



What privileges does Europe give to the Georgian Business

Interview with Secretary General of the EU-Georgia Business Council Mr. Kote Zaldastanishvili

FROM THE REDACTION

The following issues has become particularly relevant in connection with the recent problems related to wine export: a) the issue of promotion of the export potential, resources? appraisal and their production b) the issue related to a better development of the new European market as well as popularization of the Generalized System of Preferences in our country and familiarisation of ordinary businessmen with it; c) promotion of the Georgian brands and international marketing of Georgian products. Proceeding from this, the Georgian Chamber of Commerce and Industry, non-governmental organization ?The Institute of Free Economy and Business?, together with their partners, start a discussion on the following subject: ?The country?s export potential and the problems of its utilization?. In this issue, within the framework of this discussion, we present you two topics: ?The system of European privileges? and ?The potential of the local curative resorts?. The discussion will be continued in the following issue since arrangement of a conference on this issue and outlining of the concrete ways is planned.

Mr. Kote, after seven years of work as Georgian ambassador to Brussels, you headed a newly established EU-Georgia Business Council. If it is possible, please, tell the readers of ?Sakartvelos Ekonomika? magazine something about the objectives and functions of the Council.

The EU-Georgia Business Council (EUGBC) was established on February 3, 2006 in Brussels by BP, Georgian Glass and Mineral Waters Company (GGMW), Statoil and Canargo.

The main objective of the EU-Georgia Business Council is promotion of trade between Georgia and the EU and increasing of the volume of investments.

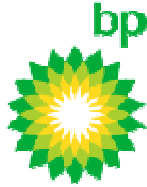
With the purpose of achieving the aforementioned objective, the EU-Georgia Business Council is actively cooperating with EU?s and Georgian governmental structures, financial institutions, non-governmental organizations and, of course, with representatives of the private sector.

I also want to point out the fact that the EU-Georgia Business Council will be a partner and not a rival of similar organizations working on Georgia. I am convinced that this kind of organizations should supplement each other. Witness to the above stated is the fact that Georgian Federation of Businessmen has already become a member of the EU-Georgia Business Council, while negotiations with the Georgian Chamber of Commerce and Industry and American Chamber of Commerce in Georgia are underway.

The office of the EU-Georgia Business Council is located in Brussels, in one of prestigious office buildings. It has all necessary technical conditions so that the members of the Business Council could use it during their stay in Brussels.

The EU-Georgia Business Council is headed by the Board of Directors consisting of maximum nine members, while day-to-day management is implemented by the Secretary General. At present time, the Board of Directors consists of three members: Mr. David Glandining (the Chairman of the Board of Directors, BP?s representative), Mr. Badri Japaridze (Deputy Chairman of the Board of Directors, GGMW?s representative) and Mr. Arve Torvick (a member of the Board of Directors, Statoil?s





Vacant positions in the Board of Directors will be filled in parallel with increasing of the number of the Business Council's members.

There are different categories of membership in the EU-Georgia Business Council. These are: a) principal members; b) corporative members and c) associated members. The amount of membership fees is determined by the Board of Directors in accordance with a category.

Any legal and private persons, that will recognize the Council's statute and express their interest towards its activities, can become members of the EU-Georgia Business Council. Those wishing it should fill in a special application form that can be found at the EU-Georgia Business Council's web site (www.eugbc.net) along with additional information about the EU-Georgia Business Council.

Mr. Kote, you have been working in Europe for a long time. In your opinion, in what can we interest Europe besides nuts and saltpetre?

First of all I shall point out that, according to Eurostat's data, Georgian export of agricultural and manufacturing industry's products to the EU market is characterized by a growth tendency. In 2005 this indicator made up 79 million euro, which considerably exceeds the indicator of 2001 ? 24 million euro. Nevertheless, these indicators do not fully reflect the commercial potential existing between Georgia and the EU.

I believe that at this stage it is important that the way for Georgian export products to the EU market should maximally opened. As to the issue concerning what Georgian products Europe can be interested in, it has to do with the sphere of marketing and will depend on a thorough study of the market requirements of the EU member-countries. I have a strong belief that in case of legalization of Georgian export products? legalization on the EU market, that is inculcation of European export standards for products produced in Georgia, effective application of the new EU's Generalized System of Preferences ? GSP+ scheme and carrying out of marketing work at the appropriate level, such Georgian products as wine, mineral water and manufacturing industry's products will have buyers on the EU market, especially taking into account joining of the new ten members to the EU. However, I would like to emphasize that entering the EU market is a difficult process and requires some time, knowledge and rather substantial financial resources. This process will largely depend on how quickly Georgian exporters will be able to overcome tariff and especially non-tariff barriers existing on the EU market. For this purpose, they need the assistance on the part of the state and non-governmental organizations, and the Georgian-EU Business Council will try to make its modest contribution to this matter.

You have mentioned the EU's the Generalized System of Preferences. What does this system envisage?

The EU first introduced the Generalized System of Preferences (GSP) in 1973 and after that implants it in different forms. The EU's Generalized System of Preferences applies classic trade policy regulation mean ? tariffs and contributes to the development of trade. This system offers lower customs tariffs to the developing countries in comparison with the developed ones, which provides for a preferred treatment of their export on the EU market. GSP contributes to acceleration of the industrialization process in the developing countries, diversification of export and, correspondingly, increasing of export revenues.

According to the EU's GSP scheme, 178 countries, including Georgia, were given unilateral tariff preferences. GSP's functioning scheme includes about 6.900 descriptions of products, out of which 3.300 are classified as non-sensitive products and are admitted to the EU market according to duty-free treatment, while the remaining ones are classified as sensitive products and are admitted to the EU market according to the reduced by 3.5 percent points customs tariff envisaged by the preferential national regime. The exception is textiles and clothes that are admitted to the EU market according to the reduced by 20 percent points customs tariff envisaged by the preferential national regime.

In 2005 the EU introduced a new GSP+ scheme that envisages additional tariff privileges. GSP+ scheme includes about 7.200 descriptions of goods that are admitted to the EU market without customs taxes.

The new GSP+ scheme envisages granting of trade privileges to the developing countries during the next ten years? period. However, it will be reviewed once in 3 years. The current scheme will be valid



till December 31, 2008.
What conditions should the country meet so that it could enjoy the privileges envisaged by the Generalized System of Preferences?

The right to use GSP+ scheme is given to the countries that are distinguished by sustainable development and effective administration system, which, according to the World Bank's estimates, are the developing ones, the economy of which is not diversified and depends on the limited nomenclature of export products (the share of five basic products imported to the EU market from GSP+ granted country should exceed 75% of the total volume of import implemented in accordance with the

forementioned regime) and the volume of import from which, implemented in accordance with GSP+, does not exceed 1% of the total volume of import implemented on the EU market.

With the purpose of granting the mentioned trade regime, besides meeting of the abovementioned conditions, a country receiving GSP+ scheme should join the 16 basic conventions for protection of political rights, human rights and labor rights out of the necessary 27 international conventions, as well as minimum 7 conventions out of the remaining 11 conventions concerning environmental protection, effective administration, production and circulation of narcotics, and should assume the obligation that it will join all the 27 conventions till expiration of the validity period of GSP+ scheme, that is till December 31, 2008.

In case of violation of the given conditions (including violation of the convention's principles), the question of discontinuance of GSP+ scheme's validity in relation to this country will be raised.

Georgia is among the 14 countries that were given the right of using GSP+ scheme from the moment of its coming into effect, that is from July 1, 2005. It is noteworthy that besides Georgia only Moldova is on the list of the aforementioned countries from the post soviet space. At present time 15 countries are enjoying GSP+ scheme.

However, it is also should be pointed out that if the average indicator of import of some group of goods implemented on the EU market from a GSP+ receiving country in 2001-2003 exceeds 15% of the import of the mentioned group of goods implemented in accordance with GSP+ regime, the preferential regime for this country will be cancelled. The EU believes that in this case it is not necessary to give trade privileges for a particular group of goods from the country receiving GSP+ scheme, and it can participate in a free competition.

What real benefits does GSP+ scheme bring to Georgia?

After joining GSP+ scheme, Georgia has in fact unilaterally received a free trade regime for about 75% of the existing tariff schedule. Currently the largest part of import of Georgian products to the EU market is implemented according to the preferential regime. At the same time it should be pointed out that GSP+ scheme does not envisage privileges for the main names of wines.

GSP+ scheme can play a positive role in exporting of Georgian fresh and mineral water to the EU market. If, for example, according to GSP's general regime, the customs tax for fresh and mineral water used to be 6.1%, GSP+ scheme envisages a zero customs tariff for this product. In conditions of a serious competition this 6.1% privilege can be very important.

The new GSP+ scheme is profitable for Georgia exporters of nuts, according to general GSP regime the customs tax used to be 2.1%, while the new scheme implies 0% customs tariff. A similar situation is with ammonium sulphate ? according to general GSP regime, the customs tax made up 3%, and the new scheme envisages 0% customs rate. The existing trade regime is favorable for the products of agriculture and manufacturing industry, for instance, jams, fruit juices, flavorings, green tea, honey and also nitrogen fertilizers.

GSP+ scheme applies to textiles and gives a good chance of importing the mentioned products to the EU market.

In your opinion, how should we promote export production, and particularly that of wine and mineral waters, inside the country, and what are the prospects?

As I have already pointed out there are tariff and non-tariff barriers in the trade with the EU. It is

implied that tariff barriers, especially according to GSP+ scheme, represent not a very serious inhibitory factor. The main problem is overcoming of non-tariff barriers, that is bringing of Georgian products? production to conformity with the European standards and meeting of the requirements envisaged by the corresponding legislation of the EU in exporting them to the EU market. From this point of view, the best example is represented by the issue of so called ?recognition? of Georgian wine by the European Union.

With the purpose of legalization of import of Georgian wine products to the EU market, since 2002 the issue of recognition of Georgian wine by the European Union has acquired more topicality. The reason for that was the fact that Georgian exporters of wine products encountered more and more problems on the EU market. In 2002-2003 Georgian mission to the European communities and Georgian Embassy to Benelux countries, together with the Ministry of Agriculture of Georgia, carried out big work on legalization of import of Georgian wine products to the EU market. From this point of view, special efforts were spearheaded at solving of the problems related to issue of the EU?s certificate, form ?VII? for importing of wine products to the EU market from third countries.

In 2003 intensive consultations with the European part were held concerning both the correspondence of the Georgian legislation in the wine sphere to the European one, and in connection with carrying out of obligatory structural-administrative arrangements.

The process of official recognition of Georgian wine by the EU was completed at the beginning of 2004, and at present time Georgian entrepreneurs can legally implement import of Georgian products to the EU market in unlimited quantities.

Since during the aforementioned period I was Georgia?s Ambassador to Brussels and took an active part in solving of the issue related to recognition of Georgian wine on the EU market, and at present time I work on legalization of mineral water, particularly ?Borjomi?, on the European market together one of the founders of the EU-Georgia Business Council ? Georgian Glass and Mineral Waters Company, I can say with confidence that legalization of import of Georgian products on the EU market is a rather complex and difficult issue, each separate product requires specific approach and coordinated efforts of the private sector and all corresponding Georgian governmental structures.

It is known that the EU market is characterized by a high level of control and bureaucracy. Are there any quotas for Georgian products? penetration to the EU market, as it is the case with other countries? products?

For present time, there are no quotas for Georgian products on the EU market. As I have already mentioned, we use GSP+ scheme. So, I repeat once more that much attention should be attached to overcoming of non-tariff barriers in trading with the EU.

What would you advise to Georgian exporters, what steps should be taken from the viewpoint of overcoming of the non-tariff barriers, so that Georgian products could get on the EU market? You have also pointed out that the EU-Georgia Business Council will render assistance to Georgian entrepreneurs in getting on the EU market. What are you going to do from this point of view?

Different rules of products? production, packing, storage and transportation are regulated by the EU?s corresponding legislation, mainly by the European Commission?s regulations and the decisions of the EU Council. As I have already pointed out, in case of each product, the Georgian part will have to carry out specific arrangements in accordance with the mentioned EU?s rules.

I think it will be important to give complete information to Georgian entrepreneurs on the rules that regulate getting on the EU?s market. From them we should learn what they consider as the main barrier for getting on the EU?s market. With this purpose the EU-Georgia Business Council, together with the delegation of the European Commission in Georgia, is planning holding of a seminar in Tbilisi concerning trade issues with participation of European experts.

If Georgian companies show their interest, we are ready to arrange their meeting in Brussels with representatives of the European Commission?s Directorate General for Trade and Agriculture.

I would like to seize the opportunity and tell your readers that by means of the European Commission?s corresponding web-page (www.export-help.cec.eu.in) an exporter can determine the amount of the customs tariff for particular product, whether a product corresponds to GSP+ scheme or no, what documentation is necessary for importing of the indicated commodity to the EU, etc.

And finally, Georgia?s trade turnover with the EU is characterized by the growth tendency. In your opinion, what prospects do we have from the viewpoint of this growth, and what does Europe do with the purpose of increasing of its trade turnover with Georgia?

Against the background of banning of Georgian products? import to the Russian market, development of alternative markets becomes relevant (though it would be better if we had started serious work on this issue before). On its part, the EU is ready to intensify its trade relations with Georgia, which is envisaged by Georgia?s inclusion to the EU?s neighborly initiative. To confirm this, I would mention granting of GSP+ scheme to Georgia, which we have already spoken about.

I would like to particularly point out the fact that the EU has already started consultations with the Georgian part in connection with the wine trade agreement. The main objective of the mentioned agreement will be protection of geographical names, which is very important from the viewpoint of struggling against falsification. I think that the abovementioned facts will stimulate of the trade turnover with Europe and will have real results, though we should not expect a complete substitution of the Russian market for the European one in the nearest future.



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