

*July 22, 2016*

Minutes of the second DCFTA  
working group meeting

*Meeting agenda:*

**Presentation** – Trade facilitation related measures and approximation of Georgia’s customs system with EU standards

**Q&A/Discussion** – With the involvement of representatives from Customs Department of Revenue Service, Association of Freight Forwarders of Georgia and Georgian International Road Carriers Association.

*Participants:*

**Ambassador Zviad Chumburidze** – Secretary General of EU-Georgia Business Council

**George Tabuashvili** – First Deputy Minister of Finance, Head of Revenue Service

**Vladimer Khundadze** – Head of Customs Department, Georgia Revenue Service

**Bondo Bolkvadze** – Expert in customs and trade facilitation issues

**Gia Tsifuria** – Secretary General of Georgian International Road Carriers Association

**Zurab Shengelia** – Secretary General of Association of Freight Forwarders of Georgia

**Zurab Chekurashvili** – Director of Georgian National Food Agency

*Issues discussed:*

George Tabuashvili, First Deputy Minister of Finance and Head of Revenue Service made an opening remarks of Second DCFTA working group meeting, he expressed gratitude towards organizers and group members for participation and underlined the importance of working group during the process of implementation of DCFTA. Zviad Chumburidze, Secretary General of EU-Georgia Business Council also expressed his appreciation towards participants and announced that DCFTA working group will be organized in regions too, starting in autumn 2016.

After welcoming speeches, expert in customs and trade facilitation issues, Bondo Bolkvadze made presentation on “Trade facilitation related measures and approximation of Georgia’s

customs system with EU standards”. Expert made deep analyzes about basic needs of Georgian Customs System and trade sphere in order to comply with EU standards.

*Bondo Bolkvadze:*

Bondo Bolkvadze emphasized five basic issues:

1. **Authorized Economic Operator (AEO)**, which represents most important concept of European customs and inspires companies to run their business transparently and gain custom preferences. He also mentioned on the similar program introduced by Georgian customs since 2009 - known as “Golden List”. Georgia took liability, within DCFTA framework to implement AEO concept. Expert also identified AEO advantages in comparison with “Golden List”.
2. Second Issue was about **Intellectual property rights related border measures**, for this dimension was identified basic steps required for its full implementation, such as: human resources training, providing information technology service etc. 3 basic stages were identified for implementation in practice, the first stage is spreading intellectual property rights for all customs operations, second stage is about diversification of intellectual property forms under border control and the third, final stage is putting so called “ex officio” in practice.
3. **Convention on a common transit procedure**, which implies registration in common information system of transit goods transported in the EU territory. It was presented activities already implemented by Customs Department, as well as ongoing processes. Guarantees for transit transportation were identified as an obstacle, as a recommendation for this dimension was identified the necessity of preparation of Georgian Logistic companies for changes.
4. Fourth issue was about **implementation of customs control based on risk analyzes**. It was mentioned that “Red Zone” has been created by Georgian customs, which helps to analyze and identify risky transactions while being developed information technology system. As a recommendation was underlined the need of investment in human resources.
5. **Modernization of customs procedures and infrastructure** is last stage according to Bondo Bolkvadze presentation, and was mentioned that infrastructure is very modernized in Georgia. During presentation ongoing processes were also mentioned, such as implementation and development of Customs Audit. For the future as a recommendation was introduction of customs laboratory, which will facilitate customs procedures.

*Q&A*

**Irakli Bolotashvili**, Logistics Company GLG

Many thanks for the invitation, I have concrete question: Developed procedure exists in Europe, when logistical companies are doing all customs procedures for clients, they are also paying VAT instead of clients. So do you think that similar system will be also implemented in Georgia, when logistical company is addressed by an importer and logistical company is liable to pay VAT? In case of positive answer how do you think, are Georgian logistical companies ready for this change?

**Bondo Bolkvadze**, Expert in customs and trade facilitation issues

According to international practice this is right, when transportation company pays costs for logistical service and customs procedures, as well as VAT. The same might be done in Georgia. I have talked many times with my European colleagues and they tell that “important is that payment was covered, and no matter who will pay for it”.

**Vladimer Khundadze**, Head of Customs Department, Georgia Revenue Service

If you wish to offer to your client payment for import, VAT and excise, you can do it easily via bank. If you wish to offer to your client full logistical service, meaning that you do everything instead client, it means that you have to take responsibility for goods for declaration. So we get two completely different services, one when you pay all payment via bank instead of client and the second - logistic company takes responsibility on all declaration processes of goods.

**Irakli Bolotashvili**, Logistics Company GLG

My second question is about the warehouse, is it planned to build warehouse at the Customs Clearance Zone territory, because we have often cases of transportation goods to other terminal for warehousing which is costly?

**George Tabuashvili**, First Deputy Minister of Finance, Head of Revenue Service

Private sector has already customs warehouses, and I think that where private sector operates, similar service should not be offered by government.

**Emzar Tsulukidze**, LTD Mari Metal

Our company works on export of chromatic scrap metals from Georgia and transportation is done only by containers, but transportation is possible by truck to Europe. However we have restriction for transportation by truck in Georgia according to 290<sup>th</sup> order dated year 2012. This regulation refers that import, export and transit transportation of scrap metals on Georgian territory by trucks is limited and is allowed only by permission of head of customs department. Is it possible to abolish this regulation?

**Vladimer Khundadze**, Head of Customs Department, Georgia Revenue Service

I agree with you, I remember your company. We received request from your company and you received permission without any delay, accordingly I do not think that you had some problem about this case, as I remember you addressed us more than 3 times, and you had not even 1 day delay to get permission. Still this case might be discussed, I have not received any reasoned answer, why this limitation was launched, mainly reasons were about the transportation safety. I cannot identify any problem if truck has solid floor and walls.

**Emzar Tsulukidze**, LTD Mari Metal

I agree, I have addressed you for permission and got it without any problem and transported my goods to Bulgaria. Transportation in Europe is done with regular trucks, none of drivers and company will take goods if it is not loaded according to regulations, because there is a huge fine from road patrol side. Time is considerable factor in today's business, sooner business sells and transports goods, business is developing better. As an example to transport goods with container to Bulgarian via sea port it takes around 25 days and only 4-5 days are needed for truck transportation.

**Vladimer Khundadze**, Head of Customs Department, Georgia Revenue Service

You have to initiate and we will discuss this issue. If respective authorities will approve it, I do not see any problem to abolish the regulation.

**Gia Tsifuria**, Secretary General of Georgian International Road Carriers Association

If T1 form will be validated in Georgia, European quotes will also be validated in Georgia? Or our quotes will be automatically updated in EU database. Limits of guarantees will be transferred as well or not?

**Bondo Bolkvadze**, Expert in customs and trade facilitation issues

As for the authorization code, the final stage for this procedure is mutual recognition with EU, which means that any company authorized by Georgia (Logistical/importer), should be recognized by EU. For example if Italy will authorize company it will be automatically authorized in Germany. Indeed it won't happen for Georgia, because we are not EU member and authorized in Italy could not be identified as authorized in Georgia. Mutual recognition is final stage, which I hope will be implemented, which means that authorized in Georgia it will automatically be authorized in EU and authorized in EU will be authorized in Georgia. I would like to underline that this process is not part of DCFTA, meaning that reform might be done by Georgia but it doesn't mean automatic recognition, it needs separate agreement, EU has similar agreement with Japan, the USA and with other trade partners.

**Vladimer Khundadze**, Head of Customs Department, Georgia Revenue Service

As for the guarantees it should be implemented based on agreement, and significant activities are not done in this direction, generally this issue will be sensitive for us, it is clear why EU implemented this guarantee issues but Georgia is small country, from one border to another border distance is around 600 km and it is possible to cover in 7 hours. We do not have fact that goods entered in Georgia and did not crossed border to transit country, but we took responsibility for implementation and we are liable to do it. Many decisions should be taken not only procedural and legislative but also technical.

**Sophio Panjikidze**, Senior Partner, Gvinadze & Parnters LLC

I have question to representatives of Ministry of Finance. I would like to ask question about intellectual property rights, particularly "ex officio" principle. Last year "Sakpatenti" organized meeting, where representatives of customs department expressed their readiness to introduce by customs ex officio principle, but active steps are not done for implementation. Could you please inform us state of play?

**Vladimer Khundadze**, Head of Customs Department, Georgia Revenue Service

I would like to mention that intellectual property issue is really intellectual and difficult, because control in this dimension launched not for a long time ago, it was mentioned in presentation and I can also confirm that, if someone has registered this kind of product, you will also agree that we are actively working on it, moving to "ex officio" principle is not easy, I think

presenter underlined correctly, that we have several steps to cover to approach “ex officio”, for instance now we control imperfectly according to regime, also it is not for every intellectual property, only 3 or 4 counterfeit goods we have, so we have to cover this stages. Still if you address customs that someone infringes your right as a holder of a right, I don’t think that customs would not react on such kind of fact, but we have created profiles of risk based on several criteria and for the goods which is registered on borders we still control, it means that we have some little moves in this dimension.

Some stages should be covered and it is not easy procedure, for the first stage officers should be trained, a lot of products is registering as an intellectual property. Seminar will be held in August in Batumi about intellectual property and we can listen to experts’ opinion.

**Roman Badaliani**, Director of UBG

I buy goods which should be imported by my partner in Georgia and I have to re-export it, I was informed by customs department that goods must enter to terminal, how can I directly export goods?

**Vladimer Khundadze**, Head of Customs Department, Georgia Revenue Service

It is not mandatory for goods to enter in terminal, re-export might be done from terminal and Customs Clearance Zone, as well as from border, meaning that if you will have full documentation ready, you can re-export the goods from any border.

**Ambassador Zviad Chumburidze** – Secretary General of EU-Georgia Business Council

I have one question to Mr. Vladimer, are there cases when goods are coming to border and it has to go in Abkhazia and if exists such cases how procedures are done and what are regulations? – it is good when such kind of cases exist, because it would be better transport goods via us for the reasons territorial integrity.

**Vladimer Khundadze**, Head of Customs Department, Georgia Revenue Service

We did not have such cases but these procedures are controlled by Georgian legislation on occupied territories, where is indicated that export to Abkhazia is possible from Zugdidi, but if concrete goods are transported through Georgia, exists decree of Government of Georgia, for example if goods are needed for Enguri Hydro Power, it will be done by Ministry of Energy.

**Irakli Nadareishvili** – Director of Agrotech

My question is not about custom procedures, but represents issue of DCFTA, as well as interest of society, I want to ask to Mr. George Tabuashvili, as you know Georgia has liability to implement 2009 years directive N 103, regarding driver's responsibility of compulsory insurance. This kind of insurance existed in beginning of 2000, but it was canceled. We took responsibility but we have not concrete date identified. I wonder if this procedures are in action, if yes, is there any coordination between the respective agencies?

**George Tabuashvili**, First Deputy Minister of Finance, Head of Revenue Service

Works are underway in this direction and insurance supervision agency is involved in this process. As I know several activities have been done but it is not easy task because other countries have to recognize Georgian insurance system as streamlined, financially stable etc. Many criteria should to be met in order fully integrate with system and make mandatory for Georgian citizens as well as for foreigners. Works started and are done step by step for implementation of system. As I know deadline is until 2018.

**Nikoloz Khundzakhishvili** – Corporate Director of Natakhtari

I would like to mention changes in tax code made on 13<sup>th</sup> of May, about Estonian Model and other tax advantages announced by Prime Minister. Estonian model about retained earnings was launched from January 1, but changes were done in article 171 which gives 25 days to business for the declaration and payment of VAT, as well as clearance of fixed assets and the list should be identified by government of Georgia. All this are valid as of July 1 but we still do not have any list. Could you please tell when the list will be available?

**George Tabuashvili**, First Deputy Minister of Finance, Head of Revenue Service

It is not easy case, we started working on it even before. We had consultation with many agencies and we got list, and according to that list none of product should be rated. Consultations and summing up took our time. The objective was that we wanted to make advantage for only fixed assets not the products standing behind it. Practically we have summed up list and it has to be discussed with government for final elaboration. Afterwards it will be approved by the government.