

## ANALYTICAL CONSIDERATION OF NON-TARIFF BARRIERS RELATED TO GEORGIAN EXPORT TO THE EU MARKET

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**Abstract.** *The purpose of the study is the identification of nontariff barriers inhibiting the export of Georgian companies' against the background of trade liberalization. The opportunities and expected outcomes related to the application of the agreement on Deep and Comprehensive Free Trade Area (DCFTA) are assessed in the work. Taking into account the specificity of the researched issue, the method of in-depth (semi-structured) interview was selected. Fieldwork was carried out in February-March 2016 and, in all, 15 interviews, planned in different business sectors, were conducted. In the first part of the work, the process of exporting Georgian production is assessed. The respondents that took part in the qualitative study knew the exporting process and the related procedures quite well because they had been exporting their production to various countries for many years. According to the majority's assessment, Georgian products are exported without any impediments and, therefore, for them it turned out to be rather difficult to speak about the problems related to the process. However, individual issues being sensitive for Georgian business were revealed within the framework of the study. It is noteworthy that the difficulties the respondents spoke about are largely related to other global issues. The effect of free trade with the EU on Georgian export is assessed in the second part of the work. During the research, the absolute majority of respondents had a generally positive attitude to the signing of the free trade agreement, though it turned out rather difficult for them to substantiate their attitude and provide concrete examples as for a positive effect the agreement had on the Georgian business. At the same time, the majority of the respondents stressed that they slightly experienced this effect on their business: business was exempt from the export tax, though all respondents unanimously said that they had not paid it before either; confidence for Georgian produce has risen; quality control was tightened; unified standards were elaborated; Based on the study, problems were revealed and recommendations were elaborated, the most significant of which are: elaboration of export promotion measures; organization of economic agents training courses; elaboration of concrete measures aimed at approximation to the developed countries' standards on the basis of formation of target-oriented organizations. At the same time, recommendations are given as to how it is possible to apply the free trade regime effectively.*

**Keywords:** *DCFTA; small-size country in global trade; non-tariff barriers.*

## **Introduction**

Most of the countries participating in international economic relations, especially highly developed ones, have various trade regimes with their partner countries. The character of these trade regimes can be determined by economic and political interests of the countries, their participation in regional and international economic unions and organizations, aid programs for economically weak countries, etc.

Studying possibilities for application of preferential trade regimes and its expected outcomes, which directly concerns countries with small open economies, as well as the problems related to their integration into regional unions, is assessed by the example of Georgia-EU relations. In trade liberalization conditions it is relevant to identify nontariff barriers which are hindering Georgian companies in exporting their produce, in order to use the opportunities provided by free trade to a greater extent. It is important to analyze to what extent a concrete nontariff measure promotes or impedes the international trade turnover. Study of the mentioned issue in the wake of signing the Association Agreement between Georgia and the European Union in September 2014 and commencement of its regulations should contribute to the assessment of risks and opportunities in commercial diplomacy. It is studied in the work whether or not the measures aimed at trade liberalization contribute to the growth of neo-protectionism within the framework of the WTO. Well-reasoned are the possibilities of expansion of boundaries of the trade regimes application as an important way (within the transitional period) that will promote integration of Georgia into the EU's economic space; The mentioned information will be useful for researchers taking interest in this sphere from the viewpoint of familiarization with the foreign trade development tools, as well as perfection and increasing the efficiency of internal trade's customs-tariff regulation tools.

## **Research methodology**

The paper has been prepared by applying deduction, induction, analysis and synthesis, abstraction and statistical methods of research. Georgia's export-import database released by National Statistics Office of Georgia has used for ascertainment consistent patterns between analytical and statistical assessments.

Taking into account the specificity of the researched issue- identification of non-tariff barriers inhibiting the export of Georgian companies' against the background of trade liberalization, the method of in-depth (semi-structured) interview was selected. Fieldwork was carried out in the first quarter of 2016 and, in all, 15 interviews, planned in different business sectors, were conducted. Conclusions are made based on research results and relevant recommendations are provided.

## Assessment of the process of Georgian export

The European Union is Georgia's important trade partner; it accounts for 26.1% of the country's foreign trade, and then comes Turkey (17.2%) and Azerbaijan (10.3%). Over the past decade, Georgia's export has been increasing against the background of preferential trade regimes with the EU (Table1).

**Table 1. Georgia's export by countries (Thousand USDs) (National statistics office of Georgia, <http://www.geostat.ge/>)**

Countries	2007	2008	2009	2010	2011	2012	2013	2014
Export (total)	1,232,110.5	1,495,345.2	1,133,622.4	1,677,472.1	2,186,714.8	2,376,154.6	2,909,515.6	2,860,670.6
EU	268,533.5	335,165.2	237,715.6	309,550.1	424,347.6	352,908.8	607,113.3	624,085.6
CIS	461,895.5	540,884.8	416,162.3	676,672.7	1,052,505.3	1,244,427.8	1,620,731.0	1,465,184.9
Other countries	501,681.4	619,295.2	479,744.5	691,249.3	709,861.9	778,818.0	681,671.3	771,400.1

In January-March 2016 Georgia's trade turnover with the EU countries made up 712 million USD, which is 11% more compared to the previous year's indicator. The main export products are mineral products, machinery and technical devices, chemical products, and transport equipment. Georgia exports to the EU mineral products, agricultural products (mainly hazelnuts), finished metals and chemical products.

As it turns out, the sole leader among agricultural products that are exported to the EU countries is fresh and dried hazelnuts. Georgian's hazelnut is traditionally one of the main agricultural plants that had a great economic importance for many years. According to USAID's data as of 2013, it accounts for 24% of Georgia's agricultural export. Georgia is the fifth largest hazelnut producer in the world; besides, the country is the fifth largest exporter of in-shell hazelnuts and the fourth largest exporter of shell-free hazelnuts in the world. According to FAO FAOSTAT's data, the amount of in-shell hazelnuts doubled since 2000, the same situation is with shell-free hazelnuts, which is the evidence of transition to a higher processing level compared to the first years of study. Other products, such as processed peeled hazelnuts, roasted and finely chopped hazelnuts, are produced in comparatively small amounts.

The table #2 that is given below shows the structure of shell-free hazelnuts exported from Georgia in 2014 according to the exporting countries' rating.

**Table 2. Structure of Georgian hazelnuts (without shell) export, 2014 (National statistics office of Georgia, <http://www.geostat.ge/>)**

Rating	Countries	Export (thousand USDs)	Share in hazelnuts & Walnut export %
1	Italy	35752.5	19.9
2	Germany	34017.0	19.0
3	Kazakhstan	14223.1	7.9
4	Spain	12931.2	7.2
5	Czech Republic	9749.7	5.4
6	Slovakia	9729.1	5.4
7	Belgium	9065.3	5.1
8	Ukraine	4675.5	2.6

9	UK	4452.6	2.5
10	Lithuania	4342.1	2.4
	Other countries	40336.4	22.5

Based on the performed analysis we can conclude that there is a possibility for the growth of Georgian hazelnut export, which is associated with:

- Multiyear tradition of hazelnut production;
- Competitive price of the product;
- The country's location in the Black Sea region that is favorable for hazelnut production.

In conditions of fierce competition on the part of Turkey, Georgia cannot influence the world price of hazelnuts; there are barriers in entering the global market and, with the purpose of promotion and development of Georgian hazelnut export, support is required on the following issues:

- meeting the phytosanitary, hygienic and quality requirements that are necessary for export;
- encouraging cooperation of farmers in the issues related to product purchase, processing, marketing, and wholesale trade;
- increasing of economic benefits and product quality by means of training;
- maximal utilization of preferences within Generalized System of Preferences – GSP + and DCFTA.

A part of the export to the EU was within GSP+ regime, whose share in the total EU export made up 40% on average. (Table 3)

**Table 3. Georgian Export to EU (million USDs, 2006-2014) (Ministry of Economy and Sustainable Development of Georgia, <http://www.economy.ge/>)**

Indicator	2006	2007	2008	2009	2010	2011	2012	2013	2014
GSP+ Export to EU	95.4	127.3	117.9	112.3	123.1	213.9	133.3	231.7	131.1
Total Export to EU	225.0	268.0	335.0	237.0	309.0	424.0	352.0	607.0	624.0
GSP+ share in total EU export	42%	48%	35%	47%	40%	50%	38%	38%	21%

The balance of trade in agricultural and related products, as well as cargo turnover between the European Union and Georgia, is negative by many percents. Up to the present time, the EU has been strictly protecting its agricultural and food production sectors, introducing tariffs and nontariff barriers to trade. Because of DCFTA's coming into effect, a number of tariffs were canceled, though their reduction according to product categories will be made at different rates.

In the last two years, in the process of international trade liberalization, the general level of customs taxes sharply dropped and the share of duty-free items in the national tariffs increased; a new universal foreign trade commodity nomenclature and the practice of making regional agreements became widespread, offering their participants a preferential customs tariff regime; in the trade regulation sphere reformation of basic multilateral organizations was carried out, which was accompanied by delegation of more functions to them and caused an increase in the number of their

member-states. Nontariff trade regulation measures are more widely and effectively applied. Technical Barriers to Trade (TBT) are the most widespread and difficult instrument in the system of international economic relations. By means of them improper, harmful for consumers' health and environment, products are restricted on the market. In many cases, such measures are applied for restriction of import from third countries and mainly appear as technical regulations or procedures related to the assessment of compliance with technical regulations and standards.

TBT instruments:

- *Technical regulations* – include product specification or method of its manufacturing. The observance is mandatory. They also include terminology, symbols, as well as packing, labeling, and marking requirements.
- *Standards* – they are set by a recognized responsible body. Their application is voluntary. They may also contain terminology, symbols, as well as packing, labeling, and marking requirements.
- *Compliance assessment* – is applied to determine whether respective technical regulations and standards are observed in product manufacturing. Includes sampling procedure, testing, inspection, and verification.
- TBT agreement, like other WTO agreements, is based on preferential and national promotion regimes: imported goods must come within the technical regulations that are applied to locally produced goods.
- In trade liberalization conditions it is relevant to identify nontariff barriers hindering companies in exporting their produce. The aim of the study is examination of the existing export nontariff barriers that Georgia has with its important trade partner – the EU; it was planned in various business sectors:
  - Water producing company;
  - Hazelnut processing company;
  - Fir-tree seeds producing company;
  - Juice producing company;
  - Honey producing company;
  - Wine producing company;

Selection of companies was made according to the following criteria: A company manufactured products locally and exported them; Export destination was the EU countries. Based on the study's aim, the following tasks were determined: Assessment of Georgian products export process; Assessment of signing of the free trade agreement;

The respondents that took part in the study knew the exporting process and the related procedures quite well because they had been exporting their produce to various countries for many years. According to the majority's assessment, Georgian produce is exported without any impediments and, therefore, for them it turned out to be rather difficult to speak about the problems related to the process. However, individual issues being sensitive for Georgian business were revealed within the framework of the study. It is noteworthy that the difficulties the respondents spoke about are largely related to other global issues, in particular.

With the purpose of establishing business relations with nonlocal companies and, accordingly, exporting produce, it is important for Georgian companies to be able to

*manufacture products matching the demand* (in this case it is referred to hazelnut production in large quantities) and *provide for a continuous supply*. In order to meet these two conditions, companies need large sums of money for purchasing sufficient amount of produce on the local market and have an adequate enterprise. According to the respondents, Georgian organizations do not have a sufficient capital and, accordingly, they have to turn to the banks. As they say, here they encounter another problem, since, unlike European banks, Georgian banks only provide loans at a high interest rate and require collateral, which is a serious barrier to the development of Georgian business. The respondents stressed it is important that the state should work on this issue and reduce the interest rate since a mere signing of the free trade agreement is not enough; it is necessary to promote Georgian business so that it could tap the opened market.

*Exporting a large volume cargo is related to additional expenses*. The mentioned problem is faced by the companies that export their produce by sea transport. Georgian ports are a difficulty since they have a low sea level and large ships cannot enter them. A representative of one of the companies stressed in the interview that, for the mentioned reason, first they have to transport their cargo to Turkey by small ships and then transfer it to a big ship. Due to a double transfer, the expenses related to cargo transportation increase, which automatically raises the product's export price.

*Violation of export product exclusivity agreement between companies can take place because of a third person/organization*. Proceeding from the Georgian legislative system, any person can buy in Georgia identical product, get the respective quality certificate and export it, while in the same country the producer has an exclusive delivery contract with the company. As it was stressed by one of the respondents, he had such cases in his practice and they do not have a positive effect on a business partnership.

*Price formation is not regulated at the state level*. According to a representative of one of hazelnut processing factories, hazelnut purchasing is mainly made in Georgia through resellers (oftentimes several links are involved) who artificially increase hazelnut price. There is less demand for the product that rose in price, in view of which the partners reduced their orders.

*There are double standards with respect to certificate obtaining*. According to the Georgian legislation, if there is no local properly accredited laboratory, a company employs services of a non-local company and undergoes this process only once a year. However, if there is the necessary laboratory in Georgia, a company is obliged to obtain the certificate for each batch, which is related to quite considerable expenses. As a result, the cost price of the product rises.

*Low recognisability of Georgian products*. A mandatory condition for export is that a company should have the respective certificates, which are variable according to a product's specificity. Within the framework of the study, the respondents shared their experience with respect to the mentioned issue. As it became clear from a conversation with them, some organizations check quality by means of their own laboratories. However, that is not always enough for European partners. They often ask for a conclusion of an accredited independent laboratory. In this case, a certificate is obtained:

- *In laboratories existing in Georgia* – however, it is not possible to check quality of all products locally (for example, honey);
- *In laboratories existing abroad* – in this case, either a product to be checked is sent there or a laboratory's representative is brought. In both cases, it is additional expenditure for a Georgian company.

A phytosanitary certificate is a mandatory document without which exporting of a product is impossible. The participants unambiguously stress that they never had problems related to its obtaining. This process *does not require either much time or financial resources*.

A quality management certificate (ISO) is one of the important documents that help to establish a partnership with various companies. It is noteworthy that having an ISO certificate is not a mandatory requirement, at the same time its existence unequivocally raises the extent of trust to an organization. According to the respondents, certification can be made with the assistance of both local and international companies. However, in both cases, it is related to expenditures.

A part of the respondents says that certification process is not related to many problems. The main point is that a company should be able to meet the requirements and standards and pay the service cost.

The fact that companies have to obtain various certificates, which is related to quite heavy expenses, did not cause major protests among representatives of Georgian business. They spoke about this issue as a component being necessary for exporting. In individual cases, an opinion was expressed that meeting such high standards will promote the development of business and production and that *it is not a barrier for sale of products*.

### **Assessment of DCFTA**

During the research, the absolute majority of respondents *had a generally positive attitude* to the signing of the free trade agreement, though it turned out rather difficult for them to substantiate their attitude and provide concrete examples as for a positive effect the agreement had on the Georgian business. At the same time, the majority of the respondents stressed that they slightly experienced this effect on their business.

In individual cases the following changes were mentioned:

- *Business was exempt from the export tax*, though all respondents unanimously said that they had not paid it before either. According to their supposition, the benefit more affected companies working in other spheres;
- *Confidence for Georgian produce has risen* – the fact that the EU expressed its confidence in Georgia extended to business partners as well and, accordingly, the demand for Georgian products have increased.
- *Quality control was tightened* – according to the changed regulations, phytosanitary certificates are only issued if a representative of the Ministry of Agriculture attends the cargo sealing procedure.

- *Single standards were elaborated* – now the European Union and Georgia have uniform standards. Accordingly, there is no need for local assorting of delivered products.

## **Conclusions and recommendations**

Application of DCFTA will be beneficiary for Georgia from the viewpoint of promoting the welfare of those citizens who will have access to better quality products on the home market and, over the longer term, increase their income due to stimulated new business opportunities and economic growth resulting from integration with Europe. The experience of the application of preferential trade regimes proves that trade clearly tends to the products to which the mentioned preferences are applied. Among noteworthy possible significant challenges, there will be increased import from the European Union and additional pressure on local producers, especially in the initial period, supplemented by increased cost of products driven by a strict requirement to comply with the EU standards.

With the purpose of alleviation of possible side effects caused by application of DCFTA agreement, it will be expedient to take into account the following recommendations. It is necessary to elaborate mid and long-term strategies for the agricultural sector, with an assessment of its export potential and determination of the sectors in which Georgia may have a competitive advantage. Assessment of the country's competitive advantage from the viewpoint of agricultural production with more focus on promising spheres in the initial period, which implies a redistribution of the accumulated profits to other spheres in the subsequent period. Particular emphasis should be laid on the correct application of technical and financial assistance rendered by the EU, with the purpose of getting tangible results.

With the purpose of easing pressure on local producers caused by a probable increase in agricultural import from the EU countries, the government should elaborate purpose-oriented sectoral programs and initiatives aimed at increasing of export potential in concrete sectors. These initiatives should be, first, oriented to rendering assistance to local producers, so that they could successfully meet the EU's respective regulations and standardization procedures.

As it was mentioned above, one of the important challenges will consist of meeting the requirements determined by nontariff measures. In this regard, priority should be given to assistance in certification procedures, holding consultations, increasing the role of farmers' houses and training centers.

Information availability, along with training and education, is of key importance to producers. One of the successful ways of overcoming asymmetric information can consist in the creation of a guide for producers, which will contain production related information, particularly as to how implement export to the EU countries. The guide should be very concrete and contain information on tariff and nontariff barriers. The web portal of the Ministry of Economy and Sustainable Development of Georgia was initially created for this purpose, but now it is very voluminous and does not contain concrete information on sectoral products according to product codes. An information campaign will help people involved in the agro business to better use their capabilities



and comprehend the challenges. The EU's role in the mentioned process implies a clear explanation of concrete articles of the association agreement, which are difficult to comprehend by mere reading and somewhat contradictory.

In general, the agreement on Deep and Comprehensive Free Trade Area, as a part of Georgia-EU Association Agreement, is an important step towards integration into Europe. This process has already been successfully implemented in several countries. The agreement will contribute to Georgia's economic development from the viewpoint of the creation of a favorable business environment, increasing the country's attractiveness for investors (particularly in the agricultural sphere) and raising export trade indicators.

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