

Overview of the Current Agricultural Trade Policies in the Post-Soviet Countries

Country Chapter – Georgia

1. Brief Review of Agriculture Sector

Agriculture is one of the essential sectors of the Georgian economy. In the past decades, agriculture's contribution to the country's gross domestic product (GDP) was the highest. In the 1980s, agriculture's contribution to GDP of Georgia was more than 40%. The events of the 1990s negatively affected the economy of the country as a whole, including the agricultural sector. After the 1990s, the agricultural sector of Georgia started to develop gradually. However, the pace of development in agriculture was slower than in the other sectors of economy, e.g. services, trade, transport and communication, industry. As result, the share of agricultural sector in GDP decreased. The lowest share of 8.4%¹ was observed in 2010. Since 2011, agriculture's contribution to GDP has a tendency to grow, reaching 9.4% in 2013 and 9.2% in 2014. It is noteworthy, that the total output in the sector has increased by about 50% over the last five years, reaching USD 2 billion in 2014 (as compared to 2010 when this value was USD 1.35 million).

Although the share of agriculture GDP decreased compared to the 1980s, this sector remains one of the essential sectors in the economy of Georgia. Agriculture still provides employment to the majority of the country's population – about 50% of the population is engaged in agriculture and more than 98% of them farm on their plots of land, i.e. they are self-employed.

In order to ensure the most effective use of the potential existing in the agricultural sector of Georgia, the efficiency of using the available resources needs to be increased and the competitiveness of Georgian products needs to be improved through the introduction of modern practices, knowledge, skills and provision of financial resources for development.

2. Development of Agrifood trade and political context

In the past Georgia was a net exporter of agricultural products, and was a major supplier to the former Soviet Union countries. Its exports exceeded imports 1.6 times. Fruit, vegetables,

a¹ the data was received from the National Statistics Office of Georgia (GEOSTAT)

wines, nuts, citruses, greens, and tea were the major export products. The main imports included meat and meat products, milk and dairy products, as well as grains and eggs.

The collapse of the Soviet Union resulted in the loss of traditional markets and disappearance of market linkages, which led to the decreased positive agrifood trade balance. In the past decade, Georgia has become a net importer of agricultural products. The trade deficit started to grow and reached 762 million dollars in 2012. Since 2013, the trade dynamics has changed in a positive way and the trade deficit has decreased over the last couple of years. In 2014, the agricultural trade deficit was reduced to USD 480 million.

For the last five years (since 2010), the annual exports of agricultural products to EU have grown. After resuming the trade with Russia, the volume of exports to the Russian market tend to increase and in 2014, the Russian Federation was number one importer of the Georgian agricultural products.

In 2014, Russia, Ukraine, Azerbaijan, Kazakhstan, Armenia, Germany, Italy, Turkey, and Belarus were the key export partners of Georgia, whereas Russia, Ukraine, Brazil, Germany, and USA were its main import partners.

The main law regulating the foreign economic activities of Georgia is the Tax Code of Georgia adopted in 2010², which lists the products subject to excise tax and the types of excise tax. The Code also specifies the products subject to import duties, the types and amounts of import duties, terms for exemption from duties and other import-related regulations.

Law on Entrepreneurs of Georgia³ was adopted in 1994 and last amended in September 2015. This law specifies the forms of legitimate activities of entrepreneurs and establishes non-discriminatory legal regulations for local and foreign entrepreneurs.

Law on Licenses and Permits of Georgia⁴ adopted in 2010 regulates the issuance of licenses and permits and provides a full list of all types of licenses and permits, including the list of products approved for import/export.

² the information on laws is taken from the Legislative Herald of Georgia <https://matsne.gov.ge>, Tax Code of Georgia - <https://matsne.gov.ge/ka/document/view/1043717>

³ Law on Entrepreneurs of Georgia - <https://matsne.gov.ge/ka/document/view/28408>

⁴ Law on Licenses and Permits of Georgia - <https://matsne.gov.ge/ka/document/view/92986>

In February 2015, the Strategy of Agricultural Development of Georgia 2015-2020⁵ was adopted. The main goal of this Strategy is to create the favorable environment enhancing the competitiveness of the agricultural sector, steady growth of high-quality agricultural production, elimination of rural poverty through sustainable agricultural and rural development.

3. Agrifood Trade Policies in 2014-2015

Georgia is a country of liberal economy and open trade policy. In 2006, the government of Georgia reformed its tax system. As a result, the tax system was significantly simplified and streamlined and 23 taxes reduced to just 6.

In the framework of the aforementioned reform, import taxes and duties were also simplified and systemized. Currently, only three rates (0%, 5% and 12%) of customs duties apply to imports. Georgia has no quantity restrictions on imports and exports, export bans, tariff quotas or any other import restrictions.

As for the existing import duties on agricultural products in Georgia, zero rate custom duty applies to more than a half of products with twelve-digit GTINs (Global trade identification number), 12% rate applies to less than half of products with such GTINs and 5% rates – to about 80 GTINs.

In addition, imports from the Commonwealth of Independent States (CIS), European Union (EU), and Turkey are subject to favorable tax treatment. Zero rate import duties apply to all agricultural products imported from CIS and EU. As for imports from Turkey, most imported products are also subject to favorable tax treatment and a zero rate applies to them as well. Only certain categories of products fall under 12% import duty.

Georgia has been a member of the World Trade Organization (WTO) since June 14, 2000. Membership in WTO was a major step towards Georgia's integration in the world economy, facilitating the expansion of the country's foreign economic relations and trade policy liberalization. After joining WTO, Georgia received most favored nation (MFN) treatment from each member of WTO. Georgia is in a group of developing countries, which consists of around 150 member countries of WTO. During its membership in WTO, Georgia has never

⁵ the Strategy of Agricultural Development of Georgia 2015-2020 - http://www.moa.gov.ge/fileman/Uploads/STRATEGIA_ENG_print.pdf

been either a party to any disputes with WTO member countries, or a plaintiff, respondent or the third party.

On August 27, 2014, Georgia signed Deep and Comprehensive Free Trade Agreement (DCFTA) with EU.

DCFTA envisages closer economic integration of Georgia with EU, which implies reforms in trade and the related sectors. DCFTA is based on WTO principles. It exempts Georgia from customs duties on imports/exports to EU markets, ensuring a broad mutual access to the trade of services. A significant part of DCFTA deals with the approximation of the trade-related Georgian laws with the regulations and the legal framework of EU.

DCFTA establishes the preferential trade regime between Georgia and EU, increasing Georgia's access to 28 EU countries with the total market of 500 million people, offering Georgia great economic opportunities and thus attracting more foreign investments to the country.

Georgia signed the Free Trade Agreement (FTA) with CIA, under which all the agricultural products imported to Georgia from 11 countries (Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan, Ukraine and Russia) are exempted from import duties.

The Free Trade Agreement (FTA) with Turkey specifies tax benefits or exemption from taxes for a large number of products imported from Turkey. Similarly, some Georgian products exported to Turkey are exempted from customs duties.

In addition, Georgia enjoys trade preferences provided by the Generalized System of Preferences (GSP) with a number of major trading partners, such as USA, Canada, Switzerland, Norway, and Japan.

4. Key Measures of domestic support for Agricultural Producers

In 2012, the Government of Georgia declared the development of agriculture as one of the key priorities of Georgian economy and the budget allocations for this sector were substantially increased. In 2011, the budget share allocated to agriculture amounted to 1% of the national

budget. In 2013, this share gradually increased to 3% and remains the same. In 2015 the budget allocations to the agricultural sector totaled to GEL 291 million (USD 127.5 million⁶).

Georgia did not implement any measures for domestic support of agriculture. In 2014, the total budget of “Green Box” programmes amounted to USD 92 million⁷ and the Ministry of Agriculture of Georgia (MOA) financed the implementation of several large-scale agriculture development programs, including:

Program of Amelioration Systems Rehabilitation – the Program financed design and rehabilitation of irrigation and drainage systems and reservoirs, operation and maintenance of the amelioration infrastructure, as well as procurement of amelioration machinery.

Preferential Agro Credit - The Program supported enterprises and private entrepreneurs engaged in the agricultural sector with the preferential credit extended through commercial banks and microfinance institutions.

Smallholder Farmers’ Support Program – the Program was designed to support smallholder farmers during spring works. Farmers owning up to 1.25ha of land receive either machinery services to cultivate their land or agricultural inputs (fertilizers, pesticides, etc).

Support of Viticulture and Winemaking – the National Wine Strategy was elaborated under this Program to promote Georgian wines and increase their export. Georgian wine companies participate in well-known and important international exhibitions and wine conferences. The Program also envisages wine tours and other development measures.

Agricultural Research Program – the goal of the Program is to conduct researches in various subsectors of agriculture, establishing demonstration plots as well as raising farmers’ awareness of modern agricultural practices and improving their knowledge.

Agro Insurance – the Program funds were used to develop an insurance system for agribusinesses. Insurance is carried out through private companies. The program co-finances the insurance premiums for smallholder farmers.

The National Food Agency implemented the following programs to ensure food safety, plant protection, and epizootic welfare:

⁶ at the exchange rate of GEL 2.28=USD 1 in the first half of 2015

⁷ at the exchange rate of GEL 1.77 = USD 1, an average exchange rate in 2014

Program of Epizootic Welfare and Animals' Identification/Registration – based on the risk assessments preventive vaccinations of animals were carried out under the Program to prevent anthrax, foot-and-mouth disease (FMD), rabies. As for the registration of domestic animals, this is an ongoing process.

Program of Pests Control (such as fall webworms and locusts) was also implemented.

In addition, samples of various food products and potable water are collected and sent to laboratory analysis in order to check their safety and carry out laboratory diagnostics of samples of animal and plant diseases.