 1998, the President of Georgia issued the Resolution No 403 that provides for "The Strategy for Privatization of Enterprises of the Energy Sector". The privatization process of energy distribution sector has been started. The information concerning the terms of selling the 75 per cent of stocks of the Joint Stock Company (JSC) TELASI (Tbilisi electric energy distribution network) has been already published. In accordance with the terms of the common privatization plan the controlling block of shares (51%) of municipal energy companies will be sold by tenders.

There were 320 enterprises in Georgia in which the share of the Government accounted for 5-50 per cent. These shares are subject to privatization in 250 enterprises and this process will finish by the end of 1998.

Agreement has been reached with the World bank to provide necessary financial aid for auditing and determining the value of the enterprises of energy distribution and generation sector, also to assist in organizational issues of selling their stocks in order to ensure the transparency of the privatization process.

The conclusion of the privatization process of enterprises of energy distribution sector is anticipated within 8 months, and the conclusion of privatization of enterprises of energy generation sector is anticipated within 18 months.

The process of privatization of enterprises of strategic importance in transport and telecommunications sectors and of water supply and sewage systems is being started. Namely, the process of privatization of Port of Poti and Georgian railway is being commenced.

The 49 per cent of stock of the joint-stock company "Georgian Airlines" is subject to privatization.

### III. LEGISLATIVE AND REGULATORY ACTIONS

The following draft laws have passed the first hearing in the Parliament of Georgia during autumn session: Law on Development of Small Business, Law on Securities Market, Law on Denationalization of Non-agricultural Lands that are in Ownership of Natural and Legal Persons, Law on Management and Disposal of State Owned Land.

The following specific actions have been taken to enact or revise legislation or regulations to meet specific WTO requirements:

**Customs Valuation Regulations:** Working with technical assistance from IRIS, the Ministry of Finance prepared detailed regulations to guide the Customs Department in applying the provisions of

the WTO Agreement on the Implementation of Article VII of the GATT 1994 (Customs Valuation Agreement). These regulations are expected to be formally issued by the Ministry of Finance in the near future. A training seminar to introduce the new regulations to Customs officials was presented by the Crown Agents valuation expert from 6-10 July 1998.

**Rules of Origin Regulations:** Also with technical assistance from IRIS, the Ministry of Finance prepared detailed regulations for the Customs Department covering the requirements of the WTO Agreement on Rules of Origin. The Rules of Origin regulations are expected to be issued in final form in the near future.

**Antidumping, Countervailing Duties, and Safeguards Regulations:** The Government of Georgia has decided not to proceed with detailed legislation in these areas. While Georgia retains the right to apply these measures at some point in the future, it will not do so until detailed legislation and implementing regulations fully consistent with WTO requirements have been prepared.

**Presidential Decree on Managing the WTO Relationship:** The Ministry of Trade, working with IRIS technical assistance, has prepared a draft presidential decree assigning the responsibilities for managing various aspects of the relationship between Georgia and the WTO after accession is achieved. Having such a decree in place will help Georgia transition smoothly from the accession to the post-accession phase. It is expected that the decree will be issued later in 1998. Within the Ministry of Trade, a new Deputy Minister has been appointed with responsibility for managing the WTO relationship.

**Excise and VAT Taxes:** The Ministry of Finance is working with IRIS to agree on the reforms of the excise and VAT tax systems that are necessary to meet WTO standards. The necessary legislation is expected in the fall session of the Parliament.

**Intellectual Property Rights:** Work has continued in many areas related to the TRIPs Agreement. In particular:

- On 20 August 1998, Georgia formally adhered to the Protocol of the Madrid Agreement Regarding the International Registration of Marks;
- a draft copyright law, which will supplement the provisions of the Civil Code on copyright, has been prepared for submission in the fall session of the Parliament;
- drafts of the patent law and the trademark law have been prepared with participation of foreign experts for submission to the fall session of the Parliament. The draft trademark law is scheduled for consideration in the fall session of the Parliament;
- the President approved the regulations establishing the National Centre of Intellectual Property.

**Log Exports:** The Law on Regulation of Forest Exploitation in the Territory of Georgia was adopted by Parliament at the end of June 1998. This law provides that exports of logs will be allowed, subject only to licences issued by the Ministry of Trade and Foreign Economic Relations. These licences will be granted in all cases in which the logs in question have been cut in conformance with the requirements of the State Forest Department. The Law on Export Licence Fee for Wood Raw Products of 31 March 1998, has been abolished. The purpose of the export licence requirement is to prevent the export of logs taken from Georgia's forests in violation of the environmental protection regulations.

**Scrap Exports:** The Law of Georgia on Regulation of Export and Re-export of Scrap and Waste of Black and Coloured Metals was passed by Parliament at the end of June 1998, and was signed by the President in June. This law requires an export licence and the payment of a special duty, set at 28 Lari (approximately \$21) per ton for scrap other than copper or aluminum; at 475 Lari (approximately \$355) per ton for copper, and at 320 Lari (approximately \$240) per ton for aluminum. The new law is effective from 1 July 1998, and abolishes the prohibition on scrap exports contained in the Law of Georgia No. 637-II of 21 February 1995.

**Investment Law:** The necessary changes have been made to the Law of Georgia on Promotion and Guarantees of Investment Activity. Namely, paragraph 3 of Article 2 of this Law has been removed, which stated that: "Enterprise in which the share of foreign investor is not less than 25 per cent, enjoys the same rights as the foreign investor".

**Excise Stamps:** A Presidential Decree has been issued that provides for introduction of excise stamps in Georgia on production, sale and import of tobacco products and alcoholic beverages. The reasons for introduction of excise stamps are: improvement of the tax collection and registration system and avoiding the problem of falsification of these products.

**Licensing of Production, Sale and Import of Cigarettes:** A Presidential Decree has been issued in Georgia establishing the licensing requirements for import (HS codes 2402,2403), production and sale of tobacco products. The main objective for introducing this measure is the protection of human health of the population.

**Business Licensing Law:** A new draft law concerning licensing of businesses has been prepared for consideration in the Parliament in the fall session. The law will apply equally to both domestic and foreign-owned businesses in Georgia. The draft is quite favorable to business in that it restricts the authority of ministries to control businesses through the issuance of licences to those situations involving safety, consumer protection, environmental protection, or national security issues. The draft is scheduled for Parliamentary consideration in November 1998.

**Preshipment Inspection:** The Government has not yet made a decision as to whether preshipment inspection will be required. If the decision is positive, regulations will be prepared that will conform with the Agreement on Preshipment Inspection.

**Administrative Procedure Act:** Georgia is preparing a general Administrative Procedure Act, which will establish the procedures by which judicial appeal of administrative actions may be pursued. Although certain rights of appeal are contained in specific laws or regulations (for instance, there is a specific right of appeal contained in the customs valuation and rules of origin regulations), the Administrative Procedure Act will systematise such rights in all areas, thus covering such additional WTO-related areas as business licensing, appeal of export or import licence denials, etc. The law is expected to be presented to the Parliament in the fall session.

**Insurance Legislation:** Legislation is being prepared to liberalize the restrictions on foreign ownership in the insurance industry (currently 49 per cent limitation).

**Government Procurement Legislation:** A draft law on government procurement, based on the UNCITRAL model law and prepared with the help of European experts through GEPLAC, has been prepared and is under consideration in the Ministries. It is expected that this law will be considered by Parliament in October 1998.

**Information Technology Agreement:** Georgia is in the process of preparing the required submission for conformance with the Information Technology Agreement.

#### IV. ADMINISTRATIVE ACTIONS

**Customs User Fee:** The Ministry of Finance has worked with IRIS to study of the costs of the Customs Administration in order to determine an allowable level for the Customs User Fee. Experience of other countries suggests that a fee in the range of 0.1 to 0.15 per cent may be acceptable.

**Sanitary and Phytosanitary (SPS) Measures:** Based on discussions with the Ministries of Foreign Affairs and of Agriculture, IRIS provided short-term technical assistance to assist the various ministries concerned with sanitary and phytosanitary import control measures to revise their procedures to meet WTO requirements. A detailed working plan was prepared to bring Georgian procedures into conformance with WTO requirements. An "Enquiry Point" has been established as required by WTO. An Interministerial Coordinating Body for SPS Implementation (ICB) has been established, chaired by the Deputy Minister of Agriculture responsible for international issues. A working-level body has been established under the ICB, with representatives of each concerned agency identified. A Project Director and staff have been appointed, and an office provided and equipped. As of July 1988, the enquiry point was in full operation.

**Agricultural Subsidies:** With technical assistance from GEPLAC and IRIS, Georgia's agricultural subsidies during the period 1995-97 have been reviewed and the necessary documents submitted to WTO for analysis. Georgia believes that all identified subsidies fit easily within the "Green Box" category under the criteria of Annex 2 to the WTO Agreement on Agriculture.

**Technical Barriers to Trade:** The work is going on to bring Georgia's procedures for enforcing technical standards into conformance with WTO requirements. The draft Presidential Decree on Measures Implementing the Requirements of the WTO Agreement on Technical Barriers to Trade has been prepared, which contains the plan of actions that should be followed by the relevant authorities. The signing of the Decree is expected in near future.

#### V. PREPARATION OF MARKET ACCESS OFFERS

**Tariff Offer:** A completely revised tariff offer has been prepared in HS96 format at the six and eight-digit level. This offer substantially responds to tariff requests made by negotiation partners in the bilateral negotiations, including the Sectoral Initiatives. According to the last revised offer on goods trade weighted average customs tariff of Georgia on agricultural goods decreased and accounted 16.2 per cent against 17.95 per cent according to the initial offer. On industrial products the trade weighted average customs tariff according to the last revised offer amounted 7.5 per cent against 10.45 per cent according to the initial offer. The overall trade weighted customs tariff decreased from 13.15 per cent to 9.4 per cent. The calculations are based on the data of 6 months of 1998.

**Services Offer:** On the basis of previous bilateral negotiations, Georgia's market access offer in the services area has been revised to meet the requests of negotiating partners. Georgia believes that this offer meets all requests for revision put forward at previous negotiating sessions.

## **VI. IMPROVEMENT OF STATISTICS**

### **A. TRADE STATISTICS**

A significant effort has been undertaken, with technical assistance provided by USAID through IRIS and by TACIS through Crown Agents, to improve the statistics of foreign trade. The official statistics indicate that a substantial trade deficit exists, but other macroeconomic data suggest that the deficit is substantially smaller than the official figures indicate. The principal reason appears to be systematic understatement of value and quantities by exporters, in an attempt to evade internal taxes.

Using various sources of data, including mirror statistics of trading partners, world price levels for major export commodities, and production and consumption data, IRIS is re-estimating the 1996 and 1997 trade figures. This project is expected to be complete by the end of 1988. At the same time, a separate project being undertaken by Crown Agents is computerising the system of export and import declarations so as to capture accurate data at the source and facilitate compilation of trade statistics.

### **B. NATIONAL ACCOUNTS**

Providing accurate statistics on domestic production is difficult, because the transition from the system based on State-owned enterprises to a new system based on a register of private companies is not yet complete. However, with technical assistance provided by the World Bank, TACIS, and a planned resident IMF expert, Georgia is working to resolve this problem.

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