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Steering Committee on Trade Capacity and Standards

Fifth Session
28 - 29 May 2019, Geneva

Item 6. Country follow-up to Economic Commission for Europe
studies on regulatory and procedural barriers to trade

Ladies and Gentlemen,
Dear participants,

It is my great honor and privilege to address such distinguished audience under the agenda item 7, “Trade as a means for implementing the 2030 Agenda” of the Steering Committee on Trade Capacity and Standards and to share Georgia’s experience in promoting trade for sustainable development and growth.

Georgia has an ambition to contribute to the best practices in harnessing trade to serve as an engine of growth and the achievement of the 2030 Agenda. We are on the path of achieving Sustainable Development Goals, through the promotion of development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage growth of micro, small and medium-sized enterprises (SMEs) at the national level.

In order to implement Sustainable Development Goals 2030 (SDG), administration of the Government of Georgia (AoG), has elaborated web-based portal, which is operating now in Georgian language and will be soon operational in English. Portal gives opportunity to interested parties to monitor progress in achieving Sustainable goals by Georgia.

In 2017, the real GDP growth equalled 5% in Georgia, and according to the preliminary data in 2018 GDP growth amounted 4,8%. It should be underlined that industrial sector stands as the second source of income generation for the Georgian economy, with a 24,6% share of gross domestic output (GDP) in 2017. However, its contribution to the job creation was modest, with an 8 per cent share of total employment. In contrast, the agricultural sector, which generated only 7,1 per cent of GDP, accounted for the largest share of total employment (43 per cent), reflecting low productivity levels.

In 2018 Georgia’s foreign trade turnover increased by 17% in comparison with previous year and amounted 12,5 billion USD. Export amounted 3,4 billion USD and import – 9,1 billion USD. The challenge for Georgia is how to achieve a balanced structural transformation that involves increased specialization in capital intensive products as well as improving the productive capacity of existing labour-intensive industries in manner that ensures consist progress in the economic, social and environmental dimensions of the 2030 Agenda. It should be emphasised that in 2018, to 1,6 billion USD amounted import of machineries and equipment of HS chapters 84-85, which is 17,6% of total import. This figure clearly shows that production capacities is developing, and it is expected that it will further facilitate export diversification. According to the preliminary data, in 2018 FDI amounted 1,2 billion USD and stood 7,6% of GDP.

Country’s economic strategy seeks to create synergies between trade and other policies. Trade policies aim at diversifying partners. Main export markets for Georgia are Azerbaijan, Russian Federation, Armenia, Belarus, Turkey, China, Ukraine, USA, Kazakhstan and Uzbekistan. Import is mainly coming from Turkey, Russian Federation, China, Azerbaijan, Ukraine, Germany, USA, Armenia, France and Italy. To further facilitate trade relations, Georgia is constantly reforming and improving the institutional capacities of State agencies; transforming Georgia into a regional transit hub; developing the service sector, including outsourcing. Along the others, Georgia is implementing EU Association Agreement and establishing rules, requirement and standard according to the EU regulations.

Georgia is part of UNECE pilot project “e-TIR”, aimed at providing an exchange platform for all actors (Customs authorities, holders and guarantee chains) involved in the TIR system, known as the “eTIR international system”. The eTIR international system aims to ensure the secure exchange of data between

national Customs systems related to the international transit of goods, vehicles or containers according to the provisions of the TIR Convention and to allow Customs to manage the data on guarantees, issued by guarantee chains to holders authorized to use the TIR system.

By making more effective border crossing procedures for import or export, Georgia is trying to reduce costs of trade and time required for clearance. Georgia is leading country in ease of doing business. World Bank's "Doing Business 2019" placed Georgia at 6th position in "EASE OF DOING BUSINESS" (out of 190 countries). Improvement from 9th place. World Economic Forum's "lowest tax rates 2018" placed Georgia on the 8th place. Fitch Ratings has upgraded Georgia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BB' from 'BB-'. Outlook Stable.

The increase of number of newly registered companies reflects the positive trend reaching 50,426 in 2018 from 50,120 in 2017. Addressing the skills gap in the labor market is critical and should be done on a continuous basis: (i) The Government providing vocational training aid to help professionals across sectors improve their expertise skills; in 2018, 2871 persons were involved in the special retraining program for job seekers. 188 persons increased their qualification and 2574 persons took full course of study. Government spent 2,1 million Georgian Lari for the abovementioned program. Georgia is trying to attract top experts to provide training services. For example, mentors from the Silicone Valley participate in training services offered by the Georgian innovation center. The Government's specialized agency for promoting innovation (Georgia's Innovation and Technology Agency – GITA) conducted needs assessment of the IT sector's skills requirements, and the results will be used for developing IT training programs.

Ensuring that trade reforms support economic growth requires maintaining continuous public -private consultations across sectors. The mechanisms also serve as a tool for engaging the business community during the decision-making processes on reform measures and associated legislation, and ensuring continuous feedback on the business community's emerging needs.

Trade facilitation solutions integrating international standards and best practices should be home grown. For example, Georgia's move to a paperless trading system has been developed over several years building on international best practices. Today it offers a single window environment populated by several paperless systems that are linked to the Revenue Service Customs platform. The Ministry of Labour, Health and Social Affairs and the National Food Agency is also linked to the Revenue Service Customs Platform to enable continuous exchange of information.

The Government of Georgia devotes particular attention to the development of the Innovation and Technologies sector of the economy. A special unit, an Agency for Innovation and Technology has been established. In 2016, Government of Georgia initiated one of the biggest project in the region "Internetization and Broadband Development of Georgia – "BroadBand for All", through which the whole country will be covered with the high speed fiber optic internet connection, providing the infrastructure, digital literacy and e-commerce opportunities to MSMEs and households .

Government is implementing the State programmes "Produce in Georgia" and "Start-Up Georgia". The first helps enterprises access funds for carrying out new investments, while the second supports high tech and innovative start-ups.

Since July 1, 2018, the preferential tax regime came into force to support and encourage micro, small, and medium-size businesses. In particular, changes were made to SME definition within the Tax Code: the status of small businesses is granted to entrepreneurs whose cumulative annual revenues are lower

than 500,000 GEL, (about 120,000 entrepreneurs); Reform of Profit Tax, which envisages to exemption from profit tax with the amount reinvested, will ensure that 2 billion GEL will be retained by business sector by 2020 and, thereof, reinvested in the economy.

Introduction of innovative approaches and online services, including Blockchain technologies will increase the efficiency of tax administration. With automatic system of value-added tax (VAT) returns businesses will receive GEL 1.5 billion in 2018-2020; In addition, according to the new regime, income tax for individual person with small business status is reduced from 5% to 1%. Georgia started to develop new database for certificates of origin and signatures based on the blockchain system. This will give chance respective officials to check authenticity of certificates of origin, relevant stamps and signatures of responsible officials. Georgia is planning to give access to the mentioned systems to the officials of the trading partners of Georgia, in order to facilitate export and import procedures.

One of the programs, which started from the September 2016, is focusing on the mountainous regions of Georgia (located above 1000 meters from sea level). It envisages special tax treatment for population living in those regions with small salaries, as well as tax exemption for start-up companies established in the region, employing the local population (as they are very vulnerable and depended only limited agricultural crops).

In order to explore new ways for engaging SMEs in decision-making processes the Entrepreneurship Promotion Department of LEPL Enterprise Georgia is conducting meetings on a regular basis with the current beneficiaries of the program, where their problems, initiatives and needs are discussed in order to prepare the relevant solutions from the side of the Agency. Enterprise Georgia's export promotion department regularly organizes sectoral meetings to discuss problems and challenges within those sectors. Furthermore, if needed, agency helps to facilitate meetings with relevant governmental agencies to resolve existing issues. Sectoral meetings are organized with industry representatives that Enterprise Georgia helps with export promotion. In its turn, the Customs Department periodically organizes consultations with small and medium business representatives to introduce legislative changes/news. In order to increase taxpayers' awareness, customs department is sending email notification as well as SMS notification on the payer's authorized page.

The Ministry of Economy and Sustainable Development facilitates enterprise development and promotes the diversification of services provided by market support institutions.

Works are in progress to promote inter-enterprise collaboration, joint action and networking with regional and international companies as a prerequisite for achieving economies of scale with the cluster development. The Enterprise Georgia in cooperation with donor organizations helped the companies to organize ICT and Furniture clusters.

In order to improve the enterprises' access to finance, credit guarantee schemes implemented, with participation of commercial banks. More precisely, Credit-Guarantee Scheme (CGS) is based on a portfolio guarantees. The loan is evaluated by the commercial bank and in case of its approval, the state offers 70 % collateral guarantee to the entrepreneur. In frames of the mentioned scheme, the entrepreneur is able to get a loan that amounts no less than GEL 50,000 and no more than GEL 2 Mln.. At the same time, the turnover of the borrower should not exceed GEL 20 Mln. in the last 3 years and the amount of total loan commitment should not exceed GEL 8 Mln. at the time of receiving the loan.

Critical skill shortages identified by business enterprises, with a view to enhance the technological capabilities of business enterprises. Enterprise Georgia's export promotion department regularly

organizes “Export manager certificate course”, with the aim to increase knowledge about operating on international markets. GIZ and Enterprise Georgia’s Joint Managers Training Program “Fit for Partnership” has been successfully implemented for the fourth year in a row.

Georgia is working to increase transparency in business regulations. The Revenue Service is working to maintain an online compendium of advance ruling decisions which traders could consult. IT works are being implemented to introduce electronic directory. We are working on updating Revenue Service web-site. The information posted on the web site now briefly includes the issuance of certificates. It is planned to issue certificates on the basis of electronic application.

Georgia is working to adopt a comprehensive approach for developing authorized economic operator (AEO) schemes based on the EU model. According to the amendment to the Tax Code of Georgia Article 224 the Code is in compliance with the European Customs Code (Regulation) of the EU Regulation (EU) No 952/2013 of the European Parliament and the Council of 9 October 2013 laying down the Union Customs Code. At present there is ongoing work on the secondary legislation:

- On the amendment to the Order №290 of the Minister of Finance of 26 July 2012 on "Approval of the instructions on the movement and disposal of goods in the customs territory of Georgia" the work on the draft of the Minister of Finance of Georgia has already been completed;
- Work on the Revenue Service Order Project "On Procedures Related to the Status of Authorized Economic Operator";
- Work on secondary legislation.

Georgia developed and defined in the legislation general criteria of the EU model (Customs Simplifications; Security and Safety; and Customs Simplifications/Security and Safety) for assessing applicants. Design the system for monitoring AEOs was prescribed in the legislation of Georgia. In order to create a core team of auditors capable of managing the AEO schemes several study visits have been organized in recent years. Similar visits are scheduled for the next period. Work is ongoing with the Turkish Customs Administration to arrange for mutual recognition of Georgia’s AEO scheme. Georgia agrees on establishing enterprise support services. In addition, we consider appropriate to provide financial support for the purpose of promoting investment in security, explanation of the recommendation and experience sharing.

Georgia’s policy options are taking into consideration existing obligations. According to WTO TFA “Without prejudice to the important policy concerns of some Members that currently maintain a special role for customs brokers, from the entry into force of this Agreement Members shall not introduce the mandatory use of customs brokers.” According to article 22, Order N290 of the Minister of Finance of Georgia Customs declaration can be filled by:

1. Customs officer of the Revenue Service;
2. Importer/exporter or representative if having access to ASYCUDA and or „ORACLE”
3. Owner of customs warehouse permit, as the representative of goods located at the same warehouse.

Declaration filled in customs clearance zone on the bases of documents submitted by declarant official fee is GEL 400, thus eliminating the need for hiring Customs Broker and paying additional fees. Additionally, number of advance declarations filled by representatives of private sector has increased, thus, reducing the burden of customs officers. In addition, the revenue Service conducts public consultation sessions with taxpayers on a systemic bases and publishes the relevant information on the website of the Revenue Service. Trainings are periodically organized for declarants at the Academy of the Ministry of Finance

Under DCFTA commitment, harmonization with EU legislation envisages the development and arrangement of necessary infrastructure for sanitary, phytosanitary and veterinary control in accordance with European standards. For this purpose, with the support of international projects (CIB, UNDP), continuous construction / upgrading and equipping of border inspection is underway. Construction and equipping of "Adlia" (Sarpi) of the border inspection is completed by this time. Fully equipped with the "Kartskahi", "Poti Port"; "Red Bridge" Border inspection point "Sadakhlo" is under construction.

Veterinary, phytosanitary and non-animal food / animal food control samples and laboratory checks are carried out on the basis of the tender with the accredited laboratories. It should be mentioned, that according to joint order # 988- # 1188 of the Minister of Finance of Georgia and Minister of Internal Affairs of Georgia of December 31, 2010, the customs officer along with customs procedures is in charge of passport and visa control of drivers of vehicles.

In order to promote wider adoption of the Trade Facilitation System (TFS) as a way for supporting electronic exchange of information and documents between traders, logistics service providers, and border control authorities, the introduction of this type of system is planned in the marine ports, where all the agencies and organizations involved in maritime traffic and the procedures. Currently, the cargo targeting system (CTS) is in place Consider establishing a notification facility to support information sharing between the Border Police and port operators. In order to facilitate notification exchange between the different state agencies Georgia created Joint Maritime Operation Center (JMOC). The Joint JMOC is composed of: Border and Patrol Police of the Ministry of Interior, Ministry of Defense, Maritime Administration, Customs Department of Revenue Service, State Security Service and other agencies. The purpose of this center is to control the legal regime of the sea, prevent the dangers, respond and react to them. The center receives necessary information within 24 hours by port operators.

It should be mentioned that exchange of information between Georgia and the Republic of Turkey is fully implemented in all customs checkpoints, and between the Republic of Georgia and the Republic of Azerbaijan at CCP "Red Bridge", Lagodekhi and Mtkvari. Exchange of information on declarations with Ukraine and the Agreement on Exchange of Preliminary Data on Transport and Goods between Georgia and Kazakhstan is in palce. The work is underway between the Ministry of Finance of Georgia and the State Customs Service with the Government of the Kyrgyz Republic, with the purpose of organizing an exchange of information on the goods and means of transportation between the territories of Georgia and the Kyrgyz Republic. We are also exchanging information with the Republic of Armenia.

All the above mentioned developments vividly demonstrate Government's commitment towards reforms, which will eventually contribute to the accelerated growth and attainment of the goals of 2030 Agenda.

Thank you.