European Initiative
Liberal Academy Tbilisi

B | S | T The Black Sea Trust for Regional Cooperation
A PROJECT OF THE GERMAN MARSHALL FUND

Georgian-Turkish Free Trade Agreement 2008: Implications Two Years After

March 2011

The foundation Liberal Academy Tbilisi was established in December 2006 as a non-governmental, non-profit organisation, committed to promoting core democratic values, supporting peace-building and European and Euro-Atlantic integration and with that fostering the democratic development of Georgia and the whole Southern Caucasus region. The European Initiative of the Liberal Academy Tbilisi (EI LAT) is analytical programme which started in January 2010, builds upon LAT and embarks upon policy research and analysis with the aim to spark much needed debates on the European future of Georgia and the South Caucasus and contribute to policy agenda with its independent expertise.

On the one hand, the EI LAT focuses upon issues pertaining to Georgia, specifically, and the South Caucasus, generally, and their relationship to the EU. On a larger scale, the EI LAT aims to translate Europe for local stakeholders which are immediately affected by the Georgia-EU partnership frameworks and the wider public. On the other hand, it aims to reach out to the policy-makers and experts in Brussels and the European capitals in order to help them keep track of the reforms and changes within the countries and encourage a well-informed reciprocity. The EI LAT, therefore, zooms into different stories of transition which reflect upon the dynamics of development and carry implications for the future. Its research products aim to take a fresh look and critically analyse key aspects of transition and, by that, contribute to crucial policy debates.

Project Team:

Ketevan Tsikhelashvili – *Director, EI-LAT*

Ilia Chkhutishvili – *Analyst, EI-LAT*

Tengiz Shergelashvili – *Analyst, EI-LAT*

Arzu Geybullayeva – *Researcher in Turkey, EI LAT*

The project was funded by The Black Sea Trust
a project of the German Marshal Fund
of the United States

B | S | T The Black Sea Trust
for Regional Cooperation
A PROJECT OF THE GERMAN MARSHALL FUND

Published by The European Initiative Liberal Academy Tbilisi (EI-LAT),
50/1 Rustaveli Ave., 0108 Tbilisi, Georgia
Tel./Fax +(995 32) 93 11 28; Cell: +(995 99) 55 11 28
E-mail: info@ei-lat.ge
www.ei-lat.ge

LIST OF ABBREVIATIONS

AKP	Justice and Development Party
CIS	Commonwealth of Independent States
DG	Directorate General
EC	European Commission
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GEL	Georgian lari
GSP	General System of Preferences
HS	Harmonised System
ILO	International Labour Organisation
IMF	International Monetary Fund
MESD	Ministry of Economic and Sustainable Development
MFN	Most Favoured Nation
MOF	Ministry of Finance
NBG	National Bank of Georgia
TL	Turkish lira
TRIPS	Trade-Related Aspects of Intellectual Property Rights
WTO	World Trade Organisation

Contents

List of Tables

Annexes

"…No country can long import, unless it also exports, or can long export unless it also imports…"

David Ricardo, 1817

Introduction

Over two years have passed since the Free Trade Agreement (FTA) between Georgia and Turkey came into effect. Turkey was Georgia's only non-Socialist neighbour and served as the first window to the capitalistic market for its post-Soviet economy in the beginning of the 1990s. Until 2005, the Russian Federation was traditionally Georgia's principal trading partner but the Russian embargo in October 2006, first round of which raised the Georgia's 2007 account deficit by around 4% of GDP[1], fostered an urgent need to revise trade and economic priorities. Subsequently, the vector of the Georgian economy shifted from the north to the west and east. Whilst the Georgian Government, which actively sought alternative markets and signed technical and economic co-operation agreements with all of its major trading partners, Turkey - as the biggest and economically most powerful neighbor - moved to the top of the list of trade partners. In 2008, before the FTA, trade turnover with Turkey - worth USD 0.94 billion accounted for a rather substantial share in the then overall USD 12.8 billion2-sized Georgian economy. The signing of the FTA with Turkey in November 2007, which came into effect a year later recapped a vibrant record of bilateral co-operation as it has been for the past two decades. It was a new milestone on the political agenda as well.

The timing added to the importance of the deal. The war in August 2008 and the following world financial crisis very badly hit Georgia's transitional economy and its 'Rose Revolutionary' development pace, which translated into impressive macro-economic indices over the past few years.[3] The double digit growth of GDP as 12.4% in 2007 contracted to 2.3% in a traumatic 2008 and ran into a negative 4%[4] at the end of 2009 whilst the FDI driven motto of economic growth became compromised by a sharp fall in net investment inflows from USD 2.1 billion in 2007 (peaking at 19.8% of GDP) to USD 1.5 billion in 2008 (of which USD 1.05 billion accounts for the first half of the year) and backsliding below USD 0.7 billion in 2009.[5] Any opportunity which would rejuvenate the momentum, therefore, was vital. The FTA with Turkey, which came into effect right after the 2008 war, accommodated both the hopes and expectations that it would serve as such an impetus. As a new milestone in bilateral trade relations framed before by the GSP+ format, the FTA was expected to boost the trade turnover and, *inter alia*, pave the way for increased Georgian exports to the Turkish market. The study looks at the impact of the FTA two years after its implementation to see how the trade dynamics has changed. The story covers both sides but emphasises the implications for Georgia's economic development. With the acknowledgement of the political significance of the deal for both sides, its incomparably higher economic weight for Georgia cannot be neglected. The juxtaposition of the selected figures speaks for itself. Turkish export to Georgia is mere 0.77% of the total Turkish exports in 2009 whilst Georgian exports to Turkey account for nearly 20% of the total Georgian exports in the same year.

[1] IMF Country Report N°07/107, p.8., Retrieved from http://www.imf.org/external/pubs/ft/scr/2007/cr07107.pdf on October 5, 2010.
[2] Geostat, 2010.
[3] See more in: *Georgia Since the Rose Revolution,* retrieved from http://www.esiweb.org/index.php?lang=en&id=321&country_ID=1&slide_ID=11 on Oct 6, 2010
[4] Geostat, 2010.
[5] *Ibid.*

A mix of qualitative and quantitative analysis combined with sector studies and expert assessments are used to tell a story of ‘before’ and ‘after’ and shed some light upon future perspectives. The study relies heavily upon ample data analysis and offers figures, tables and charts as a comprehensive guide to conclusions. The findings may allow policy-makers and researchers as well as interested individuals to analyse the different aspects of the Agreement at both micro and macro levels, to identify the progress and challenges and gauge for prospective solutions.

The study at first suggests putting the picture into a wider context by a brief overview of Turkish foreign policy and its regional and trade dimensions under the current AKP governance in the Chapter One and, alongside, the Georgian economic and trade policy after the Rose Revolution (2003) in Chapter Two. Chapters Three and Four present a comparative macro-economic analysis of the two economies and, based mainly upon statistical data, portray the Georgian-Turkish trade pattern whilst capturing key aspects and the current *modus* of these interactions. Chapter Five spells out the terms of the Agreement focusing upon its institutional and procedural components. Chapters Six, Seven and Eight concentrate more on a comprehensive analysis of bilateral trade in the framework of the FTA including the structure of exports and imports and the direct fiscal effect on the Georgian central budget as well as the possible impact on the Georgian agricultural sector. Chapter Seven also provides an empirical touch through case reviews and zooms in on specific sectors and products with growth and export potential within the FTA context. Based upon the study’s findings, Chapter Nine corrals with implications of the FTA for the bilateral trade and puts forward policy recommendations on how to best utilise the Agreement at its full potential to the benefit of both parties, especially for Georgia's small transitional economy.

1. Turkey: The Rise of the Trading State

It was over a century ago when the first Turkish merchants kicked off this momentum as Turkish Nobel Prize winner, Orhan Pamuk, describes in his first novel, *Cevdet Bey and His Sons,* in 1982, telling a story through a family saga of three generations. This notwithstanding, revolutionary changes for Turkey were still ahead. In 1980, the country started to implement far-reaching reforms aiming to shift its economy from a "plan-driven import-substitution to an outward-looking export-based economy."[6] The policy was successful and in two decades the total exports increased from USD 2.9 billion in 1980 to over USD 132 billion in 2008.[7] Turkey began to pursue a path of liberalisation, leading to the emergence of a new progressive business elite. Soon after, the industrial groups gained significant influence at almost all levels of policy-making in Turkey, including foreign policy. The economic reforms finetuned the government's ambitions to reduce the negative trade balance with the interests of Turkish businesses to expand export markets which led to the emergence of an export-oriented 'Anatolian Tiger.'[8]

In parallel to this social and economic transformation, a political transformation took hold with the turn of the century. The coming to power of the Justice and Development Party consolidated and added momentum to this process. The efforts to reach out to neighboring regions which had been triggered with the end of the Cold War, gained traction too.

Turkish foreign policy started its most remarkable "profound and unprecedented transformation"[9] a decade ago with the coming to power of the Justice and Development Party (AKP) in 2002 (reelected in 2007).

The programme of the ruling AKP is a blueprint manifest of export-led foreign policy of the "trading state": "One of the most important political tools of a continuous and sustainable economic development strategy is the increase of exports. Increase of the export volume depends primarily upon the increase of the international competitiveness of the economy." As mentioned in the Party's programme it shall:

- "Remove all types of financial, administrative and bureaucratic obstacles in impeding the exports and launch an export mobilisation.
- Moving from the fact that exports can be achieved most easily with neighbouring countries, will take all types of measures aimed at implementations for the increase of exports to neighbouring countries. […]
- As certain that Turkish missions abroad intensify their activities aimed at increasing exports. […]
- Take up regional trade as a major synergy vehicle of continuous and sustainable economic development".[10]

Ahmet Davutoğlu, the current Foreign Minister of Turkey and dubbed as the "Turkish Kissinger",[11] is considered the intellectual architect of Turkey's new foreign policy concept.[12] In 2001, then as

---

[6] *Novel Regional Policy of Turkey in Line with EU Standards*, Gulhan Bilen for Development Bank of Turkey, accessed last on September 28, 2010 [ENG], http://www.deu.edu.tr/userweb/sedef.akgungor/dosyalar/bilen.pdf
[7] http://www.igeme.org.tr/Assets/sip/tar/Turkish-agr-food-industry.pdf
[8] *Ibid.*, p. 43.
[9] "Turkish Foreign Policy: From Status Quo to Soft Power, p. 9 (2009) *ESI Working Papers*, retrieved from http://esiweb.org/pdf/esi_picture_story_-_turkish_foreign_policy_-_april_2009.pdf on September 10, 2010
[10] Justice and Development Party (AKP) Programme (2007) retrieved from http://eng.akparti.org.tr/english/partyprogramme.html on September 12, 2010.
[11] *Ibid., p. 8.*

university professor, Davutoğlu branded the famous notion of "strategic depth"[13] (first articulated in his book *Strategic Depth*) based upon the following three aspects: zero problems with neighbours, a pro-active foreign policy and rhythmic diplomacy.[14] The new foreign policy paradigm implied a conceptual rethinking and reorganisation of Turkey's international performance both in terms of outreach and instruments. Davutoğlu has been a close associate of Turkish Prime Minister, Erdoğan, and his chief advisor on foreign policy since 2003, making him influential in foreign policy deals even before acquiring the foreign ministerial portfolio in May 2009.[15] According to Davutoğlu, Turkey should be "…gradually opening up to the world and transforming regional into global influence." Its geopolitical identity should widen up insofar as "Turkey is both a European and Asian, Balkan and Caucasus, Middle Eastern and Mediterranean country."[16]

A major component of the concept is *soft power* which Turkey should generate and exert internationally. Soft power which gets channeled through multi-dimensional diplomacy relies heavily upon economic might and financial capital which Turkish industrialists have accumulated since the 1980s. Moreover, the active co-operation between the Turkish policy makers and private sector gained an even stronger momentum within the new foreign policy concept when policies have increasingly been shaped by economic considerations such as export markets, investment opportunities, tourism, energy supplies and the like.[17] In one of the interviews, Davutoğlu himself explicitly noted how the business world has become a primary driver of foreign policy.[18]

There has been much debate about Turkey's turn away from the West, of ambitions of Neo-Ottomanism, of Turkey's using its strategic weight to favor Muslim nations and so on. The global economic and strategic shifts as well as ideological movements in Turkey have no doubt played a role in the changes in Turkey's positioning in the world. Economic considerations play an important role in this picture. Shahin Vallee argues in a recent article in Turkish Policy Quarterly (winter 2010/11) that 'economic and financial matters have been an essential pillar of Turkey's diplomacy' and that 'countries moving towards an export-led growth model need to adapt their foreign policy accordingly by focusing on the outreach to new markets for national products and businesses and the security of supply of its essential inputs a central preoccupation of its diplomacy'. The effort to create stakeholders, to increase Turkey's economic might and decrease the incentive of neighbors to work against Turkey's interests have converged under the goal of zero problems with neighbors and economic interdependence.

As one of the Turkish officials noted "today the success of an ambassador is often judged on the basis of the increase of Turkish export to the country during his term of tenure."[19] Entering into free trade regimes with different countries, therefore, is a part of a larger strategy aimed to maximise economic gains and exert political influence. In a spirit of export-oriented trading, Turkey has signed free trade agreements with 27 countries around the world,[20] among those with Georgia in 2007.

---

[12] *Ibid., p. 9.*

[13] "Turkey's Regional Role: Harder Choices Ahead," Ian O. Lesser in *Turkish Policy Quarterly*, accessed last on September 29, 2010, http://www.turkishpolicy.com/images/stories/2008-02-policy/ianlesser.pdf

[14] "Strattejik derinlik ve Amerika" ("Strategic Depth and the US"), Omer Taspinar, accessed last on September 29, 2010, http://www.sabah.com.tr/Yazarlar/taspinar/2010/05/10/stratejik_derinlik_ve_amerika

[15] "Davutoğlu Era in Turkish Foreign Policy" (2009) *Today's Zaman*, retrievied from http://www.todayszaman.com/tz-web/news-179504-159-Davutoğlu-era-in-turkish-foreign-policy.html on September 10, 2010

[16] "Turkish Foreign policy: From Status Quo to Soft Power," p. 27 (2009) *ESI Working Papers*, retrieved from http://esiweb.org/pdf/esi_picture_story_-_turkish_foreign_policy_-_april_2009.pdf on Sep 10, 2010

[17] K. Kirişci (2010) "Transformation of Turkish Foreign Policy: The Rise of the Trading State," *New Perspectives on Turkey*, No. 40, p. 39

[18] *Ibid.,* p. 42.

[19] K. Kirişci (2010) "Transformation of Turkish Foreign Policy: The Rise of the Trading State," *New Perspectives on Turkey*, No. 40, p. 45

[20] The Under Secretariat for Foreign Trade informed the EI LAT team that there are14 signed and effective FTAs as some of the 27 partners alreadyjoined the EU . In addition, Turkey is currently working on three additional FTAs with Chile, Jordan and Lebanon.

The tripling of the Turkish economy[21] (See Table 3.1) for the last decade tells a success story. Today Turkey is 17th largest economy in the world with a GDP of USD 729.1 billion[22] and expected (IMF estimate) to advance two positions higher by 2013. Turkey is also one of the few countries to have emerged swiftly from the financial crisis. Although the country saw 4.7% decline in national income in 2009, it was replaced by a remarkable 8.9% growth by the first three quarters of 2010. As a result, Turkey is currently one of the countries with the highest growth rate in the post-crisis era.[23] In addition, with Turkey's immediate neighbourhood turning into a rapidly growing marketplace, its GDP amounts to about one-fifth of that of the entire region.[24] Turkey has branded itself as a "trading state".

It is also important to note that the EU accession process and the IMF programmes followed until recently, has imbued Turkey with a predictability important for FDI inflow, as well as better governance, which has aided economic policymaking and growth in general.

The business community has also diversified – with a new and more conservative class being empowered. The Independent Industrialist and Businessmen's Association (MUSAID), the Turkish Industrialists and Businessmen's Association (TUSAID), the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Turkish Exporters Assembly (TIM), the Foreign Economic Relations Board (DEIK), the International Transporters Association (UND) and the Turkish Contractors Association (TMD), are some of the most influential and powerful business associations. Numerous other local business associations, such as the Istanbul Chamber of Commerce (ISO), have a say on policy agenda as well. These interest groups not only interact with various government agencies but also have direct access to the government itself and are capable of shaping public opinion.[25]

As a result, both the volume and structure of the Turkish trade have radically changed. The structure of Turkish export products was earlier dominated by raw materials and agricultural products. Now, however, industrial goods lead Turkish exports. The total trade volume accounted for USD 333 billion in 2008. Export increased by 23.1% to USD 132 billion and import by 18.7% to USD 201 billion in 2008 in comparison with the corresponding figures of 2007.[26]

Overall, Turkey's main trading partner is the EU (Germany, the UK, France, Italy) accounting for 55% of Turkish exports and 45% of imports.[27] Not surprisingly, the EU is a large market and large producer and so Turkey's foreign trade system is aligned with that of the EU, especially after the 1996 Customs Union Agreement. As a result, Turkey not only gained a preferential system of interaction but achieved considerable progress when it comes to legislative backup (laws on competition, consumer protection laws and intellectual property, etc).[28] Other partners include the US, the countries of the Middle East, Eastern Europe and the CIS nations with Germany leading with highest share of both exports and imports.

In March, those with Chile and Jordan will be ratified. Negotiations continue with the following countries and bodies: Lebanon, Jordan, Serbia, Gulf Commission, Faroe Islands and Mercosur.

[21] Turkstat, 2010.

[22] CIA Factbook, March 2011, https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html

[23] Ata Invest, Turkey Research, Issue No. 181, September 2010, accessed last on September 29, 2010 [ENG] http://www.turkey-now.org/db/Docs/Ata__Monthly_Strategy_Update_September_10.pdf

[24] *Getting to Zero: Turkey, its Neighbours and the West*, Bosch Stiftung, p. 9, accessed last on September 29, 2010, http://www.bosch-stiftung.de/content/language1/downloads/Report_TA_GettingtoZeroFINAL.pdf

[25] K. Kirişci (2010) *Transformation of Turkish Foreign Policy: The Rise of the Trading State, New Perspectives on Turkey*, No. 40, p. 46.

[26] Ministry of Foreign Affairs (2008) Republic of Turkey Economic Outlook retrieved from http://www.mfa.gov.tr/prospects-and-recent-developments-in-the-turkish-economy.en.mfa on September 11, 2010.

[27] *Getting to Zero: Turkey, its Neighbours and the West*, Bosch Stiftung, p. 19, accessed last on September 29, 2010, http://www.bosch-stiftung.de/content/language1/downloads/Report_TA_GettingtoZeroFINAL.pdf

[28] Turkish Economy and Investment Environment, Garanti Securities, July 2008, through Foreign Economic Relations Board (DEIK), accessed last on September 28, 2010 [ENG] http://www.turkey-now.org/db/Docs/DEIKJuly08.pdf

The immediate neighbourhood, however, is of particular importance based upon the "zero-problem" rationale. "Between 1991 and 2008, Turkey's trade relations within its neighbourhood increased considerably. In 1991, the level of trade was relatively small at only barely a quarter of Turkey's trade with the EU at the time. But whilst Turkey's level of trade with the EU grew eight-fold between 1991 and 2008, it increased more than twenty-fold in its immediate neighbourhood while the potential for further growth remains."[29] Exports to these countries already make up about 10% of Turkey's total exports which is clearly less than that to the EU but already twice as much as to North America.[30] Indeed, its largest share goes to Russia which accounts for 11.3% of its total. Together with Germany, Russia is currently Turkey's largest trading partner. It supplies two-thirds of Turkey's imported gas and nearly one-third of its imported oil.

1.1 Zero-Problems with Neighbours – Turkey's Regional Policy

Some see the shift in Turkish foreign policy not only a result of a home-grown economic narrative but post-Cold War considerations and Western policies towards its important ally as well. In their book, *Turkish Foreign Policy in an Age of Uncertainty*, authors Stephen Larrabee and Ian O. Lesser argue that Turkey's strategic importance increased in the aftermath of the Cold War versus the widespread belief that Turkey assumed a much reduced role as a regional actor and as an ally of the West. Instead, not only did Turkey prove this idea wrong, but the country also became "more assertive and an independent actor […]"[31] pushing Turkey to redefine its foreign and security policies and thus replace regional isolation with regional leadership.

The rhetoric was imminent in Davutoğlu's concept: "Turkey should make its role of a peripheral country part of its past and appropriate a new position: one of providing security and stability not only for itself, but also for its neighbours and the region."[32] Again, soft power is seen as means to achieve political ends. "In our region, where authoritarian regimes are the norm, improving transport possibilities, extending cross-border trade, increasing cultural exchange programmes and facilitating labour and capital movement […] will help overcome problems stemming from the role of the central elites",[33] the ESI paper quotes Davutoğlu and relates it to AKP doctrine.

Following its election in 2002 and then re-election in 2007, the AKP has been trying hard to improve its relations with its wider neighbourhood,[34] including its long-time rivals Syria,[35] Iran,[36] Armenia, Greece, Iraq and Russia. Through multiple alliances, Turkey took on the path of repositioning itself whilst placing much emphasis upon its regional and global influence and independence.[37] In the Middle East, Turkey is the co-operative player with much of its intentions vested in peace and regional integration. With Iran, with which Turkey had had a strained relationship for decades, tensions have somewhat abated. Today, Turkey and Iran share energy ties and engage in bilateral trade and social interaction.

[29] *Getting to Zero: Turkey, its Neighbours and the West*, Bosch Stiftung, p. 19, accessed last on September 29, 2010, http://www.bosch-stiftung.de/content/language1/downloads/Report_TA_GettingtoZeroFINAL.pdf

[30] E. E. Güzeldere (2009) *Turkish Foreign Policy: From "Surrounded by Enemies" to "Zero Problems,"* p. 15, retrievied from http://se2.isn.ch/serviceengine/Files/ESDP/104878/ichaptersection_singledocument/DB0C1F35-B755-4721-90EE-05C064769DCA/en/2.pdf on September 13, 2010.

[31] Turkish Foreign Policy in an Age of Uncertainty, F. Stephen Larrabee, Ian O. Lesser, *Centre for Middle East Public Policy*, 2003

[32] A. Davutoğlu (2008) "Turkey's Foreign Policy Vision: An Assessment of 2007," *Insight Turkey*, Jan – Mar, 2008, Vol.: 10, No. 1, p. 77.

[33] "Turkish Foreign Policy: From Status Quo to Soft Power," p. 10 (2009) *ESI Working Papers*, retrieved from http://esiweb.org/pdf/esi_picture_story_-_turkish_foreign_policy_-_april_2009.pdf on September 10, 2010

[34] "Turkey's foreign policy moves raise concern in West and at home," Mary Beth Sheridan for *The Washington Post*, June 7, 2010, accessed last on September 28, 2010 [ENG], http://www.washingtonpost.com/wp-dyn/content/article/2010/06/06/AR2010060604052.html?sid=ST2010060702844

[35] Syria was known to harbour Turkish Kurdish guerrilla forces.

[36] Iran was once seen as a potential exporter of Islamic radicalism.

[37] *Getting to Zero: Turkey, its Neighbours and the West*, Bosch Stiftung, p. 12, accessed last on September 29, 2010, http://www.bosch-stiftung.de/content/language1/downloads/Report_TA_GettingtoZeroFINAL.pdf

Once seen as an "exporter" of the Islamic revolution and Turkey's main competitor in the Caucasus, Iran has now become a security partner with Turkey as concerns the Kurdish question.[38]

Turkey had sided with the US against Saddam's Iraq during the 1991 Gulf War. Turkey also had a serious number of issues over the Kurdistan Workers' Party (PKK) active in north Iraq. The two countries relations have been significantly mended in recent years. In 2009, the two countries signed over 40 bilateral agreements and established a High-Level Strategic Co-operation Council. A similar change in relations occurred with Syria. The already strained relations between the two countries peaked in 1998 when the Turkish military mobilised along the Syrian border, expulsing PKK leader, Abdulla Ocalan. When the then Turkish President, Necdet Sezer, attended the funeral of the Syrian President, Hafaz al-Assad, in 2000, it was a sign for relations to change. With the series of events which followed, Syrian President, Bashar al-Assat, visited Turkey in 2004. The joint concerns over Iraq's territorial integrity and Turkey's defiance of the US and EU efforts to isolate Syria played an important role in strengthening the relations between the two. The result was important for both countries which resulted in bilateral agreements, visa-free travel and the formation of a Turkey-Syria High Level Strategic Co-operation Council in the fall of 2009.[39]

Turkey's neighbours to the North and the West have presented it with a different set of challenges. The turbulent Balkans of the 1990s saw much support from Turkey under NATO and EU peacekeeping and peacemaking missions. With Russia, Turkey worked on the expansion of economic ties whilst in the Black Sea region, a number of Black Sea-only organisations emerged - such as the BSEC[40] and the BLACKSEAFOR - which were designed solely to improve economic and military ties and to limit any power-based struggle in the region.

Russia became an important economic partner for Turkey due to an exponential growth in trade as well as being a number-one country in tourist export with roughly three million Russian tourists visiting Turkey every year. Following a Joint Declaration signed between President Vladimir Putin and his counterpart, Ahmet Necdet Sezer, in December 2004, the clock was set to tick in the direction of a "multi-dimensional partnership". Above all, there was a feeling in Turkey that in contrast to the US and the EU, Russia was considering it to be an equal.[41] Between 2009 and 2010, a number of reciprocal visits between the countries' Prime Ministers[42] resulted in another set of co-operation agreements ranging from energy and joint cabinet meetings to visa- free travel and the building of a Russian nuclear plant in Turkey. Even in the aftermath of the 2008 war between Russia and Georgia, Turkey, despite its strong historical and economic ties to the latter, issued a "light" criticism of Russia, calling it to respect Georgia's territorial integrity. When the US pressed for letting its naval forces with humanitarian and economic aid to Georgia pass through the Turkish straits, Turkey chose to stick to the 1936 Montreux Convention which stipulates the length of stay, size and number of naval forces in the Black Sea.

Moreover, Turkey came up with proposal for the establishment of a Caucasus Stability and Co-operation Platform in the immediate aftermath of the Russian-Georgian crisis which would include Turkey, Russia and the three Caucasus states. The Georgian reaction was cautiously worded as it acknowledged Turkey's important potential role. The proposal, however, got silenced in due course as

---

[38] *Ibid.*, p. 13

[39] "Turkey: An Ally No More", Daniel Pipes, October 28, 2009, accessed last on September 29, 2010, http://www.danielpipes.org/7708/turkey-an-ally-no-more

[40] "Turkey and the Greater Black Sea Region" in Nursin A. Guney, ed., *Contentious Issues of Security and the Future of Turkey*, p. 122, accessed last on September 29, 2010,

[41] *Ibid.*

[42] "The Future of Turkey-Russia Relations," *The Journal of Turkish Weekly*, January 23, 2010, accessed last on September 29, 2010, http://www.turkishweekly.net/news/96359/-jtw-interview-the-future-of-turkey-russia-relations.html; "Ankara Moves Toward 'Privileged Partnership' with Moscow," *Today's Zaman*, October 21, 2009, accessed last on September 29, 2010, http://www.todayszaman.com/tz-web/news-190549-100-ankara-moves-toward-privileged-partnership-with-moscow.html

premature or rather clumsy owing to its format (which excluded Western partners) and its timing (when Russia, seen as guarantor of security, conducted warfare in Georgia). The initiative also caused questions in Turkey[43] but, of course, the rationale was understood. As Davutoğlu commented during the Russian-Georgian crisis: "[A]ny other European country can follow certain isolationist policies against Russia. Can Turkey do this? I ask you to understand the geographical conditions of Turkey. If you isolate Russia, economically can Turkey afford this? …Unfortunately, we have to admit this fact. Turkey is almost 75-80% dependent upon Russia (for energy)." Indeed, apart from the economic exchange with Russia, Turkey has no interest in confrontation or war which would undermine the flow of soft-power based policies in any direction.

In a way, Turkey's new line of foreign policy has not been without repercussions. Some tend to see Turkey's foreign policy modulations blurred by the country's identity-driven clash.[44] Turkey's active involvement in the Middle East and its growing ties with Russia have led to a number of speculations in the West, some of which include Turkey becoming more oriented towards Russia and the Middle East whilst drifting away from secularism and turning into a less reliable partner for the West.[45]

Despite Ankara's push for ensuring a "zero problems with its neighbours" policy, it remains restrained due to a number of regional factors. A case in point would be Turkey's overture towards Armenia. The initial step was when Turkish President, Abdullah Gul, paid a visit to Yerevan in 2008 which was widely termed as "football diplomacy." This was followed by the signing of joint protocols in October 2009 which failed to foresee fierce criticism from Turkey's other ally, Azerbaijan, as well as a domestic backlash. When Ankara tried stipulating an additional set of conditions to the protocols (linking ratification of protocols to the progress on the Nagorno Karabakh), Armenia suspended the ratification process.

Turkey's stance in the Middle East was also hampered following the verbal hostilities towards its old ally, Israel. Whilst relations remained on good terms just few years ago when Israel was negotiating with Syria and held a ceasefire in Hamas between 2007- 2008, things subsequently changed. Especially following Operation Cast Lead in Gaza, Turkey and Israel have had tense relations, to say the least.[46]

Overall, however, the policy it has conducted has paved the way for Turkey's exports to grow and intensified political, social or cultural interactions with most of its neighbours. Turkey's weight as an independent regional actor is growing.

In Davutoglu's words, "Turkey's relations with its neighbours now follow the right track in comparison to previous years. The most striking examples of Turkey's success in the region are its relations with Syria and Georgia. There is an intense economic interdependence with these countries. In contrast to that of five-to-ten years ago […], developments such as the use of Batumi airport as a domestic airport and the growth of the Baku-Tbilisi-Kars railway project, which were furthered without creatingany fear of imperial expansion, are exemplary".[47]

---

[43] Hasan Kanbolat: What is Caucasian Stability and Co-operation? What can Turkey do in the Caucasus? retrieved from http://www.todayszaman.com/newsDetail_getNewsById.action?load=detay&link=150578 on September 29, 2010.

[44] For critical reflections on foreign policy shifts please, also se : "Transforming Turkish Foreign Policy: The Quest for Regional Leadership and Europeanisation," Senem Aydin Duzgit, Nathalie Tocci, November 12, 2009, Centre for European Policy Studies, and "Zig-Zags in Foreign Policy and Strategic Depth" (Dis politikada Zig- zag'lar ve stratejik derinlik), Yalim Eralp, June 25, 2010, accessed last on September 29, 2010, http://www.cnnturk.com/Yazarlar/YALIM.ERALP/Dis.Politikada.Zig.Zaglar.ve.Stratejik.Derinlik/39.2416/index.html

[45] For Turkey European debates, please visit the webpage of European Stability Initiative; www.esiweb.org

[46] "Turkey starts to love its neighbours," by Simon Tisdall, Janaury 12, 2010, accessed last on September 29, 2010, /http://www.thecommentfactory.com/turkey's-future-lies-with-west-not-the-middle-east-2975

[47] A. Davutoğlu (2008) "Turkey's Foreign Policy Vision: An Assessment of 2007," *Insight Turkey*, Jan – Mar 2008, Vol.: 10, No. 1, p. 80.

2. Georgia's "Open Door" Policy

The Rose Revolution of November 2003 serves as a watershed which divides the narrative of independent Georgia into 'before' and 'after.' Before 2004, the economic policies were rather unsystematic, amorphous and controversial. Through the uneasy transition from Soviet collapse shock, the economic policies mingled between "liberal" or "social" tinted orientations although they did not settle into any feasible doctrine which would help against economic stagnation and backlash. The crisis was further marred by conflicts and civil war, rampant corruption and crime which turned Georgia into, as some believed, a "failing state".[49]

Both industry and agriculture were nearly crushed. In 1991, 488, 000 Georgians worked in the industrial sector across 1,400 enterprises shrinking down to a mere 85,000 workers in 2004.[50] The drastic downfall in agriculture left rural families struggling through subsistence farming or being forced to migrate. The cultivated arable lands (arable land overall consists 43% of total area), shrunk from 730,000 hectares in 1985 to 561,000 hectares in 2003. Whilst 47.8% of Georgia's population still lives in rural areas and more than 55% are employed in the agricultural sector,[51] the latter creates just 10% of the GDP. The level of productivity here is very low and the GDP rate per person employed in stands at a mere USD 270 which is the lowest rate in Eastern Europe and the former Soviet Union. The scale of collapse was bad and still remains a major challenge for Georgia's post-2004 economy.

The Rose Revolution was a major shift towards ending the stalemate and making a quick-start for a new phase of development aimed at rapid growth. The report of European Stability Initiative (the ESI), which looks at Georgia's reform path, dynamics and spirit since 2004, labels it as a "libertarian revolution" to portray the rationale and ideological motor of changes. [52]The report also features Kakha Bendukidze, business tycoon and Georgia's former reforms coordination minister who is widely believed to have masterminded and ideologically framed economic reforms since June 2004 and who 'declared' ultra-liberalism as a new trademark: "Any economic policy should have a maximum deregulation of the economy as its priority. In Georgia, this should take the form of ultra-liberalism, since if Georgia wants to build a normal country, its economy has to grow at very high rates".[53] This is when Hong Kong and Singapore emerged as inspiring models of development along with the loudly pledged European aspiration. The philosophical drive behind suggested that getting rid of some, as labeled dysfunctional, regulations and institutions would not hurt anything as there was "nothing to lose." The more rational drive stemmed from country's desperate attempt to compensate for its fragile security with the comparative advantage to attract investments and maximum deregulation could serve as such. In fact, the policy achieved a five-fold increase of budget[54] and double digit growth by 2007 with foreign direct investments increased from USD 499.1 million in 2004 to USD 2,014 million in 2008.[55] The success translated into impressive macro-economic figures and swiftly advanced

---

[49] "Reinventing Georgia: The Story of a Libertarian Revolution" (April 2010) retrieved from http://www.esiweb.org/index.php?lang=en&id=322&debate_ID=3&slide_ID=11 on February 3
[50] *Ibid.*
[51] Geostat, 2009.
[52]
[53] Bendukidze quoted at ESI Paper, "Kakha Bendukidze Promised Ultraliberal Reforms for Georgia" (in Russian), *Polit.Ru,* 2 June 2004.
[54] Geostat, 2010.
[55] *Ibid.*.

Georgia's rating in certain categories such as World Bank's 'top reformer' of the region in 2006[56] and 11th best performer in *Ease of Doing Business* ranking for 2010[57] (compared to 137th position in 2004). Yet, many challenge the success of the macro-performance because of its failure to trickle down to the lives of the majority of Georgia's citizens in terms of alleviating the poverty burden and unemployment whilst others see policy controversies with Georgia's political commitment to draw close to the EU.

Georgia's new economic policy was marked by liberalisation of Georgian tax and labour codes, which former Prime Minister, Vladimer Gurgendize, called an "entrepreneurial revolution,"[58] an aggressive privatisation process, which increased seven-fold the receipts from 2004 to 2006, sizing down the regulations and institutions, liberalised mobility and free trade. In terms of the liberalisation of international trade, bold steps have been taken in 2005 and 2006. Even before 2004, international trade was characterised by an eventual liberalisation through the gradual decrease of customs duties and freeing different products from non-tariff barriers. In a libertarian vision, deregulation and an opening up were the pillars to be based upon. On 1 September 2006, the new law on customs duties entered into force which, as the Ministry of Economic Development stated, "created one of the most liberal and competitive trade regimes in the world."[59] In 2007, the main provisions of the law moved to the Georgian Tax code as Chapter XII. Accordingly, 16 tariff lines were reduced to three (5% and 12%). Moreover, import tariffs were abolished for around 90% of goods (tariffs remained on certain agricultural products and construction materials). Seasonal tariffs were also curtailed. Regulatory differentiations between WTO and non WTO members were practically erased and the regulations on the acquisition of the certificate of origin for goods ("Form A") have been also simplified. There is no need to present the "act of expertise" on the origin of the product for getting "Form A". In addition, there are no provisions in Georgian law regarding any kind of non-tariff limitations; such as, licensing, tariff quota, etc.[60] Georgia does not apply any quantitative restrictions on trade.

The licensing system for imports and exports was simplified in 2005 when the number of licenses required reduced from 14 main groups to eight with licensing objectives limited to protecting public health, the environment and national security. There are minimal export restrictions in terms of export taxes or licenses. There are no export subsidies provisioned nor any government financing for exporters other than bank loans at market interest rates.[61] As mentioned in the Georgian Government's 2010 programme: "Free trade development and the non-use of tariff and non-tariff barriers in trade with other countries will remain the policy of the Government of Georgia".[62]

---

[56] "Doing Business: Georgia is This Year's Top Reformer," World Bank, 6 September, 2006, retrieved in January, 2011 from: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/GEORGIAEXTN/0,,contentMDK:21042336~pagePK:141137~piPK:141127~theSitePK:301746,00.html

[57] *Doing Business 2010: Reforming Through Difficult Times*, p.16 retrieved from http://www.doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB10-FullReport.pdf on January 23

[58] *ESI: Rebranding a Country* retrieved from http://www.esiweb.org/index.php?lang=en&id=322&debate_ID=3&slide_ID=14 on January 23

[59] Ministry of Economy and Sustainable Development: Export-Import Regulations retrieved on December 11, 2010 from: http://www.economy.ge/?category=23&lang=geo

[60] *Ibid.*

[61] WTO Trade Policy Review: Georgia, (November 3, 2009) retrieved from http://www.wto.org/english/tratop_e/tpr_e/tp324_e.htm on November 16, 2010.

[62] Programme of the Government of Georgia: United Georgia Without Poverty retrieved on December 23, 2010 from http://www.government.gov.ge/index.php?lang_id=ENG&sec_id=41

Since 2005, the Georgian Government updated its taxation and customs administration system with the aim to decrease the amount of smuggling and illegal trade turnover. The positive impact of the policy was reflected in an increase of trade volume. Yet, the positive effects of trade liberalisation should directly affect the welfare of Georgian citizens and help increase the competitiveness of domestic production. In theory, the restructuring of Georgian domestic

Table 2.1: Georgian Trade Turnover

	2004	2005	2006	2007	2008	2009
Georgian Trade Turnover	2,492,457.90	3,355,407.60	4,612,961.00	6,447,254.40	7,800,013.90	5,500,051.90
Georgian Export	646,903.00	865,454.20	935,992.10	1,232,371.00	1,495,456.60	1,130,555.40
Imports to Georgia	1,845,554.90	2,489,953.40	3,676,968.90	5,214,883.40	6,304,557.30	4,369,496.50
Georgian Trade Balance	-1,198,651.90	-1,624,499.20	-2,740,976.80	-3,982,512.40	-4,809,100.70	-3,238,941.10
Ratio of Import Coverage by Export (%)	35.1	34.8	25.5	23.6	23.7	25.9

Source: www.geostat.ge

production, including the possible shrinking of "traditional" sectors caused by the liberalisation of international trade, should be exceeded by the higher overall economic benefits. A closer look at the picture, however, indicates some gaps.

Between 2004 and 2008, Georgian trade turnover increased from USD 2.49 billion in 2004 to USD 7.8 billion in 2008 (see Table: 2.1) mainly on the expense of import increase. In 2004, Georgian imports accounted for USD 1.84 billion and in 2008 this number increased to USD 6.3 billion. In comparison, the increase in exports was far more modest: from USD 646 million in 2004 to USD 1.49 billion in 2008. Taking into consideration the disproportionate growth of import and export in the period from 2004 to 2008, the Georgian negative trade balance increased from USD -1.19 billion to USD -4.8 billion. The ratio of import coverage by export also decreased from 35.1% in 2004 to 23.7% in 2008. In 2009, due to the economic and financial crisis, the total turnover of Georgia's foreign trade decreased but the data did not contradict the main tendencies and indicators of 2004-2008.

The instrumental linkage between the government's liberalisation policy and the specific objectives of the economic strategy are barely observable. In the government's official documents and statements, liberalisation itself is regarded as a strategy whilst, in fact, it seems more an ideologically framework rather than a well-structured pragmatic policy instrument. This way, the idealogised approach fails to address the question of how profitable unilateral trade liberalisation can be for Georgia when its main trade partners employ different protectionist measures such tariff and non-tariff barriers, direct intervention into their economies or indirect subsidies. We face a situation when, on the one hand, Georgia potentially has a capacity to produce certain types of goods capitalising on its cheap labor force even with high expenses. On the other hand, many of its major trade partners with higher (in some cases several times) productivity and less expenses employ different sorts of protectionist measures which further decrease the competitiveness of Georgian products. The absence of respective well-measured projections in the strategy remains a challenge.

Let us take a look at GDP dynamics based upon the branches of production. In 2008, the chain index of GDP growth accounted for 145% (base year 2003 = 100%). In 2003-2008, the 16 major branches of economy show different dynamics. Eleven out of 16 demonstrated more growth in the chain index than overall GDP growth with five branches having demonstrated less growth than overall GDP growth. Moreover, the only branch which stably declined in comparison to the base year of 2003 was agriculture. In 2008, the agricultural index fell to 89.9% and further declined to 83.8% in 2009. Other 11 branches of the economy grew above average as follows: manufacturing – 171%, Construction – 171.5%, trade, repair of motor vehicles, personal and household goods – 173.6%, hotels and restaurants – 155.7%, communications – 215%, financial services – 283.8%, real estate operations – 209.6%, education – 160.8%, healthcare and social aid – 152.6%, other communal, social and private services – 170%, and financial brokering – 222.1%. All of the abovementioned branches demonstrated more than average GDP growth (145.9%) in comparison to the base year of 2003.

Taking into consideration the production and service specificity of economic branches, none of them is directly influenced by foreign trade liberalisation except for the financial sector, manufacturing, agriculture and trade itself.

From 2004 to 2009, the significant growth of the Georgian financial sector was mainly stipulated by the sharp increase of credit availability from commercial banks. According to the Georgian National Bank (data from January 2004) the indebtedness of economy towards commercial banks accounted for GEL 747.9 million (USD 439.9 million). In 2009, this number increased to GEL 5.742 billion.[63] The growth of the financial sector is linked to trade liberalisation. Of the GEL 5.742 billion issued by the commercial banks, GEL 1.56 billion was for the trade sector and GEL 2.46 billion for consumer credits. If we consider that credits for trade and consumer loans were intended mainly for the acquisition and or realisation of imported products, the interconnection between international trade and the financial sector becomes obvious. The liberalisation of international trade facilitated the import of goods and consumer loans stimulated demand on the Georgian market.

The manufacturing industry, with a 71% growth in comparison to 2003, is a somewhat different case. There are major changes in the structure of the manufacturing sector to be observed as follows. The share of "food, beverages and tobacco" declined from 47.9% to 35.3% (see Table: 2.2). At the same time, the share of "metallurgy and metal products" significantly increased from 13.6% to 24.7%. The decline in the production of "food, beverages and tobacco" can be linked to the decline of agricultural production in Georgia (the index fell to 89.9% in 2008 and to 83.8% in 2009), as well as the liberalisation of international trade. As for "metallurgy and metal products,"

Table 2.2: Production Value in Manufacturing Sector by Kind of Activity

Year	Food beverages and tobacco	Textile and textile products	Leather, leather products and shoes	Timber and timber products	Paper production and Publishing	Oil and oil products	Chemicals	Rubber and plastic	Other non metal minerals	Metallurgy and metal products	Machinery and equipments	electronic and optical devises	Transport means and equipments	Other sectors of production
2003	47.9	0.7	0.2	1.2	4.1	0.7	5.5	1.8	8.3	13.6	0.5	0.8	14.3	0.6
2008	35.3	0.9	0.1	0.9	3.9	0.3	8.4	3.2	14.5	24.7	1.2	1.2	4.5	0.9
Change in %	-12.5	0.2	-0.1	-0.2	-0.1	-0.4	2.9	1.4	6.2	11.0	0.8	0.4	-9.8	0.3

Source: www.geostat.ge

the increase of share can be explained by the export oriented nature of these products and their

[63] National Bank of Georgia: *Loans Granted During a Period in Foreign Currency to Resident Legal Entities by Type of Activity* retrieved from http://nbg.gov.ge/index.php?m=306 on December 10, 2010.

rising price and demand on the international market (see annex: 2). Here, the link with trade liberalisation is weak if it exists at all. At a glance overall, the share of the branches of the economy which are linked to international trade (agriculture and food, beverages and tobacco manufacturing) actually shrank in comparison to other sectors in the period of 2003-2008. The

Table 2.3: FDIs in Georgia According to Economic Sector

1000 USD	2007	2007 (In %)	2008	2008 (In %)
Total	2,014,841.6	100.0	1,563,962.4	100.0
Of which:				
Agriculture and Fisheries	15,527.9	0.8	7,844.3	0.5
Manufacturing	398,240.9	19.8	207,327.9	13.3
Energy Sector	362,581.1	18.0	294,864.8	18.9
Construction	171,891.8	8.5	56,725.3	3.6
Hotels and Restaurants	242,075.9	12.0	181,939.2	11.6
Transport and Communications	416,694.7	20.7	422,690.0	27.0
Real estate	30,543.9	1.5	277,837.7	17.8
Other services	140,730.7	7.0	101,225.5	6.5
Financial Sector	136,914.5	6.8	8,519.4	0.5
Unknown	99,640.2	4.9	4,988.2	0.3

Source: www.geostat.ge

Georgian agricultural sector stands in the least favourable position based upon two important indicators: small amount of 1)foreign direct investments and 2) commercial bank credits for the agricultural sector. Table 2.3 displays that the FDI allotments in the sector is the smallest as compared to others, accounting for a mere 0.8% in 2007 and 0.5% in 2008. As for commercial credits, it stands at a low 0.9% (see Table: 2.4) for 2009. The agricultural sector is pampered by the direct financial injections from the government, either. The expenses from the national budget on agriculture, forestry, fisheries and hunting from 2005 to 2008 equaled to an average of 1.64% and 1.25% in 2009 (see Table: 2.5).

These figures indicate at severe investment deficit in the agricultural sector. One of the reasons for this is the low technological development of the sector, de-capitalisation, high climate and marketing risks and a lack of warranty provisions. For its part, the food processing sector, which is linked to the agricultural sector, is directly affected by the processes taking place in the latter. We can assume that the Georgian government's hesitation to invest in the agricultural sector goes in line with its policy of a sectoral nondiscrimination of the economy.

Table 2.4: Credits Issued by Georgian Commercial Banks According to Branches of Economy

	1000 GEL	In %
Total:	5792846.9	100.0
According to branches of economy *of which:*	3324414.8	57.4
Agriculture, Forestry and Fishing	53990.234	0.9
Manufacturing	679684.08	11.7
Construction	401079.97	6.9
Trade	1565903.5	27.0
Hotels and Restaurants	74139.818	1.3
Transport and Communications	59970.919	1.0
Financial Intermediation	24938.18	0.4
Operations with Real Estate, Research, Business Activities	138668.57	2.4
Public Administration and Defence	3.07	0.0
Education	11161.229	0.2
Healthcare and Social Services	36148.585	0.6
Other	278726.69	4.8
Private Households	2468432.1	42.6

Source: www.nbg.gov.ge

Table 2.5: Expenses in National Budget on Agriculture, Forestry, Fisheries and Hunting

	National Budget Expenses (GEL 1,000)	Expenses in National Budget on Agriculture, Forestry, Fisheries and Hunting (GEL 1,000)	Share in Total Budget Expenses (%)
2005	2,618,557.00	58,752.10	2.24
2006	3,878,542.00	72,204.70	1.86
2007	4,077,817.00	63,504.90	1.56
2008	6,559,206.90	58,243.30	0.89
2009	6,248,648.60	77,860.80	1.25

Source: www.mof.gov.ge

Thus, in terms of international trade, the Georgian government's policy does not imply any benefits for specific products and is fully "open door" and free market oriented.

In the circumstances when there is no explicitly formulated strategy in terms of import substitution and or export facilitation, (unlike for instance in Turkey) the government's policy can be assessed only against overall results of economic performance. Trade liberalisation did not have a tangible positive effect upon the Georgian agricultural sector, the food processing sector and industry (where the share of metallurgy is largest and is not directly affected by trade liberalisation). Thus, the positive effects of liberalisation can be traced in the growth of the retail sector which, for its part, stems from the growth of the financial and public sector expenses. In sum, neither policy nor policy results contradict the government's strategy oriented at liberalisation *per se*.

The Georgian Government tries assertively to open its economy to the world market.[64] The approach to international trade mainly implies the acquisition of preferential trade regimes with different countries and regions, the acquisition of the GSP and GSP+ schemes as well as bilateral free trade agreements. The process was also accelerated by the 2006 Russian embargo. This is exactly when Georgia initiated talks on a free trade agreement with Turkey.

At negotiations over the FTA, the Georgian Government, in the spirit of ultra-liberal policies, aimed to achieve a bilaterally unrestricted free trade regime. This would go in line with Georgia's "open door" trade policy.[65] Turkey, however, has rather different and sophisticated economic approach, especially when it comes to its agricultural sector and imports of so-called 'sensitive products.' Turkey employs this approach with all of its trade partners, including the EU. Thus, the Georgia-Turkey FTA was also tailored along those lines and as Turkish experts observe, even "made an exception only for Georgia" for some agricultural products.[66]

As a result, the FTA ended up with rather assymetric terms of the agreement. The Georgian side introduced an almost completely free trade regime to Turkey with very few exceptions on several product positions. Turkey enshrined a far larger number of exceptions from the free trade regime and also introduced a tariff quota scheme for certain Georgian products. All in all, the asymmetry in the Georgia-Turkey FTA is a logical reflection of two fundamentally different economic and trade policies of the two neighbouring states.

Along with different policy approaches and the incomparable capacities of the Turkish and Georgian economies, another important aspect is the non-tariff barriers which remain problematic for most of the Georgian export products. Georgia's deregulation policy provisioned

[64] V. Volkhart (2008) "Trade Policy and Georgian Exports," OSTEUROPA-INSTITUT REGENSBURG, *Working Paper Nr. 272*, December 2008, p. 19.
[65] Interview N 27.07 held on July 27, 2010 with Tamar Kovziridze - Chief Advisor for Foreign Economic Affairs, Administration of Prime Minister of Georgia.
[66] *Saqartvelos Ekonomika*, No.11, 2008, p. 51.

for a minimisation of the regulations in the spheres of quality control and standardisation sweeping away or drastically downsizing respective institutions and abolishing major provisions of its quality control and safety legislation. The Law on Food Safety was adopted in 2005 but three amendments thereto postponed the enactment of key paragraphs which leaves the country without an effective food safety system. The slow move forward has been made in light of preparation for Deep and Comprehensive Free Trade Agreement with the EU, particularly in the direction of export products which will undergo standardisation according to the ISO and HACCP, initially. It will take still a few more years, however, before the system becomes fully installed. The absence of an effective system of safety and quality standards is claimed to be a stumbling block in advancing some active (e.g., GSP + with the EU) and some prospective trade agreements (DC FTA with the EU). The issue floats up within Georgian-Turkish FTA context in relation to some Georgian products, such as honey.

The policy, at the end, results in an eased up open door policy for imported goods not only in terms of tariffs but also in terms of quality control. The Georgian system is liberalised: phytosanitary and veterinary control in Georgia is conducted over a very limited number of products and goods. The main instrument is "documentary and visual-physical" monitoring, which mainly implies the checking of the conformity of information provided by official documentation to the information provided on the product package. [67] This is more a general form of customs control procedure rather than a product quality control mechanism. Other provisions on rules and regulations regarding the issuance of licenses and permissions by respective agencies of the Georgian Ministry of Agriculture provide the list of products the imports of which are subject to licensing.[68] The acquisition of a license is very simple. It is issued within a day with a maximum license fee equal to GEL 50 (approximately USD 30). Moreover, of products subjected to quality control and licensing is rather limited. For instance, the import of Turkish vegetables which accounted to a considerable USD 62,274 million in 2009, is rather diverse by its composition (see Chapter 8) whilst according to the list, only four types of vegetables (see List 1) are subject to licensing. Similarly, the overwhelming majority of imported products do not undergo even a simple procedure of quality and safety control and licensing whereas Germany and even some CIS countries, like Russia and Ukraine, which barely have high quality and safety standards in place, had quality and safety arguments with imported Turkish vegetables. [69]

List 1:
HS 0701 **-** Potatoes, fresh or chilled .
HS 0703 **-** Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled.
HS 0713 **-** Dried leguminous vegetables, shelled, whether or not skinned or split.
HS 0714 **-** Manioc, arrowroot, salep, Jerusalem artichokes, sweet potatoes fresh, chilled, frozen or dried.

On the contrary to the Georgian approach, Turkey has a rather complex system of standardisation which has its perceptible effect on the ground. Since 1995, Turkey has been developing policies which deal with food safety and quality as a result of the Customs Union Agreement with the EU and export promotion to developed markets. Turkey's producers gradually adapt to international standards recognising such quality and food safety regulations like ISO

[67] Decree N987-N2-184 of December 31, 2008 of the Minister of Finance and Minister of Agriculture "On Conducting State Phytosanitary Border-Quarantine and State Veterinary Border-Quarantine Measures" retrieved from http://www.fvp.ge/brdzanebasd.pdf on January 12, 2011.

68Provision N143 of August 18, 2005 "On Rules and Regulations Regarding the Issuance of Licenses and Permissions by Respective Agencies of the Georgian Ministry of Agriculture retrieved from http://www.mof.ge/common/get_doc.aspx?doc_id=4077 on January 11, 2011.

[69] "Turkey can't control the amount of pesticides in agricultural products exported to Russia" (translation from Russian) retrieved on January 9, 2011 from http://pestic.ru/informtsentr/novosti-sobytiya/turtsiya-ne-v-sostoyanii-kontrolirovat-uroven-pestitsidov-v-selhozproduktsii-postavlyaemoy-v-rossiyu.html

9000, ISO 22000, HACCP, BRC, IFS, SQF and GLOBALGAP.[70] The road, however, has not been always smooth and there have been some restraints when it comes to trade between Turkey and the EU. Apart from import quotas on processed food products, the entry price system for fresh fruits and vegetables and legislation for fishery products hamper Turkey's efforts to fully complement the EU standards when it comes to retailer, national and EU standard food products, production and marketing. Export figures for food and beverage, however (excluding the agricultural sector), to the Eurozone for 2010 indicates that out of a total of the Turkish exports worth USD 6.5 billion, more than half went to the Eurozone. Most of these exports are processed products, which is indicative of the developments in quality assurance by manufacturers.[71] The control system, on the one hand, pushes exports to developed markets and protects domestic consumers but, on the other, can serve as an additional barrier instrument for imports.

Until now, for example, despite the fact that honey has been included in the FTA tariff quota scheme, Georgian beekeepers still cannot export honey to Turkey due to a complex regulatory system and the lack of an adequate infrastructure on the Georgian side.[72] In the case of the export of the Georgian mineral water brand "Borjomi," it took around one year for the brand owner, IDS Borjomi, to handle the complex Turkish bureaucracy and acquire the license for the export. Moreover, the acquired license is valid only for a year and should be renewed upon an annual basis.[73] The same goes for Georgian wine exports to Turkey (see Chapter 7.2).

Turkey can export to Georgia without any safety or quality control impediments whereas Georgian exports to Turkey have to tackle a much wider spectrum of regulations. Additional papers for customs control and imports of certain products to the Turkish market, with no respective infrastructure in place in Georgia, create a serious hindrance for exports to Turkey and, in practice, serve as an instrument of Turkish bureaucracy for delaying the processes on the ground.

The 2008 Free Trade Agreement did not engender any new obligations in this sphere between the parties and so, therefore, the regulatory system is based upon WTO provisions and the legislation of the respective state authorities (see Chapter 4). The asymmetry in this regard, therefore, is not enshrined in the FTA itself but can be observed in practice. In theory, Turkey can export products of any quality to the Georgian market without any impediments. Some allege that there are cases in reality to support the assumption and significant differences can be traced between the quality of products exported from Turkey to Georgia and those exported to Western markets (e.g., colors, technical equipment, etc.).[74] Due to the absence of functional standardisation system in Georgia (the lack of adequate infrastructure, accredited laboratories and internationally acknowledged licensing) neither local production nor imported products in fact go through any effective system of control. This leaves domestic consumers in a state of limbo, on the one hand, and, on one other, hinders (or serves as a pretext that hinders) the export of most of the products to highly standardised Turkish and Western markets.

[70] Turkish Agricultural and Food Industry retrieved from http://www.igeme.org.tr/Assets/sip/tar/Turkish-agr-food-industry.pdf on December 15, 2010

[71] Turkish food and drink exports surpass $6.5 billion retrieved from http://www.todayszaman.com/news-232913-turkish-food-and-drink-exports-surpass-65-billion.html December 16, 2010

[72] Interview N24.09 held on September 24, 2010 with Vakhtang Gogoberidze - Expert in beekeeping, Biological Farming Association "Elkana"

Interview N29.09B held on September 29, 2010 with Temur Gogoberidze - Head of the Association of Professional Beekeepers.

[73] Interview N14.11 held on November 14, 2010 with Badur Tsereteli - Export Sales Manager, IDS Borjomi Georgia.

[74] Interview with Madona Koiava – Chair, the Georgian Consumers' Association, January 26 2011.

3. Macroeconomic Review: Georgia and Turkey

Turkey is Georgia's sole neighbour which has not been the part of the socialist block. After the collapse of the Soviet Union at the beginning of the 1990s, the geographical border with Turkey became the first window to a free market and the first commerce and trade route with the capitalist world. The post-Soviet Georgian economy experienced an apocalyptic downfall. Net material product experienced an unprecedented decline in the immediate years after independence, declining by 11.1% in 1990, 20.6% in 1991, 43.4% in 1992 and 40% in 1993.[75] In 1994, Georgia was producing 25% of the total output recorded in 1990.[76] Ethnic conflicts, civil

Table 3.1: Various Macroeconomic Indicators of Georgia and Turkey (1996-2008)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nominal GDP (Billions of USD)													
Georgia	3.05	3.58	3.62	2.8	3.04	3.21	3.4	3.99	5.13	6.41	7.77	10.22	12.87
Turkey	243.9	255.07	269.12	249.82	266.44	195.54	232.28	303.26	392.21	482.69	529.19	649.12	730.32
Real GDP growth (Annual percent change)													
Georgia	10.5	10.6	2.9	3	1.9	4.7	5.5	11.1	5.9	9.6	9.4	12.3	2.3
Turkey	7	7.5	3.1	-3.4	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7

Source: http://www.turkstat.gov.tr/, http://geostat.ge

war and an unstable political environment added to the burden of the collapse. Most of the industrial production fell to zero with the decline in the agricultural sector relatively smaller but only due to the fact that Georgian agriculture was maintained upon a household basis in which there was a certain experience in selling agricultural products at the domestic market. As a result of the economic downfall, there was a severe shortage of consumer goods including a lack of food, light industrial products and others. Meanwhile, Turkey's economy was prospering with different sectors, including light industry and the food industry, on the rise. The newly opened post-Soviet markets emerged as lucrative space for expanding exports,[77](see Tables 3.1 and 3.2). The Sarfi customs checkpoint that connects Georgia to Turkey opened already in 1988 and

Table 3.2: Nominal GDP Per Capita: Georgia and Turkey 1998-2008 (USD)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Georgia	803.56	627.16	685.89	728.26	776.66	919.24	1187.84	1483.54	1764.85	2326.36	2937.04
Turkey	4560.43	4169.85	4245.22	3064.26	3581.57	4602.81	5862.2	7108.45	7766.97	9422.08	10484.3

Source: http://www.turkstat.gov.tr/, http://geostat.ge

[75] *Georgia - Overview of Economy* retrieved from http://www.nationsencyclopedia.com/economies/Europe/Georgia-OVERVIEW-OF-ECONOMY.html on September 11, 2010.

[76] M. Muskhelishvili, A. Akhvlediani, (2003) "Democratisation in Georgia: Economic Transformation and Social Security," *Discussion Paper No. 8*, p. 9 retrieved from http://www.idea.int/publications/georgia/upload/Book-08_scr.pdf on Sep 14, 2010

[77] Turkish GDP grew from USD 243.9 billion in 1996 to USD 730.3 billion in 2008.

trade relationships began to accelerate. Initially, bilateral trade incremented through individual commerce and often illegal, sporadic and chaotic exchange. The difference between the exported and imported goods well reflected the structural differences between the two economies. Specific products from Georgia, which were manufactured during the Soviet period, were in high demand on the Turkish black market due to their low price and high quality of component. Georgians mostly exported Soviet-produced cooking utensils, household goods, medical equipment and agricultural tools. A large share of Georgian exports comprised of scrap metals and products which contained valuable metals. Timber was another product in high demand. On its part, the Georgian side began to import food and light industrial products from Turkey as well as those for everyday consumption including processed agricultural products. Overall, in early 1990s, the trade between Georgia and Turkey accounted for USD 12.823 million (in 1992)[78] and was characterised by small quantities of individual exports and a high share of smuggling in the overall trade turnover. Because of a rather unstable Georgian political

Table 3.3: Share of Export/Import in Georgian/Turkish GDP

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Exports of Goods and Services (% of GDP)													
Georgia		16.37	18.41	19.51	21.86	25.26	29.79	32.28	32.13	34.12	32.94	31.28	28.83
Turkey	24.88	27.14	20.1	18.21	18.89	25.49	23.55	23.24	23.33	21.74	22.4	22.28	24.11
Imports of Goods and Services (% of GDP)													
Georgia		40.24	37.07	38.84	38.99	39.99	42.87	46.73	48.63	51.76	56.98	58.16	58.62
Turkey	26.87	29.32	20.29	19.12	22.9	22.55	22.91	24.22	25.87	25.41	27.51	27.35	28.95
Trade Balance (% of GDP)													
Georgia	-12.6	-12.8	-12.8	-10	-7.9	-6.4	-6.4	-9.6	-6.9	-11.1	-15.1	-19.7	-22.7
Turkey	-1	-1	0.8	-0.4	-3.7	1.9	-0.3	-2.5	-3.7	-4.6	-6	-5.8	-5.7

Source: http://www.turkstat.gov.tr/, http://geostat.ge

environment, there were very few direct Turkish investments in the Georgian economy. Peer to peer business ties were also rather weak.

In due course, the trade dynamics between Georgia and Turkey well mirrored the economic processes in both countries. Since the 1990s, Turkish economy has been experiencing stable growth. From 1996 to 2008, the average growth of Turkish GDP is 4.37% which is a high number for Turkey's large economy. During these years (1996-2008), the Turkish nominal GDP almost tripled and if in 1996 it amounted to USD 243.9 billion, in 2008 it reached USD 730.32 billion. Despite the fact that the average growth of the Georgian GDP from 1996 to 2008 was 6.9% - considering the scale of the downfall, the small size of the economy and a poor diversification of production - the figure did not translate into a significant improvement of the standards of living for Georgian citizens. During 1996-2008, the nominal GDP per capita in Turkey was several times higher than that in Georgia. In 2008, the Turkish nominal GDP per capita was USD 10484.3 which is three times more than the same indicator in Georgia at USD 2937.04 (see Table 3.2). With respect to GDP, the share of average Georgian exports from 1996 to 2008 is higher than those of Turkey. In 2007 and 2008, for instance, the share of Turkish

[78] B. Gultekin, "Looking Back on the Fall of the Eastern Iron Curtain: How Turkey Rediscovers her South Caucasus Neighbourhood," *Tepav Background Paper*, p. 13.

exports in total GDP accounted for 22.28 % and 24.11 %, respectively, whilst in Georgia, the same indicators accounted for 31.28% and 28.83%. Georgia's trade deficit, however, was notably and stably growing since 1996 when it accounted for -12.6% with regards to nominal GDP and increased to -22.7% in 2008 (see Table 3.3). The Turkish trade deficit in 1996 accounted for -1% of Turkish nominal GDP and increased to -5.7% in 2008. At various points within 1996-2008, however, Turkey had positive current balances as well.

Georgia is demonstrating a much higher dependency upon imports than Turkey. In 2007, for instance, the share of imports accounted for 58.16% of Georgian GDP and 58.62% in 2008 whereas the share of imports in Turkish GDP equaled 27.35% in 2007 and 28.95% in 2008 (see Annex 1). The difference in terms of scale of the two economies and the economic meaning of the trade relations is well demonstrated through the juxtaposition of a few figures. The share of exports to Turkey in total Georgian exports is rather high and stands at 17.6% in 2008 and 20% in 2009. Imports from Turkey accounted for 14.92% of total imports in 2008 and 18.03% in 2009. For Turkey, both exports to Georgia and imports from Georgia have not exceeded 1% of total Turkish export/import volume. It is interesting to observe the dynamics over time as well. The ratio of import coverage by export has been steadily declining from the Georgian side. If this indicator was 35.1% in 2004, it declined to 25.9% in 2009. In other words, Georgian exports in 2004 were around three times less than imports whilst already four times less some five years later. The same indicator for Turkey accounted no less than 60% in 2004-2008 and even 72.48% in 2009. The indicator is even more striking in the context of trade between Georgia and Turkey. The ratio of import coverage by export from the Georgian side has declined since 2004 from 58.69% to 28.70% in 2009 (see Annex 1)**.**

Table 3.4: Labour Productivity Indicators: Georgia and Turkey

	GDP per person engaged (constant 1990 US$ at PPP)		**GDP per person engaged (1990=100)**	
Year	Georgia	Turkey	Georgia	Turkey
1990	15 636.0	16 320.0	100.0	100.0
1991	12 469.0	15 847.0	79.7	97.1
1992	8 720.0	16 651.0	55.8	102.0
1993	6 821.0	18 899.0	43.6	115.8
1994	6 263.0	16 556.0	40.1	101.4
1995	6 503.0	17 258.0	41.6	105.7
1996	7 046.0	17 950.0	45.1	110.0
1997	7 772.0	19 291.0	49.7	118.2
1998	8 551.0	19 375.0	54.7	118.7
1999	8 791.0	18 500.0	56.2	113.4
2000	8 433.0	19 826.0	53.9	121.5
2001	8 655.0	18 745.0	55.4	114.9
2002	9 321.0	20 055.0	59.6	122.9
2003	10 493.0	21 313.0	67.1	130.6
2004	11 303.0	22 635.0	72.3	138.7
2005	12 661.0	24 259.0	81.0	148.6
2006	13 828.0	25 609.0	88.4	156.9
2007	15 929.0	26 374.0	101.9	161.6
2008	16 670.0	26 187.0	106.6	160.5

Source: Key Indicators of the Labour Market (KILM), Sixth Edition, ILO, http://www.ilo.org/empelm/what/pubs/lang--en/WCMS_114060/index.htm

Another important indicator which sheds light upon economic differences is labour productivity. Table 3.4 displays the average productivity indicators for Georgia and Turkey from 1990 to 2008. One may well observe that the productivity of the Georgian labour force has been declining since 1990 until 2007, most drastically falling from 1990 to 1994 (from 100% to 40%) and seeing a slight increase (by 6.6%) in 2008. On the contrary, the productivity of the Turkish labour force has been stably and remarkably growing since then, reaching USD 26,187 per employed person in 2008 and, thus, a 60.5% increase of labour productivity with respect to the year 1990.

For a better analysis of the processes in the Georgian and Turkish economies, it is important to look at labour mobility according to the sectors of the economy. From 1998 to 2007, there is a tendency in the Turkish economy for a decrease in the number of people employed in the agricultural sector which fell from 40.5% in 1998 to 26.2% in 2007. Meanwhile, the number of people employed in industry and the service sectors has increased. Notably, the number of people involved in the service sector in Turkey reached almost half of the Turkish labour force (see Table 3.5). In contrast, the dynamics of labour mobility in between sectors in Georgia does not reflect any significant structural change (see Table 3.6). The most remarkable shift is the increase of the labour force in the agricultural sector from 48.5% in 1998 to 53.4% in 2007. The picture is more telling if juxtaposed with each sectors' outputs. In Turkey, the significant decline in the number of people employed in agriculture and the increase of those in the service sector reflected weakly upon the share of each sector in total GDP. The ratio of agriculture in Turkish GDP decreased by only 5.8% whilst employment rate has decreased by 14.3 % between 1998 and 2006, In the respective period, consequently, this leads to well grounded conclusion that Turkey has significantly increased the

Table 3.5: Distribution of labor force based on economic sector in Turkey (1998-2008)

Year	Total employment ('000)	Agriculture ('000)	Agriculture (%)	Industry ('000)	Industry (%)	Services ('000)	Services (%)
1998	20 872.0	8 461.0	40.5	4 928.0	23.6	7 483.0	35.9
1999	21 413.0	8 872.0	41.4	4 874.0	22.8	7 669.0	35.8
2000	21 581.0	7 769.0	36.0	5 175.0	24.0	8 633.0	40.0
2001	21 524.0	8 088.0	37.6	4 885.0	22.7	8 549.0	39.7
2002	21 354.0	7 457.0	34.9	4 912.0	23.0	8 983.0	42.1
2003	21 147.0	7 165.0	33.9	4 812.0	22.8	9 170.0	43.4
2004	21 791.0	7 400.0	34.0	5 017.0	23.0	9 369.0	43.0
2005	22 046.0	6 493.0	29.5	5 457.0	24.8	10 096.0	45.8
2006	22 330.0	6 088.0	27.3	5 674.0	25.4	10 568.0	47.3
2007	21 189.0	5 601.0	26.4	5 408.0	25.5	10 180.0	48.0
2008	21 565.6	5 648.0	26.2	5 542.5	25.7	10 371.7	48.1

Source: Key Indicators of the Labor Market (KILM), Sixth Edition, ILO, http://www.ilo.org/empelm/what/pubs/lang--en/WCMS_114060/index.htm

Table 3.6: Distribution of Labour Force Based upon Economic Sector in Georgia (1998-2007)

Year	Total employment ('000)	Agriculture ('000)	Agriculture (%)	Industry ('000)	Industry (%)	Services ('000)	Services (%)
1998	1 731.1	839.4	48.5	176.3	10.2	711.2	41.1
1999	1 732.6	904.4	52.2	163.5	9.4	661.0	38.2
2000	1 839.3	958.3	52.1	180.2	9.8	696.4	37.9
2001	1 877.7	990.5	52.8	174.2	9.3	709.7	37.8
2002	1 839.2	989.0	53.8	151.2	8.2	698.7	38.0
2003	1 814.5	995.6	54.9	151.5	8.3	663.1	36.5
2004	1 783.3	962.4	54.0	157.5	8.8	657.9	36.9
2005	1 744.6	947.8	54.3	162.1	9.3	631.1	36.2
2006	1 747.3	966.4	55.3	158.1	9.0	620.5	35.5
2007	1 704.3	910.5	53.4	176.8	10.4	613.9	36.0

Source: Key Indicators of the Labour Market (KILM), Sixth Edition, ILO, http://www.ilo.org/empelm/what/pubs/lang--en/WCMS_114060/index.htm labour productivity of its agricultural sector (see Table 3.7).

Labour productivity of the Turkish agricultural sector reached USD 9,351 per employed in 2004 and further increased to USD 11,486 in 2006, USD 12,796 in 2007 and USD 14,922 in 2008.[79] The similar indicator for the Georgian agricultural sector is very low (the lowest in the region) and has been almost static over the years. If we disregard the occasional effects of climate change upon Georgian agricultural output, labour productivity in the sector has practically not changed for the past eight years (see Table 3.8).

Table 3.7: Gross Domestic Product According to the Branches of the Economic Activity (based upon current prices) Turkey

Year	Agriculture	Industry	Services
1994	14.8	25.66	59.54
1995	14.98	25.82	59.19
1996	15.91	24.21	59.88
1997	13.61	24.17	62.21
1998	16.87	21.42	61.71
1999	14.6	21.9	63.5
2000	13.65	22.53	63.82
2001	11.43	24.18	64.39
2002	11.36	24.26	64.38
2003	11.55	23.83	64.62
2004	11.06	23.83	65.1
2005	10.07	24.36	65.57
2006	9.03	24.54	66.43

Source: http://www.turkstat.gov.tr/

A macroeconomic analysis explicitly demonstrates that the Turkish agricultural sector has an absolute advantage over the Georgian one in terms of higher productivity and competitiveness. On the other hand, the development of the industrial and service sectors in Turkey boosts demands for labour force in these sectors, thus increasing the expenditure per person engaged in agriculture. We can assume that Georgia might have a comparative advantage over Turkey in this regard. The lack of competition for labour force between the economic sectors in Georgia stipulates low costs per person engaged in the agricultural sector, thus making Georgian agricultural workforce cheaper. Subsequently, despite Turkey's overwhelming advantage, Georgia still may have a comparative advantage in certain segments of agriculture due to the lower alternative expenditures per person engaged in the sector. This factor could have been capitalised to play a role in terms of developing the Georgian agricultural sector and increasing the competitiveness of certain agricultural products both at domestic market and abroad although such a tendency is hitherto not observed. One of the impediments here again is the stably low labour productivity in the Georgian agricultural sector which has not exceeded USD 300 in the past years (see Table 3.8) which in turn relates to a number of sector-specific problems including de-capitalization and low level of commercialisation. The indicator is much lower as compared to other countries (including Turkey with over USD 10,000 since 2004 which is increasing quite quickly) alongside a growing gap as positive dynamics is practically not present. The deficiencies in primary agricultural production reflect upon the processing

Table 3.8: GDP Per Person Employed - Agriculture, Forestry and Fisheries in Georgia (USD)

1998	1999	2000	2001	2002	2003	2004	2005
271	261	253	224	243	232	222	287

Source: Key Indicators of the Labour Market (KILM), Sixth Edition, ILO, http://www.ilo.org/empelm/what/pubs/lang--en/WCMS_114060/index.htm

[79] TurkStat (2009) *Turkey's Statistical Yearbook 2009*, retrieved from http://www.turkstat.gov.tr/yillik/stat_yearbook.pdf on June 6, 2010.

industry which discourages the latter from utilising local raw materials due to its small volume and high price and urging instead substitution with imported materials.

As for heavy industry in Georgia, this is limited mainly to a few larger factories operating in the sphere of metals and ferroalloys production. Exports of these products together with scrap metals constitute the largest portion of Georgian exports to Turkey and vary from 63% to 83% (depending upon the export year). Due to little diversification in the sector, the top ten export positions of industrial products have remained unchanged for the past years and are weakly affected by the FTA.

The FTA may have certain effects upon the movement of investment capital between the participant countries. Georgia's investment capacities are limited not only for abroad but domestically, whilst the country tries to fill in the deficiencies of domestic savings by loan capital and other transfers from outside. Turkey is an active investor, including in Georgia. The FTA here may play some, yet not decisive, role together with other factors. Here, the preferential trade regimes (such as bilateral cumulation – see Chapter Five) and ultimately cheaper means of production may stimulate additional investments. Moreover, potential free trade regimes with the EU, the USA and other countries may add to investors motivation, including those from the Turkish side.

In nutshell, the vibrant dynamics of Turkey's economic development vis à vis Georgia's uneasy transition over two decades places the countries in a very different economic standing. Considering the scale of economies and the size of the markets, trade with Turkey is much more important for Georgia than vice versa from an economic point of view. Turkish exports to Georgia comprise a mere 0.77% of total Turkish exports, whereas Georgian exports to Turkey, account for 17.6% (in 2008) and 20% (in 2009) of Georgia's total export volume. As for the imports from Turkey, they account for 14.92% in 2008 and 18.03% in 2009 of the total Georgian imports (see Annex 1).

4. Trade between Georgia and Turkey

In the beginning of the 1990s, economic ties between Turkey and Georgia were rather limited, sporadic and irregular. Trade relations between the two states were regulated by the 1992 agreement between the Georgian and Turkish republics on economic co-operation which entered into force on August 9, 1995. Following Georgia's membership in the WTO on June 14, 2000, Georgian-Turkish trade relations shifted to a different ground and bilateral trade started to operate under the MFN[80] regime. In 2005, Georgia's trade relations with its European partners have been upgraded to a new level and Georgia, together with the Republic of Moldova, became the beneficiary of EU's GSP+ scheme. This was considered to be a significant achievement in the Georgian political establishment and gave Georgian exporters a wider spectrum of opportunities. The standard GSP, which provided preferences to 176 Developing Countries and Territories on over 6,200 tariff lines, has been upgraded to the special incentive arrangement for sustainable development and good governance, known as the GSP+, which offers additional tariff reductions to support vulnerable developing countries in their ratification and implementation of international conventions in these areas. With the EU GSP+ scheme, Georgian exporters were granted with the opportunity to export 7,200 types of products to the EU markets free of customs duties.[81] This had another important effect: because of the Association Agreement between the EU and Turkey, Georgia automatically became the beneficiary of the Turkish GSP+ scheme from January 1, 2006. In 2007, Georgia further advanced trade relations with Turkey and signed the FTA which entered into force on November 1, 2008.

Figure 1 Georgian exports according to Coutry Groups

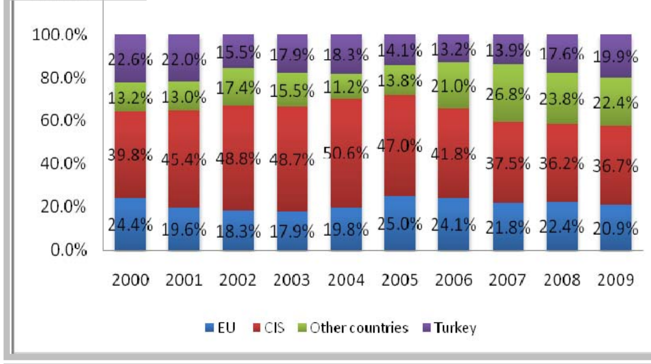
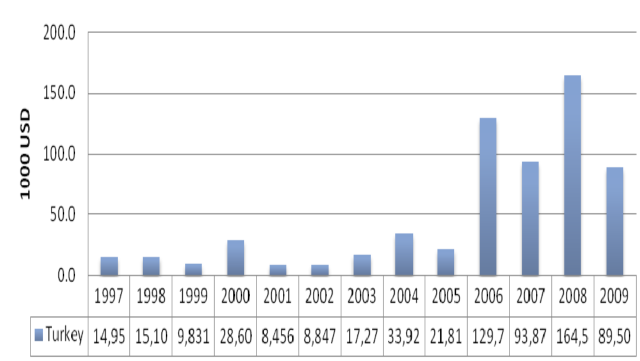


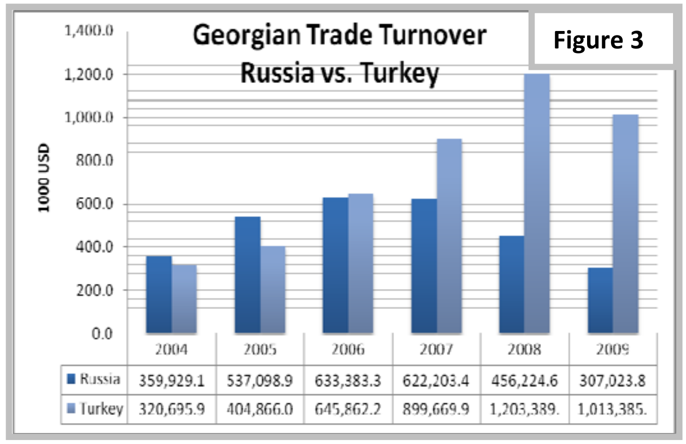
Figure 2 Turkish FDI flow

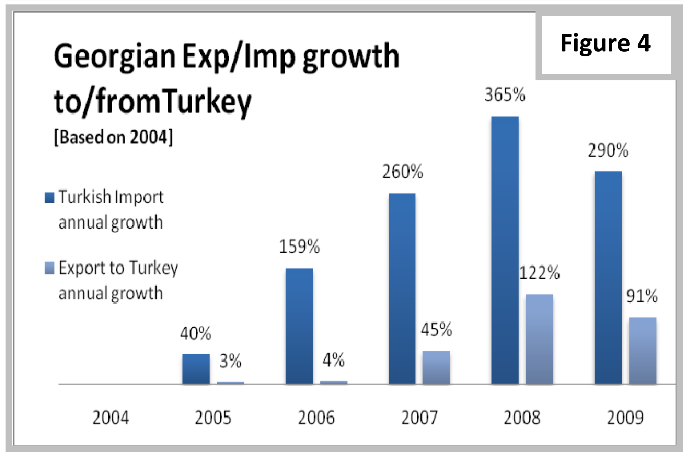


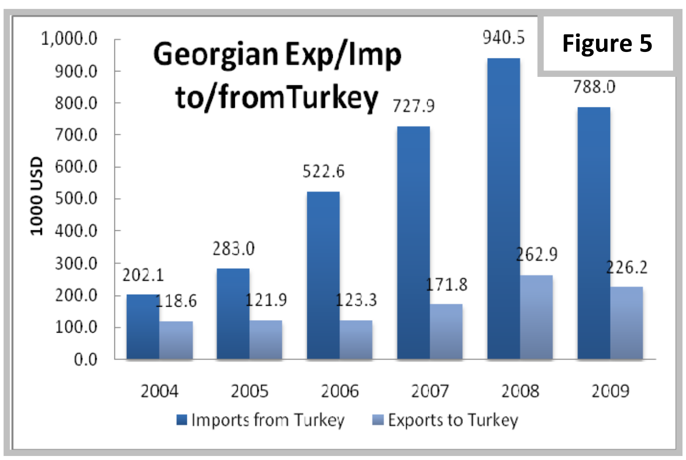
[80] Under the WTO agreements, countries cannot normally discriminate between their trading partners. Granting one a special favour (such as a lower customs duty rate for one of their products) and the same must be done for all other WTO members. This principle is known as most-favoured-nation (MFN) treatment. It is so important that it is the first article of the General Agreement on Tariffs and Trade (GATT) which governs trade in goods. MFN is also a priority in the General Agreement on Trade in Services (GATS) (Article 2) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Article 4) although the principle is handled slightly differently in each agreement. Together, those three agreements cover all three main areas of trade handled by the WTO (WTO, 2010). *Retrieved from* http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm#top

[81] European Commission, DG Trade, Generalised System of Preferences (2010) retrieved from http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/#_legislation on July 23, 2010.

Since the Rose Revolution in 2003 and its fast-track economic development together with boosting international trade turnover was a part of state agenda and, in this regard, further liberalisation of trade between Georgia and Turkey was considered as a solid achievement by the Georgian officials. Starting from 2004, Georgia's trade turnover demonstrated remarkable growth. Amongst Georgia's top trade partners were: Russia, Turkey, Azerbaijan and the EU. After the Russian embargo in autumn 2006, Georgia was cut off from its main export market which accounted for 17.8% (in 2005) of the country's exports.[82] This negative effect caused -4% in Georgia's that time trade deficit.[83] Despite the Russian embargo, CIS countries still remain Georgia's biggest trade partners accounting for 37%, 36% and 36% of the total Georgian exports in 2007, 2008 and 2009, respectively (see Figure 1). We can observe a steady decline of Georgian exports in 2005-2007 when the country's exports to CIS countries fell from 50.6% (2004) to 41.8% (2006) and 37.5% (in 2007). After the embargo resulted in a 4% decline of Georgian exports to the CIS states in 2007, the pattern remained relatively stable for three following years (see Figure 1). The Russian embargo urged the Georgian side to seek alternative markets and diversify its exports. In this light, the acquisition of the GSP+ trade regime with the EU, and subsequently with Turkey in 2006, was an important achievement in that Georgia's trade vector shifted from north to west and eventually Turkey substituted Russia as Georgia's number-one trade partner (see Figure 3).







[82] Geostat, 2010.

[83] IMF Country Report No. 07/107, p. 8 retrieved from http://www.imf.org/external/pubs/ft/scr/2007/cr07107.pdf on Octpber 5, 2010.

Turkey has traditionally been viewed as an important partner by Georgia in terms of the country's economic development. Turkey is the major export market for the Georgian economy accounting for 20% (one-fifth) of all Georgian exports in 2009 (see Figure 1) and 4th[84] largest investor in Georgia. Turkish investments quickly climbed up since 2006 accounting for USD 129.7 million in contrast to USD 21.81 million in 2005. Turkish businesses[85] relate it to an upgrade in different aspects of bilateral relations as well as liberalised legislation, deregulation and quick reforms aimed at bettering-off the business climate, which was largely compromised before 2004.

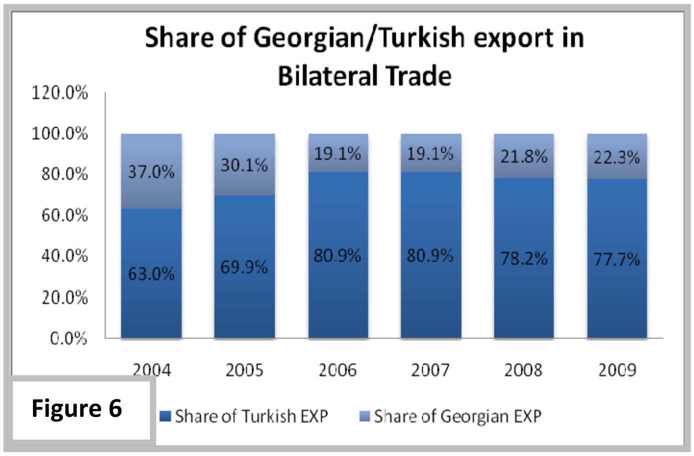


Figure 6

In the following three years, investments accounted for USD 93.87 million in 2007, USD 164.5 million in 2008 and USD 89.5 million in 2009 (see Figure 2). Notably, 2010 was marked with a significant downfall of Turkish investments in the Georgian economy and stood at a mere USD 29.8 million accounting for a 7% share of total investments, scrolling down to the 8th position of largest investor countries.[86]

The two major happenings of the GSP+ in 2006 and the FTA in 2008 were supposed to have a substantially positive effect upon Georgian-Turkish bilateral trade which has been growing since 2004 - USD 202 million and reached its highest mark in 2008 at USD 940.4 million. Turkish exports to Georgia have been growing steadily since 2004, creating a favourable ground for Turkish businesses. Growth accounted for 40% in 2005 (against 3% growth of Georgian exports), and 159% in 2006 versus the Georgian 4%.[87] Figures 4 and 5 illustrate the further trend of the disproportionate growth of imports from Turkey versus Georgian exports to Turkey which have continued until 2009 with 260% in 2007, 365% in 2008 and 290% in 2009 with respect to year 2004.[88]

The average share of Georgian exports in the Georgian-Turkish export/import balance in 2004-2005 was between 30%-37% and shrank to an average of 19-20% in 2006-2007 whilst finally slightly strengthening its positions in 2008-2009 by reaching average 22% (see Figure 6).[89] Currently, it is obvious that Georgia's position in Georgian-Turkish bilateral trade, both before and after the Agreement, was and is rather weak and the turnover of imported products originating from Turkey is overwhelmingly higher than those of Georgian origin exported to Turkey.

---

[84] Geostat, 2010
[85] Interviews N01.06 and with Mehmet Habbab – Delta Petrolium, Istanbul, Delta Petroleum Products Trading Co., and Serdar Arikan and Cagla Mazlum – DEIK, Istanbul, Eurasia Department, Istanbul, Turkey, Jul 01 2010.
[86] *Ibid.*
[87] *Ibid.*
[88] *Ibid.*
[89] *Ibid.*

5. Georgian-Turkish FTA

The Minister of Economic Development of Georgia and the State Minister of Turkey signed the Free Trade Agreement at the Georgian-Turkish Business Forum which was held on November 21, 2007 in Tbilisi.[90] The Agreement entered into force on November 1, 2008. In 2007, the Turkish press reported that "…the negotiations started, upon the special request of Georgian President Mikheil Saakashvili, who visited Turkey in December 2006. The FTA talks with Georgia, which is a very important country for Turkish businesses, are estimated to start promptly in the new year."[91] The Georgian Government deemed the Agreement as an important step forward to advance bilateral trade and deepen economic and political ties with the regional partner.[92] When the FTA entered into force, Turkey already accounted for one-fifth of exports and Georgian officials assumed that new arrangement would be especially valuable in terms of encouraging agricultural industry and gaining access to exports of agricultural products, juices, wine, citrus fruit and other items to the Turkish market of 70 million people.[93] Today, businessmen in Georgia say the results have not lived up to those high expectations.[94]

The negotiation process over the FTA was not always smooth. In December 2006, the Turkish embassy in Georgia officially delivered the Turkish project for the Georgian-Turkish FTA. The first round of negotiations on that proposal was held in the beginning of February 2007 in Ankara. Due to the fact that components of the FTA in the proposal did not go much further than covered by the already existing GSP+ with Turkey and did not provision desirable terms for the Georgian side as concerning trade liberalisation and exports, with the Turkish side not ready to make concessions (reduce the product exception list from 140), the negotiation process was temporarily halted. In 2007, during the visit of the Turkish Vice-Premier and the Minister for Foreign Affairs to Batumi, Georgian President, Mikheil Saakashvili, asked the Turkish officials to resume talks on the FTA which had been halted on the expert level and take the decision on higher level. After the President's request, the negotiation process was re-opened and the Agreement was signed on November 21, 2007.[95]

The preamble of the Agreement reads that the Parties desire "to develop and strengthen the existing friendly relations, especially in the fields of economic co-operation and trade, with an aim to contribute to the progress of economic co-operation between the two countries and to increase the scope of mutual trade exchanges." The goals of the Agreement, amongst others, is to promote, through the expansion of reciprocal trade, the harmonious development of the

[90] "Georgia and Turkey Sign Free Trade Agreement" (2007) retrieved from http://www.investingeorgia.org/news/view/329 on 21.06.2010 on August 23, 2010.

[91] "New Markets for Turkish Businessmen" (2007) retrieved from http://www.turkey-now.org/Default.aspx?pgID=698&langid=1 on July 26, 2010.

[92] Interview N23.06C held on June 23, 2010 with Mikheil Janelidze - Head of Foreign Trade and International Economic Relations Department, Ministry of Economic and Sustainable Development of Georgia.
InterviewN27.07 held on July 27, 2010 with Tamar Kovziridze - Chief Advisor for Foreign Economic Affairs, Administration of Prime Minister of Georgia.

[93] "Georgian Government Works to Expand FTA List" (2008) *Invest Today*, Issue No. 8, p. 4, retrieved from http://www.investingeorgia.org/uploads/file/invest8.pdf on September 23, 2010.

[94] "Georgia Struggles to Compete With Turkish Economy : Two years on, free trade deal has not resulted in promised export surge" (2010) retrieved from http://iwpr.net/report-news/georgia-struggles-compete-turkish-economy on October 15, 2010.

[95] Free Trade with Turkey (2009) retrieved from http://ictplgeorgia.ge/index.php?name=PagesG&op=page&pid=65 on October 14, 2010.

economic relations between the Parties[96] and provide fair conditions of competition.[97] In functional terms, it should be noted that the Georgian-Turkish FTA is a "shallow agreement limited to goods and not going beyond WTO provisions on rules […]."[98] The Agreement did not introduce new terms but ended up being based upon the WTO's trade and intellectual property (TRIPS) regulatory system, providing a space for exclusive bilateral approach only in limited cases. The core of the Agreement operates under the WTO scheme, similarly as before:

Article 10 regarding <u>Sanitary and Phytosanitary Measures</u>,

Article 11 regarding <u>Internal Taxes</u>,

Article 21 regarding <u>Subsidies</u>,

Article 22 regarding <u>Intellectual Property Rights</u>,

Article 25 regarding <u>Technical Regulations, Standards, Conformity Assessment and Related Measures</u>,

The Agreement installed an important institutional component in the form of the Joint Committee responsible for administration of the Agreement and its implementation. The Joint Committee is to meet at least once a year and act (takes decisions and makes recommendations) by consensus.[99] The Committee also serves as a dispute resolution platform. A dispute between the Parties should be primarily settled by means of a decision of the Joint Committee, the decision then being binding for the Parties. In case this is not possible, the Agreement foresees arbitration with each Party appointing an arbitrator who then agrees upon a third one with the arbitrators' decision taken by majority vote and being binding for the Parties.[100] The Joint Committee can be regarded as the main mechanism for the further evolution of relationships between the Parties in the framework of the FTA. Paragraphs 1 and 2 of Article 33 of the Agreement on evolutionary clause clearly provisions for perspectives of further advancement of relations if:

Either Party considers that it would be useful and in the interest of the economies of the Parties to develop the relations established by this Agreement by extending them to fields not covered thereby, it shall submit a request to the other Party. The Joint Committee shall examine this request and, where appropriate, make recommendations, particularly with a view to opening negotiations.

Agreements resulting from the procedure referred to in Paragraph 1 will be subject to ratification or approval by the Parties to this Agreement in accordance with their national legislation. Also notably, Paragraph 2 of Article 20 on competition, concerning the undertakings of the Joint Committee, sets a goal to "within five years of the entry into force of this Agreement, adopt by decision the necessary rules for the implementation of Paragraph 1" until these rules are adopted

---

[96] Art.: 1, par.: b, Geo-Turk FTA, 2008.
[97] Art.: 1, par.: d, Geo-Turk FTA, 2008.

- Official text of the Geo-Turk FTA 2008 (In English) can be retrieved from: http://ictplgeorgia.ge/index.php?name=PagesG&op=page&pid=65
- Official text of Geo-Turk FTA 2008 (In Georgian) can be retrieved from: http://www.economy.ge/files/foreign-trade/Georgia-Turkey.pdf

[98] European Commission, DG Trade (2008) Free Trade Agreement between Georgia and Turkey – Rough analysis, Brussels TRADE/E1/BS/cd D (2008) 920, p. 4.
[99] Art.: 27-35, Geo-Turk FTA, 2008.
[100] Art.: 32, Geo-Turk FTA, 2008.

relevant WTO rules should apply.[101] Similar provisions are read in Article 23 which sets the arrangement for state monopolies. According to the agreement, "Parties have undertaken to progressively adjust any state monopoly of a commercial character so as to ensure that by the end of the 4th year following the entry into force of the Agreement, no discrimination regarding the conditions under which goods are procured and marketed will exist between nationals of the Parties."[102]

Despite the fact that the Georgian-Turkish FTA is based mainly upon WTO regulatory provisions, few important components have been introduced. The first, which in fact is the very core of free trade agreements, is the reduction or abolition of customs duties on a large number of products and the second is the introduction of the principle of bilateral cummulation. After the entry into force of the Agreement, import and export customs duties and similar charges and all quantitative restrictions in bilateral trade on all industrial products have been abolished and no new ones can be introduced. On the contrary, liberalisation covered the agricultural sector to a remarkably lesser extent. The Agreement does not tackle the issues of export duties and similar charges or quantitative restrictions. "A negative approach, with no transition periods, is applied upon the removal of import duties and similar charges and the share of exempted products, or products put under limited preferential tariff quotas, is rather significant, in particular as regards imports into Turkey."[103] To be more specific, before the Agreement, 174 types of products were charged 12% customs duties and 43 types of products were charged 5% customs duties according to the Georgian Tax Code. After the Agreement, all of the abovementioned products were freed from the customs duties excluding only 15 product positions mentioned in the 1st annex of the 1st protocol of the Agreement (see Annex A). Customs duties on the abovementioned 15 product positions were maintained for the imports from Turkey. From the Turkish side, the customs duties were also abolished but in contrast to Georgian provisions, Turkey did not abolish customs duties on eight product (HS) chapters (each listing around ten product positions) and an additional 22 product positions, thus maintaining customs duties on incomparably more product positions than its Georgian counterparts.[104] Limitations from both sides mainly referred to agricultural products. In this regard, the Agreement between the parties can definitely be considered as asymmetrical and the mere analysis of the text demonstrates that the Georgian side has abolished customs duties on more product positions than the Turkish side.[105]

In combinations with the partial abolition of customs duties on Georgian products, the Turkish side also introduced a system of tariff quotas for certain products. List B of Annex 2, Protocol I of the Agreement lists the products which benefit from the Turkish tariff quota scheme (see Annex A). On the ground, the introduction of tariff quotas on certain products means that certain amounts of products can be exported to the partner state's market free of customs duties or with significant discounts. The idea behind tariff quotas is to give certain benefits to Georgian exporters but, simultaneously, protect the domestic market. The Turkish side uses that as the functional mechanism to limit the amount of products which fall under the customs free or tariff reduction scheme. In contrast, the Georgian side did not introduce any tariff quotas on Turkish imports.

[101] Par.: 2, Art.: 20, Geo-Turk FTA, 2008.
[102] Par.: 1, Art.: 23, Geo-Turk FTA, 2008.
[103] European Commission, DG Trade (2008) Free Trade Agreement between Georgia and Turkey – Rough Analysis, Brussels TRADE/E1/BS/cd D (2008) 920, p. 4.
[104] Annex 1 and list A of Annex 2 of Protocol I, Geo-Turk FTA, 2008.
[105] Interview N24.06 held on June 24, 2010 with Shota Makatsaria, Vice President, Georgian Chamber of Commerce and Industry.

According to the Agreement and based upon the internationally acknowledged Harmonised Commodity Description and Coding System (HS):[106]

- 3 product chapters[107]
- 16 product positions[108]
- 6 types of products[109]

were granted with tariff quotas ranging from 50% to 100% discounts on customs duties (see Annex A). It should be mentioned that apart from three products HS0302.69.55 (pother fresh or chilled fish), HS0303.79.65 (other frozen fish) and HS2204 (wine of fresh grapes, including fortified wines), quota sizes for the rest are rather small. For instance, the two agricultural products with the biggest quotas in the list stand at:

- Citrus fruit, fresh or dried (HS0805) excluding lemons (HS0805.50) from the product position – 4,000 tons.
- Apples, fresh (HS0808.10) – 2,000 tons.

Again, if we do not take into consideration the quotas for anchovies (HS0302.69.55, HS0303.79.65) and wine (HS2204) (which will be detailed out in case reviews), the quotas for the two products above are the biggest but, in fact, minor versus the total production volume. For instance, the production of citrus fruits in Georgia in 2009 was around 78,000 tons (excl. lemons HS0805.50), thus the tariff quota allows a mere 2.5% of the total Georgian production. As for apples, the quota equals 2% of the total apple production in Georgia.[110]

In effect, the small size of quotas cannot have any tangible impact in terms of encouraging the growth of production in the respective sub-sectors. At the same time, it is also unclear as to what extent the quotas are actually used. This respective piece of information proved to be quite problematic to obtain. Neither the Turkish nor the Georgian sides provided information on several requests. The Georgian side claimed not to possess the respective data.[111] On different written and verbal requests, the Turkish side hesitated to disclose the information although finally and unofficially explained the delay by labeling the information as a 'trade secret.'[112] Based upon

[106] The Nomenclature governed by the Convention on the Harmonised Commodity Description and Coding System, commonly known as "HS Nomenclature," is an international multipurpose nomenclature which was elaborated under the auspices of the World Customs Organisation (WCO). At present, there are 137 Contracting Parties to this Convention, however, it is applied by more than 200 administrations worldwide, mostly to set up their national customs tariff and for the collection of economic statistical data.

- Information on International harmonised system(HS) can be retrieved from: http://hscode.org/
- Official text of Georgian national nomenclature for foreign economical activities (In Georgian: საგარეო ეკონომიკური საქმიანობის ეროვნული სასაქონლო ნომენკლატურა - სეს ესნ) can be retrieved from: http://mof.ge/3321

[107] HS07, HS11 and HS19 excl.: HS0702.00, HS1101, HS1102, HS1108, HS1903 from the abovementioned chapters.
[108] HS0405, HS0407, HS0409, HS0603, HS0805, HS0807, HS0809, HS1202, HS1704, HS1806, HS2001, HS2005, HS2007, HS2009, HS2102, HS2204 excl. HS0805.50 and HS2007.99.98.
[109] HS0302.69.55, HS0303.79.65, HS0702.00, HS0808.10, HS0808.20, HS2301.20
[110] Agriculture of Georgia (2009) Geostat, retrieved from http://www.geostat.ge/cms/site_images/_files/georgian/agriculture/Agriculture%20of%20Georgia%202009.pdf on August 16, 2010.
[111] Interview N23.06B held on June 23, 2010 with Irina Japaridze – Head of Division, Department of Foreign Trade and International Economic Relations, Ministry of Economic and Sustainable Development of Georgia.
[112] EI LAT's researcher in Turkey interview with the interlocutor at the Under-Secretariat for Foreign Trade in Ankara, February2011.

several interviews, we can assume that most of these small-sized quotas have not been utilised.[113]

Amongst the different reasons for the non-utilisation of the tariff quotas from Georgian businesses, the low productivity of the Georgian agricultural sector has been identified by some experts.[114] Another significant obstacle for Georgian exporters is the way the quota acquisition is managed. For the acquisition of the quotas, Georgian exporters have to first find a partner company in Turkey or register their own entity (based upon Turkish law) and then make an application to the Turkish Under-Secretariat for Foreign Trade, at the Directorate General for Imports in Ankara, via their Turkish partner/daughter company in Turkey. The bureaucratic procedure for the application is regulated by Decree No: 2004/733 on the Administration of Quotas and Tariff Quotas. Under the Decree, the Turkish Under-Secretariat for Foreign Trade has the authority to determine the principles and procedures of the application and the distribution and issue of the quotas and tariff quotas[115] (see Annex B). The interviewers noted that the bureaucratic procedures for the acquisition of the quotas work rather smoothly and only vary slightly according to the product type. As an additional obstacle, however, the awareness of Georgian exporters of the relevant mechanism is rather limited with their rather heavy reliance upon Turkish partners.[116] On the top of this, small and medium Georgian businesses, especially those in the field of agriculture, have rather limited resources for the relevant bureaucratic solution on the Turkish side given the expenses that it entails. As a result, aside from wine exporters, the degree of utilisation of the quotas from the Georgian exporters is rather low and, thus, the economic impact of this particular provision of the Agreement is rather limited.

Another important component and one of the achievements of the Agreement is the introduction of the principle of bilateral cumulation. The principle provisions that the “materials originating in Turkey shall be considered as materials originating in Georgia when incorporated into a product obtained in Georgia. It shall not be necessary that such materials have undergone sufficient working or processing provided they have undergone working or processing going beyond the operations referred to in Article 7.” The same provisions are provided for the materials originating in Georgia.[117] Article 7 of the 2nd Protocol warns against and lays out the criteria for the so-called “insufficient working or processing” operations which mean that the technical processing (described in Article 7) is not enough for the product to qualify as an “originating product”.[118]

On the ground, bilateral cumulation implies that products which have Turkish origin can be imported to Georgia and then processed and exported back to Turkey free of customs duties from both sides of the border (if the products do not fall under certain exceptions based on domestic law). The same scheme applies to products of the Georgian origin. A good example of bilateral cumulation in action is the textile industry when fabric produced in Turkey can be “imported” from Turkey, processed or manufactured in Georgia and then exported back to the Turkish market free of customs duties. This specific provision carries a significant potential for the development of co-operation between Turkish and Georgian businesses in different industries and may also encourage business investments across the border. To these ends,

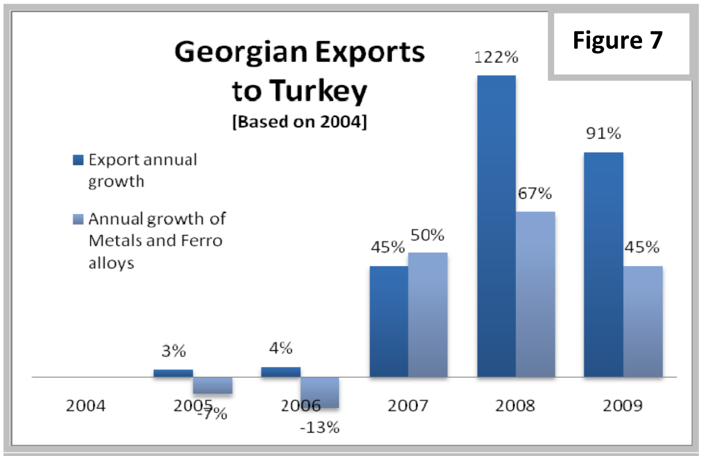
[113] Interview N30.06 held on June 30, 2010 with Omar Kacharava - Minister’s Advisor, Georgian Ministry of Agriculture has also shared unconfirmed information.
[114] *Ibid.*
Interview N23.06B held on June 23, 2010 with Irina Japaridze – Head of Division, Department of Foreign Trade and International Economic Relations, Ministry of Economic and Sustainable Development of Georgia.
[115] Art.: 3, Par.: A of DEC.: N2004/7333/See Anx.: B
[116] Interview N15.07 held on July 15, 2010 with Ali Munir Erkmen - Mahzen Ltd., Georgian wine exporter to Turkey.
Interview N06.07 held on July 6, 2010 with Giorgi Ramishvili - Director General, “Bagrationi” Wine Company.
[117] Art.: 3 and 4, Prot.: II, Geo-Turk FTA, 2008.
[118] Art.: 7, Prot.: II, Geo-Turk FTA, 2008.

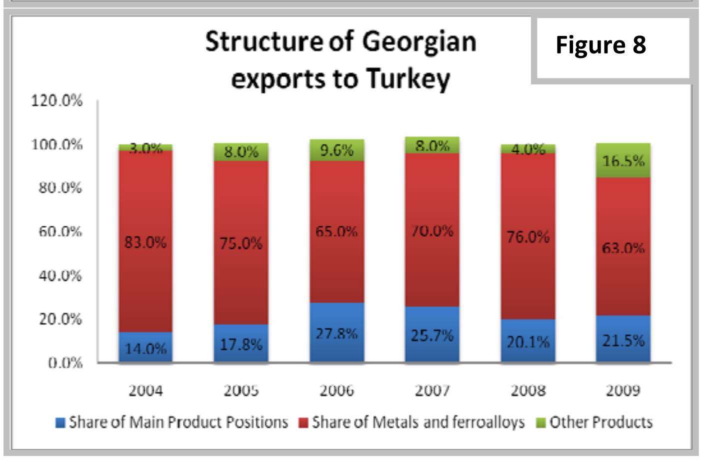
however, the traceable tangible benefits from this specific provision for Georgia-based businesses is rather limited and the textile industry is mainly importing materials in re-export regime, processing them and exporting back to Turkey instead of using a new provision of FTA so far.[119]

In brief, the content analysis of the FTA can be broken down into three main composites: the first is the enactment of customs duty free system, thus a 100% scrapping of customs duties on certain products without any quantitative limitations; the second is the installment of the system of tariff quotas for certain products (of agricultural origin) and the third is the introduction of the principle of bilateral cumulation. All three abovementioned segments of the Agreement were to generate impact upon Georgian-Turkish bilateral trade which will be analysed in consecutive chapters.

[119] Interview N03.08A held on August03, 2010 with Tezmin Akshahin - Director General, Adjara Textile a.k.a "PUMA.".
Interview N03.08B held on August 3, 2010 with Mehmet Efendioglu - Director, BTM Textile.
Interview N06.08B held on Auguest 6, 2010 with Malkhaz Romanadze - Financial Director, Batumitex Ltd.

6. Georgian Exports to Turkey





To understand the dynamics of Turkish-Georgian trade, this chapter zooms in on the structure of Georgian exports to Turkey and observes them over time with the FTA framework in mind. The lion share of Georgian export traditionally consists of scrap metals and ferroalloys. More specifically, 17 types of scrap metals and ferroalloys (hereinafter referred to as "metals and ferroalloys")[120] constituted around 83% of Georgian exports to Turkey in 2004. The dominance of scrap metals and ferroalloys in Georgian exports has remained relatively stable until now, accounting for 76% of the total Georgian exports to Turkey in 2008 and 63% in 2009 (see Figure 8).

The high share of metals and ferroalloys significantly affects the overall dynamics of Georgian exports. In 2007, Georgian exports demonstrated a tangible growth of 45% in comparison to 2004 with the trend accelerating in 2008 to 122% and 91% in 2009.[121] Figure 7 illustrates the growth of the total Georgian exports and export of Georgian metals and ferroalloys.

The linkage of the trends on both graphs is obvious. Moreover, based upon statistics, metals and ferroalloys stipulated the growth of Georgian exports for 83% in 2007 and 88% in 2008.[122] A closer look suggests that the drastic growth of Georgian exports in 2007 and 2008 was largely caused by the increased demand and the high prices on metals and ferroalloys on the international market in the period preceding the financial crisis.

The diagram in Annex 2 displays price behaviour on lead, aluminum, copper and steel. The trend line of export of Georgian ferroalloys and overall Georgian exports, respectively, strongly correlates with the prices of metals on the international market, showing significant rise in 2007 and rapid fall in autumn of 2008, when the world financial crisis hit the markets and translated into turbulence in Georgian export data. The distortion stemming therefrom creates a rather

[120] "Metals and ferroalloys:" HS7202, HS7204, HS7209, HS7210, HS7214, HS7220, HS7403, HS7404, HS7601, HS7602, HS7606, HS7801, HS7802, HS7804, HS7902, HS 7907, HS8104

[121] Geostat, 2010.

[122] Growth of total Georgian exports (in 2007 and 2008) with respect to the previous year has been compared with the growth ofthe "metals and ferroalloys" group in respective years.

ambiguous context for the analysis and disfigures the major trends of Georgian exports whereas other products with relatively small shares stand stable or show growth.

Even though metals and ferroalloys constitute an overwhelmingly large share of Georgian exports, this is not the only product which appears stable in the export structure over time. Metals and ferroalloys, in combination with 21 other types of products[123] (hereinafter referred to as G21), constitute 96-97% of the overall Georgian exports to Turkey from 2004 to 2009. Only G21 accounted for 14% of the overall Georgian exports to Turkey in 2004. The share of G21 has grown over the years with a temporary downfall in 2006 and having reached 21.5% of the total Georgian exports to Turkey in 2009 (see Figure 8).

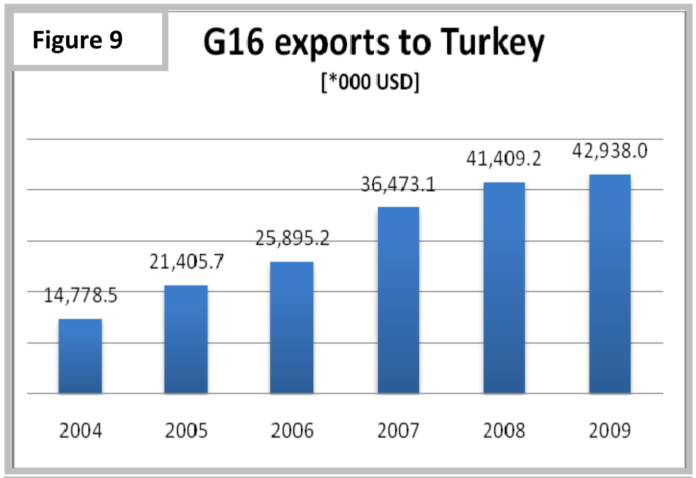


Figure 9

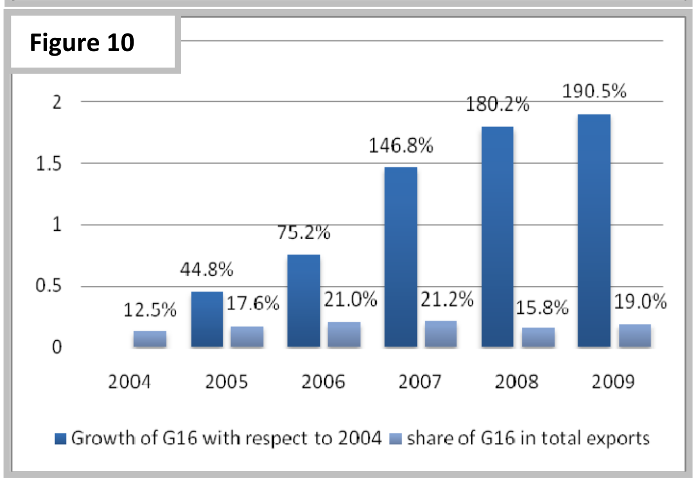


Figure 10

Of the G21, five product positions (see List 2) are actually re-exported goods and are not manufactured in Georgia. After excluding re-exported products, the group of 16 products (hereinafter referred to as G16) are in fact the main Georgian-produced export positions to Turkey. Even after trimming the G21 to G16, the pattern of growth is maintained which in figures grew from USD 14,778 million in 2004 to USD 42,938 million in 2009 (see Figure 9). Accounting on average a 15.8% share in total Georgian exports to Turkey from 2004 to 2009 (see Figure 10), the G16 export growth reached 157% in 2008 and 163% in 2009 in comparison to the base year 2004 (for a list of the G16, see Annex 3). The stable up-scaling trend of the G16 suggests projections on a further increase of Georgian exports to Turkey.

Both the GSP+ (in 2006) and FTA (in 2008) were introduced as trade stimulating frameworks which would spur Georgian exports as well, especially on product positions which were freed from customs duties or have been covered by tariff quota scheme within the context of the FTA.

The analysis below looks at respective trends and suggests segregating the G16 products into a sub-group according to production type. Overall, there are three sub-groups and four separate product positions. The following products, therefore, are grouped together as “fish” products:

[123] Two main criteria have been employed for the extraction of strongest product positions (G21) from total Georgian exports to Turkey in 2004-2009: 1) Exports accounting for at least USD 0.5 million and at least for one year out of six (from 2004 to 2009) and 2) After fulfilling the first criteria, the same product position stands at least once in five years with exports accounting for at least USD 10,000.

HS 0302 - Fish, fresh or chilled, excluding fish fillets and other fish meat of heading HS 0305 - Fish, dried, salted or in brine; smoked fish, whether or not cooked before or during the smoking process; flours, meals and pellets of fish, fit for human consumption.

In the same manner, the two sub-groups of “textile” and “wood materials” bring the following products together as follows:

List 2: Re-Exported Products

HS 8429 - Self-propelled bulldozers, angledozers, graders, levelers, scrapers, mechanical shovels, excavators, tamping machines, road rollers.
HS 8479 - Machines having individual functions; parts thereof pavers, finishers, spreaders, presses, rope or cable-making, humidifiers, floor polishers, vacuum cleaners, industrial robots.
HS 8502 - Electric generating sets and rotary converters.
HS 8703 - Motorcars and other motor vehicles principally designed for the transport of persons, including station wagons and racing cars.
HS 8705 - Special purpose motor vehicles wreckers, mobile cranes, fire fighting, concrete mixers, road sweepers, spraying, mobile specialised units.

HS 6104 - Women's or girls' suits, ensembles, trousers, bib abd brace overalls, breeches and shorts, etc., knitted or crocheted.

HS 6106 - Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted

HS 6109 T-shirts, singlets and other vests, knitted or crocheted.

HS 6112 - Track suits, ski suits and swimwear, knitted or crocheted.

HS 6204 - Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear).

HS 6206 - Women's or girls' blouses, shirts and shirt-blouses, not knitted or crocheted.

Were grouped together and referred as “textile”.

HS 4407 - Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6mm.

HS 4408 - Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for other similar laminated wood and other wood sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness

Were grouped up and referred as “wood materials”. The rest of the products in the G16 which represented a sole different product position and cannot be conjoined in a sub-group are referred to as separate product positions.

In 2007, the total exports to Turkey of G16 products accounted for USD 36,473 million and consisted of textile products and clothes – 30%, wood materials – 22%, glass materials – 17%, electricity – 15%, raw hides and skins – 8%, fish products – 4% and solid residues – 4% (see Figure 11A). In 2008, despite the remarkable 13.5% increase of G16 exports (from USD 36,473.1 million to USD 41,409.2 million), glass materials (HS7010), which constituted 17% of G16 exports to Turkey in 2007, literarily vanish from the scheme in 2008. On the other hand, the share of the textile industry increases from 30% in 2007 to 36% in 2008 (see Figre 11B). 2008 also marks the emergence of fertilisers as an export product to Turkey with a 16% share in the G16 despite the fact that the share of fertilisers in Georgian exports a year before stood close to 0%. Fish products (HS0302, HS0305) increased by 3% and constituted a 7% share in 2008 instead of 4% in 2007. Notably, electricity exports show a decline from 15% in 2007 to 10% in 2008.

In 2009, notwithstanding the financial crisis and the side effects of the war in 2008, the G16 slightly increased by 3.7% yet pacing down the previous year's dynamics of a 13.5% growth. Most remarkably, the export of textile products increased and reached an impressive 44% share in the G16 exports. Electricity also regained its position in export structure accounting for a 16% share (see Figures 11A, B and C). The positions of "fish products" and "raw hides and skins" slightly declined in 2009 to 6% and 3%, respectively, from 7% and 5% in 2008 (see Figure 11C). The share of fertilisers and wood products also declined reducing from 21% to 10% in the case of wood and from 16% to 7% in the case of fertilisers. Despite the shifts in terms of shares, the overall composition of G16 product remained mostly unchanged.

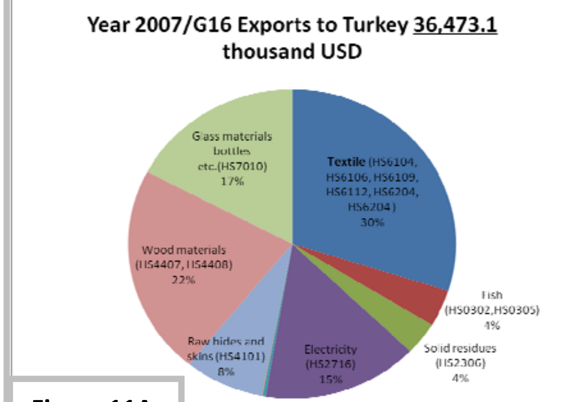


Figure 11A

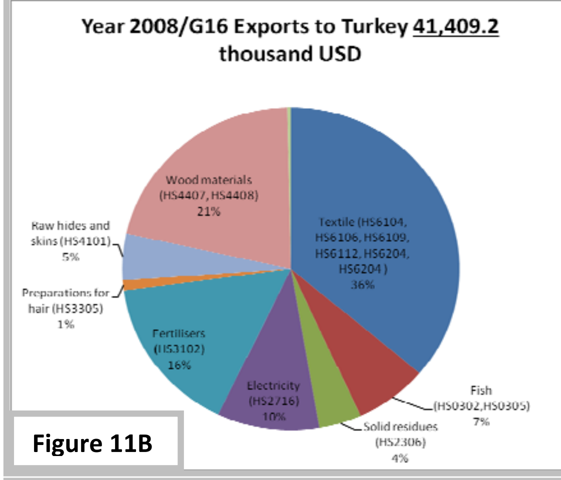


Figure 11B

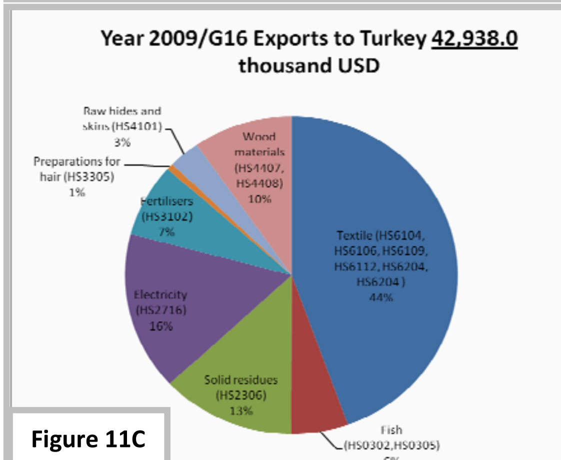
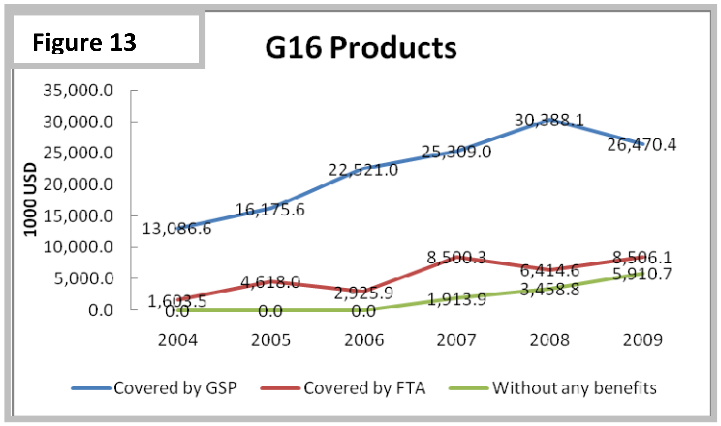


Figure 11C

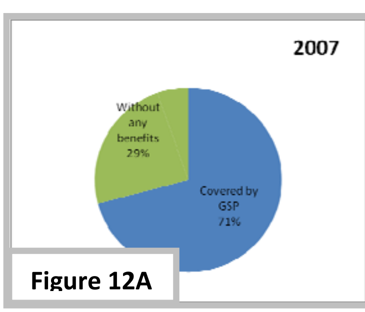
In quantitative terms, the textile industry shows a stable pattern of growth over the three years before and after the Georgian-Turkish FTA, almost doubling its exports from USD 10.9 million in 2007 to USD 19.1 million in 2009 (see Annex 4). Interestingly, the category of solid residues (HS2306), which has a relatively smaller share in the G16 exports, demonstrated a 500% growth from 2007 to 2009. Looking at the G16's seven product groups (three sub-groups and four product positions), only two: "textile" and "solid residues", exhibit a continued pattern of growth in 2007-2009 (See Annex 4). The fluctuations in export trends within this time period, might relate to the impact of the global financial and economic crisis.

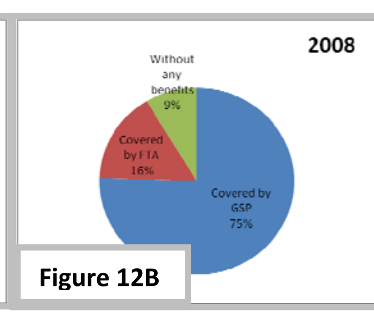
Another important implication of the Georgian-Turkish FTA relates to the GSP+ scheme with Turkey. In 2006, a large share, namely the ten product positions of the G16 (see Annex 3), were already freed from customs duties two years before the FTA came in effect. With the FTA in 2008, three more out of the G16's product positions (HS2716, HS3305, HS4101), on the top of the top ten, were freed from customs duties whilst one product position (HS3202) was covered by theFTA's tariff quota scheme. Two remaining product positions (HS0305, HS2306) did not come under any of the two agreements and were left beyond beneficial trade regimes (see Annex 3). Figures 12 A, B and C demonstrate the shares of products in the G16 as covered by the GSP and the FTA from 2007 to 2009. The products covered by the Turkish GSP+ scheme constitute the largest share of G16 exports to

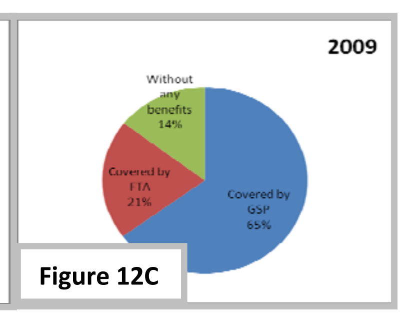
Turkey. Interestingly, the share of products which were not covered either by the GSP+ or the FTA accounted for 9% in 2008 and grew to 14% in 2009. The share of products covered by the FTA has also shown a 5% growth from 16% in 2008 to 21% in 2009. On the one hand, the overlap indicates that the majority of G16 exports covered by the 2008 FTA were already under the 2006 GSP+ scheme without any obligations on import liberalisation from the Georgian side. The 5% growth of exports, (from 16% in 2008 to 21% in 2009) of FTA covered products is a positive trend and again sets off optimistic projections for future growth. In quantitative terms, the GSP+ covered products also grow over the years. In 2006, growth reached an impressive 35% and peaked in 2008 before the financial crisis curbed it in 2009 (see Figure 13). The GSP+ gave Georgia free access to Turkey's market with most of its industrial products - and amongst those, most of the G16 exports to Turkey - without the obligation of a liberalisation of its own market. Considering the EC Trade Directorate raised "serious doubts whether the concluded FTA, bringing only very limited liberalisation for Georgia's agricultural imports to Turkey and, at the same time, obliging Georgia to fully liberalise its industrial imports and significantly liberalise its agricultural imports from Turkey, was economically beneficial for Georgia."[124] This analysis suggests that in case Georgia would not already benefit from the GSP+ scheme, the upgrade of trade relations with a FTA could be more beneficial for the Georgian side whilst, with GSP+ scheme in force, FTA turned out to be asymmetrically beneficial for the Turkish side. The asymmetry stemmed from Georgia's FTA commitments to further liberalise industrial and agricultural imports whereas the degree of liberalisation from the Georgian side is actually higher than that from the Turkish side.[125]



If we hypothetically disregard the future potential benefits from the FTA for Georgia in terms of investments and or overall positive economic effect and stick to the analysis of the current dynamics within the context of the G16, this leads to limited benefits for three product positions with the duty free regime and one product position with a tariff reduction quota in exchange for an almost complete liberalisation of the Georgian market for Turkish products with the exception of







124 European Commission, DG Trade (2008) Free Trade Agreement between Georgia and Turkey – Rough Analysis, Brussels TRADE/E1/BS/cd D (2008) 920, p. 4.

125 See Anx.: 1 and Anx.: 2, Prot.: I of Geo-Turk FTA, 2008.

only 15 product positions.

The most recent developments in bilateral trade demonstrate a new dynamics and deserve to be looked at separately. In 2010, the total Georgian trade turnover accounted for USD 6.6 billion where the share of Georgian-Turkish trade equals 17%. In 2010, Turkey maintained its major positions on the Georgian market. The share in total Georgian imports remained basically the same as in 2009 (18%) demonstrating only a minor 1% decline (see Table 6.1). On the contrary, the share of Georgian exports to the Turkish market as a share in the total Georgian exports declined by a considerable 6% (from 20% to 14%). Georgia's ratio of import coverage by export has also demonstrated a decrease from the Georgian side from 28.7% in 2009 to 24.3% 2010.[126]

Table 6.1 Main Figures of Georgian Foreign Trade 2009 - 2010

	(*000 USD) 2009	(in %) Share in Total	(*000 USD) 2010	(in %) Share in total	(in %) Growth
Total trade turnover	5,504,422.7	100%	6,678,469.80	100%	21%
Trade turnover with Turkey	1,014,227.8	18%	1,104,694.00	17%	9%
Total imports	4,369,496.5	100%	5,095,072.80	100%	17%
Imports from Turkey	788,036.6	18%	888,644.60	17%	13%
Total exports	1,134,926.2	100%	1,583,397.00	100%	40%
Exports to Turkey	226,191.2	20%	216,049.40	14%	-4%

Source: www.geostat.ge

Total Georgian exports accounted for USD 1,586 billion in 2010 which is 40% more than in 2009. Against the overall growth tendency, the export to Turkey slightly declined (-4%) (see Table 6.1) which can be explained by a 12% decline in exports of metals and ferroalloys (decreasing from USD 142.4 million in 2009 to USD 125.5 million in 2010). The export of the G17[127] has increased by 48% changing in nominal figures from USD 42.938 million in 2009 to USD 63.831 million in 2010. Overall, 2010 marked a significant shift in the structure of Georgian exports to Turkey with the share of metals and ferroalloys showing further decline from 63% in 2009 to 58% in 2010. The same trend applies to re-exported products whose share fell from 16.5% to 9%, whereas the share of domestic production export increased from 19% to 29%[128] (see Figure 14).

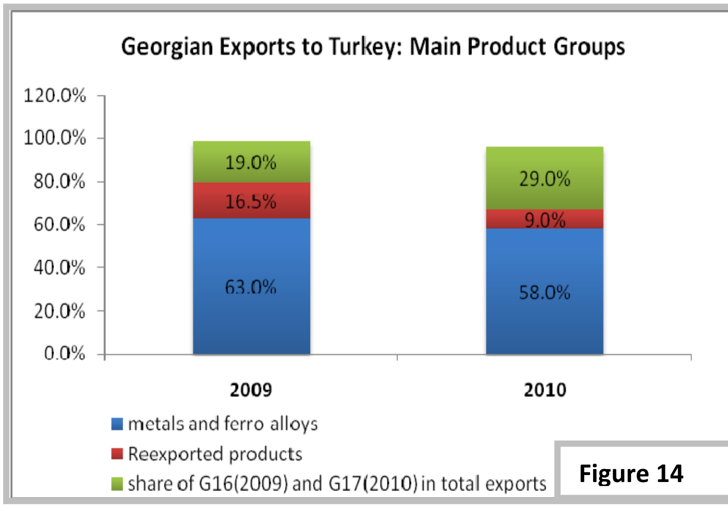


Figure 14

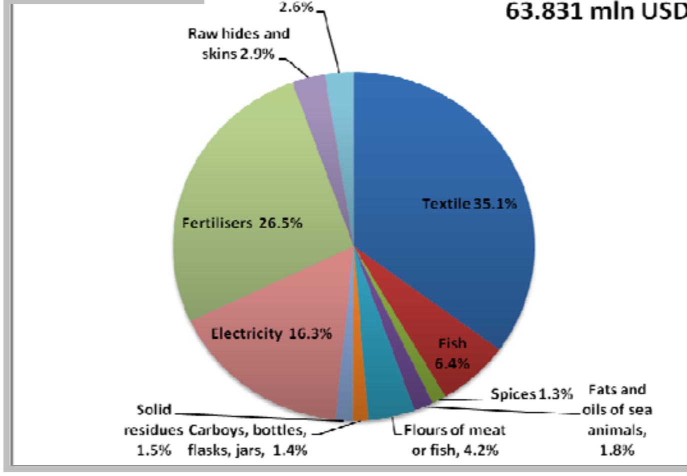
Of the major export products, only four product groups, in fact; namely, textile,[129] fish (HS0302), fertilisers (HS3102) and electricity (HS2716), have somewhat maintained their positions on the Turkish market

[126] Geostat, 2010.
[127] The conditional export margin of USD 0.5 million has been applied for extracting the strongest export product positions (G17) which appear in 2010. Metals and ferroalloys and re-exported products have deliberately not been included.
[128] Geostat, 2010.
[129] "Textile" stands for: HS6104, HS6106, HS6109, HS6112, HS6204 and HS6204.

whereas the rest of the exported products, such as solid residues, raw hides and skins and wood materials have actually lost their positions (see Annex 4). Finally, three new product positions (HS0910, HS1504, HS2301)[130] have emerged within the Georgian export structure.

Despite the overall decline of Georgian exports to Turkey, the refreshed structure of Georgian exports as well as the increase of the share of core products (G17) in the export structure can be assessed as positive developments. The emergence of three new product positions which account for 7% of the G17 makes Georgian exports more diverse. Moreover, two out of these three product positions were covered by the Georgian-Turkish FTA (see Table 6.2). The growth of four traditional product positions may not necessarily be linked to the FTA and its effects although the sustainable growth and eventual consolidation of those positions in the exports is a positive mark (see Figures 14 and 15). In addition, the 2010 data suggests a sizable increase of the G17 ratio in overall exports to Turkey at 48% more than the G16 in 2009.

Figure 15



Markedly, Georgian wine, which has the biggest tariff quota of all of the products in the list (one million liters) and which allegedly was one of the main incentives for Georgians to sign the FTA and thereby pave the way to the Turkish market, still did not appear in the leading export positions in 2008-2010. Moreover, wine export is rather minor in the overall exports to Turkey. In 2009, the amount of Georgian wine exported to Turkey accounted for USD 91.2 thousand and USD 215 thousand in 2010.[131] The case review below suggests a more detailed account of the export dynamics and prospects on this widely believed key product for Georgian exports.

Table 6.2: New Products in Georgian Exports to Turkey

New Products	**2010**		
	Amount(*000 USD)	**Share in G17**	**Covered By FTA**
Ginger and spices (HS0910)	802.35	1.3%	1
Fats and oils of sea animals (HS1504)	1123.33	1.8%	1
Flours of meat or fish (HS2301)	2665.90	4.2%	0
Total		*7.2%*	

1 - covered by FTA, 0 - not covered by FTA,
Source: www.geostat.ge

[130] HS0910 - Ginger, saffron, turmeric (curcuma), thyme, bay leaves, curry and other spices; HS1504 - Fats and oils and their fractions, of fish, or marine mammals, whether or not refined, but not chemically modified; HS2301 - Flours, meals and pellets, of meat or meat offal, of fish or crustaceans, mollusks, aquatic invertebrates, unfit for human consumption; greaves.

[131] Geostat, 2010

7. Case Reviews

The brief case reviews below focus upon the exports or export prospects for Georgian products to Turkey. This chapter provides a certain shift from a macro to micro level of analysis and sheds light upon selected sectors which explain the FTA implications for Georgian exports in different ways. Three diverse cases have deliberately been chosen: fish, as a stably large and growing export position; wine, as is conventionally believed to be Georgia's major export product allegedly inspiring Georgians to seek the FTA with Turkey, and honey, which has hitherto not been able to make its way into the Turkish market despite the demand on the other side. Through these overviews, one can visualise different opportunities and challenges related to FTA implementation.

7.1 Fish Exports to Turkey

Fish is quite a substantial portion of the Georgian export structure to the Turkish market. It was worth USD 1,412.3 thousand (4% of G16 exports) in 2007, USD 2,929.7 thousand (7%) in 2008 and USD 2,381.9 thousand (6%) in 2009 (see Figures 11A, 11B, 11C and Annex 4).[132] "Fish," as an export category, combines two product positions, namely:

- HS0302 - Fish, fresh or chilled, excluding fish fillets and other fish meat of heading.
- HS0305 - Fish, dried, salted or in brine; smoked fish, whether or not cooked before or during the smoking process; flours, meals and pellets of fish, fit for human consumption.

In the FTA, two types of products, HS0302.69.55 and HS0303.79.65 (anchovies, fresh, chilled or frozen), have been introduced in the Agreement's tariff quota scheme with 8,000 tons therefore enjoying a 60% reduction from the MFN customs duty. It should be mentioned that the tariff quota scheme introduced custom duty reduction schemes only for part of Georgian fish and fish product exports; that is, one out of four positions (see Annex 5).[133] Licenses on fishing in the Georgian waters of the Black Sea are valid for ten years and were issued in 2006 on the basis of Ministerial Decree № 1082, of the Minister of Environmental Protection and Natural Resources of Georgia. The fishing quota is determined upon an annual basis by the Georgian Ministry of Economy and Sustainable Development following the respective recommendations of the Ministry of Environmental Protection and Natural Resources. According to official data[134] and interviews,[135] currently eight Georgian companies are the holders of fishing licences in Georgian waters:

1. Alians 2006 Ltd. – 15%
2. Madai Ltd. – 25%

[132] *Ibid.*
[133] Table B of Anx.: 2, Prot.: I, Geo-Turk FTA, 2008.
[134] Ministry of Economy and Sustainable Development.
[135] Interview N07.08A held on August 7, 2010 with Robert Babilua - Deputy Director, Paliastomi Ltd.
Interview N07.08B held on August 7, 2010 with Tengiz Tsarishvili - Managing Director, Alians Ltd.
Interview N29.10 held on October 29, 2010 with Nino Orjonikidze - Chairman, Georgian Association of Fisherman.

3. Geofish Ltd. – 19.174%
4. Iceberg Ltd. -12.331
5. Black Sea Products Ltd. – 10%
6. Paliastomi Ltd. – 14.24%
7. Georgain Fish Products Ltd. – 4.44%[136]

In 2009, the fishing quota on anchovies was 60,000 tons[137] and Georgian fishing companies were supposed to utilise it in line with 2006 licence shares.[138] The Georgian fishing industry, however, is experiencing some difficult times. One of the major problems is the lack of technical capacity. Most of the fishing boats were built in the beginning of the 1970s during the Soviet period and are old and in poor condition. Another challenge is the limited area of fishing zones in Georgian Black Sea waters. The country's fishing area basin is rather narrow and heavy fines are introduced by coastguard police in the case of violation. On the top of this, anchovies, which comprise the main product for fishery in the Black Sea, is a very mobile fish and often changes migration routes. The size and complexity of Georgian fishery zones, combined with the technological deficiencies, make it rather difficult for Georgian companies to develop efficient fishing industry.

Ultimately, Georgian fisherman can utilise only very small quantities of their licence quota. As a solution, Georgian companies hire Turkish companies to fish in Georgian waters and then sell the fish to the same contractors who ultimately export products to Turkey. The Turkish companies, which own technologically advanced fishing boats, dominate the Georgian fishing sector. According to unofficial data, Turkish companies utilise around 70% of Georgian fish resources.[139] Georgian companies hold the fishing licences keeping most of the Georgian fishing companies involved in the industry without a total loss of the grip on situation, due to high competitiveness of their Turkish counterparts.

Slowly, however, the fish processing industry is continuing to develop. In the near future, there will be four fish processing plants in Poti. Alians Ltd. and Madai Ltd. are already present within the sector and process fresh anchovies into anchovy flour. Two other plants are also planned to be built. The interviewees from major Georgian fishing companies in Poti say that they are not informed about the Georgian-Turkish FTA and actually have not yet benefited from the new trade regime although they do not exclude that Turkish companies are utilising the FTA tariff quotas. Their interest, however, is high particularly concerning the tariff reduction for the export of frozen fish to the Turkish market. Customs duties are very high on frozen fish in Turkey, at around USD 350 per ton, which is heavy tax burden for Georgian exporters. The FTA provisions a 60% tariff reduction quota provided on frozen anchovies[140]which was unknown to interviewees from Georgian fishing companies who say that this provision would indeed raise the competitiveness of Georgian frozen fish on the Turkish market and positively affect the trend.[141] In comparison to

[136] Licences issued by the Georgian Ministry of Economy and Sustainable Development of Georgia in Georgian waters of the Black Sea in 2005-2006 (2010), information retrieved from theMinistry of Economy and Sustainable Development of Georgia on the basis of information request (N3283/5-10) of July 2, 2010.
[137] Ministerial Decree №1-1/2474, 2009 of the Georgian Minister of Economy and Sustainable Development.
[138] The fishing companyMadai, for example, whose share in the 2006 license quota was equal to 25% had a right to utilise one-quarterof 2009's 60,000 ton quota on anchovies. In 2009, Madai had a right to conduct the fishing of 15,000 tons of anchovies in Black Sea waters.
[139] Interview N07.08A held on August 7, 2010 with Robert Babilua - Deputy Director, Paliastomi Ltd.
[140] Tab.: B of Anx.: 2, Prot.: I , Geo-Turk FTA, 2008.
[141] Interview N07.08A held on August 7, 2010 with Robert Babilua - Deputy Director, Paliastomi Ltd.
Interview N07.08B held on Aug ust 7, 2010 with Tengiz Tsarishvili - Managing Director, Alians Ltd.

frozen fish, the export of chilled fish is much easier due to lower customs duties and no requirements on certificate of origin and quality. In terms of the latter (fish quality), Georgian and Turkish anchovies are basically the same.

Georgian companies also showed a great willingness to repair and modernise their equipment and technologies and eventually reach out to the European markets. These tasks, however, remain difficult. Georgian companies are afraid that in 2016, when their current licences expire and a new auction is held, Turkish companies will take over and they will find themselves out of business. At the moment, there is only one Georgian company, Madai Ltd., which owns operational and relatively technologically up-to-date fishing and transporting ships but it faces the problem of a lack of technical personnel and equipment. Companies also cannot export to Europe because of high European standards. In the case of anchovy flour, for example, which is seen as a potential export product, the technology to comply with the European standards is unaffordable and too expensive for them.

Despite the difficulties, most of the Georgian companies plan to bid for fishing licences in 2016. On top of the general technological underdevelopment and lack of access to Europe, however, the rather small size of the domestic fish market (total capacity of which is around a mere 3,000 tons),[142] does not help their competitiveness. This way, the Georgian fishing industry can barely accumulate enough funds from domestic sales to invest in modernisation and export promotion.

7.2 Wine Exports to Turkey

Wine export is a special case within the context of the FTA which, in fact, largely evolved around the idea of promoting exports of Georgian wine.[143] Two major companies, “Bagrationi” and “Qindzmaraulis Marani,” are working hard to entrench themselves within the Turkish market. A “Bagrationi” representative said the company exported around 12,000 bottles of sparkling wine in 2009, suggesting that approximately the same amount was exported by the “Qindzmaraulis Marani.” Both companies see potential in the growing Turkish wine market and are ardently trying to increase their sales.[144] From 2004 to 2007, the total exports of Georgian wine to Turkey did not exceed USD 33.7 thousand. After the FTA, Georgian wine exports grew remarkably up to USD 148.3 thousand in 2008 and USD 91.2 thousand in 2009.[145]

In the framework of the FTA, Georgian wine products enjoy customs duty reductions under the tariff quota scheme[146] which indeed served as the incentive for Georgian wine-makers. The companies, however, have had to find their way through a rather complicated Turkish regulatory system. To mediate their quest on quota acquisition from Ankara and solve related procedures, Georgian companies found a Turkish partner, Mahzen Ltd., to guide them through the bureaucratic procedures as concerns exports to Turkey. With the help of Mahzen Ltd., the

[142] *Ibid.*
[143] Interview N23.06B held on June 23, 2010 with Irina Japaridze – Head of Division, Foreign Trade and International Economic Relations Department, Ministry of Economic and Sustainable Development of Georgia.
Interview N27.07 held on July 27, 2010 with Tamar Kovziridze - Chief Advisor for Foreign Economic Affairs, Administration of Prime Minister of Georgia.
[144] Interview N06.07 held on July 6, 2010 with Giorgi Ramishvili - Director General, “Bagrationi” Wine Company.
Interview N16.07 held on July 16, 2010 with Qetevan Jokhadze - Sales Manager, ”Qindzmaraulis Marani” Lltd.
[145] Geostat, 2010.
[146] List B of Anx.: 2 of Prot.: I, Geo-Turk FTA, 2008.

“Bagrationi” wine company acquired the quota for 180,000 bottles of sparkling wine for 2010 from the Under-Secretariat for Foreign Trade in Ankara.

Notably, the Georgian side raised the issue of quotas as problematic although not in terms of overall size but as concerns restrictions on maximum quotas to be issued once at a time. At the beginning of 2009, the Turkish side delimited the “conditions for granting quotas on exports of Georgian-origin products” some of which were deemed by the Georgian side as artificial hindrances.[147] Amongst those was the volume restriction of wine exports with 1,000 litres having been delimited as the maximum quota which can be acquired once at a time. The issue was raised at the FTA Joint Committee and, ultimately, the Turkish side agreed to the Georgian request to raise the amount to 20,000 litres that would substantially decrease the transportation costs and procedure burden for Georgian wine exporter.[148]

Despite the change, however the overall wine quotas have not been fully utilised. Georgian interlocutors attribute this mainly to marketing problems in Turkey and the country’s recently kicked off domestic wine production aiming to meet the eventual demand on the Turkish market where consumption (including tourist season related) is growing despite the traditionally non-wine drinking Muslim culture. As one of the respondents mentioned, the “export quota provided by Turkey is now already so high that even if all Georgian wine companies start to work hard with the right marketing strategy to fill in those quotas, Georgian wine exporters would most probably need around two-to-three more years to fully enter the market."[149]

In general, the Turkish market is not a large one. Wine consumption stands at around an annual amount of 70 million litres which is a rather small volume for a country of 78 million people. There is, however, an upward trend and the market is dynamic with a 10% growth rate per year[150] which suggests good potential for Georgian wine exporters in future. At the moment, wine exports to Turkey are quite modest in comparison to Ukraine, for example, were Georgian companies export around 4.5 million bottles (including sparkling wine) accounting for around USD 12.5 million.[151] Ukraine, at the same time, is largest export market for Georgian agricultural products.[152] In 2009, the ratio of exports to Ukraine was nearly 40% of overall Georgian wine production of USD 31.2 million[153] which was incomparably higher than the exports to Turkey (USD 91.2 thousand). In 2010, wine exports to Turkey more than doubled reaching USD 215 thousand.[154] In terms of the share of wine exports to Turkey in total, however, wine exports have remained low for the past two years.

The problems herein are to be found beyond the Georgian-Turkish FTA. One of the major problems here, amongst others, which Georgian wine producers have had to tackle is the issue of standardisation and conformity. For this, Georgian companies rely upon a Turkish intermediary (in our case, Mahzen Ltd). Currently, Georgian wine needs to be accompanied with the following documentation in order to be allowed into the Turkish market:

[147] Ministry of Economy and Sustainable development of Georgia, January 13, 2010 letter N07/457.
[148] Interview with Nodar Kereselidze, the Head of the International Relations Department at the Ministry of Agriculture of Georgia, 2010.
[149] Interview N06.07 held on July 6, 2010 with Giorgi Ramishvili - Director General, “Bagrationi” Wine Company.
[150] IWSR (2009) Turkish wine market, publication acquired during the interview N06.07, held on July 6, 2010. Turkish Wine Market retrieved from www.buyusa.gov/turkey/en/179.pdf on October 20, 2010.
[151] Georgian Ministry of Finance, information on export/import retrieved from http://www.mof.ge/2066 on September 3, 2010.
[152] Interview with Nodar Kereselidze, the Head of International Relations Department at the Ministry of Agriculture of Georgia, 2010.
[153] *Ibid.*
[154] Geostat, 2010.

- EUR 1 Certificate – Issued by the Department of Vine and Wine: "Samtrest."
- Certificate of Conformity - Issued by the Ministry of Agriculture of Georgia.
- Certificate of Purity – Issued by an internationally certified laboratory.
- General hygiene conclusion – Issued by the Ministry of Agriculture of Georgia, National Service of Food Safety, Veterinary and Plant Protection.
- Testing Laboratory Protocol of Examination - Issued by an internationally certified laboratory.
- Product Description Details (with actual label photos) – Can be formulated by the producer.
- EK 4b - Technical specification report on origin of fermented wine and alcohol drinks.
- Invoices.
- Letters confirming established working relations with Turkish suppliers.[155]

In most of the cases, laboratory tests regarding the biochemical criteria of the wine and conformity are carried out by the Wine Laboratory Ltd. The laboratory provides an internationally acknowledged certificate with which the company can export wine not only to Turkey but also to the EU.

The FTA had a significantly positive impact upon Georgian wine competitiveness on the Turkish market. In the case of "Bagrationi Ltd.," the manufacturing price for sparkling wine for exports is around USD 3.75. On the shelves in Turkey, it is sold for USD 20 (35 TL).[156] Turkish sparkling wine costs around TL 27-32 (USD 18-21) and European wine costs around EUR 60.[157] Georgian wine, therefore, is only slightly more expensive than Turkish wine and a lot less expensive than European. "Roughly saying, before the FTA, the price of our sparkling wine after Turkish taxes was four times more (in comparison with production costs) but after the FTA, it is 2.5 times more expensive"[158] and so the benefits from the FTA were tangible. Sales, however, are not sizeable.

Herein, the problem is not the high price or customs duties but the lack of an efficient marketing strategy. Mahzen Ltd. helped the Georgian winemakers to position their products in the Metro wholeseller's network.[159] The Turkish partner, however, is lobbying for a more assertive united marketing strategy across Georgian wine producers for the Georgian wine brand on the Turkish market. According to Turkish partners, the positioning of Georgian wine in the wholesale network is not enough. "The business needs at least USD 1 or 2 million of investment in a proper marketing strategy. Georgian wine is of high quality and can well compete with European and Turkish producers but without a proper, well financed marketing strategy, it is almost an impossible mission. Moreover, the time is now for an assertive promotion rather than later when momentum might be lost."[160] Keeping these assumptions in mind, the Georgian wine exports to Turkey face a two-fold challenge. On the one hand, despite the urgent need, the resources to be invested in tailoring a well-functioning marketing strategy are hardly affordable for any single

---

[155] Interview N06.07 held on July 6, 2010 with Giorgi Ramishvili - Director General, "Bagrationi" Wine Company.
[156] Currency rate: TL vs. USD, TurkStat (2009) *Turkey's Statistical Yearbook 2009*, p. 337, retrieved from http://www.turkstat.gov.tr/yillik/stat_yearbook.pdf on June 6, 2010.
[157] Interview N06.07 held on July 6, 2010 with Giorgi Ramishvili - Director General, "Bagrationi" Wine Company.
[158] *Ibid.*
[159] *Ibid.*
Interview N16.07 held on July 16, 2010 with Qetevan Jokhadze - Sales Manager, "Qindzmaraulis Marani" Ltd.
[160] Interview N15.07 held on July 15, 2010 with Ali Munir Erkmen - Mahzen Ltd., Georgian wine exporter to Turkey.

producer/exporter.[161] In this regard, the co-ordination and co-operation between the companies might be considered as a way out. Yet, on the other hand, it could be difficult to define the joint marketing strategy by all Georgian wine producers/exporters and implement it in a way in which all of the producers will be equally satisfied. First of all, there is the fear of some companies to lose the opportunity to promote their unique brands and this may discourage them from investing in such a joint venture. The "Qindzmaraulis Marani," for example, has two main brands, the "Qindzmarauli" and "Muskati," both of which are based upon a unique technology which makes for differences between these two brands from other Georgian wines. Likewise, many other wineries produce unique brands which some may not want to be unified under a single "Georgian wine" brand label.[162] In this regard, some of those Georgian producers who do not have unique brands might actually benefit more from a joint marketing approach than those investing in unique high-quality brands. On the top of this comes the competition factor amongst the Georgian companies, on the Turkish market, which ultimately can make the joint marketing strategy quite fragile. The preferences and dynamics of the Turkish market cannot guarantee the accommodation of all of the expectations of those producers sponsoring a joint marketing strategy. The sales of one might significantly exceed that of other partners which ultimately could cause the withdrawal of those dissatisfied from the deal and, ultimately, the breakdown of the consortium. Georgian companies are afraid of the competition amongst each other in addition to that with the Turkish and European companies on the Turkish market.

Nevertheless, the Turkish intermediary says that "Georgian companies must find the ways of co-operation and some kind of *modus operandi* on the Turkish market otherwise the situation will most probably get worse as time passes by [...]."[163] The emphasis upon timing which urges marketing solutions has two dimensions, in fact. The opening up of quotas should be utilised sooner than later not to risk the future, possible, shrinking of the quota size by the Turkish side. Second, the time span between the delivery of products on the Turkish market and the sales from the shelves matters. Every additional day adds up storage charges which ultimately increase the costs for the producer.

The timing, however, comes as a challenge for the Georgian producers in other ways as well. The acquisition of licenses and quotas from Ankara, when there is no respective institution in Georgia, above all, is a time consuming process. Wine exports have been the most successful of all to pave the way through Turkish tariff quota and regulatory system. The Georgian Government's emphasis upon wine as an export product combined with the Georgian business community's efforts to develop trustful relations with Turkish partners somewhat alleviated the time burden through an already rather properly operating system. Other exporters, however, face more of a challenge. The exports of Georgian still and mineral waters, for example, is much smaller than that of wine accounting for USD 22.1 thousand in 2009 and USD 26 thousand in 2010.[164] Mineral waters fall under the category of food products and so it has to go through rather complicated procedures of licensing in Turkey. The well known Georgian water brand, "Borjomi," for example, which is owned by IDS Borjomi Georgia, started out the process of the acquisition of a license at the beginning of 2010 with the help of a Turkish partner. The company admits that this process proved to be rather complicated and time-consuming and lasted almost a year. As the company's representatives mentioned, the year 2010 was completely devoted to the resolution of the bureaucratic obstacles. Now, with long-awaited license, IDS Borjomi intends

---

[161] *Ibid.*
Interview N06.07 held on July 6, 2010 with Giorgi Ramishvili - Director General, "Bagrationi" Wine Company.
Interview N16.07 held on July 16, 2010 with Qetevan Jokhadze - Sales Manager, "Qindzmaraulis Marani" Ltd.

[162] *ibid*

[163] Interview N15.07 held on July 15, 2010 with Ali Munir Erkmen - Mahzen Ltd., Georgian wine exporter to Turkey.

[164] Geostat, 2010.

to enter the Turkish market in 2011 with its mineral water brand "Borjomi" whose price on the shelves will be around USD 1 and aims to sells around three million bottles mainly targeting the touristic regions in Turkey. Even though mineral water does not get affected by the FTA format,[165] the case sheds light upon the common challenges which Georgian exporters face on Turkish market.

7.3 Export of Honey to Turkey

Georgian honey production is a long debated issue in the context of the FTA. The Agreement provisions a 200 ton tariff quota for honey but, in fact, the export is barred which, as the Georgian side considers, contradicts the FTA's terms.[166] The issue is one of the "hot topics of the discussion" at the FTA Joint Committee,[167] including the fifth and so far last, meeting in December 2010.[168]

Despite the fact that the Georgian (Caucasian) bee is considered to one of the best in terms of productivity and resistance to diseases and severe climate, the Georgian beekeeping industry is experiencing rather hard times in terms of getting access to foreign markets. According to Georgian statistics, Georgian beekeepers produced around 2.5 thousand tons of honey in 2009.[169] For their part, the Association of Professional Beekeepers claims around 4,000 tons of honey was produced by 400 thousand beehives in Georgia.[170] The per capita production of honey in Georgia is around 500 grams, in Europe - 700 grams.[171] Overall, the volume of production has not changed much since 2000 and is rather small due to the technological underdevelopment of the Georgian beekeeping sector whose improvement could at least double the output.[172] At the same time, beekeepers indicate domestic demand is lower than production and so without access to the external market, the incentives are not present. Honey is an expensive product which affects domestic demand although it is cheaper in Georgia than in Armenia or Azerbaijan and Turkey. The wholesale price for Georgian honey is a minimum of GEL 6 (and higher). Chestnut[173] honey is relatively more demanded on market and costs at around GEL 8. Small quantities of honey are exported to Azerbaijan and Turkey. In Turkey, it is mainly exported illegally and in small quantities.

Exports of Georgian honey to Turkey or Europe on a legal basis is rather complicated. In the case of Turkey, the sector faces non-tariff barriers. First, there is a problem of conformity with quality standards. Second, there are the transportation standards. There are a few laboratories in Georgia which claim to be able to provide an international standard certificate for honey as laboratory tests are based upon the same technology and standards as in Europe. Because of

---

165 Interview N14.11 held on November 14, 2010 with Badur Tsereteli - Export Sales Manager, IDS "Borjomi" Georgia.
166 Ministry of Economy and Sustainable development of Georgia, January 13, 2010 letter N07/457.
167 Interview with Nodar Kereselidze, the Head of International Relations Department at the Ministry of Agriculture of Georgia, spring, 2010.
168 Ministry of Economy and Sustainable development of Georgia, January 13, 2010 letter N07/457.
169 Geostat (2009) *Agriculture of Georgia*, p. 73, retrieved from http://www.geostat.ge/cms/site_images/_files/georgian/agriculture/Agriculture%20of%20Georgia%202009.pdf on August 16, 2010.
170 Interview N24.09 held on September 24, 2010 with Vakhtang Gogoberidze - Expert in beekeeping, Biological Farming Association "Elkana."
171 Interview N29.09B held on September 29, 2010 with Temur Gogoberidze - Head of the Association of Professional Beekeepers.
172 *Ibid.*
173 *Translation from the Georgian* წაბლი.

the lack of accreditation in respective institutions, the certificates of these laboratories are not accepted on EU level. The Ministry of Agriculture's officials said that the Georgian Government has negotiated with various donors to set up a trusted high-standard laboratory but so far this has been without success. Building it will require very high costs. Even if the laboratories were in place, the costs of its service would amount to USD 1,500 - 2,000 which is hardly affordable for most Georgian beekeepers.[174]

Another problem is the standards of transportation. The compliance with EU standards in the field is again unaffordable and too expensive for the Georgian beekeeping sector. The president of the Georgian Beekeepers Association says most beekeepers have very small farms ranging from between ten to 40 beehives[175] and requesting them to conform to the highly-demanding EU standards is as "ridiculous"[176] as it is unrealistic.

Currently, the old Soviet-produced containers or new ones coming from Iran, whose quality is in doubt in terms of the compatibility with EU standards, are used for transporting honey. Interestingly, the US standard provisions for special, single-use 200 kg containers for honey transportation. If honey is to be exported, Georgian beekeepers need to import high-quality and, therefore, quite expensive containers from abroad which would reflect upon the product's market price. Moreover, according to EU regulation, restrictions on chemical substances in honey banning the usage of antibiotics and certain types of chemicals in beekeeping are foreseen. Many of the beekeepers are not aware of this demand.

Some of them have switched to more profitable businesses for quite some time which has aimed at exporting mother bees and royal jelly to Europe. France was one of the destinations for a period of time. The price of a mother bee is around GEL 20-25 in Georgia and USD 20 on average on the European market. The production of royal jelly is also quite profitable with 1 gram at around GEL 6-7. The demand for these two products is quite high and many beekeepers who have the capacity and knowledge switch to the production of royal jelly and mother bees.[177]

In terms of investments, the sector is considered quite risky because of the instability and sensitivity of the bee population. The lack of investments hampers technological advancement and conformity to quality and standards in turn.[178] There is, however, a demand on the Turkish side and Georgian exporters try to become entrenched on the market. Recently, in December 2010 and with the support of CARE International, the Association of Farmer-Beekeepers in the Region of Racha[179] and including 55 of their members participated in international fair in Istanbul presenting four types of honey. There is a special interest and higher demand for chestnut honey and the Association started talks with four leading Turkish honey distribution companies which promise some prospects in terms of promoting honey exports.[180]

---

[174] Interview N24.09 held on September 24, 2010 with Vakhtang Gogoberidze - Expert in beekeeping, Biological Farming Association "Elkana."

[175] There is a sole largest owner of 1,200 beehives (name not disclosed) according to Interview N24.09.

[176] Interview N29.09B held on September 29, 2010 with Temur Gogoberidze - Head of the Association of Professional Beekeepers.

[177] *Ibid.*

[178] Interview N29.09B held on September 29, 2010 with Temur Gogoberidze - Head of the Association of Professional Beekeepers.

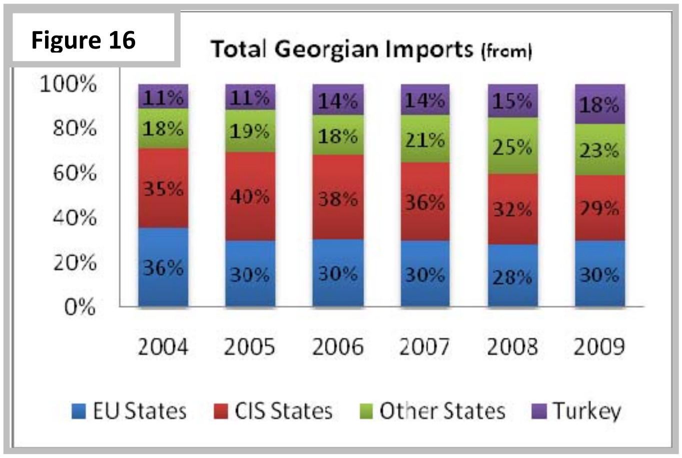
[179] A mountainous region in Western Georgia.

[180] "Beekeepers From Racha Connect to Turkish Market ," *Financial*, December 24, 2010 retrieved from http://www.finchannel.com/Main_News/Press_Releases/78107_Beekeepers_From_Racha_Connect_to_Turkish_Market/ on January 16, 2010.

8. Georgian Imports from Turkey

The Georgian Government rejected the "closed-door" and protectionism policy and refused to use tariff and non-tariff barriers as an instrument for development of various sectors of its own economy[181] including agriculture. In the same spirit, Georgia liberalised trade policies and the FTA granted Turkish importers practically free access to the Georgian market. Turkey's overwhelming advantage over the Georgian economy sparked fears amongst Georgian economists and businesses of Turkish imports overtaking the Georgian market.[182]

According to 2009 data, Turkey is the number-one importer (USD 788 million) in Georgia accounting for an 18% share[183] of total imports (see Figure 16). The trend has been growing at a stable rate since 2004 although remarkably declining in 2009. The structure of imports from Turkey demonstrates the dominance of industrial over agricultural products (see Figure 17). The decline of the share of agricultural products in total imports from Turkey, however, is caused by the increase of the share of industrial products in the import structure rather than the decrease of the former. Figure 17 displays the growth pattern for both industrial and agricultural imports from Turkey since 2004 to 2008, especially in last two years (2006-2008).



In 2009, the capacity of the Georgian agricultural market was around USD 1 820 billion[184] of which USD 62.274 million accounts for Turkish imports.[185] In 2008, the FTA granted the majority of Turkish agricultural products a customs duty free regime, thus creating a favourable ground for their import. By the time the FTA entered into force, the Georgian Tax Code charged 174 types of product positions with 12% customs duties and 43 types of products with 5% customs duties.[186] With the FTA, customs duties on all 43 products charged by 5% were scrapped. The majority of the products - 159 out of 174 - charged by 12% were also freed of customs duties which left a small group of 15 agricultural products in the same customs duty regime as

[181] Programme of the Government of Georgia (2010) retrieved from http://www.government.gov.ge/index.php?lang_id=ENG&sec_id=41on on 14.11.2010

[182] *24 Saati*, November 30, 2007, p. B1; *Kviris Palitra*, December 3-9, 2007, p. 6; *Rezonansi*, November 1, 2008, p. 8.

[183] Geostat, 2010

[184] *Ibid.*

[185] For the calculation of the Georgian agricultural market's capacity for the year 2009, the total exports of Georgian agricultural products (USD 316,471.5 million, 2009) has been subtracted from the total output of the Georgian agricultural sector (GEL 2 274.2 million, 2009) and the result has been summed up with the total Georgian import of agricultural products (USD 775,312.0 million). Therefore: [GEL 2,274.2 million = USD* 1,361 million, 2009] – [USD/exp 316,471.5 million] + [USD 775,312.0 million] = USD 1,819.8 billion.

* National Bank of Georgia, official average exchange rate of GEL/USD, year 2009 retrieved from http://www.nbg.gov.ge/index.php?m=306 on August 19, 2010.

[186] Tax Code XII (1) Title . Customs duty (Articles 270(1)-270 (5)) XXXIX(1) Title . CUSTOMS DUTY retrieved from http://www.mof.ge/default.aspx?sec_id=2042&lang=1 on June 15, 2010.

before.[187] The direct fiscal effect to the Georgian budget from this operation accounted for around USD 17.430 million (±5%) in 2009.[188] The Georgian Government considered this negative fiscal effect as inferior against the anticipated benefits of the deal in terms of trade development and investments in the Georgian economy.[189]

Interestingly, the group of 15 products not covered by the FTA still demonstrates tangible growth from 2008 to 2009 (see Figure 18) although their share in overall agricultural imports from Turkey accounted for just 11.1% in 2008 and 15.1% in 2009.[190] The total value of imported agricultural products has decreased by 34%, however, from USD 83,666 to USD 62,274 thousand (see Figure 17).

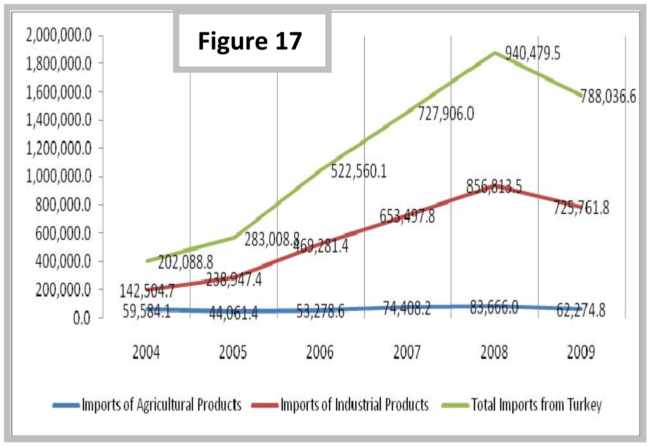


Figure 17

As FTA automatically implies a liberalisation of trade in industrial products with negotiations have been mainly focused upon agricultural products. In this regard, Turkey has always been sensitive and, in most of its other FTAs, including with the EU, agricultural products have been excluded from the customs free regime.[191] The Turkish side started negotiations on the FTA with the Georgian Government more or less on the same footing and ultimately found a small space for concessions. Historically, the agriculture sector, which currently occupies 26.4% of the Turkish labour force,[192] has been the country's largest employer and major contributor to the GDP, exports and industrial growth. As the economy developed, however, agriculture has declined in importance relative to the rapidly growing industry and services sectors. But still, its total output and employment ratio is higher than in many other countries.[193] Turkey also injects different support measures in its agricultural sector, mainly focusing upon two important types of agricultural policies. First, there is the agricultural market

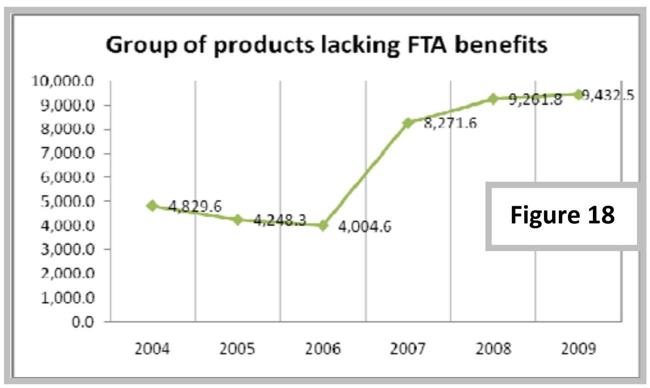


Figure 18

[187] Anx.: 1 of Prot.: 1, Geo-Turk FTA, 2008.
[188] For the calculation of direct fiscal effect, the products falling under the customs duty free regime after the Georgian-Turkish FTA (total of 159 of 12% and 43 of 5%) have been extracted from total Georgian imports and summed up in two separate groups of products: 1. Group of 43 products charged by 5% customs tax. 2. Group of 159 products charged with 12% customs tax. 5 and 12 percent shares have been calculated from each group respectively and summed up.
[189] Interview N27.07 held on July 27, 2010 with Tamar Kovziridze - Chief Advisor for Foreign Economic Affairs, Administration of Prime Minister of Georgia.
[190] Geostat, 2010.
[191] Interview N27.07 held on July 27, 2010 with Tamar Kovziridze - Chief Advisor for Foreign Economic Affairs, Administration of Prime Minister of Georgia.
Interview N23.06C held on June 23, 2010 with Mikheil Janelidze - Head of Foreign Trade and International Economic Relations Department, Ministry of Economic and Sustainable Development of Georgia.
[192] International Labour Organisation (2010) *Key Indicators of the Labour Market* (KILM), Sixth Edition retrieved from http://www.ilo.org/empelm/what/pubs/lang--en/WCMS_114060/index.htm on August 23, 2010.
[193] *National Agricultural Policy Report For Turkey*, p. 6, retrieved from http://medfrol.maich.gr/documentation/view/reports/wp1-napr/NARP-Turkey.pdf on December 23, 2010.

Table 8.1 Georgian Imports of Agricultural Products

	2008 (thousand USD)	**2009** (thousand USD)
Total imports of agricultural products to Georgia	942,050.6	775,312.0
Import of agricultural products from Turkey	83,666.0	62,274.8
Share of G23 in imports from Turkey	85%	84%
Share of G23 in Total Agro imports	8%	8%

Source: www.geostat.ge

and product-specific policies which cover particular precuts such as cereals, tobacco, sugar, cotton, oilseeds, pulses, vegetable oils, meat and milk. The other is non-product specific agricultural policies carried out through input subsidisation such as fertilisers, seeds, pesticides, feed, irrigation and credit subsidies.[194] Turkish agricultural policy entails strong government involvement, either directly or indirectly, with policies tailored around the expected benefits.[195] The policy is rather complex and includes a variety of other direct and indirect subsidy measures such as output price support, trade policies measures and export subsidies, direct income support and reduction in input costs, all of which indeed affect the ultimate price of the product on domestic and international markets. As a result, the total amount of support to the Turkish agricultural sector by the government accounted for TL 34.9 billion (or USD 23.1 billion)[196] in 2008.[197]

For singling out the major trends of Turkish agricultural imports to the Georgian market, the product positions the import value of which exceed USD 1 million either in 2008 or 2009 have been segregated from the total agricultural imports. 23 product positions (hereinafter referred as G23 (for full list with HS codes see Annex 6) are above this conditional threshold. The grand

Table 8.2 Turkish Agricultural Products with Dominant Position in Georgian Agricultural Imports

HS Code	Agricultural Products	Imports from Turkey In 2009 (USD) of	Total Georgian imports in 2009 (USD) of	Share of Imports from Turkey in Total imports in 2009
0407*	Birds eggs, in shell, fresh, preserved or cooked	1,004.4	1,805.5	56%
0702*	Tomatoes, fresh or chilled	3,446.3	3,519.3	98%
0703	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled	2,686.9	3,813.2	70%
0707	Cucumbers and gherkins, fresh or chilled	1,395.8	1,492.4	94%
0709	Other vegetables, fresh or chilled	2,383.4	3,199.1	75%
0805*	Citrus fruit, fresh or dried	3,353.8	3,948.2	85%
2002	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid	4,800.0	6,168.6	78%
2102	Yeasts(active or inactive); other single-cell micro-organisms, dead (but not including vaccines of heading No.30.02); prepared baking powders	3,762.5	5,209.8	72%
*Product positions lacking the FTA benefits are marked with - **				

Source: www.geostat.ge

194 *Ibid*., p. 13.
195 *Ibid.*, p. 12.
196 Currency rate: TL vs. USD, TurkStat (2009) *Turkey's Statistical Yearbook 2009*, p. 337, retrieved from http://www.turkstat.gov.tr/yillik/stat_yearbook.pdf on June 6, 2010.
197 *Agricultural Policies in OECD Countries: Turkey*, p. 69, retrieved from http://www.vti.bund.de/fileadmin/dam_uploads/Institute/MA/ma_de/ma-allgemein/OECD-Seminar/Additional_Information/Agr%20Pol%20in%20OECD%20countries%20at%20a%20glance%20ENG.pdf on Dec 21, 2010

value of the G23 accounted for 85% of the total Turkish agricultural imports in 2008 and 84% in 2009 (see Table 8.1). Of the G23, eight product positions obtained the dominant position in the Georgian imports of the same products. In other words, the share of the Turkish imported products is at least 50% of the total imports of the same product position to Georgia (see Table 8.2). According to the FTA, 20 product positions of the G23 have been freed from customs duties[198] leaving only three (HS0407, HS0702 and HS0805) product positions beyond customs liberalisation. In 2009, ten of those 20 product positions declined in shares of the total Georgian imports of the respective product in comparison to 2008, eight increased and two maintained the same position. Of the three product positions which have not been freed from customs duties, two (HS0407 and HS0805) demonstrated growth in shares and only one (HS0702) insignificantly declined in 2009 (see Annex 6).

2010 marked an overall growth of Turkish imports from USD 788,036 million in 2009 to USD 808,644 million. Imports of agricultural products also grew by 21% from USD 62,274 million (2009) to USD 75,276 million (2010) but still 10% less than the figure of 2008 (USD 83.666 million). In 2010, the application of the same (as in the case of 2009) conditional USD 1 million margin shrank the G23 to the G18. Those 18 product positions accounted for 81%[199] of the total agricultural imports from Turkey in 2010 (see Table 8.3). Overall, eight products lost their position from 2009 in the list of major agricultural product imports whilst three new product positions emerged (see Annex 6):

1. HS0603: Cut flowers and flower buds – USD 1.044 million
2. HS2005: Other vegetables prepared or preserved otherwise than by vinegar or acetic acid – USD 1.153 million
3. HS2202: Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavored, and other non-alcoholic beverages – USD 1.128 million

An analysis of the tendency leads to the conclusion that the G15 is actually the group of products which holds strong and stable positions on the Georgian agricultural market. The G15 also includes eight product positions which have a dominant (>50%) share in terms of imports of the same kind. Moreover, 13 of the G15 are free of customs duties on the basis of the FTA. Of the remaining two, one product position, tomatoes fresh or chilled (HS0702), remained in the same customs

Table 8.3 Main Figures of Georgian-Turkish and Total Georgian Foreign Trade 2009-2010

	(*000 USD)	(in %)	(*000 USD)	(in %)	(in %)
	2009	**Share in Total**	**2010**	**Share in total**	**Growth**
Total trade turnover	5,504,422.7	100%	6,678,469.8	100%	21%
Trade turnover with Turkey	1,014,227.8	18%	1,104,693.4	17%	9
Total imports	4,369,496.5	100%	5,095,072.8	100%	17
Imports from Turkey	788,036.6	18%	888,644.1	17%	13
Total agricultural imports	775,312.0	18%	938,574.4	18%	21
Agricultural imports from Turkey	62,274.0	8%	75,276.4	8%	21

Source: www.geostat.ge

[198] Anx.: 1, Prot.: I, Geo-Turk FTA, 2008.
[199] Geostat, 2010.

duty regime as before whilst the other, citrus fruit, fresh or dried (HS0805), are partially (excl. HS0805.50 - lemon) freed from customs duties[200] from the Georgian side (see Annex 6).

The segregated G15 constitutes the core of Turkish agricultural imports to Georgia. In 2008, due to the August war and the economic crisis, the Georgian GDP fell by 4%, reflecting in reduced imports from USD 7.246 billion in 2008 to USD 5.144 billion in 2009.[201] Imports from Turkey were no exception. The volume of imports from Turkey fell from USD 940 million to USD 788 million in 2009. It revived somewhat in 2010 amounting to USD 888.6 million, giving hopes that the growth trend was back. The accentuation upon the share of Turkish imports in comparison to total Georgian imports with respect to specific product positions gave us the opportunity to see the picture beyond the distortions not related to the FTA and identify the early trends relating to FTA implications. Indeed, more time is needed to solidly assess the FTA impact and the level of the utilisation of the framework benefits although the tendency confirms the implications that Turkish importers have strengthened their positions (import shares) on the Georgian market in terms of competition with other importers.

[200] Anx.: 1 of Prot.: 1, Geo-Turk FTA, 2008
[201] Geostat, 2010.

Conclusions

The findings of the study suggest viewing the Georgia-Turkey FTA not only in terms of its immediate impact on bilateral trade dynamics but in the context of the foreign trade and economic policies of the two countries with particular emphasis on implications for Georgia. Consideration of background conditions and motivations of the sides explains the rationale of the deal.

Turkey's economic policy entails a complex set of regulatory and interventionist measures targeting the specific sectors. Agriculture and related branches are deemed particularly sensitive and a comprehensive protectionist policy is applied which involves tariff and non-tariff barriers and direct or indirect subsidies. Before the 1980s, Turkey's trade policy aimed at import-substitutions with domestic production. In the early 1980s, the policy shifted to stimulation and a promotion of exports. In the 1990s, the geographic proximity and humble quality standards at the newly opened post-socialist markets well positioned Turkey to further expand its exports. The export-oriented trade policy is an important pillar of the country's foreign policy and is instrumental for achieving its manifested goals seeking co-operation upon a peaceful ground. In turn, the economic expansion via the promotion of exports and investments aims to anchor Turkey's political influence as a major regional and eventually international player.

Georgia's economy sunk into a crisis in the aftermath of the Soviet collapse in the early 1990s. Since then, Georgian economic policy aimed mainly at mitigating the crisis, was ill-defined, sluggish and often strategically and ideologically contradictory. The same malperformance applied to other domains of domestic and foreign policy. Yet, a weak trend of intermittent liberalisation in international trade could be observed. After the Rose Revolution the policies became quite articulate. The economic approach was tailored around ultra liberal principles and foreign trade followed the same pattern. Since 2004, with a new paradigm, the trade barriers as policy instruments were neglected and the country unilaterally opened economic borders. The overall benefits of free trade were to complement the welfare and development agenda. The sector-specific implications of free trade policy (such as import-substitution or export promotion), including for the country's large agricultural sector, were practically not delimited. In programmatic documents and public statements of the government, liberalisation itself comes into sight as a strategy, thus as a somewhat more idealogised approach rather than a pragmatic instrument tailored for concrete economic tasks. It is virtually impossible, therefore, to measure the policy repercussions against concrete achievements or failures in this regard as these should be assessed in terms of overall economic performance.

Georgia launched a unilaterally open trade policy whilst the majority of its trade partners, to different degrees, employ protectionist tariff or non-tariff measures and directly or indirectly subsidise their economies. Georgia's liberal economic policies did not yet generate any big-time shifts in the real sector of the economy: there has been no major reshuffling in the structure of exports and imports, in ratio of economic sectors, in the build up and structure of the labour market.

The dynamics in the sectoral structure of the Georgian economy suggests the following changes at a glance: on the one hand, there has been a decrease in the production of "food, beverages and tobacco" and its total share in the processing/manufacturing industry fell from 47.9% to 35.3%. On the other hand, the largest increase is observable in the share of "metallurgy and metal product processing" from 13.6% to 24.7% from 2003 to 2008. No other major changes are displayed in the structure of sector shares in the manufacturing/processing industry.

Georgia's economic development and growth of foreign trade is mostly linked to the financial-credit sector, particularly the sharp increase of credits issued by the banking sector. The debts of the economy to commercial banks grew nine-fold from 2004 to 2009. If credit structure is scrutinised, nearly half of credit portfolio comes at consumer loans and around 35% for trade. The issuance of both is mostly related to the purchase and sales of imported goods. Remarkably, of 16 major branches, the only branch which shrunk considerably is agriculture. Compared to the base year of 2003 (100%), the real growth index fell to 89.9% in 2008 and further deteriorated to 83.8% in 2009. The FDIs are extremely scarce in agriculture and stand at 0.8% of total FDI in 2007 and 0.5% in 2008. The same goes to volume of commercial credits in the sector – a mere 0.9% of total issued in 2009. The state budget expenses are also very modest: 2% for 2005, 2006 and 2007 and 1% for 2008 and 2009. Neither investors, nor credit institutions or the public sector inject necessary funds in agriculture.

At large, Georgia and Turkey view their economic and trade policies in divergent prisms. This background condition reflects upon the dynamics of bilateral trade relations as well. Since the 1990s in the overall increase of trade volume between Turkey and Georgia, Turkish imports grow much faster than Georgian exports to Turkey and the former is much more diversified than the latter. The economic parameters of these countries well translate into the pattern of interaction: Turkey imports several hundreds of industrial and agricultural goods to Georgia versus a few dozen of Georgian export products to Turkey where scrap metal and ferroalloys dominate.

The share of bilateral trade relations in Georgia's total foreign trade is incomparably higher than that of Turkey. Turkey is in years Georgia's top trade partner and lately with a 17% share in Georgia's foreign trade in 2010 and 18% in 2009. The exports to Turkey in overall Georgian exports is 17.6% in 2008 and 20% in 2009 whilst imports from Turkey in overall Georgian imports amount to an impressive 14.92% in 2008 and 18.03% in 2009. Notably, Georgian exports to Turkey decreased by 6% in 2010 as compared to 2009 and fell to 14% of its total exports. In contrast, Turkey's exports to and imports from Georgia never exceeded 1% of its total export/import turnover.

Indeed, any bilateral deal of the sort in essence stems from the interests of both sides. The Georgian-Turkish FTA, therefore, has to be analysed comprehensively in the context of the parties' geopolitical and economic considerations. The picture displayed above allows for a delineating of such interests. For Georgia, it would make sense in terms of a wider access to the Turkish market and a growth of exports which would relate to additional incentives for foreign investments. Ultimately, similar deals carry implications for the economy at large and its specific parameters. For the Georgian Government, the Agreement also had political significance, especially in light of its efforts to change the geography of trade in the follow-up of the Russia-introduced embargo and acquire preferential trade regimes with other countries. Undeniably and naturally, trade with Turkey has a much higher importance for Georgia than vice versa although its political significance for Turkey vis à vis its foreign (and trade) policy and regional agenda is also high. For Turkey, the deal was more about extra legal back-up for its customs free exports in as much as due to Georgia's unilateral liberalisation for imports,Turkey enjoyed rather free access to Georgian market even before the FTA. At the same time, Turkey managed to secure its sensitive branches through the FTA via customs barriers. At large, FTAs for Turkey with other countries, especially in the politically unstable neighbourhood, represent an additional long-term guarantee for its exports against potential turbulences. The terms of the deal, therefore, are well embedded in Turkey's political and economic agenda. On the one hand, there is Turkey with its "aggressive" export-oriented policies backed up by a vibrant economy and strong capacities. On the other, there is Georgia with an incomparably smaller transitional economy and liberal "open door" policies. The differences in economic capacities and approaches of the two render the intrinsic asymmetry of the FTA deal.

In the startup of negotiations on the FTA, the Georgian side tried to trim down the asymmetry by advocating for more liberal terms of the deal. The talks, however, did not flow without difficulties and were even halted temporarily due to Turkey's unwillingness to make concessions upon a number of Georgian products exempted from the free trade regime. Only after the accord at the highest level, the talks resumed and ended up with the FTA signature on 21 November 2007.

Based upon a structural analysis of the Agreement, three major segments can be singled out: 1) a customs free system for concrete products and product positions (including all industrial), 2) a tariff quota system for another set of concrete products (agricultural) and 3) the principle of bilateral cumulation. All three segments should have had their impact upon bilateral trade.

The Agreement also spells out the exceptions from both sides which do not fall under the preferential regime. Before the FTA, Georgia applied 12% customs duties on 174 products and 5% on 43 products. With the FTA coming into force, all those products in Turkish imports, with the exception of just 15, were freed of customs duties. Turkey on its behalf abolished customs duties for Georgian imports although many more products remained beyond the liberalisation. From both sides, the restrictions are provisioned for agricultural products. The list of exceptions in the FTA from the Turkish side entails 8 HS product chapters and an additional 22 product positions. Moreover, in contrast to the Georgian side, Turkey introduced the mechanism of tariff quotas for certain Georgian products. The terms of the Agreement, therefore, also ended up asymmetric and in line with different trade policies of the two parties.

Asymmetry is also reflected through the process of forging legal regulations for bilateral trade over time. In 2006, Georgia became a beneficiary of the GSP+ with Turkey. The GSP+ granted Georgia free access for industrial products without reciprocal commitments to liberalise Turkish imports. This context should also be kept in mind when assessing the FTA which, in fact, bound Georgia to liberalise access to the domestic market for Turkish imports nearly at full in exchange for preferences only for a limited number of its own agricultural export products. Consequently, if the GSP+ were not already in place, the impact of the FTA for Georgia would have been much more tangible. In the follow up of the GSP+, the FTA turned to be more beneficial for Turkish side.

Another implication which adds up to the asymmetric nature of the deal relates to quality and safety standards. Georgia's economic deregulation policy provisioned a factual minimisation of quality and safety checks through legal and institutional changes. Consequently, the Georgian market opens doors not only via lifting the customs duty burden but also easy access of imports practically without effective mechanisms of quality and safety control. Turkey, for its part, has the safety and quality standard control system in place which beyond its direct function can be viewed as an additional non-tariff barrier instrument.

Only two years have passed since the start of the FTA which is not a long period of time for drawing big-time conclusions but it is, however, enough to observe the tendencies which are carrying implications for the future. After the FTA, Turkey further increased its exports to Georgia (disregarding the economic fluctuations related to the financial and economic crisis) additionally easing its access to the already substantially liberalised Georgian market. Georgia lags behind in terms of divulging its export potential which stems more from internal economic factors than the FTA terms, though the latter also cannot be ignored. The study sheds light upon the discrepancies of those economic factors (e.g., productivity) which, beyond intrinsic differences in the scale of economies, ultimately reflect upon the competitiveness of the products. The differences indeed display through the mode of bilateral interactions in favour of Turkey.

The specificity of the Georgian export structure also adds up to a lopsided exchange. In Georgian exports, it is scrap metals and ferroalloys which have the lion's share. The 17 specific types of scrap metals and ferroalloys constituted around 83% of Georgian exports to Turkey in 2004. These product positions dominated Georgian exports to Turkey in the following years although it slowly declined to 76% in 2008, 63% in 2009 and 58% in 2010. Still, its share is so high that it serves as a major determinant of Georgian export dynamics. In 2007, Georgian exports demonstrated a tangible growth of 45% in comparison to 2004. The trend accelerated in 2008 and reached 122% and 91% in 2009. The export growth here can largely be attributed to the increase of prices on metals and ferroalloys on the international market before the economic crisis.

Together with metals and ferroalloys, there are several other products which continuously participate in Georgian exports to Turkey with a potential of growth. These are mainly: fish and fish products, textile and clothes, wood materials, electricity, raw hides and skins and solid residues. Glass materials, which emerged as an export product in 2007, virtually vanished from the export structure in 2008. Fertilisers emerged as a new export product in 2008. Fish product exports are stably growing and becoming more diversified. Electricity, which is a major export position as well, demonstrated a temporary decline in 2008, mostly due to the impact of the economic crisis but regained its positions shortly thereafter. Fertilisers and wood products also show a remarkable downfall in 2009. In the last three years, the textile industry output increased significantly as did the exports of textile products to Turkey which almost doubled from 2007 to 2009. Notably, solid residues, which have a smaller share in the G16 exports, demonstrate an impressive 500% growth from 2007 to 2009.

Despite the fact that total Georgian exports increased for 40% in 2010, the exports to Turkey decreased by 4%. This can be explained mostly by the 12% decline in exports of metals and ferroalloys. 2010 was also marked with the downfall of exports of some other products. In fact, only four products: textile, fish, fertilizers and electricity have maintained their positions whereas solid residues, raw hides and skins and wood have actually lost theirs in 2010. On the contrary, three new product positions emerged: ginger, saffron and other spices; fats and oils of fish or marine mammals and flours of meat or meat offal. Those three product positions accounted for 7% of the G17 in 2010 and made Georgian exports more diverse. Moreover, two of the tree product positions have been covered by the Georgian-Turkish FTA.

Apart from the dynamics of the export structure, a few other important findings have to be considered in terms of FTA implications for Georgian exports:

- The majority of the Georgian export products (G16) covered by 2008 Georgian Turkish FTA were already liberalised by the 2006 Turkish GSP+ scheme without any obligations for reciprocal liberalisation from the Georgian side (see Chapter 5). Thus FTA impact on this group of products was minor.

- The Georgian fishing industry is dominated by Turkish companies which mainly export to Turkey. It might well be, therefore, that the quota for 8,000 tons of anchovies, provided by the FTA, is actually utilised by Turkish companies and not by the Georgian fishermen. The information on the utilisation of quotas, however, turned out to be the most deficient and concealed part of the deal. As we found out, the Georgian official structures did not possess the information whilst the Turkish foreign trade service in Ankara, which handles the issue, did not disclose information labeling it ultimately as a “trade secret”. The lack of access to such an important piece of information which, as the Turkish side claimed, can be made transparent only upon the request of Georgian official institutions, adds up to the challenges for FTA implementation and impact assessment.

- The share of traditional major exports brands, such as wine and mineral water in Georgian exports to Turkey, can hardly be considered as significant. The volume increased, however, from USD 91.2 thousand in 2009 to USD 215 thousand in 2010. The same applies to Georgianmineral water the export of which amounts to USD 22.1 thousand in 2009 and USD 26 thousand in 2010. The FTA provided remarkable benefits for Georgian wine exporters in line with the requests of the Georgian side. Georgian winemakers access the Turkish market without customs duties (within a large quota). Georgian wine export, however, remains modest and producers face challenges in terms of a proper marketing strategy tailored for a specific wine market in Turkey in order to fully utilise benefits provided by the Georgian-Turkish FTA.

Looking at the dynamics of Turkish imports to Georgia is another important side of the FTA analysis. According to 2009 data, Turkey is the number-one importer to Georgia accounting for a significant 18% share in total Georgian imports from foreign countries (see Figure 16). The imports from Turkey grow steadily from 2004 and decline somewhat only in 2009. In 2010, the trend is revived and reaches USD 808,604 million. The import of agricultural products also grew by 21% in 2010 as compared to 2009 but overall it was 10% less than in 2008 (USD 83.666 million).

Turkish exports to Georgia are much more diverse than Georgian exports to Turkey and entail hundreds of product positions including agricultural ones. Industrial products, however, exceed those from the agricultural sector and grow faster in the Turkish export structure (see Figure 17). The share of agricultural imports from Turkey to Georgia varies between 10-12% in 2004-2010. The FTA additionally stimulated the Turkish agricultural products on Georgian market by virtually freeing them from already low customs duties and further strengthening their competitiveness. Those 15 Turkish product positions which are exempt from FTA benefits, however, also demonstrate a stable growth in 2008 and 2009. Overall, the group of 15 constitutes a small share of Turkish agricultural exports to Georgia – 11.1% in 2008 and 15.1% in 2009. Notably, Turkish agricultural products apportion not more than 4-5% on Georgian agricultural market (domestic production plus imports).

Turkey has been one of Georgia’s main investors over the last years. Turkish investments sharply increased since 2005 when the figure jumped from USD 21,81 million in 2005 to USD 129.7 million in 2006. Turkish businesses relate it to an upgrade in different aspects of bilateral relations as well as liberalised legislation, deregulation and quick reforms aimed at bettering-off the business climate, which was largely compromised before 2004.. The following years also positioned Turkey amongst top investors with USD 93.87 million in 2007, USD 164.5 million in 2008 and USD 89.5 million in 2009. In 2010, however, there was a significant downfall of Turkish investments to a mere USD 29.8 million accounting for a 7% share of total investments and eighth position in the list of investor countries.

The FTA introduced principle of bilateral cumulation can be regarded as a potentially powerful stimulus for the influx of Turkish investments in the Georgian economy and further boosting the trade. As research demonstrates, however, this leverage has not yet been exploited neither in terms of investment flows nor eased trade. The textile industry in Georgia, for example, which generates a large portion of Georgian exports to Turkey and is mainly owned by Turkish investors, should have been the major beneficiary of bilateral cumulation. Textile producers, however, still import materials (like fabric) for processing under the re-export regime whilst the bilateral cumulating regime in theory could be more beneficial.

In the FTA context, information policy and related possibilities have to be looked at separately. It is striking as most of the interviewed business representatives (30 interviewed), including from fishing and textile industries were not aware of the FTA benefits foreseen by tariff quotas or the bilateral cumulation principle. As the Georgian Government claims, an information campaign on the FTA was conducted to reach out to the businesses. Based upon research findings, however, a need for a wider and more organised information policy which would trickle down amply to potential beneficiaries of the deal is eminent.

Another hindrance for Georgian exports is the procedural complication which requests Georgian businessmen handle the utilisation of tariff quotas in Turkey (the foreign trade service in Ankara). The Georgian exporters should either establish daughter companies in Turkey or find and use the services of Turkish partners to be able to apply for quotas. Both of these remedies are related to substantial additional expenses and time-consuming efforts. The burden is heavy for an already quite weak agricultural sector. So far, only Georgian winemakers could afford the practice. It would be a substantial help for Georgian exports, therefore, to instate institutional mechanisms which would allow them obtain tariff quotas in Georgia and, therefore, alleviate the financial and procedural load.

Beyond its actual impact upon trade, the FTA is more important for the Georgian side than to its Turkish counterpart in terms of future implications for economic development. The Georgian Government may consider a few optional approaches. By maintaining the current modus of interactions, the position of the Georgian agricultural sector most probably will further deteriorate in relation to Turkey and many other trade partners. If such a scenario would not contradict the Georgian Government's liberal economic agenda, then no measures should be applied. Yet, if the country aims to develop an agricultural sector with purely market economy mechanisms, then the current constellations barely suggest relevant prospects. In this case, two possible solutions could be identified: the first would envisage the rebranding of the foreign trade policies in a way which provisions the protection of the Georgian agricultural sector with the aim to eventually substitute imports and beef up exports. The second would discard restrictions in foreign trade and customs policy and instead capitalise upon exclusively internal measures to spur the breakthrough in the sector.

The first option can barely serve as a long-term viable remedy for the Georgian economy. The attempt to develop the agricultural sector via customs barriers may temporarily strengthen the position of domestic products on the local market but worsen the capacity of consumers and meanwhile leave the major problems of the sector unsolved. The decapitalisation, high risk propensity, outdated technologies and low level of commercialisation cannot be tackled through protectionist measures. Moreover, the current disparity between Georgia and many of its trade partners according to these parameters is so high that protectionist measures may further increase the gap by turning Georgian farmers into passive beneficiaries of the "greenhouse" conditions and discouraging them from sizable investments in the modernisation of the sector which is necessary to catch up with the competitors.

Using free trade as a stimulus for increased competitivess of the sector, therefore, seems more feasible. The sector, which happens to be on unequal grounding to compete with other countries, can barely develop without zealous intervention. Those interventions may again bear up to market principles and without direct subsidies could entail a set of measures spanning from the development of rural infrastructure to financial and administrative decentralisation, large-scale technological modernisation programmes, mediation of risk insurance in relation with creditors (subsidising loan interest rates, guarantee funds), encouragement of co-operatives, stimulation of commercialisation, indirect subsidies to exports, optimisation of arable lands and information-marketing campaigns, etc. Given such injections, the Georgian agricultural sector could itself identify priorities on the level of products and sub-products and step up on equal grounds to compete with imports (and enhance exports). In general, subsidies can also have ugly side-effects by warping the market through a redistribution of funds amongst the sectors of economy. Yet in Georgia's case, such a scenario seems less feasible. Inasmuch as 60% of Georgia's budget revenues count for VAT on imported goods and their sales, directing relevant public finances in agriculture would not curb down industrial or service sectors. It is important to keep in mind that the state of the Georgian agricultural sector has wider structural and economic implications and bears consequences for overall poverty reduction agenda (see Chapter 2).

In sum, the Georgian-Turkish FTA complements Turkey's political and economic agenda and serves as an instrument for achieving concrete goals of the 'trading state,' including those for domestic economy. The FTA embeds well in Georgia's political and liberalisation agenda and extends its "open door" policy. Due to the lack of specific and well-articulated tasks attached to international trade policy, however, it is difficult to measure FTA implications in the same mode as for Turkey. If big-time goals are concerned, which Georgia's economic strategy identifies such as economic growth or poverty reduction, then the impact of the FTA is barely observable.

Overall, the free trade agreement and preferential trade regimes with Turkey and other countries are just opportunities for Georgia and not a bonus, *per se*, which may unconditionally yield benefits. The choice, therefore, is either to attach a more structured agenda to a trade liberalisation course and, by that, enable concrete economic sectors to utilise those opportunities or to get ready for virtually unpredictable deep structural changes in due course (such as a probable further decline in agriculture, a sharp reshuffling of demographic and urban structure and economic geography, etc.).

The Georgian-Turkish FTA is a framework agreement which covers only certain types of products and does not go beyond the WTO installed regulations. Indeed it can, however, be assessed as an important step forward in advancing relations between the neighbouring states and generating new mutually beneficial opportunities. Moreover, it enables the sides to build upon the Agreement and further augment its institutional and legal provisions to lay ground for more intensified, well-structured and transparent bilateral trade.

Annex 1

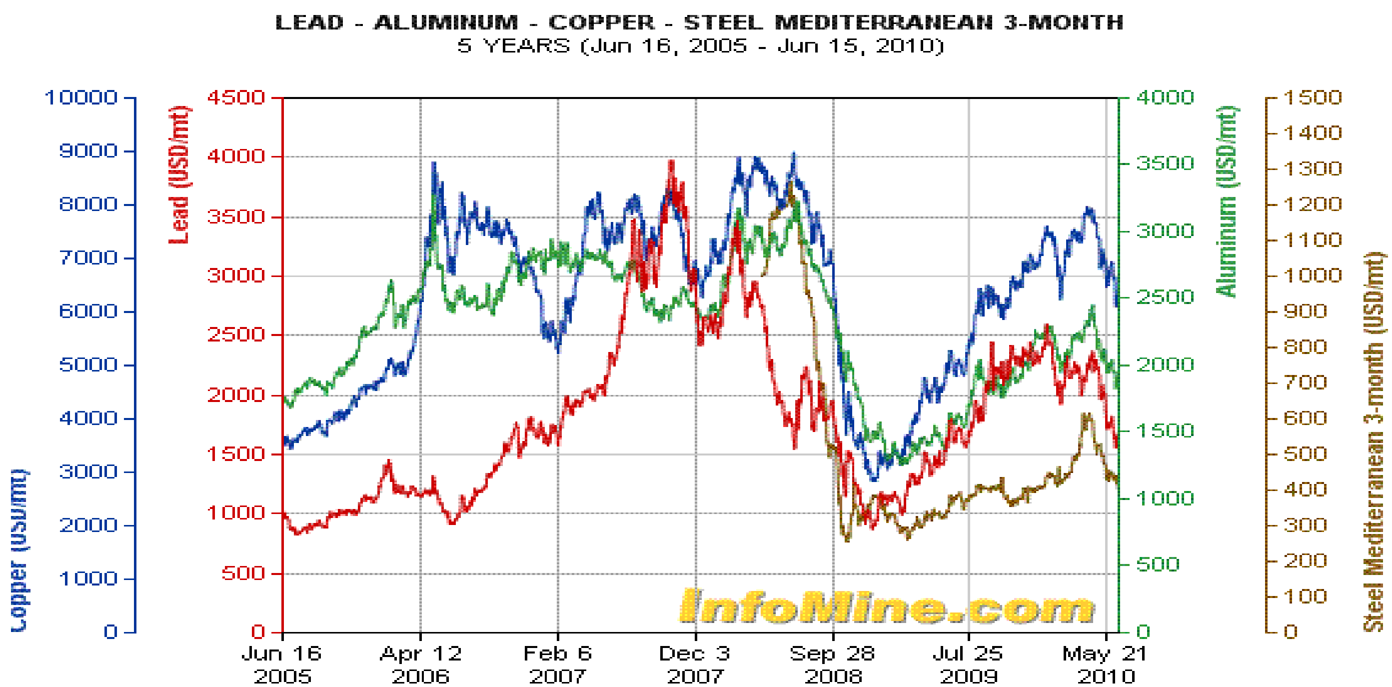
Georgian-Turkish Trade Turnover With Respect to Total Trade Turnover of Both (Georgia, Turkey) Countries

	2004	2005	2006	2007	2008	2009
Export from Georgia to Turkey	118,607.10	121,857.20	123,302.10	171,763.90	262,910.20	226,191.20
Import from Turkey to Georgia	202,088.80	283,008.80	522,560.10	727,906.00	940,479.50	788,036.60
Total Georgian Export	646,903.00	865,454.20	935,992.10	1,232,371.00	1,495,456.60	1,130,555.40
Total Georgian import	1,845,554.90	2,489,953.40	3,676,968.90	5,214,883.40	6,304,557.30	4,369,496.50
Total Turkish Export	63,167,152.82	73,476,408.14	85,534,675.52	107,271,749.90	132,027,195.63	102,135,006.20
Total Turkish import	97,539,765.97	116,774,150.91	139,576,174.15	170,062,714.50	201,963,574.11	140,919,430.98
Share of Georgian exports to Turkey in Total Georgian exports	18.3%	14.1%	13.2%	13.9%	17.6%	20%
Share of Turkish exports to Georgia in Total Turkish exports	0.32%	0.39%	0.61%	0.68%	0.71%	0.77%
Share of Georgian imports from Turkey in Total Georgian imports	10.95	11.37	14.21	13.96	14.92	18.03
Share of Turkish imports from Georgia in Total Turkish imports	0.12%	0.10%	0.09%	0.10%	0.13%	0.16%
Georgian Trade balance with Turkey	-83,481.70	-161,151.60	-399,257.90	-556,142.10	-677,569.30	-561,845.40
The ratio of total Georgian import coverage by export (%)	35.1	34.8	25.5	23.6	23.7	25.9
The ratio of total Turkish import coverage by export (%)	64.76	62.92	61.28	63.08	65.37	72.48
The ratio of import coverage by export from the Georgian side with respect to Turkey (%)	58.69	43.06	23.6	23.6	27.95	28.7

Sourse: http://www.turkstat.gov.tr/; http://geostat.ge

Annex 2

World Metal Prices (2005-2010)



Source: http://www.infomine.com/

Annex 3

G16 Products: Covered by Turkish (2006) GSP+ Scheme and (2008) FTA

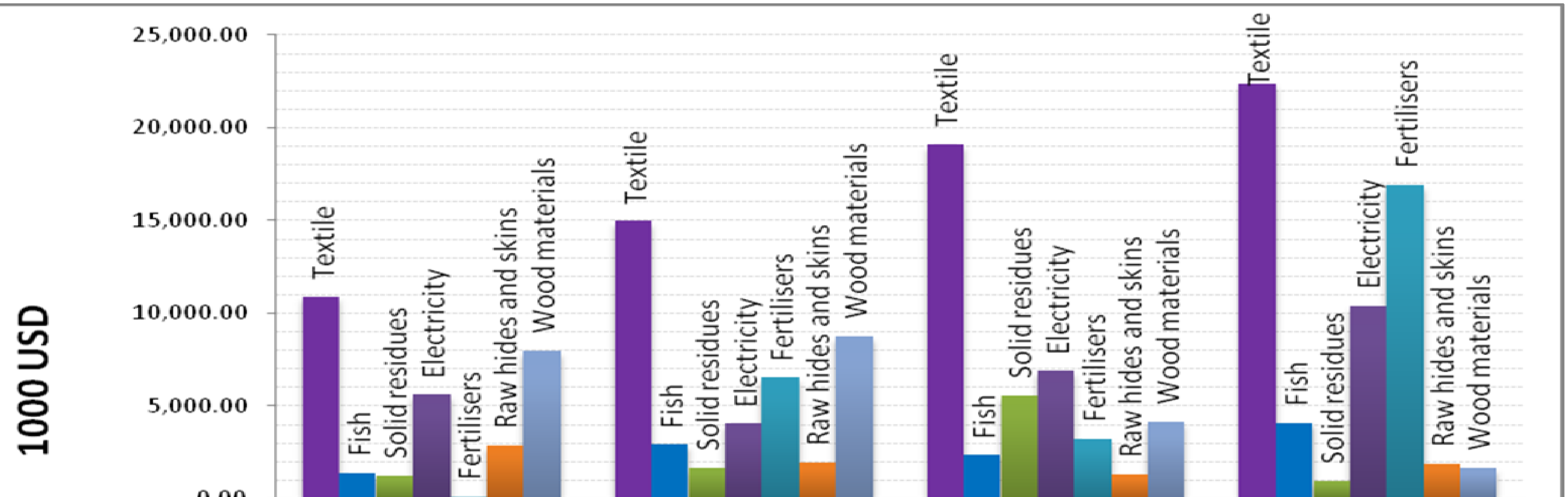
N	HS Code	Product	GSP[1]	FTA[2]
1	0302	Fish, fresh or chilled, excluding fish fillets and other fish meat of heading	0	Q
2	0305	Fish, dried, salted or in brine; smoked fish, whether or not cooked before or during the smoking process; flours, meals and pellets of fish, fit for human consumption	0	0
3	2306	Oil-cake and other solid residues, resulting from the extraction of vegetable fats or oils, other than those of heading No. 23.04 or 23.05	0	0
4	2716	Electrical energy	0	1
5	3102	Mineral or chemical fertilisers nitrogenous	1	1
6	3305	Preparation for use on the hair	0	1
7	4101	Raw hides and skins of bovine(including buffalo) or equine animals(fresh, or salted, dried, limed, pickled or otherwide preserved, but not tanned, parchment-dressed or further prepared), whether or not dehaired or split	0	1
8	4407	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6mm.	1	1
9	4408	Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for other similar laminated wood and other wood sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness	1	1
10	6104	Women's or girls' suits, ensembles, trousers, bib & brace overalls, breeches & shorts, etc, knitted or crocheted	1	1
11	6106	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted	1	1
12	6109	T-shirts, singlets and other vests, knitted or crocheted	1	1
13	6112	Track suits, ski suits and swimwear, knitted or crocheted	1	1
14	6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and breace overalls, breeches and shorts (other than swimwear)	1	1
15	6206	Women's or girls' blouses, shirts and shirt-blouses, not knitted or crocheted	1	1
16	7010	Carboys, bottles, flasks, jars, pots, phials, ampoules and other containers, of glass, of a kind used for the conveyance or packing of goods; preserving jars of glass; stoppers, lids and other closures, of glass	1	1

1 – Products covered by GSP or FTA
0 – Products not covered by GSP or FTA
Q – Products which were covered by FTA tariff quota scheme

[1] See Turkish GSP scheme: http://www.unctad.org/templates/Page.asp?intItemID=2202&lang=1
[2] See Georgian-Turkish FTA, Protocol 1, Annex 2, List A and B (See Anx.: A)

Annex 4

G16 (2007-2009) and G17 (2010) Exports to Turkey According to the Sector of Production



	2007	2008	2009	2010
Textile	10,907.40	14,967.30	19,106.0	22,389.0
Fish	1,412.30	2,929.70	2,381.9	4,113.6
Solid residues	1,251.40	1,676.70	5,579.6	986.5
Electricity	5,605.90	4,072.70	6,930.7	10,415.4
Fertilisers	110.2	6,522.40	3,203.8	16,932.1
Raw hides and skins	2,868.50	1,918.80	1,288.4	1,874.3
Wood materials	7,994.50	8,755.80	4,160.5	1,649.0

Source: www.Geostat.ge

Annex 5

Fish and Fish Product(s) Exports from Georgia to Turkey in 2007-2009

HS Code	Amount (Kg)	Value (USD)	Share in Total Amount	Share in Total Money Value
2007				
03026911000	72000	10800.00	1.21%	0.76%
03026919100	1109100	157768.98	18.71%	11.17%
03026955000*	3882691	568408.56	65.50%	40.25%
03026991000	55700	12925.00	0.94%	0.92%
03051000000	807987	662443.44	13.63%	46.90%
Total	5927478	1412345.98	100%	100%
2008				
03026955000*	9350776	1117711.31	79.63%	38.15%
03026991000	821228	630988.12	6.99%	21.54%
03051000000	1571249	1181018.27	13.38%	40.31%
Total	11743253	2929717.70	100%	100%
2009				
03026955000*	18359775	1991608.58	96.58%	83.61%
03026991000	313289	59241.88	1.65%	17.89%
03051000000	337147	331080.34	1.77%	13.90%
Total	19010211	2381930.80	100%	100%

Products covered by tariff quota scheme of 2008 Georgian-Turkish FTA are marked with - * (See Anx.: A)

Definitions:
HS 03026911000 – Common carp (Cyprinus carpio)
HS 03026955000 – Anchovies (Engraulis spp.)
HS 03026991000 – Mediterranean horse mackerel (Caranx trachurus, Trachurus trachurus)
HS 03051000000 - Flours, meals & pellets of fish, fit for human consumption

Annex 6

List of Main Agricultural Products (G23 and G15) Imported from Turkey

N	HS Code	Products	Imports from Turkey in 2008 of (Thousand USD)	Total Georgian imports in 2008 of (Thousand USD)	Imports from Turkey in 2009 of (Thousand USD)	Total Georgian imports in 2009 of (Thousand USD)	Share of Imports from Turkey in Total Georgian imports in 2008 of	Share of Imports from Turkey in Total Georgian imports in 2009 of	Imports from Turkey In 2010 of (Thousand USD)
1	*0407* X	Birds' eggs, in shell, fresh, preserved or cooked	795.8	2,602.6	1,004.4	1,805.5	31%	56%* ↑	
2	*0701* ✓	Potatoes, fresh or chilled	4,526.3	6,003.1	1,286.4	2,633.7	75%	49% ↓	
3	*0702* X	Tomatoes, fresh or chilled	3,836.4	3,853.5	3,446.3	3,519.3	100%	98%* ↓	4,530.5
4	*0703* ✓	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled	3,639.7	4,821.0	2,686.9	3,813.2	75%	70%* ↓	10,603.4
5	*0707* ✓	Cucumbers and gherkins, fresh or chilled	863.3	932.0	1,395.8	1,492.4	93%	94%* ↑	1,828.0
6	*0709* ✓	Other vegetables, fresh or chilled	1,500.0	2,160.8	2,383.4	3,199.1	69%	75%* ↑	4,394.9
7	*0803* ✓	Bananas, including plantains, fresh or dried	2,453.7	6,389.6	843.3	7,179.4	38%	12% ↓	1,580.5
8	*0805* X exc. 0805.50	Citrus fruit, fresh or dried	1,179.2	2,108.4	3,353.8	3,948.2	56%	85%* ↑	3,872.3
9	*1001* ✓	Wheat and meslin	3,609.8	108,851.7	534.1	104,123.1	3%	1% ↓	3,304.2
10	*1101* ✓	Wheat or meslin flour	8,411.1	74,490.4	2,757.4	14,790.9	11%	19% ↑	
11	*1107* ✓	Malt, whether or not roasted	2,036.0	12,671.3	0.0	6,792.5	16%	0% ↓	
12	*1512* ✓	Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified	3,290.5	45,730.8	1,270.9	28,788.9	7%	4% ↓	
13	*1517* ✓	Margarine; other than edible fats or oils or their fractions of heading No.1516	10,169.7	16,247.7	7,404.4	15,814.1	63%	47% ↓	7,676.0
14	*1704* ✓	Sugar confectionery (including white chocolate), not containing cocoa	1,809.6	13,808.8	2,050.2	11,659.2	13%	18% ↑	2,245.7
15	*1806* ✓	Chocolate and other food preparations containing cocoa	4,552.4	49,735.6	4,185.4	42,862.9	9%	10% ↑	3,934.3

16	*1902* √	Pasta, whether or not cooked or stuffed(with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared	1,346.5	8,849.3	633.1	5,460.9	15%	12% ↓	
17	*1905* √	pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, rice paper and similar products	1,663.8	25,376.8	1,388.8	19,221.5	7%	7% N	1,799.4
18	*2002* √	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid	2,511.0	4,208.5	4,800.0	6,168.6	60%	78%* ↑	4,564.9
19	*2005* √	Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen, other than products of heading No.20.06	1,469.7	7,663.5	1,181.5	6,316.9	19%	19% N	
20	*2102* √	Yeasts (active or inactive);other single-cell micro-organisms, dead(but not including vaccines of heading No.30.02);prepared baking powders	3,408.9	4,476.5	3,762.5	5,209.8	76%	72%* ↓	3,927.1
21	*2103* √	Sauces and preparations therefore; mixed condiments and mixed seasoning; mustard flour and meal and prepared mustard	4,929.0	11,740.9	2,775.2	10,684.5	42%	26% ↓	
22	*2106* √	reparations not elsewhere specified or included	1,163.7	28,221.6	1,466.8	22,770.3	4%	6% ↑	1,979.9
23	*2309* √	Preparations of a kind used in animal feeding	1,633.5	9,369.8	1,980.5	9,629.7	17%	21% ↑	1,727.7

Source: www.geostat.ge; www.mof.ge

* - *Products which obtained dominant positions in total Georgian imports of the respective product.*

↑ - Product positions whose share in total imports increased in comparison to 2008

↓ - Product positions whose share in total imports decreased in comparison to 2008

N – Product positions which maintained their positions

X - Product Positions not free from customs duties after the FTA

√ - Product positions freed from customs duties after the FTA

Annex A:

Protocol I of the Georgian-Turkish FTA 2008

*Unofficial translation

PROTOCOL I

(Referred to in Article 9)

ARTICLE 1

This Protocol shall apply to products that are specified in Article 8 of the Agreement.

ARTICLE 2

1. The agricultural products originating in the Republic of Turkey shall be imported into Georgia according to the conditions established in Annex I to this Protocol.

2. The agricultural products originating in Georgia shall be imported into the Republic of Turkey according to the conditions established in Annex II to this Protocol.

ARTICLE 3

The Parties shall grant preferential treatment to each other as regards the products listed in Annexes of this Protocol in compliance with the provisions of Protocol II concerning the rules of origin of the Agreement.

Annex I to Protocol I

The customs duties and charges having equivalent effect applicable on the imports into Georgia of the products originating in the Republic of Turkey other than those listed in the following Table shall be eliminated upon the entry into force of the Agreement.

HS Code	Brief Product Description
01 05	Live poultry, that is to say, fowls of the species Gallus domesticus, ducks, geese, turkeys and guinea fowls
02 04	Meat of sheep or goats, fresh, chilled or frozen
04 01	Milk and cream, not concentrated nor containing added sugar or other sweetening matter
04 07	Birds' eggs, in shell, fresh, preserved or cooked
04 09	Natural honey

07 02	Tomatoes fresh or chilled, (only during the period of 1 June-31 October)
07 11	Vegetables provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption
08 02	Other nuts, fresh or dried, whether or not shelled or peeled
08.05 (excl. 0805.50)	Citrus fruit, fresh or dried
08.06 (excl. 0806.20)	Grapes, fresh
0808.10	Apples
08 12	Fruit and nuts, provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption
09 02	Tea
24 01	Unmanufacture tobacco, tobacco refuse
24 02	Cigars, cigarettes, cheroots, cigarillos

Annex II to Protocol I

1. The customs duties and charges having equivalent effect applicable on the imports into the Republic of Turkey of the products originating in Georgia other than those listed in Table A and Table B shall be eliminated upon the entry into force of the Agreement.

2. Imports into the Republic of Turkey of the products originating in Georgia listed in Table B shall be subject to the concessions set out therein.

TABLE A

CN Code	Brief Product Description
Chapter 01	Live animals
Chapter 02	Meat and edible meat offal
Chapter 03 *	Fish and crustaceans, molluscs and other aquatic invertebrates
Chapter 04 *	Dairy produce, bird eggs’ natural honey’ edible products of animal origin’ not elsewhere specified or included
0802	Other nuts, fresh or dried, whether or not shelled or peeled
0805.50	Lemons (Citrus limon, Citrus limonum) and limes (Citrus aurantifolia, Citrus latifolia)
0806	Grapes, fresh or dried
0810.50	Kiwifruit
0812.90.10	Apricots
0813	Fruit, dried, other than that of headings 0801 to 0806; mixtures of nuts or dried fruits of this chapter
0902	Tea, whether or not flavoured

0904.20	Fruits of the genus Capsicum or the genus Pimenta, dried crushed or ground
Chapter 10	Cereals
1101	Wheat or meslin flour
1102	Cereal flours other than that of wheat or meslin
1108	Starches; inulin

HS Code	**Brief Product Description**
1206	Sunflower seeds, whether or not broken
1212.91	Sugar beet
Chapter 15 (excl.1504, 1522)	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes
Chapter 16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertabrates
1701	Cane or beet sugar and chemically pure sucrose, in solid form
1702	Other sugars, including chemically pure lactose, maltose, glucose and fructose, in solid form; sugar syrups not containing added flavouring or colouring matter; artificial honey, whether or not mixed with natural honey; caramel
2002	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid
2007.99.98	Hazelnut paste
2008.19	Other fruit and nuts
2101	Extracts, essences and concentrates, of coffee, tea or mate and preparations with a basis of these products or with a basis of coffee, tea or mate; roasted chicory and other roasted coffee substitutes, and extracts, essences and concentrates thereof
2105	Ice cream and other edible ice, whether or not containing cocoa
2106	Food preparations not elsewhere specified or included
Chapter 23 *	Residues and waste from the food industries; prepared animal fooder
2401	Unmanufactured tobacco; tobacco refuse

*** see Table B**

TABLE B

CN Code	Brief Product Description	Tariff Quota Volume (Tons)	Reduction from the MFN customs duty (%)
0302.69.55, 0303.79.65	Anchovies, fresh, chilled or frozen	8.000	60
0405	Butter and other fats and oils derived from milk; dairy spreads	500	50
ex. 0407	Quail eggs	50	100
0409	Natural honey	200	100
0603	Cut flowers	15	100
Chapter 07 (excl. 0702.00)	Edible vegetables and certain roots and tubers	1.000	100
0702.00	Tomatoes	600	100
0805 (excl. 0805.50)	Citrus fruit, fresh or dried	4.000	100
0807	Melons, including watermelons and papaws (papayas), fresh	3.500	60
0808.10	Apples, fresh	2.000	100
0808.20	Pears and quinces, fresh	250	100
0809	Apricots, cherries, peaches (including nectarines), plums and sloes, fresh	600	50
Chapter 11 (excl. 1101, 1102, 1108)	Products of the milling industry; malt; starches; inulin; wheat gluten	2.000	50
1202	Groundnuts, not roasted or otherwise cooked, whether or not shelled or broken	250	100

1704	Sugar confectionary (including white chocolate), not containing cocoa	500	100
1806	Chocolate and other food preparations containing cocoa	500	100
CN Code	**Brief Product Description**	**Tariff Quota Volume (Tons)**	**Reduction from the MFN customs duty(%)**
Chapter 19 (excl. 1903)	Preparations of cereals, flour, starch or milk; pastrycooks' products	500	100
2001	Vegetables, fruit, nuts and other edible parts of plants, prepared or preserved by vinegar or acetic acid	1.200	100
2005	Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen, other than products of heading 2006	1.000	100
2007 (excl. 2007.99.98)	Jams, fruit jellies, marmalades, fruit or nut purée and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter	1.000 1.000	100 50
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter	4.000	65
2102	Baker's yeast	250	50
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading 2009	1.000.000 lt.	100
ex. 2301.20	Flours of Anchovies	3.000	100

Annex B

DECREE NO: 2004/7333 ON THE ADMINISTRATION OF QUOTAS AND TARIFF QUOTAS

**Unofficial Translation*

Decree No 2004/7333 On The Administration of Quotas and Tariff Quotas

(Official Gazette No.25473 of 26 May, 2004)

Objective and Scope

Article 1- This decree covers the procedures and principles related to the administration of quotas and tariff quotas can be applied in the framework of the measures adopted on the bilateral or multilateral preferential trade agreements or unilaterally be taking the international obligations into consideration.

Definitions

Article 2 - the definitions under the decree are given below.

(a) Undersecretariat: The Undersecretariat for foreign trade.
(b) Directorate General: The Undersecretariat for the Foreign Trade, Directorate General of Imports.
(c) Tariff quota: The quantity or value imports which is exempted from customs duties and/or other financial charges or subject to reduced customs duties and/or other financial charges for a specified period.
(d) Quota: The quantity and/or value of imports for which permission is given for a specified period;

(e) Import License: A document issued by the directorate General for the import of products subject to quota or tariff quota.

Authority

Article 3 – Under Decree the Undersecretariat for Foreign Trade has the authority.

(a) to determine the procedures and principles of the application, distribution and use of the quotas and tariff quotas;

(b) to make consultations in the framework of the related legislation and to prepare compromise statements and to apply them which enter into force in conformity with the procedures concerned.

(c) to make examinations on imported goods and the accuracy of declarations;
(d) to coordinate and give instructions to the relevant institutions and organizations for the implementation of the Decree;
(e) to prepare Regulations and Communiqués the implementation of this Decree.

Methods of Quota and Tariff Quota Distribution

Article 4 - For the distribution of quotas and tariff quotas of the methods specified below can be applied.

(a) Traditional trade flow method
According to this method, where quota or tariff quota allocation is made, a portion of the quota or tariff quota is set aside for the traditional importers and the remaining portion is set aside for other importers.

(b) Method of allocation in equal proportions according to the order of applications
According to this method, total or a portion of the aggregate quota or tariff quota is distributed to the applicants in equal proportions by taking into account the order of applications.

(c) Method of allocation in proportion to the quantity and/or value requested
Where the total quantity and/or value requested is equal to or less than the quota or tariff quota concerned, the requests are fulfilled completely.

Where the total quantity and/or value requested exceeds the existing quota or tariff quota, the applications are fulfilled in proportion to the quantities and/or values requested.

(d) Method that shall be determined by the Undersecretariat
The Undersecretariat, in cases where it deems it necessary, can specify a different methods of allocations, by taking into consideration the conditions such as structure of the product, its economic quantity and the quota or tariff quota quantity and/or value determined;

Provisions of Other Legislation

Article 5 – The decree does not preclude the application of:

(a) prohibitions, quantitative restrictions or control within the framework of the b provisions of related legislation in force, concerning imports on grounds of public morality, public order or public security, the protection of health of humans, animals and plants; the protection of national treasures possessing artistic, historic or archeological value, or the protection of intellectual, industrial and commercial property;

(b) the transactions concerning foreign exchange;

(c) the obligations arising from the international agreements;

(d) the provisions of the import Regime Decree, the Regulation on Imports and the other legislation relating to the imports that are not in violation of this Decree.

Publication

Article 6 - The periods and the procedures and the principles for the application, distribution and use of quotas and tariff quotas under the Decree shall be published in the Official Gazette.

Regulation

Article 7 - The Procedures and Principles concerning the application of this Decree shall be specified in the Regulation.

Sanction

Article 8 – In case of detection of falsification of documents constituting the basis of import transactions subject to quotas and tariff quotas or use of forged documents, transferring of imports license to third persons or violation of the terms of letter of undertaking by inspection Units, import licenses shall be invalidated by the Undersecretariat and no import license shall be issued again as long as quota and tariff quota implementation in force.

Provisional Measure 1 - Before the entry into force of this Decree, the procedures concerning the quotas and tariff quotas imposed under the Decree on Surveillance and Safeguard Measures for Imports and the Administration of Quota and Tariff Quota, which was put into force in accordance with the Council of Ministers Decree No: 95/6814 of 30 April, 1995 shall carry on under the provisions of this Decree.

Provisional Article 2 - References to the related Decree on Surveillance and Safeguard Measures for Imports and the Administration of Quotas and Tariff Quotas, which was put into force in accordance with the Council of Ministers Decree No: 95/6814 of 30 April, 1995 concerning the Administration of quotas and tariff quotas, shall be understood as referring to this Decree.

Entry into Force

Article 9 - This Decree shall enter into force on the date of its publication.

Execution

Article 10 – The Minister in charge of the Undersecretariat for Foreign Trade shall execute the provisions of this Decree.

Annex C

Free Trade Agreement Between Georgia and Turkey - Rough Analysis (2008) DG Trade, European Commission

EUROPEAN COMMISSION
Directorate-General for Trade

Directorate E - Public Procurement and Intellectual Property, Bilateral Trade Relations
Europe (non-EU) and Central Asia

Brussels, 25 January 2008
TRADE/E1/BS/cd D(2008) 920

NOTE TO THE FILE

Subject: Free Trade Agreement between Georgia and Turkey – Rough analysis

ISSUE

Georgia and Turkey initialled a free trade agreement (FTA) on 21 November 2007, which now needs to be signed and ratified. This note provides for a rough analysis of this Agreement.

It is to be recalled that a year ago, Commissioner Mandelson decided to 'close an eye' on such a FTA – which is incompatible with Turkey's customs union obligations towards the EU – because he acknowledged its economic importance particularly for Georgia, but on condition that the two countries conclude a deep and comprehensive deal, compatible with GATT Article XXIV.

ANALYSIS OF THE AGREEMENT

1. Coverage

1.1 Trade in goods

1.1.1 Industrial products (Art 3–7)

All bilateral trade in industrial products will be *liberalized as from the date of entry into force of the Agreement* (all import and export customs duties and similar charges and all quantitative restrictions in bilateral trade have to be abolished and any new ones cannot be introduced).

1.1.2 Agricultural products (Art 8–9, and Protocol I)

Agricultural trade is significantly less liberalised. The Agreement does not tackle the issues of export duties and similar charges and of quantitative restrictions. A with no transition

Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium. Telephone: (32-2) 299 11 11.
Office: CHAR 7/203. Telephone: direct line (32-2) 2980563.

E-mail: blanka.studnickova@ec.europa.eu

periods is applied on removal of import duties and similar charges and the share of exempted products or products put under limited preferential tariff quotas is rather significant, in particular as regards imports into Turkey.

1.1.2.1 Exceptions from the removal of duties and similar charges on the imports into Georgia (Annex I of Protocol I)

Import duties and similar charges will be maintained on only a rather small part of imports into Georgia. In value of the existing trade flows, the products exempted from liberalization represent 7,40% of the agricultural imports into Georgia, which means 0,76% of the overall imports. In tariff lines, the exempted products account for 5,74% of the agricultural lines, which means 1,39% of all the lines.

1.1.2.2 Exceptions from the removal of duties and similar charges on the imports into Turkey (Annex II of Protocol I)

- On the other hand, import duties and similar charges will be *maintained* on a significant part of imports into Turkey. In value of the existing trade flows, the products exempted from liberalization represent *47,20% of the agricultural imports into Turkey*, which corresponds to 0,43% of the overall imports (the later figure is low due to the fact that the share of agricultural products in the overall imports to Turkey is only 0,9%). In tariff lines, the exempted products account for *50,36% of the agricultural lines*, which means *11,05% of all the lines*.
- In addition, on several other products Turkey will grant Georgia *preferential tariff quotas* with tariff reductions varying from 50 to 100% of MFN. The levels of the quotas are rather *limited*, in particular for the most interesting items to Georgia, either regarding the level of tariff reduction (e.g. anchovies, fruit juices including grape must) or in amount (e.g. wine, citrus fruits). The share of the products put under tariff quotas is, in value of the existing trade flows, *44,70% of the agricultural imports into Turkey*, which corresponds to 0,41% of the overall imports, and, in tariff lines, *18,95 % of the agricultural lines*, which corresponds to *4,16% of all the lines*.

  Specifically on wine, the quota is 10 000 hl duty free, which is – as Georgia itself has informally acknowledged to us – significantly less than Georgia wished to receive and was actually one of its main reasons to enter into FTA negotiations with Turkey. Before the introduction of Russia's ban, in 2005, Georgia exported 420 000 hl of wine, out of which 360 000 hl (90%) to Russia and only 13 000 hl (3%) to Turkey, and hoped that an FTA would enable it to export to Turkey a significant part of its wine previously exported to Russia.

1.1.2.3 If we put together the products exempted from liberalization on both sides, their share, in value of existing trade flows, is 8,21% of the bilateral agricultural trade/0,70% of the overall trade, and in tariff lines, *28,55% of the agricultural lines*/6,56% of all the lines. The products put under preferential quotas represent an additional 0,92% of the existing bilateral agricultural trade/0,08% of the existing overall trade, and *9,69% of the agricultural lines*/2,22% of all the lines.

1.1.3 Conclusion

On the basis of the above figures (summarized in the table annexed to this note), we can conclude that although more than 90% of the overall bilateral trade between Georgia and Turkey is covered by the Agreement (according to both the criteria of the existing trade flows' value and of the tariff lines' number), we can at the same time *almost* speak about *sectoral exclusion as regards agriculture, in particular on the side of imports into Turkey*. In this context it should be recalled that Georgia currently benefits from Turkey's GSP+, which, though not providing for almost any preferences on agricultural goods, offers to Georgia free access to Turkey's markets for basically all industrial products without the obligation of liberalizing its own markets. This therefore raises serious doubts whether the concluded FTA, bringing only very limited liberalization for Georgia's agricultural imports to Turkey and at the same time obliging Georgia to fully liberalize its industrial imports and significantly liberalize its agricultural imports from Turkey, will be economically beneficial for Georgia.

1.2 Trade in services (Art 26)

The Agreement does not provide for liberalisation of services beyond the Parties' GATS commitments, it *only* foresees *a vague possibility* for review and consideration of further *liberalization in the future*.

2. Safeguard measures (Art 13-17)

The Agreement contains *standard basic provisions* on safeguards, mainly *referring to the relevant WTO provisions*.

3. Rules of origin and cooperation between the customs administrations

These issues are provided for in Art 18 and in particular in Protocol II, which is a "copy-paste" of the *standard protocol that the EU uses* in its bilateral FTAs with the third countries.

4. Institutional provisions (Art 27-37)

The Agreement establishes a *Joint Committee* responsible for administration of the Agreement and its proper implementation. The Joint Committee is to meet at least once a year and act (take decisions and make recommendations) by a consensus.

Regarding *dispute settlement*, a dispute between the Parties should be primarily settled by means of a decision of the Joint Committee, the decision then being binding for the Parties. In case this is not possible, the Agreement foresees arbitration - each Party appoints an arbitrator who then agrees on a third one; the arbitrators' decision is taken by majority vote and is binding for the Parties.

The Agreement contains a *general evolutionary clause* providing for a possibility to – following a recommendation of the Joint Committee - extend the Agreement to additional fields.

The Agreement is concluded for an *unlimited period* with a possibility for each Party to denounce it by a written notification to the other Party. The Agreement will *enter into force* on the first day of the 2nd month after the later Party has notified to the other the finalisation of its ratification procedures.

5. Regulatory provisions and other rules

The Agreement includes only *very basic* provisions on trade related regulatory issues, in principle not going beyond the Parties' commitments in the WTO:

- Art 25: The rights and obligations of the Parties in respect of *technical regulations, standards, conformity assessment and related measures* will be governed by the WTO Agreement on Technical Barriers to Trade. The Parties undertake to strengthen their co-operation in these fields with a view to facilitating access to their respective markets and eliminating technical barriers to trade.
- Art 10: The Parties are bound to apply their *sanitary and phytosanitary measures* in accordance with the relevant WTO rules. They are forbidden to use these measures as disguised barriers to trade.
- Art 22: The Parties are bound to ensure effective and non-discriminatory protection of *intellectual property rights*, including their enforcement, in accordance with the relevant international agreements. They will grant each other national treatment, exemptions being possible only in accordance with Article 3 of the TRIPS.
- Art 24: On *public procurement*, the Parties have only agreed on a future objective in terms of a progressive liberalization in this field.

- Art 20: On *competition concerning undertakings*, the Agreement prohibits (i) agreements and concerted practises between undertakings having for object or effect limitation of competition, (ii) abuse of dominant position and (iii) state aid distorting or threatening to distort competition, insofar as these may affect trade between the Parties. Implementation rules for this provision are to be adopted by a decision of the Joint Committee within 5 years of the entry into force of the Agreement, until that time the relevant WTO rules should apply. The Agreement obliges the Parties to a regular exchange of information in this area.
- Art 23: The Parties have undertaken to progressively adjust any *state monopoly* of a commercial character so as to ensure that by the end of the 4^{th} year following the entry into force of the Agreement, no discrimination regarding the conditions under which goods are procured and marketed will exist between nationals of the Parties.
- Art 21: The rights and obligations of the Parties in respect of *subsidies* will be governed by the relevant WTO provisions.
- Art 11: The Parties are bound to apply any *internal taxes* and other charges and regulations in accordance with the relevant WTO provisions. Internal indirect taxation refunds to exporters cannot exceed domestic indirect taxes imposed on the exported goods.

CONCLUSIONS

The above analysis leads to the conclusion that the Georgia-Turkey FTA is a ***shallow*** agreement, limited to goods and not going beyond WTO provisions on rules. In addition, it ***excludes a significant part of Turkish agriculture from trade liberalisation***. The Agreement therefore raises doubts whether it will be able to bring sufficient economic benefits to the Parties, in particular to Georgia, who currently benefits from Turkey's GSP+.

[signed]
B. Studnickova

Enclosures: Table illustrating coverage of trade in goods
English copy of the Georgia-Turkey FTA

C.c.: Mssrs Balas, Dueerkop, Synowiec, Ratso, Rubinacci, Redonnet, Cuisson, Garzotti, Ciudin, Anzalone, Trallero-Sevillano (TRADE), Wendt (CAB), Andres Maldonado, Di Cara (RELEX), Danielsson (ELARG), Clarke, Nicora (Geneva Delegation), Eklund, Liddell (Tbilisi Delegation), Hauer (Ankara Delegation)